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The two forms of modern capitalism: liberal and illiberal states – Challenging the „Varieties of Capitalism” model

EUROSHIP project: Changing life opportunities under illiberal rule: drivers of social structural change in Hungary, 6-7 July, 2023

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Take-home message

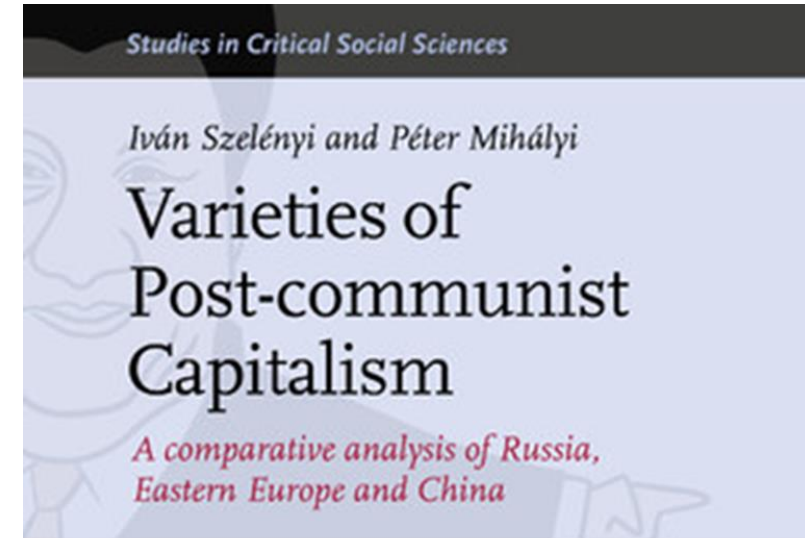
We describe the “actually existing” systems. We identified **six** of them:

1. liberalism,
2. conservatism,
3. illiberalism,
4. authoritarianism,
5. dictatorship, and
6. despotism.

While the lifespan of various systems of domination may vary, there is **no one-way progress-regress** among these systems. **Most actually existing systems are hybrids** and have features from one or the other. There is not one which can imply the end “of history”. History rather moves in a **cyclical** way, **back and forth** between various system of domination.

Previous works

- Mihályi, Péter - Szelényi, Iván [2020]: „The two forms of modern capitalism: liberal and illiberal states”, *Comparative Sociology*, 2020, No. 19, 155-175. DOI:10.1163/15691330-BJA10006 [SVOC 2020]
- Mihályi, Péter - Szelényi, Iván [2020]: „Kornai on the affinity of systems: Is China today an illiberal capitalist system or a communist dictatorship?”, *Public Choice*, Special Issue
- Szelényi, Iván - Mihályi, Péter [2020]: *Varieties of Post-communist Capitalism*. Boston: Brill.



Russian
translation
forthcoming
in weeks




The socialist world

In 1987, 70 years after Bolshevik revolution, 26 socialist countries stretched over 31% of the land of four continents. In 1987, their combined population amounted to 34% of the world's total. If we use the world's political map of today, we can identify 56 existing countries, which – for a shorter or longer period – were rightly labelled socialist by external observers.

After 1989: Fukuyama's the end of history theory

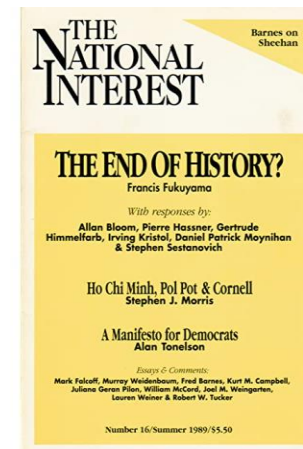
His main message: The *final victory* of the Western capitalism and liberal democracy *over socialism*.



What we may be witnessing is not the end of the Cold War but the end of history as such; that is, the end point of man's ideological evolution and the universalization of Western liberal democracy.

