

Varieties of capitalism and economic growth in east-central Europe

Martin Myant
ETUI, Brussels

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Need for a framework

- CEECs, varied experience, but not caught up, and some way off, not world leaders, 'dependent' role within Eu economy, lower-tech, lower-wage activities, -'Capitalism', but different 'variety', common features across CEECs,
- deep discontent over frameworks we have been given/used; static, limited for countries undergoing substantial change, doesn't answer questions of how they got there and where they are going,
- need framework that emphasises change & forces for change.

The object of analysis

- VoC falls under the heading of 'political economy', more interdisciplinary than 'economics', incl political institutions/environment, social structure,
- focus remains economic system, but pol/inst features influence creation of, changes to, performance of, economic system,
- framework from Marx, Hall & Soskice, regulation theory, Bohle & Greskovits (from Polanyi),
- emphasis on change and forces for change,
- Marx; nonviable, overthrown. Here, more complex forces that change it.

Interdisciplinary - questions

Economics - does the system 'work' economically? - what changes to economic, then social, structures? social change - how it affects politics; social groups increasing/declining and expressing interests, politics - how it creates/affects the economic system, measures to attenuate the effects of the market, to improve its functioning and to overcome system's own barriers and weaknesses (Polanyi).

Post-communist specificity

- Consistent source of differences from western Europe; communist past, resulting political thinking,
- NOT what it created, but what it blocked; informed public, informed experts, discussion/comment, experience incl of actual market system, interest representation. COST of 40+ years,
- simplistic ideas about market (abstract), instability and changeability of policy outcomes, continual 'reforms' of what has been reformed,
- weaknesses where long-term, considered choices needed.

Apply the questions to CEECs

Evolving/changing over time, start 1989/1990, 'stages', but different timings and overlaps, rather common tendencies,

Econ; creation of system(s) and failure (inevitable? wrong policies?) way out; FDI, but stunted form,

Soc; new businesses, inequality, base for policy thinking,

Pol; brings ideas for first transformation, then further transformation(s). Consolidation (?) as society develops, reflecting rising interests.

Extraordinary politics

We do not start with 'capitalism'; not an evolving economic system, an economic system that is ended thanks to politics,

Balcerowicz; small elite (courage = arrogance?) decides in a period before 'normal' politics dominates – parties, checks and balances etc,

not quite; econ; needed public confidence (general trust from radical promises, not detailed policies), soc policy; view of past failure, some areas; direct input and gvts challenged (strikes, elections),

never quite 'ordinary' politics?

Economic changes

Free prices (partly done?), allowing private business, enterprise autonomy, progressively opening to outside world, then privatisation (small elite decides, limited outside input, some international advice),

Not much more, industrial policy ruled out, long-term strategy absent,

creates new economic system with its own developmental logic and constraint of external competitiveness.

Consequences of economic changes – big ents

Privatisation into domestic ownership, vouchers + sales – not competitive, fails, worst for cz, PI, slower priv, but no alternative; hu, foreign owners, Cz capitalism, everything to find private owners, but no international ability, no finance, no investment, incompetent managers, speculation and share dealing, bad debts, banks collapsed too, 1998/9, Non-viable variety, social/political consequences, also if still state owned, WC declines.

Consequences of economic changes – small ents

Small businesses, allowed and grow, mostly domestic-oriented. One-off growth and rapid, Employers (about 3.5%) + self-employed (10-13%), sk lower, others comparable to western Europe, Inequality, from lower levels to a bit below wEu, New political agenda, concrete policies, low tax ('flat'), low empl protection, low welfare, 'small state', 'Neo-liberal turn', 2000, politics (re)consolidating.

Private sector/GDP, approx

	1989	1996	2008
Cz	5	75	80
Hu	5	70	80
Pl	30	60	75
sk	5	70	80

Personal income tax

Example, from several, new system created by small group, minimal public involvement, wEu example, but never accepted, changes from around 2000,

(also transforming inherited; pensions, health...)

taxes on the population for CS 0.3% of GDP in 1989, 8.6% in 1992, cz 2.3% in 2010,

taxes on income 7% pts below other EU average, public spending 7% below (hu higher),

permanent economic consequences, only viable model from FDI, not high-tech?

R&D, innovation heavily dependent on EU funds.

Maximum, personal income tax

	1996	Change & new level		
Cz	40	2000; 32	2008; 15	2013; 22
Hu	44	2001; 40	2011; 20.3	2013; 16
Pl	45	1998; 40	2009; 32	
sk	42	2002; 38	2004; 19	2013; 25
EU other	51.9			48.5

Unemployment benefits

New, weakly embedded, declines very rapidly as fears of unrest fade,

conviction that it is not really needed?

Cs, wEu example, but limited from very start and soon cut back,

2011, pl, 16.4% of registered and level 21% of average wage, falls after 3 months,

slightly more in cz, hu,

effects? Fits with low-wage, precarious employment?

enables economies to remain at low levels?

FDI-led growth

Timing varies, inflow over 5% of GDP, hu 1993, cz 1998, pl 2000, sk 2000. NOT linked to 'neo-liberal turn', not linked to holding down wages (pl specificity!), but from much lower wage level (one third) with skills, infrastructure etc. same work, or low-skill work?

political decision to encourage, cz has clearest break, could have propped up enterprises(?),

foreign ownership over key productive assets. OECD FDI stock/GDP in 2014; 42% for Poland (2013 figure), 53% for Slovakia, 54% for Czechia and 72% hu, not exceptional, but MNCs dominate export sectors.

FDI – economic effects

Questions; will come up against economic limits?
Consequences for social structure?

did better in crisis: resilient to end of easy credits;
brings degree of prosperity,

economic limit, go elsewhere, repatriated profits
outweigh net exports + new FDI,

(cz, 2014, new FDI 6.2% GDP; repat, 8.6%; 4.5%
reinvested, 4.1% leaves the country),

Solution – higher level, limited by weakness of R&D,
education, low spending and low wages?

FDI –soc/pol consequences?

Helped external balance,
maintains industry (relatively high share in GDP),
keeps WC and interest representation,
but not concerned with politics beyond very specific
concerns, not for higher-level economy,
'segmented' pol econ, domestic employers driving for
low-wage and low-skill economy, not tech advance,
hinders if pay too low and skills leave the country,
shortages of skilled labour...

Conclusion

Set in context of development (more qualitative than just GDP growth), see what drives it and where it could be going,

'dependent' label, reservations as FDI brought advance, better than not being dependent?

unclear what alternatives existed (can never know), alternatives now need investment, conception, not just dependence on incoming MNCs,

caught in trap of lower level within integrating EU economy, inherited political thinking/attitudes persist, makes it hard to advance.