

Which Type of Capitalism in Central and Eastern Europe?

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What Kind of Socio-economic System is Emerging After Communism in
Eastern and Central Europe?

- 1st part: Very Short Introduction into the Work on the Varieties of Capitalism
- 1st part: Factor Analysis of the Social and Economic Statistics of Older and New Capitalist Countries
- 2nd part: Theoretical Interpretation Focused on the New Members of EU

1st part: Very Short Introduction Into the Work on the Varieties of Capitalism

Landmark works are

Hall, Peter; Soskice, David (Eds). 2001. *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage*. New York: Oxford UP.

Amable, Bruno. 2003. *The Diversity of Modern Capitalism*. Oxford: Oxford UP.

Hall/Soskice proceed in ideally typologizing way, and differentiate between

- **liberal market economies (LME); based on liberal markets with U.S. as paradigmatic case, and**
- **coordinated market economies (CME); based on strategic coordination with Germany and Japan as paradigmatic cases**

Differentiating features are

- **the financial system,**
- **the industrial relations system,**
- **the education and training system,**
- **the system of interfirm relations**

1st part: Very Short Introduction Into the Work on the Varieties of Capitalism (continuation)

Amable's typology combines deductive (theoretical) and inductive statistical approaches and differentiates between 5 types or models of capitalism:

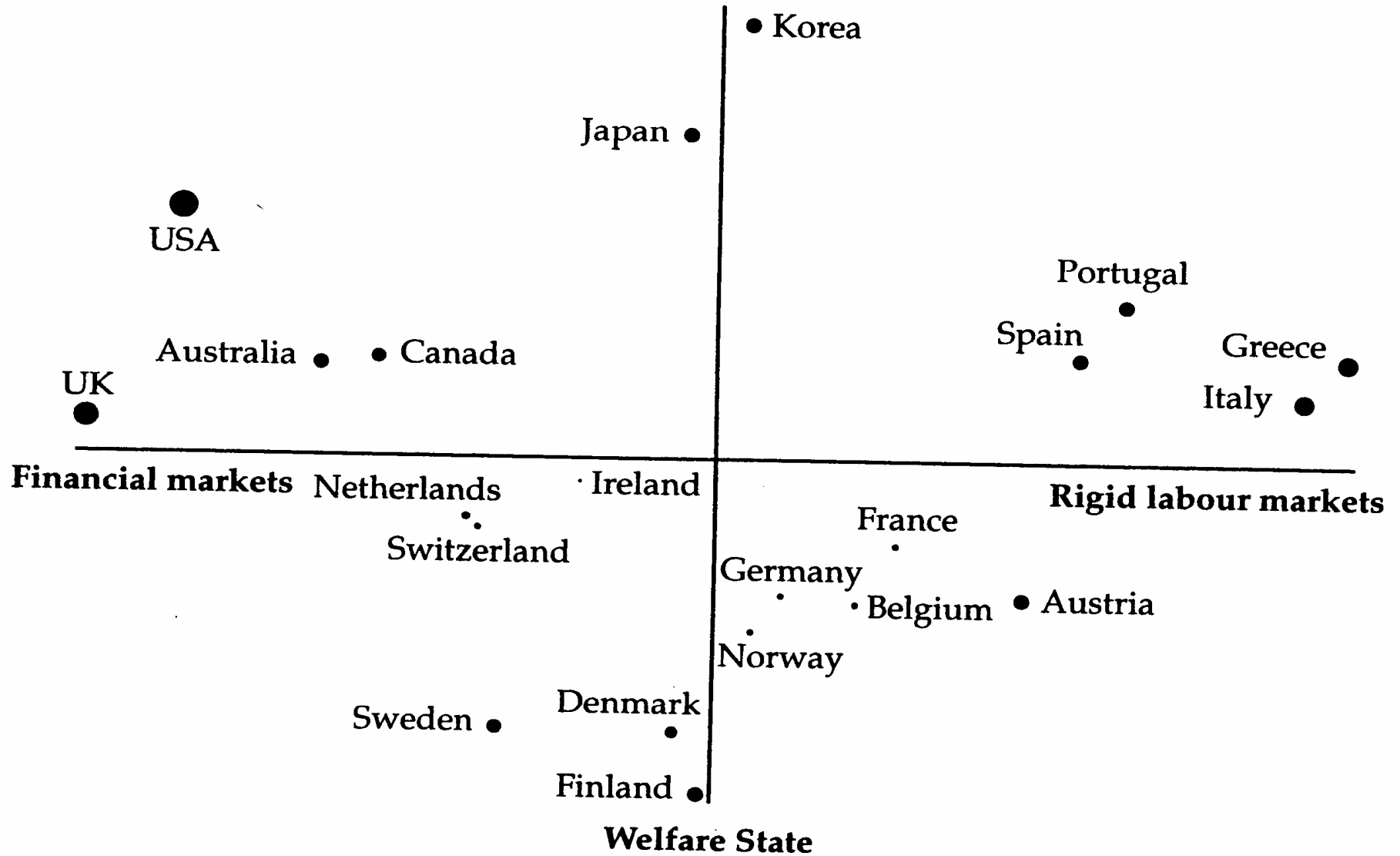
- **Asiatic (Japan, Korea)**
- **Continental (Germany, France, Belgium, Australia)**
- **Market-based (USA, UK, Australia, Canada)**
- **Mediterranean (Spain, Portugal, Greece, Italy)**
- **Social-Democratic (Denmark, Finland, Sweden)**

Ambiguous cases:

Ireland, Netherlands, Switzerland (between Market-based and Continental)