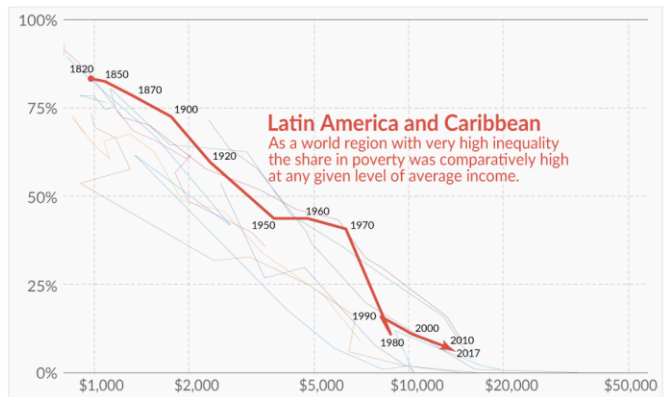
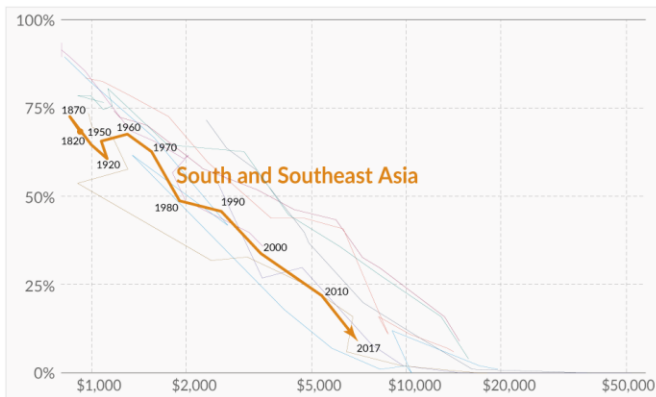
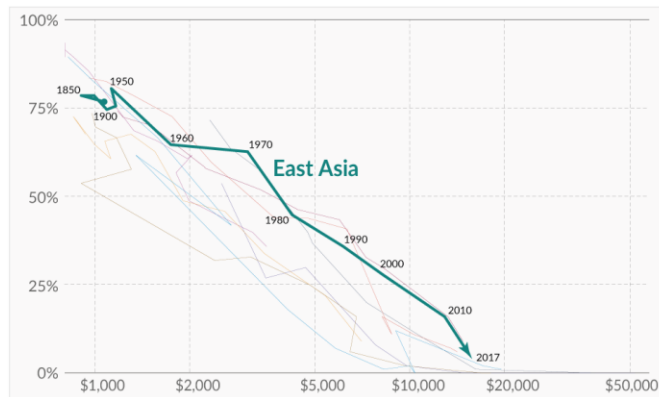
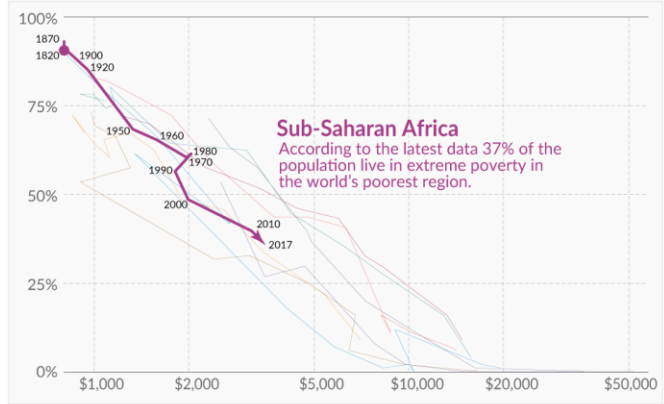
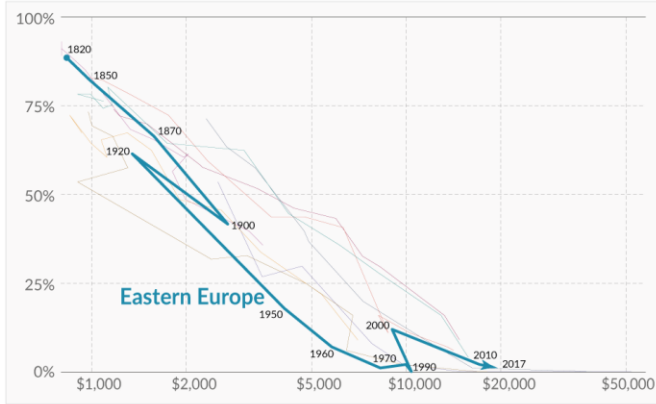
