

CAPITALISM AND DEMOCRACY IN THE POSTSOCIALIST TRANSFORMATION. BASIC CONCEPTS

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The collapse of one-party dictatorship and centrally planned economy based on state ownership opened up the pathways for the formation of different postsocialist systems. Among other variants in a certain number of postsocialist states, democratic capitalism could emerge. Recently the system of postsocialist capitalism has been going through the process of regression leading to a distorted and defective democracy and capitalism in some postsocialist countries. This essay reviews the literature on the relationship of democracy and capitalism in order to contribute to the creation of a theoretical framework for the analysis of the regression of postsocialist democratic capitalism. In the paper the argument is made that for the explanation of the regression of democratic capitalism, the structural analysis of postsocialist democratization and marketization should be supplemented with a theory that reflects on the role of political actors, the role of political parties, party competition in this process.

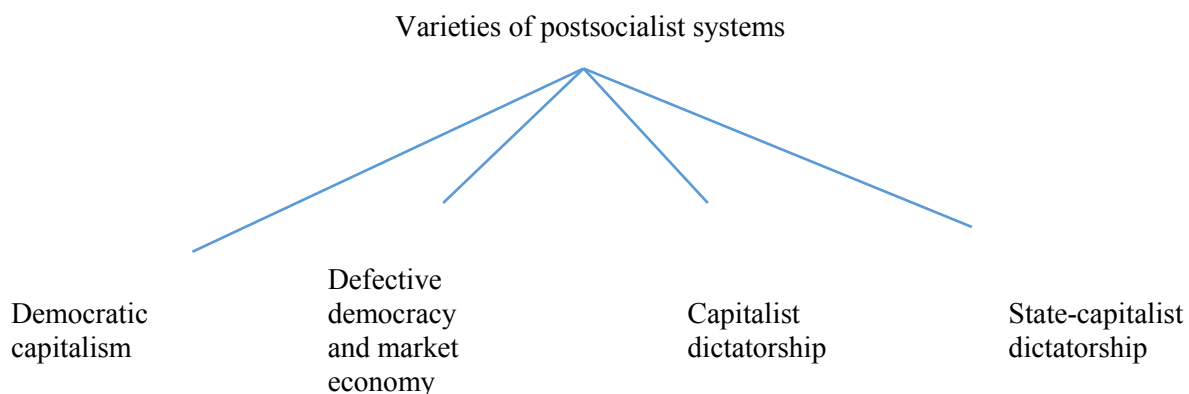
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1. Introduction

The collapse of the socialist system opened up alternative pathways of the postsocialist transformation. In some countries political dictatorship gave way to political democracy and the centrally planned socialist economy was transformed into a capitalist system, thus democratic capitalism was established. In other cases new political dictatorships came into existence linked to a state-dominated postsocialist economic system. In between these two extremes other two political economies emerged, namely a capitalist system with defective democracy and a capitalist dictatorship. Figure 1 shows all these postsocialist variants.

Figure 1. Varieties of postsocialist systems



Source: author

All variants could be understood as self-reproducing systems, still, the emergence of democratic capitalism was perceived as a major success and assumed to be the most stable from among all postsocialist variants.¹ However, in a few countries² the last couple of years saw an unexpected regression of democratic capitalism to a defective democracy and distorted market economy. These changes raise the question of how to explain what has been taking place right now? Why may postsocialist democratic capitalism prove to be less stable than western democratic capitalism or the other variants of postsocialist systems? How could the regression come into existence in the first place? This paper does not intend to answer these questions directly and does not examine empirical cases of the regression. My aim is more modest: I will discuss a few theories of the postsocialist transformation in order to find out how theory should deal with the regression of postsocialist democratic capitalism. What can we learn from the previous theoretical debates and controversies? What are those concepts and theories that we need for a causal explanation of the regression of postsocialist democratic capitalism?

First, I will look at those theories that discuss the relationship of capitalism and democracy in general. Second, I will deal with the theoretical controversy about the relationship between postsocialist marketization and democratization. Third, I will look at arguments that focus on the structural factors of postsocialist democracy and the tensions that may exist within postsocialist democratic capitalism. Fourth, I will argue that in order to develop a causal explanation of the regression of postsocialist democratic capitalism one has to focus on the patterns of party competition in the postsocialist countries. Finally, I will conclude.

2. Mainstream theories on capitalism and democracy

The arguments about the relationship between capitalism and democracy can be grouped into four different theorems (see Table 1).

¹ The theories assuming the stability of democratic capitalism will be discussed in the next two sections of this paper.

² Let me mention Hungary, Poland, Romania.

Table 1. Theories about the relationship of capitalism and democracy³

Causal link	supportive (+)	antagonistic (-)
Capitalism→Democracy	<i>Necessity theorem</i> Capitalism is the <i>necessary</i> condition of democracy there is no <i>political freedom</i> without economic freedom	<i>Inequality theorem</i> Capitalism limits democracy market inequalities override <i>political equality</i>
Democracy→Capitalism	<i>Optimality theorem</i> Democracy is the <i>optimal</i> condition for capitalism democracy is the institutional guarantee for a <i>free market</i> and private property rights	<i>Disability theorem</i> Democracy limits capitalism market actors use democracy for constraining the <i>freedom</i> of market and private property rights

Source: compiled by the author

*The necessity theorem*⁴ and *the optimality theorem* point out that there is a structurally based correspondence between capitalism and democracy. Capitalism supports democracy and democracy supports capitalism because both assume the separation of the economy and the polity: the emergence of civil rights and freedoms and political rights and freedom reflect and also reinforce this separation (Acemoglu – Robinson 2012; North et al. 2009; Olson 1993; Lindblom 1977). For this reason democratic capitalism should be a stable mix. *The inequality theorem* argues that economic inequalities that are the intrinsic features of capitalism, constrain and bias the working of political democracy. Those who have more economic power, the *winners*, will also have more political power. The economic inequalities of capitalism are translated into political inequalities (Downs (1957; Przeworski – Wallerstein 1988). *The disability theorem* (Beetham 1993) points out that democracy may undermine capitalism because the *losers* of the economy relying on their political rights as voters can undermine or limit those basic economic institutions of capitalism (private property and market coordination) that are the sources of economic inequality (Dahl 1993). Both theorems argue that there is a tension between capitalism and democracy. For this reason democratic capitalism should be an unstable mix.

