Europeans and the Market Economy: Weakening Ties

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In the academic and public debate, the economic crisis has visibly shifted the main paradigms behind the economic theory of growth. In recent years, we have been experiencing a revival of Keynesian theories which stress the importance of state intervention for fostering growth and smoothing the economic cycle. Prominent experts point to insufficient regulations in the financial sector as one of key drivers of the crisis. Growing inequalities and their negative impact on economies and societies also receive more attention and have entered into the mainstream of economic discussion (for example Thomas Piketty's *Capital in the Twenty-First Century*). Protagonists of the free market have been therefore put into a somewhat defensive position. In the public debate we have been increasingly facing populist arguments for less competition and more state intervention. However, the battle will certainly not be won by simply denying the shift of paradigms. Quite the opposite: we need a thorough and informed discussion to prove that underlying reasons of the crisis were not the inherent features of the free-market economy, but rather deviations from it.

The aim of this article is to contribute to the ongoing debate by analyzing social perceptions of the free market economy in the times of the economic crisis. In particular, the main objective is to verify whether the crisis radicalized the attitudes of European societies towards key aspects of the capitalist system. A better understanding of the crisis' economic sociology might be helpful in defining the line of argumentation in broader policy discussions. Radicalization in this context shall mean decreasing social acceptance for competition and individual responsibility combined with a greater desire of state intervention. Unlike in the political sphere, where radicalism and populism have recently been associated with right-wing movements, in the economic field it is rather the left wing that has strengthened and radicalized to a greater extent.

The centerpiece of the article discusses attitudes towards free market economy based on data gathered through the World Value Survey (WVS). The survey is one of very few existing tools which provide access to longitudinal and internationally comparable data on public opinion research. The sample analyzed in this article includes four countries from Eastern Europe's "new democracies" (Poland, Romania, Slovenia, Ukraine) and four "old democracies" from Western Europe (Germany, Netherlands, Spain, Sweden). The sample was primarily dictated by data availability; however, the intention was also to include countries representing a range of economic governance models. The analysis focuses primarily on two aspects: whether the attitudes towards a free market economy changed during the times of the crisis as compared to earlier trends and whether the countries included in the sample share any common pat-

> GREECE REMAINS A SOURCE OF CONCERNS, WHILE A NUMBER OF COUNTIES ARE STILL FAR FROM ACHIEVING FISCAL BALANCES

terns in this respect. The analysis of WVS data is preceded by an attempt to quantify the economic crisis in Europe and present the different shapes it took on in individual countries. The mapping of the crisis will be then used in the conclusions to interpret the data in a specific economic context.