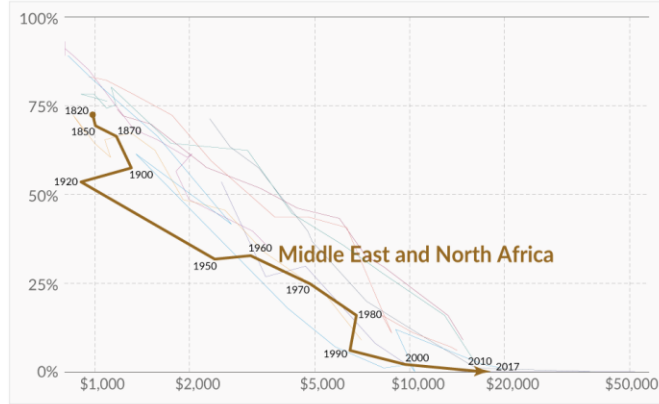
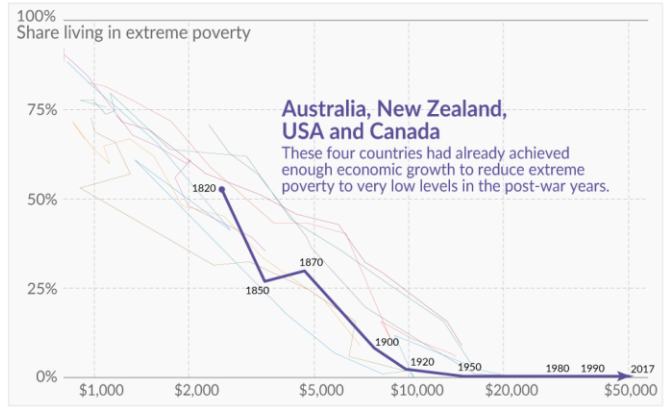
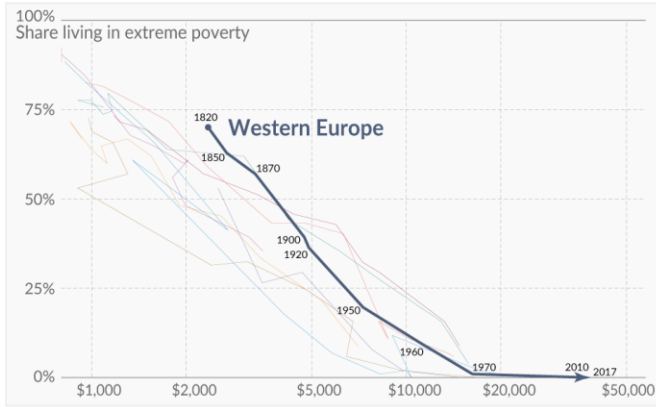
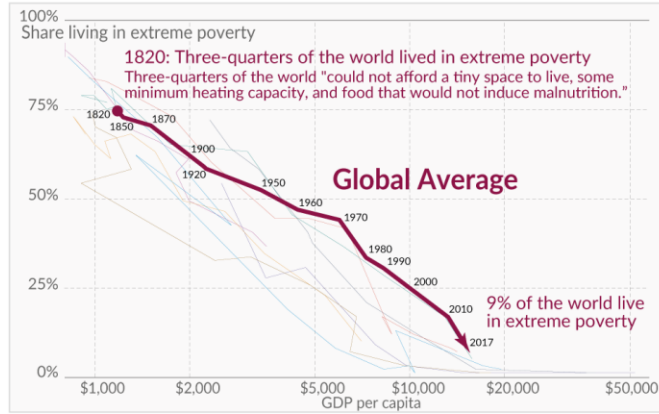
(Francis Fukuyama)