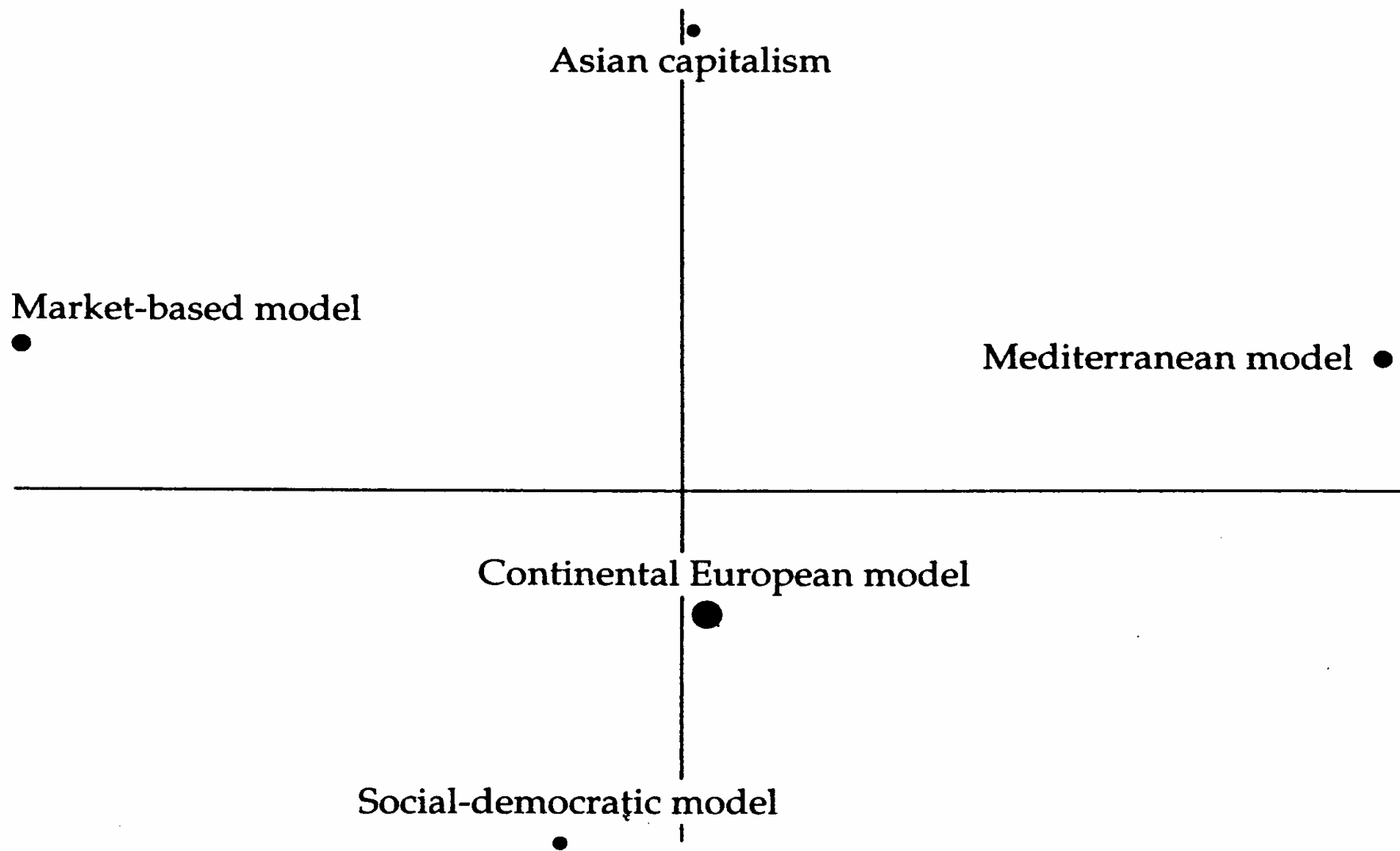
Norway (between Social-Democratic and Continental)

Types of Capitalism According B. Amable I



Types of Capitalism According B. Amable II

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Part II: Factor Analysis

Source: Mark Knell and Martin Srholec, "Diverging Pathways in Central and Eastern Europe", in Lane, David and Myant, Martin (Eds) *Varieties of Capitalism in Post-Communist Countries*, Houndsmill: Palgrave, 2007, pp. 40-62

- Knell and Srholec extract from the pool of data on the population including 20 OECD countries and 31 postsocialist country (total N=51) for 2001-04 period three factors, interpreted as:
 - 1) Social cohesion (high loadings on the variables on inequality, taxation of income and public spending)
 - 2) Labour market regulation (groups difficulties in hiring- and firing workers and labour market rigidity)
 - 3) Business regulation (high loadings on obstacles to entry and exit, property rights transfer and use of equity markets relative to banks)

Table 1: Results of the factors analysis

	Factor loadings		
	Social cohesion	Labour market regulation	Business regulation
GINI coefficient	-0.61	0.11	0.01
Highest marginal personal income tax rate	0.63	0.26	-0.39
Highest marginal corporate income tax rate	0.44	0.15	-0.08
Government final consumption expenditure (% of GDP)	0.40	-0.10	-0.11
Difficulty of hiring workers index	0.15	0.50	0.36
Difficulty of firing workers index	-0.23	0.56	0.31
Costs of firing workers (weeks of wages)	0.08	0.70	0.19
Rigidity of working hours index	0.13	0.65	-0.09
Number of start-up procedures to register a business	-0.20	0.31	0.69
Time to resolve insolvency (years)	-0.09	-0.06	0.47
Number of procedures to register property	-0.29	0.36	0.45
Stock market relative to banking sector in the financial system	0.07	-0.04	-0.63
Eigenvalue after rotation	1.35	1.82	1.73
% of the sum across eigenvalues after rotation	28	38	36
Number of observations		51	

Note: Varimax normalized rotation; the highest loading for each variable is marked by grey shading.

