

Does the Concept of Patchwork Capitalism Fit the Polish Case?

Marek Garbicz^{*}

Abstract

The text constitutes a certain polemic with the idea of “patchwork capitalism”, which has been developed by researchers from Warsaw School of Economics for some time, and which – as an original concept - would explain the different situation of post-socialist economies after the transformation. The considerations refer to the Polish case. It is argued, contrary to the opinion of the authors of the idea, that Poland is not an incoherent system of institutions (“patchwork”) without a clear core of interests around which the system’s reproduction occurs. Rather, it is a case of semi-peripheral dependent capitalism, with a large role of foreign capital and a weak state. The processes of capital reproduction thus mainly occur in the interest of foreign capital deeply penetrating the Polish economy. This means that the driving forces of our economy and the sources of successes are largely external. The problem of inconsistency in the institutional system or the weakness of the state does not lie in the choice of transformation path, the mediocrity of the elites, or the intellectual mistakes of decision-makers. The sources of this inconsistency should be sought in the conflict between the shape of imported, formal institutions supporting capitalism and the deeply rooted, culturally conditioned mechanisms of citizen behaviour. Informal institutions, the prevailing set of social norms, and the value systems shared by Poles have proven to be partially dysfunctional and thus revealed themselves as developmental constraints. A key weakness, it seems, is the low level of social capital in Polish society.

Keywords: patchwork capitalism, Poland, polemic with the idea of patchwork capitalism, dependent capitalism

JEL Classification Code: P16

^{*} Warsaw School of Economics, e-mail: mgarbi@sgh.waw.pl, <https://orcid.org/0000-0001-8826-5799>.

Capitalism is now a global system, hence the growing interest in its institutional shape in its various variants. The countries of Central and Eastern Europe after the transformation certainly do not fit either the model of Anglo-Saxon capitalism or the model of Rhenish capitalism, to use a well-known typology. Hence, probably, the idea of patchwork capitalism, which appeared as an original and complementary concept explaining the different situation of post-socialist economies and which has been developed by researchers from the Warsaw School of Economics for some time [Rapacki 2019]. In their opinion, it is the idea of the patchwork that best describes the political shape and unusual institutional framework of the post-socialist economies in the region of Eastern and Central Europe (i.e. the CEE11 zone) after the probable completion of the transformation process. The CEE11 area includes 11 countries that joined the EU from this region of Europe until 2013.

It seems that the concept of patchwork capitalism is based on three key theses. (1) Eastern European capitalism is a rather chaotic institutional mix (so it creates a kind of patchwork), (2) Additionally, none of the institutional orders constituting the system dominates and imposes its logic on the entire economy. (3) finally, due to the lack of a dominant economic interest (social class) around which the system reproduces, we are dealing with the weakness of the entire institutional system. The system is incoherent, therefore vulnerable to external pressures and influences, and the dominant social norms do not necessarily support it. The whole idea receives a rich political, economic and historical justification in the last text of the authors of the concept, entitled *Patchwork capitalism in Central and Eastern Europe – a new conceptualization* [Gardawski, Rapacki 2021]. And although the idea of patchwork capitalism is undoubtedly attractive due to its originality, it raises some doubts. Let me present the main objections, treating the Polish case as an argument. At the same time, in no case do I want to prejudge whether the analysis of the Polish case is universal.

First, all empirically known economic systems have been mixed. So it was in antiquity, in the Middle Ages, and so it is today. In this sense, both the feudal economy of the Polish-Lithuanian Commonwealth, economy of interwar Poland or economy of the communist Poland were patchwork. Therefore, neither the nowadays Poland nor any other contemporary capitalist state is unique in this respect. The authors of this idea are probably aware of it, and therefore – if patchwork concept is to bring something new to our knowledge – it cannot be reduced to a pure institutional collage. Therefore, at the same time, the concept contains the key idea of the supposed absence of a dominant interest, the absence of an economically ruling class. Or, to use the language of the authors of the idea - the lack of a dominant institutional “fabric”. There is, however, an indirect suggestion that such patchwork

capitalism functions today in a given economy within several, relatively autonomous, independent economic systems. Indeed, we have such an alternative: either a specific institutional system dominates, rules, determines the nature of reproduction of the entire system by subordinating other institutional orders and assigning them narrow fields of activity that do not interfere with their own conditions of expansion, or each of the existing institutional orders reproduces, to a lesser or larger extent, in its own and relatively independent niche. As I understand it, we are dealing with the second case where in patchwork capitalism the dominant institutional fabric is missing.

