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Book review: Models of Capitalism in the European Union - Post-crisis Perspectives by Beáta Farkas

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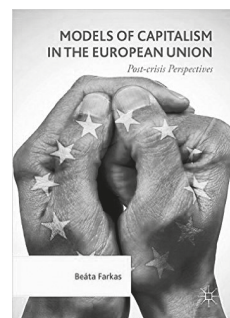
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Book review:
**Models of Capitalism in the European Union –
Post-crisis Perspectives**

Reviewed by Anna Visvizi

Models of Capitalism in the European Union – Post-crisis Perspectives
by Beáta Farkas, London: Palgrave Macmillan 2016, 541 pp.,
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The global financial crisis of 2008 and its ramifications induced new dynamics in the economic and financial systems in the world, on the one hand, demanding that new equilibria be established in those systems, and on the other hand, requiring that the modus operandi among them be adjusted as well. To this end, the contribution of the OECD and the G20 towards creating a momentum for the variety of stakeholders to build a consensus around the most desirable policy responses to the implications of the crisis proved invaluable (Rewizorski, 2016). From a different angle, the global financial crisis and its imminent implications, by challenging people's prior assumptions about how economic and financial systems work, have had an impact on people's perceptions of how those systems should work and what they should deliver. In short, the interpretive lens through which people view the reality changed and hence a fertile ground emerged for a discussion of the ills of capitalism. Driven by charismatic writers such as Piketty (2014) and his followers, the discussion has taken enormous dimensions essentially rendering capitalism the source of all inequalities, evil and suffering in the world. A subtler and more

balanced voice in the same debate has taken the shape of the Varieties of Capitalism (VoC) debate. Here Bohle and Greskovits (2012) for instance offered a really captivating insight into the meanders of capitalism in Europe's periphery. As the crisis in the Eurozone intensified and the developments in Greece, the litmus test of that crisis, seemed ever more unpredictable to external viewers, the critique of capitalism strengthened. Eventually it has taken the form of a blind critique of austerity policies and tacit approval for limiting the scope of economic freedom across the EU.

Certainly, the critique of capitalism is not new. Yet the particular debate on capitalism today misses three points. The first point is that no pure form of capitalism exists today; rather – depending on the degree of state intervention – mixed economic systems prevail. The second point is that those European countries that – due to communism and hence centrally-planned economy, criminalization of private property and limiting of civil liberties – were deprived of the alleged ills of capitalism, 25 years after the fall of communism still lag behind in terms of socio-economic development as compared to the rest of Europe. The third point is that in the debate revolving around the capitalism-crisis nexus, very little attention has been paid to identifying viable and effective ways of addressing the crisis and its implications in an optimal manner, i.e. by resorting to means, sources and policy instruments already available and without causing harm to those economic sectors across Europe that perform well. It is in this context that one should read the new monograph by Professor Beata Farkas from the University of Szeged, Hungary, an emerging centre of excellence in research and education, to which Farkas, through her pioneer research and work with students, has substantially contributed over the past years.

The objective of the monograph, as the author states in the Introduction, is to identify models of capitalism that exist in the European Union (EU) member states and to elaborate a common theoretical framework suitable for their examination. Nevertheless, the book offers much more than that. As the argument unfolds, bit-by-bit, Farkas' voice becomes stronger and ever more difficult and challenging questions are posed. By so doing, Farkas goes beyond an academically sound comparative analysis of varieties of models of capitalism across the EU. Farkas makes a very strong case for a nexus between

nominal and real convergence and cohesion in the EU. In this context, Farkas introduces the concept of conditional convergence to argue that “to restore or strengthen convergence both institutions and several structural reforms in the EU member states are needed” (p. 264). The author observes that the global financial crisis and its implications revealed that policy interventions at the EU-level had limited effectiveness. As a result, differences in economic performance across the EU persevered. Interestingly, as Farkas argues, the fallacy of our thinking about economic performance in the EU lies in the assumption that differences in economic development can be overcome. Accordingly, she suggests – and this is a really big point – that a quite different question be asked, i.e. “How big the differences may be for the internal market and monetary union to remain functional?” (p. 264). As Farkas argues, by posing this particular question one acquires the mind-set necessary to identify the minimal conditions for functionality, related costs, and effective policy responses. In what follows and it is a refreshing response to some arguments voiced in the literature on differentiated integration (for a good overview, see e.g. Magone, Laffane, Schweiger, 2016) – Farkas argues convincingly that the EU is an open-ended system with an uncertain future. Therefore, “differentiated integration is not a transitory deviation from the ideal situation which is to be achieved but a method for handling the differences” (p. 5).

