Hacettepe University Social Sciences Institute
Department of Economics

POLITICAL ECONOMY OF EUROZONE DEBT CRISIS IN THE CONTEXT OF VARIETIES OF CAPITALISM DEBATE

Yavuz PARLAKDEMİR

Master Thesis

Ankara, 2019

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ACCEPTANCE AND APPROVAL

The jury finds that Yavuz PARLAKDEMİR has on the date of 21/05/2019 successfully passed the defense examination and approves his Master Thesis titled "Political Economy of Eurozone Debt Crisis in the Context of Varieties of Capitalism Debate".

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ETİK BEYAN

Bu çalışmadaki bütün bilgi ve belgeleri akademik kurallar çerçevesinde elde ettiğimi, görsel, işitsel ve yazılı tüm bilgi ve sonuçları bilimsel ahlak kurallarına uygun olarak sunduğumu, kullandığım verilerde herhangi bir tahrifat yapmadığımı, yararlandığım kaynaklara bilimsel normlara uygun olarak atıfta bulunduğumu, tezimin kaynak gösterilen durumlar dışında özgün olduğunu, Doç. Dr. Muammer KAYMAK danışmanlığında tarafımdan üretildiğini ve Hacettepe Üniversitesi Sosyal Bilimler Enstitüsü Tez Yazım Yönergesine göre yazıldığını beyan ederim.

Y. Parlakdemir

Yavuz PARLAKDEMİR

ABSTRACT

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After the collapse of the Soviet Union, capitalism became the dominant economic system that attracted academia to the subject. While most of the studies on capitalism put "state" at the center of their analysis/theories, the varieties of capitalism (VoC) theory put the firm at the center of its analysis, which made it popular in the last two decades. VoC classifies the economy according to firms' strategy to overcome five spheres where potential problems arise: industrial relations; vocational training and education; corporate governance; inter-firm relations; and employees. VoC also makes a classification of national economies: liberal market, coordinated market, and mixed market economies. This study analyzes the Eurozone debt crisis within the framework of VoC theory and takes the German economy as the case study to link the debt crisis with the national economies and the existing economic and monetary policies of the Eurozone (Economic and Monetary Union, EMU). Germany is examined in terms of its economic characteristics; her role in the establishment of EMU policies; and her response during the Eurozone debt crisis.

The scope of analysis is limited to the time period between the establishment of EMU and Eurozone debt crisis, and to the geography of the Eurozone continent (Northern and Southern economies). The methodology of the research is a desk-based analysis of macroeconomic statistical data.

The basic argument of this study is that the existing EMU policies are designed to contribute to national economies of the northern countries (coordinated market economies) denoted by the basic macroeconomic indicators and the conclusion of this study concludes that Eurozone debt crisis was a consequence of common policies of Eurozone that neglected the unique peculiarities of member states' economies. The findings of this study suggest that instead of uniformity of economic and monetary policies, unity in diversity would be a better solution to the problems of EU in times of crisis.

Key Words

Capitalism, Varieties of capitalism, Eurozone, European Union, Economic and Monetary Union, Eurozone debt crisis, Germany

To the most valuable woman in my life…

TABLE OF CONTENTS

ABBREVIATION LIST

bn : billion
CEE : Central and Eastern Countries
CME : Coordinated Market Economy
D-Mark : Deutsche Mark
EBRD : European Bank for Reconstruction and Development
ECB : European Central Bank
ECU : European Currency Unit
EEC : European Economic Community
EMS : European Monetary System
EMU : European Monetary Union
ERM : Exchange Rate Mechanism
ESCB : European System of Central Bank
EU : European Union
FDI : Foreign Direct Investment
GB : Great Britain
GD : Great Depression
GDP : Gross Domestic Product
G-20 : Group of 20
HMS : Hierarchical Market Economies
HS : Historical School
IMF : International Monetary Fund
LME : Liberal market Economy
MME : Mixed Market Economy
MNC : Multinational Corporation
OECD : Organization for Economic Cooperation and Development
PIGS : Portugal, Ireland, Greece, Spain
REER : Reel Effective Exchange Rate
R&D : Research and Development

SGP : Stability and Growth Pact

SME : Social Market Economy

SoC : Stage of Capitalism

SOC : State-Owned Company

TE : Treaty of European Union

UK : United Kingdom

UN : United Nations

USA : United States of America

USD : United States Dollar

USSR : Union of Soviet Socialist Republic

VoC : Varieties of Capitalism

WB : Word Bank

WWI : World War One

WWII : World War Two

GRAPHS

INTRODUCTION

Thanks to capitalism, the economic conditions have been continuously changing beyond imagination in the last two centuries. In comparison to the progress made until the present, the time span for this form of transformation is very short. By means of high levels of productivity and technological advances, the following has been achieved: increased average life expectancy, increased production of food and clothing, increased house construction with less labor power (Poynton, 2011: 1). Thus, it is important to acknowledge that capitalism is not only an economic system but also a social system that includes politics, ideology, lifestyle, culture, and education. It has an enormous impact on humanity, which has made it one of the most debated subjects in the literature of political science, economics, sociology, etc.

There are many debates in the literature of political economy about the subject of capitalism. It has been analyzed with respect to different perspectives through questions like what is capitalism. Is it a system suitable to the law of nature or not? How did it emerge? What is the distinctness of capitalism? Why did capitalism emerge in England but not any other region of the world? How did capitalism spread to whole the world?

There are many different approaches and definitions related to capitalism in the literature of political science, economics, sociology, etc. In this study, the term of capitalism used as a given system regardless of cause and effect relationships due to "varieties of capitalism theory" that used in the analysis. Capitalism is defined as an economic system in which private economic actors own and control property (property rights) with respect to their personal interests (self-interest), and demand and supply of goods and services determined upon prices that set in markets (market mechanism) without any interventions (limited role to state authority and freedom to choose) in a way that can also serve the interests of the person at a micro level and all society at a macro level (competition, productivity, technology, etc.). All production factors in the economy (land, labor, and capital) were commoditized, which provided appropriate financial foundation and labor for the industrial revolution and the society that today we recognize as capitalist (Polanyi, 2001). Capitalism, a persistent system of market dependence, required specific social, political and economic conditions and mode of production. These conditions were the imperatives of competition, accumulation of capital and reinvestment of surpluses, and profit maximization by improving production forces, which lead to the critical transformation of social property relations. The motivation for more profit is legitimized by the self-interest of individuals which is an assumption on human nature.

Capitalism or the beginning of penetration of capital on production started in the latter half of the 16th century and early 17th century in England (Dobb, 1950: 18). In that time social property relationship in England was changed and transformed dramatically and generated a new economic attitude which was based on new economic imperatives such as permanent competition, high-profit requirement, etc. (Wood, 2002: 37; Marx, 2014: 711). The characters of capitalism are required constant expand by the constant search of new markets and territories to live with respect to new motivations. In the following stage, industrial capitalism in England enabled mass production and brought new imperatives such as search for new markets to supply the produced goods and demand the raw material supply etc. After 1800, Europe embarked decisively on a path of mass industrialization and it was looking for market outlets, as well as secure supplies of raw materials and foodstuffs, on a scale and requiring a degree of …" (Hoogvelt, 2001: 18).

England solved her problem with colonialism. The colonization of North America, Africa and Middle East by England was the result of her constant need for expansion. Her supremacy was unquestionable between the late 18th and 19th centuries, the period of industrial capitalism and colonialism. However, the supremacy brought in competition with the other major European rivals like Germany and France who started to colonize and expand their market. From then on capitalism spread from Europe by means of economic imperatives and means of imperialism (Wood, 2002: 175). The drive of capitalist development had varied depending on the dynamics of each country. For instance, capitalist developments in France and Germany did not emerge from domestic property relations like the England case. States played a primary role in the adaption for capitalist imperatives. Therefore, it could be stated that the European state system was a path for the spread of capitalism.

> Capitalism had emerged first in one country. After that, it could never emerge again in the same way. Every extension of its laws of motion changed the conditions of development thereafter, and every local context shaped the processes of change. But having once begun in a single nation state, and having been followed by other nationally organized processes of economic development, capitalism has spread not by erasing national boundaries but by reproducing its national organization, creating an increasing number of national economies and nation states. The inevitably uneven development of separate, if interrelated, national entities, especially when subject to imperatives of competition, has virtually guaranteed the persistence of national forms (Wood, 2002: 176).

After the rise of the modern industry as an outcome of the Industrial Revolution, capitalism spread very fast to the other countries due to the new compulsories such as new market and raw material. Thereby, capitalism spread to other European states, American continent and other parts of the world in accordance with their local circumstances (traditions, institutional design, culture, class structure, and struggle, etc).

Throughout the history of capitalism, the debates on capitalism have been changed and transformed. In the beginning, studies of capitalism had concentrated on the emergence of capitalism, the uniqueness of capitalism, the spread of capitalism, etc. The later discussions of capitalism concentrated on the comparisons of capitalism with other systems such as communism, socialism, etc. Specifically, after the collapse of the Soviet Union, with the dominance of capitalism, the debates of capitalism concentrated on itself such as the victory of capitalism, superiority of capitalism against other economic system and type of capitalism. The dominance of neoliberalism and globalization led to discussions on the possibility of “single capitalism” (convergence theory) in the literature. However, convergence of capitalism claim was not actualized as expected and there occurred regional integration of variant capitalist countries in the world economy and it increased the gap between different types of economies (Thelen, 2001: 18). These circumstances led to the emergence of a new topic in literature, "varieties of capitalism".

Although there is no agreement about the number of types of capitalism or on standard variables to categorize the various types of capitalism, varieties of capitalism theory had a significant impact in the literature of political economy. The varieties of capitalism subject emerged after the Hall and Soskice's book called "Varieties of Capitalism: The Institutional Foundations of Comparative Advantages" that was published in 2001. Although VoC approach was accepted as a new subject in mainstream economic literature, there were similar studies in critical economic literature more than a century ago under the study of the historical school, stage theories, and dependency theory, etc.

The study of Hall and Soskice (2001) criticized prior studies of their overemphasis on the roles of state and labor in their analysis. In contrast to prior studies, they put the firms at the center of their study: "the key agents of adjustment in the face of technological change or international competition whose activities aggregate into overall levels of economic performance" (2001: 6). In this approach, national economies are categorized by analyzing the firms' methods of overcoming coordination problems, which were gathered under five main spheres (Hall and Soskice, 2001: 8). There are two core types of capitalism according to VoC approach: liberal market economy (LME) and coordinated market economy (CME). In coordinated market economies, firms generally solve their coordination problems by relying on non-market relations. Those relations roughly consisted of incomplete contracting mechanism, and collaborative relations among economic actors, which also affect and affected the reputation of firms. Also, there are strong strategic interactions between firms and other economic actors that also affected the equilibrium level of the economy. On the other hand, in liberal market economies, firms generally solve their coordination problems by relying on the market mechanism. This makes the firms depend on the price mechanism. In liberal market system contracts and laws are very strict, economic relations shaped upon the market mechanism and equilibrium level of economies are determined over demand and supply on the market mechanism by price signals. These two types of capitalism defined as ideal types by Hall and Soskice (2001). Besides liberal market economy and coordinated market economy are portrayed upon two developed economies: The United States of America (USA) and Germany. Hall and Soskice identify national economies that do not fit to the two categories they set. They assert a third type of capitalism (Mediterranean capitalism) in order to contain all sample economies used in their study.

New studies generated from the VoC approach generally were divided into two main categories. First category concentrated on developed economies such as the initial study made by Hall and Soskice. The second category concentrated on developing and underdeveloped economies. The aim of this study is to comprehend the political economy of the Eurozone debt crisis within the VoC framework with a focus on the case of Germany. From this perspective, this study intends to understand and explain the structural problems of Eurozone economies considering the basic assumptions of the VoC approach. Subsequently, within the framework of VoC theory, this thesis-analyzed Germany's reaction to the Eurozone debt crisis through the examination of her economic policy framework and her reaction's impact on the other EU member economies in the context of varieties of capitalism theory.

The first chapter of the study deals with a broad literature review of "varieties of capitalism theory". The national system of political economy is analyzed at a macro level. Moreover, the institutional approach and comparative analysis are reviewed to provide a broader perspective that also entailed VoC theory. The literature review of varieties of capitalism concentrated in developed countries at the beginning. After time study about the varieties of capitalism spread the developing and underdeveloped economies, which is presented in under two titles, developed and transition economies, titles.

In the second chapter, German economy is analyzed in detail. For this purpose, German economy is investigated from the 19th century to present with a focus on the concepts of ordo-liberalism and social market economy. Thus, the traditional economic perspective of Germany both in domestic and international levels could be comprehended. Furthermore, fiscal and monetary policies of the Germany that manifests the characteristics of German national economy are examined in detail. The examination shows that Germany economy fits the features of a coordinated market economy used by Hall and Soskice (2001) in their varieties of capitalism theory.

In the third chapter, German type of capitalism, in a particularly coordinated market economy is analyzed. The unification of West and East Germany; the economic integration into the European Union; integration to the Economic and Monetary Union are discussed in order to comprehended to the dominance of the German political economy. Since after the integration process to EU, Germany started to have a significant influence on EMU institutional design, the main strategy and aims that reveal by the decision-making process, the degree of this influence on the EU's economic policies is considered. Later, an analysis of the 2007 Global Financial Crisis and 2010 Eurozone Debt Crisis that entails the role and reaction of Germany to the crisis is presented. Thus, the underlying reasons of the accusations towards Germany about her attitude during and after the crisis and the questioning of her dominance on the economic policy of European Union are investigated as well.

Eurozone debt crisis is analyzed on the basis of the German case. Structural problems of EU are considered with respect to macroeconomic indicators for denoting the unsustainability of the economic relations between Northern economies (coordinated market economies) and Southern economies (liberal market economies) resulted from the institutional asymmetry.

In the conclusion chapter, a general assessment of the whole study was made. From these perspectives, unfair competition in Eurozone members explained upon the structural problem, which also due to Eurozone debt crisis. The role of developed nations, specifically Germany in the design of the existing order was revealed. Lastly, the aim and finding of the study and forward-looking research and recommendations shared.

CHAPTER 1

CAPITALISM OR CAPITALISMS

Differences of conditions like geography, history, institutional design, and political framework affect the economic model adopted by the nations. There emerge a variety of capitalist systems that are distinguished by different economic logic, independent political economies, different national interests, national and international economic actors (Gilpin, 2001: 148). The similarities and differences between national economies are discussed with reference to convergence and divergence debates. Convergence arguments point to the national economic systems to the single form of capitalism (market system) while divergence arguments point to cluster movements of national economies within different capitalist models (market systems).

In this chapter, I am going to examine the models of capitalism with a national economy perspective: “varieties of capitalism theory”. VoC rejects a “single form of capitalism,” argued by neoclassical economists. Before, providing a review of VoC literature, I am going to discuss the history of economic developments before and after the 1980s to comprehend the new neoliberal and globalized context in which capitalist national economies are shaped. Then, I am going to provide a review of varieties of capitalism literature.

1.1. NATIONAL DIFFERENCES IN CAPITALISM AND THE LITERATURE BEFORE 1980S

After the Second World War (WWII), Keynesian economic policies, which roughly based on state intervention, became dominant in developed and developing countries. The Keynesian economic policy basically based on the acceptance of market failure and short-term demand side. Consequently, state intervention to the economy was normalized, even required. High economic growth in developed countries after the post-war period, the

"Golden Age", pointed out the superiority of Keynesian economic policies. Keynesian economic policy was accepted as efficient that was able to solve the economic and social problems of developed countries (Crouch, 2005: 5). Therefore, many economists, especially political economists, were no longer interested in studying institutionalism. It was after the emergence of problems like unequal distribution of wealth, poverty, unemployment, etc. in the age of globalization, financialization, the dominance of neoliberal economic policy, institutions started to attract the attention of economists again.

Keynesian policies started to lose attention after the increase of oil prices, following the economic crisis and changes in the production process, new economic approaches such as monetarism and new classical macroeconomics approaches which were based on neoclassical economic thought, started to be adopted. There were two important economic events, which affected the whole world economy in the 1970s. The first event was the increase in oil prices, which resulted in economic crises in many countries. The second event was high inflation, which resulted in the emergence of a neo-corporatism approach.

Neo-corporatism briefly defined upon the capacity of state authority to negotiate wages, working conditions and social or economic policy with other parts of the society such as employers and trade unions, etc. In this economic concept, the power of economic actors shapes the economic and social policy in the national economy (Schmidt, 2007: 2). The basic aim of all economic actors in that approach is generating trustable and credible economic targets to increase predictability in an economy. So, they can make an agreement to stop or curb the increase in the overall price level in an economy. The political economist in that time characterized the neo-corporatist approaches as a "culture of compromise" in which all-economic actors aimed to solve problems with or without government intervention. The literature on neo-corporatism categorized countries mostly with respect to the trade union movements. Successful neo-corporatist examples emerged from small and open economies of northern Europe economies, which achieved collectively actions for trade union and business by witness and impact of state authority (Hall and Soskice, 2001: 4).

1.1.1. The Literature Before 1980s

Before the 1980s, the institutionalism and comparative analysis were limitedly applied for understanding the reasons behind the differences among the economic performances of capitalist economies. For instance, Shonfield (1965) studied the exceptional economic success of Western countries between the 1950s and 1960s; Schmidt (2007) did a similar analysis to understanding the impact of stagflation in the 1970s. Shonfield's study of "Modern Capitalism: The Changing Balance of Public and Private Power" (1965) created a consensus among the scholars of comparative political economy (more specifically comparative institutional analysis) by being a milestone (Hall and Soskice, 2001: 45; Kapas, 2013: 30). Shonfield (1965) tried to explain the low performances of the USA and the UK as opposed to economies of Germany and France in the 1950s and 1960s. According to his explanation, Keynesianism, which was very dominant in that time, could not sufficiently explain Western European economies' success because Keynesianism was adopted by the UK and the United States of America before Western European economies. Shonfield explained Western European countries' economic success with reference to institutional changes instead of Keynesian economic policies. The most important institutional change was stated interventions to the economy such as supervising the bank sector, establishing state-owned companies (SOCs), applying regulations, developing and supporting research and development (R&D) and long term economic planning, etc. He mentioned that although the free market capitalism spread firmly, there was another way; this method is explained over coordination among economic institutions such as industrial companies, banks, and long-term economic perspectives. He also pointed to rebalancing the power between the public and private actors that led to the economic growth, and prosperity of Western European economies. Shonfield made a classification based on the balance of power between public and private sector, more specifically based on the degree of state intervention to the economy (Howell, 2007: 248; Schmidt, 2009). He classified France as statist economy; Germany as a corporatist economy; and Britain as the laissez-faire economy. Shonfield's study is classified by Hall and Soskice as a modernization approach (Hall and Soskice, 2001: 2). His study has also been accepted as an important study that has been dominated on the study of comparative capitalism and confirmed to be the first perspective of institutional variation.

1.2. NATIONAL DIFFERENCES IN CAPITALISM AND THE LITERATURE AFTER 1980S: PROPAGATION OF FREE MARKET ECONOMY

After the 1980s, with the termination of Keynesian policies and the collapse of the Soviet Union, capitalism in its less regulated and less interventionist form started to spread around the world economies. Besides, the low performances of ex-socialist economies led to an appreciation of market economies and revived the beliefs about the superiority of the market system. The dominance of neoliberal policies was also reinforced by the globalization and financialization of economies by encouragements of advanced capitalist countries and international economic organizations such as World Bank (WB), International Monetary Fund (IMF), etc. These processes accelerated the integration of various (national) economies into the market system. However, national economies showed different economic performances. In contrast to non-market economies, Asian economies showed impressive economic performances. There were also different performance levels among the market economies. For instance, significant differences were noticed between high performing economies like Germany and Japan; and relatively lower performing Great Britain and USA which attracted the attention of researchers (Jackson and Deeg, 2006: 5). These differences and similarities have attracted the attention of scholars who studied comparative political economy.

In the 1980s, the neo-corporatist idea lost its power and was replaced with neoliberal economic policies. The neoliberal economic system roughly characterized upon weak labor organizations, restricted state power and dominance of the market, which creates competitive interaction between all economic actors. The prominence of neoliberalism resulted in transformations in the global economy like the removal of protective policies and encouragement of free trade. After the international trade volume increased in the world economy, free movement of capital was encouraged; trade barriers were criticized;

the global competition was defended which made "market liberalization" certain for many economies (Coffey and Thornley, 2009: 153). All these transformations accelerated the convergence of national economic policies towards neoliberal policies and changed the rebalanced power of economic actors in favor of capital holders (Hall and Soskice, 2001: 56). Although there are considerable convergence movements among national economies since the 1980s, fundamental differences among national economies still remain too. Hall and Soskice remarks about the issue as follows: "investigation of national economies in terms of similarities and differences is accepted as a main subject of political economists" (2001: 1).

Therefore, convergence towards the neoliberal policies did not occur at expected levels. Countries took different paths despite the common basic elements such as weak labor market, liberalized financial markets and deregulated business in their national economies (Schmidt, 2007: 2).

Besides, in the 1980s and especially in the 1990s, the production systems in developed countries started to transform from the Fordist system (briefly based on mass production and consumption) to the social production system (based on a flexible production system that categorized by Hall and Soskice). North European countries changed their production regime and started to introduce a flexible system by keeping the cooperation of wage and labor relations (Amable, 2003: 244; Farkas, 2016: 31).

1.3. POST-1980S LITERATURE

After capitalism became a dominant and widespread economic system in the world economy, the competition among forms of capitalism started in itself. This transformation revived the institutional approaches in comparative political economy literature and many studies were published in order to categorize capitalism with respect to different approaches. There are close relations between institutionalism and comparative analysis in political economy literature. Political economists who study this kind of study mostly attempted to respond to the basic questions, which are very common in literature. One of the most important and common areas is the investigation of similarities and differences of national economies, which is always been interested in political economist (Hall and Soskice, 2001: 1). Corresponding to this approaches, they try to understand and reveal how different institutional system (economic and political institutions) could effect the economic performance of countries in terms of different economic indicators such as economic development, economic growth, term of trade, productivity levels, etc. (Hall and Soskice, 2001: 1; Farkas, 2016: 22). They can examine and interpret the national economies with respect to these kinds of indicators and could label them as a successful and failure example and analyze to the reasons behind these results upon the institutional structure of the national economies.

On the other hand, as expressed before, there are other motivations behind the studies related to understanding and analyzing of differentiation and similarities of political and economic institutions in national economy. According to some studies, the background of those kinds of studies can explain over intention to prove the possibility of one market economy (one type of capitalism that mostly picture over Anglo-Saxon economies) or opposite, the rejection of American or Anglo-Saxon hegemony and investigating existence of more than one market economies (variety of capitalism) (Farkas, 2016: 35). Indeed, there is no agreement either about the number of different types of capitalism, or the standard variables to categorize the various types of capitalism (Jackson and Deeg, 2006: 5). These kinds of varieties within the literature lead to the emergence of distinct economic approaches and required an explanation about the classification of the national economy.

1.3.1. Classifications

Post-1980s' literature focused on five institutional elements of capitalism: wage and labor relations, forms of competition, international relations, money, and state authority and general form of regulations. Wage and labor relations were accepted as the most important aspects of institutions. These elements determined the distributions of profit between capital and labor, which also supported the stability of employment and social protection in Fordist production at the Post-war age (Farkas, 2016: 31).

In the mid-1980s, studies of Katzenstein (1985) and Zysman (1983) followed Shonfield's historical institutional approach in their studies. Both studies reached the same result: the threesome typology of capitalism. This categorization consisted of liberal; the state-led; and the neo-corporatist/negotiation-based economies. Katzenstein investigated the 1970s' small but high performing economies like Switzerland, Sweden, Norway, Denmark, Netherlands, Belgium and Austria in his study. Gross domestic product (GDP) per capita of these countries exceeded the USA in 1982. He found that even these countries counter the current economic policies -aimed to balance the liberal policies by embracing to the international economic relations- they were not willing to give up common economic policy fully and tried to create a harmony that made the original with respect to the other countries. These economies limited the increase in wages and prices and encouraged the research and development (R&D) expenditures between the 1960s and 1970s periods. These policies protected them from economic vulnerabilities such as dependence on foreign capital and imports. He explained these economies' success with reference to the cooperation of an economic and political group of institutions in an economy. Lastly, this approach has been assisted in demonstration of comparative advantages of the national economies.