Theories emphasizing the structural compatibility of capitalism and democracy need to conclude that democratic capitalism is a stable and sustainable system. Theories pointing out that there is a tension between capitalism and democracy may contribute to the

³ The analytical construction of this table comes from Offe (1987). Offe set up two tables, one examined the theories about the relationship between market and welfare state, the other examined the theories about the relationship between democracy and welfare state. He did not deal with the theories about the relationship between democracy and market (capitalism).

⁴ The term comes from Beetham (1993).

understanding of the regression of democratic capitalism since these tensions may weaken democratic capitalism and may lead to regression.

So are these theories right or wrong? Looking at these arguments from an analytical perspective we may say that there is no logical contradiction among them, since the theorems about the positive linkage between capitalism and democracy focus on the issue of *liberty*, while those about the negative linkage between capitalism and democracy look at the issues of *equality versus inequality*. Economic and political liberties do maintain economic and political inequalities, capitalism and democracy simultaneously reinforce and limit each other. In other words, the stability of democratic capitalism is not based on the *exclusion* of destabilizing tensions between capitalism and democracy but on the *internalization* of them. An important corollary of this argument is the understanding that the emergence and stability of democratic capitalism is based on the role of *winners* of capitalism.⁵ To sum up, the controversy about the relationship between capitalism and democracy supports the thesis about the sustainability of democratic capitalism. This thesis fits the development of democratic capitalism well in the West.

3. Theories on the relationship of postsocialist democratization and marketization

The postsocialist transformation revived the discourse on the relationship between capitalism and democracy, since the collapse of socialism opened up a pathway to democracy and capitalism. At first sight the theoretical controversy about democratization and marketization in the postsocialist transformation seems to reproduce the arguments of the mainstream theory. The four theses are summarized in Table 2.⁶

⁵ The classical formulation of this statement can be found in Moore (1974: 418): “no bourgeois no democracy.”

⁶ Table 2 offers a typology that partially overlaps with that in Greskovits (2000). Greskovits constructs a two by two table along the dimensions of capitalism and democracy on the one hand and of the legacy of socialism on the other hand. He contrasts “The free market road to freedom thesis” with the “The impossibility theorem” (Greskovits 2000: 25). In Table 2 this contrast is discussed as the dichotomy of Compatibility thesis versus Incompatibility thesis. This is where the similarities between the two texts end. Greskovits combines the discussion of the relationship between capitalism and democracy with the analysis of the impact of the *legacies of socialism* on the postsocialist transformation. It allows for him to connect the issues of postsocialist democratic capitalism to the argument made by Hirschman in his “Tableau ideologique” (Hirschman 1992). Originally Hirschman’s table dealt with the rival theories of market society (capitalism). Hirschman asked two questions. First, do theories of market societies posit the self-sustainability or the self-destruction of market society? Second, do theories of market society posit a positive or a negative relationship between market society and the feudal past? Consequently, Hirschman did not discuss the relationship of capitalism and democracy. It is Greskovits’s interesting and important theoretical innovation to adapt Hirschman’s logic by connecting the issue of postsocialist democracy and capitalism to the issue of the socialist past. However, I do not follow him in this because I focus just on the relationship of capitalism and democracy. It explains why this paper is inspired not by Hirschman (1992) but by Offe (1984) as indicated in note 3.

Table 2. Theories of postsocialist democratization and marketization

Causal link	supportive (+)	antagonistic (-)
Capitalism→Democracy	<p><i>Compatibility thesis</i> Postsocialist economic reforms (privatization and marketization) are the <i>necessary</i> conditions of political democracy Partial economic reforms create <i>rent-seeking winners</i> interested in the weakening of democratic accountability</p>	<p><i>Incompatibility thesis</i> Postsocialist economic reforms are incompatible with democracy Capitalist transformation creates <i>losers</i> against whom economic reforms can be protected only weakening or giving up <i>democracy</i></p>
Democracy→Capitalism	<p><i>Optimality thesis</i> Democracy is the institutional safeguard of capitalist economic reforms Democracy puts a limitation on <i>rent-seeking winners</i> interested in <i>partial reform-equilibrium</i></p>	<p><i>Breakdown thesis</i> Democracy is the instrument of halting capitalist economic reforms <i>Losers</i> use democracy to slow down or halt capitalist economic reforms</p>

Source: author

In general, *the compatibility thesis* builds on the argument that democracy cannot come into existence without capitalism, therefore the capitalist economic transformation is a necessary condition of a successful process of democratization. Particularly, this thesis points out that in the absence of comprehensive economic reforms the economic *winner*s of partial economic transformation may be strong enough to weaken democracy in order to secure economic rents for themselves. If democratic accountability was weak, politicians would have less incentive to oppose state capture, to oppose to serve the interests of rent-seeking winners (Hellman 1998: 232). In accordance with this argument *the optimality thesis* says that successful democratization is a necessary condition of postsocialist marketization just because it may contain the efforts of rent-seeking winners to maintain partial reform equilibrium (Hellman 1998: 234; Vachudova 2005: 11-24). The two theses together emphasize that postsocialist democratization and marketization reinforce each other. *The incompatibility thesis* argues that market-oriented economic reforms cannot co-exist with political democracy, because the capitalist economic transformation creates a great number of economic *losers* who would cast a protest vote against painful economic reforms. Marketization should be protected against losers. In other words, capitalist transformation may be saved to the detriment of democratization (Przeworski 1991: 161, 182-187). *The breakdown thesis* also builds on the tension between democratization and marketization. It contends that the success of democratization undermines the success of marketization, just because it allows for the *losers* to halt the economic transformation (Offe 1991; Przeworski 1991).

The controversy about postsocialist democratization and marketization shows similarity to the mainstream debate to the extent that those who argue about the tension between these processes emphasize the role of the *losers* in the transformation. Also, all these theories are built on a common methodological assumption according to which the coalitions and actions of socio-economic actors based on their economic interests explain political outcomes.

