

(Il)liberal Market Economy?

The changing model of capitalism in the V4 countries through the lens of Differentiated Integration theory.

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Schedule

- ▶ **Introduction: CC and DI - research prospects**
- ▶ **Type of capitalism in V4 countries: now and then**
- ▶ **Motivation, research goals and questions**
- ▶ **Empirical data review**
- ▶ **Conclusions, discussions and future opportunities**

Introduction: combining CC with DI

- ▶ Comparative Capitalism (CC) is a branch of institutional/political economy intensively developed in the last two decades.
- ▶ There are two main approaches to this scholarship: Varieties of Capitalism (VoC, Hall & Soskice, 2001) and Diversity of Capitalism (DoC, Amable, 2003).

The main goal is to build typologies of different possible systems existing within the frames of capitalistic/market economy.

Introduction: combining CC with DI

- ▶ Differentiated Integration (DI) is a theory on how the process of European integration develops unevenly. The main interest of this scholarship is to identify the determinants of different propensities of countries to integrate with the UE (Schimmelfenning, 2021).
- ▶ Although in the existing research some institutional-economic factors were considered as potential determinants (Farkas, 2016), CC schemes offer cohesive methods of comparing and classifying different systems of economic institutions.

Varities of Capitalism (VoC) and Differentiated Integration

- ▶ For the purpose of this research, we will focus on the VoC approach.
- ▶ The VoC literature distinguish two main „ideal types” of market economy system in advanced countries: **Liberal Market Economy (LME)** and **Coordinated Market Economy (CME)**, which differ in terms of the role of the state in the economy and „institutional comparative advantage”

Varities of Capitalism (VoC) and Differentiated Integration

- ▶ The typical examples of LMEs are anglo-saxon countries, namely: UK, USA, Ireland; while the typical representative of CMEs is Germany.
- ▶ This distinction seems to resonate with findings of DI literature; while **Germany is the „leader”** in terms integration, **the UK is the radical example of dezintegration** which materialized in Brexit since 2016.
- ▶ So the question which can be asked is **if there is a relationship between the type of capitalism in the economy and the way the state integrates with the EU.**

Varieties of Capitalism (VoC) and Differentiated Integration

There are two notions which are central for VoC literature:

1. Comparative institutional advantage
2. Main mechanism of coordination (market vs state)

The second element can be measured by creating an 'index of coordination' considering main dimensions of the VoC analysis (corporate governance, industrial relations, education and training etc)

Varities of Capitalism (VoC) and Differentiated Integration

How to measure ,Differentiated Integration’?

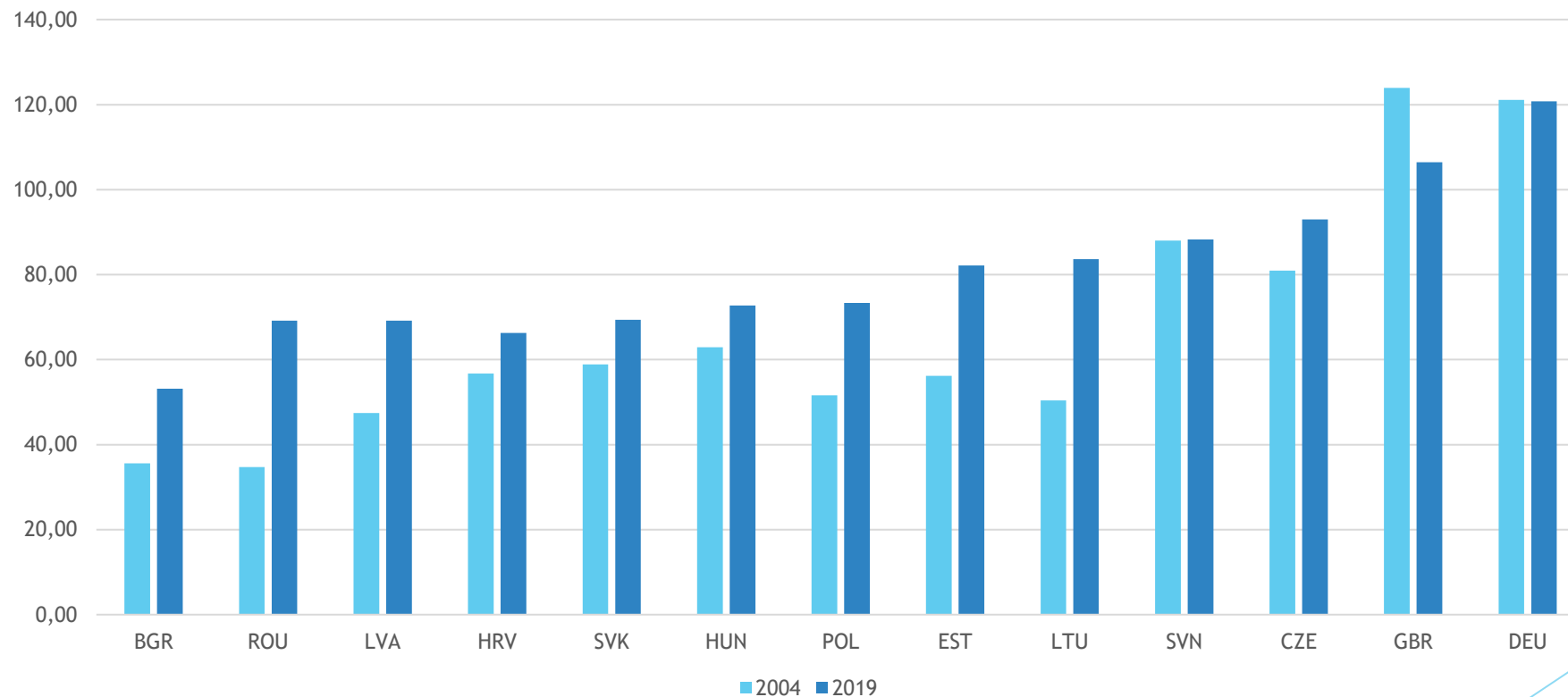
It can be done with creating a composite indicator, made of:

- ▶ Economic dimension: the volume of intra-EU trade of a given country
- ▶ Legal-political dimension: number of its derogations per year (both in primary and secondary EU law)
- ▶ Social dimension: public attitudes towards European integration, public discourse analysis.