Zysman's (1983) classification was based on three indicators: financial institutions, industry and the state. He categorized counties with respect to the dominance of these indicators on the national economy. According to this approach, the United States and Great Britain were labeled as capital market economies; Germany and Sweden were labeled as negotiated credit systems (economic system mainly built on cooperation and consensus of banks and government); France and Japan were labeled as a credit-based system in which states have a dominant role.

Another important study about the classification of the models of capitalism belongs to Michel Albert (1993). His classification consisted of the Neo-American model and Rhine Model. The Neo-American model characterized by individualism –care only personal interest, designed with respect to the short-term perspective, high-profit motivation and unconditional trust to the market mechanism, which means certain rejection of the state intervention except for obligated matters such as security, justice matters. The Rhine model characterized by long-term vision, relatively collectivist idea which take care of social equality, seeking consensus among economic actors and more place to state on economy. Besides, Albert's real aim in this study is critics of neoliberal economic and social policy, which examine over Neo-American economic model. He also accused Neo-American economic model threats on the Rhine model. This threat based on the hegemonic characteristic features of the neo-American model on the world economy, which portrayed by strengthening of individualism, changing habit and demand of society, the dominance of short-term perspectives investment behavior, etc. In addition to that, the study of Albert was accepted as an exceptional, which based on a dual classification approach. It is a pioneer study in a comparative political economy, which had a great effect on the classification of models of capitalism that also referenced by many political economists (Farkas, 2016: 38).

1.3.2. Convergence vs. Divergence Debate

All changes and transformation in world economy revealed debates about the convergence theory that basically claim convergence of all economy toward a neoliberal market economy (one single model of capitalism) and divergences theory, which based on the existence of more than one model of capitalism (rejection of the single model of capitalism). Especially after the collapse of the Soviet Union and failure of command economic system due to revive what many people believe: capitalism is the natural condition of humanity and it fits perfectly to the law of nature and human desire (Wood, 2002: 2). Therefore according to this approach, after the certain triumph of capitalism and with the high dominance of neoliberal policy and globalization into the whole world will be due to convergence towards to one single capitalism, which perfectly fit free market system. But convergence claim did not realize as expected, there were many actions about the advancement of regional integration of variant capitalist countries in the world economy and it is increased the gap between the different types of economies (Thelen, 2001: 18). On the other hand, even if regional integration emerged, some structural changes such as financialization, globalization, etc. had weakened the state power and increased the power of big firms (multinational corporations) in the world economy and lead to following different directions for each economy. Furthermore, these circumstances are given them quick and easy exit options which increased the bargaining position of big firms against the state (Coffey and Thornley, 2009: 33) and forced them toward neoliberal economic policy, which also due to convergence to free market system.

1.3.3. Other Debates

Chadler (1994) studied competitive managerial capitalism (integrated managerial hierarchy). He defined competitive managerial capitalism as extended bureaucratic management of large-scale corporations by coordinated a wide sphere of transactions. He investigated Great Britain, Germany with relation to the USA. GB identified over personal capitalism, where family-owned companies were dominant and they divert a small portion of their investment to marketing, management, and R&D and reduced potential risks by corporate cooperation with contractions.   In Germany, there is a dominance of large corporations, which have a large scale, and the potential to expanding to other markets. There is strong cooperation between companies (termed cooperative managerial capitalism). Companies finance requirements generally compensated by national banks. Banks are an important factor in the economic system, which is identified as an important differentiation from Anglo-Saxon practice. German production system identified as flexible and complex which relied on skilled labor force and led to become a leading industrial state in Europe.

Another important study in that time belongs to Michael Porter (1990). He focused on the competitiveness of countries, which is not chosen by many scholars in comparative analysis until that time. Besides, he did not deal with the production system in the national economy as previous studies, but rather deal with traditional growth factors by adding the institutional dimension. He used some indicators to show the national advantages among countries such as factors conditions, domestic demand conditions, an association between firm strategy, structure and competition, etc. Furthermore, he distinguished the competitive development process on four stages: factor-driven, investment driven, innovation-driven and wealth driven stages. The first stage, factor driven, explained upon features, which summarize as follows; the competitive advantage of countries based on natural resources and/or cheap labor. In this type of country, high value-added goods and technology are imported from developed countries. Their economies are vulnerable to external risks, which made them fragile. In the second stage, investment-driven, industry equipped with the technology available in the domestic market and imported from other countries and it is large-scale. Furthermore, imported technology improved with the help of research institutions or universities, which reduced the dependence and sensitivity of countries against external shocks. In this stage, countries have the potential to expand foreign markets thanks to the large-scale industry that contributes to the competition power the country. Governments in that stage can directly get involve the economy by selective industrial policy. Although the sensitivity of the domestic economy to the external shocks decreases significantly; there are still considerable vulnerability risks in these stage. In the third stage, innovation-driven, domestic firms are able to create new technologies, and they have the power to compete in the international markets. The domestic economy is less sensitive to external shocks relative to previous stages. Government role in the domestic economy is indirect and mostly consisted of regulation and monitoring functions. The last stage, wealth-driven, vulnerability risks in that stage reduce significantly. Innovation slows dramatically and investment in the industry sector becomes insufficient. Domestic companies are purchased by foreign entrepreneurs and integrated domestic economy to global strategy. With the high competition of the global market, wages decreased and unemployment increase which worse the economic situation and led to further loss of market share. In summary, the Porter approach based on the advantages of the national economy that created on land-based (domestic) company. The property of firms always cares in the domestic base and the nationality of the share is secondary position. Because even the firms belong to foreign investors or firms; the national economy will get benefited the important portions of values if it is stand in domestic lands. This theory also used by Hall and Soskice (Hall & Soskice, 2001: 38), in the study of “varieties of capitalism” in relation to the institutional comparative advantages.

1.3.4. Financialization

The rising importance of financialization that defined by the dominance of the international financial market which fueled an unlimited mobile capital system and it also escalating the globalization that roughly beginning in the 1990s and early 2000s. This transformation triggered the rise of business and the decline of the state power in national economies (Schmidt, 1995: 78). Therefore, the studies of comparative political economy were concentrated on the firms after the 2000s (Schmidt, 2007: 8; Arsenult, 2012: 23). The subject of varieties of capitalism has been perhaps the most debated firm-centered approach in comparative political economy.

1.4. VARIETIES OF CAPITALISM

The study of “varieties of capitalism” by Hall and Soskice (2001) is one of the most debated studies in political economy. There are many supportive and criticizes comments on the study. But I want to give some information about the stage of capitalism approaches before explaining the VoC approach. There are similarities and differentiation between these two approaches, which is very crucial to analyze in order to understand the VoC approach a better way. Because discussion made in the “stage of capitalism (SoC)” approach, the rise and decline of the subject in political economy literature, is revealed an important lesson for the VoC approach.

1.4.1. Stages of Capitalism Approach (SoC)

Stages-of-capitalism (SoC) approach has a long history in comparison to the VoC approach. The foundation of the SoC approach goes back to the studies of Claude Henri de Rouvroy Comte de Saint-Simon and Auguste Comte's industry-based societies approach (Özveren, Havuç, and Karaoğuz, 2012: 16). It is understood from the studies of Simon and Comte that SoC was developed upon social and anthropological studies at the beginning. Later it spread to other fields of social studies and became dominant in the political economy through the influence of Marxian studies. There were also some studies about economic development periodization and progresses, which were under the dominance of Historical School (HS) approaches. Especially after the 19^{th} century, the historical school became the richest source of stage theory:

> The vast majority of the models of stages of the historical school represented mainly a series of historic events, defined by dominant features, but not genuine historical models based on causality and interdependence and drawn logically and dynamically from economic relations and structures which lend themselves to comparative analysis (Hershlag, 1969: 666).

Scholars of German origins contributed to this school: F. List, W. G. F. Roscher, B. Hildebrand, G. Schmoller, Bücher, Sombart M. Weber, etc. (Hershlag, 1969, s. 665). After Germany was defeated at the First World War (WWI), Germany also lost her dominance in intellectual life and the historical school also lost its impact on stage theories.

After the late 1960s, the SoC approach was revived in political economy literature thanks to the Marxist literature, which defined SoC as a "subset of the stage theories of social and historical progress" (Özveren, Havuç, and Karaoğuz, 2012: 18). Marx explained the stages over continuity and emphasized the emergence of a new regime that rises from the ruins of the old one. Whole past and present societies are based on the history of class struggle. He also uses three stages, which are slavery, serfdom, and capitalism. Marx put "mode of production" at the center of explanation of capitalism and used a list of modes of production like primitive communism, slavery, feudalism, capitalism, socialism, communism and Asiatic modes of production. Although Marx advocated different stages with respect to successive modes of production, Marxist scholars generally elaborated the stage idea within the distinct modes of production. There are two important studies, by N. Bukharin (1979) and V.I Lenin (1996), on the economic policy in Russia following the Revolution. Both of them mention “the diversity of economic structure” or “variety” in Russia. During the 20^{th} century, Marxian scholars mostly dealt with internal periodization of capitalism. A. Hobson (1965) and V. I. Lenin (1996) formulated these stages as early capitalism, colonialism, and imperialism. P. Sweezy (1970) identified these periods as competitive capitalism, monopoly capitalism, and state monopoly capitalism. R. Hilferding (2006) formulation based on the stage of free trade, monopoly and finance capitalism. Fine and Harris (1979) used similar categories based on laissez-faire, monopoly and state monopoly capitalism. As noticed from the examples above denote that categories of scholars overlap. Most of the classifications were based on three important points that emerged in developed economies: primitive or commercial capitalism (16^{th} and 18^{th} century of Europe), industrial capitalism (19^{th} century dominance of machine on production process) and monopolistic or oligopolistic capitalism (last quarter of 19^{th} century and significant encouragement of state to firms). In addition, financial capitalism included the literature of the stage of capitalism after the 1980s, when financialization and globalization became an important phenomenon with the neo-liberal economic policies. Financial capitalism has a flow-specific feature in contrast to industrial capitalism that is defined space-specific (Ruggie, 1993). The emergence of financial capitalism, which emphases as a new stage of capitalism, has been conceptualized beyond national boundaries.

Marxist literature embraced the stage of capitalism approach and recommended underdeveloped countries (Third World countries) to follow the same stages for obtaining the target level, expected to reach socialism eventually. Particularly after the post-war period, many political economy scholars (Marxists and mainstream economists) started to study Third World countries with a development perspective. Two important questions were raised from these studies: the first question was whether or not underdeveloped countries should follow the same stages of developed countries or they should skip stages to reach the targeted level; second question was what is the factors behind the transformation of countries (internal or external factor or both of them) (Özveren, Havuç, and Karaoğuz, 2012: 18).

Another important study in this field is W. W. Rostow's five-staged take-off model. It was accepted as an antithesis of Marxian arguments. For Rostow (1960) this process is started from the traditional society (restricted to agriculture based on non-scientific production) to a high mass-consumption stage (increased resourced used for social welfare and security). He drew attention to preconditions of the take-off. Moreover, he describes the relationships with developed countries having the potential to trigger exogenous shocks and points to the destructive nature of transitions from one stage to another in underdeveloped countries. He estimates the duration period for each stage, which depended on the investment and economic growth that were required to be achieved in a time (whole process duration estimated 50 and 100 years). After Rostow, the stage theory was elaborated by mainstream economists such as F. Machlup (1972), D. Bell (1999), J. R. Benniger (1986). In particular, after the 1990s scholars started to define a new type of stage to explain the transformation of society based on technological advances. For example, M. Castells (1996) defined the next stage upon network society and tried to draw attention to information instead of the production of commodities. For him, the next stage would be an information age that requires research and development (R&D) expenditures, patents, innovation, and more skilled labor.

On the other hand, there were studies that rejected the stages of capitalism theory and argued for alternative theories like Dependency School. Dependency theory analyzes the world economic system with two basic concepts: periphery (underdeveloped countries) and core (developed countries). According to the dependency theory, economic development in the periphery is structurally limited and distorted by the core countries. Because of the unequal exchange relations between the core and the periphery, the core has the ability for the expropriation of the surplus from the periphery. Thus, there is a single structural and historical process that simultaneously reveals two polarized consequences as developed and underdeveloped countries A. G. Frank (1969). More specifically, Dependency theorists did not believe in the staging process for underdeveloped countries that already passed by developed countries. Because they argued that the underdevelopment of the economies was not based on their nature, but was based on their unequal relations with developed countries that resulted in disadvantageous economic conditions for the periphery. Accordingly, periphery countries are structurally different from the core countries that also diminished the possibility of linear stage development for them. There are also some arguments that, with the right policies, periphery countries could be transformed into core countries:

> Thus, varieties-of capitalism approach was first born in this context. At that time, only two options existed and debate ensued as to whether the peripheral one would be merely transitional or not. We can rephrase this issue in retrospect as to whether peripheral capitalism was flexible enough to become normal capitalism identified with the core (Özveren, Havuç and Karaoğuz, 2012: 20).

In sum, it can be stated that representatives of the SoC approach from the historical school to the mainstream area generally defended one way of economic development. Marxist economists also accepted and recommended a similar road of development for underdeveloped countries. On the other hand, there are different studies that consider more than one way of development. For example, Gerschenkron (1968) researched European industrialization in the 19th century and discovered different economic structures and mentioned latecomer advantages in the industrialization process. So for him “economic life is pregnant with many alternative solutions, so that in countries where the so-called prerequisites were not present, various substitutions for them have been developed in the very course of industrial development” (1968: 132).

Therefore, we can say that the SoC theory is based on assumptions of the uniform notion of capitalism but discover by default that was not as claimed (Özveren, Havuç, and Karaoğuz, 2012: 30). This result has shown the possibility of variety in capitalism, which is the main assumption in the VoC.

1.4.2. Varieties of Capitalism (VoC)

Hall and Soskice criticized prior studies of their overemphasis on the importance of state and labor force roles in their analysis. In contrast to prior studies, they put the firms at the center of their study. They have seen firms as “the key agents of adjustment in the face of technological change or international competition whose activities aggregate into overall levels of economic performance” (2001: 6). The main objective of firms is to reach core competencies or dynamic capabilities to develop, produce and distribute goods in a profitable way.

In the study of the VoC, Hall and Soskice try to understand institutional similarities and differences among the developed economies. According to Hall and Soskice, the major aim of comparative analysis is: “understanding … institutional similarities and differences among the developed economies” (2001: 1). Thus, the VoC approach can be seen as a historical institutionalist approach to the study of comparative capitalism literature (Allen, 2004: 91).

On the contrary to common institutional studies in literature, Hall and Soskice’s study, analyzed institutions in different ways that could be seen as: “as effort to go beyond … study of comparative capitalism in the preceding thirty years” (2001: 2). Their study was based on an investigation of institutional capacity to solve problems through strategic interactions. In this respect, the authors try to compare capitalism in terms of production regimes and focus on micro-agents like firms, shareholders, employees, etc.

Hall and Soskice examined five spheres in which firms must develop a relation to overcome possible problems, these items were identified as follow; corporate governance, industrial relations, vocational training and education, inter-firm relation and coordination vis-à-vis employees. These factors were also used by Hollingsworth and Boyer (1997) study. Hall and Soskice’s study became distinct from this study through their more comprehensive approaches, which contained the fairness and justice concepts shaped by the structure of states and its policies, customs of societies, traditions, laws, etc. Another important distinction of Hall and Soskice's study was based on their theoretical assumptions related to institutions that built on rational choices. The author's study and analysis of the VoC shaped upon the rational choice of economic actors that generally explained upon strategic interactions of firms to reduce coordination problems in an economy. Hall and Soskice explained this issue as follows, "the relationships firms develop to resolve these problems condition their own competencies and the character of an economy's production regime" (2001: 7).

As mentioned before, the authors put firms at the center of their analysis. Firms are accepted as the fundamental institution that responsible to the shape of characteristic features of the national economy, which mainly categorized upon the VoC approach. They also agree to see firms as a representative institution of capitalism. In addition to that assumption, Hall and Soskice took capitalism or market economies as given indicators without making any analyses. Therefore they are taking capitalism as a given economic system and implicitly accepted the existence of one and only one capitalism, which takes different forms depending on institutional or historical context (Özveren, Havuç, and Karaoğuz, 2012: 31). In the study of "Varieties of Capitalism: The Institutional Foundations of Comparative Advantage" Hall and Soskice (2001) only deal with the identification of the type of capitalism and categorization of domestic economies with respect to the firms' actions to overcome potential problems.

The definition of institutions in the study of the VoC that made by Hall and Soskice is taken from North (1990);

> Economic actors are at the center of study and presumed that all economic actors are following their interests rationally through their strategic interaction with the other actors. In addition strategic interactions with other economic actors; there are other important things, which have considerable role in shape of economic system such as culture, informal rules and historical experiences (Hall and Soskice, 2001: 9).

Hall and Soskice analyzed firms or organizations behavior at the micro level to understand the macroeconomic problems of the national economy. This approach made their study unique and exclusive in the literature of comparative political economy. With regards to the VoC approach, the differences in the socio-economic institutional system originated from the differences in firms’ strategy in solving relational problems. The VoC categorizes economies as liberal market economies (LMEs) and coordinated market economies (CMEs) with respect to five spheres: industrial relations; vocational training and education; corporate governance; inter-firm (company) relations; internal structure (employees). More specifically, this classification grounds on firms strategies or behaviors to resolve the coordination problem they face on different spheres. The difference between these two main types of economic systems is reinforced by the existence of institutional complementarity (Hall and Soskice, 2001: 17). This idea also based on Aoki’s (2001: 87) study, which based on two institutions complementary same as Hall and Soskice. According to this study, if the efficiency of one institution increases, the returns from the other will increase as well. It also emphasizes the existence of a dynamic relationship between each economic actor in the economy. This revealed the significance of interactions between firms (especially strategic interaction in coordinated market economies). Comprehending these interactions required new perspectives such as game theory and new institutionalism.

Hall and Soskice also identify national economies that do not fit to the two categories they set. Thus, they assert the third type of capitalism (Mediterranean capitalism) in order to contain all sample economies used in their study of “the Organization for Economic Cooperation and Development (OECD) countries” (Hall and Soskice, 2001: 21).

In a coordinated market economy, firms generally solve their coordination problems by relying on non-market relations. Those relations roughly consisted of incomplete contracting mechanism, and collaborative relations among economic actors, which also affect and affected the reputation of firms. Also, there are strong strategic interactions between firms and other economic actors that also affected the equilibrium level of the economy.

On the other hand, in liberal market economies, firms generally solve their coordination problems by relying on the market mechanism. This makes the firms depend on the price mechanism. In liberal market system contracts and laws are very strict, economic relations shaped upon the market mechanism and equilibrium level of economies are determined over demand and supply on the market mechanism by price signals. As mentioned above, the VoC categorizes two types of the market economy (LMEs and CMEs) with respect to five spheres. In the following parts, each sphere is going to be analyzed with respect to firms' responses to problem resolutions for LMEs and CMEs separately.

1.4.2.1. Industrial Relations

Industrial relations basically included the coordination of negotiations between firm authority and labor force about the wages, working conditions, etc. The treatment of both sides on the determination of similar situations generally shaped with respect to the type of economy. Besides changes in that area directly affected the success of firms at the micro level and all national economy at the macro level. Some economic indicators such as productivity, unemployment ratio, and inflation rate could be affected by decisions taken by firms with respect to the different approaches and motivations.

In CMEs, trade unions and employers have a relatively strong position in that area. Both sides of the negotiation have obligation to follows some rules, which brought positive conditions to all parts of the system. Main indicators in that area, such as wage and working conditions, determined by trade unions and employers organizations instead of the pure market mechanism. Decisions are taken in that system aimed at the satisfying desire of both sides. For example, they take decision such as equalizing wages at the same skill levels through the same industry to prevent poaching of a worker by other firms and assure workers to have highest possible working situations. Furthermore, trade unions have the power to actively get involve the employment policies of firms in terms of layoffs, working conditions, etc. This situation positively affected both sides of the negotiations. The active position of trade unions encourages the workers to make more investment to them in order to develop firm-specific or industry-specific skills. Also, the active position of trade unions motivates firms to desire some changes if it is necessary.

Industrial relations in LMEs arranged upon (labor) market mechanism instead of mutual negotiations of representatives in the national economy. The main indicators in that area like wage and working conditions of workers are determined by demand and supply directions in the labor market without any interventions. Due to this mechanism, the role of trade unions on labor force and employers is limited to compare with CMEs. Therefore, firms do not have any obligations against the labor force. Top managers have unilateral control over the firm administration and they have strong power and freedom to hire and fire to workers. Thus, the labor market in LMEs mostly defined highly fluid which means it is relatively easy to hire and fire workers from firms. Besides important economic indicators such as productivity level, inflation ratio and unemployment ratio are highly dependent to macroeconomic policy and market competition due to a certain power of demand and supply mechanism in that system (Hall and Franzese, 1998: 506).

1.4.2.2. Vocational Training and Education

Vocational training and education are consisted of achieving two basic targets. The first one is the creation and maintenance of eligible labor force and another one is providing employment security for workers. Also, there are some potential problems in that sphere such as securing labor force with suitable skill by preventing poaching of the labor force by other firms and to overcome workers problems about deciding how much invest in what skills of him/her. Besides the strategies used in that area about the solution to these kinds of problems are not only affected the firms and workers. It also affected the overall skill levels and competitiveness of the national economy against the others; or in other words against the international markets. The approaches and strategies of both the markets system (CMEs and LMEs) are different in that area.

The nature of CMEs is highly dependent on labor force with high industry-specific or firm-specific skills that reveal the importance of quality of education and training system to provide labor force as desired. CMEs apply some policies (coordination) to provide what market needs. Employer organizations and trade unions have a crucial position in that system. Both of them closely supervise the publicly subsidized training system and monitoring major firms to analyze labor force needs and make arrangements about the new training to fit firms' desires. Trade unions also have the power to apply pressure on firms to take on apprentices in the framework of the apprenticeship scheme, which are beneficial for firms' side too. Because with the help of this mechanism employer associations have prevented skilled workers (industry-related and corporate-specific knowledge) to being poached by competitor firms. On the other hand, technological transfers in CMEs are mostly realized upon firms' network relations, which is crucial in the existence of strategic interactions; it is not based on the movement of the skilled labor force between firms like LMEs. Additional there is a common implementation in CMEs, which encouraged the labor force to make more investment on themselves. This implementation basically based on a long-term employment contract system that leads to workers to feel safe and make more investment to their working skills.

Vocational training and education in LMEs are generally provided within the formal education system. Additions to that situation highly fluid structure of the labor market in LMEs are created vocational training and education system, which generally based on general educations, general knowledge, and skills. Also, strategies and approaches followed by employees and employers supported the community of general skilled labor forces. Firms are reluctant to make an investment to labor forces due to poaching risk of trained and skilled workers by other firms because there are not any rules or agreements to prevent such movements like in CMEs. On the other hand, a flexible labor market encourages workers to obtain a general skill that can help them to easily adapt to changes in the labor market. These kinds of situations are discouraged to firms and workers to make an investment to the developed to the skilled labor force. Because of those circumstances, the labor force in LMEs generally well equipped with general skills and used service sectors.

1.4.2.3. Corporate Governance

Hall and Soskice (2001) defined the corporate governance relations over two basic approaches. The first one is as a way of firms to access the capital to finance their financial need. Another is creating a system, which guaranteed to investors capital to get back at the end of the agreement time.