At the same time, the arguments that emphasize the correspondence and the mutual reinforcement of democratization and marketization in the postsocialist transformation point out that the key element of the dual transformation is the containment and weakening of economic *winner*s. The emergence and stability of democratic capitalism is not based on the role of economic winners of capitalism, to the contrary, these transformations can be successful just because they weaken the economic winners.

This difference in theories is rooted in the different ways how capitalism emerged in the West and in the East. In the West industrial capitalism was more or less the result of a spontaneous economic process. The proliferation of capitalist activities created socio-economic actors, we can call them winners, who had a strong interest in the autonomy of the economy, in the protection of private property rights and economic competition. In other words, the winners had an interest in limiting an almighty state that would intervene and question the autonomy of the emerging new private economic actors. Democracy was used as a means to introduce limitations on the autonomy of the state. The executive was made to be responsible to the Parliament, members of Parliament were elected by those who had a right to vote. Representative democracy curtailed the powers of the state. Within the system of democratic capitalism winners could represent their interests first by denying voting rights to the losers of industrialization, later by relying their superior economic resources within the system of mass democracy. Consequently, winners could pursue and represent their particular interests within the system of liberal (constitutional) democracy.⁷

In the East the postsocialist transformation introduced capitalism as a part of a political project. *Political capitalism*⁸ created private owners, capitalists as a result of economic reforms launched by political actors. As Hellman pointed out, this process may lead to a *partial reform equilibrium* that provides rents for economic winners who have an interest in preserving this equilibrium, since comprehensive economic reforms would

⁷ Liberal democracy is constitutional democracy and vice versa, therefore I use these terms as synonyms. On the issue of liberalism, constitutionalism and democracy see Zakaria (1997).

⁸ This term is used by Staniszkis (1991) and Offe (1991: 877).

eliminate those market distortions that are the sources of rents. Consequently, the winners do not have an interest in establishing market competition and also they do not have an interest in establishing political competition. Strong political competition would reduce the chances of state capture, since having a strong democracy politicians need to be more responsive to voters and less responsive to rent-seeking private interest groups (Hellman 1998: 232; Vachudova 2005: 13-15). From it follows that a strong democracy and a strong capitalist market economy reinforce each other, and a defective democracy and an imperfect market economy also reinforce each other. In this system the winners pursue their private interests not within the system of constitutional democracy but by weakening the system of constitutional democracy.⁹

As opposed to the mainstream discourse about the relationship between capitalism and democracy the controversy about the postsocialist transformation contained real either/or choices. One cannot argue that democratization and marketization may simultaneously support and exclude each other. The theoretical debate led to the conclusion that democratization and marketization did reinforce each other. There were successful and unsuccessful postsocialist transformations. In the successful cases democratic capitalism emerged as an outcome just because comprehensive and radical economic and political reforms reinforced each other, in the unsuccessful cases democratic capitalism was not reached just because limited democratic reforms and limited, partial economic reforms also reinforced each other. Consequently, this debate about the feasibility of simultaneous democratization and marketization remained within the dichotomy of success versus failure. This characteristic of the debate may also be seen as an important limitation from the perspective of a theory of regression of democratic capitalism.

The emergence of democratic capitalism in certain postsocialist countries was understood as a major success opposed to that of defective democracy and distorted market economy or capitalist dictatorship in some other countries. This dichotomy takes it as granted that democratic capitalism is a stable outcome based on the correspondence of its economic and political subsystems that create a coherent whole. The possible conflict of capitalism and democracy assumes the *external* contradiction of democratic capitalism to the mix of distorted capitalism and defective democracy and to capitalist dictatorship. The tacit assumption behind this dichotomy is the belief that postsocialist democratic capitalism is going to be similar to Western democratic capitalism. However, in order to understand why

⁹ Winners still may not have an interest in completely abandoning democracy and replacing it with dictatorship. See Székely-Doby (2016: 515-516).

the regression of democratic capitalism may take place in certain postsocialist countries, one has to ask the question whether it is the case or not. Will postsocialist democratic capitalism be different from, and less stable than, the Western versions of democratic capitalism? Will postsocialist democratic capitalism be sustainable in the first place? From the perspective of the theory of the regression of postsocialist democratic capitalism the challenge is how to explain regression in the light of the strong argument about the structural fit between capitalism and democracy. Is it possible to go beyond this argument *without abandoning it*?

I will look at two different theories that offer an alternative to the discourses we looked at above. The first one is Greskovits's proposition. He introduces a theoretical distinction between democratic capitalism in the West and in the East. From this distinction it follows that democratic capitalism may be stable in the West but it is much less likely the case in the East. The second one is Merkel's proposition to redefine the concept of democracy. On this basis he is able to distinguish between embedded and defective democracies. The first type we find in the West the second type in the East. Consequently, that distinction can explain why democratic capitalism is sustainable in the West and why regression may take place in the East.

4. Theories of distortions of postsocialist democratic capitalism

An important contribution to the understanding of these issues was made by Béla Greskovits who argued that postsocialist democratic capitalism was different from its Western variant, because it maintained an "enduring low-level equilibrium between incomplete democracy and imperfect market economy" (Greskovits 1998: 178). "Even the more successful East European nations will continue to exhibit varied combinations of relatively low-performing, institutionally mixed market economies and incomplete, elitist, and exclusionary democracies with a weak citizenship component" (Greskovits 1998: 184). In other words, we have to go beyond the dichotomy of success and failure in order to be able to establish the differences between Eastern and Western democratic capitalism. The latter may be sustainable but the former may not, just because postsocialist democratic capitalism differs from democratic capitalism in the West.

However, these characteristics of democratic deficit may exist and stay *within* the system of constitutional democracy how it emerged in the West. Constitutional democracies in the West are also elitist systems with politically passive citizens and with the exclusion of the poor and the weak. If we wanted to understand the postsocialist regression of democratic capitalism we need to ask the question why democratic deficits contribute to the dismantling

of constitutional democracy in certain cases and why they do not lead to this outcome in some other cases.

