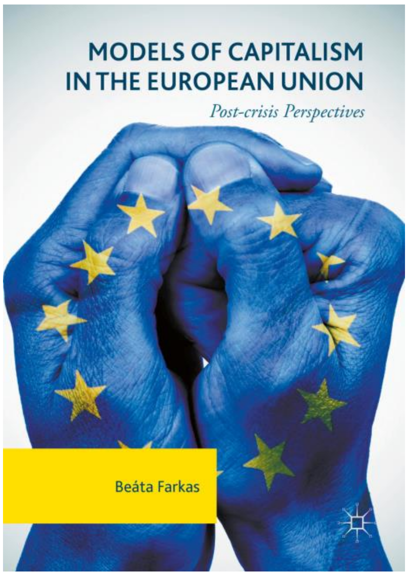
Models of Capitalism in the European Union
Post-crisis perspectives

Beáta Farkas

Palgrave Macmillan

Interest in the various institutions and comparisons of them did not wane after the collapse of the socialist system; in fact, institutional analysis has recently attracted renewed attention. Interestingly, in the literature, two particular trends can be distinguished in the analyses of institutions. On the one hand, the trend known as the varieties of capitalism (VoC) studies the institutional system of developed countries from a political- economic point of view, searching for alternatives to the neoliberal system of the USA. On the other hand, another group of researchers analyses the transition of socialist countries, searching for analogies in order to be able to classify the VoC literature or to refuse this possibility.



This book makes an attempt to empirically identify the models of capitalism found in the member states of the European Union (EU) and to elaborate a common theoretical framework suitable for all member states. Thus, not only the customary duality of the liberal versus coordinated market economy featured in the VoC literature and its fine-tuned versions but also those aspects in which the company is placed in focus are surpassed. If not only the most developed countries but also the Mediterranean and post-socialist countries are included in our investigation, the institutional systems of their economies or their operation cannot be understood without taking the role of the state into account. This approach is a political-economic one, and this comparison aims to interpret the differences existing primarily in economic performance and competitiveness; however, the social impacts of the functioning of these models must also be considered.

The first part of the book establishes the methodological background of other studies. It provides an overview of the literature dedicated to the comparison of institutions to ascertain a place for this study in the literature.

At the beginning of this research, at the end of 2009, it was impossible to foresee the depth of the financial and economic crisis, and the subsequent developments rewrote the plan for the book. On the one hand, the classification of the models of capitalism had to be built on pre-crisis data because the indicators used to identify the institutions are modified by the temporary effects of the crisis and therefore may lead to false conclusions pertaining to the institutions. On the other hand, more than a half a decade has passed since the crisis began, and this period has been long enough to pose the question of whether the crisis triggered any changes in the models of capitalism. Therefore, the second part of the book describes the models of capitalism characteristic to the EU member states. The framework of the study has been created in a way that the results should be comparable with those of an earlier empirical study performed by Bruno Amable (The diversity of modern capitalism. Oxford: Oxford

University Press, 2003) that included only the old member states (OMS) of the EU. The next part provides an overview of the changes that occurred during the crisis. Particular attention has been given to the course of the crisis and the regulatory responses to it; on the basis of these responses, I have tried to deduce the changes that may have a permanent impact on the institutions.

Studies pertaining to the period before the crisis and the period of the crisis have confirmed that a paradigm shift is necessary in the institutional analysis of the EU member states. A quarter of a century has passed since the system change in Central and Eastern Europe (CEE). In the meantime, countries that became member states of the EU detached from the other post-communist countries; as a result, a stable institutional system of the market economy, which has specific distinguishing features compared to the other European models of capitalism, evolved. Thus, we can speak about the CEE model of capitalism—nevertheless, a common theoretical framework can be applied to all EU member states. It is also reasonable because VoC literature has never questioned that Mediterranean countries can be included in their research as well, under the name “mixed market economy”. Nevertheless, the quantitative statistical analyses applied in this book, as well as the qualitative case studies, confirm that the institutional system of the Mediterranean countries is not more similar to that of the Nordic, North-Western countries than it is to that of the CEE countries. It further follows that the categories of the old and the new member states (NMS) no longer express the significant differences within the European integration. At the same time, there are still profound differences between the models of capitalism represented by the Nordic and North-Western countries and the models of capitalism characteristic of the Mediterranean countries and the CEE countries. Moreover, these differences can be seen in those areas that have a key role in long-term growth, in the innovation system and in the transparent and professional operation of the state and public administration. An important feature of the European social market economy is successful cooperation between employers and employees. There are essential differences between the two regions in this respect as well.