Figure 1: The index of social cohesion

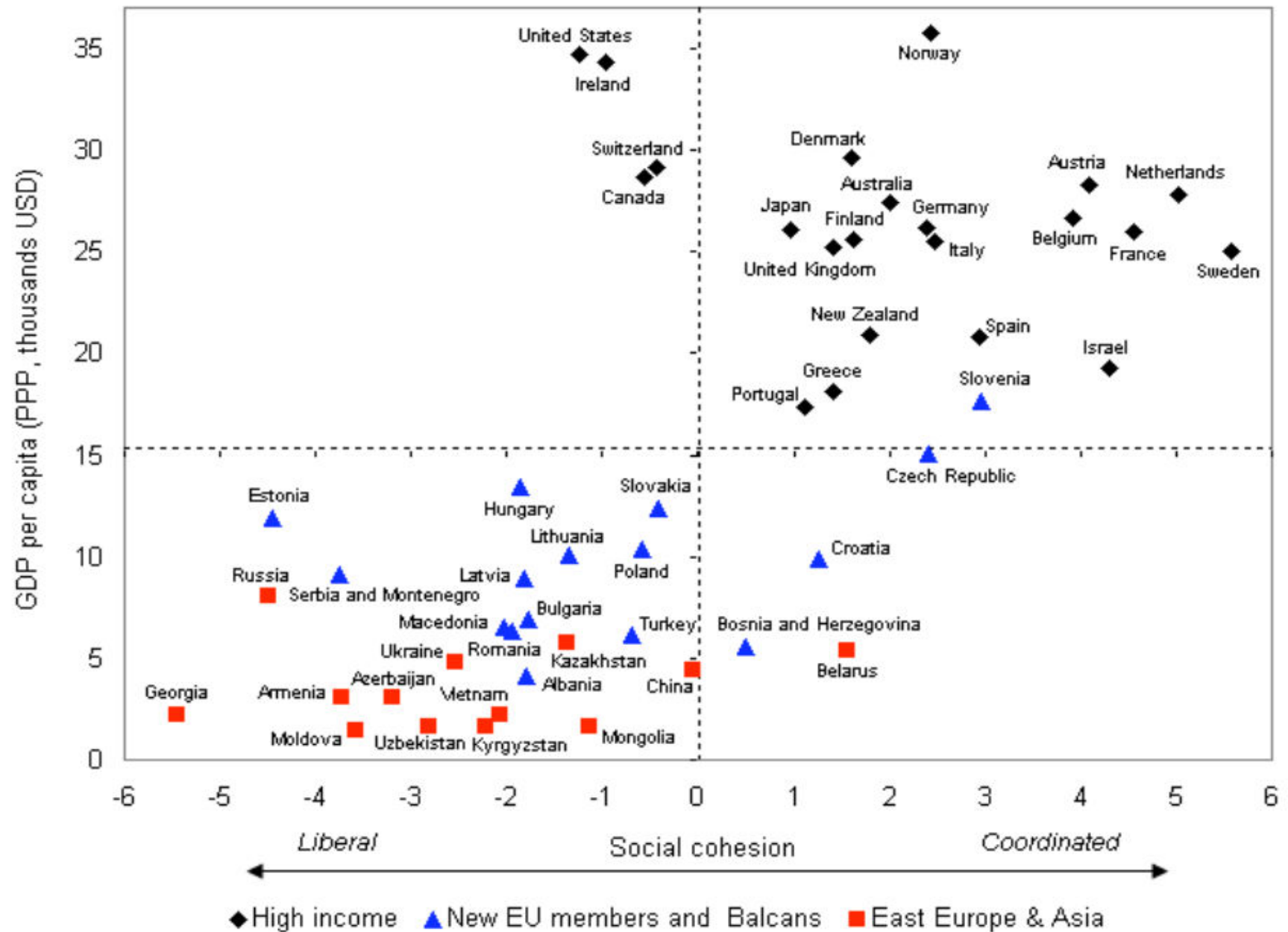


Figure 2: The index of labour market regulation