In a coordinated market economy, the accession of firms to capital is generally based on strategic relations and close coordination of firms and providers (mostly banks). Because of that reasons the importance of common financial documents such as balance sheet, income statements and current returns of firms are not as important as in LMEs. In CMEs, strategic relations between banks and firms are more crucial than the public data. Thus firms in that type of economies always have options besides the pure financial market conditions. This particular case identifies as “patient capital” by authors. Accordingly, in CMEs firms have the option to access capital (patient capital) independent to the publicly available financial data and current returns of firms (Hall and Soskice, 2001: 22). In this way, firms are able to continue to medium or long-term investment project and she could hire a skilled workforce even at times of economic downturns. Besides economic actors in CMEs are monitoring different indicators. They use “private” or “inside” information about the firm's operations, which obtained by professional relationships via to the extensive networks of cross-shareholding and through active professional associations. These kinds of circumstances also have shown the importance of reliability and reputation in that system. These are the key factors that also due to the reward and punishment of firms by accessing capital properly. CMEs generally have an extensive system for what termed “network reputational monitoring” and it is very crucial to secure finance for firms (Vitols, Casper and Woolcock, 1997: 10). On the other hand, firms have other capabilities to finance their activities. It is retained earnings, which are important tools in that sphere in addition to the patient capital mechanism. Lastly, we can say that all the arguments that explained above are showed the main financial options of firms and it is also affected the investment preferences of firms. Firms in CMEs are not vulnerable to the short-term economic changes and external effects, which is supported to firms to set long-term goals and being persisted about their targets.

Firms in LMEs could access capital by financial markets mostly via to equity markets. The assessment of firms in the capital market mostly based on financial data such as balance sheet, income statement and current earnings. The success of firms generally measures upon equity price or current earnings of firms. Therefore, firms in that type of economies are concentrated to short-term targets. Additionally, the management of companies concentrated in top managers and they do not need strategic relations with others. Top managers only responsible to shareholders and they are rewarded when firm's equity prices or current earning increase. Moreover, top managers do not have any obligation or responsibility against workers or other partners. Therefore, they act very comfortable about firms' activity without consulting the other economic actors in firms. Also, the primary target of top managers is shaped over short-term targets such as increasing current earnings, etc. These perspectives make firm strategies vulnerable against the long-term targets and force them to act in short-term perspectives in many areas such as labor force, investment, financing, etc.

1.4.2.4. Inter-Firm (Company) Relations

Inter-firm relations briefly explained as coordination between corporations, more specifically relations of firms with other enterprises (suppliers or clients). This approach contains firms' competition power as well as coordination power too. The basic motivation behind inter-firm relations is securing stable demand for produced goods and services and creating appropriate supplies of inputs and access to the necessary technology.

The success of the coordinated market economy in that sphere based on informal standards and customs in addition to formal contracts that are common in market relations. This also directly affected the national capacity of the economy in terms of competition and technological progress. Besides, the government could actively get involve inter-firm relations. She could be third actors among firms and suppliers and she directly could intervene the technological capacity of firms, which is affected the competitive power of the national economy automatically by subsidized programs, collaboration to the private sector with quasi-fiscal research institutes, etc.

In LMEs inter-firm (company) relations are based on formal contracts and standard market relations. Technology transfer is secured through the movement of workers from one company to another. Also, the license system and the sale of innovations provide another important way for technology transfers. In that system, the role of government is limited by the CMEs. She generally creates rules of the game, monitoring economic actors and create an efficient environment to all economic actors.

1.4.2.5. Internal Structure (Employees)

The Last sphere in the VoC approach is based on the coordination problems vis-à-vis firm's own employees, which defined the internal structure. The main target in that area is based on the resolution of problems that emerged between workers and management of firms. Authors define it as follows: "their central problem is to ensure that employees have the requisite competencies and cooperate well with others to advance the objectives of the firm" (Hall and Soskice, 2001: 7).

Employees and employers try to create suitable corporate structure and targets for the benefit of both sides. These motivations engender the importance of information sharing that could prevent the possibility of adverse selection and moral hazard for both of them, especially for firms. The solution developed by firms to overcome those kinds of problems and reactions of employees are shaped the production regime of those countries, which is very important (Hall and Soskice, 2001: 7).

In a coordinated market economy, the administration and decision-making process of firms require consensus between economic actors due to strategic relations among them. Therefore, top managers in CMEs are not only decision makers' authority like LMEs. They have to negotiate with other economic actors such as shareholders, employee representatives, suppliers, etc. in order to take a decision about the firms' future activities. This structure has reduced the power of top managers in the management process of firms and precludes them from acting alone in administration processes. Also, there is a strong and mutual commitment between trade unions and the work council about the rights and relations about the labor market. This commitment makes a consensus mechanism indispensable among economic actors.

1.4.2.6. Assessment of Varieties of Capitalism

In sum, these five spheres are the areas where potential problems arise, and firms apply different strategies to overcome these problems. These differences also shaped by their production strategies which are affected from all the changes such as financial system, labor market mechanism, quality of labor force, power of economic actors, education and training system, etc.

In coordinated market economies, firms generally solve their problems through non-market mechanisms. It requires strong strategic relations and coordination between economic actors due to relatively balanced power distribution. In addition, reputation and reliability of firms are very crucial. CMEs are more feasible to the production of complicated products that shaped upon the resolution or strategies of firms in five areas. This type of production required a highly skilled labor force, which is more suitable. It is provided by some policies such as support of vocational training and education by trade unions, employees and government in firms or industry-specific level; long-term employment contract mechanism, etc. Furthermore, long-term financing perspectives in corporate governance mechanisms help the development of complicated production strategies. It is also shaped the innovation style of the national economy, which is very crucial in long-term economic success. Innovation style of CMEs defines as incremental innovation, which is explained as “continuous but small-scale improvements to existing product lines and production process” (Hall and Soskice, 2001: 39). Accordingly, we can say that there are reciprocal and multidimensional relations within the five spheres and all these relations shaped the production strategies over technological improvement, human capital, financial transformation, etc. On the other hand, the characteristics features of CMEs mostly based on corporatist arrangements with the backing of state authority if necessary. This economic system consisted of compromise and coordination between economic actors like business, labor, and government, which pull back market second position in the economic system. State involvement is relatively more (sometimes she become the main actor whose design economy by policy changes) with respect to LMEs. State interventions mostly appear within a high level of social welfare expenditure, regulated labor market, strong unions and strong coordination between economic actors. The institutional design in CMEs supports the incremental innovation, which based on the production of goods already produced but more effective way and high scale and expected to have advantages in products which highly sensitive to cost and market share competition.

In liberal market economies, firms generally solve their coordination problems by relying on competitive market arrangements and a mix of hierarchies (Hall and Soskice, 2001: 8). Market relationships are designed by the arm’s length exchange of goods and services with respect to competition and formal arrangements such as contracts, rule of law, etc. The market adjusts the demand and supply of goods and services. Price signals shape them instead of strategic interactions in CMEs. The characteristic features of LMEs are mostly fed with neoliberal principals such as minimal state involvement in the economy, deregulated labor markets, weak unions, strong competition between political and economic actors and full trustfulness to market reactions (Campell and Pedersen, 2001: 1). In the LMEs financial market mechanism, the labor market mechanism, distributions of power between economic actors have shaped production strategies and innovation styles the same as CMEs. The institutional design in liberal market economies tends to be more successful in providing radical innovation, which is suitable for the substantial shifts in the production line and development of entirely new goods. Besides institutional frameworks of LMEs are very supportive of that type of production and innovation style. For example, labor markets in LMEs depend on market mechanisms. Consequently, there is a little restriction on recruitment or laying off workers. This means there is high labor mobility that creates a suitable environment for developing new products. Firms have short-term targets and top managers have only authority on the administration of the company. They can easily change their production strategies and product line, which is more suitable for radical innovation.

Hall and Soskice analyzed developed countries (OECD countries) in their study and they preferred using dual classification. Moreover, they claimed the possibility of applying the same classification to developing countries as well. Besides, six countries from OECD – France, Italy, Spain, Portugal, Greece, and Turkey- do not fit their dual economic classification. Therefore, they categorized those countries under another type of capitalism, “Mediterranean capitalism”. Main features of Mediterranean capitalism expressed as large agrarian economy, intensive state interventions into the economy, non-market coordination in corporate finance requirements and flexible labor market, which also identified mixed of LMEs and CMEs.

Additionally, the authors pointed to the importance of globalization movement on world economies, creating pressure on national economies, especially on coordinated market economies (generally expressed by convergence theory). Nevertheless, they do not accept the institutional convergence movement properly rather than the dual spectrum between two ideal types of capitalism. Although Hall and Soskice (2001) avoided comparing LMEs and CMEs, they claimed the superior position of LMEs and CMEs in comparison to hybrid (mixed) economies by economic performances. This argument implicitly accepts two ideal types of the economy as an ideal economic system. They thought both liberal and coordinated market economies are capable of providing satisfactory long-term economic performances. In other words, both pure types of economies, which have successful institutional complementarities, present similar successful economic performances with respect to different economic criteria such as economic growth, employment ratio, GDP per capita, etc.

Another important debate in VoC theory is the convergence of market economies. Some of the studies debated this subject with reference to the globalization movement. However, the debate is more extensive that also includes globalization. According to orthodox neo-classical approaches, there is one and single ideal type of economy with neo-classical economic principles. This perspective expects that all market economies would converge to the ideal type (convergence theory). Hall and Soskice directly rejected the convergence arguments by establishing two ideal types of the economy (CMEs and LMEs). They also discussed the convergence debate by explaining mainstream arguments and by presenting counter-arguments, which is discussed below.

The first argument of convergence theory is based on the pressures of globalization movements on national economies. The globalization movement has changed the balance in the world economy in favor of the neoliberal policy. This transformation forced to national economies to act similar directions, which caused to revive of convergence theory for the whole world. The impact of globalization summarized as a priority of competition in business, dominance of capital over labor force, etc. that force to firms to act in neoliberal policy directions regardless of the national political economies. This direction described as a single market mechanism, which has the capacity to meet all requirements of the liberal market mechanism. Therefore, response of national economies to the external disturbance and shock is expected to be the same direction.

The second argument of convergence theory is based on financialization, which closely related to globalization as well. As is known with the dominance of financialization that briefly defines mobility of capital without any restriction among the national economy, it is changed the balance of power in the world economy in favor of capital owners. The dominance of financialization in the world economy forced the firm in CMEs and mix market economies to re-design their traditional practices in order to attract foreign investors and increase their capital market share in the world economy. This situation due to the monitoring of CMEs firms closely, the insistence of transparency by sharing accounting reports such balance sheet, income statement tables and engages in merger or acquisition activity. More importantly, the dominance of financialization reduced patient capital options for the coordinated market economy, which is very crucial in the long-term investment decision. Thus, those economies started to act with respect to short-term concern same as LMEs. This situation made it difficult to implement the existing policies that general embraced by the CMEs, which is mainly consisted of long term investments and projections, long-term employment policy and skilled labor force, etc.

Hall and Soskice (2001) rejected the claim of convergence theory and responded to the arguments. Firstly, they rejected the assumption of the same direction respond of firms to the external shocks and disturbance. They were claimed that firms in different types of economies react differently to similar shocks or disturbance due to distinguished institutional characteristics of them. Secondly, they accepted the change of balance between capital and labor in favor of capital and priority of competitiveness between national and international firms. It is obvious that these circumstances due to pressures over labor costs and made it only parameter firms. Authors accepted the importance of labor cost for firms but they also do not accept the only parameter for firms to change their institutional tradition in favor of LMEs as expected. In addition, they referred and states in another study: “although efficiency considerations … are relevant to institutional change, the latter is ultimately political process driven by many factors and must be analyzed as such” (2003: 243).

Additionally, Pontusson (2005) demonstrates that revealing convergence or divergence between the two models depends on the indicators chosen. Thus chosen indicators can easily manipulate the consequence of the investigation. For example, there are no changes in the indexes that are measured the protection level of employees in the coordinated market economy during the 1990s (applied OECD countries). These situations proved to remain of difference between LMEs and CMEs. However, when we added new indicators into the analyses like employees with an open-ended contract on the index, the result is changed, and the labor market of the coordinated market economies converges towards to liberal market economies.

Besides, some scholars argue for the existence of dual convergence and reject the movements towards to convergence theory. They generally describe dual convergence that takes place within each cluster (a pure type of economies) but not among them (Howell, 2003: 108). They also confirmed the general consensus on the existence of more than one form of the capitalist economy (Howell, 2003: 108). On the other hand, there were many studies and comments that criticized the Hall and Soskice studies. These types of studies can be categorized under two headings; critics and evolutions about the VoC approach and critics and evolutions about the classification of models of capitalism.

1.4.2.7. Critics of Varieties of Capitalism

Hall and Soskice's (2001) study is accepted as a milestone for the comparative political economy studies, especially comparative institutional analysis due to huge debates in the literature. This impact brought different interpretations about the varieties of capitalism subject and many criticisms about the study of Hall and Soskice. Before presenting the critics of VoC, it should be noted that Hall and Soskice have already described their theory as "work-in-progress... a set of contentions that open up new research agenda than settle wisdom to be accepted uncritically" (Hall and Soskice, 2001: 2) and opened their research to critique.

First critics are based on the rejection of varieties in capitalism, which is the basic assumption of the study. The scholars who advocated the convergence theory generally embrace this assumption. Furthermore, they mostly defend their claims upon the national and international transformations of world economy such as globalization and financialization that led to a change of power between economic actors in favor of capital holders and it is positively affected the convergence movement in the world economy.

Second critics of VoC point to lack of aggregate and empirical investigation. Hall and Gingerich (2009) intend to fill these shortcomings. They analyzed developed countries through empirical analysis based on some assumptions and methods. They collected accessible variables, which are suitable for identifying the type of coordination in sample national economies. They construct some indexes to divide national economies with respect to the consequences of empirical analysis. They used factor analysis and proved that there is a fundamental difference between market coordination (liberal market economies), and strategic coordination (coordinated market economies). They also empirically test institutional complementary of national economies and proved the efficiency of these situations. They created seven spheres, which identify several complementarities. As a result, they confirmed that complementarity has a positive effect on economic growth the same as Hall and Soskice claim. They also claimed that both types of coordination (purely market coordination and strategic coordination) have more effect on economic growth than the mixed economic system. Their argument was based on the relation between economic growth per capita and the type of coordination in OECD economies between 1971-1997 periods. Furthermore, they investigated the possibility of institutional convergence claim. They used basic indicators to compare the characteristic of national institutions for the period between 1980-1990 periods. According to compared indicators, coordinated market economies have taken moderate steps toward liberalism, and there have been changes in the strategic coordination filed rather than large-scale convergence as claimed.

Third critics of the VoC highlight the limited historical perspective of VoC. As mentioned by Hall and Soskice, their study briefly focused on the postwar period of the developed economies (Hall and Soskice, 2001: 2; Özveren, Havuç and Karaoğuz, 2012: 28). Another important critic of VoC problematized the conceptual definition of capitalism. Capitalism is accepted as a given economic system in VoC analysis. They did not make direct or indirect investigation about capitalism such as tracing root of capitalism, monitoring transformation of capitalism, etc. or the role of state, political struggles, class conflicts, and economic crisis is not emphasis in VoCs approach widely (Howell, 2003: 104; Özveren, Havuç and Karaoğuz, 2012: 28). Fifth critics of the study are the insufficiency of one-dimensional focus, which called coordination. This situation has accepted a reason that limited the credibility of the study and exposed to criticism of being shallow by some scholars (Amable, 2003: 14). Furthermore, Watson (2003: 227) criticizes the using of Ricardian themes into the analyses. Rafiqui (2010: 310) were criticized comparative capitalism literature and VoC due to its limited interest in variety within national models of capitalism. He has argued the necessity of variety within nations in line with the economic geography approaches.

Another critic of the VoC study is based on the causal logic behind the categorization of capitalist models. As explained above VoC approached focused on the strategic behavior of firms, but scholars mentioned more than one source to explained diversity in capitalism such as politics, history, culture, etc. (Hancke, 2009). Lastly, as mentioned before the subject of varieties of capitalism, which based on the dual economic system is become one of the most debated and criticized issues on the comparative political economy. Although they point out that Mediterranean countries can identify as a third type of capitalism, this idea did not gain significance in the following studies. Two main models of capitalism are defined as a liberal market, which is coordinated through the market interaction and coordinated market economy that is coordinated through strategic coordination.

In addition to the critics mentioned above, there are some studies that made contributions to the subject of VoC. For example, Coates (1999; 2000) and Amable (2003) added new variables into their analyses to make better classification into capitalist models. These variables mainly consisted of evaluation of product and market competition, labor market institutions, the financial intermediation sector, corporate governance, social protection arrangements, and welfare state situations, etc. Furthermore, Schneider and Paunescu

(2012) tested the validity of VoC by using 26 OECD countries' data. Their study showed various institutional categories including two ideal types of VoC approach. Their study classified those economies with respect to the five basic types (coordinated market economies, hybrid economies, liberal market economies like state-dominated economies and liberal market economies). Besides, they analyzed the dynamic structure of 26 OECD countries. Accordingly, Denmark, Finland, the Netherlands, and Sweden are moved from the CME model to the LME model that proved the instability of configurations of 1990 to 2005 period. Therefore, they argued that capitalism has more variety and more dynamism than the study of Hall and Soskice suggested.

1.4.3. Critics of Dual Classification

Hall and Soskice (2001) study has attracted immense attention (Farkas, 2016: 44). One of the most important debates and criticize issue has been the dual classification of market economies into liberal and coordinated market economies. Although Hall and Soskice (2001) point out the possibility of another type of capitalism (Mediterranean), this notion did not gain significance in their study.

There are many theoretical studies about the classification of capitalism in comparative political economy literature. These studies mainly consisted of two main classifications. One classification is, a single type of capitalism that is based on a free market model of neo-classical economic approach. The other classification is "variety types of capitalism" that is based on two or more market models of capitalism. There is not any restriction about the number of economic forms to be identified under the types of capitalism (Crouch, 2005: 4). Studies based on the existence of more than two types of capitalism are criticized and rejected the dual classification approach used by Hall and Soskice (2001). In the following part of the study, critics explained above going to be analyzed in a detailed way.

Hay (2005) criticizes the unclear definition of dual classification of capitalism's foundations. As Hall and Soskice mentioned two models of capitalism based on the rational choice of firms that are built on the dichotomy of the market and non-market coordination by applying deductive reasoning. Hall and Gingerich (2009) used empirical evidence to prove Hall and Soskice's dual classification of capitalism and showed examples that do not perfectly fit the duality approach. Moreover, Hay claimed that liberal market economies should be edited as a residual category in the dual system and criticized the authors' strong interest in the coordinated market system. He rejected the dual classification of capitalist economies and pointed to the possibility of more than two types of capitalism such as the Mediterranean economies, continental European economies, the Nordic countries, the Antipodean countries and so on (Hay, 2005: 115).

Pontusson (2005) was against the dual classification. He, first, noted the inaccuracy of classification of LMEs and CMEs and pointed to hybrid economies that were also stated in VoC literature (2005: 166). Additionally, he shared examples that proved the cumbersomeness of dual classification and showed the necessity of reclassification of capitalism that should contain more types of economies (2005: 169). Moreover, he presented Japan and Great Britain cases as examples to prove his arguments. Japan does not fit to coordinated market economy category and Great Britain does not fit to liberal market economy category (2005: 168).

Crouch (2005) criticizes the dual classification in his study. He used econometric models and empirical data to analyze national economies and classify them. As a result of his analysis, he figured out that some economies, like France and Great Britain, do not fit classified two ideal types of capitalism. He also goes further and rejects the USA and Germany as examples of dual classification (2005: 35). According to him, the USA does not appropriately represent the character of liberal market economies, as Germany does not fit to represent the coordinated market economy. Moreover, he explained the success of the USA economy upon the improvement of the military sector and information technology that realized by intra-company and state coordination rather than market coordination as VoC literature claims. Moreover, he considers the German economy outlier case for example of the coordinated market economy due to the structure of the state. Germany is a federal state; state coordination and network relations of the economic actors are weaker than small states (2005: 35).

Amable (2003) argues and criticizes the dual classification perspectives to categorized capitalist economies. He was against the one-dimensional approaches (coordination approach) to categorize the capitalist economies. For him, it does not enough to categorize the national economies and put them into the same category as another country (2003: 14). He claimed the requirement of more dimensions to the categorization process of the national economy that also disregarded the dual classification approach.

Soskice introduced a dual classification approach in several studies. He also described four types of capitalism in his study (1999) with the edition of Kitschelt. His types, based on various political arrangements, consisted of uncoordinated liberal market capitalism, national coordinated market (Nordic countries), sector-coordinated market economies (Rhine capitalism), group-coordinated market economies (Japan, Far East).

Some scholars have hesitation whether states are really independent of the current global economic affairs to expressing the national economy by different models. Crouch expressed this as follows: “theorists of the diversity of capitalism are eager to play down the implications of globalization, and argue intelligently and forcefully against the naive assumptions of much other literature that globalization somehow abolishes the significance of national differences” (2005: 42).

Hancké and et all. (2007) argue for the importance of state relations in capitalist models which they stated as amissing point for Hall and Soskice’ study. They also accepted the state-led market economy itself as one of the capitalist models. Soskice (2007) made a similar study that investigated complementarity of production regime and state regime and political systems, maintaining the dual classification of Hall and Soskice.

Additionally, political scientists and sociologists criticize Hall and Soskice one dimension approach (coordination) to explore variations of capitalism. They added some subjects (different dimensions) that should consider in the classification process such as power relations, class interests, and conflicts, etc. (Pontusson, 2005: 165; Farkas, 2016: 48). Bruff accepted the existence of varieties of capitalism but he included the varieties in capitalism as well: “in other words, institutions are of considerable importance for how capitalist societies evolve, but such institutions are clearly also grounded in capitalist condition of existence” (2011). This approach inevitably showed the need for more holistic analyses in literature. Thus, he criticizes the VoC approach to reduce the social life to institutions.

To sum up, political economists have three major critics of classification in the VoC approach. The first critique focuses on the limits of the one-dimensional approach of VoC. A second critique focuses on the narrow indicators of the VoC approach and the requirement of new indicators to classified unstable and immature countries (Bohle and Greskovits, 2007: 464; Lane, 2007: 18). The third one takes VoC’s underestimation of the diversity of the capitalist system in the modern economy.

There are important studies about the diversity of capitalism before and after the VoC literature. They also rejected and criticized dual classification approaches and offered broader categorizations of capitalism. Some of these studies offer alternative consequences and present more than two ideal types of capitalism. These studies are collected under the market diversity title.

1.5. MARKET DIVERSITY

Some authors were satisfied neither the dual classification nor the existence of more than two models. These authors generally deal with developed economies such as European nations and the USA (Farkas, 2016: 50). In the following part of the study, these studies going to be analyzed in a detailed way.

David Coates (2000) rejected the dual classification in order to explain the market models and proposed three ideal types of capitalism: market-led capitalism (USA, Great Britain) where government role is limited, private sector care the short-term target to obtain capital from the free financial market and flexible labor market that also contributed the weak social protection system; negotiated/consensus capitalism (Germany, Sweden), where government have relatively limited power, but position of labor union is strong, organized labor union can directly engage the corporate decision-making process of economic actors; and state-led capitalism (Japan, South Korea, and the Far East) where some economic agents have strategic position in economy and close relations with government, labor force have limited power but strong cooperation with strategic economic actors (company-based welfare provision) (Coates, 2000: 9-10). All models have different performances, which affected its competitiveness power over different periods of time.