Type of capitalism in V4 countries: now and then

- ▶ Nölke and Vliegenthaart (2005) proposed the Dependent Market Economy (DME) type for V4 countries in their analysis, which resonated strongly with the research theme of „middle-income trap” known from political economy literature.
- ▶ Yet, their theory seems to be out of date, since the macroeconomic convergence (especially after V4 countries accession to the UE) became a fact.

GDP per capita, PPP in Central & Eastern Europe (as % of EU average)



Source: own calculations based on World Bank data

Type of capitalism in V4 countries: now and then

- ▶ In addition, the populist backlash happened in V4 countries (especially in Poland and Hungary) with the rise of eurosceptic attitudes
- ▶ There are two types of premises which motivate us for this research:
 1. Becoming more similar to LME (UK) might correspond with less propensity to participate in the main course of European integration.
 2. Becoming more similar to CME (Germany) might correspond with declarative promise of the populists to extend „state agency” in terms of economic matters.

Research questions

- ▶ Do DME countries converge to LME or CME?
- ▶ Do countries with „illiberal systems” really have lesser propensity towards integration with the UE, when measured quantitatively?
- ▶ Do countries with „illiberal systems” represent the model of capitalism which is closer to the CME type?
- ▶ Are countries economically more state-intervention-oriented (CME type) also more ‚assertive’ in term of European integration?
- ▶ Is becoming more similar (in terms of economic institutions) to the UK (typical example of LME type) connected to lesser propensity to integrate?

Research goals

- ▶ To verify if countries once-classified as DMEs are currently closer to LME or CME model.
- ▶ To formulate conclusions on implications of the current type of capitalism they exhibit for their propensity to integrate with the UE.

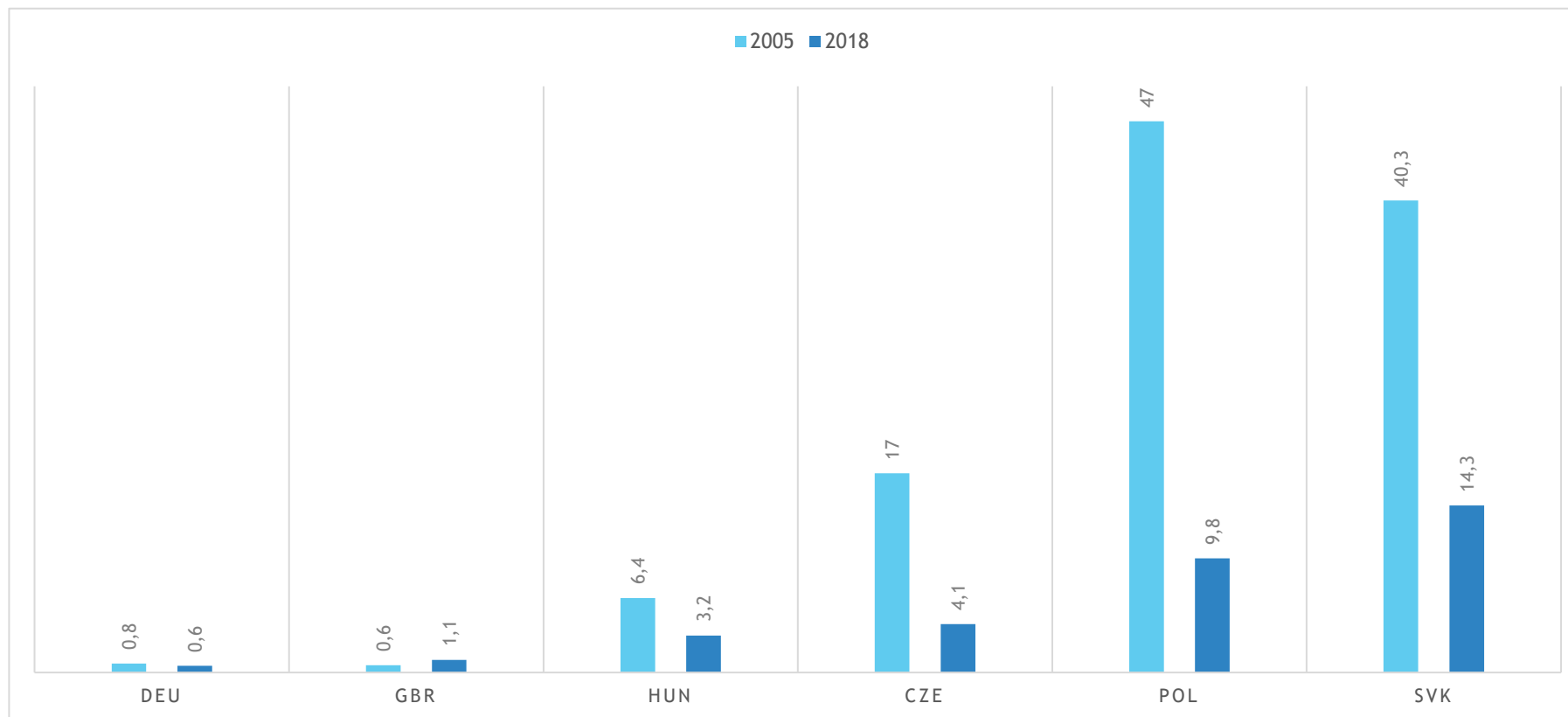
Important assumptions

Here we assume, for simplicity, that:

- ▶ V4 countries are indeed integrating „worse” than Germany
- ▶ Germany is still ideal type for CME and UK for LME