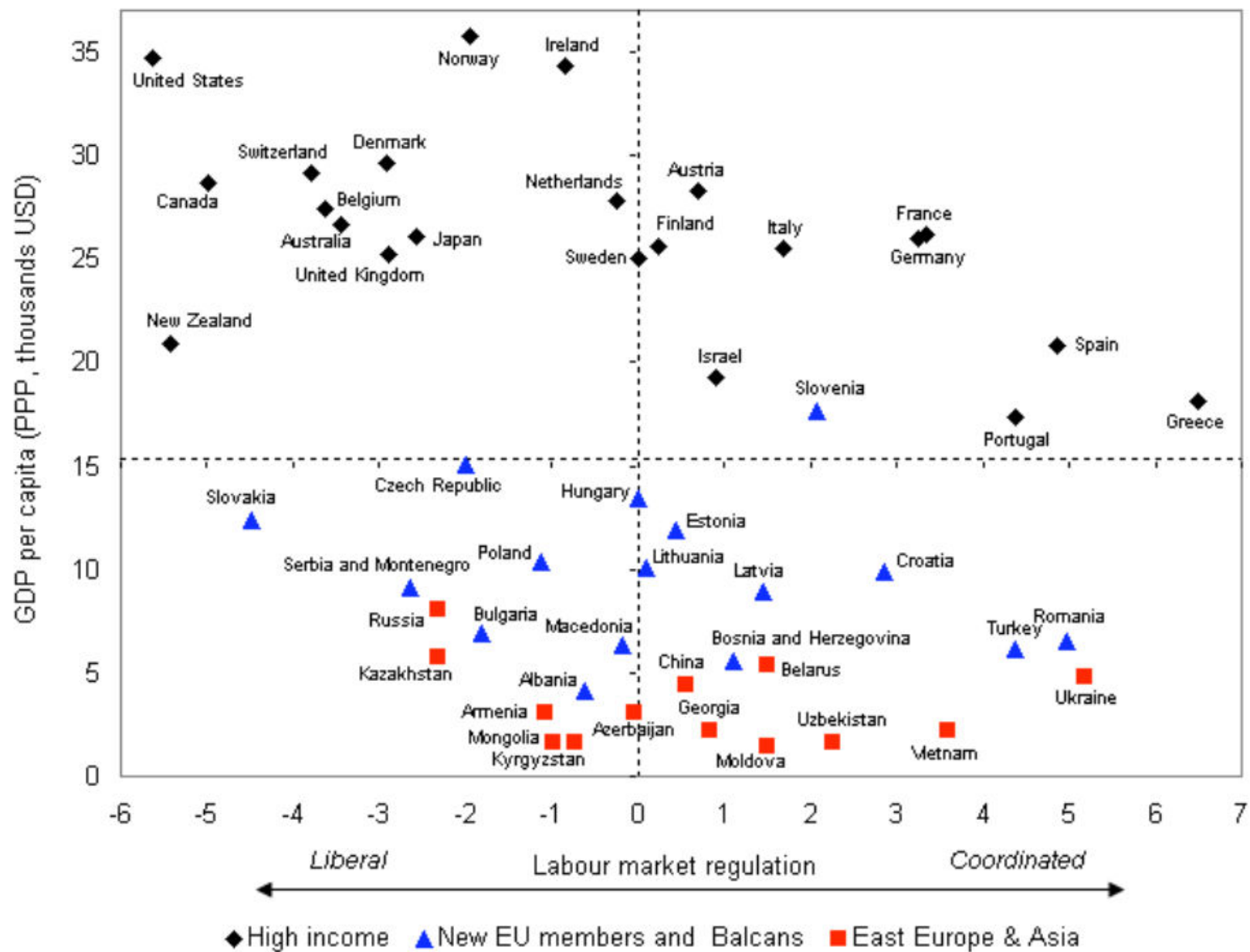


Figure 3: The index of business regulation

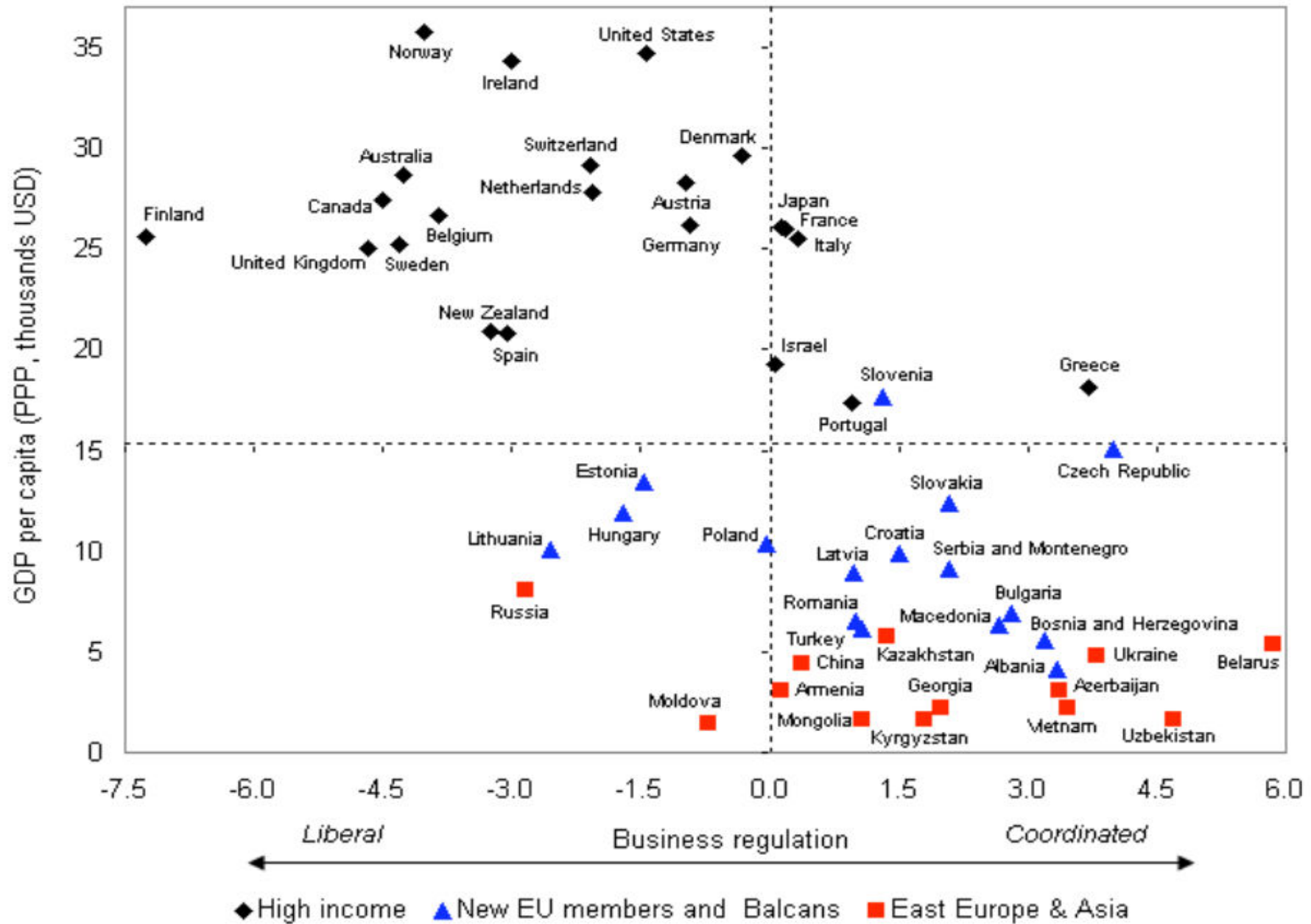
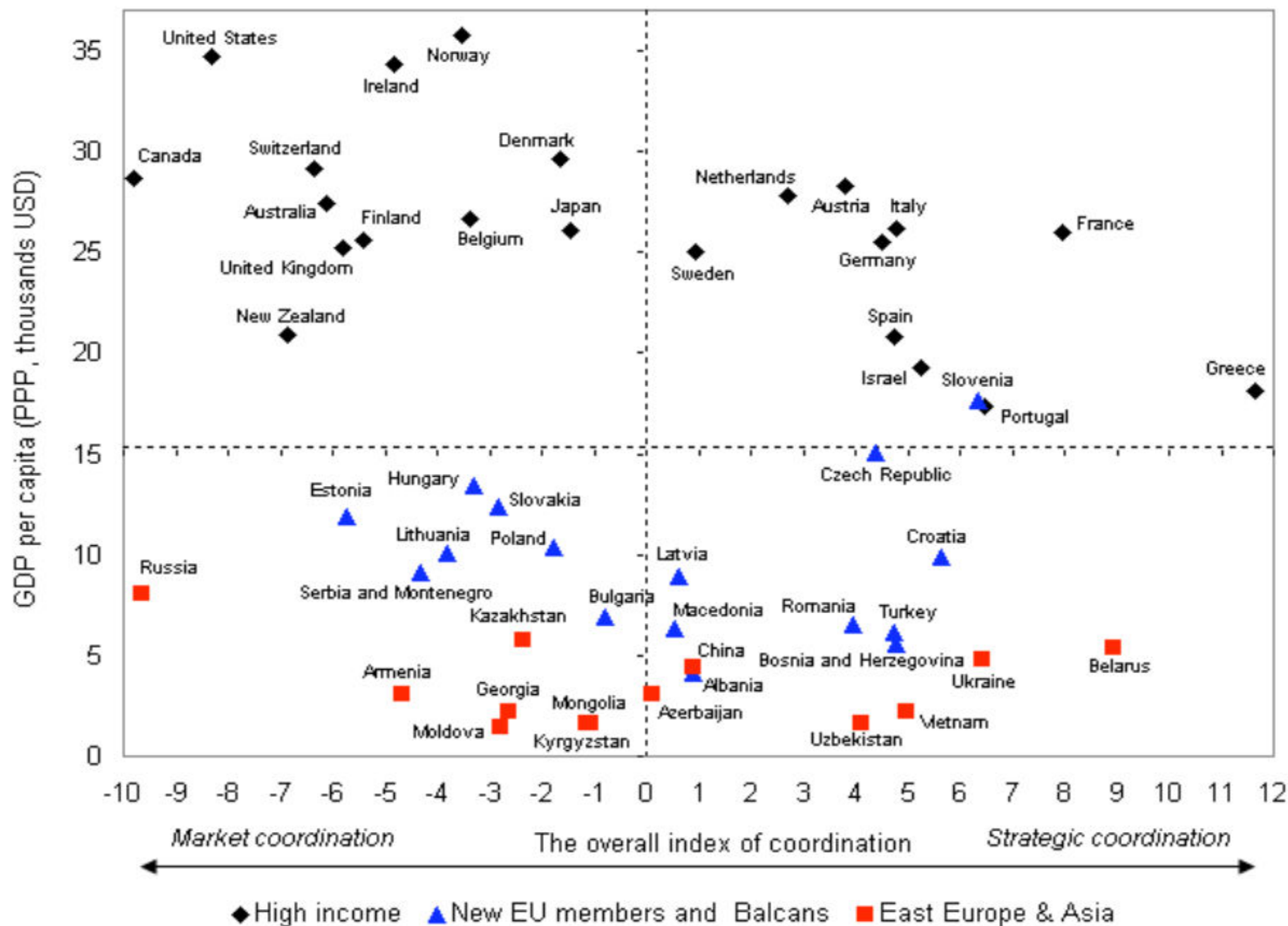