Amable (2003) explains the role of institutions over conflicts of interests. He described institutional complementarity with reference to the game theory but also considering the interests of other economic actors. He also noted that it does not mean perfect rationality and perfect information for the decision-making process of economic actors. Institutions embody the balance of politics and economics. He analyzes institutions over different indicators like the product market (regulated or deregulated), the labor market (flexible or regulated), the financial market (regulated stock markets or commercial banks), the social protection system and the education system (public or private). Amable (2003) presumes the existence of three different complementarities between institutions. He defines five types of capitalism: market-based economies, social-democratic economies, continental European capitalism, Mediterranean capitalism and Asian capitalism (2003: 173). He used OECD data sets to classify the national economies. His analysis was primarily based on analysis over the subsystems; then he added aggregate analyses that confirm the existence of different economic models. His first group consists of Anglo-Saxon countries, Australia, Canada, and the USA, which represent market-based economies and named clearly distinct and homogenous group. The most important feature of those economies defined upon deregulation; product markets, labor markets and financial markets identified as deregulated areas and highly flexible to market reactions. Also the education system in those countries designed in a competitive manner proper the other institutional areas. Only the social protection system or welfare state in the first group is not homogenous and divided (the USA and Canada one side, UK and Australia another side). His second group consists of Mediterranean countries, Greece, Italy, Portugal, and Spain which identity by the rigid labor market, regulated product market, weak or undeveloped financial market, bank-based financial system, low level of protection social system and average education system. The third group by Amable is Asian capitalism that consists of Japan and South Korea. The features of Asian capitalism are the dominance of state on the production market; bank-based financial system, state incentive, and force to high savings, low level of social public expenditure, high-quality private education. His fourth group is the social-democratic group constituted by Denmark, Finland, and Sweden. Their product market and labor market are regulated (rigid), a financial system based on banks, a high degree of social protection system and a publicly financed education system. The last group of Amable is continental European capitalism, which is a relatively large and heterogeneous group. That group contained Germany, France, Belgium, Norway, Austria, the Netherland, Switzerland, and Ireland. They have product markets that are somewhere between competitive and regulated; coordinated labor market; financial system that is based on banks and other financial institutions; corporatist social protection; state-funded education system. Amable (2003) also looked for a relationship between various institutional features and economic performance by applying regression analysis. The result of his analysis brought the possibility of two methods of reaching high-level innovation: One is the liberal method that incorporates the deregulated market and flexible labor market. The other one is a coordinated method that incorporates regulated markets with a centralized, long-term finance based financial system According to this study's results, the existence of appropriate institutions in the national economy is crucial to becoming successful.

Esping-Andersen (1990) classified the European Union (EU) market economies in his study. This study only contains the welfare state regimes. The result of this study reveals three different welfare state regime: the liberal system (Anglo-Saxon countries), corporatists system (continental European countries like France, Germany, Italy, etc.) and social-democratic system (Scandinavian, and Nordic countries).

Boyer (1997) identifies four models of capitalism basing his classification on labor market features but also considering other indicators. He applied case studies and qualitative research instead of statistical methods. Boyer’s models of economies are market-oriented economies (USA, Canada, GB); corporatist/ Rhine economies (Germany and Japan); social-democratic model (Sweden and Austria); and statist economies (France and Italy).

Gilpin (2001) presents three types of capitalism distinguished by the role of the state in the economy, the structure of the corporate sector and private business practices. This classification consists of the American system of market-oriented capitalism, the German system of social market capitalism, and the Japanese system of developmental capitalism.

Schmidt (2002) uses three different classifications in her study. Market capitalism (USA and GB), managed capitalism (Germany, Sweden, the Netherland) and state capitalism (France and Italy). Additionally, she has rejected the convergence theory. She claimed that the institutional differences will continue in spite of universal events such as globalization or Europeanisation which expected to convergence movements among institutions or economic models.

Whitley (1999) constructed six types of sociological models of capitalism based on the business system. These are fragmented capitalism, coordinated industrial district capitalism, compartmentalized capitalism, state organizing capitalism, collaborative, and highly coordinated capitalism. He also identified five types of ideal firms: opportunities firms, artisan firms, isolated firms, hierarchy firms, collaborative and allied firms. His study concentrated on far eastern economies such as Japan, Taiwan, South Korea on the contrary to common examples such as the USA, Germany, and GB which make its study original. Ebbinghaus (1999) reveals the fundamental differences between the USA, Europe, and

Japan in terms of economic growth, labor market, welfare state. Despite the pressure of globalization, the differentiation of institutions and the national economy remains by different reactions of institutions. He mentioned the differences remained not only between various economic models but also within the economic models as well such as Europe. He closely deals with Europe and made his analysis with respect to economic governance, production regime, industrial relations, employment regime, and a welfare state. He used four models to describe Europe: Anglo-Saxon, the Nordic, the European central and the Southern European models. Baumol, Litan, and Schramn (2007) defined four different types of capitalism. These are entrepreneurial capitalism, big-firm capitalism, state-directed capitalism, and oligarchic capitalism. They also explained how those models are differentiated and these models have affected economic growth. Besides, they made a broader classification that consisted of two types of capitalism: good and bad capitalism. Developed economies are accepted as examples of good capitalism.

1.6. TRANSITION ECONOMIES

Studies about the varieties of capitalism are concentrated on developed and mature capitalist countries such as the USA, Germany, Great Britain, etc. There are some scholars who argue that transition economies (underdeveloped or developing economies) are not suitable for evaluating the progress since the 1990s in VoC’s perspective (Leszczynski, 2015: 101). There are limited studies, which included the underdeveloped or developing economies into this subject at the beginning of the 2000s. But, these studies have changed in the last two decades. Political economists started to include those kinds of economies in their analysis. These kinds of studies mostly have concentrated on the post-communist countries like Eastern and Central Europe (Kapas, 2013: 18) and Latin American countries and Asian countries that are identified as transition economies in literature. More specifically, post-socialist countries of Central and Eastern European economies were emphasized as exceptional cases that underwent a systematic transformation from the central planning economy to a market economy. While studying these economies, the complexity and uniqueness of these economies should be acknowledged and a broader range of variables such as forms of international integration, state capacity, financial system requirements, etc. should be considered in the analysis (Leszczynski, 2015: 102; Myant and Drahokoupil, 2015: 5).

Besides, including transition countries in VoC classification arises some problems due to exceptional features of those “command economies”. The first problem is the selection of a suitable dependent variable to examine and classified transition countries such as export competitiveness (Myant and Drahokoupil, 2015: 4). The second problem is the selection of appropriate independent variables such as the structure of inherited industrial bases, natural resources endowment, etc. (Myant and Drahokoupil, 2015: 4). The third problem is the insufficiency of institutional preconditions, which determined the international integration degree of those economies. The last problem is related to long-term continuity and permanence relation assumptions, which is valid in developed economies. The experiences of transition economies are mostly identified as high degrees of discontinuity and volatility, which are completely in contrast to the requirement of the VoC approach (Maszczyk and Rapacki, 2012: 82).

Berrou and Carrincazeaux (2005) analyze the variety of socio-economic models of Central and Eastern European economies by using Amable’s approach to the diversity of capitalism (Farkas, 2016: 59). They tested the stability of Amable’s result with including new countries (Hungary, Poland, Czech Republic, Turkey and one emerging country Mexico). They find that the Czech Republic, Hungary, and Poland were similar to Mediterranean countries. Cernat (2006) classified Eastern and Central European economies using limited indicators. The study showed how Estonia classified under Anglo-Saxon model; Poland, Latvia, Romania, Slovakia, Bulgaria under the continental model. He classified the Czech Republic, Hungary, and Slovenia under the developmental capitalism model similar to Asian countries. He separately analyzed Romania and used “cocktail capitalism” term to categorize her (Cernat, 2006: 75). According to Cernat’s study, Romania shares common features with three capitalist systems explained but she falls between them. He also adverts the inconsistency and inefficiency of economies due to different impacts of globalization (dominance of Anglo-Saxon and continental model proposed by the World Bank and European Union) and domestic circumstances (state-centered, client capitalism).

Lane (2007) used basic indicators of the Anglo-Saxon model for categorizing the post-socialist countries. He compares those countries overextend of privatization and stock market capitalizations, the size of private sector’s domestic credits as a percentage of GDP, the size of foreign direct investment (FDI) as a percentage of GDP and the transnationality index (explained in detail by UN, the ratio if FDI in output, export, and employment) (Lane, 2007, s. 21). He discovers fundamental differences between Central and Eastern European countries (CEE) in terms of used indicators. According to Lane, the former Soviet member states exhibit a low level for all samples except stock market capitalization and private sector’s credits share. He creates subgroups of Bulgaria, Croatia, Latvia, Lithuania and Romania that showed the limited extent of privatizations and strong state interventions. On the other side, he labeled Russia, Ukraine, Kazakhstan, Georgia, Turkmenistan, and Moldova as unsuccessful examples of transition economies. These economies are chaotic samples and are labeled as hybrid state/market uncoordinated capitalisms.

Knell and Srholec (2007) embraced the assumption of Hall and Soskice dual classification and empirical analysis, which applied, by Hall and Gingerich study. They create 13 indicators based on those approaches and analyze the data from 2001 to 2004. They construct the indexes for labor market regulation, business regulation, and social cohesion. They use broad samples, which consist of Eastern and Central post-socialist countries, Western Balkans, Soviet states, Vietnam, China, and OECD countries. The conclusion they share that regarding the social cohesion indexes (the size of the public sector and income distribution or inequalities) major part of post-socialist countries are grouped under the liberal market economy, while, the indexes about business regulation categorize them upon the coordinated market economy. On the other hand, when they classify the countries in accordance with labor market regulations, they faced strong similarity with liberal and coordinated market models. They also warned about the statistical inconsistency that is encountered at the empirical analysis for Hungary, Estonia, Slovakia, and Lithuania with respect to the cumulative index.

King (2007) analyzes transition countries by using the VoC approach. He used six indicators (average per capita GDP growth between 1991 to 2000, change in male life expectation between 1989 to 2000, percentage of population below poverty, net FDI inflow, EBRD governance indicator and security of property rights index) to describe development path of transition countries. He compared the liberal dependent (the Czech Republic, Poland, and Hungary) with the patrimonial states (Russia, Romania, and Ukraine). He explained liberal dependent states as proto-coordination and proto-liberalism, He emphasized two important differences from Western European countries: high dependence to foreign capital and defenseless of the national labor force in the economy.

Bohle and Greskovits (2007) investigated the Central-Eastern Europe countries after the fall of the socialist system. They denoted three models of capitalism for those countries: purely neoliberal type of capitalism in Baltic states; “embedded” neoliberal type of capitalism in Visegrad countries; and neo-corporatist type of capitalism in Slovenia. They used new indicators in addition to the usual indicators such as labor relations, a welfare state, industrial relations, and macroeconomic stability. They took socialist legacies into account and showed the evolution of models from a historical perspective. Furthermore, they considered the impacts of the EU and the transitional companies in their definition.

Mykhnenko (2007) explored a type of capitalism that emerged in post-communist Ukraine and Poland. He examined the sustainability and applicability of comparative capitalism for those countries. He defined both countries as mixed or weakly coordinated economies because of the unstable nature of institutions. In contrast to dominance perceptions about the post-communist countries, deregulation, and privatization of national economies were not realized as expected. Buchen (2007) and Feldman (2007) comparatively analyzed the Estonia and Slovenia in VoC framework. They identified these two cases as opposite models of capitalism and also as a manifestation of liberal and coordinated market economies for Central and Eastern European countries. Feldman inferred the same result by analyzing industrial relations. Blanke and Hoffman (2007) categorized Baltic countries as liberal market economies, while Poland, the Czech Republic, Slovenia, and Hungary as coordinated market economies.

Myant and Drahokoupil (2010) stated the unique and unprecedented nature of post-socialist countries and argued for a re-arrangement of the VoC framework for analyzing them. They generated a new evaluating system that consisted of six different methods of international integration: the trade balance and the share of export of goods and services in GDP, changing export structures, financial flows, foreign direct investment, remittances, and aid. The six forms are an export-oriented foreign direct investment (FDI) in complex sectors, export-oriented complex sector without FDI, simple manufacturing subcontracting to multinational corporations (MNC), commodity exports, dependence on remittance and aid and dependence on financialized growth. Additional to six forms they use five key internal factors to describe the specific condition of transition economies. Those internal factors are the relations between politics and business, rule of law and the nature of property rights, the economic role of the state, structure of business, finance system. Finally, they reached to five ideal economic models for transition countries since the 1990s. These economic models are FDI-based market economies (the Czech Republic, Poland, and Slovakia) whose export structure built on manufactured goods produced by foreign-owned MNCs; peripheral market economies (Bulgaria, Estonia, Latvia and Lithuania), which adapted relatively stable democratic political system and positive environment for private business; oligarchic (clientelistic) capitalism (Russia, Ukraine, Azerbaijan and Kazakhstan) where countries identified as relatively authoritarian political systems and having close relations between political power and strategic enterprise owners; order states (Belarus and Uzbekistan) that showed limited success in political and economic reforms; and remittance and aid based economies (Albania, Bosnia-Herzegovina, Armenia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan) that showed very limited economic and political development in formal institutions.

Schweickert et al. (2013) categorized countries as the liberal market economy and coordinated (controlled) market economies by implementing indicators taken from VoCs literature. They neglected the role of government spending, the impact of the political process on the economic system. They use cluster analysis for OECD and European transition countries and Slovakia and Hungary that named extreme cases.

Rodrigues (2009) studied varieties of capitalism subject within the EU with reference to the Lisbon strategy. She displayed the different impacts of the Lisbon strategy that brought structural changes to the member, which have differentiation at the national level. Additionally, she mentions the importance of Eastern countries that should be analyzed in detail.

Török (2009) analyzed Eastern European countries and notice the inexperience of Soviet republics (except some Baltic countries), which also reflected by their current economic and social models. He also confirms the distinct model of Central Eastern European capitalism.

Schweiger (2014) categorized that CEE countries have a transition model with some difficulties but with noticeably contain important differences based on their culture, development of economies and welfare state. He also considers and claimed the necessity to speak and study of an emerging new variety of capitalism in CEE countries.

Schneider (2009) constructed a new type of market economies to elaborate the distinctive institutional foundations of capitalism in Latin America what called “hierarchical market economies” (HMEs). He identified four basic features of HMEs in Latin America based on diversified business groups, multinational corporations (MNCs), low skilled labor force and atomistic labor relations. Hierarchical relations in business groups and MNCs stand at the center of the establishment of capital and technology in economies. They also have established roles in labor market regulation, employment relations, etc. These four features based on hierarchy and interaction among them due to the emerging of new types of capitalism.

Nölke and Vliegenhart (2009) classified the market economies of transition economies (Visegrad countries) according to the VoC framework. They confront discrepancies in these attempts perfectly fit the transition countries on one of the common market types (liberal market economy and coordinated market economy). Because some study claimed that the East Central European countries convergence towards to one of the common types of the capitalism (liberal market economy and coordinated market economy), while other claim hybrid variation of the two models. In that study, they identified a new type of capitalism, which called “dependent market economy”. The dependent market economy type is characterized by the significance of foreign capital. The comparative advantage of the dependent market economy is due to institutional complementarity characterized by skilled but cheap labor force, technological innovation transferred through transnational companies and capital flown. Foreign capital has a dominance role on dependent market economy, which have a significant impact on many areas such as the system of corporate governance, industrial relation, education and training, innovation system, etc.

Biggart’s (1991) study on East Asian economies argued for isomorphism within countries and its reflections on institutionalization. He asserted those economies as the Japanese community, Korean patrimonialism and familial networks in Taiwan. Orru, Biggart, and Hamilton (1996) established a more comprehensive classification for Asian countries based on three types of capitalism: alliance capitalism (Japan and Germany), dirigiste capitalism (France and South Korea) and familial capitalism (Italy and Taiwan).

CHAPTER 2

GERMAN POLITICAL ECONOMY

Germany was the last of the early-industrialized countries among the developed economies. She was politically divided and was predominantly based on rural and agrarian society at the beginning of the 19^{th} century (Cameron and Neal, 2003: 238). The industry in Germany was very limited and it mostly consisted of handcraft or proto-industrial variety. In addition, there were important disadvantages that held back Germany from economic development such as poor transportation and communication facilities, political divisions that led to different monetary and commercial policies in the same country (Cameron and Neal, 2003: 238). Therefore, at the beginning of the 19^{th} century, Germany was having financial troubles and dealing with backwardness.

After a century, Germany achieved political unification and became one of the most powerful industrial nations in Europe. This chapter analyzes the German economy from the 19^{th} century to present in order to comprehend its success in the 20^{th} and 21^{st} centuries. In the analysis, the milestones of the German economy are explained: the ordo-liberal economic approach and German neoliberalism.

2.1. EARLY PERIOD

Germany was economically backward due to many economic and political problems at the beginning of the 19th century. Even in that time, she did not embrace the classical liberal thought because of historical experiences and prevalent philosophy in Germany (Riha, 1985: 34). The history of the German political economy is based on a strong state and high degree of state interventions that limited the impact of liberal individualism (Ptak, 2009: 98). The strong state tradition (paternalistic) held control upon the economy (Riha, 1985: 35). German philosophy was based on Kant's liberal philosophy (Broyer, 1996: 13) that assumed rational economic policy as free of any political ideology. More specifically, German liberal philosophy explained liberty as free action of individual within a given framework (existing set of rules) that was different from the British definition of liberty expressed as a free exchange between agents. This understanding of liberty gave birth to ordo-liberal thought.

In the history of the German economy, the Napoleonic wars between 1803-1815 periods were an important breaking point with its political consequences that led to economic problems. After Napoleon's victory, the treaty of peace divided Germany into 35 states and four free cities (Riha, 1985: 60). Germany faced severe economic problems after the war. The backwardness of the German economy resulted in vulnerability against the British market pressure. Germany was left with two options: free trade or protective policies on national industries.

The disunity among the German states ended up difficulties in implementing consistent economic policies. For instance, there were approximately 38 kinds of tariffs within German Confederacy in 1818 and there was no common currency, weights or measures. The variety among the economically significant units made it difficult to determine the common sense into the economic transactions within Germany. The economic worsening after the Napoleonic wars led to the rise of German economic nationalism (Riha, 1985: 60). German merchants and manufacturers demanded the abolition of all internal tariffs and adoption of common commercial policy with reference to the articles of constitution of the Diet, "establishment of a national commercial system". After that Prussia were abolished all internal tariffs and introduced 10 to 15 percent ad valorem tariff on all imported goods, including the importation from other German states (Riha, 1985: 67). The figure behind this new movement was Friedrich List (1789-1846). His version of nationalism was liberal and progressive that contained protection policies against dominant powers, specifically British domination in world trade, which could be interpreted as an attack to laissez-faire liberalism. In line with List's economic principles, German manufacturers and merchants founded the German Commercial League to promote economic unification. This institution established the commercial union “Zollverein” in 1833. It was a coalition of German states formed to manage tariffs and economic policies within their territories (Ploeckl, 2009: 2). The introduction of Zollverein and protectionist policy brought tangible economic results. Protective policies were steadily raised until 1848 and led to better-fed, better-housed and wealthier society in Germany (Lotz, 1907: 257). Zollverein’s two fundamental achievements in the German economy: creating a common market by abolishing all internal tariffs and customs barriers; and implementing a common external tariff against non-member regions (Cameron and Neal, 2003: 239). The success of the List’s theory discredited liberalism in Germany and the theory of economic nationalism became a benchmark and unquestionable principle for the German intellectuals and public history in that time (Riha, 1985: 61).

The theory of economic nationalism by List favored tariff barriers to protect German infant industries. He defended this principle with reference to the necessity for underdeveloped or developing economies to catch up with developed economies like Britain. F. List advocated a strict policy of protection– so-called “educational tariffs” – during the transition from agrarian to industrial structures (Berend, 2006: 46). According to List, free trade loses its attractiveness if one country becomes dominant which was the case for Britain in his period. Therefore, Germany needed to adopt protectionist policies until its economy properly grows. Later, the advantages of free trade could be achieved and trade barriers could be removed. Furthermore, List envisaged protectionist policies for the infant industries that have the potential for growth. Therefore, it could be stated that List advocated protectionist policies for a limited time period so that the infant industries would gain the power to compete with the foreign (dominant) industries.

German industrial expansion started after establishing national unity and in the second half of the 19th century, the German economy started to collect positive results from her new policy framework. For instance, German industries achieved extraordinary growth specifically in steel and iron industries. Consequently, the German economy became one of the powerful economies in Europe in less than a century, (Cameron and Neal, 2003: 238).

On the other hand, it should be acknowledged that in addition to protectionist policies, Germany also adopted some liberal economic principles and practices like peasant liberalization and free trade under Bismarck administration around the 1860s (Watrin, 1979: 407). Therefore, Germany had a strange combination of conservatism in politics and liberalism in economics. One important improvement in Bismarck administration was the welfare policies:

> One of the most decisive pioneers of the welfare state, however, was Chancellor Bismarck, who introduced the world's first national, compulsory sickness (health) insurance scheme for all industrial workers in Germany in June 1883. A series of welfare legislation followed the rise of the welfare state: industrial accident insurance in 1884, old-age and invalidity pension insurance in 1889 (Berend, 2006: 229).

The foundation of the German welfare system was started during the reign of Bismarck. However, his liberal policies were challenged with economic difficulties. The evolution of the liberal system created a counter-movement in Germany society. The rapid industrialization growth via speculation and fraud coupled with the establishment of a great number of companies between 1871-1872 periods ended up with a foundation crisis (Gründkrise), which led to many bankruptcies (Riha, 1985: 83). After the crisis, economic inequalities became more widespread in German society. With the foundation of the German Empire in 1871, a strong state perspective in society and economy was adopted. An economic recession in 1873 triggered the elimination of liberal policies in favor of the national economy direction. The Chancellor of the Reich, Prince Otto von Bismarck, gave up liberal approaches that brought by him around the 1860s and embarked on the protectionist economic policy to foster the German economy in 1879 (Riha, 1985: 84). These circumstances, industrialization of Germany, brought transformations and new requirements such as defending the interests of aggrieved party by the transformation that fed state intervention in order to reduce instability movements. Thus, the industrialization process in Germany was characterized as collectivist in the economic and political side on the contrary to Great Britain experience which due to the liberalization process (Broyer, 1996: 12).

Another milestone in the German economy was the founding of the Association for Social Policy in 1872 that consisted of a group of political economists led by Adolph Wagner (Watrin, 1979: 407). They generally dealt with social reforms and argued that basic reforms of the liberal economy such as freely negotiated employment contracts, personal freedom, etc. had not improved German society, specifically workers, as liberals expected. On the contrary acceptance of some demands of liberal reforms resulted in the social distress and deteriorated the living conditions of society. Therefore members of Associations for Social Policy foundation turned away from liberal reforms that generally based on non-interventionist and unrestricted laissez-faire principles to “a purposive state policy that aimed to designed to regulate economic life” (Watrin, 1979: 408). The overall social and legal philosophy in that movement reflected an anti-liberal trend in the political economy of time and characterized upon the organization, support of weak elements of society by public regulations, laws, state intervention where individual sources were not sufficient. They believed to promote justice, protect personal freedom and prevent exploitation in society by taking proper measures. All changes dramatically transformed the German economy and made her compete with advance European economies before the First World War. The philosophy explained above shaped the German political economy and made her exceptional in economic literature.

2.2. INTERWAR PERIOD

Germany was regarded as a relatively stable economy before the First World War, which experienced minor economic problems. After Germany’s defeat in WWI, German economic order broke down. German economy suffered from war and post-war problems that brought the country to the edge of collapse (Riha, 1985: 167). Germany was exhausted at the end of 1918 but its basic framework was held especially industrial framework. After 1918 Germany had to deal with problems like territorial losses, reparations, hyperinflation, humiliating terms of the Versailles Treaty, etc.

> Defeated and exhausted, Germany experienced a nutrition crisis. The Versailles Treaty cut off 15%of the country's arable land, 75%of its iron ore, and 26% of coal resources. Iron and steel production capacities dropped 44% and 38%, respectively. Germany lost roughly 90% of its merchant fleet, its entire navy, a great part of its railway rolling stock, and all of its foreign investment. By 1919, German industry produced little more than one-third of its 1913 output levels. By 1923, industrial production overall still had not reached half the prewar level (Berghahn, 1987: 276–7).

In the 1920s, liberal economic approaches were discussed and criticized by German scholars, specifically by liberal-minded economists for renewing the 19th century's liberal approach (Riha, 1985: 407). Basic arguments of critiques were liberalism's claim of peaceful order, which later ended worldwide war; laissez-faire liberalism's claim of perfect distribution, which later ended up with inequality in society, etc. The Association for Social Policy discussed these concerns about liberalism. They cautiously approached liberal principles in the 19th century and designed an alternative economic system: social market economy. Müller-Armack, one of the important figures of social market economy approach, made significant contributions. He criticized the principle of laissez-faire liberalism and defended the state intervention in the economic system when necessary.

The Weimar Republic, the new government in Germany, faced with massive debt and high reparations payment after WWI: "The Reparation Commission, under strong French pressure, decided on a $33 billion reparation obligation for Germany in April 1921" (Berend, 2006: 53).

