

**“GLOBAL CAPITALISM AND ITS NATIONAL VARIETIES IN AN ERA
OF CRISIS” - WINIR SYMPOSIUM
LOUGHBOROUGH UNIVERSITY LONDON, 16-18 DECEMBER 2019**

**THE EXPLANATORY POWER OF
INSTITUTIONAL ANALYSIS IN THE
UNDERSTANDING OF DEVELOPMENT
TRAJECTORIES IN THE EU ECONOMIES**

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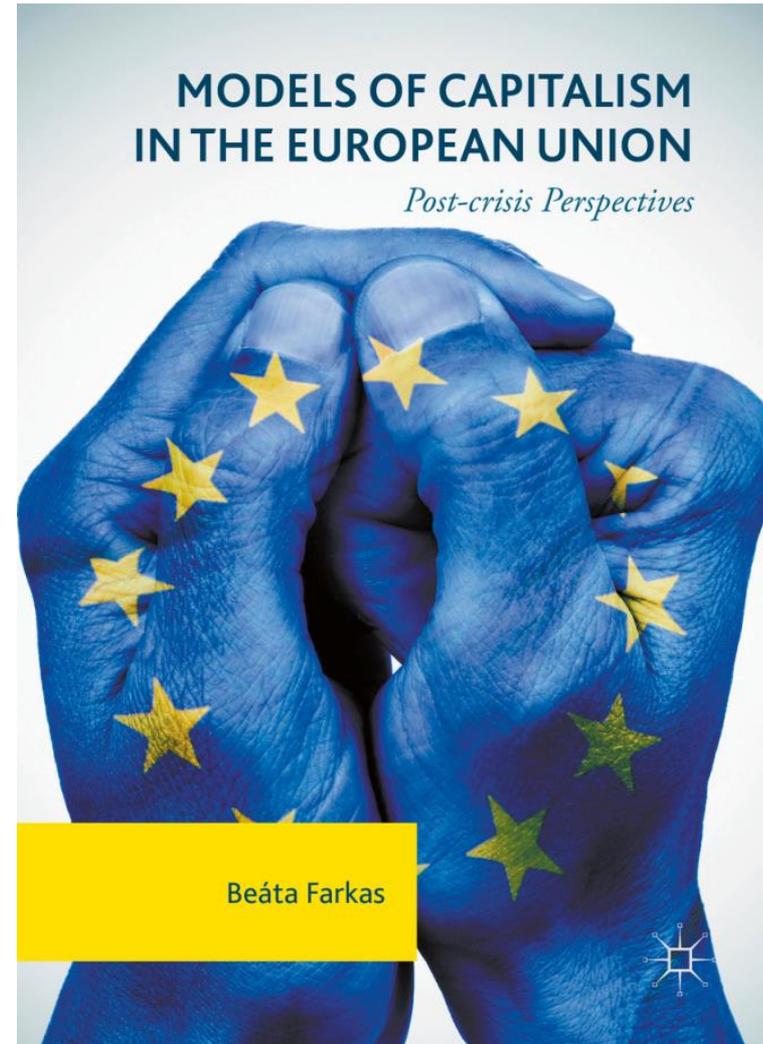
OUTLINE

- This presentation addresses the question of the Symposium: do varieties of institutions matter?
- Three cases:
- Convergence and divergence in Mediterranean EU members
- Convergence capacity of CEE FDI-based modernization
- Readiness for the 4th industrial revolution
- Conclusion