Figure 4: The overall index of coordination



Part III

Two Approaches to the Typology of Postcommunist Capitalism

First Approach:

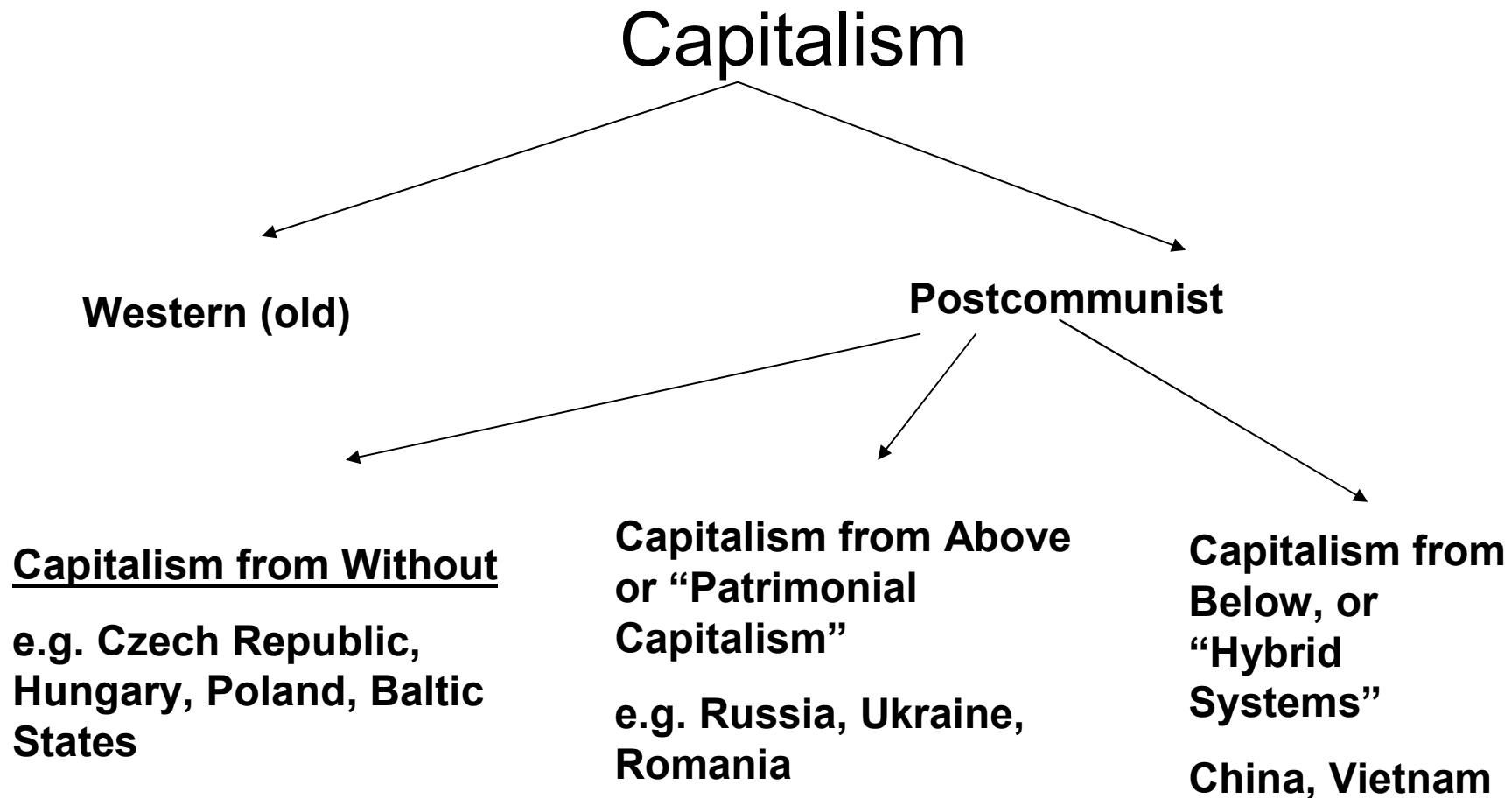
The Similarities between postcommunist countries (because of common Communist past) are more important than emerging similarities between advanced “old” capitalist countries and postcommunist countries.

Second Approach: the postcommunist capitalist countries differentiated along the same lines as “old”.

