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Central and Eastern European capitalism: a critical perspective on the varieties of capitalism approach for its analysis

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The evolving theoretical framework for the analysis and comparison of CEE countries

Scholars have long ago recognized different types of capitalism, and different criteria/variables have been used as the basis for comparison across countries, such as variation in their economic and political institutions. In addition, different actors and inter-actor relationships have been selected as the center of comparative analysis (the state, trade unions/working class, business/firm, civil society/third/NGO sector). In the second half of the 20th century, several theoretical perspectives were developed to analyze and compare capitalist economies and societies, and they were all a specific response to the economic problems of their time (Hall and Soskice, 2001). Some of these theoretical approaches to comparative capitalism became widely used to analyze variation in Central and Eastern Europe's (CEE's) emerging capitalism. Especially prominent among those were *the neo-corporatism approach in the 1990s, and the (extended) varieties of capitalism approach since the early 2000s*.

A. The neo-corporatism approach to CEE capitalism of the 1990s

In an attempt to analyze emerging capitalism in CEE, initially most scholars of post-communism and experts on the region turned to the already established neo-corporatism paradigm which puts a special emphasis on the relationship between the state and working society. This was not co-incidental.

The ***neo-corporatist approach*** was developed in the second half of the 1970s, when the major problem for developed economies became inflation (Schmitter and Lehmbruh 1979). This typology of capitalist variants underscores how actors such as governments, labor, and business are linked differently and can have varying roles in state governance and market processes, with labor marginalized and the state playing only an indirect part in the neo-liberal United States, governments actively engineering economic development in Asia, and strong interventionist states incorporating policy inputs from labor and business in most of western Europe.

Why was neo-corporatism initially so appealing to scholars of post-communism, including myself (*Eastern European Capitalism in the Making*, 2002)? ***There were several structural determinants for the usage of this approach.*** As I argued, state socialism was a "working-class" society, a social order built entirely on the ideological notion of the "dictatorship of labor." This ideologema led to large-scale nationalization of property, the liquidation of markets, the elimination of private employers and political opposition, and the pervasive presence of the party-state in the economy and all spheres of social life, through the mechanism of central planning. Hence, with the collapse of the regime, the underlying question of transition was path-dependent. What is the nature of the new type of relationship we see emerging in CEE, with a democratizing post-communist state on one side and, on the other, a dramatically mutating working society in the throes of economic restructuring? The neo-corporatism approach puts the relationship between the state and society (with an emphasis on the trade unions) at the center of its inquiry. The application of neo-corporatist theory to the analysis of post-communism was further determined by the fact that most of the formerly communist countries, very early in their transitions, approached global capitalism using tripartite forums for social dialogue (social partnership) among the state, trade unions, and emerging employers on a large scale and at both national and subnational levels.

The applicability of the neo-corporatist approach to the analysis of emerging CEE capitalism encountered a lot of issues, however. Many of the early uses of the corporatist perspective reflected the contested nature of the concept in the Western literature. As Williamson wrote in his Varieties of Corporatism book (1985), "corporatism remains an ambiguous concept in the political vocabulary, encompassing a wide range of all too often imprecise definition." A heated debate emerged in the 1990s over the type of interest intermediation between state and society in the post-communist region: neo-liberal pluralist, corporatist, or neo-statist.

B. The (extended) varieties of capitalism approach to CEE capitalism since late 1990s

With the consolidation of business in CEE and the inevitable weakening of labor unions in the course of painful post-communist reforms, the neo-corporatism paradigm with its emphasis on the state-working society relationship lost its appeal and dominant position for the analysis of post-communist capitalism. Scholars turned their attention to new approaches which seemed to be more suitable for analyzing and explaining change in the region.

Meanwhile the analysis of capitalism has taken other forms, the most prominent one being the ***varieties of capitalism*** (VoC) approach which evolved in the late 1990s. This approach emerged as an effort to understand the new challenges of EMU, EU accession, the impact of globalization and a series of economic and other domestic pressures. There are several major variations of this approach: Michel Albert (1993); Rhodes and van Apeldoorn (1997); David Coates (2000); Bruno Amable (2003); Peter Hall and David Soskice (2001); and Hancke, Rhodes, and Thatcher (2007). I will focus my attention to the last two as the most influential ones.