I do not think it corresponds to the Polish reality. It is a pity that the authors of the concept of patchwork are too much in the clouds of vagueness and have not undertaken to identify the main groups and social classes, the main centres of interest. Patchwork capitalism remains capitalism and it is worth determining who controls this capital and to what extent. There seem to be four main candidates wielding capital. These are: (1) foreign capital, (2) state capital, (3) large and medium Polish private capital, (4) small-scale sector. For me, it is obvious that foreign capital plays the main role here. And it does not matter much that this capital flows from different directions and has different national faces. The transformation process has thoroughly overhauled the Polish economy institutionally. The country has imported all the major economic institutions of the West, and the economy has been integrated into the social division of labour of world capitalism. And this division corresponds to the needs and logic of this system, the rules of global capital. Whether we like it or not, we situate ourselves in the semi-periphery as a useful but subordinate part of the whole system. The periphery zone has no choice and can benefit economically only under the conditions imposed by others, i.e. by the dominant forces of big capital. After all, we do not set the rules of the economic game, and the development of the periphery is a side effect of the transformations of global capitalism itself, it is entangled in the logic of the centre, its needs and interests. As Poland, we are a case of semi-peripheral dependent capitalism.

The thesis, that it is impossible to determine in whose interest the processes of capital reproduction in Poland take place, seems to be inaccurate. They are mainly in the interest of foreign capital deeply penetrating the Polish economy. The available data allow an approximate estimation of the role of this capital in the national economy. Firstly, non-financial foreign enterprises in Poland generate at least 30% of the domestic value added generated outside the financial sector¹. Among all large

¹ The estimation was carried out in such a way that the added value was divided between domestic and foreign companies in proportion to the number of companies with different capital. This assumes equal productivity of companies with Polish and foreign capital. This probably underestimates the share of

companies in Poland (employing over 250 people) 52% are foreign enterprises and that is where the lion's share of this added value is created (over 26% of VA). In addition, it means that these companies, due to their scale, have great opportunities to influence the sphere of politics. Secondly, it is no secret that companies located in Poland are integrated into global value chains. But they are subordinated to and dependent on centres that control both the design and innovation phases and control distribution channels. There is a clear asymmetry of benefits from participation in global value chains. Companies in Poland are generally placed at the bottom of the ladder of creating added value (the famous phrase about specializing in screwing). Thirdly, high degree of control of distribution channels is indicated by the fact that almost half of Polish exports are carried out by companies with foreign capital. And about a quarter of these exports by foreign firms is intra – firm export. Fourthly, foreign capital employs about two million workers, i.e. approximately 16% of all employees, apart from the self-employed. But from the point of view of Poland, these are innovative places. This is confirmed by the high share of the foreign sector in exports. Based on empirical US observations, E. Moretti indicates that each innovative workplace creates demand for 5 more (two for professionals and three for lower-qualified, auxiliary employees) [Moretti 2012]. The mechanism of this phenomenon is simple. On the one hand, we have a whole lot of domestic companies cooperating with foreign capital, suppliers of raw materials, semi-finished products, components, etc., and on the other – a group of entities benefiting from the high demand for consumer goods and services generated by employees in foreign corporations. Therefore, if we adopted an even more modest multiplier, e.g. 3, and if only jobs in large foreign companies were treated as innovative, we would have to conclude that as much as one third of jobs in Poland depend on foreign capital. And this is probably the lower estimate of the role played by this capital on the labour market.

It is therefore evident that the Polish economy, being fully equipped with capitalist institutions of the 21st century, remains strongly dependent on the presence of foreign capital. It allowed the Polish economy to join the global division of labour, but on its own terms. It determines the level of innovation of the Polish economy, the size of its exports and, to a large extent, the situation on the labour market. Of course, Poland benefits from this in various fields, but it is the interests of foreign capital that determine the limits and room for manoeuvre for national economic policy. In these circumstances, I believe that the concept of patchwork capitalism,

value added by foreign enterprises. Therefore, the calculation can be treated as a lower limit for the share of foreign capital. Data from: SME Performance Review 2022, Poland EUROSTAT, Economic activity of enterprises with foreign capital in 2021, GUS.