izquotes.com



By world region: Share living in extreme poverty vs. GDP per capita (1820–2017)

Poverty is measured by the 'cost of basic needs'-approach. It represents the share which was unable to obtain a bundle of very basic goods and services. Price changes over time (inflation) and price differences between countries are taken into account in both measures.



OXF

Varieties of Capitalism

The Institutional Foundations
of Comparative Advantage

Edited by
PETER A. HALL and DAVID SOSKICE



An extremely
influential book from
2001

Varieties of capitalism

The idea that capitalism has different forms is not new. Already Marx (1818–1883) considered a critical distinction between “productive” and “finance” capitalism. The first is capable for self-reproduction, while the second was thought to be self-destructive. Karl Polanyi (1944) – at least in our interpretation - could also imagine a self-correcting capitalism (correcting the destructive features of pure markets).

A. Liberal market economy, with as little state intervention as possible: the Anglo-Saxon model (especially during Thatcher's and Reagan's time);

B. Corporatist-statist model, with substantial welfare intervention by the state, but in a targeted manner (the purest type is German model, called in 1949 by Adenauer's finance minister, Ludwig Erhard *Soziale Marktwirtschaft*, with targeted welfare assistances). Former socialist countries like the Baltic countries, Czech Republic, and Hungary (until 2009) tried to move in this direction with varying success.

C. Social democratic systems (Scandinavian models, with universal insurance schemes).

These three categories are **value-neutral**. All the exemplified countries meet fully the criteria of liberal, democratic and meritocratic societies. Germany is not better or worse than the USA, or Sweden— they are just different. And the differences are not even random: they are explained by the different preferences and priorities of the voters. The same holds in a comparison, say, of Ireland and Austria. This is the reason, why these latter two countries can reasonably cooperate in the European Union. As the subtitle of the Hall-Soskice book explains, all capitalist countries are having institutional foundations that suits them best to exploit their “comparative advantage”. E.g., liberal market economies are usually strong in innovation; corporatist-statist model usually offers high quality product (compare quality of cars or any other product between the US and Germany) welfare states reduce social tension and generate solidarity.

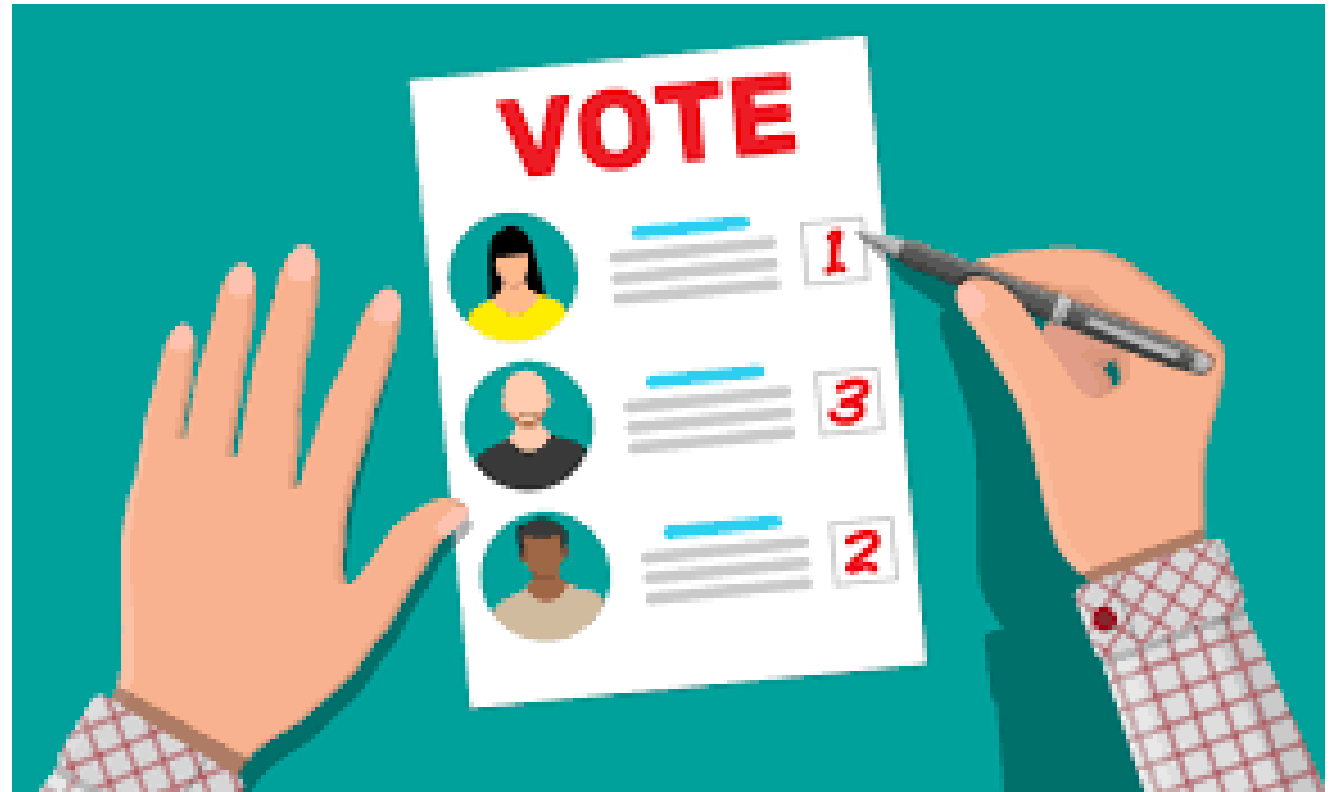
The shortcomings of the VoC approach.

