DIVERSITY OF CAPITALISM IN THE EUROPEAN POST-SOCIALIST ECONOMIES: THE BALKAN STATES AT A CROSSROADS

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Abstract: *The main aim of the paper is to classify the types of capitalism in the Balkan states in the context of the European post-socialist countries and identify the principal strengths and weaknesses of institutional organization in these countries. The paper uses Amable's approach, which is supplemented by the influence of the political environment. The paper identifies two different capitalist clusters in the Balkan area: market economies (Bulgaria, Croatia, Montenegro and Romania) and hybrid economies (Albania, Bosnia and Herzegovina, Macedonia and Serbia). The Balkan countries are compared with the other post-socialist economies, the EU-8 and post-soviet countries. Within the Balkan States, only Croatia and Montenegro are approaching the EU-8 economies, while on the other hand, Albania has some characteristic in common with the Caucasian republics. In general, the Balkan States achieve better results than the post-soviet states; however, there are some common weaknesses: low quality of the education system and inefficient financial system, and rigid labour market in Albania, Croatia and Romania and underdeveloped political system in Bosnia and Herzegovina.*

Keywords: *Balkan States, Diversity of capitalism, Institutional complementarities, Post-socialist countries.*

JEL Classification: *O11, O52, P16.*

Introduction

Twenty five years have passed since the end of the bipolar world, which enables us to undertake an evaluation of the established institutional (capitalist) settings in the European post-socialist countries. The transition countries have a high level of institutional diversity, which is due to the diverse socialist organization heritage (informal institutions) and the transition process. One can identify the Central European countries and the Baltic States, which successfully executed the transformation process and have converged with the old EU members in most of the institutional settings. On the other hand, there are the post-soviet republics with a low quality of the institutional environment, which is associated with the authoritative regimes (e.g., Azerbaijan, Belarus, Russia) or with the security risk areas (e.g., Abkhazia, Chechnya, Crimea, Nagorno-Karabakh, South Ossetia, Transnistria). Countries of the third group, the Balkan States, are at a crossroads, both relatively successful (Bulgaria, Croatia, Montenegro, Romania) and relatively unsuccessful (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Serbia).

The main aim of the paper is to classify the types of capitalism in the Balkan states in the context of the European post-socialist countries and identify the principal strengths and weaknesses of the institutional organization in these countries. The first section consists of a survey of the individual approaches to the varieties of capitalism, the method of cluster analysis, data sources, proxies used and a sample of the studied countries. The main second section includes the results from the cluster analysis and a discussion about the institutional

(capitalist) environment in the European post-socialist countries with focus on the Balkan States and identifies the strengths and weaknesses of these countries. The conclusion summarizes the major findings.

1 Statement of a problem

Differences between the individual capitalist economies are given by their institutional organization. Within the research of the models of capitalism, there are two crucial works, Amable [1] and Hall and Soskice [11]. Amable [1] uses five dimensions (Product market, the Wage-labour nexus, the Financial system, Social Protection and Education) and distinguishes between five models of capitalism: Market-based, Continental European, Social-democratic, Mediterranean and Asian. Hall and Soskice [11] provide a very general classification based on the level of coordination within market economies, which defines two basic models – Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs). The other important contributors, Becker et al. [2] and Esping-Andersen [4], also describe advanced economies, or more precisely, OECD countries. Becker et al. [2], following two key features (the relation between capital and labour and the relation between politics and the economy), specifies five basic types (Liberal, Statist, Corporatist, Meso-communitarian and Patrimonial). Esping-Andersen [4] distinguishes three types of European welfare states in his seminal work (Liberal, Conservative-corporatist and Social-democratic), which were supplemented with another type, the Southern model [8].

If one includes research of the European transition countries, one can consider Myant and Drahokoupil [19] a pivotal contribution. Myant and Drahokoupil [19] used an unusual evaluation of transition economies since they put an emphasis on integration into international trade in six parts (export-oriented FDI in complex sectors, export-oriented complex sectors without FDI, simple manufacturing subcontracting, commodity exports, dependence on remittance and aid, dependence on financialised growth), and differentiate between five models, FDI based (second rank) market economies (Visegrad group), Peripheral market economies (Balkan and Baltic States), Oligarchic or Clientelistic capitalism (Ukraine), Order states (Azerbaijan, Belarus), and Remittance- and aid-based economies (Moldova).