BACKGROUND

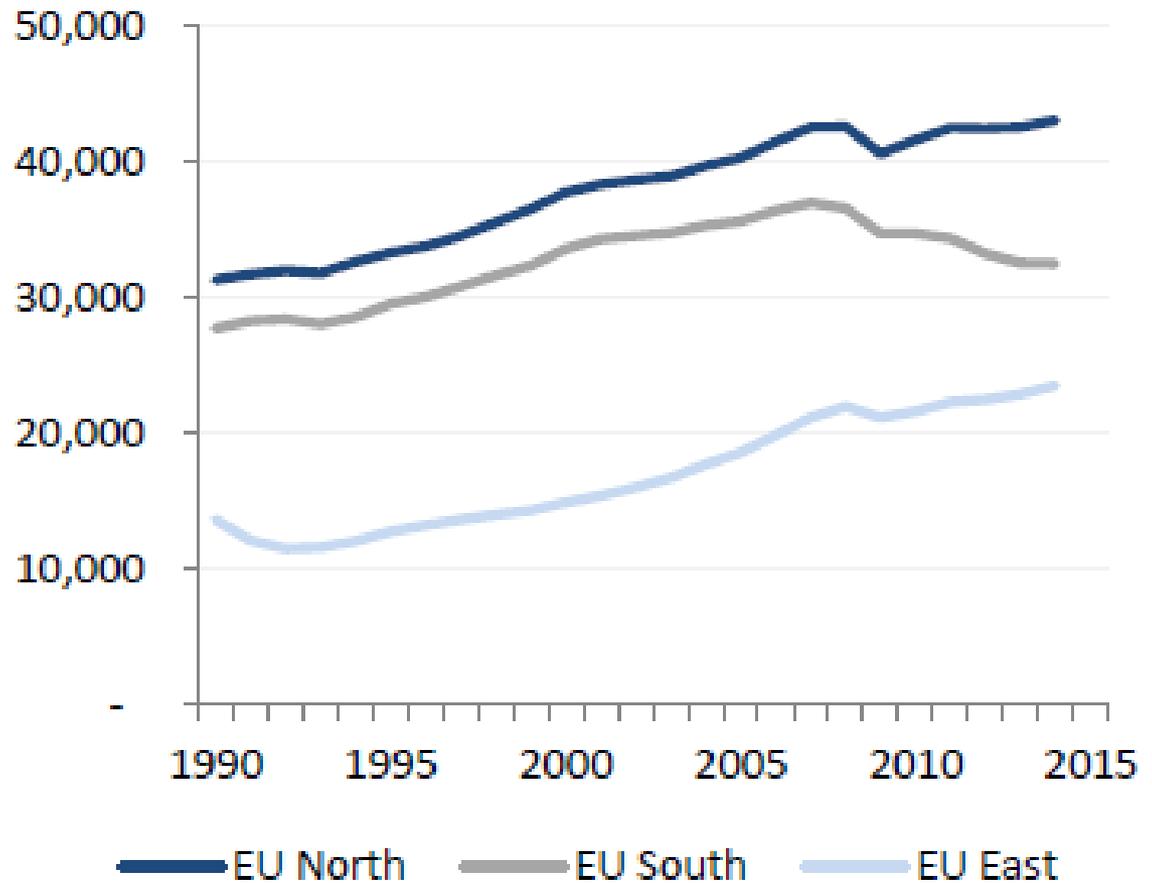
My earlier research:
Comparative
institutional analysis
published by Palgrave
Macmillan in 2016

Farkas, B. (2019):
Quality of governance
and varieties of
capitalism in the
European Union: core
and periphery
division? Post-
Communist
Economies,
Vol. 31, No. 5