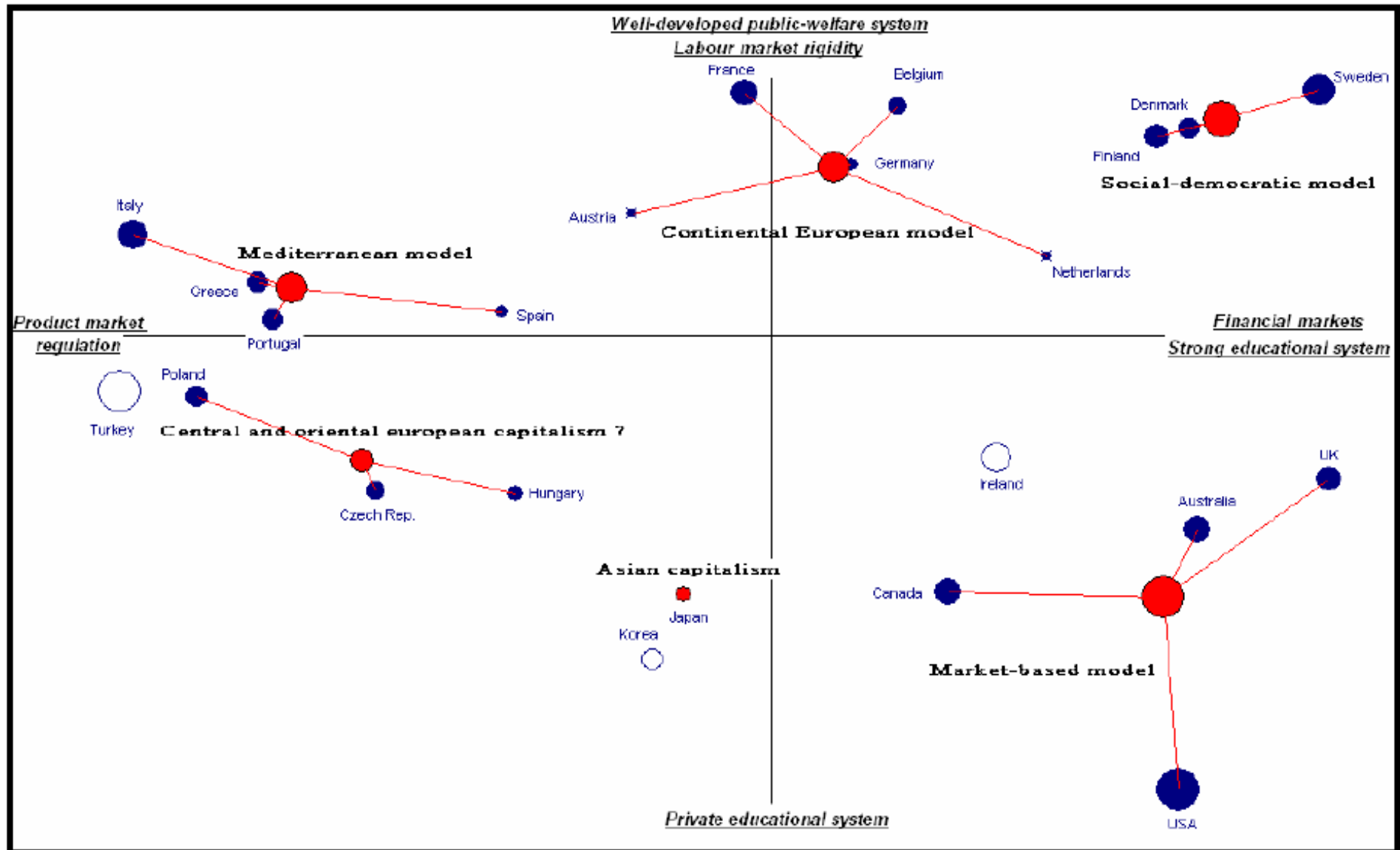
The speaker’s view: Soskice’s and Amable’s analysis is applicable to the new EU members (at the very least)

- Paradigmatic case for LME Type: Estonia
(with similarities with U.S.-style capitalism including presence of the significant socially excluded minority – Russian speaking population as Estonian “white niggers”)
- Paradigmatic case for CME Type: Slovenia as only postcommunist country resembling Scandinavian “social-democratic capitalism
- Other countries – in between, many of them displaying affinity to Mediterranean capitalism countries

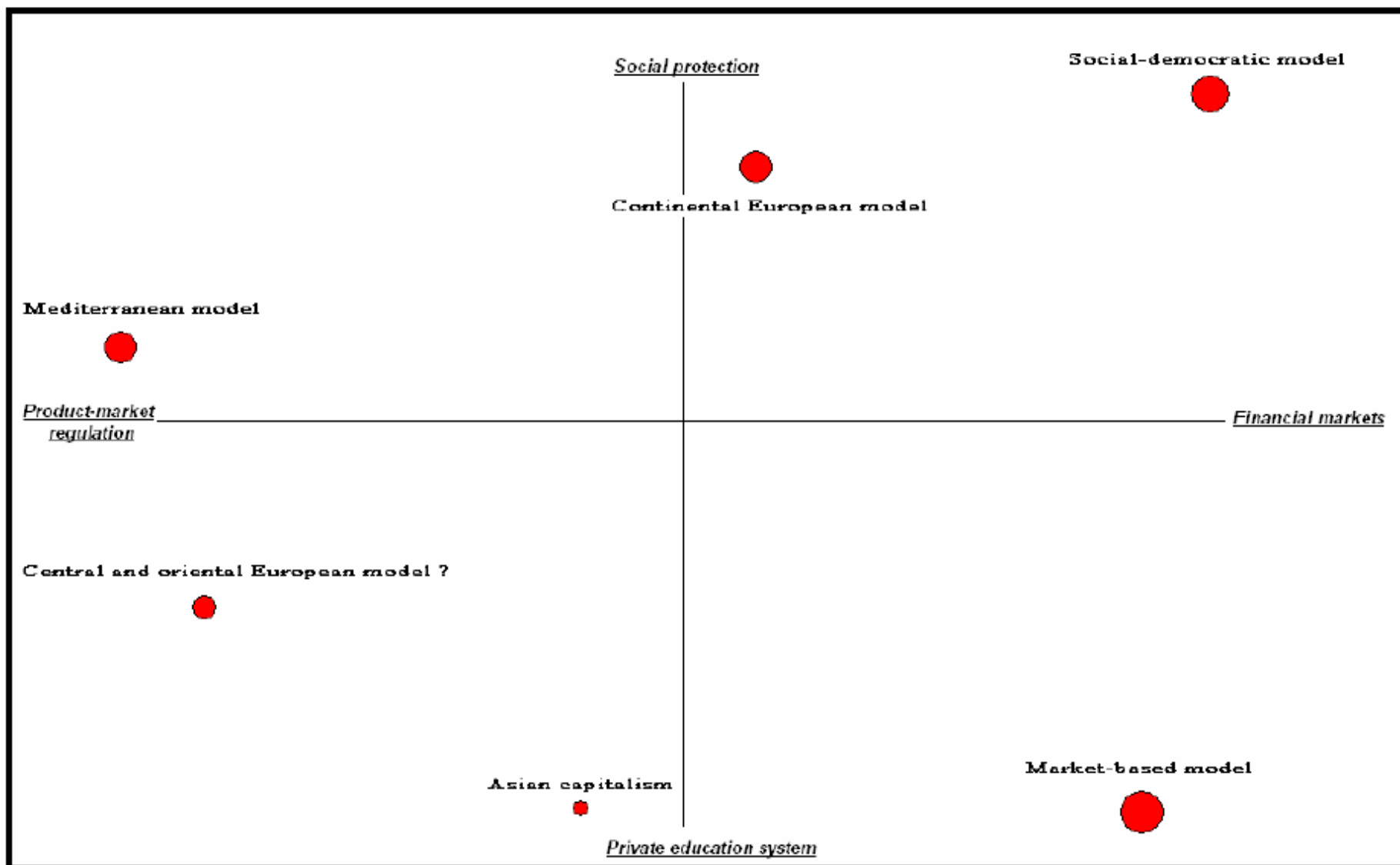
Typology of Postcommunist Capitalism (Ivan Szelenyi, “neoclassical sociology”)