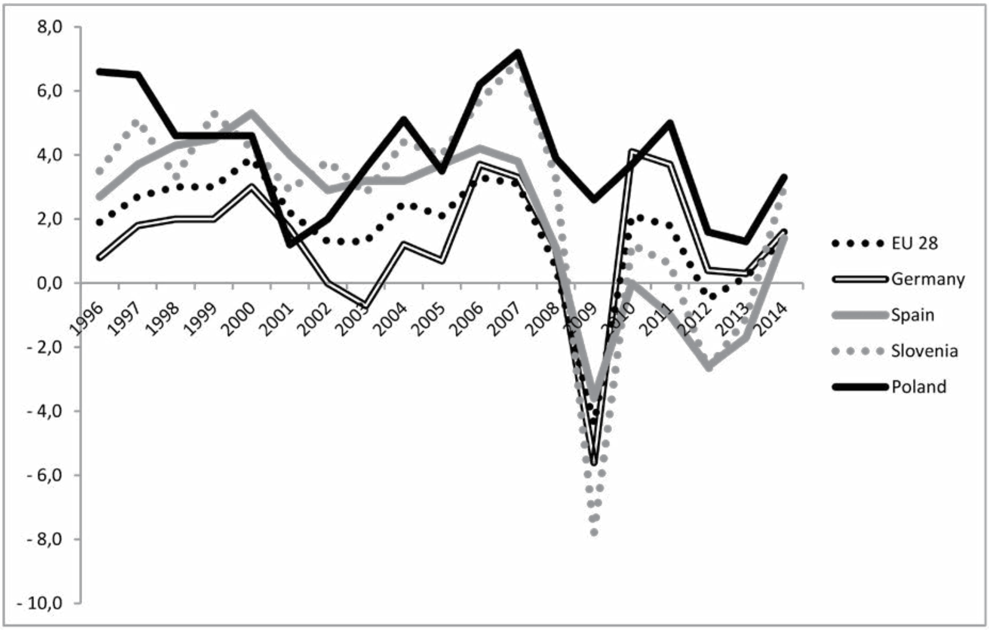
TURBULENT TIMES: QUANTIFYING THE ECONOMIC CRISIS

The economic crisis hit Europe after a period of stable growth (in most countries) following the EU's largest enlargement and introduction of the common currency. The global financial meltdown – initiated by the collapse of Lehman Brothers – revealed a number of imbalances in European economies which by then remained subdued as a result of very low financing costs. The nature of these imbalances differed from country to country (e.g. overheating of the construction sector in Spain, instability of the financial sector in Ireland and Cyprus, loss of competitiveness in Greece and Portugal, and perhaps most importantly – lacking discipline of public finance in a number of EU member states, most notably in Greece). On the other hand, some European economies (e.g. Germany, Netherlands, Poland) entered the crisis with strong fundaments and competitive economies. Therefore, the impact of the crisis, although noticeable in all European economies (both EU and non-EU), had different magnitudes across the continent and caused different reactions.

For the purpose of this article, let us assume the crisis period to be 2009-2013. 2009 was the first full year after the collapse of Lehman Brothers, while in 2014, the recovery was already clearly visible. The latter does not mean, however, that all persisting imbalances in European economies have been effectively addressed. In particular Greece remains a source of concerns, while a number of counties are still far from achieving fiscal balances. In 2009-2013, the average growth for the entire European Union (EU-28) was marginally negative (-0.2), while in the preceding 5-year period European economies grew on average by 2.3%. This trend was much stronger in Ukraine (the only non-EU country included in the sample) – in 2009-2013, its economy shrunk on average by 9.2% (attributable mostly to 2009), while in the preceding period it grew by 6.6%.

As European economies are highly interlinked, the growth patterns take a rather similar shape (see Figure 1); however, in absolute values, there are significant differences between countries. Poland was the only EU country which did not experience a drop in economic performance for any of the crisis years (although also here average economic growth dropped from 5.2% in 2004-2008 to 2.8% in 2009-2013). Germany experienced a sudden fall in 2009, but then quickly recovered to pre-crisis growth levels in 2010-2011, to slow down again in 2012-2013. A similar pattern was observed in Sweden, while in

Figure 1: GDP growth in selected European countries



Source: Eurostat and IMF statistics

the Netherlands the economy recovered at a slower pace. In Spain, on the other hand, growth remained in negative territory for the entire 2009-2013 period (on average, the economy shrunk by 1.8% per annum). In Slovenia, positive growth was achieved only in 2010-2011, in Romania in 2011-2013, but in both countries the pace was significantly slower compared to the pre-crisis era.

The depth of the crisis and the pace of recovery in specific countries were influenced by both internal (policy reaction, type of imbalances accumulated prior to the crisis) and external factors (structure of the economy, trading partners and their reaction to the crisis). Certainly, neither Europe in general, nor the EU, or even the Eurozone were homogenous in this respect. It could be therefore expected that the social views on key economic issues would also change in these countries according to a different pattern (with a potentially more radical change in countries hit most by the crisis). [See Figure 1.]

Looking from individual perspective, what matters for the perception of the economic situation is certainly the developments on the labor market. Moreover, in this respect the crisis hit European economies in an uneven way. In Germany, the unemployment rate consistently decreased throughout the crisis period and was significantly lower compared to the pre-crises times (in 2014 the unemployment rate stood at 5%, while in 2005 it topped at 11.2%). Spain was on the opposite pole with unemployment reaching 26% in 2013, compared to 8.2% in 2007. At the same time, youth unemployment in Spain increased to over 50%. In other countries (both Western and Eastern European, including Ukraine), there was a moderate upward trend in the unemployment rate (most visible in Slovenia and the Netherlands).

Other key aspects for social perceptions of the economic situation are the risk of poverty and income equality. In other words, what matters is not only the change in average income, but also the equality of burden sharing and the risk of falling into poverty. In this respect, the trends throughout the crisis period again differed from country to country.

The share of population at risk of poverty or social exclusion remained stable in the sampled Western European countries, except for Spain which experienced an increase of this indicator from 23% in 2007 to 27% in 2013 (and 29% in 2014). A similar trend was observed in Slovenia, while in Poland the share of population at risk of poverty significantly decreased (from 34% in 2007 to 25% in 2013). A smaller improvement took place in Romania.