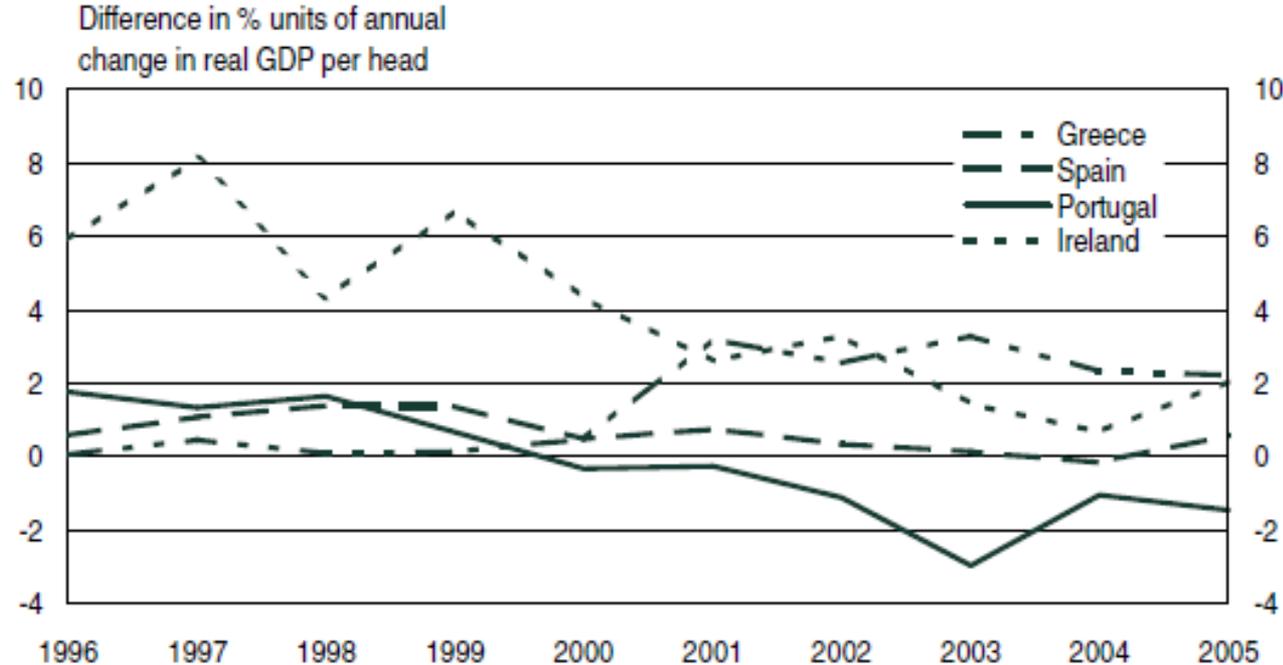
ARE THE DIFFERENT TRAJECTORIES IN THE EU SURPRISING?

GDP per capita in
different parts
of the EU, PPP
(constant 2014 USD)



DESPITE DIFFERENT CONVERGENCE PERFORMANCES OF COHESION COUNTRIES, THERE WAS NO GRAVE CONCERN PRIOR TO THE GLOBAL CRISIS

1.4 Difference between growth in real GDP per head in the Cohesion countries in the EU-15 and the EU-15 average, 1996-2005



Source: Eurostat

European Commission 2007
Fourth Report on economic and social cohesion

INSTITUTIONAL AND STRUCTURAL ANALYSES OF THE MEDITERRANEAN MEMBER STATES ALREADY PRIOR TO THE CRISIS HIGHLIGHTED:

- The ownership structure of the large corporations is concentrated, and they are mainly family-owned.
- The SME sector is extensive and lags far behind the large corporate sector in efficiency and innovation capacity.
- The size of the informal, shadow economy is also considerable

INSTITUTIONAL AND STRUCTURAL ANALYSES OF THE MEDITERRANEAN MEMBER STATES HIGHLIGHTED ALREADY PRIOR TO THE CRISIS :