In his recent paper Greskovits also asks this question. He introduces a theoretical distinction between hollowing and backsliding. *Hollowing* refers to the deficits of constitutional democracy, to the issues of democratic participation that remain within the system of constitutional democracy. *Backsliding* on the other hand means distortions in, and the regression of, constitutional democracy. For Greskovits the important question is how and under what conditions may hollowing lead to backsliding.

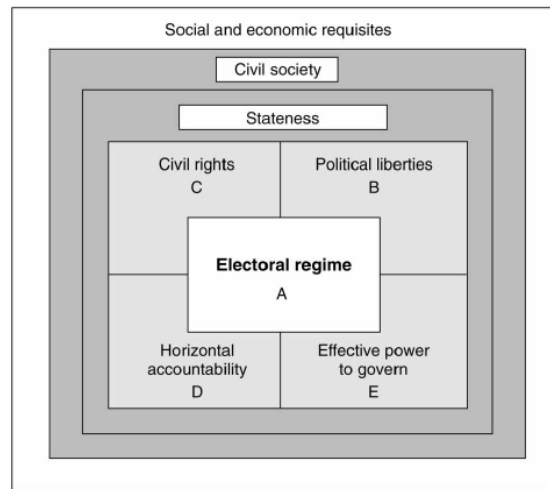
On the one hand hollowing ought to have an impact on the risk of backsliding. How could democracy remain solid, if parties' membership and embeddedness in civil society evaporate at the same time as citizens lose appetite for their identification with parties, for voting at elections and joining civil society organizations? Who remains there to defend the system against its enemies once its popular content atrophies? On the other hand one could also argue that while western democracy has been eroding for several decades, instances of its serious backsliding let alone collapse have been rare after the Second World War. Ironically, then, the fact that the nascent postsocialist democracies exhibit symptoms of hollowing to a greater extent than their western counterparts but so far their majority has survived the recurrent hard times without reverting to authoritarianism, may send the message: there is a long way to go before hollowing leads to nondemocratic outcomes. (Greskovits 2015: 30)

However, it means that there is no direct causal relationship between hollowing and backsliding. If hollowing is not a sufficient cause of backsliding, then what are those other factors that may cause the regression of democracy?

For the answer first we need a theory that explains the difference between constitutional and non-constitutional democracy. Having a clear concept of the dichotomy between constitutional and defective democracies, we can pose the question how regression may take place, how constitutional democracy may be transformed into defective democracy. A conceptual framework for comparing constitutional democracies and defective democracies is offered by Wolfgang Merkel (2004). In other words, he sets up a dichotomy between constitutional democracy and democracies that are distorted because they are not constitutional ones. For this reason Merkel offers a theory that goes beyond the Greskovits argument that kept the discussion of democratic distortions within the concept of constitutional democracy.

Merkel explains that constitutional democracy is *embedded democracy* (see Figure 2).

Figure 2. The concept of embedded democracy



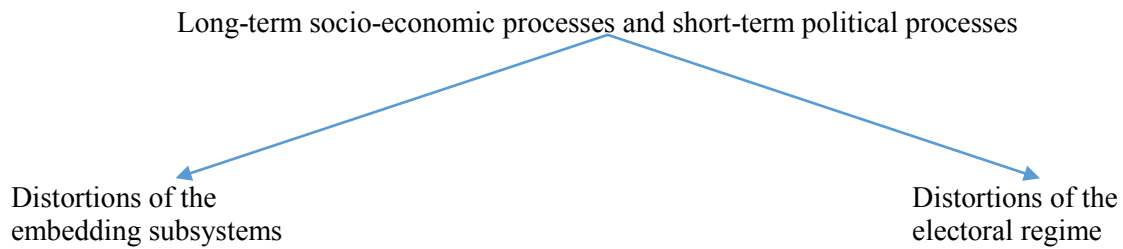
Source: Merkel (2004: 37)

The electoral regime is the core element of political democracy, but democracy works only if the electoral regime is embedded in four other subsystems. Political competition relies on the existence of civil rights, political liberties, the presence of the rule of law and separation of powers (horizontal accountability) and also the existence of elected officials who have power to rule. Any distortions in any of these subsystems create a specific variant of defective democracy.

The merit of this theory is that on the basis of a structural argument it is capable of identifying the different versions of deficient democracies. The theory measures and identifies the distortions of an existing political democracy by relating it to the concept of embedded democracy.

What are the causes of the emergence of deficient democracies? Merkel refers to long-term socio-economic and short term political processes that may distort the democratic system. Long term causes are related to the process of modernization, economic trends, the development of civil society and the political state. Short term causes are related to the type of the authoritarian predecessor regime, the characteristics of the democratization process, the role of informal institutions and the international contexts (Merkel 2004: 52-54). Merkel's argument is summarized in Figure 3.

Figure 3. The causes of deficient democracy in Merkel's theory

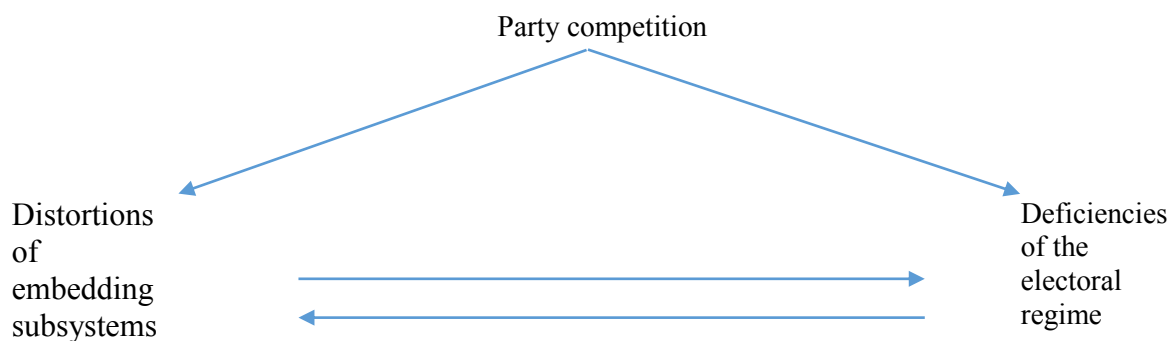


Source: author, based on Merkel (2004).