The other papers can be divided into two main groups. The first one deals with an application of the mentioned approaches (Amable, Esping-Andersen and Hall and Soskice), the second one with a classification of institutional organization according to specific criteria. Within the first group, Farkas [6] compares old and new EU member countries on the basis of the individual dimensions of Amable [1]. The approach of Hall and Soskice [11] was used by Knell and Srholec [15] and Schweickert et al. [22], namely the division between LMEc (Bulgaria, Estonia, Latvia, Lithuania and Slovakia) and CMEc (Croatia, the Czech Republic, Romania and Slovenia). Also, Schweickert et al. [22] contrast Slovakia (a successful transformation) with Hungary (a problematic transformation). Meanwhile, Fenger [7] applied the approach of Esping-Andersen [4] and identified three new types of post-socialist welfare state, the Former USSR type (the European CIS countries), the Post-communist European type (Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Slovakia) and the Developing welfare states type (Georgia, Moldova, Romania). Within the second group, one can mention three interesting papers, [13], [14] and [18]. King and Szelenyi [14] emphasise the influence of political institutions (polity, bureaucracy) and after supplementing the other social-economic areas (social classes, foreign capital and income inequality), they identify three basic groups,

Capitalism from without (Baltic states, the Visegrad Group), Capitalism from above (the Patrimonial system; Balkan, CIS) and Capitalism from below (China, Vietnam). Izymuov and Claxon [13] evaluate transition economies by similar criteria - a relation between characteristics of the political and the economic system and a relation between three groups (government bureaucracy, new capitalist class and labour). Furthermore, they identify three types of capitalism: Democratic (CEECs), Autocratic (Belarus) and Clan (the majority of the Balkan and post-soviet economies). McMenamin [18] adds the third dimension (welfare state), and on the basis of the comparison of CEECs with the OECD economies comes to the conclusion that CEECs have the same characteristics as the Mediterranean economies.

2 Methods

Classification of the models of capitalism is performed using cluster analysis, specifically Ward's method. For identification, the paper uses comparative and graphical analysis. The selected proxies have a varied range; therefore, the paper uses a formula for the normalization of the index values to preserve the equal impact of all indices, in the manner of Rozmahel et al. [21].

$$N_{i,t} = \frac{I_{i,t} - MIN(I_T)}{MAX(I_T) - MIN(I_T)}$$

(1)

Where $I_{i,t}$ is the value of the index in time period t. $MAX(I_T)$ $((MIN(I_T))$ represents a maximal (minimal) value of the index during the whole time span T. $N_{i,t}$ returns the value of each index within the range of 0-1.

For the classification and evaluation of the models of capitalism, the paper determines six dimensions, Product markets, Labour market, the Financial System, Welfare state, Education and Political environment. The first five areas stem from Amable [1] (basic approach) and Farkas [6] (employed on the European transition economies)[7]. Unlike to the above noted works, this paper adds the area of the political environment in the manner of King and Szelenyi [14] and McMenamin [18]. The paper's selected dimensions correspond to the three-levelled concept of the modern capitalist economy according to Scott [23]. The first level is called "Economic markets", where price coordinates supply and demand. This level consists of products markets and factor markets (labour and capital). Scott calls the second level "Institutional foundations"[8], which comprise of institutions (laws), economic policy makers, and physical (roads, railways) and social infrastructure (education, welfare state). The third level, "Political and social foundations", has responsibility for the institutional foundations of a capitalist system. This level includes political institutions (e.g., democratic or authoritative regimes), political authorities (executive, legislative and judiciary branches) and informal institutions (culture, religion). The first level is represented by three dimensions (Product markets, Labour market and Financial System), the second level by two dimensions (Welfare state and Education) and the third level by one dimension (Political environment). Each dimension consists of five proxies, which are compiled based on [1], [6], [7] and [15]. Due to the availability of data for Balkan and post-soviet republics, the paper elects databases with a worldwide

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[7] Farkas also uses dimension „Research and development, innovation", which we incorporate into the Education dimension.