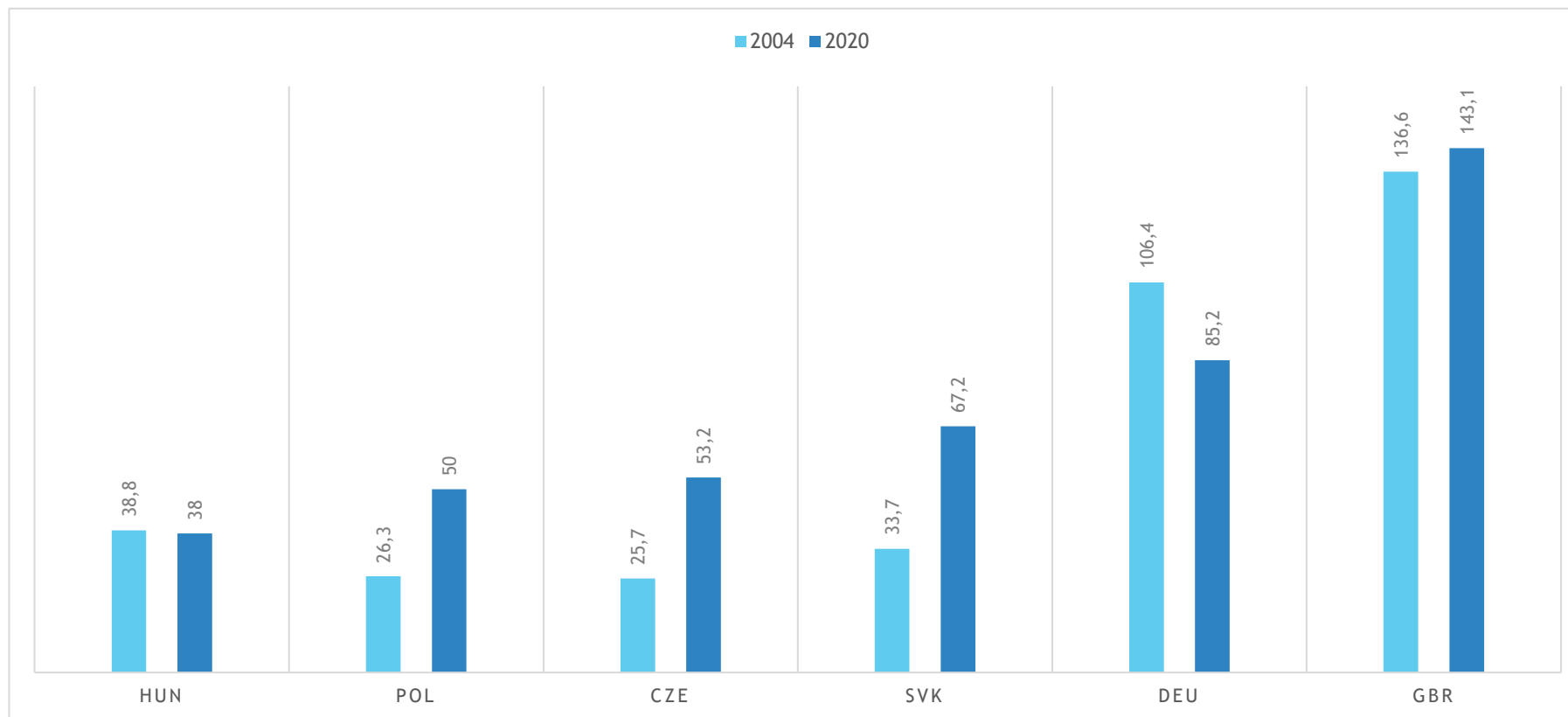
So, we want to check if countries integrating worse are similar (in terms of economic institutions) to the UK.

Foreign Direct Investment (iward-outward ratio)



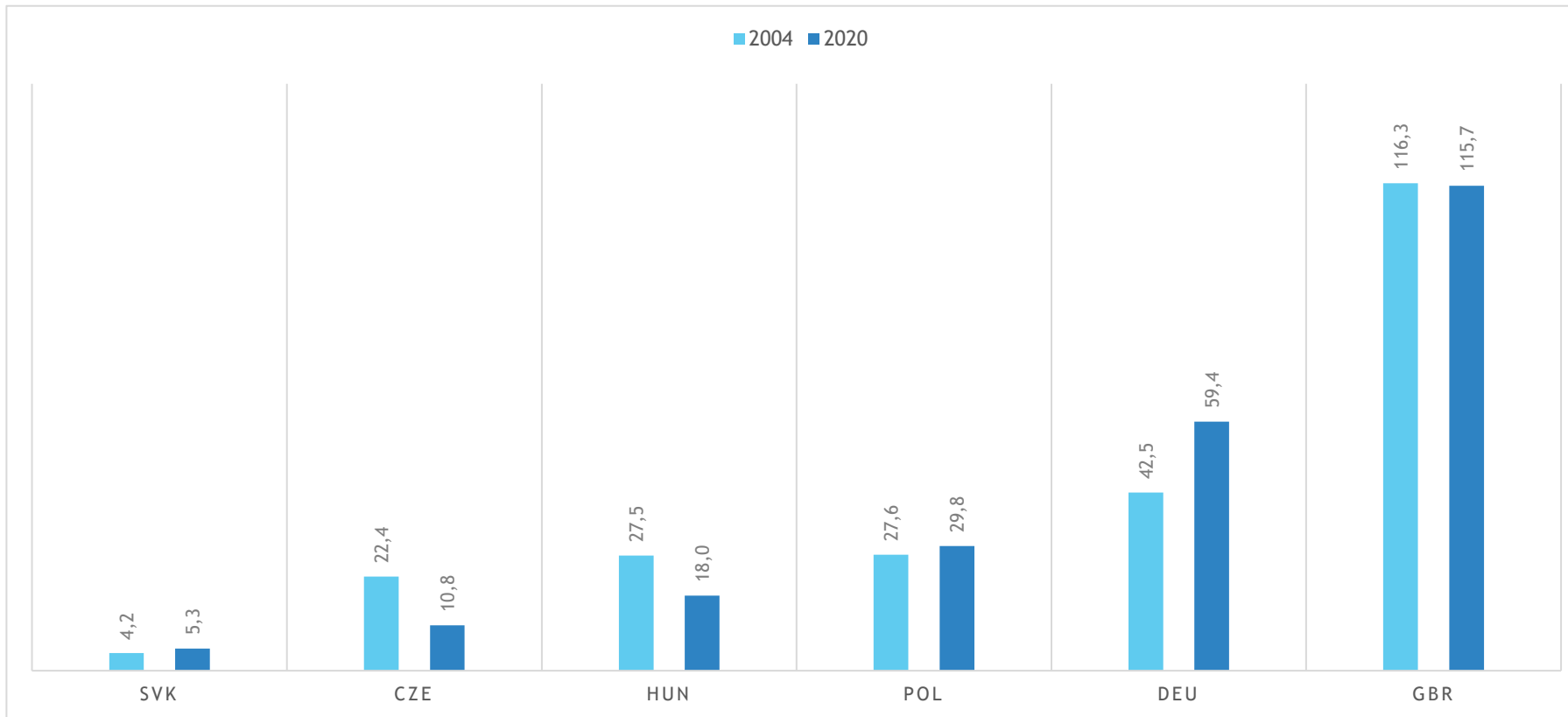
Source: own calculations based on World Bank data