5. Causal explanation: party competition matters

This structural argument leaves open the causal question of *agency*.¹⁰ Who are the actors? Who cause the distortions of democracy? By focusing on the role of actors we propose to insert a third variable that should mediate between the long-term and short-term causes above. The question about the actors in a democratic system is most essentially the question about *political parties*. If we want to explain the regression of political democracy we have to insert the role of political parties, the characteristics of *party competition* into the causal explanation. The pattern of party competition should explain the distortions of the embedding subsystems and the distortions of the electoral regime. The distortions of party competition cause the distortions of the democratic system. This argument is shown in Figure 4.

Figure 4. The causal explanation of defective democracy: the role of party politics



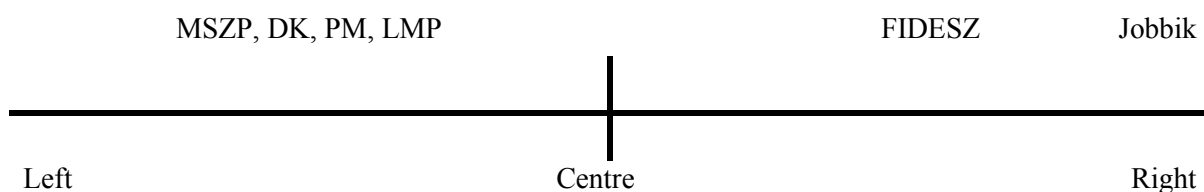
Source: author

¹⁰ Enyedi points out that structural arguments focusing on long term historical processes are unable to explain the regression of democracy that may take place relatively fast. “The radical pace of the changes casts doubts on structuralist explanations. Neither modernization nor political culture theories can account for the extreme temporal variation in the quality of democracy” (Enyedi 2016: 216).

The functioning of party competition in an embedded democracy is going to cause changes in the embedding subsystems and in the electoral regime. If party competition ceases to be a robust one, if asymmetries in party competition come into existence, the winners of democratic elections may initiate sweeping changes in the political system that will lead to the distortion of the embedding subsystems and the electoral regime. The asymmetry of party competition means that the opponent parties of the winning party become weak. They lose the power to mobilize that amount of voters that would be necessary to win the next elections. Why may a robust party competition be transformed into an asymmetric one with weak parties in the opposition? This question is a complex one and goes beyond the scope of this paper, however let me just mention one issue that is related to the theories focusing on the role of losers in democratic capitalism. These theories offer an important aspect for understanding this change. If parties compete for losers in order to maximize votes and make economic promises they cannot keep when they get into office, they will lose credibility and as a consequence voter support. They will become small and weak.

The situation in Hungary after 2010 can serve as an example for the asymmetry of party competition. Due to the landslide victory of FIDESZ in 2010, the opposition parties became too weak to be able to challenge their opponent. What emerged was referred to by the leader of FIDESZ, Viktor Orban as “the central political power field”. What it means is shown in Figure 5.

Figure 5. The “central political power field”



Source: author

The ruling party faces opponents both from the left and from the right. It helps the incumbent party to stay in power, since the votes for the opposition, the votes for left parties and those for the radical right party cannot be added. The incumbent party may stay in office if it collects more votes than the parties do to its left and to its right on their own.

If the incumbent party or parties understand that they will not lose the next elections they will feel free to change the political and also the economic system according to their interests.¹¹ They will initiate changes that cement them into power. As a consequence, a vicious circle may develop: the distortions of the embedding subsystems and the electoral regime caused by the asymmetry of party competition will reinforce each other and shelter the ruling party from further political competition. This argument is in line with the work of those scholars who deal with party politics in the postsocialist systems. This research emphasizes the importance of robust, symmetric party competition for the functioning of postsocialist political democracy and compares the different postsocialist political systems from this perspective (Grzymala-Busse 2006; Vachudova 2008). From it follows directly that distortions in party competition, the emergence of an asymmetric system of party competition may lead to the regression of democracy.

The proposition made in this paper is to bring the variable of the pattern of party competition into the causal explanation of the regression of postsocialist democratic capitalism. This explanation may be seen as shallow compared to structural theories that offer explanations that are deep.¹² However, what we need to do is to connect shallow and deep explanations. It can be done by asking questions about the causes that lead to an asymmetric party competition. This is the issue that is addressed by Enyedi :

The road to democratic backsliding started with elitist polarization, followed by a phase of populist polarization, and culminated in an illiberal democratic regime based on a dominant party system. While polarization has been present across all the phases, populism amplified its consequences. (Enyedi 2016: 218)

Enyedi clearly connects backsliding to party competition in this statement. He links the emergence of illiberal democracy to the formation of an asymmetric party competition (dominant party system). He then goes further and argues that this new dominant party system is the consequence of previous party and elite polarization with a populist tint. This causal explanation avoids the traps of a simple tautology.¹³ Obviously, one may go further and ask the question what the causes of polarization are. Are there also other causes that contributed to backsliding? These are legitimate questions but they lie beyond the scope of this paper.

¹¹ See also Székely-Doby (2016: 514).

¹² On the problem of shallow versus deep explanations see Kitschelt (2003) and Frye (2010: 18-19).

¹³ Kitschelt argues correctly that too shallow explanations are basically tautologies (Kitschelt 2003: 64).