The Hall-Soskice approach (2001) to Varieties of Capitalism theory focuses on the organization of the private sector and locates the firm at the center of the analysis of comparative capitalism. Without neglecting trade unions, Hall/Soskice wanted to highlight the role that business associations and other types of relationships among firms play in the political economy. More specifically, Hall and Soskice see the success of the firm depending substantially on its "ability to coordinate effectively with a wide range of actors." Hall/Soskice claim that national political economies can be compared by reference to the way in which firms resolve the coordination problems they face. There are two distinct types of political economies in that regard, liberal market economies and coordinated market economies." In liberal market economies (LMEs), firms coordinate their activities primarily via hierarchies and competitive market arrangements. Market relationships are characterized by the arm's-length exchange of goods or services in a context of competition and formal contracting. In coordinated market economies, firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies.

Bob Hancke, Martin Rhodes, and Mark Thatcher (2007) tried to revise the Hall/Soskice VoC approach and to offer "***an extended VoC framework***" which is able to address and respond to the major critiques encountered by the original Hall/Soskice approach to VoC. ***They created four logical categories for analysis or modes of coordination or "types of state-business relations"***: *etatisme* (close state-society relations, fragmented interest organization); *compensating state* (close state-economy relations, organized interest organization); *LMEs* (arm's length state-economy relations, fragmented interest organization); and *CMEs* (arm's length state-economy relations, organized interest organization).

The Varieties of Capitalism approach found a lot of proponents among the scholars who analyze CEE capitalism. Many of them agreed that the VoC framework can be fruitful in the post-communist environment. At the same time they argued, however, that this framework has to be ***applied as an analytical framework to CEE capitalism with a certain degree of caution*** because it was created with the major goal to analyze developed economies. Arguably the CEE economies have not reached a developed status, which raised issues about the level of applicability of the VoC framework to the region. The CEE countries did not feature at all in the 2001 Hall/Soskice approach to varieties of capitalism. In their extended VoC framework, Hancke, Rhodes and Thatcher (2007) did put a special emphasis on CEE and emerging economies.

As a proponent of the extended VoC approach to CEE, *L. King (2007)* argued that the VoC framework can be productive in the post-communist environment, but that it needs to be "sensitized to the fundamental structural differences between capitalism in the EU and other advanced countries, and capitalism in CEE." King argues that *two broadly different types of coordination have emerged – liberal dependent and patrimonial;* or one more market-oriented and LME-like, the other a form of a MME, but one in which a powerful though atomized business class dominates and the state is weak. If the old nomenclature is defeated, and patchwork forms of economic control can be established through an alliance between an organized, technocrat-led state and a mixture of foreign and domestic firms, then "liberal dependent" systems, with open economic relations and high levels of FDI result, as in the Czech Republic, Hungary and Poland. Trade unions are weak, but the state provides a range of public goods (pensions and other social transfers) for the economy and has modest steering capacity. In contrast, if the nomenclature retains power, as in Russia, Ukraine, or Romania, it uses its offices to acquire private property, giving rise to "patrimonial" systems in which economic control (coordination would be much too strong a term) is exercised by the nomenclature and domestic producers through patron-client ownership networks. Foreign direct ownership is weak, and the state is also weak and unable to provide adequate public goods."

A major issue with the VoC theoretical framework is that most of the efforts to apply it to CEE have focused on how different these countries are from developed market economies. For example, complementarities and coordination as understood in VoC theory cannot be said to exist in these countries. Mykhnenko has shown in the same volume on extended VoC framework (2007) that these economies are currently characterized by rather unstable and largely incoherent mixes of labor market institutions, financial intermediation, and corporate governance. Their evolutionary trajectories are as yet unclear.

Toward an adapted VoC framework for the analysis of CEE capitalism (early 2010s)

The new challenges of the late 2000s such as the global crisis raised the question whether or not the ***VoC framework needs to be seriously revised in order to capture the new challenges and global problems*** – it needs not incremental adaptation to respond just to the CEE specifics; but radical revisions to accommodate the advanced economies as well.

Will an adapted VoC framework (specially adapted for CEE) work? – Yes, if first the VoC framework is radically revised to reflect the new challenges of globalization and the globally integrated enterprise; the emerging-markets rising importance and inclusion in the global economy; and the greater vulnerability of the world to global exogenous shocks like the global financial crisis.

The CEE countries differ from the advanced countries in a variety of ways, which raises the question, ***can we talk about a distinct, CEE variant of capitalism, and if so, what are its common features across the region?*** King (2007) argued that the application of VoC to the CEE shows that it takes for granted certain historical and structural features common to these societies – and that trying to extend the model beyond the rich countries of the capitalist core highlights the importance of these features; the distinctive features that the CEE countries share in common are of much greater significance. In a similar fashion Lane (2007) asserts that the post-communist countries all share a higher level of state control than market capitalist countries and they all diverge from the advanced market economies in two areas at least: they all have a higher level of state ownership and control of the economy and have serious deficiencies in the levels of internally sourced investment. Such arguments clearly point in the direction of a distinct, CEE variant of capitalism.