Bank credit for the private sector (% of GDP)



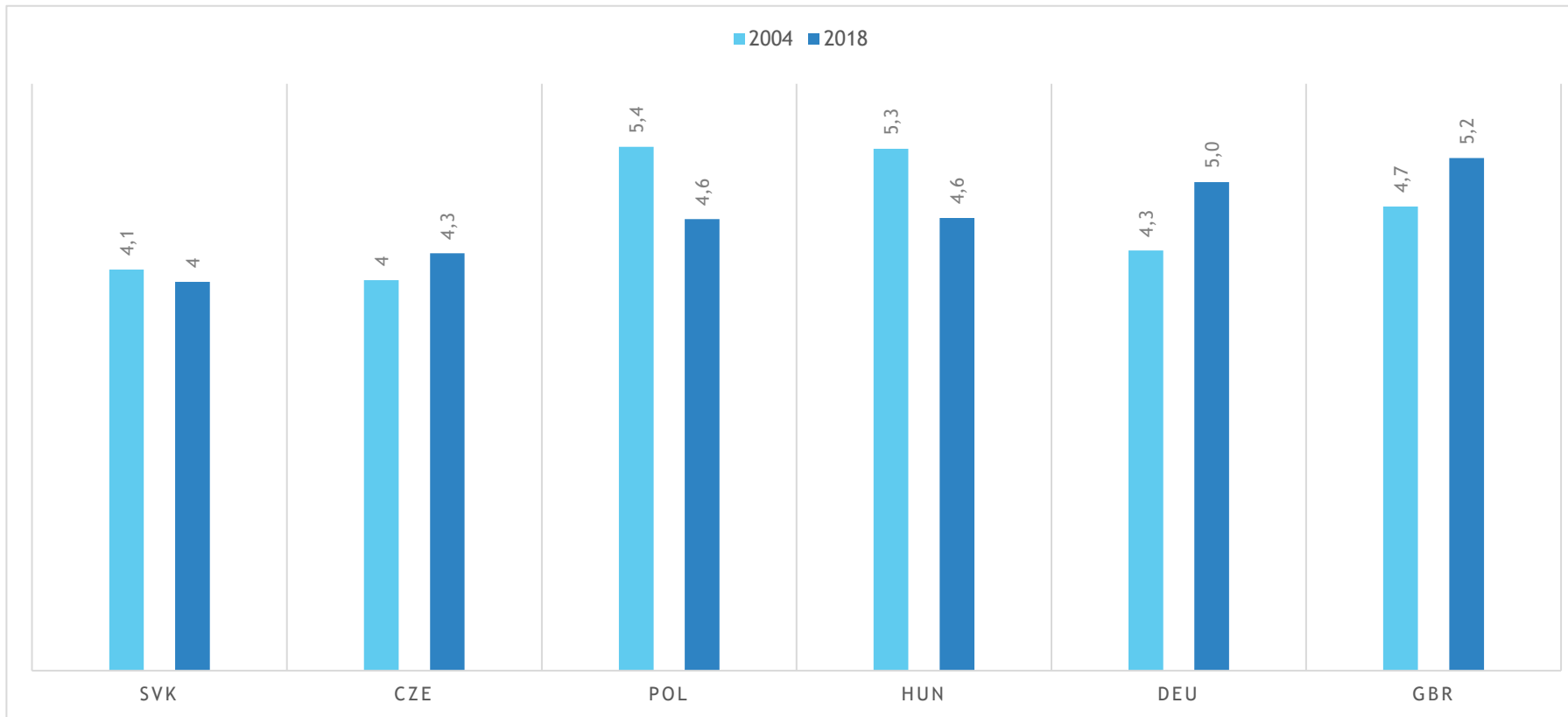
Source: World Bank data

Stock market capitalization (% of GDP)