The VoC categorization applied merely to a numerically small group of highly developed, liberal states (to 17 OECD countries to be precise), and all the illiberal capitalist states were simply left out from the analysis. As of 2020, the OECD had 36 Member Countries. Among the countries missing from the Hall-Sockice (2001) list were the Mediterranean countries Chile, Israel, Korea, Mexico and Turkey. Surprisingly, France was also left out from the original 17-member list, as a country with “ambiguous position” .

This is odd, because the great lesson of the past 15 years is that **the illiberal versions of capitalism** – in growth terms - **performed in an impressive way** (South-East Asian countries or India being prime examples). Whether we like it or not, this is undeniable.

Democracy – our definition

- Elections matter.
- Elections are not driven (decisively) by tribal/ethnic and/or racial identities.



The Holbrooke paradox

On the eve of the 1996 elections in Bosnia, the American diplomat Richard Holbrooke wrote in his diary:

“Suppose the election was declared free and fair, but those elected are racists, fascists, separatists, who are publicly opposed to peace and reintegration. That is the dilemma.”

Democratically elected regimes, often ones that have been reelected or reaffirmed through referenda, are routinely ignoring constitutional limits on their power and depriving their citizens of basic rights and freedoms. From Peru to the Palestinian Authority, from Sierra Leone to Slovakia, from Pakistan to the Philippines, we see the rise of a disturbing phenomenon in international life – **illiberal democracy**.



The Weberian approach

- 1. Every society has some form of domination** to keep the system working. With the benefit of hindsight, we can confirm that Weber was right. The dream of Marxists about a domination-free society and the “withering away of the state” were not more than utopian, emotionally attractive promises to left and liberal-leaning intellectuals. Force and coercion must exist in every system, if for no other reason than to keep the criminals under control.
- 2. Every country exemplifies a hybrid regime** – not only the authoritarian ones as it is often understood in the literature. Even the most progressive liberal democracies are not perfect “textbook” democracies.
- 3. Historical change is rather cyclical.** Some liberal systems may become illiberal or autocratic, but at some point, the wheel can change direction and the country can return to liberalism. The movement from one regime to another is not determined with certainty.

Our categorization* fits well into the Freedom House metrics

[1] *liberalism*, [2] *conservativism*, [3] *illiberalism*,
[4] *autocracy*, [5] *dictatorship*, and [6] *despotism*.