Jean-Philippe BERROU, Christophe CARRINCAZEUX
 "LA DIVERSITE DES CAPITALISMES ET LES PAYS D'EUROPE CENTRALE ET ORIENTALE. Une analyse statistique, Cahiers du GRES (Groupement de Recherches Economiques et Sociales, Université Montesquieu-Bordeaux 4 & Université des Sciences Sociales Toulouse 1), Cahier n° 2005 – 18, Septembre 2005

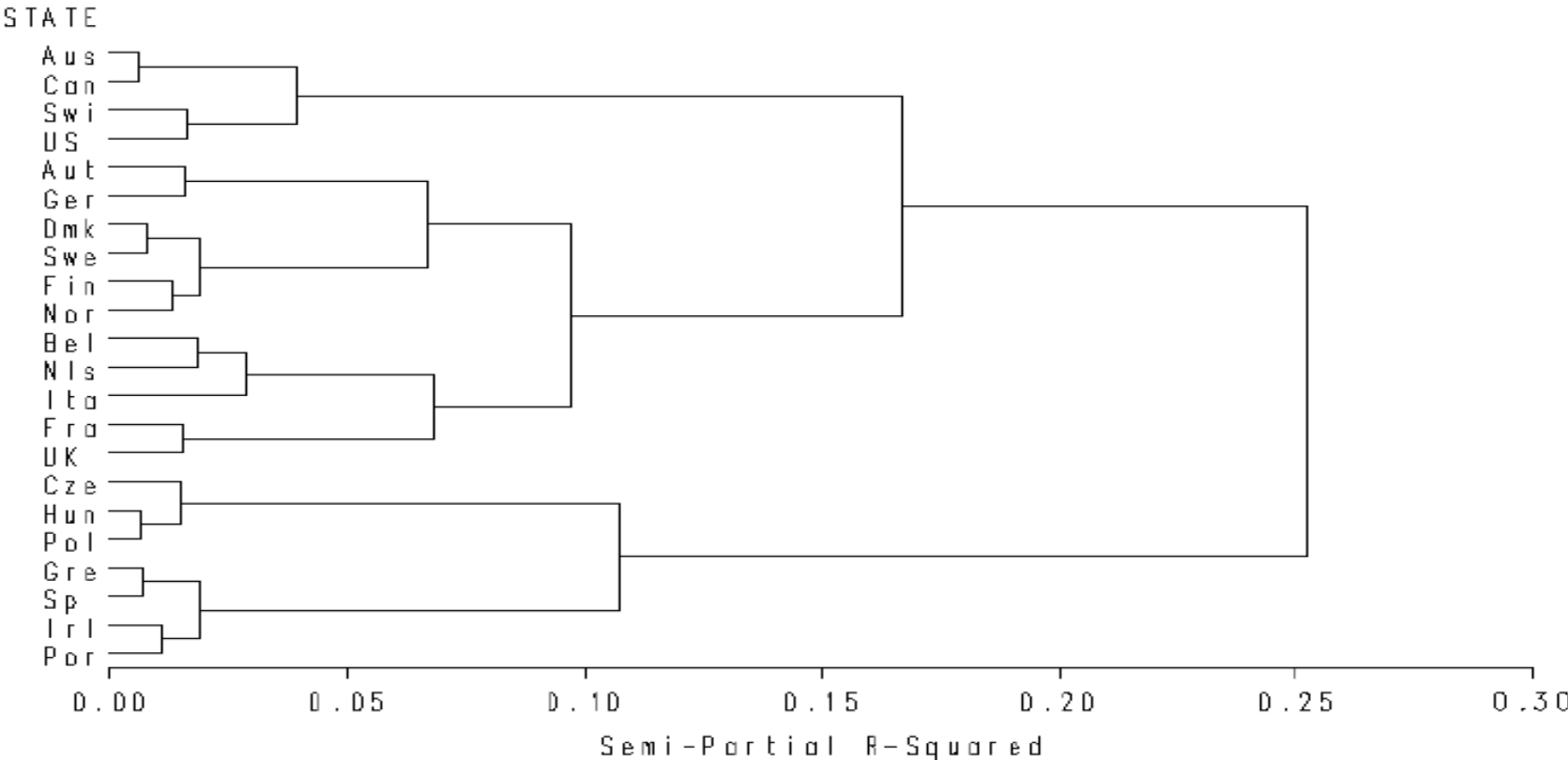


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Iain MCMENAMIN, "Varieties of Capitalist Democracy: What Difference Does East-Central Europe Make?", *Journal of Public Policy*, 2004, Vol.24 (3), pp. 259-274, p.268