6. Distorted capitalism: the inverted order

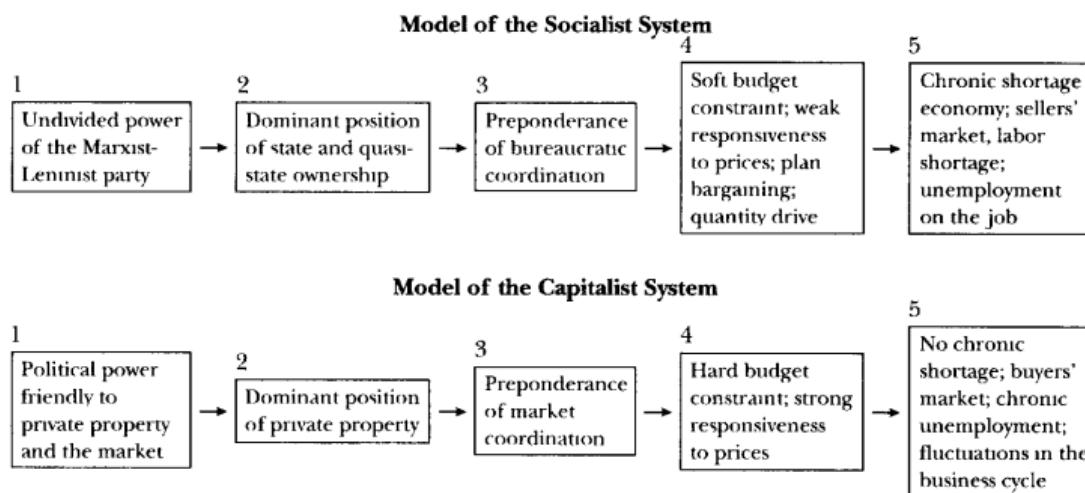
If we understand how embedded political democracy can be transformed into a deficient democracy, we can also understand how the capitalist economic system may become distorted. The distortions of postsocialist capitalism are caused by the distortions in democracy and not the other way round. This argument is in line with the theories of new political economy.

Acemoglu, Johnson and Robinson argue that there exists an intrinsic connection between political and economic institutions and this connection is of hierarchical nature: the causal direction starts from the polity and goes toward the economy. “[...] political institutions determine the distribution of de jure political power, which in turn affects the choice of economic institutions. This framework therefore introduces a natural concept of a *hierarchy of institutions*, with political institutions influencing equilibrium economic institutions, which then determine economic outcomes [...]” (Acemoglu-Johnson-Robinson 2004: 5.).

North and his co-authors also draw attention to the importance of the internal relationships between the economic and the political system. “The seeming independence of the economic and political systems on the surface is apparent, not real. In fact, these systems are deeply intertwined” (North et al. 2009: 269).

János Kornai showed that the socialist system was determined by the political system (Kornai 1992). Comparing socialism and capitalism he generalized this statement by arguing that the capitalist system is also causally determined by the political system.

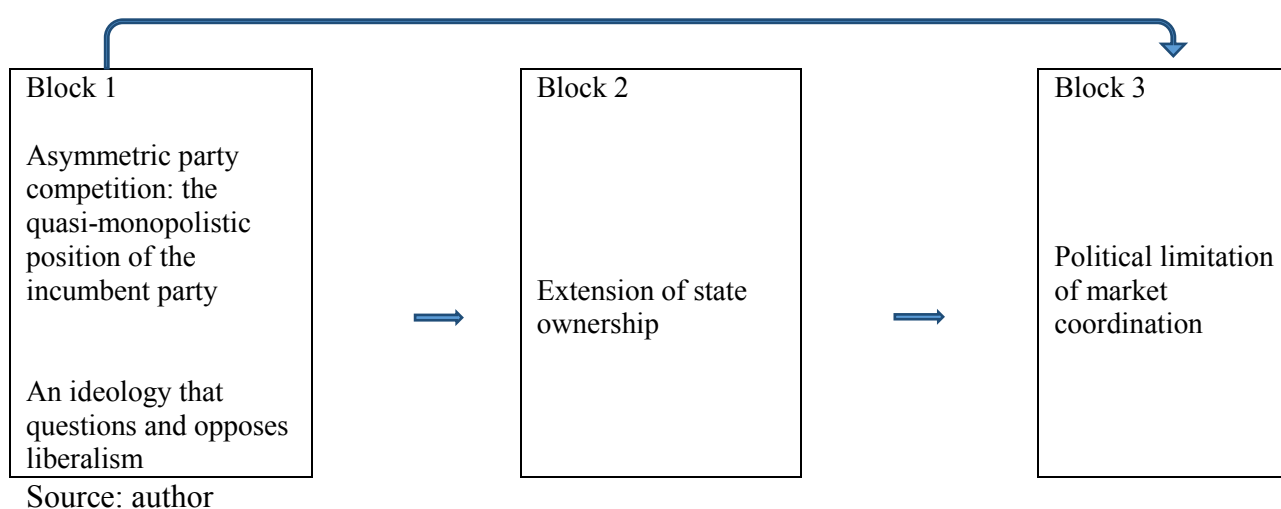
Figure 6. Models of the socialist and capitalist systems



Source: Kornai (2000: 29).

On the basis of this comparison we can understand that the capitalist economy may be institutionalized and maintained by either political dictatorship or political democracy (Kornai 2000: 29). This argument is framed within the dichotomy of democratic capitalism versus capitalist dictatorship, but may also underpin a reasoning that aims at the explanation of the mix of defective democracy and imperfect capitalism (see Figure 7).

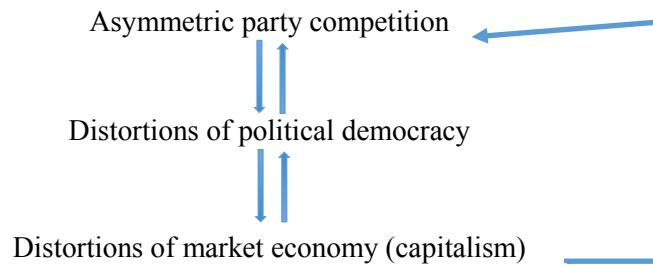
Figure 7. The causal line of distortions



The causal link starts in the political sphere. An incumbent party that is not constrained by political competition will have a free hand to reshape the political and the economic system in order to cement its political power by changing political rules and the allocation of economic resources *behind the veil of legality*. The result will be a system of distorted political democracy and capitalism. In this system the political and the economic subsystems reinforce each other and maintain the distortions.¹⁴ The argument is summarized in Figure 8.