As regards income inequality, the data points out to a very stable trend for the entire EU-27 (no data available for Ukraine). The respective Gini coefficient since 2005 has been consistently moving within the range between 30 and 31. Some, but still not very significant, upward movements of the indicator can be traced in recent years in Germany, Romania and Slovenia. In Poland, income inequalities have been systematically, though slowly, shrinking since EU-accession.

To round-up the macroeconomic picture of the crisis, it should be stressed that in many countries it had a strong adverse effect on public finance. For the entire EU-28, the deficit of general government reached 5% of GDP on average in 2009-2013 as compared to 2.1% in the preceding 5-year period. In all the sampled countries, the situation of public finance clearly worsened. Spain was again on the extreme pole with average GG-deficit at the level of 9.4% in 2009-2013, compared to a 0.2% surplus in 2004-2008. In Germany, the deficit reached 3.2% of GDP in 2009 and 4.2% in 2010, but then the fiscal situation quickly improved and the General Government budget has been balanced since 2012. Sweden generated the smallest deficits on average (-0.6% of GDP in 2009-2013), yet prior to the crisis, the country's budget featured significant surpluses.

EUROPEAN SOCIETIES AND THE MARKET ECONOMY

Although the World Values Survey is not specifically focused on economic questions, it offers a number of indicators that help understand social preferences in this respect. For the purpose of this article, four questions addressing the issues of income equality, private vs. public ownership of businesses, government vs. individual ownership and competition have been sampled. These questions can be answered at a general level (i.e. do not require economic knowledge) and jointly give a good indication of how social preferences for economic choices have changed over time. The analysis looks at all five waves of the survey (starting from 1989), but focuses on the most recent data covering the period of the economic crisis (2009-2013).

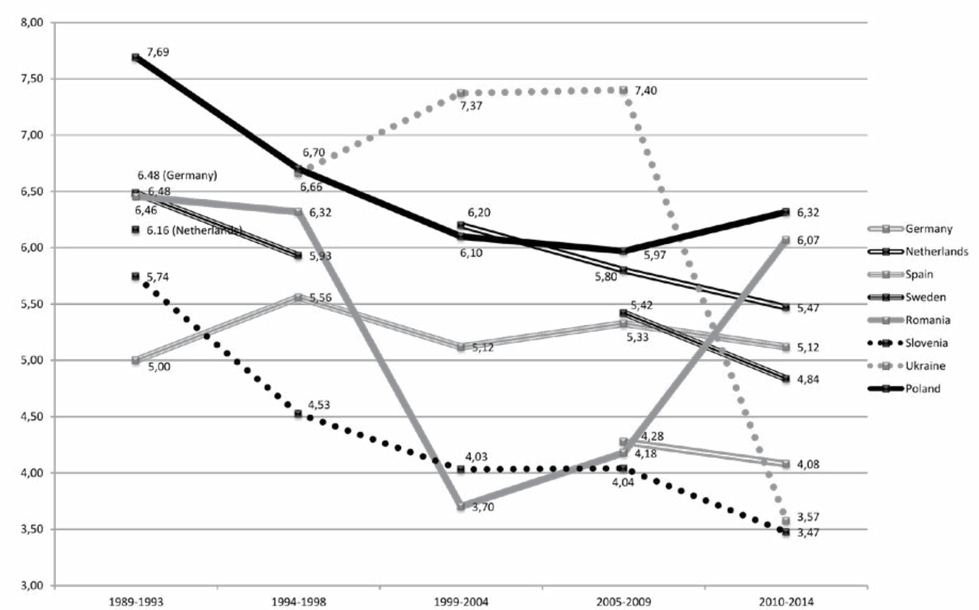
INCOME EQUALITY

[See Figure 2.] Over the last 25 years, European societies included in this analysis have clearly moved towards less acceptance for income inequality. However, the specific pattern of this trend differs from country to country.

In the sample of eight countries, the attitudes towards inequality remained relatively stable only in Spain. The survey par-

[1] For all survey questions analyzed in this article respondents were presented with two opposite statements and asked to assess how strongly they agree with one or the other on a scale from 1-10. The figures show the weighted averages of replies computed by the author.