Freedom House:

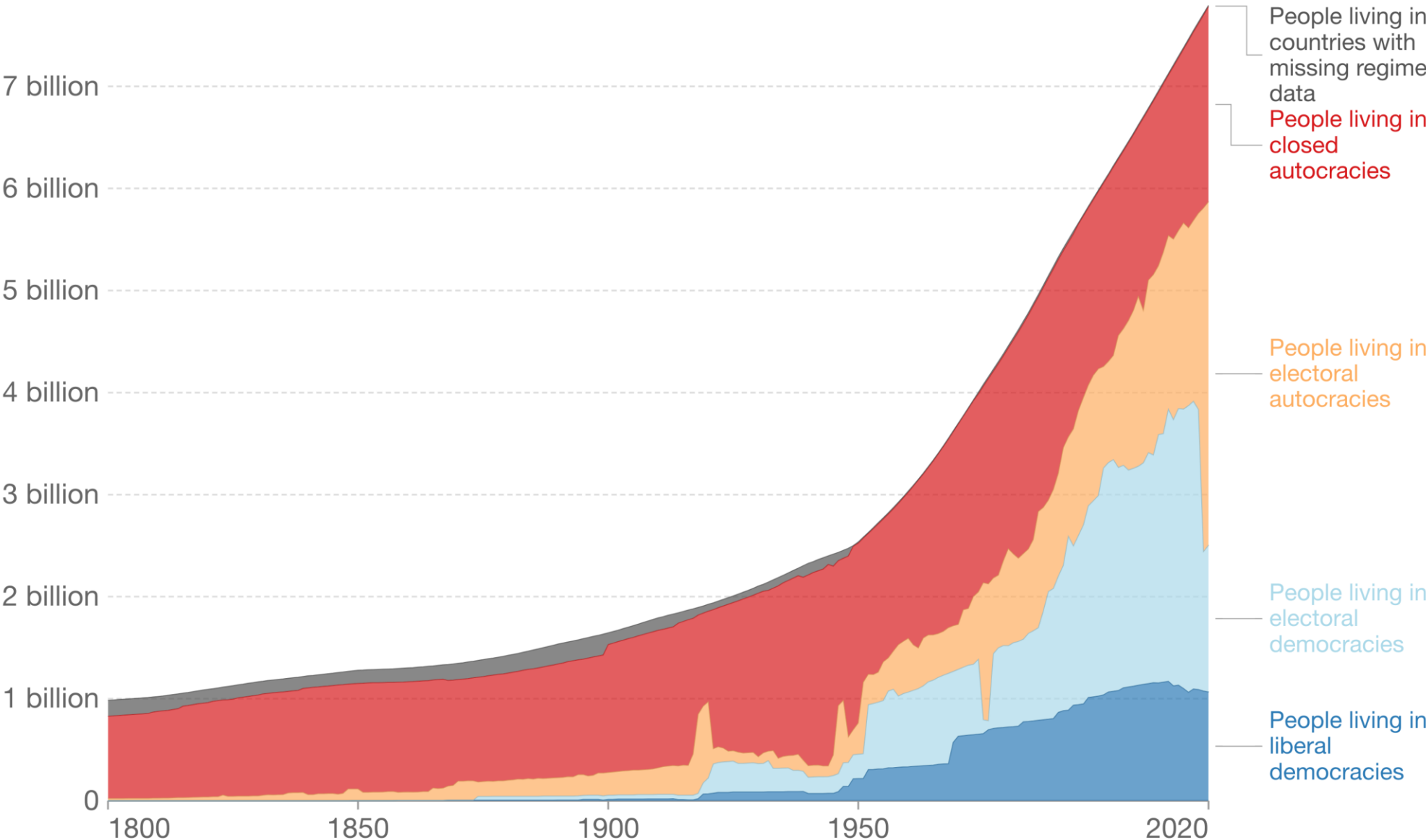
Free

Partially free

Not free

* Published in [International Political Anthropology](#) Vol. 14 (2021) No. 2. ORCID 0000-0003-0520-2552 and 0000-0002-8563-6950

World citizens living under different political regimes



Source: OWID based on Lührmann et al. (2018), V-Dem (v11.1), Gapminder (v6), HYDE (v3.2), and UN (2019).

Three important *caveats*

1. In many parts of Africa and Asia – accepted as sovereign countries by international law – the **peoples have never reached the capability to function as a nation-state.**

In the absence of effective central power, the people living there are *de facto* governed by local, traditional rulers or, in worse cases, by warlords or armed gangs with deploying different degrees of coercion and resistance to the powerholders residing in the capitals. In such countries, the citizens do not believe that their government is legitimate, and the central state itself often becomes illegitimate in the eyes of the international community, too. These countries may break up into competing tribal, religious, and sectarian communities within the state with deadly, permanent wars fought against each other.