Germany could not afford her debts with her national resources and the consequence was the high depreciation of national currency (German Papiermark) between 1921 to 1923 (Boesler, 2013). Berend (2006) describes the German mark's depreciation under the context of hyperinflation as follows:

> In November 1923 $1 attained the astronomical rate of 4.2 billion marks. Thirty paper mills, 150 printing firms, and 2,000 printing presses worked 24 hours a day to supply the valueless paper money (Tipton and Aldrich, 1987: 176). The price of a kilogram of butter reached 5 billion marks and the Reichsbank printed 1,000 billion mark notes. Money, however, was not accepted and the country fell back on barter trade: the price

> of a haircut was four eggs, a first-class burial was forty eggs (2006:51).

After the currency reform and the Dawes Plan the German economy overcomes the high inflation problem (Braun, 1990: 46), its industry expanded very quickly thanks to the industrial framework. After solving the inflation problem, German economy achieved relative prosperity and stability between 1924-1929 despite high unemployment and uneven distribution of wealth (Foundation, 2013). Germany was affected by the Great Depreciation in 1929 and she applied contractive measures that worsened the economy: "German government closed the banks on July 13, 1931 and ceased the exchange of national currency for foreign currency. All payment in foreign currency had to be permitted by the Central Bank" (Berend, 2006:64).

Economic recession dramatically increased unemployment and led to changes in the economic path towards totalitarianism that led to the Second World War. The Nazis and Hitler gained political power under these circumstances (Berend, 2006: 6). The Nazi dictatorship secured full employment and social security to the worker that ensured them popularity. The Nazi economic system was a combination of extreme economic nationalism, state interventionist dirigisme and a centralized war economy (Zilbert, 1972; Milward and Saul, 1977). Berend (2006) states the economic achievements of the Nazi regime with specific numbers as follows:

> The Nazi economic regime brought about a rapid recovery, mostly because of the immediate war preparation and the creation of a self-sufficient German economy, and by 1938 the income level surpassed the 1932 nadir by 57% and the 1913 level by 34%. The tremendous war effort after 1941 generated a rapid growth: per capita GDP increased by 22% between 1938 and 1944, and surpassed the 1913 level by 63% (2006:130).

On the other hand, ordo-liberalism was coined by the Freiburg school upon the "policy of order" term during the second half of the 1930s (Ptak, 2009: 101). Members of this school believed the necessity of a new economic framework that effectively designs the relationship between the state, economy, and society. The main aim of the ordo-liberal theory was established on socially embedded (that traced back to the Bismarck age in the late 19th century) and well-functioning competitive order. The development of liberal theory can be divided into two parts - before and after the war. Before the WWII ordo-liberal theory designed under the auspices of a Nazi government during the second half of the 1930s. The book of Böhm (1937) embraced this approach without any hesitation (Ptak, 2009: 117) in order to gain the sympathy of Nazi authority and so expected to obtain their support about the implementation of the ordo-liberal theory. Therefore the members of the ordo-liberal theory designed the economic system, which appropriates to the approach of the Nazi government. The aim of this ordo-liberal theory was expected to find solutions too specific problems of war economy by national authoritarian approaches instead of parliamentarian democracy. Especially after the end of Weimar Republic leading ordo-liberals acted with opposition parties and Nazi forces and supported the restriction of democracy a compulsory precondition to solving problems.

After 1942, many people in Germany recognized that Nazi Germany would lose the war and they attempted to put distance themselves from the ruling authority. These circumstances were changed the German ordo-liberals attitudes, which can be labeled as the beginning of the second stage. The members of the ordo-liberal theory attempted to establish a new type of economic system dedicated to resolving “the social question” by an alternative solution: the social market economy. Finally, the rise of fascism brought Germany into the Second World War (WWII) and her defeat at the war resulted in more catastrophic consequences in German politics and economics. After the WWII ordo-liberal theory, more specifically social market economy, become dominant on the German political economy, which brought many successes and debates.

2.3. THE RISE OF ORDO-LIBERALISM AND SOCIAL MARKET ECONOMY

The Second World War was a conflict of ideologies. The winning parties of the war started to impose their ideologies to defeated countries and reshaped economies for a more stable Europe (Broyer, 1996: 1). Therefore, Germany had to restored her national autonomy in addition to simple economic reconstruction, which required a significant transformation of the German economy.

German economic system was degraded to primitive conditions after WWII as mentioned by W. Eucken (1952). Infrastructure facilities were devastated and the German population had difficulties to reach basic needs. The productive potential of the country was still strong after the war but it could not be transformed due to difficulties in the provision of the basic needs of the population.

In the new design of the German economy, there were three basic principles that aimed for overcoming economic problems; providing freedom of individual; democratization; and rejection of Nazi ideology (Broyer, 1996: 13). During the design of the new economy, Germany made two fundamental decisions that determined the direction of the German economy in the future. One decision was to integrate to the world economic system and the other decision was to construct a productive and internationally competitive economy. Thus we can say that Germany pursued a flexible, pragmatic policy without unnecessary ideological obsession (Malenbaum and Stolper, 1960: 419).

German scholars (small group of economists, jurists, intellectuals, etc.) discussed the ordo-liberal economic system and its fundamentals in Freiburg School, particularly the concept of the social market economy. The German authority wanted a change from traditional approaches that were based on socialism and collectivism and wanted to embrace the market economy approach as an economic model. On the other hand, she had some concerns about the general philosophy and its principles of the role of the state, laissez-faire policies, individual freedom, and monetary policy, etc. These kinds of concerns reshaped the German political economy under the guidance of Freiburg School and her ordo-liberalism doctrine and a particular conceptualization of the social market economy (SME).

2.3.1. Ordo-liberalism

The Freiburg School was a school of economic thought founded in the 1930s at the University of Freiburg. Freiburg school went beyond the general doctrine of liberalism with the adoption of German tradition and necessities of the German economy, which was titled as "German liberalism". General differences between laissez-faire liberalism and German liberalism could be explained as follows:

- German neoliberalism is based on Kant's liberal philosophy, which is very different from the English one (Brehier, 1962). Thus understanding of liberty in society changed for both sides. According to the Anglo-Saxon liberal principle is the essence of liberty that based on the free exchange process between economic actors. German scholars explained liberty as a free action of economic actors within a given framework or set of rules that ensure the sphere of freedom for them.

- The role of the state in the laissez-faire economy is limited but in the German political economy state always has a strong position in the economy, which also keeps in mind in the new framework.

- Anglo-Saxon economy and German economy dissociated from each other on the basic principles of monetary policy, the aim of central bank and the main policy tools. According to the Anglo-Saxon economic model, the central bank could contribute full employment by active intervention if it is necessary and otherwise she should act in a limited area. On the other hand in German liberalism central bank actions, more specifically monetary policy could be very active to pursue price stability (low inflation) by tight monetary policy that could contribute employment in a better way.

- According to laissez-faire liberalism, general equilibrium can be reached without any intervention. On the other hand, according to German liberalism general equilibrium can be reached within a legal framework. Otherwise, economic power would be concentrated at certain parts of society and would threaten individual freedom via to politics or unequal relations. These legal framework or rules are accepted as common rationality for the whole society or “for the good of the community” which is translated from the Christian doctrine (Broyer, 1996: 12).

The doctrine of ordo-liberalism was designed with neoliberal principles by taking into consideration the uniqueness of the German economy. The “ordo” refers to a group of economists, civil servants, politicians and other interested citizens that formed after the war around the ideas of Walter Eucken and concerned with problems of postwar German economy along with more liberal ways than in the past (Nazi) (Stolper and Roskamp, 1979: 376). Although laissez-faire liberalism and German liberalism feed from different sources and traditions, German ordo-liberalism is substantially less different from the laissez-faire liberal principles (Ptak, 2009: 99). Foucault (2004) emphasized German ordo-liberalism as an avant-garde, and new members of the neoliberal approach who’s shown the shortcoming of traditional neoliberalism (Ptak, 2009: 99). The basic philosophy behind the ordo-liberalism was the “natural order” or the “existence of order” in which included proportion and balance as argued by Eucken (Ptak, 2009: 115). Under these circumstances, German scholars, especially scholars from Freiburg School, tried to overcome the economic problems by embracing the market economy assumptions. Thus, ordo-liberalism was designed against the challenge of bridging the gap between the utopian ideals and sordid facts on the ground as Otto Viet (1953) explained.

Freiburg school coined the ordo-liberal theory that is ordered during the second half of the 1930s. The birth of ordo-liberalism was affected the Great Depression in the 1930s and research of the “crisis of capitalism” that was studied by W. Eucken, A. Rüstow, W. Röpke and A. Müller-Armack (Ptak, 2009: 116). All studies by these authors analyzed the significant economic problems of liberal thinking and revision of a liberal approach, which capable to overcome a crisis of capitalism (Ptak, 2009: 110). Therefore they believed capitalism and rejected the failure of capitalism as a reason behind the Great Depression. Thus they perceived the Great Depression as a chance to create a new theoretical and ideological justification for a free market economy.

Although the ordo-liberal theory became popular after the success of the German economy at the post-war period, and actively contributed to the German economy at the Nazis time. During the Nazi period, they established certain regulatory principles for the order of government economic policies. Moreover, they intended to reveal the negative consequences of liberal economic policies to convince Germany to control it. According to the ordo-liberals, an economic policy that is based on strong state intervention could destroy concentrations of power in an economy, which was the basic negative consequence of classical liberalism. Therefore a liberal version of antitrust became an important motto of the ordo-liberal approach after the WWII period (Ptak, 2009: 114). As a consequence of these efforts, ordo-liberal thinking gained influence in Germany and became a pioneer movement in the post-war economic policy.

As seen from the basic assumptions of the ordo-liberal approach, the key difference between laissez-faire liberalism and ordo-liberalism is based on the role of the state in an economy. On the contrary to mainstream liberal approach, ordo-liberalism is built on the strong state assumption that prescribes a prominent role in establishing and securing the market economy. Within this framework, the state is to influence the forms; provide an institutional framework; set economic order; secure the proper conditions for economic development. Therefore, it doesn’t matter whether the state intervened much or less to the economy. What matters is how it intervened (Stolper and Roskamp, 1979: 377). Ordo-liberals moved beyond the limited role of the state in order to prevent abuse of monopoly power and stabilize competition. It organized a market competition with active measures that are called “liberal intervention” (Ptak, 2009: 102).

In brief, ordo-liberal economic policies emerged in response to the inefficient, highly cartelized economy of Weimar Republic as well as in opposition to authoritarian and destructive economic policies of the Nazi regime by providing individual freedom (Beck and Kotz, 2017: 13). It was also designed against the Anglo-Saxon laissez-faire liberalism and its self-regulation markets mechanism (Young, 2017: 32). Therefore, ordo-liberals aimed for decentralized power through a competitive market that was regulated by a constitutional order and abided by the rule of law (Young, 2017: 33). According to the ordo-liberals, their form of liberalism was the only option to reach general equilibrium in the market economy (Broyer, 1996: 9). Ordo-liberal economic framework designed upon order included both a system of general rules and a mechanism, which those rules define the liability of economic actors (James, 2017: 26). In addition to that, there is no pure ordo-liberal theory, as it is accepted within a variety of liberal theory. There are different branches of ordo-liberalism, which influenced the critical choice, constitutional economics, new institutional economics, etc (Young, 2017: 37).

The social market economy is a concept of ordo-liberalism. It became a dominant economic concept in Germany after WWII. The German economy is built on social market economy principles and it became the traditional economic identity that made her an exception among other capitalist economies.

2.3.2. Social Market economy (SME)

Social market economy is based on the ordo-liberal framework, which went beyond classical liberalism and socialism and created its own liberal philosophy and presented solutions to the structural problems of the German economy (Broyer, 1996: 14). It presents itself as a third way, that aims to solve the conflict between political liberalism and market principles.

The concept of the social market economy emerged around 1948 in the German economy. It was defined upon the economic policy of Ludwing Erhard, former Ministry of Economic Affairs (Watrin, 1979: 405). L. Erhard was the director of the economic council where the most influential institution in the German economy after WWII. He was also named as the father of German miracle and founder of the post-war monetary order.

As explained above, Germany faced many difficulties after in WWII. Under those circumstances, there were two options for Germany while re-designing her economy; accepting European economic models (Anglo-Saxon liberalism) that imposed by winning parties of war; or creating a unique economic model that is specific to her conditions and had a short reconstruction process. The social market economies aimed to create a new economic concept that is based on market order free from the negative aspects of the free market like a concentration of resources, and misuse of power. Müller-Armack, one of the important figures of social market economy, explained that social market economy refers to an economic and political order that is based on the rules of market economy, enriched with institutionalized social complements for bypassing the problems of free market economy and with legislative instruments for fighting resource concentration and misuse of power (Broyer, 1996: 7). Walter Eucken asserts the objective of social market economic policy as finding an "efficient and man's dignified order" for the economy and society (Broyer, 1996: 8). On the other hand, representatives of the social market economy were criticized by classical liberalism and socialism stated as follows;

- They rejected the efficiency of laissez-faire policies and blamed it to a threat to individual freedom due to unequal power concentration within society,
- They rejected the concept of individual freedom in classical liberalism; according to SME supporters individual freedom is not mean to the right of free exercising,
- They rejected the full employment approach of Keynes and the active role of Central Bank,

- They rejected the concept of state in both economic approach and identified intervention of state over how she should act instead of how much act, “some state intervention may be effective and useful”,
- They rejected central planning system and supported to economic democracy,
- They criticized the self-regulating mechanism of the market economy and self-responsibility of the individual for his own fortunes that expected to bring economic wealth,
- They criticized the existence of perfect competition due to natural monopolies, indivisibility and other imperfection of market,
- They criticized classical liberalism and socialism due to insufficient effort to solve social problems as expected from economy.

The supporters of the social market economy built on these critics and needs of Germany. They started to identify current and historical problems of the German economy and built their “third way” to resolve these problems. In their conceptualization, the main problems of the German economy after WWII were a high rate of inflation, black market, unstable business cycle, insufficiency of infrastructure, etc.

The social market economy contained some acknowledgments in its design. Firstly, they embraced the market economy without any hesitation, which has capabilities to create productive, dynamic and imaginative activities in order to solve the economic reconstruction problem of Germany. Secondly, they intended to resolve the conflict between political liberalism and market principle by economic democracy in order to prevent the possibility of power concentration or misuse of power within society, which happened before. Thirdly, they set up an economic and social order, specifically competition order, in order to regulate private and public economic power in balance or in favor of all society. Fourthly, they believed in the importance of tight monetary policy and stability in the price level, which is very crucial to the whole economy. Lastly, they believed in the active role of the state in the economy. The role of the state in that context included preparing of reform plans or regulation of competition order. They defined state intervention as an intervention that does not result in another intervention in order to cure the prior intervention (Watrin, 1979: 421).

The German economy was dismissed depending on the problems, targets and basic acceptances that explained above. In these circumstances, the market economy only could have a change if it contained proper social order that supporter of SME would provide. As Böhm mentioned all legal system (private, company, tax law, etc.) should be adjusted according to SME principles (Watrin, 1979: 415) and it must satisfy the general feeling of justice that claimed in the title of a “social market economy”. SME tried to create a well-ordered market economy because perfect competition cannot be achieved due to natural monopolies and imperfections of the market mechanism. The rules or regulations of the economy (trade, industry, etc.) had to be designed by the state and remain the object of public study because the well-ordered single constitutional act was impossible to remain fit for the economy through time. SME aimed to preserve the market economy as a dynamic order, preserve social balance in the economy and secure stability and economic growth in the German economy.

The design of monetary policy aimed to monetary stability and it could be possible by the designation of an independent organization (Central Bank) whose main goal is achieving monetary stability. This system had to prevent the discretionary change in monetary policy (increase or decrease of the money supply). This solution was understood as a second-best solution in order to assure the price and monetary stability because of impossibility to return the gold-exchange standard in the world economy as Eucken and Delay mentioned (Broyer, 1996: 10). The central idea of Eucken monetary policy is consistent with the foundation of modern central banking that became popular by the study of Milton Friedman (Praet, 2017: 80).

Monetary stability could positively affect the investment policy, which is very crucial for economic growth. The German new economic system did not aim full employment with an active monetary policy contrary to Keynesian theory. According to them, unemployment was a largely structural phenomenon and did not result from a lack of aggregate demand. Thus, it could be solved by raise of physical plant and equipment (investment). The new monetary policy avoided from the active monetary policy that aimed at full employment the same as others. Instead of active monetary policy, they adopted a tight monetary policy, price stability and high rates of interest rate that encourages saving and create a better environment to the investment, which is more effective to reduce the unemployment level in the national economy (Stolper and Roskamp, 1979: 386). Besides other economic policies such as wage policy, trade policy, production policy was designed to supporting to monetary stability, investment appetite.

German authorities (economic council of Germany directed by Ludwing Erhard) made two decisions: liberalization of domestic and foreign trade, and price stability as a benchmark for new economic policy. By 1948, Germany made two amendments asserting the direction of the German economy and accepted the social market economy. The first of these amendments are about the monetary reform instituting the national currency (Deutsche Mark) that enforced on 20 June 1948. It aimed the re-establishment of stable economic bases, which meant the reduction of inflation rate (it reach a two-digit number in that time) and the resolution of the Nazi state's debts (Boyer, 1997: 6). The price stability guaranteed by the independent central bank through a fixed exchange rate system (Cesaratto and Stirati, 2010: 70). The second amendment was about the liberalization of price and means of production that was enforced on 24 June 1948. This law defined irreversible changes toward the liberalization of the German economy. Besides, the second amendment was counted as a continuation of the first amendment for establishing a market economy. The liberalization of price and means of production was not enforced immediately after the law passed and had a transition period of 10 years from the command economy to liberal economy (Broyer, 1996: 6). After the enforcement of new laws, inflationary pressures in the German economy went down thanks to another important economic agent, trade unions through their collaboration for wage stability.

After these changes, Germany new economy was built on domestic price stability, which will be one of the important economic pillars in the future. This policy also shaped Germany's long-term main objective of creating a trade surplus, (Emmer, 1955: 69). Later, Germany adopted the same combination of price stability and fix the exchange rate by the European monetary system and the European Monetary Union (EMU). The aim of price stability required wage discipline in the domestic economy, which discouraged domestic demand. Thus the new economy had to follow export-led growth in pursuit of economic growth, which became another important pillar of the German economy. Consequently, it could be stated that export-led growth was a logical outcome of a full employment target without implementing Keynesian policies (Cesaratto and Stirati, 2010: 73).

Trade unions perceived the central bank's credibility as a significant element of the German economy's fight against inflation. Franzese and Hall (1998) explained the role of a credible central bank in the wage bargaining process, which led by the IG-Metal (the dominant metal union in Germany) that increased the competitive power of Germany in the world industry. In the aftermath of this development, the new economic reforms and investment funds under the European Recovery Program (Marshall Plan) and Korean War supported the recovery of the German economy and started a German economic miracle (Solsten, 1995). The growth rate of industrial production was 25 percent in 1950 and it continued at a high level of the 1950s and 1960s. The number of employees rose from 13.8 million in 1950 to 19.8 million in 1960 and the unemployment rate decreased from 10.3 percent to 1.2 percent. Germany achieved to be one of the powerful economies in the world.

German social market economy continued with limited changes until the present. Both economic authorities and public opinion embraced the social market economy in Germany. Its main features are summarized as follows (Cesaratto and Stirati, 2010: 69):

- Taking advantage of fixed exchange rates by pursuing a lower domestic inflation ratio than foreign competitors in order to foster export,

- Relying on the inflationary bias of other countries and get benefit high aggregate demand of foreigners,

- Applying tight fiscal and monetary policy and avoiding any possible labor market heating in order to maintain the external competitive power high,

As we can understand from the design of the German economy, foreign trade is accepted as a core and precondition of economic and social order (Cronin, 1996: 92). Therefore relatively low domestic wage levels seen as a precaution against the import penetration. More importantly, low wages imply low domestic aggregate demands and force to firms to find external markets (Boarman, 1964: 92). Within this context, trade surplus became the benchmark of a long-term advantage over competitors that would criticize by foreigners many times. The new economic principle of Germany considers itself as a mercantilist economy (Cesaratto and Stirati, 2010: 73). Furthermore, German authorities' tax policy was supported to the same target. Taxation was relatively higher for low-income earners, which repressed the consumption appetite of them (Wadbrook, 1972: 74). Therefore, the wage share as a percentage of output in Germany has constantly been lower than the main trade partners.

Another important pillar of the German economy is her monetary policy that is based on the independence of the central bank. As mentioned, Germany suffered from high inflation in the first half of the 20^{th} century that made price stability as one of the main economic goals. Central Bank's main task is to protect national currency through exchange rate and internal price stability and interaction of monetary policy with other macroeconomic policies (Mikel, 2012: 102). Furthermore, the German economic system is nationally governed by specific institutions that aim to contribute to reaching the determined targets such as high international competitiveness, low domestic demand, high productivity, price stability, etc.

In addition to that social market economy in Germany is characterized by a strong relationship between banks and industries that fit the important features of coordinated market economy examined by Hall and Soskice (2001). Corporate governance supports insiders and cross-shareholding, as well as encouraging the representation of banks on the supervision of firms vice versa. Because of these relationship firms could find long term financing chance that named "patient capital" and reduces its dependence to short-term market requirements. Also, there are many stakeholders in the decision-making process of firms' administration such as top managers, bank representatives, and trade union representatives. In short:

> the legal bases for regulation of industrial relations, involvement of bank and employees into the decision-making process (corporate governance), the system of collective bargaining based on social partnership, a dual system of vocational education and training which all together are the integral parts of coordinated market economy (Mikel, 2012: 105-106).

CHAPTER 3

ANALYSIS OF EUROZONE DEBT CRISIS IN THE CONTEXT OF VARIETIES, CASE OF GERMAN CAPITALISM

In this chapter, Eurozone debt crisis is analyzed upon the varieties of capitalism approach, more specifically upon the case of German political economy. Firstly German economy compared to other major capitalist economies in order to show the variety of German national economy. Secondly the importance of extension of the German economy defined by the unification of Germany and the integration of European Union cases. Thirdly the establishment of EU examined historically and the role of Germany or the dominance of Germany discussed. In the third chapter, Eurozone debt crisis examined. Later on, the reactions of Germany to the EU debt crisis discuss. In the following chapter of the study, Eurozone debt crisis discussed in the context of varieties of capitalism approach by divided members into two parts: Southern and Northern economies. Additionally, the structural problems of members revealed upon a national variety of capitalism, particularly the German national economy.

3.1. GERMAN CAPITALISM (COORDINATED MARKET ECONOMY)

The root of the German political economy explained previous chapter in detail ways. In this part, the distinctiveness of the German capitalist economy compared to other major capitalist economies examined via the institutional framework, which is expected to contribute the subject of varieties of capitalism. The Institutional framework of German economy can be expressed as follows (Streeck, 1997: 245-246):

- Markets are not the only and ultimate authority or mechanism in the economy, unlike the liberal market economies. Markets are regulated according to public policy and served to the interest of the whole society. Also, some markets and areas that have high sensitivity on society such as labor markets, health care, education, and social insurance are not regulated by market principles. Therefore,

> Competitive markets coexist with an extensive social welfare state, and political intervention and social regulation often interfere with the distributive outcome of markets … reflecting a history of fragmented markets offering little space for mass production, price competition is often mitigated by product specialization (Streeck, 1997: 245).

- The only motivation of firms is not profit maximization. Firms strategies designed by public interest that defined by law, industrial agreements, etc. also decision-making process in firms are different than liberal economies because of organized labor and capital market that have right to participate the decision-making process.

- The dependencies of firms to finance are different in the German economy. Firms general finance their capital requirement via long-term bank credit, which is named “patient capital” by Hall and Soskice (2001).

- Labor forces in Germany have the right to codetermination through work councils in firms by supervisory board representation. German labor forces have relatively strong unionization that made them strong in the collective bargaining process. Also legal regulation created them to place in order to actively get involve the decision-making process. These situations relatively reduced the sensitivity of labor to the market mechanism and courage employees and employers to invest in skill.