[8] Within our paper, we follow up from "New institutional economy", which considers all three levels to be institutions.

range, mainly the Heritage Foundation, the United Nations, the World Bank Group and the World Economic Forum, instead of OECD or Eurostat databases.

Within the dimension Product markets, the first variable represents the enforceability of the property rights, which means the fundamental condition for the working of the market mechanism. The second variable evaluates the quality of regulation and the third one represents the level of executed transformation process in the area of small and large privatization. The fourth proxy is used for the depiction of the integration into the international trade and the last variable is chosen for emphasizing the importance of the tax area using the indicator from the Doing business concept. The proxy Labour freedom, is an aggregate indicator of various aspects of the legal and regulatory framework. Another two indicators represent the flexibility of the labour market, determination of wages and the rate of the cooperation in an employee-employer relation. The remaining two proxies are used for the assessment of the structure of the labour market. The unemployment rate of youth is a very current topic in Europe and services are the most important economic sector nowadays. Likewise, within the Financial system, the research puts an emphasis on the quality of regulation, the extent of supervision of securities. In the context of the recent crisis, the paper incorporates the indicator representing the financial soundness of the domestic banks. The third, fourth and fifth proxies are used in order to express the availability of financial services in the entire economy (size and availability of financial services) and in the case of provision of the specific financial capital for enterprises.

Tab. 1: Dimensions of the first level - Product and Labour markets, Financial system[9]

Product markets	Unit	Source
Property rights	<0; 100>	[12]
Quality of regulations	<-2.5; +2.5>	[28]
Small and large privatization	<1; 4.3>	[5]
Merchandise trade	% of GDP	[27]
Total Tax Rate*	%	[26]
Labour market	**Unit**	**Source**
Labour freedom	<0; 100>	[12]
Flexibility of wage determination	<1; 7>	[29]
Cooperation in labour-employer	<1; 7>	[29]
Unemployment rate, youth (ILO)*	%	[27]
Employment in services	%	[27]
Financial system	**Unit**	**Source**
Regulation of securities exchanges	<1; 7>	[29]
Soundness of banks	<1; 7>	[29]
Domestic credit provided by financial sector	% of GDP	[27]
Availability of financial services	<1; 7>	[29]
Venture capital availability	<1; 7>	[29]

Source: Authors.

The second level of the capitalist economy comprises the socio-economic infrastructure, which is represented by the dimensions of welfare state and education. Amable [1] used the narrow approach to welfare state, it means only social protection, whereas the paper uses the

[9] Proxies marked with (*) have a value which was changed during the normalization due to the higher value representing a more flexible and higher quality regulated Product and Labour markets, a more developed Financial system, an extensive Welfare state, a high-quality Education and a high-quality Political environment.

wide definition comprising the indicators of living standards. The welfare state is represented by the level of income inequality, the size of the government's budget, the general quality of public services, including public goods, physical and social infrastructure, and two indicators expressing living standards and the quality of the health services. Within the second dimension, the first two proxies are used for the evaluation of the quality of the whole education system, in relation to the needs of a competitive economy and according to the duration of schooling. The third indicator describes the structure of secondary enrolments and the fourth the quality of equipment. The last variable represents the area of research and development, which Farkas [6] uses as a separate dimension.

Tab. 2: Dimensions of the second level – Welfare state and Education

Welfare state	Unit	Source
GINI index*	<0; 100>	[27]
Government spending*	<0; 100>	[12]
Public services*	<0; 10>	[10]
Life expectancy at birth, total	Years	[27]
Infant mortality rate*	1,000 births	[27]
Education	**Unit**	**Source**
Quality of educational system	<1; 7>	[29]
Education index	<0; 1>	[25]
School enrolment, secondary	%	[27]
Internet access in schools	<1; 7>	[29]
Research expenditure	% of GDP	[27]

Source: Authors.

Using the dimension of political environment is our contribution to the discussion of models of capitalism. The political environment is divided into three parts; polity, level of democracy and transparency of government. The proxy, Polity, evaluates the type of the political regime (democracy, authoritarian) and its stability. The second and third variables describe the level of democracy, the specific level of transformation of the political environment in seven parts (National Democratic Governance, Electoral process, Civil Society, Independent Media, Local Democratic Governance, Judicial Framework and Corruption) and the rate of participation in the selection of government. The last two indicators represent the area of Governance, the fourth one the independence, effectiveness, and accountability of legislative and executive branches, and the fifth one the transparency of the policy makers at the government level.