The book consists of three major parts and eleven chapters distributed nearly evenly among these parts. Part One of the book sets out the very broad theoretical and conceptual framework against which the ensuing discussion unfolds. It is a fascinatingly told story of why institutions matter in economics and what kind of debates and research dilemmas this apparently simple question triggered across diverse schools of thought and across time. The first part of the book offers a captivating, systematic and synthetic insight into institutionalism and its evolution. The differences between institutionalism and new institutionalism are outlined and the potential for future interdisciplinary research is highlighted. Against this background, the premises and the promise of comparative analysis of economic systems are discussed and the big debate on models of capitalism, the precursor of the VoC debate, is introduced. Again, in a very orderly fashion, Farkas outlines

a variety of typologies that have been devised in the literature to make sense of the diversity of economic systems in the developed world.

It is only natural that Part Two adds empirical argument to that discussion rendering the theoretical claims formulated by generations of scholars relevant and usable. By examining the characteristics of the diverse models of capitalism in the EU member states, Farkas constructs a model of economic system and based on its premises draws a detailed map of economic systems across Europe. In this way, always placing her arguments in the context of the mainstream debates, Farkas constructs a comprehensive, inclusive picture of European economies thus establishing the conditions necessary for a valid comparative analysis. Giving a clear preference to measurable data over indices formed on the basis of opinions of economic actors, and hence inserting the argument in the institutionalist tradition, Farkas includes the following factors, and corresponding data, in the analysis: the product markets, R&D&I, the financial system, the labour market, the system of social protection and education. Employing comprehensive quantitative statistical tools of analysis, country-by-country, the author adds flesh to the otherwise untested assumptions about similarities and differences among European economies. In this manner, countries are grouped in clusters. Notably, Farkas does not stun the reader with equations, econometric models and numbers; these are available in the Appendix. Rather, the author offers a balanced and eloquent presentation of the economic realities of Europe as seen through the institutionalist lens.

Finally, in Part Three, the empirical model devised in the preceding part is put to work, i.e. its evolution, or temporal dimension, is tested. In other words, Farkas examines to what extent the crisis-inflicted regulatory changes introduced across the EU member states influenced the characteristics of their respective economic systems. Attentive to details, in a set of tables and related discussion, Farkas offers an invaluable insight into policy responses to the crisis across the EU. Against this backdrop, the economic performance of those countries is outlined. It does not take a lot to understand that in this way, a very clear link between a given set of policy-responses applied and their effectiveness at the national level has been established. In other words, no need for anyone to shout: "The Emperor is naked"; the numbers speak for themselves.

The value added of the volume is manifold. It is a very well-written work. The writing style reflects the author's expertise, experience and certainty of the claims made and findings presented. Farkas guides the reader firmly through each successive step of the analysis. It is nevertheless approachable and a non-economist will find it stimulating to read, particularly given that the way the argument is structured enables the reader to engage with each part of the book independently. Of course, in order to appreciate the mastery and the breadth of the whole argument, it is necessary to read the entire work. The author has invested a lot of effort into making the reading of the book reader-friendly, i.e. it abounds with tables, graphs and figures; all well-placed and elaborated. Still, as mentioned earlier, the author does not unnecessarily trouble the reader with an avalanche of numbers.

The discussion in the book is very well-placed in the existing literature on relevant subjects. The rich bibliography not only adds relevance to Farkas' argument but also enables her to establish a valid point of departure for her analysis. Indeed, Farkas goes beyond the conventional argument on models of capitalism and, by devising a new empirical model by means of which the EU economies are clustered, she offers a valuable contribution to the debate. By including in one research-framework the 'old' EU member states and the newcomers, and by engaging in a solid and systematic examination of the features of their economies in a context defined by European integration, systemic transition, and the corollaries of the global financial crisis, Farkas anchors the issue of systemic transition in the debate on VoC. This has two implications. First, it emphasizes the somewhat underestimated and 'orphan', in terms of belonging to the mainstream debates, political economy of transition (Csaba, 2007; Mihaly, 2014; Żukrowska, 2010b; Visvizi & Tokarski, 2014). Second, it opens up the possibility of making that debate on systemic transition operational. Note that Farkas seems to be joining those voices in the debate on systemic transition which argued that the positive and negative experiences of systemic transition can be emulated elsewhere, not least in the developing countries (Żukrowska, 2010a) but perhaps more importantly in the developed countries (Visvizi, 2012; Dąbrowski, 2016) as well. From a different angle, by breaking the boundaries of conceptual frameworks that have dominated the debate on models of capitalism and adding a comprehensive institutionalist angle to that debate,

Farkas succeeds in marrying academic rigour of analysis with policy-focused recommendations. Finally, by employing her model to assess the crisis-inflicted regulatory and systemic changes in Europe, Farkas offers an insight into the evolution of economic systems in the EU under crisis conditions. By the same token, Farkas provides a fascinating picture of the effectiveness of diverse economic policy responses to the crisis applied across the EU. The volume represents a powerful and constructive voice in the debate on modern economic systems in that – by going beyond the critique of capitalism – it suggests ways of how to make modern economic systems perform better. Well-argued, well-written and well-presented, this monograph will be of interest to economists and political scientists as well as experts and analysts. Due to the rich selection of graphs, tables and figures, it will prove an invaluable source for lecturers to structure their lectures and for students, at undergraduate and graduate level, as a companion to a variety of modules across the field.

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