This divide is remarkably striking because in the Nordic and North-Western countries, increasing solutions serving the purpose of liberalisation were built in the Nordic and continental models of the 1960s and 1970s, while attempting to maintain the balance between ensuring competitiveness and providing the services of the welfare state. This part of the EU witnessed a certain degree of institutional convergence. The operation of the internal market and the EU regulations also had the same effect, explaining why the Anglo-Saxon model does not appear markedly in the EU. The process of hybridisation did not come to a halt even during the years of the crisis.

In addition, the crisis made it obvious to the Mediterranean countries that the precondition for their long-term development is precisely to step out of the framework of the Mediterranean model. Naturally, the effects of the reform measures taken as a response to the recession and austerity measures cannot be felt yet, but the in-depth analyses in the third part of this book reveal that the road to realisable, effective institutional solutions built on their own development path is still very long. The CEE countries’ adaptation during the crisis came by way of maintaining and deepening the characteristic features of the model (liberalisation on the product and the labour market, integration in the global value chain through foreign direct investment (FDI) and maintaining competitiveness through keeping the social protection expenditures at a low level).

This institutional analysis sends a grave message to the theory of European integration, which is elaborated in the last chapter of this book. Economic integration, as well as the monetary union, assumes the convergence of real and nominal processes among the countries. Decision makers within the EU have long been aware of the need to take action at community level in order to achieve this goal. These reforms have long been based on the conception that the institutions designed at the community level will be able to change the behaviour of the actors by combining sanctions and incentives. The difficulties that emerged due to the crisis in 2008 show, that the effectiveness of such interventions is limited. The institutional analyses clearly revealed that we have to face such significant, durably sustaining differences that the question—which is never asked in the economics of the European integration—cannot be evaded: how large are those differences that allow for a still-functional internal market and monetary union? If it were possible to model this situation, we would be able to identify the minimal conditions for functionality and to estimate the related cost. When all the above factors are taken into account, we may begin talking about how these minimum conditions can be achieved and about what kind of reforms are possible and needed.

In case of the CEE countries, the European integration successfully stimulated this transition. The application of conditionality, however, was truly effective only until their intention to join the Western bloc impelled these countries and the non-recurrent, productivity-increasing effect of the transition from a planned economy to a market economy in the favourable global economic environment resulted in perceptible convergence. However, in this region, reforms have slowed down or even come to a stop in recent years. The effectiveness of the conditions and regulations imposed by the external EU level decreases, and the significance of the commitment of the given state or society increases, if productivity growth must be ensured from a higher income level and with a more complex adaptation process.

Ultimately, the EU must find a balance between two adverse aspects. On the one hand, the EU cannot fail to support, at the level of the community, convergences that allow for a functioning internal market and a functioning monetary union. On the other hand, what can be realistically expected from the community-level institutions and regulations in this heterogeneous integration must be reassessed, and increased value must be given to the responsibility of the member states. We have to accept the situation in which the European integration is an open-ended system, not a process with a well-defined final state, implying “a safe haven”. I argue that the differentiated integration is not a transitory deviation from the ideal situation to be achieved, but rather a method for handling the differences.

The European integration is a great asset that is threatened by several internal and external challenges. At the time this manuscript was completed, the outcome of the next act of the Greek drama was still unknown. The crisis of the euro area and the tension caused by the free movement of labour within the Union have indicated that maintaining and developing this integration require new conceptual frameworks. This book makes an attempt to find these frameworks.