Tab. 3: Dimension of the third level – Political Environment

| Political environment	Unit	Source
Polity	<-10; 10>	[17]
Democracy Index	<1; 7>	[9]
Voice and Accountability	<-2.5; +2.5>	[28]
National Democratic Governance	<1; 7>	[9]
Transparency of government policymaking	<1; 7>	[29]

Source: Authors.

The sample of countries consists of twenty-three European post-socialist economies. The Balkan states (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania and Serbia) are compared with the Central European economies (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia)

and the post-soviet republics (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine). Kosovo is not included due to the availability of data.

3 Problem solving

According to the results of the dendrogram, we can divide the European transition economies into two basic clusters. The first group consists of the majority of the former post-socialist states (15 of 23)[10] and the second group contains the most successful CEE economies (EU-8). In the first cluster, one can identify four subgroups and in the other one a sub-cluster, which implies there are five diverse institutional units.

Fig. 1: Clustering in the period 2008 – 2013
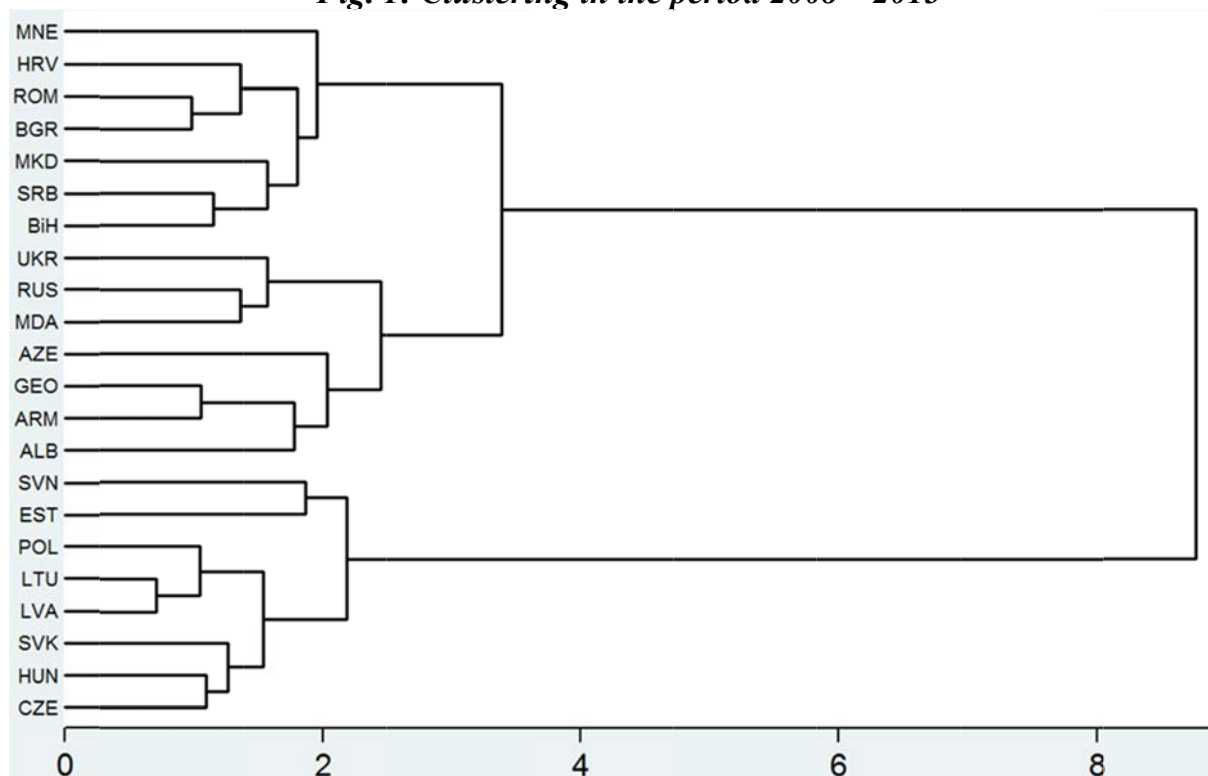
This paper starts the classification of the models of capitalism with the EU-8 countries, the most successful group, which Myant and Drahokoupil [19][11] call "Second rank (FDI based) market economies". Considering the countries within the first main cluster, one can identify four groups. The first group (Bulgaria, Croatia, Montenegro and Romania) correspond with the type "Peripheral market economies" [19]. The countries in this cluster have developed democratic institutions, but simultaneously, lag behind the Second rank market economies in most of the institutional dimensions[12] and according to Myant and Drahokoupil [19], the substantial share of less-stable manufactured-goods and raw-material exports is characteristic. The remaining three clusters (unsuccessful Balkan States and the post-soviet republics) can hardly be classified because the individual countries are not distinguished in empirical literature; these are labelled as "Patrimonial capitalism" [2], "Oligarchic/clientelistic capitalism" [3], "Hybrid capitalism" [9]; [16], "Clan