Figure 8. The vicious circle of distortions in democratic capitalism

¹⁴ North et al. also emphasize the importance of the correspondence between the intrinsic structures of the political and the economic system. They call it the theory of *double balance* (North et al. 2009: 20) Acemoglu and Robinson (2012: 76-77) also underline that there is an intrinsic relationship between the institutional configurations of the polity and the economy: extractive political institutions build up a coherent whole with extractive economic institutions, while inclusive political institutions generate and maintain inclusive economic institutions.



Source: author

Defective democracy will serve the incumbent party to create an economic clientele that provides economic resources for the political elite in power. These economic resources should assist the incumbent party to win future elections. The limitation of market coordination thus serves political interests and leads to crony capitalism. The result is the partial intertwining of the private and public sphere and the weakening of the rule of law.¹⁵

In his recent essay János Kornai has built a structural theory for the conceptualization of the regression of postsocialist democratic capitalism (Kornai 2016). The causal argument offered in Figure 7 and 8 builds on Kornai (2000) and indicates how structure and action may be combined within the framework of a causal argument. This proposition is also compatible with Kornai (2016) to the extent that this text distinguishes between primary and secondary features of the socialist and capitalist systems (Kornai 2016: 552-555). The causal links in Figure 6 and 7 represent the primary characteristics of these systems (Blocks 1, 2 and 3 in Figure 6 and 7). However, this paper follows Merkel (2004) in identifying the regression of postsocialist political democracy as a specific form of *defective democracy*. Kornai has developed a different typology for the analysis of the regression of democratic capitalism (Kornai 2016: 563-567). He has set up a typology based on the conceptual differences of democracy, autocracy and dictatorship and introduced the category of *autocratic capitalism* in order to make it clear that the regression of postsocialist democratic capitalism led to a system that is not democratic capitalism anymore (Kornai 2016: 574-576; 588-590).

7. Can non-robust party competition be really the cause of the regression of capitalism?

In this paper symmetric, robust party competition is seen as the political safeguard of capitalism and asymmetric, non-robust party competition is understood as a cause of distortions of both democracy and capitalism. Let me call it the *Robustness thesis*. This thesis

¹⁵ See also Székely-Doby (2016).

seems to partially contradict Frye’s theory. Although Frye (2002; 2010) also connects the distortions of postsocialist capitalism to the distortions of postsocialist party competition, he argues that the distortions in capitalism are due to political polarization. Consequently, capitalism will work only if polarization gives way to an asymmetric party system, in which one faction wins over the other. Robust party competition may support consistent economic reforms only if the party system is not polarized. These are the necessary conditions for the introduction of consistent reforms and economic policies (Frye 2002: 332). Let me call Frye’s argument the *Polarization thesis*.

For the purpose to assess the meaning of the Polarization thesis and the Robustness thesis and to clarify their relationship, I propose to make an analytical distinction between *polarized* and *robust* party competition. Frye says that “Political polarization is viewed as the policy distance on economic issues between the executive and the largest opposition faction in parliament.” (Frye 2010: 3) For postsocialist democracies political polarization means the presence of strong ex-communist and strong anti-communist parties within the political system (Frye 2002: 312). Robustness can be defined as symmetric party competition with similarly strong competing parties. In other words, party competition is robust, if the probability of the re-election of the incumbent party or parties is not high. The combination of these two dimensions defines four cases (see Table 3).

Table 3. Polarization versus robustness of democratic party competition

		Robustness	
		High (symmetric party competition)	Low (asymmetric party competition)
Polarization	High	Polarization thesis: Failure of consistent capitalist reforms	Polarization thesis: Success of consistent capitalist reforms
	Low	Robustness thesis: Success of consistent capitalist reforms	Robustness thesis: Limited success of consistent capitalist reforms
	High		Polarization thesis: Success of consistent capitalist reforms
	Low		Robustness thesis: Regression of capitalism

Source: author

If robust party competition is also a polarized one, we can expect the failure of consistent capitalist reforms. This is what the Polarization thesis argues for: “democracy is positively related to more rapid and consistent reform when political polarization is low, but each increase in polarization dampens the beneficial impact of democracy on the pace and consistency of reform.” (Frye 2010: 3). Why may political polarization slow down economic reforms? Because if the opposition wins the next election, it will reverse these reforms, since it represents a polarly different ideology: in a highly polarized democracy ex-communist parties face anti-communist parties.¹⁶ However, this argument is not based exclusively on the concept of policy distance among the competing parties but also assumes the robustness of political competition. The Polarization thesis is relies on a combination of high robustness and high polarization.

The Robustness thesis argues that symmetric party competition leads to self-correcting and consistent economic reforms just because the parties of the opposition seem to be strong enough to punish the incumbent parties if they introduce inconsistent reforms or initiate the regression of capitalism. However, this argument is not based exclusively on the concept of robustness of party competition but also assumes low polarization of political parties. Robust party competition will lead to and make sustainable capitalism if both the incumbent parties and the opposition parties are anticommunist that is if they follow similarly procapitalist ideologies. The Robustness thesis is based on a combination of high robustness and low polarization. If polarization is low and party competition is robust, the Robustness thesis that posits a positive relationship between symmetric party competition and consistent economic reforms will be just right. In other words, while the Polarization thesis more or less tacitly assumes that robustness is high in the first case, the Robustness thesis also tacitly assumes that polarization is low in the second case. That is why they do not contradict but supplement each other. Frye also makes it clear that robustness may support economic reforms if the polarization of party competition is low. “In contrast, executive turnover when political polarization is low is unlikely to produce swings in policy, given minimal differences in economic policy between rival factions” (Frye 2010: 11).

The Polarization thesis finds that high polarization connected with non-robust party competition is favorable for consistent economic reforms, since non-robustness leads to a dominant party system in which either the ex-communist or the anti-communist parties exercise power that is not challenged effectively by their opponents. In this case the large

¹⁶ “Political polarization in a democracy increases the likelihood of a reversal in policy should the opposition come to power unexpectedly and thereby weakens the incentives of citizens to invest” (Frye 2010: 4).

policy distance between the competing parties will not create uncertainty and cannot threaten with the reversal of policies. It is important to remark that the Polarization thesis treats this case as a variant of non-polarized party system. The intuition behind this may be that due to the asymmetry of party competition the polarization of ideologies is unimportant: the dominant party can consistently do what it wants to do be it ex-communist or anti-communist. Still, from the perspective of analytical clarity it is important to emphasize that this case is a combination of high polarization and low robustness.