- Strong coordination and cooperation among competitors in many areas such as the bargaining process, innovation process, technology transfers, and vocational training, etc. State authority always contributed to process direct or indirect ways via to law enforcement and credible monetary and fiscal policy. Coordination and cooperation among all side of German economy promote product specialization and set and enforce high-quality standards.

- German economy traditionally has high saving rates and relatively low domestic demand rates compared to other major economies. Monetary and fiscal policy in Germany contributed to this strategy by providing price stability and tight fiscal policy.

The design of German institutions is not appropriate to the price competitive strategy embraced by many capitalist economies. On the contrary the design of German institutions and traditional obligations such as “equal living conditions, social protection, etc.” enforce the firms to the pursuing quality competitiveness into the international markets. This attitude has made Germany one of the most diversified export economy that is a very proper step according to traditional growth strategy (export-oriented growth). In addition to that institutional framework of the German economy, in particularly the role of firms have shown the distinctiveness that also fit the requirement of coordinated market economy features claimed by Hall and Soskice (2001).

The success of the German economy is tested with different integration processes such as the unification of West and East Germany, European Internal Market, European Economic and Monetary Union, etc. The survival of the German type of capitalism or coordinated market economy became dependent on its successful extension in the crucial milestones (Streeck, 1997). Germany (West) was imposed their economic stance to the East partners in the unification process even if it brought many difficulties for them. After that German authorities tried to impose their traditional economic system to the European Union members without care the national variety of members since the completion of the European Internal Market in 1992. It became more visible after the establishment of the European Economic and Monetary Union. Two important events, the reunification of Germany and the European Economic and Monetary Union going to examine in the following part of the study.

3.1.1. Unification of Germany

In the aftermath of WWII, Germany presented an impressive economic performance for four decades (Allen, 2010: 131). She encountered crucial challenges at the end of the 1980s and 1990s such as the unification of West and East Germany, globalization and dominance of neoliberalism (Allen, 2010: 142).

East Germany (German Democratic Republic) became part of West Germany (Federal Republic of Germany) to form the reunited nation of Germany in 1990. At first glance, Germany appears to have benefited from the unification, specifically the collapse of East European Communism (Wiesenthal, 2003: 37). In addition to victory against Communism, Germany was able to overcome one of the consequences of her defeat in WWII. The reunification of Germany is a unique historical experiment in world economic history, which resulted in the transfer of the whole national institutional system (Lehmbruch, 2007: 131). At the time of unification, German economic model (Modell Deutschland) was seen as a proper model for both sides, especially for East Germany. However, the unification of Germany changed the political economy and social order of Western Germany that reinforced transformation for the following time as well. The unification of Germany was also considered as the reason that triggered the erosion of social market economy (Allen, 2010; Streeck, 2009) when other scholars claimed that the erosion/transformation of German political economy had already begun and it would be preceded anyway (Streeck, 2009: 215).

Although many people believed the beneficial impact of unification for both sides, it became apparent that unification damaged the German economy more than it benefited (Wiesenthal, 2003: 37). Unification process was realized very quickly and ignored the warnings made by leading economists and opposition leaders due to national and international security priority, which increased the costs and brought many problems on the table. German economy inherited uncompetitive industries, structural unemployment and stagnation in eastern Germany, which brought a heavy burden to the national economy

(Leaman, 2009). In addition to those problems that already debated in West Germany such as early retirement and pension system became more serious problems and turned an unsustainable situation that required structural reform for the national economy (Streeck, 2009: 213). German monetary policy and domestic currency (D-Mark) affected the unification decision. East German currency was exchanged one to one for West German D-Mark in the reunification process. It was interpreted as a disaster by many economists, which caused the appreciation of East Germany and reduced their competitive power against West Germany. Furthermore, labor and capital in Germany were both convinced that the wage gap between the east and west side of Germany would be eliminated over time. All changes (exchange rate system, high wage policy, generous social security system, pension system, etc.) made Eastern Germany uncompetitive against western products and services that caused high unemployment rates and decline of economic activity in subsequent years (Wiesenthal, 2003: 42). On the other hand, large German banks started to adapt globalization and neoliberalism and they started to focus on international opportunities and profit chances in contrast to their traditional role in the economy (Allen, 2010: 133). These circumstances brought a heavy burden to West Germany that caused moderation for subsequent times. German economic growth rate remained below the potential growth rate between 1992-2002 periods.

3.1.2. European Union

The European Union is a family of liberal-democratic countries that acting collectively through the institutionalized system of decision (Cini & Borragan, 2013: 3). By 2018 the EU comprised 28 member states and over 512 million people (European Union - Statistics & Facts). Gross domestic products of EU 19.9 trillion USD (15, 3 trillion Euros) in 2017, which is the second largest economy after China (Amadeo, 2019).

The European Union was founded after the end of WWII as a consequence of the bad experiences of the member states. Main of this movement was ensuring peace and stability for member nations and preventing another such conflict from ever taking place again.

Prosperity was the common goal at the beginning of integration that aimed to establish economic cooperation and partnership between member countries. Interdependence in trading was seen as a crucial instrument for peaceful and stable relationships between nations. The Union's history began with the European Coal and Steel Community in the 1950s. Belgium, France, Germany, Italy, Luxembourg, and the Netherlands were the six founding members of the European Union. The Treaty of Rome (1957) created the European Economic Community (EEC), or the so-called "Common Market". It contained few references to macroeconomic policy due to Keynesian consensus in national economies and the existence of the Bretton Woods Agreement (Hodson, 2015: 168). The basic aim of the EEC was to create a common market based on the freedom of movement of people, goods and services and capital (EU2017).

In the 1960s, the European Union removed customs among her member states and had free movement of goods. In this decade, common control over food production was also introduced (European Union). On 1 January 1973, the European Union's enlargement included Denmark, Ireland, and the UK, raising the number of member states to nine. The leader of member states deepened integration by Merger Treaty; all three communities were fused, managed by the Single Commission, Council and Assembly which was a significant step towards the EU as known currently (EU, 2017).

After the collapse of Bretton Woods and the oil crisis, EEC member states attempted to design exchange-rate cooperation through the European Monetary System (EMS) that built on the exchange-rate mechanism (ERM). It aimed for minimized fluctuations among members' national currency (Hodson, 2015: 169). It contributed to the promotion of exchange rate stability and reduced inflation in the Union, especially in the second half of the 1980s.

In June 1988, the European Council decided to implement a fresh plan for EMU that contained governors of the central bank. The starting point of this plan revealed in the

Treaty of European Union (TEU), signed at Maastricht in 1992, which compromised three stages transition to EMU.

3.1.2.1. The Economic and Monetary Union (EMU)

European Union's "Economic and Monetary Union (EMU)" is a three-staged economic integration process that aimed for converging the economies of member states. Its policies cover the 19 Eurozone states (European Central Bank, 2018). The European Council decided to the applied three-stage economic integration process in 1989 with a certain period. The first stage of the economic and monetary union began on 1 July 1990

> … involved in a single financial area with a free market of financial services and free circulation of capital the inclusion of all Member states currencies in the European Exchange Rate Mechanism, removal of the obstacles of European Currency Union (ECU) private use and strengthening of the existing Committee of Central Bank Governors (Loedel, 1999: 102);

the second stage began1 January 1994

> … involved amendments to the Rome Treaty that concerned the establishment of the European System of Central Bank (ESCB). The ESCB should have absorbed the existing institutional mechanism in order to shift from coordination of national monetary policies to the development and implementation of the Community monetary policy. … during this phase margins of currency fluctuations would be narrowed, in preparation for the transition to zero in the final stage (Mikel, 2012: 105);

and finally, the last stage started in 1999 by fixing of the exchange rates of the currencies of the 11 Member States initially participating in Monetary Union and with the conduct of a single monetary policy under the responsibility of the ECB. Germany was one of these member states. She has always had a dominant position in the European Union economic policy (Mikel, 2012: 101). Therefore, the design of EMU, specifically design of monetary policy, was affected from German economic philosophy. There are many studies about the influence of Germany on EMU and ECB such as studies made by D. Heisenberg (1999), O.

Issing (2001), K. Hubrich (2001), etc. that will be explained in the following part of the study.

Bundesbank, the central bank of Germany, was a stand at the center of the institutional ordo-liberalism. Therefore, "the demands to attract it to the financial negotiations on the European Monetary Union were a guaranteed that the ordo-liberal ideas would make German policy dominating in the European Monetary System as Dyson and Featherstone (1999) explained" (Mikhel, 2012: 103).

Ordo-liberalism had a great influence on EMU in three directions; firstly strict rules for monetary and fiscal policy that defined in the Maastricht Treaty and Stability and Growth Pact:

> Discipline and convergence were established by the new monetary requirements: an inflation rate capped at 1.5% above the average of the three best-performing member countries; a long-term interest rate of +/−2% of the average of the best three performers; a national budget deficit not higher than 3% of GDP; public debt not higher than 60% of GDP; no devaluation of the currency in the last two transition years. While in 1991 only two of the member countries qualified, by 1998 eleven countries were eligible (Berend, 2006: 211).

Secondly, policy issues were divided among various entities. The subjects of economic growth and employment are the concerns of governments while price stability is the concern of the ECB and none of these institutions had the right to intervene other responsibilities. Thirdly, independent political entity of the EU that believe to due strong Euro (Mikel, 2012: 103). German ordo-liberalism started the get back to its traditional stance and rapidly overcame economic problems that emerged after the reunification process.

3.1.2.2. German Influence on the EMU

Germany has always had a dominant position in the European Union’s economic policies including competition and monetary policies within the Community (Mikel, 2012: 101). I think it would be useful to refer to the basic characteristics of the German economy (coordinated market economy) before examining the influence of Germany on EMU.

German social market economy continued with limited changes until the present. Its main features are summarized as follows (Cesaratto and Stirati, 2010: 69):

- Taking advantage of fixed exchange rates by pursuing a lower domestic inflation ratio than foreign competitors in order to foster export,
- Relying on the inflationary bias of other countries and get benefit high aggregate demand of foreigners,
- Applying tight fiscal and monetary policy and avoiding any possible labor market heating in order to maintain the external competitive power high,

These strategies were implemented through fiscal and monetary policies. As discussed before, historically the experience of high inflation rates resulted in Germany’s prioritization of price stability as one of the main economic goals. This leads to the embracing of limited monetary and fiscal policy, which support low levels of inflation and import. The strategy was based on a fixed exchange rate without self-regulating gold standard with the freedom of capital. Fiscal policy of Germany aimed to encouraging export credits and constant budget surpluses, with the expectancy of reducing domestic demand. Furthermore, fiscal policy encouraged citizens to save by tax breaks and other subsidies that reduce domestic demand. On the other hand, one of the main features of German monetary policy is the independence of the central bank, Bundesbank. The Bundesbank was designed independently of a government authority. The main objective of the Bundesbank is based on the support of price stability (Frowen,1998: 34). More specifically German Bundesbank independence identified as follows (Loedel, 1999: 44):

- Political independence,
- Personal independence,
- Financial independence.

Bundesbank embraced the monetarist principle that monetary expansion determines the movement of price in the medium term (Mikel, 2012: 102). Therefore, money supply is very crucial, and it should be well suited in order to support the stability of price in the economy (Frowen, 1998: 34).

The German Bundesbank model gained legitimacy to the European Union, particularly into the design of ECB due to its success and good reputation (Touffut, 2008: 36-37). Also as the Bundesbank became the most successful and independent monetary institution within the European central bank in terms of price stability, German authority, especially the Bundesbank demanded at least the same independence area for the ECB. As seen from the basic economic stance of Germany and it is her main fiscal and monetary policy that is labeled ordo-liberalism; the central bank (Bundesbank) had epicenter position into the German economic system. This approach was consistently continued in the design of the European Monetary Union process with the dominance of Germany (Dyson and Featherstone, 1999). German market economy, ordo-liberalism, had a strong influence on the EMU that is examined by Mikhel (2012) as follows:

- EMU should be a "sustainable community" by the economic convergence of members. Thus German model of economy could spread other members that means Europeanisation of the German model through independent European Central Bank; open and competitive market mechanism; prohibiting monetary financing of budget deficit; strict and automatic rules of fiscal discipline. These rules and criteria imposed by the Maastricht Treaty and Stability and Growth Pact (SGP) that strongly defendant by German authority.

- Policy issues clearly divided among various institutions with respect to responsibility. The decisions about economic growth and employment should be subject of government authority while the price stability in the subject of ECB and none of these institutions get intervene the affairs of the other.

- German authority was imposed the EU as an "independent political entity" which is very crucial for the strong euro (Deutsche Bundesbank, 2001: 7). Therefore the EMU required accelerating coordination in many areas such as foreign policy and security, environment, internal politics and justice which is strengthening the political entity of Union (Dyson, 2000: 178).

The European Central banking system is affected by the German approach with her reliability and good reputation. European central banking system gives priority to monetary stability, guaranteed the independence of institution, has a council and board which set policy targets and implement goals and this council is responsible for the foreign exchange market with necessary tools of monetary policy; not obliged to national matters such as providing loans to state institutions (Mikel, 2012: 105). The design and aims of EMU fit the requirements of German ordo-liberalism (coordinated market economy) thanks to the influence of Germany in the EU. These changes have both positive and negative effects on the member states' economies. Roughly Northern countries, classified coordinated market economy by Hall and Soskice (2001), that have similar institution design with Germany has been affected positively while southern countries, classified mixed market economy by varieties of capitalism theory (Hall and Soskice, 2001), negatively affected due to asymmetric institutional design. This problem turned into a structural problem that triggered the EU debt crisis.

3.2. EUROZONE DEBT CRISIS

Eurozone debt crisis took place in European Union economies for years starting from the end of 2009. The global financial crisis that began in 2007 triggered the Eurozone debt crisis. Thus, a brief summary of the global financial crisis would enable a better comprehension of the EU debt crisis.

Global financial crisis began in the USA in 2007. Many scholars consider the global financial crisis as the worst crisis since the 1929 Great Depression (Pendery, 2009; Eichengreen and O'Rourke, 2010). It began with the subprime mortgage market in the USA and became contagious in the international financial system and resulted in international banking crisis with the collapse of Lehman Brothers in September 2008. The contagiousness of the crisis stemmed from the high proliferation of derivative financial instruments (high financialization in the world economy). The gross domestic product of the USA decreased by approximately 6% in the last quarter of 2008 and the first quarter of 2009 at an annual rate to compare[1]. The unemployment rate in the USA increased to 10.1% in October 2009 almost doubled the pre-crisis time. There are many claims about the reasons behind the global financial crisis that explained in many studies since the economic crisis erupted. The basic reasons of the global financial crisis were the bursting of the housing bubble, easy accession to the credit, new financial instruments (mortgage-backed securities, collateralized debt obligations, etc.), deregulated and complex in the financial market and increased debt burden on the economy.

Although the Eurozone debt crisis erupted because of high debt levels, it was not a fiscal crisis. Debt stocks of countries, which the economic crisis erupted, were very low before the outbreak of the debt crisis, with the exception of Greece and Italy (Arı, 2014: 6). The global financial crisis in the USA contagion to the whole world and European countries

[1] Statistic about the GDP is taken Bureau of Economic Anaysis of US Department of Commerce website: https://www.bea.gov/data/gdp/gross-domestic-product

took their shares as other parts of the world. European countries get benefited from the easy credit conditions before the global financial crisis. This situation encouraged the risk of lending and borrowing practices in member countries. After the real estate bubble burst many European banks started to face problems and been evaluated fragile economies by financial environments. Uncontrolled lending and borrowing in some European countries increased the overall debt level of European countries (private and public debt). After those private debts were transferred to sovereign debt because of banking system bailouts. High debt ratios of these countries increased the concern of many investors. Several European countries (Greece, Portugal, Ireland, Spain, and Cyprus) were not able to repay or refinance of their government debt without the assistance of third parties like European Central Bank (ECB), International Monetary Fund (IMF) or Eurozone countries. Greece and Ireland were affected at the beginning and it spread other countries later by concerns about high debt levels.

The crisis did not emerge only due to the high public debt level or public deficit; there were many other reasons behind the Eurozone debt crisis same as the global financial crisis in 2007. It was an outcome of problems such as high financialization and deregulation in the financial market, easy credit conditions that encouraged high-risk lending and borrowing, global financial crisis in the USA, housing bubble, structural and macroeconomic problems of the Eurozone that also feed trade imbalance between member countries. Structural problems of Eurozone countries can summarize as follows:

- Existence of monetary union without fiscal union,
- Effectiveness of monetary policy of ECB for all members,
- Uncontrolled capital inflows to member countries,
- Deficiency in governance and decision-making process

These circumstances negatively affected Eurozone economies (especially south countries) and worsened their productivity level, price and wage competitiveness, trade balances, budget balances, and debt levels.

Global imbalances were discussed in more detail in different economic approaches and many scholars referred to it in their explanation of the economic crisis. Ben Bernanke (2005) used “saving gluts” in order to explain global imbalances and blamed China for her high savings rate that led to the high trade deficit for the USA and excessive credits for the USA financial market, which automatically triggered easy and risky lending and borrowing. There were also opposite opinions in their explanations of “dollar glut”. Bibow (2010) blamed the USA monetary policy for her abundant and cheap credits in the financial market and for increased domestic consumption that triggered trade imbalances against China.

The global imbalance entailed core/periphery relations. Especially in the Eurozone periphery countries had high domestic demand that led to trade deficit against economic partners and dependence to capital inflow; core or developed economies had a trade surplus and capital exports. The core/periphery relations in the Eurozone area broke the balance of competitiveness and increased the dependency of periphery countries. In addition, periphery countries lost their monetary policy reaction (exchange rate adjustment) due to one currency policy in the zone. It made them more dependent and vulnerable against to the economic partners. Credit expansion at the beginning of the 2000s mainly increased domestic consumption levels in periphery countries that increased their trade deficit and these deficits mainly financed by core countries (Germany, France). The growth of domestic demand was led to the housing bubble in Spain and Ireland; the growth of public spending in Greece. Furthermore, nominal wages and price levels in periphery countries above the EMU averages when productivity level reduced significantly and loss international competitiveness. The combination of high domestic demand and low competiveness power caused permanent current account deficit and the accumulation of foreign debt. At the same time, core countries get benefited from the aggregate demand of periphery countries. Germany was accused of her mercantilist behavior (aimed at high competitiveness and trade surplus) and reaction to the crisis (Cesaratto and Stirati, 2010: 58).

3.3. GERMAN REACTION TO EUROZONE DEBT CRISIS

German reaction to the Eurozone debt crisis was consistent with her traditional economic stance of relying on domestic price stability and export-led growth strategy. At the beginning of the global financial crisis, Germany accused the USA of the financial crisis and rejected her proposals of creating a cap on the trade surplus/GDP ratio at subsequent meetings (G-20 2009 and 2010; Seoul in 2010). Furthermore, Germany rejected ECB's active reaction requirements that were offered by France to ensure the independence of ECB in 2008. After the Eurozone debt crisis, EU economies countered with an enormous amount of debt mainly given by core countries and most of the EU members could not make their payments (Cesaratto and Stirati, 2010: 68).

Germany was firmly against for bailing out the southern members and at the time government, mass media and mainstream economists accused these countries of being profligate. Instead of bailout packages, she offered austerity measures with tight fiscal and monetary policies that were compatible with traditional German economic policies that were shaped after WWII. These policies led to the devaluation of the Euro that increased the competitiveness of Germany and positively affected her export facilities and trade surplus.

German monetary policy was built on domestic price stability and aimed trade surplus. European Economic and Monetary Union adopted the same policy combination of price stability and a fixed exchange rate. Moreover, she designed the same fiscal policy to support the same target by budget surpluses target. Erhard explained this: "foreign trade is not a specialized activity for a few who might engage in it, but the very core and even precondition for our economic and social order" (Cronin, 1996: 92).

Both monetary and fiscal policy was designed on this framework and were supported by Germany as an ideal type of institutional design. EU applied them during the integration of her economy due to the enforcement of Germany.

3.4. ANALYSIS OF DEBT CRISIS THROUGH THE GERMANY CASE

Eurozone debt crisis was the most compelling challenge confronted by the EU since the Rome Treaty in 1958. After a decade, economic activities in the EU were still pre-crisis levels (Copelovitch, Frieden, and Walter, 2016: 2). Moreover, the crisis caused political difficulties and conflicts among the Eurozone countries that almost resulted in disintegration and questions about the future of the Eurozone.

The explanations of EU debt crisis like high financialization and deregulation in the financial market, easy credit conditions leading to high-risk lending and borrowing, the global financial crisis in the USA, housing bubble, structural and macroeconomic problems failed to deal with the roots of the crisis. Although these explanations are pertinent, the structural problems in the Eurozone, specifically the national variety of capitalism seem to be the reason for the crisis' origin. Therefore, Eurozone debt crisis was neither a simple shock resulting from global factors like the global financial crisis in 2007 nor a regular recession. Rather it was the consequence of varieties of capitalism in the Eurozone that was slowly coming out since the foundation of EMU in 1999 (Copelovitch, Frieden, and Walter, 2016: 3). Many of the difficulties Europe facing today was based on restrictions in the institutions devised to administer the monetary union agreed in the Maastricht treaty of 1992 and established in 1999 (Hall, 2014: 1). Economic prosperity in Europe was built by a variety of capitalist economies that pursued strategies with their comparative advantages (Hall and Soskice, 2001). Studies about the varieties of capitalism roughly categorized

European countries into three types; liberal market economy, coordinated market economy, and mixed market economy. These different economies required different institutional design and different policy tools. However, after the establishment of the EMU, EU neglected the institutional differences (institutional asymmetry) among the member states' economies that led to significant problems in the political economies of her member states (Boltho and Carlin, 2012). Each national economy has a different institutional design that shaped her labor market, financial market, corporate administration, education system, etc. Hall and Soskice's (2001) LME, CME and MME models of European economies have different political economies, institutional designs, and economic growth models, etc. and these differences feed the imbalance among the EU countries with respect to monetary and fiscal policy practices. As known Eurozone countries have only one legitimate institution in administration of monetary policy, the European Central Bank (ECB). On the other hand, they have freedom about the national fiscal policy within certain boundaries (%3 on general government deficit and %60 on the national debt to GDP) determined in the Maastricht Treaty.

Hall (2014) classified the European countries as northern economies (coordinated market economy); and southern economies (mixed market economy or Mediterranean market economy) (p.5). Northern economy model (coordinated market economy), mainly adopted by Northern European countries, had the following characteristics: "operating export-led growth models built on high levels of wage coordination, sophisticated systems of vocational training, the inter-firm relations necessary to operate collaborative research and development, and intra-firm relationships that promote continuous innovation and quality control" (Hall, 2014: 5).

Germany, Netherland, Belgium, Finland, and Austria adopted this model. The southern part of Europe like Greece, Spain, Portugal, and Italy adopted mixed market economies that included some features of coordinated market economies and as well as liberal market economies. In this model, "operating demand-led growth models, wage bargaining is difficult to coordinate because of complicated trade union structures. Employer associations coordinated but they were not well institutionalized as northern counterparts and their skill and education level is very limited, firms mostly built their competitive advantages on labor cost".