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[10] The Balkan and post-soviet economies.

[11] Myant and Drahokoupil [19] state three characteristics - democratic political system, integration into the EU and export structures increasingly built around manufactured goods produced by foreign-owned MNCs. The paper is aimed at the Balkan States, therefore, the differences between CEECs are not described. See more details in [15] and [22].

[12] See Table 5.

capitalism" [13] and "Capitalism from Above" [14]. If one put together all these individual terms, all economies have common characteristics - incomplete transformation of the economic (Hybrid capitalism) and political environment (authoritarian, clientelistic or diverse extended oligarchic structures). For this reason, the paper calls clusters "1b" to "1d" "Hybrid capitalism" with presumptive distinctive attribute.[13]

Tab. 4: Clusters and countries

Cluster	Type	Countries
1a	"Peripheral market economies"	Bulgaria, Croatia, Montenegro, Romania
1b	"Hybrid/Clientelistic capitalism"	Bosnia and Herzegovina, Macedonia, Serbia
1c	"Hybrid/Clan capitalism"	Belarus, Moldova, Russia, Ukraine
1d	"Hybrid/Oligarchic capitalism"	Albania, Armenia, Azerbaijan, Georgia
2	"Second rank (FDI based) market economies"	The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia,

Source: [9]; [10]; [12]; [17]; [25]; [26]; [27]; [28]; [29];

The following analysis aims to answer the question of what the strengths and weaknesses of the individual Balkan States are in a comparison with the EU-8 countries and the post-soviet republics. Table 5 lists the arithmetic means of normalized values of the individual dimensions in the observed period of 2008 to 2013. The table includes the average values of the individual clusters and detailed results for the Balkan States.

If we compare "Second rank MEs" with the other transition countries, one can see that the economies fall behind in all dimensions. There are principal differences in areas of the political environment, quality of the education system, developed financial system (excluding Montenegro)[14] and extensive welfare state (excluding Bosnia, Croatia, Montenegro and Serbia)[15]. In a detailed view of the Balkan states within the "Peripheral MEs", the quality of the education system is one of the main weaknesses, with the others being the financial system (Bulgaria and Romania) and the specific rigid labour market (Croatia and Romania). There is also an interesting group of "Hybrid/Clientelistic capitalist economics". These countries have a relatively high quality political environment (Macedonia and Serbia)[16], but, simultaneously, also have a low quality education system and underdeveloped financial markets. The last Balkan state, Albania, has similar characteristics as the above mentioned economies, but falls behind due to the rigidity of the labour market.

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[13] A discussion on the political/economic structures in the Balkan/post-soviet states seems to be promising for future research.

[14] The higher average value of Montenegro is given by quality regulation of securities and venture capital availability [29].

[15] Croatia and Montenegro have average values in all five indicators, whereas results of the others are significantly influenced by specific relics of the socialist period. There are income equality (GINI index is about 27%), relative high government expenditures (circa 40% of GDP) and a low level of infant mortality (about 6 infants per 1000 birth). [27]. On the other hand, the quality of public services and life expectancy in birth is low. For more details, see [19] and [24].