At the same time the CEE countries do show a lot of variation in many areas, and typologies can be created. For example, there is important variation in the type of macroeconomic policies implemented and the determination to speed up the necessary transformation of socialist economies into market economies (big-bang versus gradualism). There is also a different degree of openness and economic integration through trade and FDI. There is also variation in the type of political and institutional settings and the types of state-societal relations in post-communist CEE. All this variation raises the importance of the VoC framework for the analysis of CEE capitalism. Furthermore, compared with the neo-corporatist framework, the VoC framework is much better suited to analyze current change in CEE induced by the accession of these countries to the EU and their preparation for membership in the EMU – within the context of the global crisis. However, even in its refined form, the VoC approach needs to be specifically adapted to fit the CEE realities. The major issue here is how to adapt and further refine it to a level where it can easily accommodate variation in CEE capitalism as well.

I see at least three steps for adaptation and general refinement of the VoC approach.

Step one. CEE countries as emerging-market economies (EME)

At the end of the 1990s, Hall and Soskice asserted that they are creating a new framework for understanding the institutional similarities and differences among the developed economies. A feature shared by all VoC approaches is that they are predominantly concerned with advanced market countries with relatively high levels of market development. Hancke, Rhodes and Thatcher (2007) do pay attention and include EMEs in their refined VoC framework. However, they do not identify EMEs as a separate variety of capitalism of equivalent analytical status to the rest; they "simply wish to indicate by this term their [EME's] transitional character and that their respective mixes of modes of coordination (market and non-market) are embryonic in some cases, more developed in others, but in all cases still in a process of institutional construction."

EMEs are not just transition countries; they have a long-lasting and profound impact on the rest of the world, and this has to be acknowledged in any newer version of the comparative capitalisms approach. The status of the CEE countries as emerging-market economies has to be further acknowledged by this revised framework.

Step two. The EU as a determinant of the business-government relationship in CEE

By focusing exclusively on the developed countries in the world, the VoC framework does not reflect any regional influences. Specific for the CEE countries is that they have a distinct European identity, as members of the EU, EMU, or just aspiring members. Through a set of accession conditionalities, the EU has significantly influenced the policy-making process and the structuring and coordination of the business-government relationship in CEE.

In what way and to what extent does the EU exercise its influence on the business-government relationship? In my book Business, Government and EU Accession: Strategic Partnership and Conflict (2009), I identify the sources (or mechanisms) of change in the business-government relationship as these three aspects of the process of EU accession: first, the *legal conditionalities and harmonization efforts for EU entry*; second, the *pre-accession and anticipated postaccession financial assistance* with its specific priorities and requirements; and third, the *capacity building and learning* that ultimately stem from the efforts to adapt to the EU conditionalities of membership. The actual effects of EU accession on the business-government relationship in an accession country could be traced along the lines of three major developments: (1) character of the relationship – greater collaboration through *endorsement of the partnership principle*; (2) structure of the relationship – greater *institutionalization and multi-level interaction*; and (3) composition of the relationship – a notable *embeddedness of the business-government relationship in organized civil society*.

Step three. complexity of the state-business interaction/coordination

Even the most enhanced revision of the VoC approach (by Hancke, Rhodes and Thatcher 2007, who "bring the state back in" and identify four ideal types of coordination or state-economy/business relations, the state and business are taken as monolithic entities and the relationship per se is presented in a static and simplistic form. *The analysis should go a step deeper and identify varieties within the state and the business actor entities*, especially as this approach claims to be actor-based.

Neither the state nor business is a homogenous entity, but they comprise a multiplicity of sub-units. The state is not just a forum in which competing or conflicting social forces contend for control so that they can use state powers for their own purposes; the state is a relatively independent actor with its own objectives and interests that cannot be reduced to those of any interest group, even one as important as business (Skocpol 1985). In the business-government relationship, the state acts as a legislator, an executive, and a judiciary. The political party dimension of the state is also important in that regard. Nor is business a homogeneous unit, but has two important dimensions: on the one hand, it can be segregated into capital, sector, and firm (or possessing common, industry-specific, and firm-specific needs and interests) and, on the other, into political organization.

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