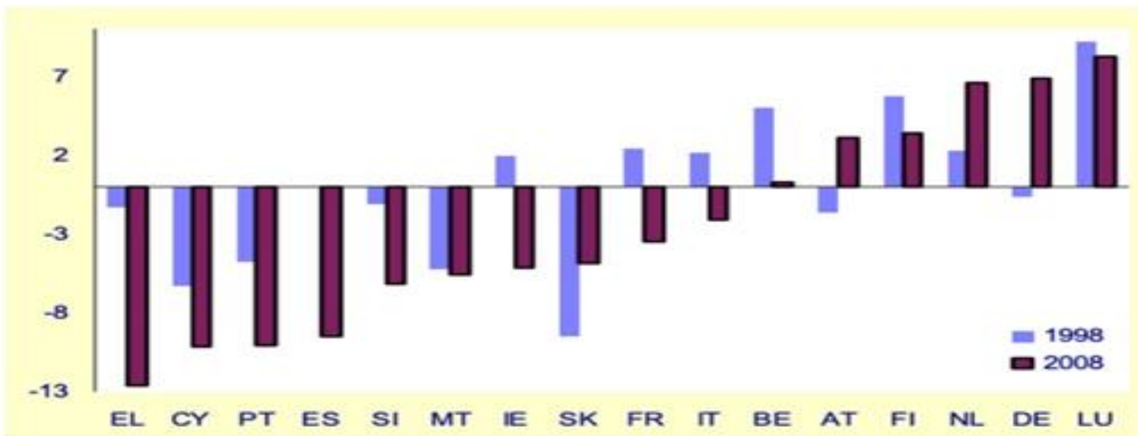
The institutional structure of the national economy or political economy of nations is not ephemeral (Hall, 2014: 6). It develops over a long period of time by countless political struggles and becomes fundamentals for economic actors in the national economy. Therefore we can say that national policy-makers do not simply operate different varieties of capitalism; they also think about capitalism in different terms (Hall, 2014: 22). Unfortunately, the economic policies of the EU, specifically after the establishment of EMU, are not fulfilled all members requirements or national interests. These doctrines ignored durable institutional differences across the EU political economies and established on classical competitive markets whose management required the minimal institutions' interventions. EU countries expected to converge on more competitive institutions under the discipline of a single market built on monetary union (Hall, 2001: 8). But entering EMU was not enough to convergence structural differences among European countries political economy (Zeitlin, Pochet, and Magnusson, 2005: 8). Varieties of capitalism among Eurozone members started to cause divergence in the macroeconomic indicators and created winners and losers' in new integration. After that current mechanism emerged structural problem that due to high dependence between members and high fragility in EU (Eurozone), particularly southern economies. The divergence among member countries could easily follow from the macroeconomic indicators of national economies. These divergences are explained upon the main macroeconomic indicators in the following part of the study. The main indicators used in the distinction of national economies are composed labor productivity, export/gross domestic product, growth composition, wage and price index, current account deficit, competitiveness level, etc.

Developed countries, particularly northern countries, have been dominant in determining common economic policies and in the design of common monetary and fiscal policies with respect to their economic structures. Northern economies (CMEs) have always taken advantage of institutional capacity for coordination to pursue basic strategies that were based on export-led growth. In that strategy, expansion of export is the main priority against the traditional growth strategy of southern economies, aggregate demand strategy. Export-oriented growth strategy briefly required wage coordination in order to keep labor cost low level, encourage high value-added production and incremental innovation that allows firms to compete on quality as well as price etc. another important requirement of export-oriented growth model is stability of exchange rate that imposed neutral or moderate monetary (independent authority) and fiscal (non-expansionary) policy stance that avoids to the deterioration of expectations.

On the other hand, southern countries' economy is built on demand-led growth (expansionary policy) that required more active macroeconomic policies. Expansionary macroeconomic policies tend to increase the inflation rate subsequently and required devaluation into the national money in order to keep international trade on a sustainable level. Therefore many southern countries were devaluated their domestic currency before integration to EMU in order to re-balance their trade deficit (reduced to the price of export and raise the price of import). For example, the value of the Italian currency decreased by about 25 percent within six years after the establishment of the European monetary system in 1979 (Hall, 2014: 7).

The design of EMU neglected the national specificities of members and prevented them from acting independently both in monetary and fiscal policy areas. Even though the new monetary union forced the same policy to all members, they did not adopt new economic policies because of their different institutional structure design. Northern countries (CME) continued to the same economic strategies by their institutional establishment. They continued to build their economic framework on export policy; their labor market, fiscal and monetary policies are designed in order to support this target. On the other hand, southern economies (MMEs) do/could not adopt current conditions on EMU and lost its competitive power that fed to the Eurozone debt crisis in the following period. Unsuccessful adaptation by southern economies due to the divergence between union members and lack of independent monetary and fiscal policy tools, they faced the inevitable economic crisis. Eurozone countries had shown significant divergence in external economic performance (Commision, 2009: 18).

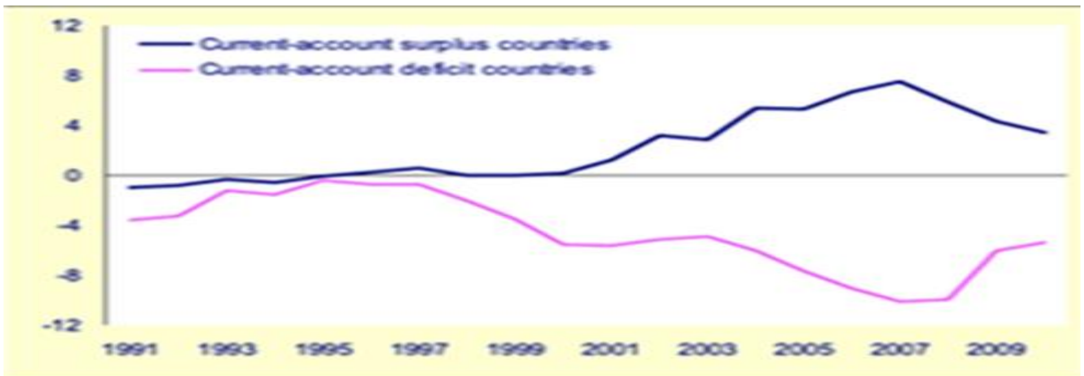
Graph 1: Current Account Positions, Eurozone Member States (% of GDP, 1999–2008)



Source: http://ec.europa.eu/economy_finance/publications/pages/publication14650_en.pdf

As shown in graph 1 Germany, Netherlands and Finland (representatives of CMEs) are countries that post current account surpluses when Greece, Cyprus, Portugal, Spain (representatives of MMEs) post large current account deficit in the first decade of EMU. The worsening of the current account balance of mixed market economies emerges pari passu with the improving surplus of coordinated market economies. Particularly Germany had shown dramatic improvement from the current account deficit to surpluses.

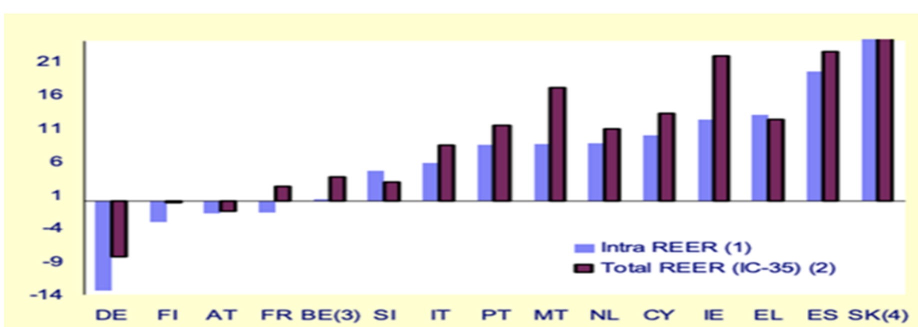
Graph 2: Current Account Positions, Eurozone Surplus and Deficit Countries (1991–2010, as % of GDP)



Sources: http://ec.europa.eu/economy_finance/publications/qr_euro_area/2010/pdf/ qrea201001en.pdf

Current account asymmetry between southern and northern economies increased in aggregate terms as shown in graph 2. Therefore we can say that the deterioration of southern countries current account balance due to improvement into the northern economy, which realize due to the uneven competitive power of member countries.

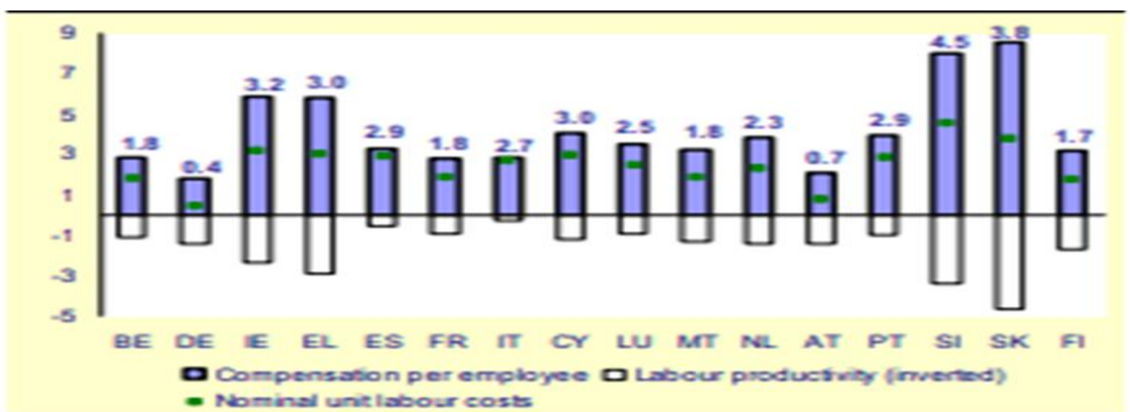
Graph 3: Changes in (REER) (in % 1998-2008)



Source: http://ec.europa.eu/economy_finance/publications/pages/publication14650_en.pdf

The main determinants of the competitive power of countries are the real exchange rate and aggregate demand that affected trade balance with the rest of the world. The impossibility of the exchange rate adjustment after the establishment of EMU triggered to the divergence among Eurozone members. This situation changes the competitive power of national economies in favor of northern countries. As graph 3 shows, Germany had certain competitive improvement against many Eurozone countries (economic partners) as measured by the reel effective exchange rate (REER).

Graph 4: Compensation per Employee, Labor Productivity and Nominal Unit Labor Costs (1999–2008) (average annual changes in %)

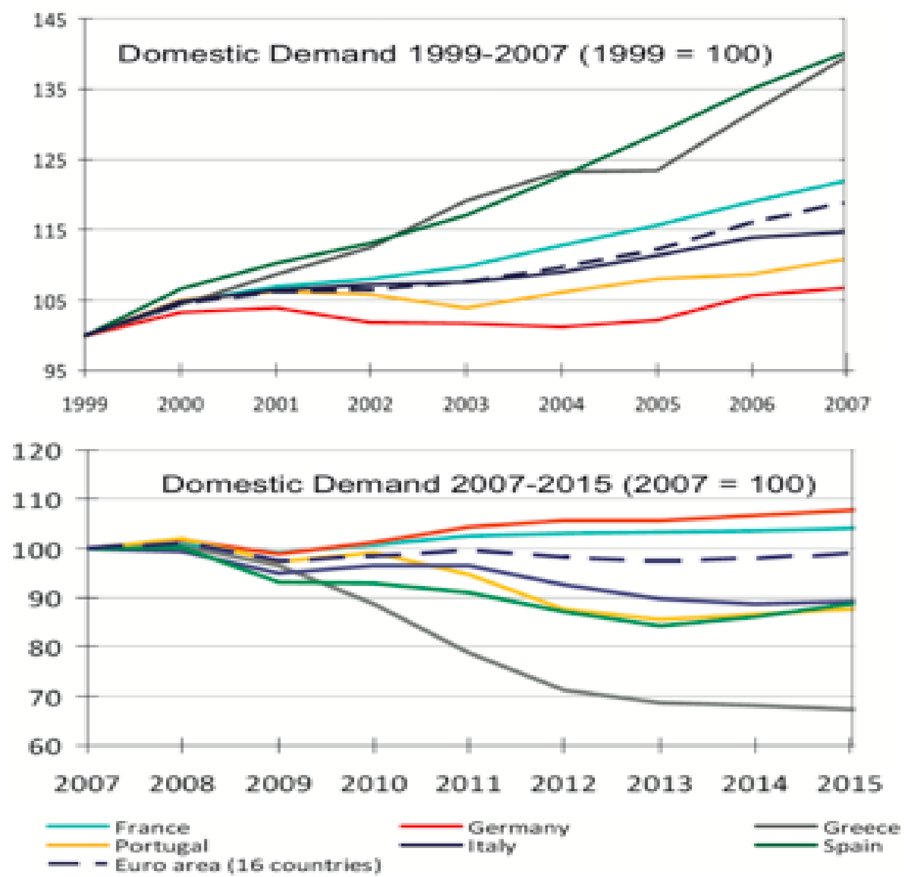


Source: http://ec.europa.eu/economy_finance/publications/pages/publication14650_en.pdf

Moreover, divergence in competitiveness can be traced back to differences in labor cost development across northern and southern economies. Graph 4 shows that annual average nominal unit labor cost growth for the first decade of EMU. It increased 0.4 percent in Germany, which is the lowest level while it increased more than 2.5 percent in Italy, Greece, Spain, and Portugal. In terms of variations of the REERs—using the nominal unit labor costs as price deflator—this means a real depreciation for Germany of about 15 percent against a real appreciation of 10–15 percent for the deficit countries. The success of

Germany in the decline of labor cost based on the traditional political economy of the nation that goes back to the social market economy tradition. Germany has maintained persistent wage moderation in spite of competitive improvement and economic development due to high coordination into economic institutions such as the labor market, financial market, etc. Therefore the growing competitive advantage of Germany in periods after the EMU is to be attributed as productivity and labor cost divergence that moved in favor of the northern economy.

Graph 5: Domestic Demand Divergence



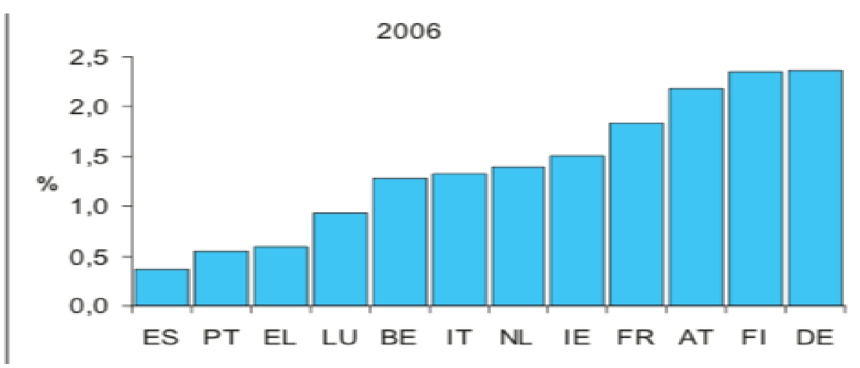
Source: OECD Economic Outlook Database

Divergence between EU members could also be determined with reference to aggregate demand indicators. As European Commission report mentioned, “a large part of the cross-country divergence of current accounts since the launch of the euro has been determined by considerable and persistent differences in the strength of domestic demand across member states” as shown in graph 5 (Commision, 2009: 8). Regarding this, one EC report comments as follows:

> According to conventional wisdom, external factors such as price competitiveness are seen as major drivers of current accounts. However, a large part of the divergence in the current account in the euro area since the late 1990s can be traced back to domestic demand. . . . Stronger relative demand pressure in a Member State will tend to fuel import demand and depress the current account. . . . The analysis suggests that changes in domestic demand could account for as much as 40–50% of the differences in current accounts observed in the euro area since the launch of the euro (Commision, 2009: 26-27).

More overly price level and interest rate policy, which determined real interest rate ratio, has affected (suppress or force) domestic demand level in national economies. A real interest rate is an interest rate that has been adjusted to remove the effects of inflation to reflect the real cost of funds to the borrower and the real yield to the lender or to an investor (Kenton, 2018).

Graph 6: Real Interest Rate

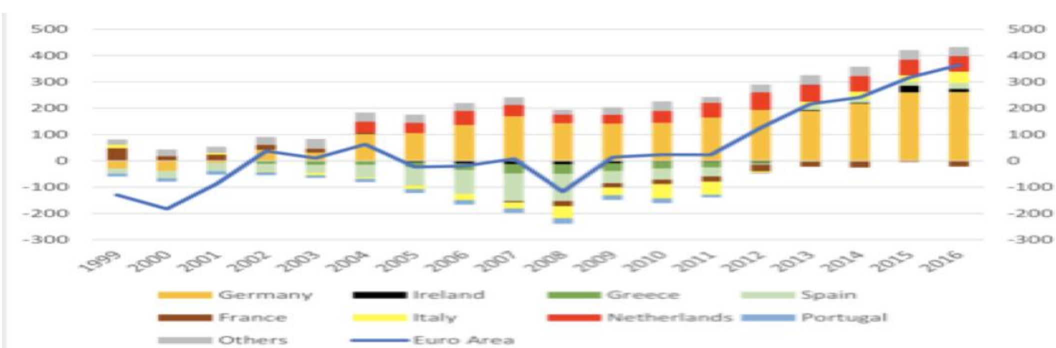


Source: http://ec.europa.eu/economy_finance/publications/publication12682_en.pdf

As shown in graph 6, European countries have different real interest rates due to the ECB target of 2 percent even though members had different inflation levels. The design of EMU did not give chance to member countries to change their positions that highly affect their consumption and saving decision. Furthermore easier access to the international capital by low-interest rates because of EMU membership fed directly the expansion of public and private spending that historically has been one of the important drivers of economic growth, specifically in southern economies. This situation has been continued until the debt crisis with the help southern (core) European banks (Germany and France). This circumstance was accepted as risk-free lending due to the illusion of the EU framework that defined as a successful example. These illusions continue until the eruption of crisis (Cesaratto & Stirati, 2010, s. 66).

Eurozone countries roughly diverge into two blocks as northern and southern countries. Current fiscal and monetary policies of the Eurozone area (EMU) are designed in favor of northern economies. The root of imbalance is the differences in the institutional design of Euro countries. These varieties in institutional structure or more broadly varieties of capitalism required a customized response for each country. But, EU members were restricted by the EU institutional framework in their response to the crisis.

Graph: 7 Current Account Balance In Members of The Euro Area 1999 in bn Euro

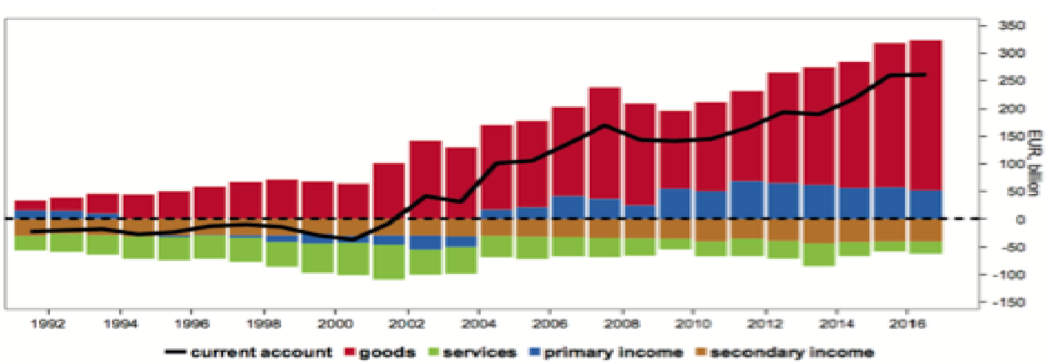


Sources: https://www.boeckler.de/pdf/v_2017_11_11_priewe.pdf

Therefore, divergence among southern and northern economies resulted in structural imbalances (permanent imbalanced) that led to unsustainable budget and current account deficits that subsequently turned into high public and private debt. As shown in graph 7, Germany and Netherland are the largest contributors of current account surplus while Greece, Spain, Portugal, and Italy caused current account deficits. Therefore, we can say that imbalances between northern countries and southern countries become more conspicuous after the common monetary policy.

From the perspective of Germany, the institutional design of EMU has created a stable and predictable market. Especially the current monetary policy ECB and traditional features of member countries, specifically southern countries that take domestic demand as a significant part of the economic growth, made them potential customers for Germany. German economic growth has always depended on foreign demand. After the establishment of EMU and the elimination of independent monetary policy, Germany's trade surplus increased as expected in their strategy (Lehndorff, 2012). After the reunification, the traditional economic strategy of Germany lost strength in a short time and she got back its potential after the establishment of EMU, which could easily be followed from components of the current account balance.

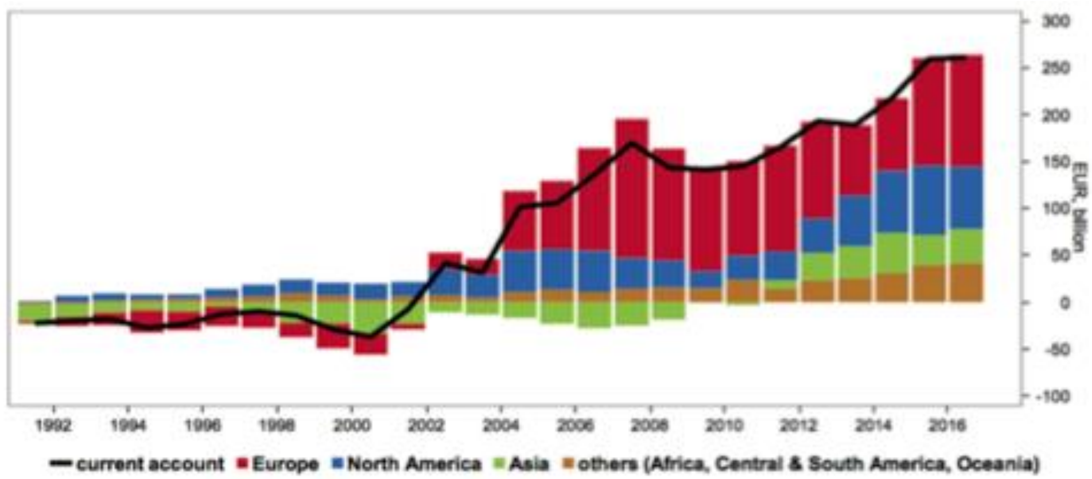
Graph 8: German Current Account Balance by Component



Sources: Bundesbank

As shown in graph 8, Germany increased her current account balance since 1999 and the largest contributor in the current account balance comes from goods. Germany has shown a structural weakness of domestic because of anemic growth of nominal wages and relatively high real interest rates associated with low domestic inflation. As a result, “weakness in domestic demand has been the central driver of the downshift in imports and increasing current account surpluses” (European Commission, 2010: 18). Another important indicator of Germany’s advantageous position is current account balance statistics determined by the region of trade.

Graph 9: German Current Account Balance by Region

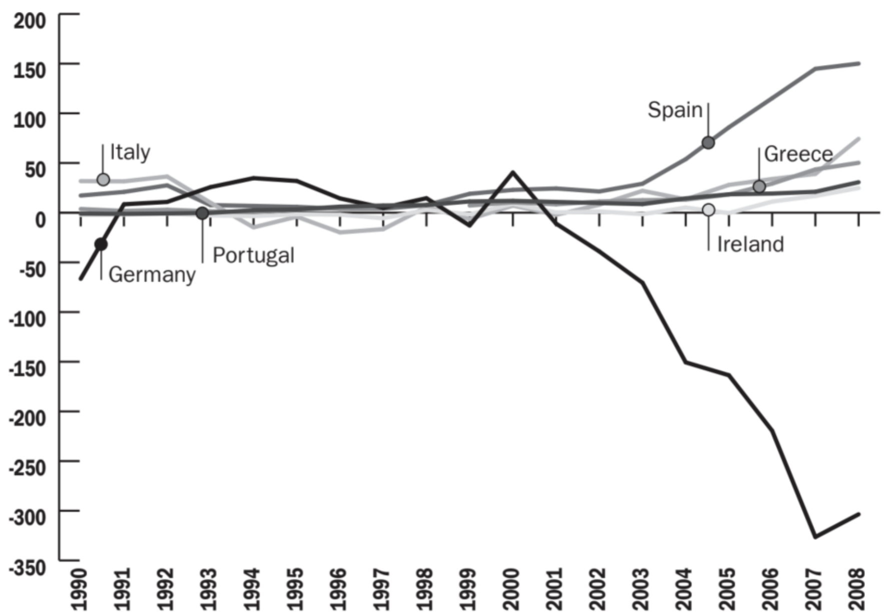


Source: Bundesbank

When the German current account balance by region is analyzed, changes in Europe after the EMU can be easily noticed. The size of Europe in the current account became apparent just after the 2000s and rose steadily, which became the largest region in the current account balance as shown in graph 9. Hence two-thirds of German trade is with the Eurozone when the trade of Eurozone with the rest of the world is roughly in balance (C. Lapavitsas, 2012: 30).

The reflection of structural imbalances into the current account balance also follows the financial situations of member countries. Germany whose increased its current account surpluses has exported capital while southern countries whose has current account deficit has imported capital outside. German banks used these surpluses in creating credits to Greece, Ireland, Portugal and Spain that made itself as a contributor to preparing the debt crisis ground instead of being a victim of it (Chakrabortty, 2011).