[16] The paper evaluates political environment from the point of view of formal democratic institutions (relatively high level) and governance (average level), but it does not include the influence of the informal relations (corruption, nepotism), which are some of the important problematic areas in the Balkan space. Simultaneously, both countries have EU membership candidate status and therefore are forced to improve the quality of their political environment.

Looking at the post-soviet republics, one can consider all dimensions to be weakness factors with only a few exceptions, e.g. product markets (Georgia) and labour market (Armenia, Azerbaijan, Georgia). Regarding the other problematic dimensions, there is a low quality of education system (the Education index, the Quality of Education)[17] and size of expenditures on research and on education system, and also the underdeveloped welfare state (Armenia, Azerbaijan, Georgia, Moldova and Russia); with the low standard of living comes dependence of a part of the population on remittance of foreign aid [3]. In general we can identify the main difference between the Balkan and post-soviet states in a quality of political environment except for Bosnia and Herzegovina. Relatively the more quality political environment in the Balkan states is associated with integration into international organizations and more successful transformation of the socialist political system.

Tab. 5: Individual dimensions according to clusters

	Product market	Labour market	Fin. system	WS	Ed.	Political env.
Second rank MEs	**0.74**	**0.51**	**0.70**	**0.76**	**0.67**	**0.85**
Peripheral MEs	**0.53**	**0.42**	**0.54**	**0.65**	**0.41**	**0.66**
Bulgaria	0.56	0.50	0.47	0.54	0.34	0.66
Croatia	0.55	0.33	0.59	0.74	0.45	0.69
Montenegro	0.49	0.63	0.70	0.73	0.49	0.69
Romania	0.51	0.21	0.42	0.58	0.35	0.59
Hybrid (Clientelistic)	**0.49**	**0.53**	**0.36**	**0.59**	**0.21**	**0.53**
Bosnia and Herzegovina	0.40	0.52	0.33	0.67	0.14	0.35
Makedonia	0.61	0.61	0.46	0.44	0.21	0.63
Serbia	0.45	0.45	0.30	0.66	0.28	0.60
Hybrid (Oligarchic)	**0.46**	**0.51**	**0.30**	**0.38**	**0.24**	**0.42**
Albania	0.45	0.37	0.23	0.53	0.18	0.60
Armenia	0.47	0.57	0.33	0.43	0.24	0.43
Azerbaijan	0.32	0.53	0.33	0.24	0.29	0.15
Georgia	0.58	0.58	0.30	0.32	0.27	0.51
Hybrid (Clan)	**0.34**	**0.35**	**0.25**	**0.5**	**0.46**	**0.39**

Source: [9]; [10]; [12]; [17]; [25]; [26]; [27]; [28]; [29]; Legend: Institutional dimensions have a normalized range of 0 to 1, where 1 means flexible and quality regulated Product and Labour markets, a developed Financial system, an extensive Welfare state, a quality Education and a quality level of the Political environment.

The following figure shows the relation between the average level of capitalist organization and the economic performance between 2008 and 2013. As an indicator of the economic performance, the paper uses a proxy - GDP per capita (current international $, PPP; [27]). It is evident that the "Second rank MEs" (EU-8) reach the highest economic performance. Simultaneously, regarding the other relatively successful countries, one can include the Balkan republics in the "Peripheral MEs" and "Hybrid/Clientelistic" capitalist model. Within the second group Croatia and Montenegro approach to the first group, while

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[17] With the exception of Belarus

Albania and Bosnia and Herzegovina are on the level of the post-soviet states in both criteria, which can be caused by unfinished transformation of the economic and political system in contrast to Croatia or Montenegro. The relative high economic performance of Azerbaijan, Belarus and Russia is given by their specific conditions.