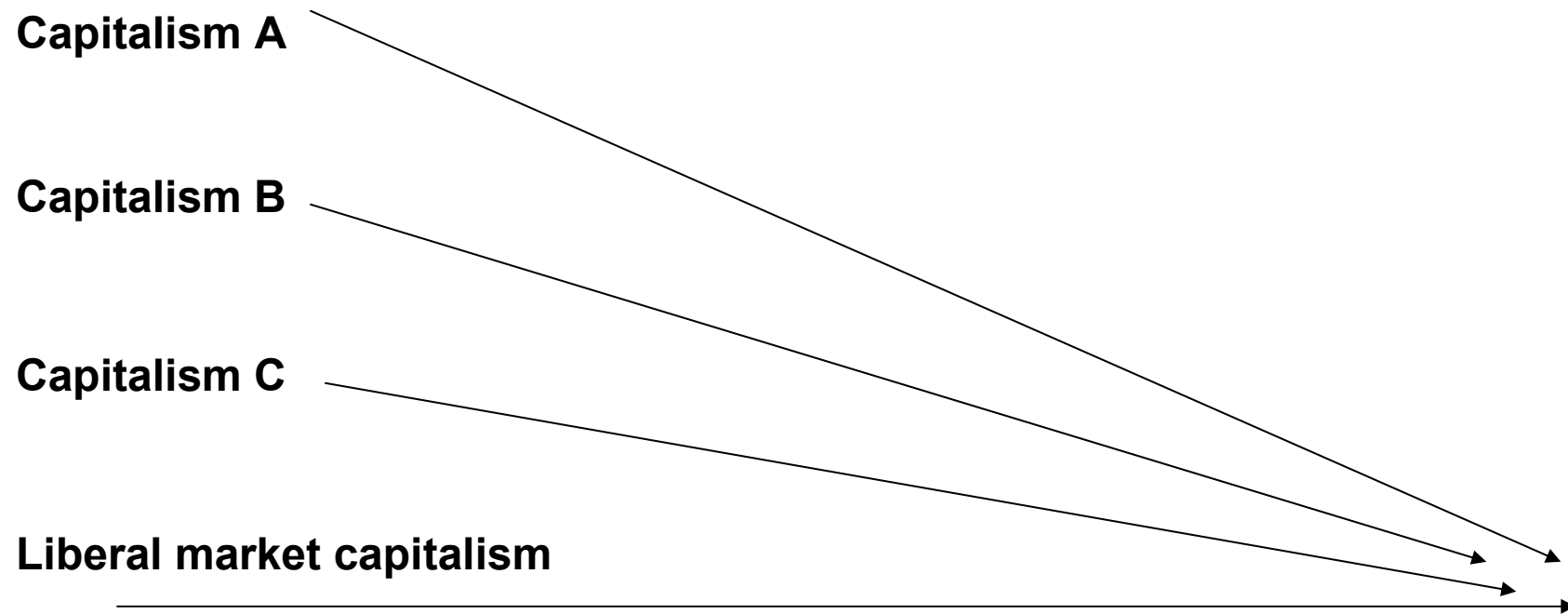
Figure 1:
Dendrogram from Ward's Method of Cluster Analysis (N=22)



Part III

Theoretical Interpretation: how Many Stable Types of Capitalism? One-Point of Convergence Forecast

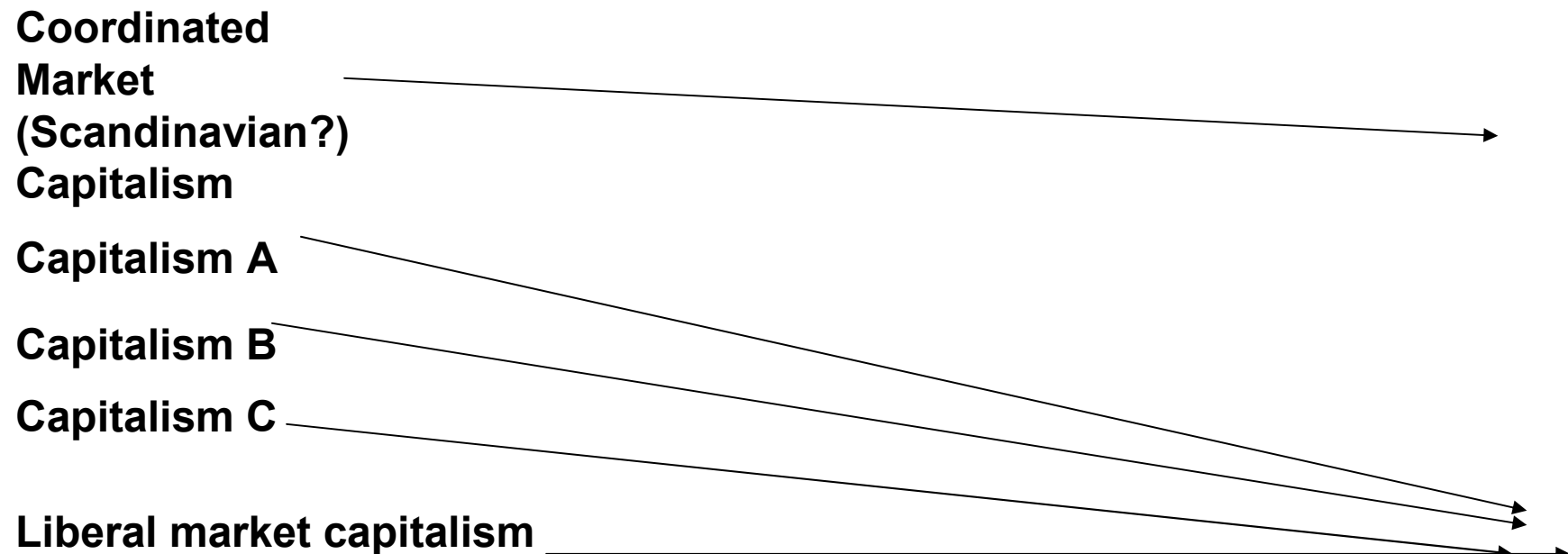
- **According to most influential (“neoliberal”) view, the only competitive type of capitalism under conditions of globalization is (American) liberal market capitalism that is the point of convergence for all present types of capitalism. This is what “globalization” means (e.g., Wolfgang Streeck):**



Part III

Theoretical Interpretation: how Many Stable Types of Capitalism? Two Points of Convergence Forecast

- According to Hall/Soskice version of the varieties of capitalism approach, both liberal market capitalism and coordinated market capitalism have their own comparative institutional advantages. This view implies prognosis of the demise all types of capitalism, most of them converging on the liberal market capitalism, and some countries preserving coordinated market capitalism:



WHERE NEW EU MEMBERS WILL GO?

- ?

Most probably, the same direction where EU will drift.

However, the accession of the new members increases the probability that this drift will be in the direction of Liberal Market Capitalism