The Robustness thesis finds that the combination of high polarization and low robustness will support economic reforms if the dominant parties are procapitalist parties and not ex-communist (or communist) parties. However, the Robustness thesis will also say that in the absence of strong procapitalist parties in the opposition economic reforms may also be inconsistent. A dominant party system will reduce the available policy options and hinder political democracy to correct policy errors.¹⁷ To sum up, there is an overlap between the two theses in this case, although the Robustness thesis identifies inconsistency issues with economic reforms that the Polarization thesis does not see.

Finally, the Polarization thesis interprets the case of the combination of low polarization and low robustness as a favorable condition for consistent economic reforms. As we saw, the main argument is that low robustness in itself supports consistent economic reforms. Low polarization in the sense of having competing political parties that offer similar economic policies simply reinforces those positive features of the dominant party system that help to eliminate the uncertainties that could have led to inconsistent economic reforms.

The Robustness thesis offers an antithetical argument which says that within a dominant party system the incumbent procapitalist parties still may introduce inconsistent reforms and initiate a regression of capitalism just because these parties do not face a strong opposition that would make the threat to lose power credible. The Polarization thesis is able to explain why high polarization leads to inconsistent economic reforms and why low robustness may lead to consistent economic reforms, but does not explain why low robustness coupled with low polarization may led to the regression of capitalism. At the same time the Robustness thesis can offer an explanation for this regression.¹⁸

¹⁷ This argument was used by Grzymala-Busse for the analysis of Czech postsocialist transformation between 1990 and 1998 (Grzymala-Busse 2006: 431).

¹⁸ The explanations of the regression of postsocialist democracy and capitalism may argue that the polarization of the party system is an important factor in the causal chain leading to a defective democracy. Does it mean that *low polarization* has nothing to do with the regression? No, it does not. It is important to keep it in mind that the concept of polarization in this paper refers to polarization along the *economic* cleavage. At the same

The Robustness thesis does not take it for granted that anti-communist parties will not initiate a regression of democratic capitalism. This is the interesting question from the perspective of the regression of postsocialist democratic capitalism: how anti-communist parties become a threat to democracy and capitalism? The Polarization thesis assumes that anti-communist parties favor democratic capitalism. However, the question we have to pose is do they? If they do, under what conditions? If they do not, why not?

7. Conclusion

The main proposition of this paper is that we have to focus on the role of the pattern of party competition for a causal explanation of the regression of postsocialist democratic capitalism. The review of literature offered by this text serves to validate this proposition. In order to get to a causal argument of regression I brought together and examined different branches of the theory on democracy and capitalism, on party politics, on political economy.

The discussion of mainstream and postsocialist controversies about the relationship between capitalism and democracy led to the conclusion that they explain the sustainability of democratic capitalism and not its regression. However, these debates articulate the roles winners and losers may play in strengthening and weakening of democratic capitalism. This idea is important for understanding regression. The pattern of party competition is shaped by political parties competing for the votes of losers. This competition may result in an asymmetry of the strength of incumbent parties against parties in opposition and open up the road to a regression of democracy.

The concept of low-level equilibrium between incomplete democracy and imperfect market economy challenges the previous discourses by proposing a theory on the basis of which Western democratic capitalism can be distinguished from Eastern postsocialist democratic capitalism. It is an important step toward the theory of the regression of postsocialist democratic capitalism, since it helps us to understand why democratic capitalism may be more stable in the West than in the East. At the same time this argument keeps the analysis of postsocialist democratic capitalism within the paradigm it challenges by focusing on those structural issues within the low-level equilibrium that also exist within high-level equilibrium, albeit in a weaker form. On the other hand, we are still left with the problem why regression takes place in some postsocialist countries and not in others, although they all may show the same structural features of the low-level equilibrium. Or can it be explained by

time the argument about polarization of the party system contributing to the regression of democracy is about polarization along the *cultural* cleavage.

the different level of hollowing? Greskovits rightly shows that we cannot establish a direct causal relationship between hollowing and backsliding (regression).

The explanation of democratic regression is an explanation of how we get from constitutional democracy to a distorted one. For this we need a theory that makes distinctions between constitutional and non-constitutional democracies. These distinctions are offered by the theory of embedded democracy. This theory helps us to look for the causes of democratic regression in a domain that is beyond constitutional democracy. The problem with Merkel's argument is that it is mainly structural. We need to insert the issue of agency into a causal explanation of democratic regression. It takes us to the proposition that we need to look at the role of political parties and the pattern of party competition. Party politics matter. The postsocialist literature on party politics teaches us that constitutional democracy is maintained if party competition is robust (symmetric). From this it follows that if party competition ceases to be robust and symmetric democratic regression may occur. The next question is whether democratic regression is connected to the regression of capitalism. I answered this question in the affirmative. I could rely on the literature of new political economy in this answer. New political economy argues that the transformation of the economic system is causally related to the transformation of the political system. Consequently, distortions in democracy lead to distortions in capitalism. It generates a vicious circle, the mutual reinforcement of the regression of democracy and the regression of capitalism.

To sum up, the regression of postsocialist democratic capitalism starts in the political sphere. The distortions in party competition, the emergence of an asymmetric political competition lead to the distortions of capitalism. This process should be understood not from economic but political interests. The ruling political elite may introduce distortions in the political and the economic subsystems in order to preserve its rule. State capture, the endeavor of economic interest groups to influence political decisions in order to appropriate economic rents does exist in postsocialist states, however the regression of democratic capitalism is mainly due to an inverted order of interests representation: it is the political actors who intervene into the allocation of resources and create their own economic clientele in order to serve their political interests, in order to be able to stay in power.

It is legitimate to ask the question: what are the causes of the asymmetry of party competition? To answer this question one has to turn to history, to structural arguments and the analysis of empirical cases. This paper stopped earlier than that, it tried to review theories and contribute to setting up a theoretical framework that may be useful for further theoretical and empirical analyses.

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