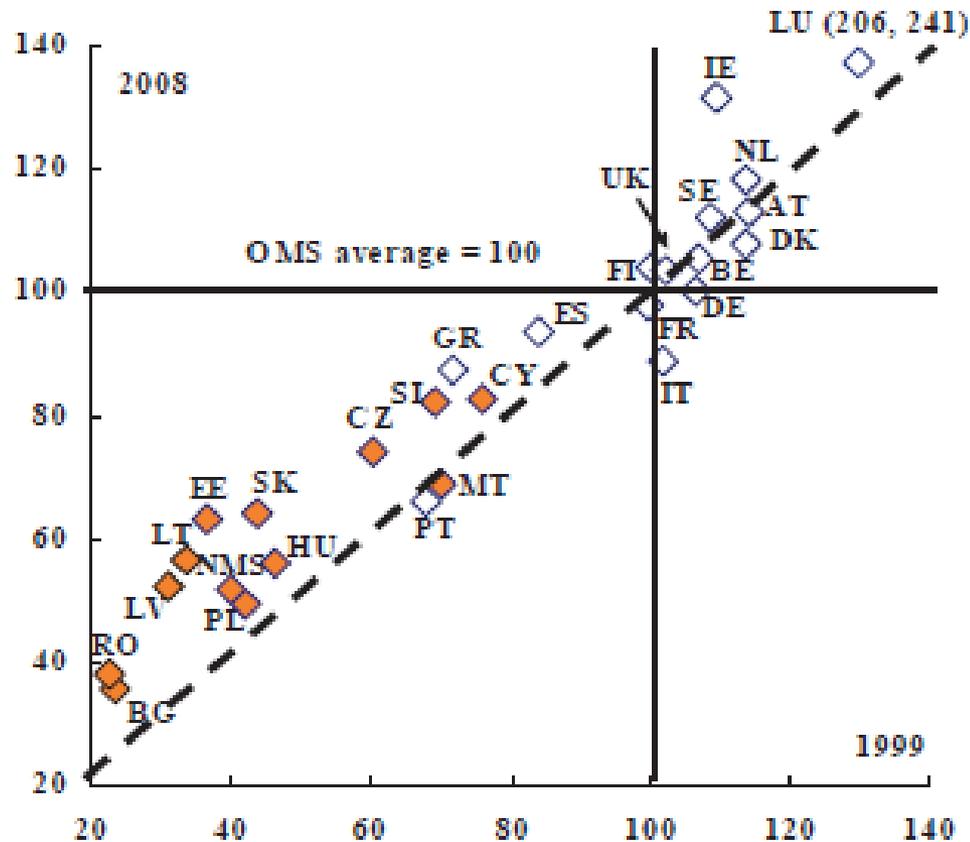
- In the 1990s, privatisations were carried out (with the exception of Greece), but without the appropriate competitive environment.
- All of the Mediterranean countries struggle with labour efficiency problems
- Low level of R&D spending and the weak innovation performance

INSTITUTIONAL AND STRUCTURAL ANALYSES OF THE MEDITERRANEAN MEMBER STATES ALREADY PRIOR TO THE CRISIS HIGHLIGHTED:

- They came at the bottom of the league table in terms of the quality of the education system
- The labour market had always been segmented, as workers in small businesses had never been unionised.
- The trade unions displayed a class-warrior mentality, the ferocity of the conflicts abated with the decline in unionization
- Feeble, “mimed” reforms, although there are significant differences in the degree of these reforms between countries

EUROPEAN COMMISSION: FIVE YEARS OF AN ENLARGED EU – CONVERGENCE IS ONLY A MATTER OF TIME

Graph II.2.1: Per capita GDP in the EU



Source: Eurostat, Commission services

THE CENTRAL AND EASTERN EUROPEAN MODEL OF CAPITALISM

- The lack of capital and management knowledge, adopted European law and weak civil society have had an effect on the evolution of the group of institutions.
- Modernisation is built on FDI, the innovation system is weak.
- The financial system is bank based, and foreign owners retained stability during the crisis.