built in opposition to the idea of (semi-) peripheral dependent capitalism [Nölke, Vliegenthart 2009], refers to rather secondary features of systems in ESW11 countries that distinguish them from other economies. For example, differences in the way companies are managed, differences in the organizational culture of foreign capital from different countries, etc. are emphasized. For some reason, the authors of the patchwork concept do not notice these relations of power, ignore and omit them, although they are fully aware of the role played by foreign capital in the privatization process. At the same time, an exaggerated role is attributed to the subjective motivations of the actors participating or implementing transformation processes. Opening up to foreign capital was decisive! A process was launched which, regardless of previous intentions, had to lead to the takeover of the economy by foreign big capital. If another author writes approvingly that transnational corporations left only “chunks” to the national oligarchs, then there should be no problem with identifying the centres of power and control in the Polish economy. In this sense, the authors avoid explicitness, and their arguments appear to be inconsistent. On the one hand, the patchwork concept is difficult to reconcile with the idea of a dependent market economy. On the other hand, the reader has the impression that the patchwork concept glides a bit on the surface of the problem, it is a kind of escape from trying to capture and understand the meaning of existing economic institutions. Instead, it refers to quite formal characteristics of economies (inconsistency, weakness of institutions), which unfortunately does not reveal the real social content of the social and economic relations in Poland and other CEE11 countries. And as a consequence, it incorrectly identifies the place of these economies on the economic world map.

According to the authors of the proposed approach, the patchwork character of Eastern European capitalism leads to inconsistency of the entire institutional system and, as a result, to the weakness of the state. They put it this way: “The unique nature of this type of socioeconomic order, labelled patchwork capitalism is mainly due to the lack of a clear-cut fabric of basic formal institutions, including in particular weakness of the very institutions of state and law, as well as to a shallow socio-structural (class) and cultural embeddedness of the fabric concerned. The existing institutional architecture of patchwork capitalism exhibits incoherence and numerous mismatches between its main components inherited from earlier socioeconomic regimes (path dependence) and/or transplanted from various contemporary models of Western capitalism” [Gardawski, Rapacki 2021]. It seems that, in the opinion of the authors of the concept, building capitalism without capitalists was the original sin of the transformation. This situation initially had no viable alternative, but it does not mean that after 30 years of transformation, capitalism in Poland is still an

orphan. As indicated above, the power relations, the key centres of economic power and control of capital are fairly easy to identify. It is foreign capital that is the centre around which the rest of the Polish economy orbits. And the detailed institutional costume in which it is implemented is of secondary importance.

However, it is difficult to disagree about the weakness of the institutional structure in Poland, the weakness of the state and its apparatus. I only doubt whether this is a consequence of the way in which the transformation process took place. I think that we can safely disregard considerations about the breakthrough elite or the adaptation elite, various subjective motivations, errors and intellectual deficits that were the part of decision-making centres. Of course, this is of some importance in explaining some of the specific features of the formal arrangement of institutions that we have today, but it is of little importance in explaining the general shape of the country's economic system. The political transformation of the post-socialist countries, if it took the form of privatization, took place only in two ways. In the case of Poland and some other Eastern European countries, the process of privatization of state-owned assets boiled down to the acquisition of a significant part of these assets by foreign capital. Such a development of events was probably inevitable because the sale of state property was carried out in a very short time and in the absence of domestic capital. Alternatively, privatization in Russia and Ukraine has largely taken the form of the looting of public property by a small group of powerful people, which has led to the emergence of an indigenous oligarchy concentrating vast wealth in its hands. We also have a variant of state capitalism where mass privatization has been abandoned, and China is a good example. And that was a real choice. Any suggestion that this margin of freedom could have been somehow much wider is not convincing.

Indeed, there is a problem with the inconsistency of the entire institutional arrangement. In general, however, it does not seem that the reason lies in the choice of the transformation path, the weakness of the elites or the intellectual mistakes of decision-makers. The sources of this inconsistency should be sought deeper, namely in the conflict between the shape of the imported, formal institutions that fund capitalism and the deeply rooted, culturally conditioned mechanisms of citizens' behaviour. It is informal institutions, the prevailing system of social norms and systems of values shared by Poles that turned out to be partially dysfunctional and thus revealed themselves as development barriers. The key weakness, it seems, is the low level of social capital in Polish society [Garbicz 2020].