For the analysis of these countries, the widely used labels *failed state* or *fragile state* are very appropriate.

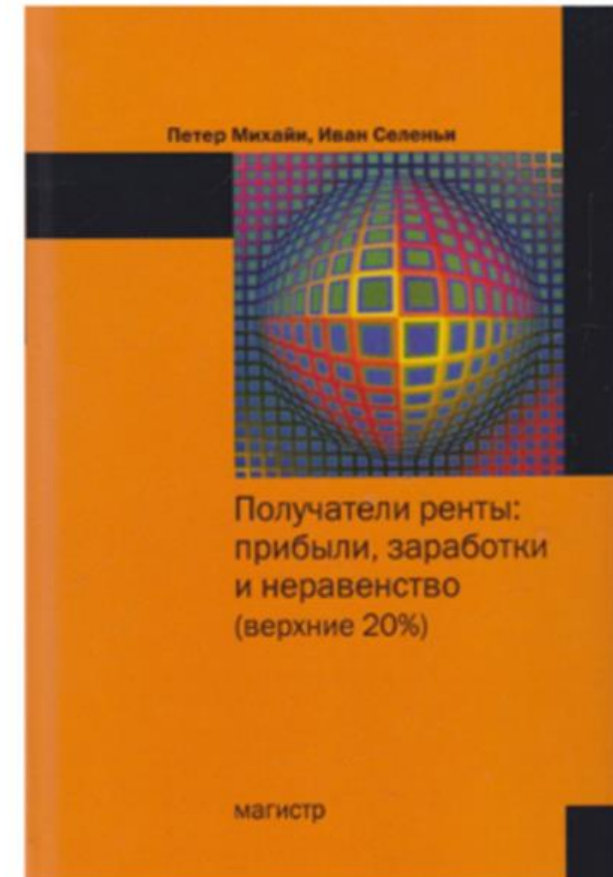
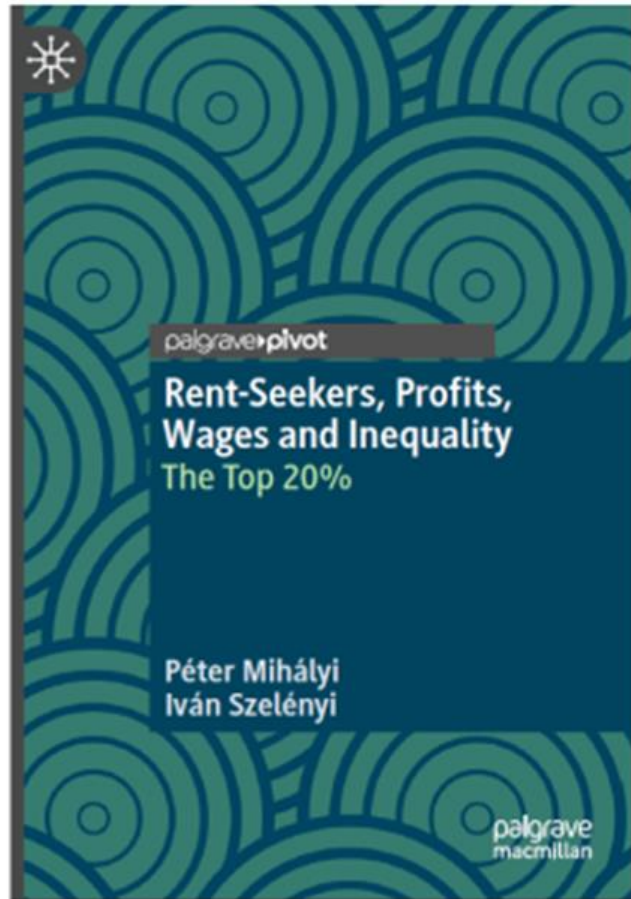
Three important *caveats* (cont.)