Figure 2: “Incomes should be made more equal” (1p) vs. “We need larger income differences as incentives” (10p)[1]



Source: World Values Survey, http://www.worldvaluessurvey.org/wvs.jsp

ticipants responded to the question with an average of five points, which means that there is equally strong acceptance for increasing and decreasing income inequality. In the remaining seven countries, respondents of the 2010-2014 WVS-wave explicitly wished for more income equality compared to their counterparts twenty years earlier. In Germany, Slovenia and Ukraine[2,] the difference exceeds two points. Looking at the entire period, the distinction between Eastern and Western Europe does not explain the difference in attitudes towards income equality among countries included in the sample. In the most recent wave of the survey, Eastern European societies occupied extreme poles of the scale – Poles and Romanians most strongly supported the function of income inequality as an economic incentive, while Ukrainians and Slovenians proved to be most equality-oriented. However, the trends in attitudes in Western Europe tend to be significantly smoother, while in Eastern Europe there is more variation from one wave to another.

The period from 2010–2014 strongly stands out in terms of the earlier trends only in two countries – Ukraine, with a very substantial change of attitudes towards more equality (almost four points) and Romania – two points in the opposite direction. However, in particular the data for Ukraine should be interpreted with certain prudence, as it represents by far the most significant change in a variable for all countries and all indicators analyzed in this article. For all other countries the 2010-2014 crisis period constituted a rather smooth continuation of the long-term trend of increasing social acceptance for more income equality.

[2] Compared to 1994-1998 wave due to lack of earlier data.

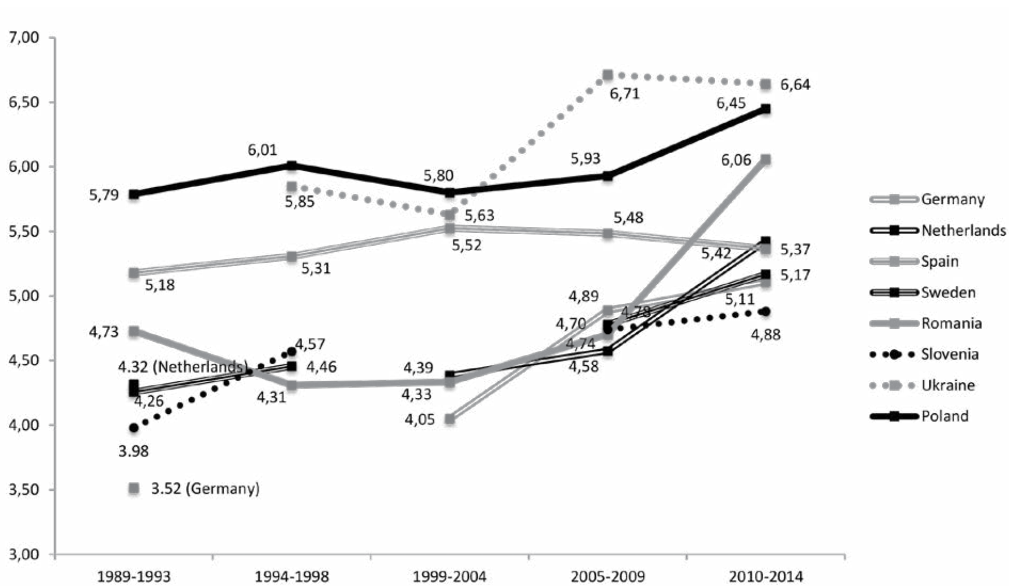
It might seem somewhat counter-intuitive to present decreasing acceptance for social inequalities as a symptom of economic radicalization or populism. Yet, a strong opposition against income inequalities indeed undermines a key mechanism of the free market economy. Income inequalities, if not extreme, are necessary to stimulate economic activity and productivity.

PRIVET VS. GOVERNMENT OWNERSHIP

[See Figure 3.] A good indicator of the attitudes towards state interventionism is the preference of "private" vs. "government" ownership of businesses. Also in this case WVS data reveal a rather consistent trend since 1989. In all countries the most recent wave of the survey demonstrated higher support towards government ownership compared to the earliest period considered. Again, the attitudes proved to be most stable in Spain (0.2 points difference between 1989-1993 and 2010-2014) while in all other countries the average response changed by 0.65 to 1.35 points, reflecting a rather moderately paced evolution. Throughout the period from 1989-2014, there was somewhat more variation from one wave to another in Eastern Europe and overall the change of attitudes was strongest in Romania.