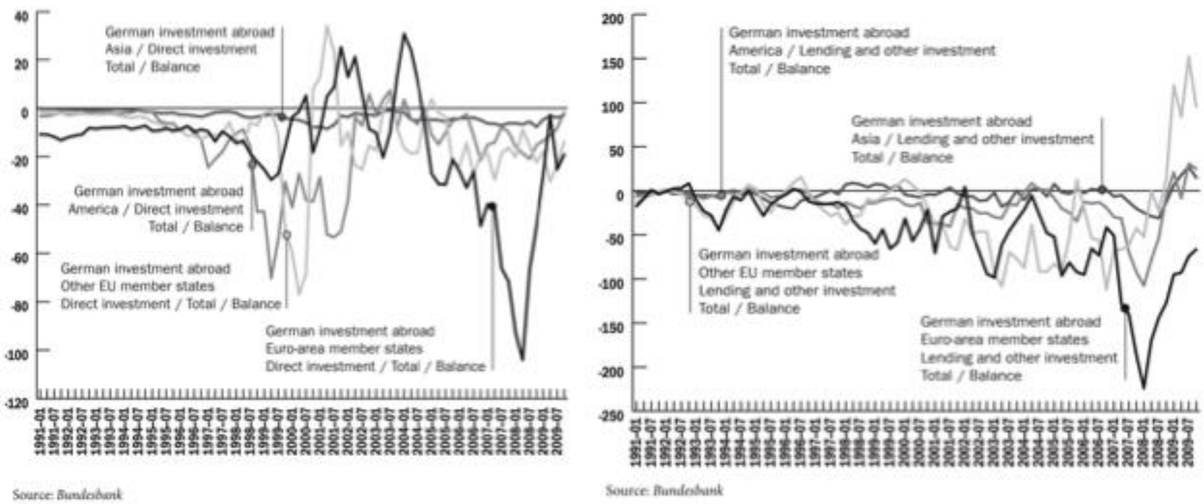
Graph 10: Capital and financial account (Net, $ bn)



Source: *IMF BOP*

The geographical direction of the German capital surpluses can easily be tracked from the composition of German capital exports. As shown in graph 10, the main recipient of German capital (FDI and other) are Euro area member countries after the EMU establishment. This situation changed dramatically after the global financial crisis in 2008 and German banks restricted their lending when southern countries were forced to appear in credit markets seeking funds.

Graph 11: German outward FDI/ other by region (euro, bn)



As a result, we can say that northern countries get benefited from the advantages of the new economic system, which barely based on neutral and moderate policy. They successfully continue to export-oriented strategies thanks to one currency system that reduce the uncertainty about the exchange rate and increase the competitive powers against the economic partners. Southern countries demand-led growth strategies lead to a reduction in competitive power in the absence of devaluation option and worsening export performance. Hence southern countries get worsening both in the demand side and supply side that caused the structural imbalance among trade partners. These circumstances create new dependence between southern and northern countries over trade imbalances. Northern countries had a significant trade surplus and used these surpluses into the southern countries; southern countries finance their trade deficit mainly from northern partners by the lower interest rate that also encourages them to continue to the demand-led growth. After time with the global financial crisis, investors started to concern debt levels of southern countries and they became more reluctant to finance southern countries that later turned to the debt crisis.

From this broad picture of the crisis, we can say that economic imbalances, the main reason of debt crisis, are a consequence of Eurozone common policies that neglected the specific features of countries. More specifically, centralized monetary policy but decentralized fiscal and wage policies that due to different inflation rates within member countries, the negative real interest rate in higher inflation rate counties. Without independent monetary policy (devaluation option) the competitive power of demand-led countries deteriorated and makes them more vulnerable due to high current account deficit and made addicted to capital injection. On the other hand, northern countries dependence on foreign demand was significantly increased due to the current political system of EMU that contributed to economic growth, which is built on, export or high demand of foreigners. Therefore we can say that the structural problem of the Eurozone based on the institutional asymmetry of national economies. Like the unhappy families in Leo Tolstoy's novel Anna Karenina, every southern (peripheral) country is unhappy in its own way (Cesaratto and Stirati, 2010: 58). Without a country-specific solution, it is not easy to get over these problems permanently.

CONCLUSION

World economy experienced two major economic crises during the 2000s that had global impacts: the global financial crisis that took place in 2008 and the Eurozone debt crisis that started at the end of 2009. Both of them resulted in serious deterioration of the world economy. The global financial crisis is considered to be the most severe crisis since the Great Depression in 1929. The crisis ended in the following:

> During the second half of 2008, the global economy came to halt: on an annualized basis, global GDP growth slowed to 2 percent after an average growth rate of 5 percent over 2003–07. International trade flows collapsed in the last quarter of 2008, with world exports projected to decline in 2009 for the first time since 1982 (World Bank, 2009: 24).

The global financial crisis of 2008 triggered the Eurozone debt crisis in 2009. The Eurozone debt crisis was the most compelling challenge confronted by the EU since the Rome Treaty in 1958. After a decade, economic activities in the EU were still pre-crisis levels (Copelovitch, Frieden, and Walter, 2016: 2). Moreover, the crisis caused political difficulties and conflicts among EU countries that almost resulted in the disintegration of the Union and raised questions about the future of the Eurozone.

The Eurozone debt crisis lasted several years since the end of 2009. Several EU members - Portugal, Ireland, Greece, Spain (PIGS) and Cyprus- were unable to repay or refinance their government debt without the assistance of the European Financial Stability Facility, ECB and IMF (Kenton, 2018). Although the Eurozone debt crisis erupted due to high levels of debt, it was not a fiscal crisis. Debt stocks of countries were low before the outbreak of the debt crisis, with the exception of Greece and Italy (Arı, 2014: 6). European countries benefited from the easy credit conditions before the global financial crisis the same as other countries. Easy access to credit encouraged the risk of lending and borrowing practices for member countries and they continued to make investments despite the absence of profitability. After the bursting of the real estate bubble, international financial authorities realized the seriousness of the economic conditions of several European countries and the fragility of many European banks. Uncontrolled lending and borrowing in some European countries increased overall levels of debt (both private and public debt). Later, due to the bailouts of the banks, private debts were transferred to public debts. High debt ratios of these countries increased the concerns of many investors that turned into a vicious circle. The emerging conditions made the international capital environment reluctant to lend to the EU countries that have a high public debt ratio. At the beginning, Greece and Ireland were affected and later it spread to other members.

High public debt levels or public deficits were not the sole reasons for the EU debt crisis. It was rather a consequence of high levels of financialization and deregulation in financial markets, easy credit conditions that encouraged high-risk lending and borrowing, global financial crisis in the USA, housing bubble, trade imbalance between member countries, etc. Beyond all the reasons mentioned above, the Eurozone suffers from the structural problems. In order to understand the structural problems of the Eurozone, national economies of members are analyzed with varieties of capitalism theory.

The theory of the "varieties of capitalism" is designed through the investigation of institutional capacity to solve problems with the strategic interactions. Hall and Soskice (2001) examined five spheres in which firms develop solutions to overcome their relational problems; corporate governance, industrial relations, vocational training and education, inter-firm relation and coordination vis-à-vis employees. Different from the previous studies, they put firms in the center of their analysis instead of state and labor force. Another important difference of VoC theory is that it contains concepts of fairness and justice shaped by the structure of states and its policies, customs of societies, traditions, laws, etc. With regards to the VoC approach, the differences in the socio-economic institutional system originated from the differences in firms' strategy in solving relational problems. The VoC categorizes economies under two core types of capitalism: liberal market economies and coordinated market economies. CME is exemplified by Germany. In CMEs, firms solve their coordination problems by relying on non-market relations. Those relations roughly consisted of incomplete contracting mechanisms and collaborative relations among economic actors. These relations affect the reputation of firms. Furthermore, there are strong strategic interactions between firms and other economic actors that also affected the equilibrium levels of the economy. On the other hand, in LMEs firms generally solve their coordination problems by relying on the market mechanism, which makes them dependent on the price mechanism. In liberal market system contracts and laws are very strict, economic relations shaped upon the market mechanism and equilibrium level of economies are determined over demand and supply on the market mechanism by price signals. LME is exemplified with the USA. Hall and Soskice (2001) define two ideal types of capitalism. Besides national countries that do not fit the characteristics of two ideal types were labeled as mixed market economies (Mediterranean capitalism) that presented features of coordinated market economies as well as liberal market economies.

Although the Eurozone debt crisis is explained upon similar reasons as the global financial crisis in 2007, it has its distinctive characteristics. Therefore, the Eurozone debt crisis was neither a simple shock resulting from global factors like the global financial crisis in 2007 nor a regular recession. Rather, it was the consequence of EU's underestimation of varieties of capitalism that slowly revealed since the foundation of EMU in 1999 (Copelovitch, Frieden, and Walter, 2016: 3).

Many of the difficulties Eurozone countries face today were based on restrictions in the institutions (asymmetry of institutions within national economies) devised to administer the monetary union agreed in the Maastricht treaty of 1992 and established in 1999 (Hall, 2014: 1). "At the root of the Euro upheaval … a balance of payment crisis caused by cumulative effect of a 13- year-old one-size-fits-all monetary policy and a fixed exchange rate for a collection of disparate countries in very different stages of economic and structural development" (Marsh, 2011: 1-2).

In this study, Eurozone countries are analyzed upon the VoC approach and categorized into two types: Northern economies (CMEs) and Southern Economies (MMEs). Northern economies consisted of Germany, Netherland, Belgium, Finland, and Austria. Their economic features are explained as operating export-led growth models built on high levels of wage coordination, sophisticated systems of vocational training, the inter-firm relations necessary to operate collaborative research and development, and intra-firm relationships that promote continuous innovation and quality control. Southern economies consisted of Greece, Spain, Portugal and Italy that adopted the feature of mixed market economies. In this model, operating demand-led growth models, wage bargaining is difficult to coordinate because of complicated trade union structures. Employer associations coordinated but they were not well institutionalized as northern counterparts and their skill and education level is very limited, firms mostly built their competitive advantages on labor cost. These different economies required different institutional designs and different policy tools even in cases of problems.

The institutional structure of the national economy is not ephemeral (Hall, 2014: 6). It develops over a long period of time by countless political struggles and becomes norms for them. Therefore, it could be argued that national policy-makers do not simply operate as different forms of capitalism; national economies are built on the accumulation of different institutions, customs, policies and actors that emerge over time. The economic policies of EU, specifically after the establishment of EMU, did not fit the demands, requirements and national interests. The European Union doctrines disregarded structural and institutional differences across the EU political economies. The design of the new establishment mainly based on requirements of dominant nations' in particularly Germany. It has been established on classical competitive markets whose managements required minimal institutional interventions.

Economic prosperity in Europe was built by a variety of capitalist economies that pursued strategies with their comparative advantages (Hall and Soskice, 2001). The designers of the European Union (Eurozone) project expected to converge on more competitive institutions under the discipline of a single market built on monetary union (Hall, 2001: 8). But entering EMU was not sufficient to converge structural differences among European economies (Zeitlin, Pochet, and Magnusson, 2005: 8). National variety (varieties of capitalism) among Eurozone members started to result in divergence of macroeconomic indicators and created winners and losers' nations. Current mechanisms of the European Union resulted in problems due to high dependence between members and high fragility in the Eurozone, particularly southern economies (Greece, Portugal, Spain, Cyprus, etc). The divergence among member countries could easily be followed from the macroeconomic indicators like labor productivity, export/gross domestic product, growth composition, wage and price index, current account deficit, competitiveness level, etc. These divergences or structural problems are explained with reference to Germany, which is the most influential member in Northern economies and the design of the EMU system.

Germany has never embraced classical liberalism due to her historical experiences and prevalent philosophy (Riha, 1985: 34). The history of the German political economy is based on a strong state and high degree of state interventions that limited the impact of liberal individualism (Ptak, 2009: 98). In the German political economy, state has a dominant position and it has always labeled with paternalistic features in administration. The opposition between the German style of capitalism and classical liberal capitalism goes back to the different philosophies of liberalism. German philosophy was based on Kant's liberal philosophy (Broyer, 1996: 13) that assumed rational economic policy as free of any political ideology. More specifically, German liberal philosophy explained liberty as free action of individual within a given framework (existing set of rules). British liberal philosophy explained liberty as a free exchange between agents. In addition, the different philosophies, time of industrialization could be another important factor that caused the different types of capitalism. As Gerschenkron explained:

> Whereas Great Britain and the United States, as early industrializers, relied on capital accumulation by entrepreneurs and by shareholders, Germany and Japan as late starters emphasized accumulation by powerful banks, and the USSR and China as late, late developing countries depended on state-led capital accumulation (Gilpin, 2001: 177).

that made state in dominant position inevitable. German scholars cautiously approached liberal principles and criticized its basic arguments: liberalism's claim of peaceful order, which later ended worldwide war; laissez-faire liberalism's claim of perfect distribution, which later ended up with inequality in society, etc. Therefore German scholars tried to designed alternative economic systems that care the national features of Germany. They criticized the principle of laissez-faire liberalism and defended the active role of the state that means a requirement of intervention when necessary. This understanding of liberty would give birth to ordo-liberal thought in the later.

After WWII Germany was forced to the compulsory transformation. During the design of the new economy, Germany made two fundamental decisions that determined the direction of the German economy in the future. One decision was to integrate to the world economic system and the other decision was to construct a productive and internationally competitive economy.

Finally, an ordo-liberal approach embraced in Germany with the contribution of Freiburg School. Freiburg school went beyond the general doctrine of liberalism with the adoption of German tradition and necessities of the German economy, which was titled as "German type of liberalism".

Ordo-liberals aimed decentralized power through a competitive market that was regulated by a constitutional order and abided by the rule of law (Young, 2017: 33). According to the ordo-liberals, their form of liberalism was the only option to reach general equilibrium in the market economy (Broyer, 1996: 9). Social market economy is a concept of ordo-liberalism. German economy is built on social market economy principles and it became the traditional economic identity that made her an exception among other capitalist economies.

German social market economy continued with limited changes until the present. Both economic authorities and public opinion embraced the social market economy in Germany. The role of all economic actors, firms, state, private entrepreneurs, worker, etc. and design of institutions were established by the specific requirement of German political economy. This system can summarize as follows:

- Strong connection between banks and industry,
- The active role of the state,
- The system of collective bargaining
- Involvement of banks and employees into the decision-making process in firms governance,
- Dual system of vocational education and training, which all together are the parts of the coordinated market economy used by Hall and Soskice (2001).

German economic stance is built on an export-oriented growth model. The institutional design of the German economy was made on this approach. Price stability is the main economic goals that required a tight monetary and fiscal policy. These policies should contribute to the competitiveness of the national economy against the rest of the world. The strategy of the German political economy is based on a fixed exchange rate that reduces the uncertainty on currency risk. The tools of monetary policy always aim to provide this situation for German economy by the Central Bank (Bundesbank and ECB). In fiscal side German political economy is aimed at guaranteeing export credits and budget surpluses that also reduced domestic demand and import rates in the national economy. In addition, fiscal policy contributed private savings by tax breaks and other subsidies that reduced domestic demand too. This strategy is called “German mercantilism” (Mikhel, 2012: 102). It affected other countries’ judgments about Germany, and she was accused of being a non-cooperative economic actor. The economic stance of Germany roughly relied on the domestic price stability and export-led growth strategy.

German economic success, especially the reliability and reputation of the Bundesbank model and German mark as one of the world leading currency, was proposed as a model for the institutional design of ECB. German authorities in the EU were desired the same institutional design in ECB that built on independent institutions aimed price stability. Moreover, Germany has always shown its dominant position in the European Community economic life. She was the first founding member state that introduces the foundation of competition policy. Also, the idea of establishment of ECB belonged to Germany's Ministry of Foreign Affairs, Hans Dietrich Genscher (Mikhel, 2012:105). Therefore we can say that Germany was one of the important and dominant economic actors into the establishment of EMU that has imposed its traditional institutional system.

The design of EMU was built on the same policy combination. It authorized the ECB in order to ensure economic stability, more specifically price stability on Eurozone level. Although the aim of this policy is to pursue the common interest of the EU, it has created more favors for Northern countries that have a dominant position. Both monetary and fiscal policies were designed on this framework and were supported by Germany as an ideal type of institutional design. Therefore, we can say that Northern countries have been dominant in determining common economic policies and in the design of common monetary and fiscal policies with respect to their economic structures. Northern economies have always taken advantage of institutional capacity for coordination to pursue basic strategies that were based on export-led growth. In that strategy, expansion of export is the main priority against the traditional growth strategy of southern economies, aggregate demand strategy. Export-oriented growth strategy briefly required wage coordination in order to keep labor costs low level, encourage high value-added production and incremental innovation that allows firms to compete on quality as well as price, etc. Another important requirement of the export-oriented growth model is the stability of the exchange rate that imposed neutral or moderate monetary (independent authority) and fiscal (non-expansionary) policy stance that avoids to the deterioration of expectations. On the other hand, southern countries' economy is built on demand-led growth (expansionary policy) that required more active macroeconomic policies. Expansionary macroeconomic policies tend to increase the inflation rate subsequently and required devaluation into the national money in order to keep international trade on a sustainable level. Therefore, many southern countries were devaluated their domestic currency before integration to EMU in order to re-balance their trade deficit. Southern economies are benefit from these options, which due to unfair competition and unsustainable situation for northern and southern economies that explained in detail way in the fourth chapter of study upon macroeconomic indicators. From this perspective, I tried to analyze Eurozone members upon two categories (Northern and Southern) in order to reveal structural problems of the union that caused to the economic crisis and explained to the reaction of Germany upon its economic stance.

In the first chapter of the study, the literature review of “varieties of capitalism theory” researched in macro and micro level. In the second chapter of the study German economy is analyzed in historically from the early period to nowadays (from the 19th century to nowadays). Especially the subject of ordo-liberalism and concept of the social market economy (SME) is examined closely in order to understand German traditional economic stance. In the third chapter of the study expansion of the German economic model researched by two major cases: unification of Germany and the European Union. After that the Eurozone debt crisis researched upon German political economy perspectives. The role and reaction of Germany to the crisis are researched in order to understand the accusation of Germany to other European countries “profligate” and the accusation about the dominance of Germany on the economic policy of the Eurozone. Lastly, the Eurozone debt crisis analyzed upon German case. The structural problem of Eurozone is researched upon the VoC theory. Unsustainable economic relations between Northern economies (coordinated market economies) and Southern economies (liberal market economies) that based on institutional asymmetry among members reveal in detail way.

As a result, we can say that northern countries, especially Germany, get benefited from the advantages of the new economic system (EMU), which barely based on neutral and moderate policy. Northern countries successfully continue to export-oriented strategies thanks to one currency system that reduce the uncertainty about the exchange rate and increase the competitive powers against the economic partners. Southern countries which have demand-led growth strategies started to lost its competitive power in absence of devaluation option and worsening export performance. Hence southern countries get worsening both in the demand side and supply side that caused the structural imbalance against trade partners. These circumstances create new dependence between southern and northern countries over trade imbalances. These imbalances can follow from main economic indicators such as real effective exchange rate, labor productivity ratio, labor cost level, domestic demand, etc. (detail information is shared in chapter four). After that Northern countries had a significant trade surplus and used these surpluses into the southern countries; southern countries finance their trade deficit mainly from northern partners by the lower interest rate that also encourages them to continue to the demand-led growth. After time with the global financial crisis, the inevitable end realized, investors started to concern debt levels of southern countries and they became more reluctant to finance southern countries that later turned to the debt crisis.

From this broad picture of the debt crisis, we can say that economic imbalances, the main reason of debt crisis, are a consequence of Eurozone common policies that neglected the specific features of countries. More specifically, centralized monetary policy but decentralized fiscal and wage policies that due to different inflation rates within member countries, the negative real interest rate in higher inflation rate counties. Without independent monetary policy (devaluation option) the competitive power of demand-led countries deteriorated and makes them more vulnerable due to high current account deficit and made addicted to capital injection. On the other hand, northern countries dependence on foreign demand was significantly increased due to the current political system of EMU that contributed to economic growth, which is built on, export or high demand of foreigners. Therefore, we can say that the structural problem of Eurozone based on the institutional asymmetry of national economies. Like the unhappy families in Leo Tolstoy's novel Anna Karenina, every southern country is unhappy in its own way. Without a country-specific solution, it is not easy to get over these problems permanently. Thus instead of being persistent on the current single economic policy, they can design more flexible institutional design, which able to respond or support multiple social and economic models. The motto of the EU (Eurozone) should not be ‘uniformity’ – but ‘unity in diversity’ – and the future of European integration will depend on Europe’s capacity to give substance to that slogan (Hall, 2014: 25).

The limitations of this research should also be acknowledged. The scope of time is limited from the third stage of EMU (1999) to Eurozone debt crisis. The case considered in the thesis is limited with Europe (Northern and Southern category) and Germany case. The methodology of the research is also limited to a desk-based analysis of macroeconomic statistical data.

On the other hand, this thesis opens a path for further research on the explanatory power of VoC theory to understand economic crises. Its implications present new perspectives for understanding the economic crisis in the Eurozone. Future studies have the possibility to test the VoC theory through a comparative analysis of crises. The design of EU, specifically the design of EMU, and the role and responsibility of fiscal and monetary policy institutions can be reconsidered from this perspective.

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APPENDIX 1. CODES, NAMES AND PROTOCOL ORDER OF EUROPEAN UNION (EU) MEMBER STATES

Codes, names and protocol order of European Union (EU) Member States

Code	Country language	English	French	German
BE	Belgique/België	Belgium	Belgique	Belgien
BG	Bulgarija	Bulgaria	Bulgarie	Bulgarien
CZ	Česká republika	Czech Republic	République tchèque	Tschechische Republik
DK	Danmark	Denmark	Danemark	Dänemark
DE	Deutschland	Germany	Allemagne	Deutschland
EE	Eesti	Estonia	Estonie	Estland
IE	Éire/Ireland	Ireland	Irlande	Irland
EL	Elláda	Greece	Grèce	Griechenland
ES	España	Spain	Espagne	Spanien
FR	France	France	France	Frankreich
HR	Hrvatska	Croatia	Croatie	Kroatien
IT	Italia	Italy	Italie	Italien
CY	Kýpros	Cyprus	Chypre	Zypern
LV	Latvija	Latvia	Lettonie	Lettland
LT	Lietuva	Lithuania	Lituanie	Litauen
LU	Luxembourg	Luxembourg	Luxembourg	Luxemburg
HU	Magyarország	Hungary	Hongrie	Ungarn
MT	Malta	Malta	Malte	Malta
NL	Nederland	Netherlands	Pays-Bas	Niederlande
AT	Österreich	Austria	Autriche	Österreich
PL	Polska	Poland	Pologne	Polen
PT	Portugal	Portugal	Portugal	Portugal
RO	România	Romania	Roumanie	Rumänien
SI	Slovenija	Slovenia	Slovénie	Slowenien
SK	Slovensko	Slovakia	Slovaquie	Slowakei
FI	Suomi/Finland	Finland	Finlande	Finnland
SE	Sverige	Sweden	Suède	Schweden
UK	United Kingdom	United Kingdom	Royaume-Uni	Vereinigtes Königreich

APPENDIX 2. ETHICS COMMISSION FORM

HACETTEPE UNIVERSITY
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ETHICS BOARD WAIVER FORM FOR THESIS WORK

HACETTEPE UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
ECONOMICS TO THE DEPARTMENT PRESIDENCY

Date:24/06/2016

Thesis Title / Topic: Political Economy of Eurozone Debt Crisis in the Context of Varieties of Capitalism Debate

My thesis work related to the title/topic above:

1. Does not perform experimentation on animals or people.
2. Does not necessitate the use of biological material (blood, urine, biological fluids and samples, etc.).
3. Does not involve any interference of the body's integrity.
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24/06/2016

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APPENDIX 3. ORIGINALITY REPORT

HACETTEPE UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
MASTER'S THESIS ORIGINALITY REPORT

HACETTEPE UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
ECONOMICS DEPARTMENT

Date: 17/06/2019

Thesis Title : Political Economy of Eurozone Debt Crisis in the Context of Varieties of Capitalism Debate

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