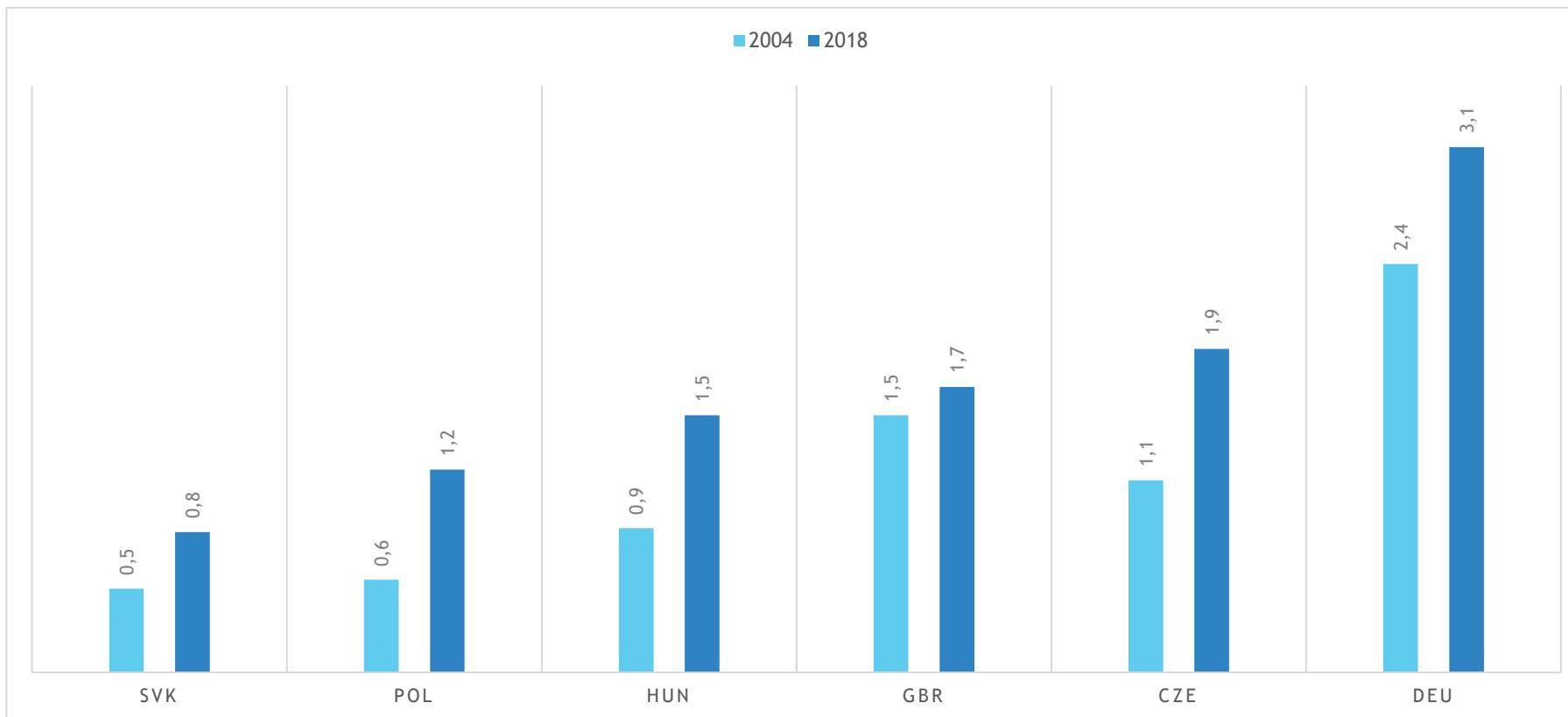
Source: World Bank data

Public expenditures on education (% of GDP)



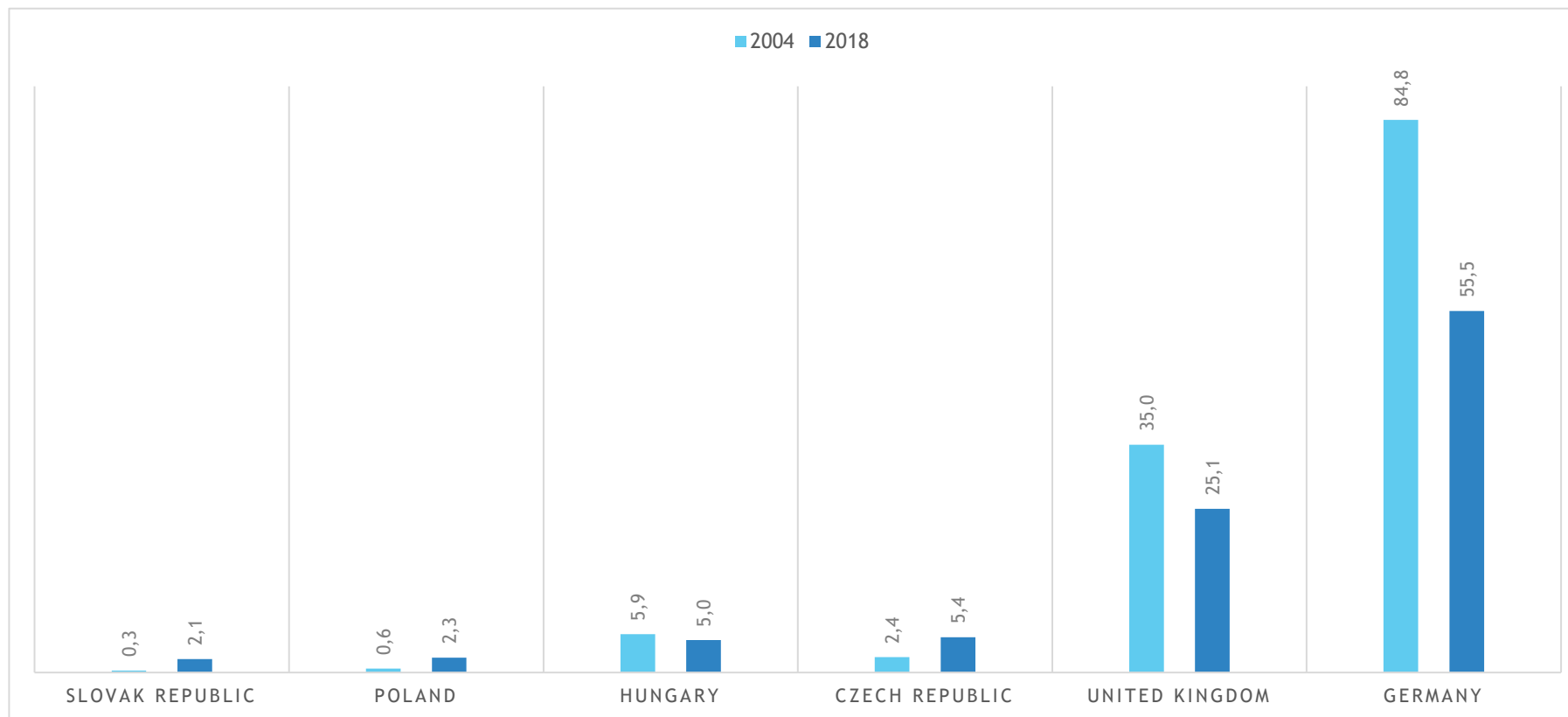
Source: World Bank data

R&D spending (% of GDP)