THE CENTRAL AND EASTERN EUROPEAN MODEL OF CAPITALISM

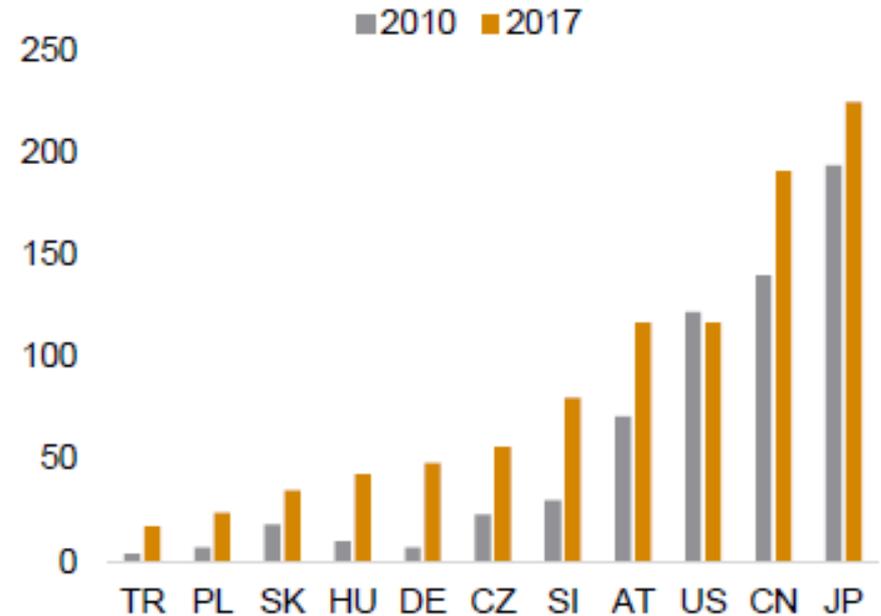
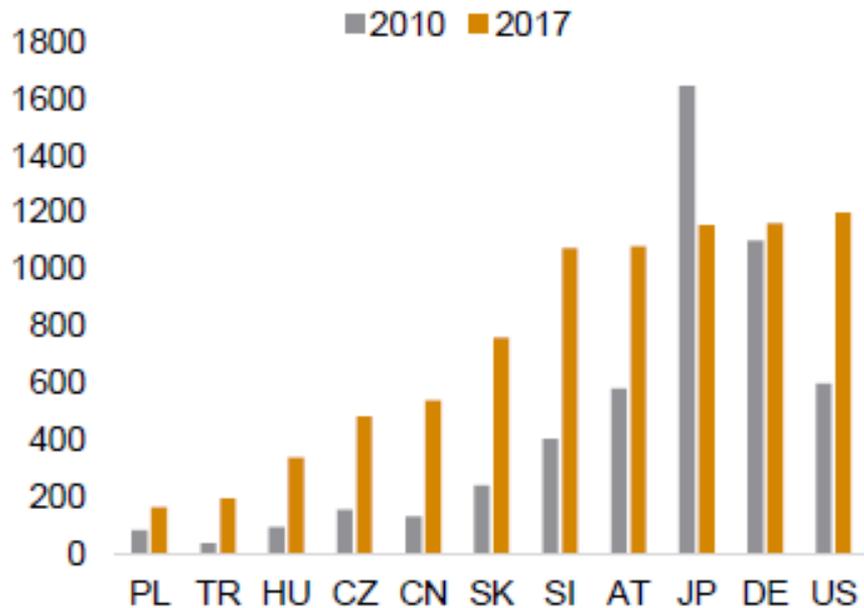
- Sustaining competitiveness is possible only by a liberalised labour market and low social expenditures, and employees are vulnerable.
- Productivity gap between foreign and domestic companies
- Lower level of governance quality (compared to northern members)
- Convergence capacity is substantial but limited.

4TH INDUSTRIAL REVOLUTION

- Ageing societies and technological changes (4th industrial revolution) are pressures and opportunities for eastern and southern peripheries.
- Adaptation has started, but there are large differences in readiness for 4th industrial revolution