2. One may miss from the above list **populism**, which is often used to label a particular type of domination in contemporary literature. We see populism as a **rhetorical style** rather than something with an intrinsic value content, whose aim is to gain (or maintain) popular support. How much populist rhetoric is used will vary in different types of domination, usually little in liberalism and virtually none in despotism where the ruler obtains obedience by the systematic use of force and probably the most in the electoral form of autocracies.

Three important *caveats* (cont.)

3. Countless analysts, politicians, and average voting citizens place the problem of **corruption** at the center of their discourse. We disagree. We consider corruption as one form of rent-seeking. We know no economies without rent. Even in advanced societies, rent complements profits, often in order to create social stability.

Our book in English (2019) and Russian (2020)



We distinguished in our paper 9 dimensions of economic and political rights, and civil liberties.

Economic rights: (1) Free market competition, (2) Security of ownership and (3) Equal opportunities.

Political rights: (4) Competitive multi-party system, (5) Separation of powers and (6) Rule of law.

Civil liberties: (7) Freedom of expression and free press, (8) Freedom of association and (9) Freedom to choose one's own identity.

TABLE 1: The nine characteristics of six different types of regimes

Types of domination	Scores of economic and political rights and civil liberties								
	Economic rights			Political rights			Civil liberties		
	Free market competitions	Security of property rights	Equal opportunities	Competitive, multi-party system	Separation of powers	The rule of law	Freedom of expression	Freedom of association	Free choice of identity
Liberal democracy	4,3	4,3	4	4,3,2	4,3	4	4,3	4	4
Conservatism	4,3	4	3,2	4,3,2	4,3	4	4,3	4,3	3
Illiberalism	3,2	3,2	2	3,2	3,2	3,2	3,2	3,2	2,1
Autocracy	3,2	3,2	2,1	2,1,0	2,1,0	3,2	2,1	2,1	1,0
Dictatorship	3,2	3,2	1,0	1,0	1,0	1,0	1,0	0	0
Despotism	2,1	2,1,0	1,0	0	0	0	0	0	0

1-8. categories

	System of political domination	Three country examples	Market economy (1) Socialist system (2) Religious/Ethnic based regime (3) , Military rule (4)	Individual autonomy, right of ownership and protection of ownership	The importance of regularly held, free and fair elections	Elections are based on value judgments and not linked to ethnic (tribal, religious, linguistic, etc.) identity	State bureaucracy constraints the freedom of the executive branch	Respect of minorities (ethnic, national, linguistic, religious, sexual, etc.)	Rule of law
	Ideal type (Weberian) democracy	-	1	5	5	5	5	5	5
I	Liberal democracy	Sweden, Australia, Czechia	1	5	5	4	5	5	5
II	Conservative systems	USA, United Kingdom, Japan	1	5	5	4	4	4	5
III	Illiberal democracy	Hungary, Poland, Serbia	1	3	3	3	3	3	3
IV	Autocracy	Russia, Gulf monarchies, Turkey, India	2	2	1	2	2	1	2
V	Dictatorship	China, Iran, Saudi Arabia	2,3,4	1	1	2	1	1	1
VI	Despotism	North Korea, Turkmenistan, Myanmar	2,3	1	0	2	0	0	0

9-15. categories

		The role of brute force (0-->5)	The basis of rulers' authority ($\Sigma = 5$)			Fact-based political communication	Right to association	Free and fair access to the media	Freedom of expression	Academic freedom	The probability of elevating populist personalities to the top (0-->5)
	Ideal type (Weberian) democracy		Rule of law	Family's origin	Charisma						
I	Liberal democracy	1	4	1	0	5	5	5	5	5	0
II	Conservative systems	1	4	1	0	5	5	5	5	5	1
III	Illiberal democracy	1	3	1	1	5	5	5	5	5	2
		2	2	1	2	3	4	3	5	3	3
IV	Autocracy	3	1	3	1	2	2	3	2	1	3
V	Dictatorship	4	0	3	2	1	2	1	1	1	3
VI	Despotism	5	0	3	2	1	0	0	1	1	4



END

Thank You All

(Have a nice day)