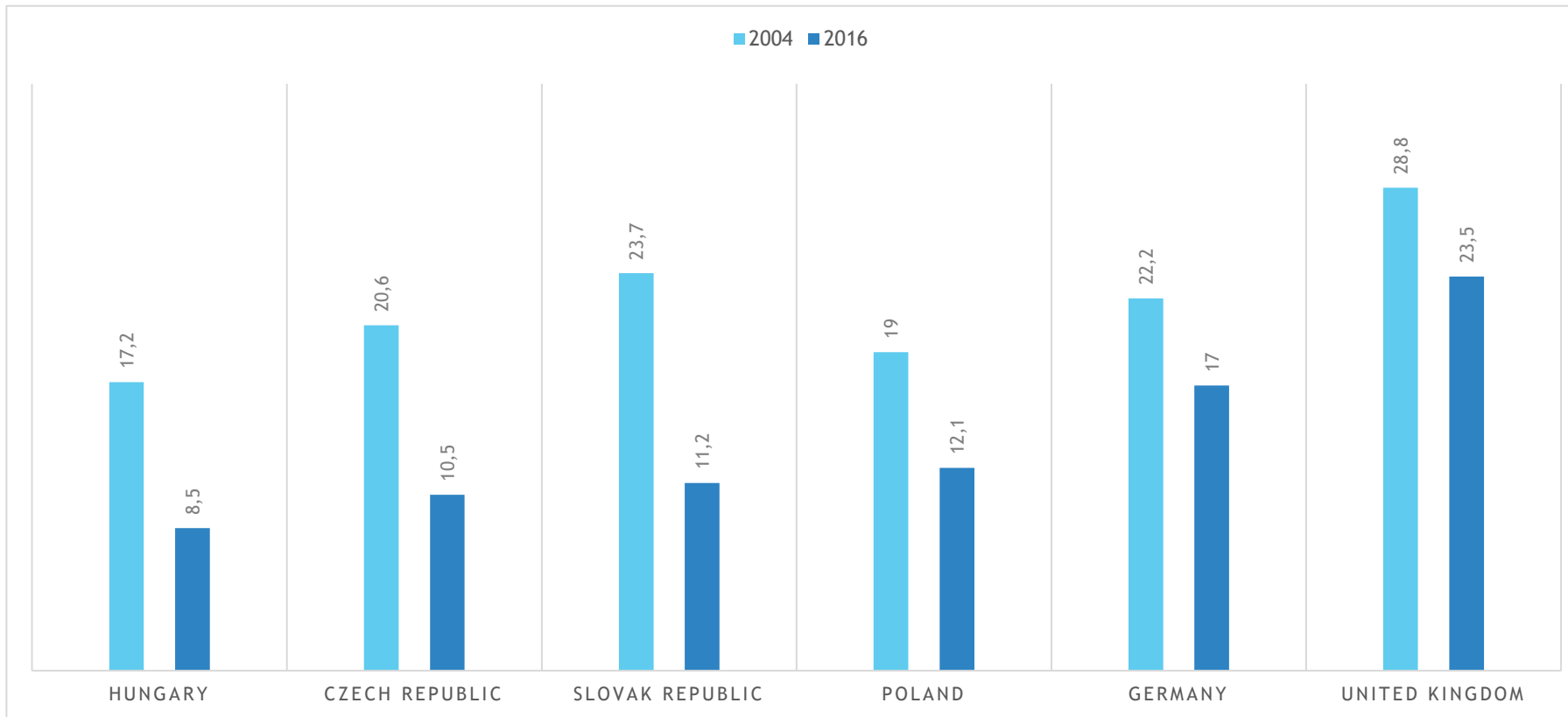
Source: World Bank data

Triad patent families (per milion inhabitants)



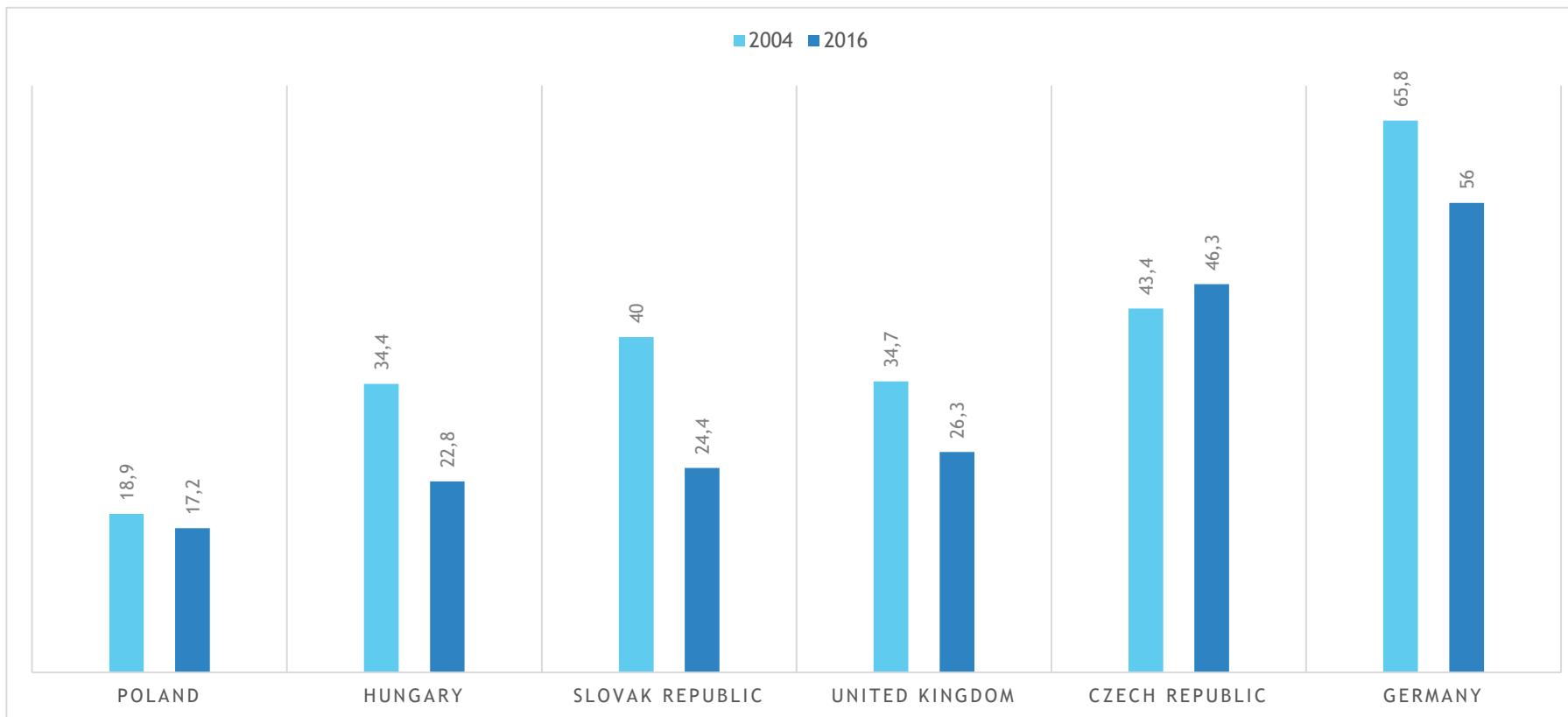
Source: own calculations based on OECD and World Bank data