AN EXAMPLE: ROBOTIZATION

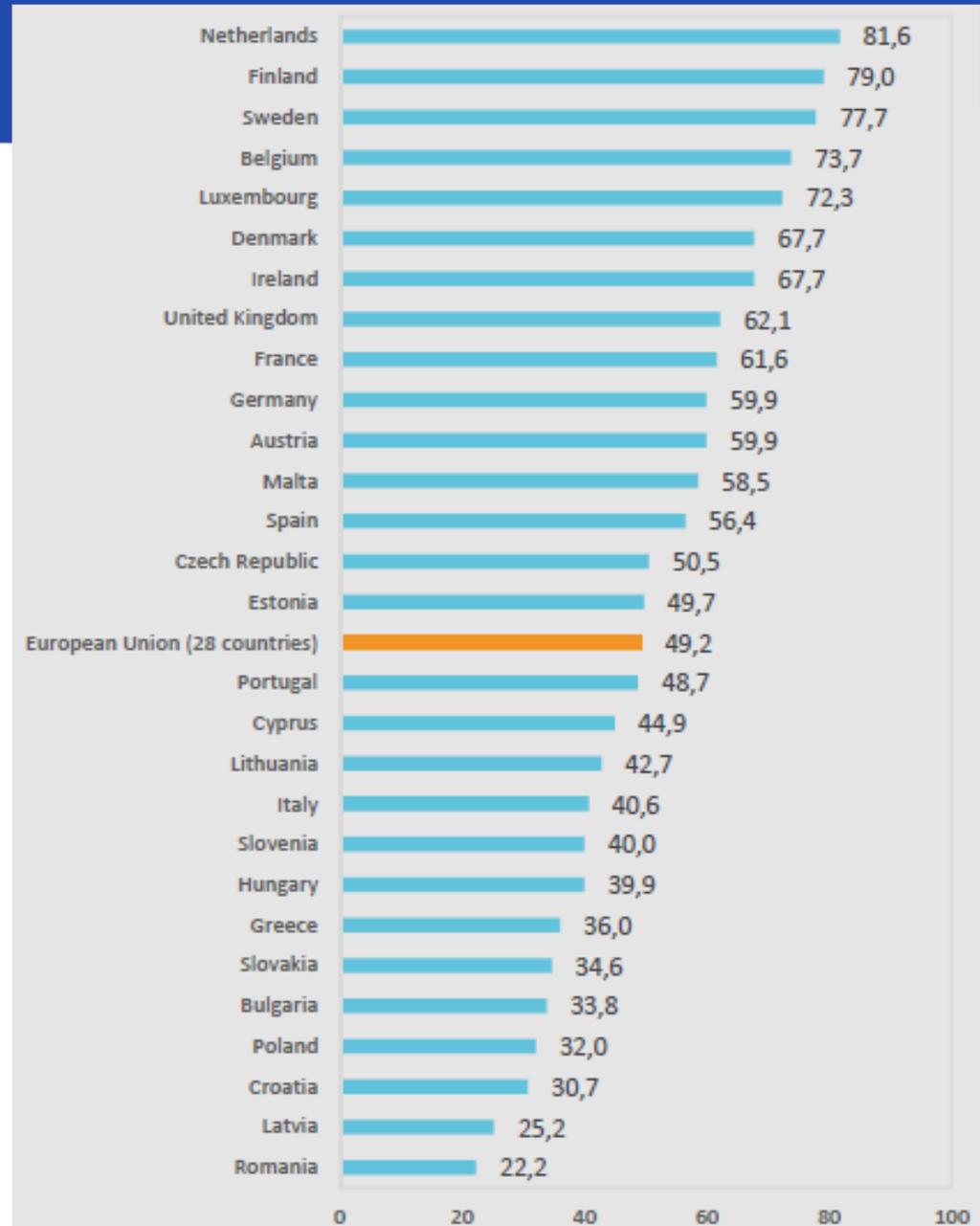
Figure 4.9 / Estimated number of multipurpose industrial robots per 10,000 persons employed in automotive industry (LHS) and manufacturing ex-automotives (RHS)



WIIW, 2018

EU DIGITAL TRANSFORMATION ENABLERS' INDEX

Three groups of indicators:
digital
infrastructure,
access to finance,
the demand and
supply of skills



DIFFERENTIATED INDUSTRIAL STRATEGY

- Efficient industrial strategy should address the problems of different models at both EU and national levels
- Northern (core): breakthrough innovation, to be global player etc.
- Mediterranean: industrial upgrading
- CEE: to surpass low wage model and to narrow productivity difference between foreign and domestic companies

QUALITY OF GOVERNANCE

- Crucial problem for efficient EU strategy: different quality of governance
- The data of Worldwide Governance Indicators and the WEF Global Competitiveness Report suggest not only a division between the northern and western (core) versus the eastern and southern (periphery) countries within the EU, but that convergence has come to a halt, especially since the crisis

CONCLUSION

- Institutional analyses may help us understand long-term economic performance and opportunities for development
- Institutional investigations indicate that the models of core countries (Nordic, Anglo-Saxon, Continental European) are much closer to each other than to the models of Mediterranean and Central and Eastern European capitalism
- The explanatory power of institutional analysis is irreplaceable in both theory and policy formation

ACKNOWLEDGEMENT

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**THANK YOU
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