It is somewhat intriguing that economics underestimates the role of cooperation in economic processes, and quite unilaterally emphasizes the issues of competition as a tool for stimulating and motivating. In fact, since the emergence of the division

of labour and specialization, all economic successes have been built on the effective solving of problems of cooperation between people. Unfortunately, a low level of social capital means that society does not create a community to a sufficient degree, and the factors that bind the community together are weak. Social capital is a kind of “glue” that ensures strong mutual ties and such relationships between people in the group, thanks to which members of the collective are ready to act for the benefit of the collective. The deficit of this capital has an impact on the economy and the efficiency of the political system. Of course, the phenomenon of low social capital has roots deep in history. The consequences of this phenomenon are higher development costs (due to higher risk), inability to take full advantage of economies of scale (reduced readiness for collective action), increased vulnerability of the economy to market failures (in social games dominate non-cooperative decisions) and weakness of the state. What is a weak state? A weak state is an entity incapable of effectively carrying out its own decisions, regulatory ineffective, a passive observer of natural social processes. A low level of social capital causes disturbances in the functioning of the institutional system. The rules of the game in a social system work well only when the officers who guard social or economic institutions are willing to abide by these rules, and this depends on the degree of identification with the collective of which they are members. The more everyone is a community, the more complete the commitment and willingness to cooperate in the implementation of some common goals and the readiness to submit to established rules, the more complete the internalization of these rules. The weaker identification and lower trust between people the stronger decrease in efficiency of institutions. This is exactly the case when we say that the state is weak. Weak, i.e. incapable - or able only to a limited extent - to enforce the rules they set because legal regulations are simply sabotaged to some extent by the community, but also by their own officers.

Let us consider that all these weaknesses of the state are revealed regardless of the course of the transformation processes, its successes or failures. They are founded in the area of informal institutions, in the zone of deeply internalized social norms. At the same time, low social capital resources are strongly correlated with low civic/political culture of Poles. The point is, what are the norms, ideals and values in political life that citizens adhere to? As a consequence, what political norms and behaviours are accepted, supported or at least tolerated by the society, and which ones are rejected, disqualified and cause opposition? Of course, it would be a mistake to over-generalize. Nevertheless, the political culture of large social groups in Poland does not legitimize the democratic system. This political culture is permeated with mutual distrust between the actors, leading to a tribal mindset of mostly supporting “ours”

and ignoring the legitimate interests of “others”. In a simple way, this leads to the use of double moral standards in social relations, failure to keep contracts and obligations, if it is temporarily beneficial. If state officials identify more strongly with their own group than with the entire community, it is obvious that such tribal thinking results in the internal disintegration of the state apparatus and the growing scale of parasitic games, making the state partly uncontrollable.

The conclusion of these considerations is the thesis that Poland is not an incoherent system of institutions (“patchwork”) without a clear core of interests around which the system is reproduced but is a case of semi-peripheral dependent capitalism with a weak state. This means that the drivers of our economy and the sources of success are to a large extent external (outside us). This kind of colonization of the Polish economy by foreign capital has become a fact, but of course Poland also benefits from this situation, such as growing GDP/capita, increasing the standard of living, income and wages, employment and taxes, and exports. At the same time, our common values, social norms and preferences as well as typical economic behaviours are not fully functional in relation to the development needs of a country aspiring to be a technologically leading area. All these informal institutions are responsible for a weak state. However, it is not the weak state that has defined our situation.

Bibliografia

- Rapacki, R. (Ed.) (2019). *Diversity of Patchwork Capitalism in Central and Eastern Europe*, London and New York: Routledge.
- Gardawski, J., Rapacki, R. (2021). ‘Patchwork Capitalism in Central and Eastern Europe: A New Conceptualization’, *Warsaw Forum of Economic Sociology*, 12:2(24).
- Moretti, E. (2012). *The New Geography of Jobs*, Boston: Houghton Mifflin Harcourt.
- Nölke, A., Vliegenthart A. (2009). ‘Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe’, *World Politics*, 61(4).
- Garbicz, M. (2020). ‘Kiedy Polska dogoni rozwinięty Zachód?’, in: *Nowe wyzwania w naukach o gospodarce*, R. Bartkowiak, M. Matusiewicz (Eds.), Warsaw: Oficyna Wydawnicza SGH.