Union density (% of employees)



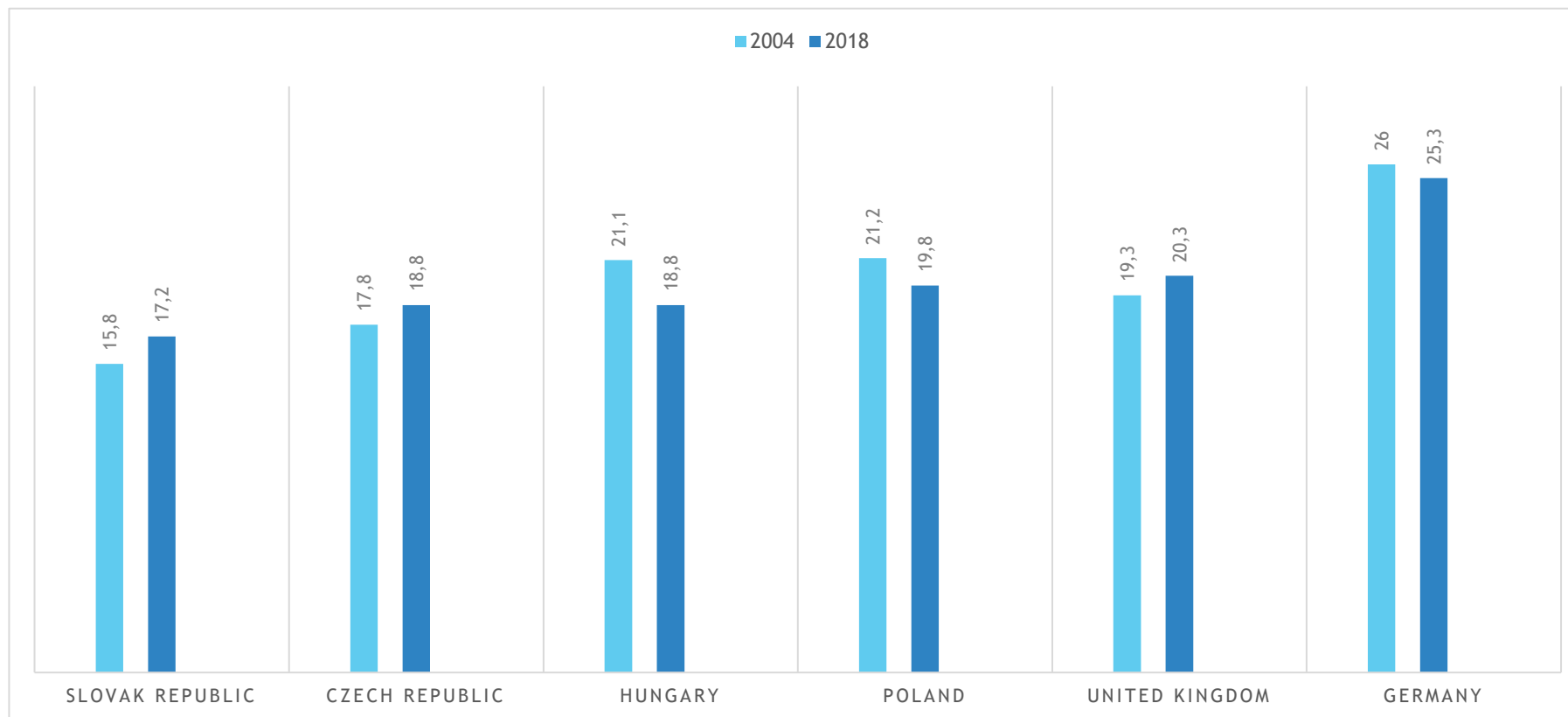
Source: ILO data

Collective bargaining coverage (% of employees)