Fig. 2: Institutional organization and the economic performance in 2008 – 2013
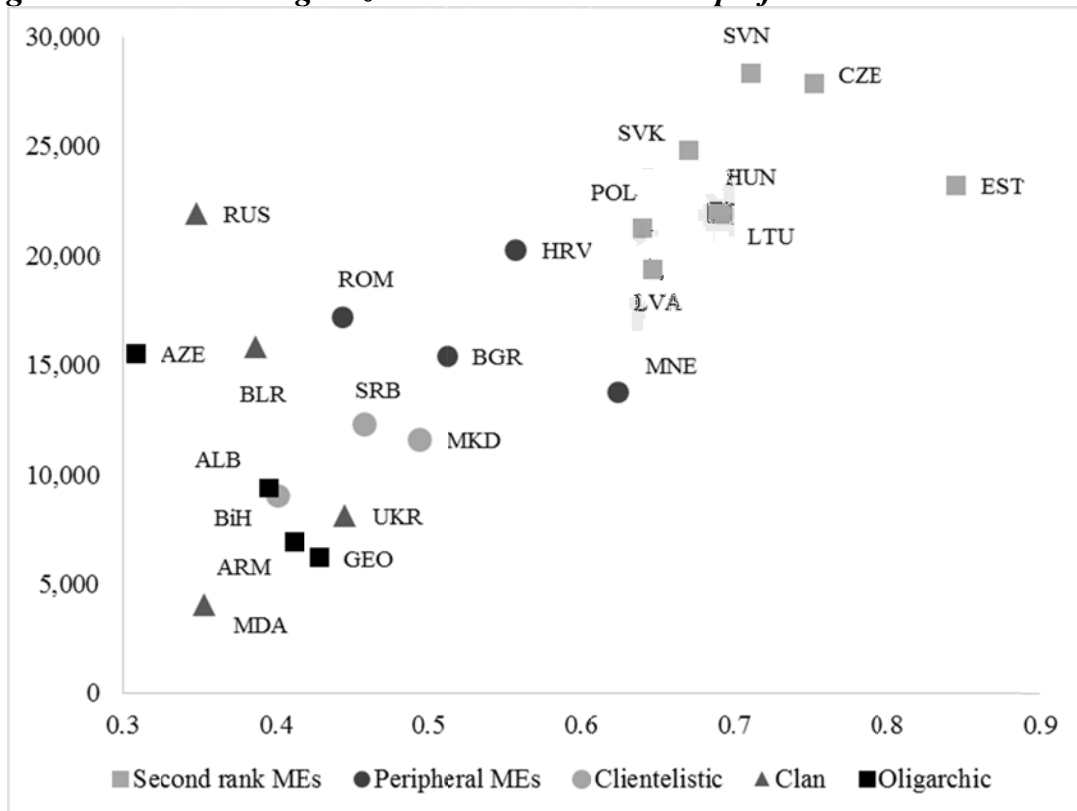
Source: [9]; [10]; [12]; [17]; [25]; [26]; [27]; [28]; [29];

Conclusion

The diversity and heterogeneity persist in the European post-socialist area. On the basis of Amable's approach to the models of capitalism, we performed a cluster analysis (Ward's method). We analysed the six dimensions of the modern capitalism (product and labour markets, financial system, welfare state, education and the political environment) and identified five different institutional units in the European transition economies, which one can divide into two clusters: EU-8 countries ("Second rank (FDI based) market economies") and the Balkan and post-soviet states ("Peripheral market economies" and various types of "Hybrid capitalism with attribute"). The second group falls behind in all dimensions excluding Croatia and Montenegro. Within the Balkan States, there are "Peripheral market economies" (Bulgaria, Croatia, Montenegro, Romania), on the one hand, and the rest (Albania, Bosnia and Herzegovina, Macedonia, Serbia) on the other; nevertheless, they all have common weaknesses (quality of education and inefficient financial system) and specific problem areas (rigid labour market in Albania, Croatia and Romania and underdeveloped democratic institutions and governance in Bosnia and Herzegovina). Within comparison of the individual dimensions, a quality of political environment is the main difference between the Balkan and post-soviet states, whereas the other characteristics are very similar.

The paper is a basis for future research, which will be aimed at a comparing the institutional (capitalist) organization of the post-socialist countries with neighbouring

regions (Central Asia, the Middle East and Northern Africa). Simultaneously, the comparison will proceed from the approaches of Amable [1], used in the paper, and Pryor [20], the general classification for developing countries. In the context of the Balkan and post-soviet states, the area of relations between the individual political and economic interest groups (authoritarian, clientelistic and oligarchic structures) seems to be promising for future research.

Acknowledgement

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