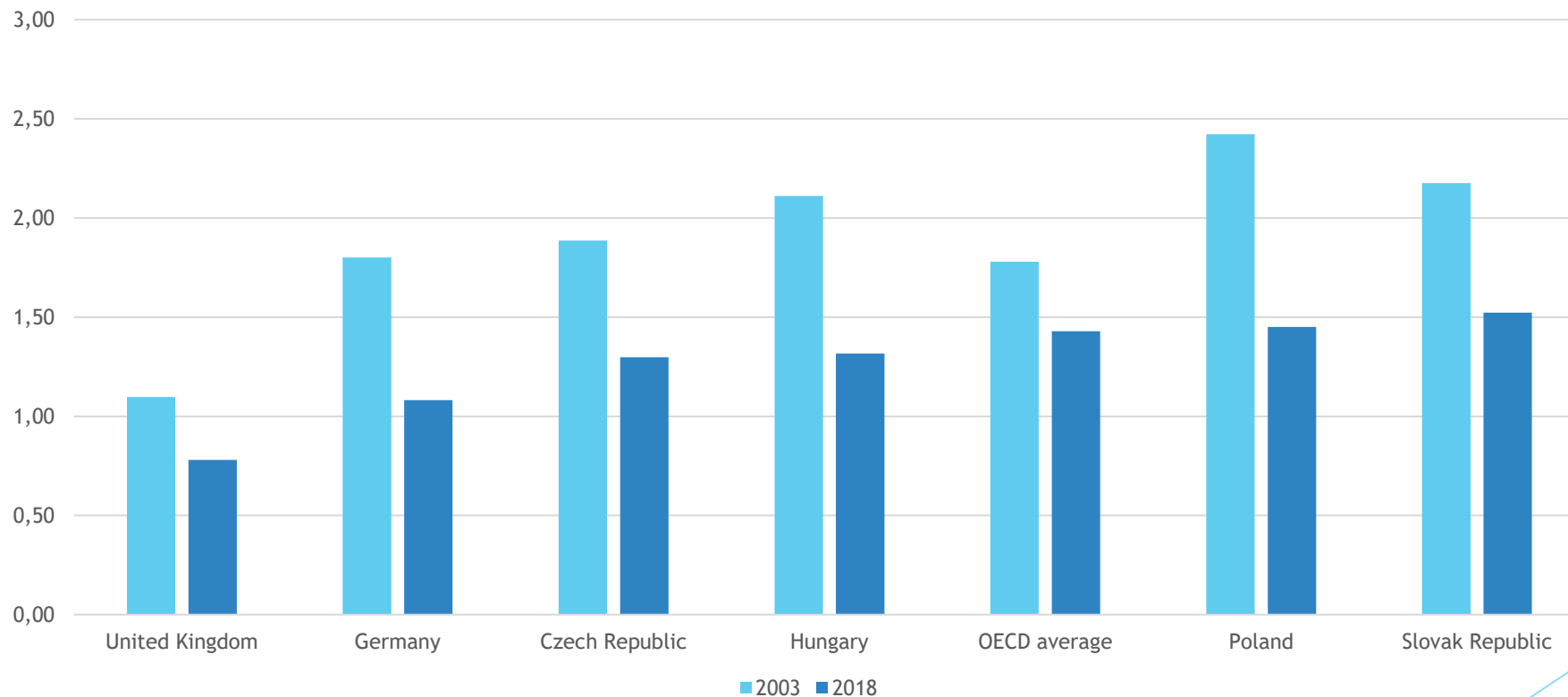
Source: ILO data

Social public spending (% of GDP)



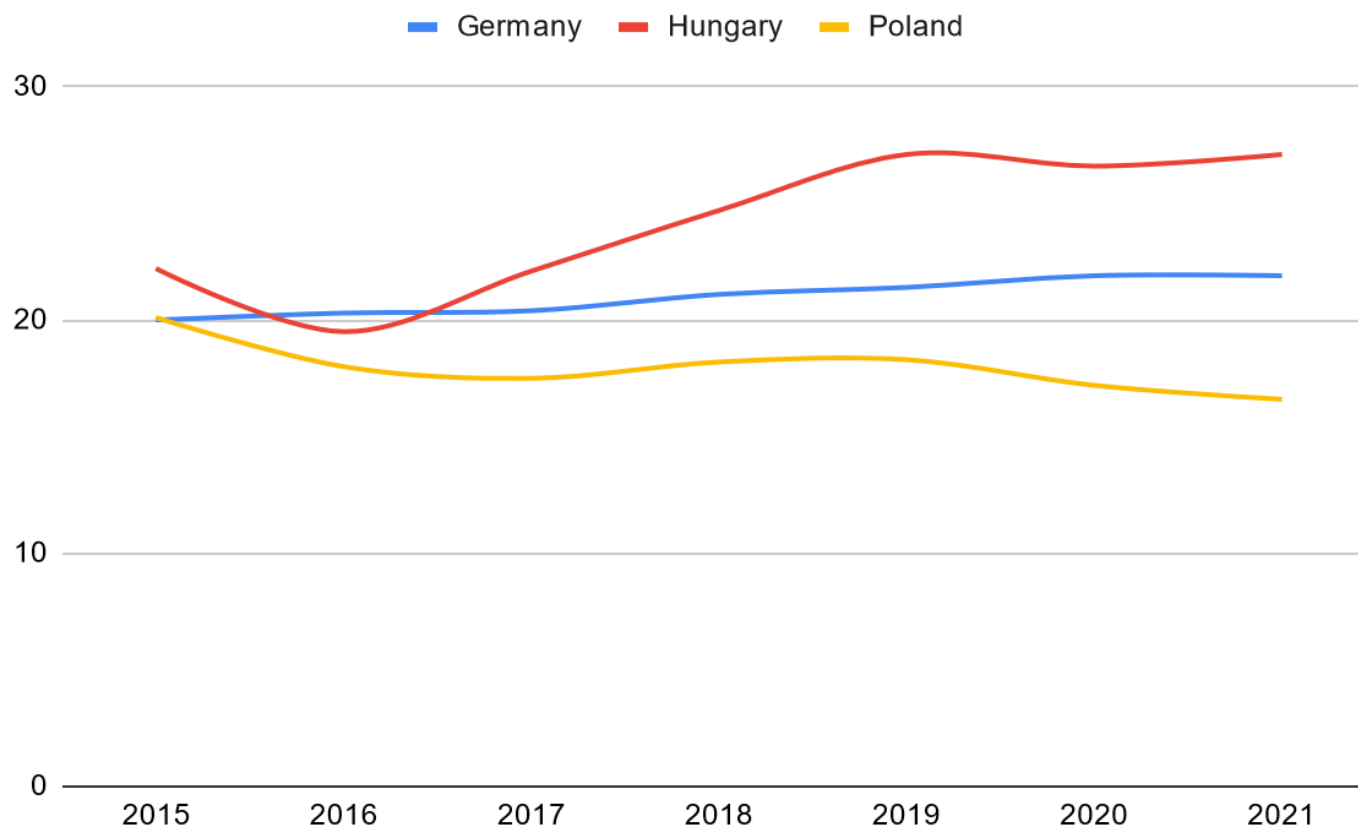
Source: OECD data

OECD competition indicators (lesser score = more competitive)



Source: OECD data

Private investment since 2015 (% of GDP)



Source: Eurostat data

Conclusions & discussion

- ▶ V4 countries could be assessed as „post-DMEs” or „Illiberal Market Economies”. They resemble both LME and CME, depending on which aspect is analyzed. This is in line with vast previous literature stating that „hybrid” type of capitalism emerged in Central and Eastern Europe after its transition.
- ▶ V4 countries are more like Germany in terms of ways of raising capital and competitiveness, **but more similar to the UK when considering the education & training system and labor market.**
- ▶ This makes both two initial research premises probable, although the early observation suggests that the LME type corresponds with lower propensity to integrate.