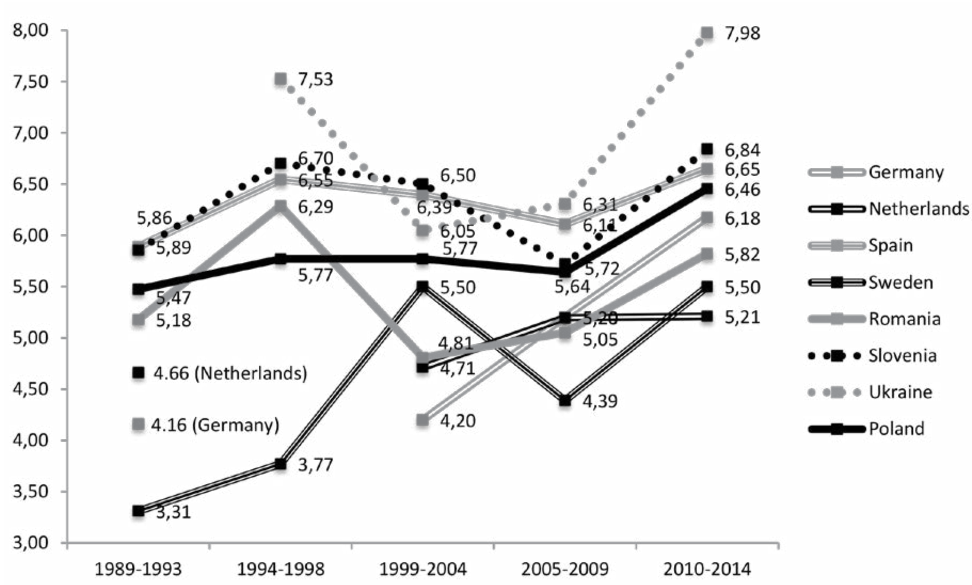
The most recent period (2010-2014) in most countries represented a continuation of an earlier trend for increasing "government ownership" support. Ukraine and Spain are exceptions, but the difference compared to the previous wave was less than 0.1 points and thus statistically negligible. On the other hand, in the most recent wave of WVS data, we can clearly see

Figure 3: "Private ownership of businesses should be increased" (1p) vs. "Government ownership of businesses should be increased" (10p).



Source: World Values Survey, http://www.worldvaluessurvey.org/wvs.jsp

Figure 4: "People should take more responsibility" (1p) vs. "Government should take more responsibility (10p)"



Source: World Values Survey, http://www.worldvaluessurvey.org/wvs.jsp

that Eastern European societies (except for Slovenia) advocate government ownership of companies more strongly than on average in the sampled Western European countries. This trend was by far less evident in the early 1990s, potentially reflecting a disappointment of Eastern European societies with the functioning of the market economy in their countries.

WHO IS RESPONSIBLE FOR PEOPLE'S WELFARE?

[See Figure 4.] The wish of European societies for a more active role of the government is also reflected in their reaction to the alternative "People should take more responsibility" vs. "Government should take more responsibility". Among the indicators analyzed here, it is the only one for which the 25-year trend towards more state intervention was consistent in all sampled countries. Overall, the change of attitudes was most significant in Germany and Sweden (over two points). Throughout the period, Western societies more strongly supported individual responsibility (in 2010-2014 Sweden and Holland topped the list), while Ukrainians and Slovenians attributed relatively more importance to state responsibility.

In contrast to other indicators analyzed, in the case of state/individual responsibility, the period from 2010-2014 is to some extent distinctive. In the most recent period, the value of the indicator increased in all countries, in three of them by more than one point. Earlier waves of the WVS showed a more diversified picture. Furthermore, during the crisis period, the value of the indicator exceeded five points in all countries, reflecting a change of social attitudes towards more "state responsibility" as opposed to "individual actions". This evolution might possibly be influenced by the increasing populism of political parties which present state intervention as a miraculous solution to improve people's lives without them participating in the effort.

COMPETITION: FRIEND OR FOE?

[See Figure 5.] In light of WVS data, competition is the most accepted aspect of market economy in European societies. The average reply given by respondents was below five points across all editions and sampled countries, reflecting their view that competition is rather a "good" than a "bad" thing. However, again, the 25-year trend indicates softening of this position towards less support for competition. Except for Spain, where a small change in the opposite direction can be observed, the remaining seven countries witnessed a decreasing confidence in competition (between 0.5 and 1.35 points). The largest value was observed for Poland, where confidence in competition dropped particularly significantly in the mid-1990s and then further (but less strongly) in the 2000s.

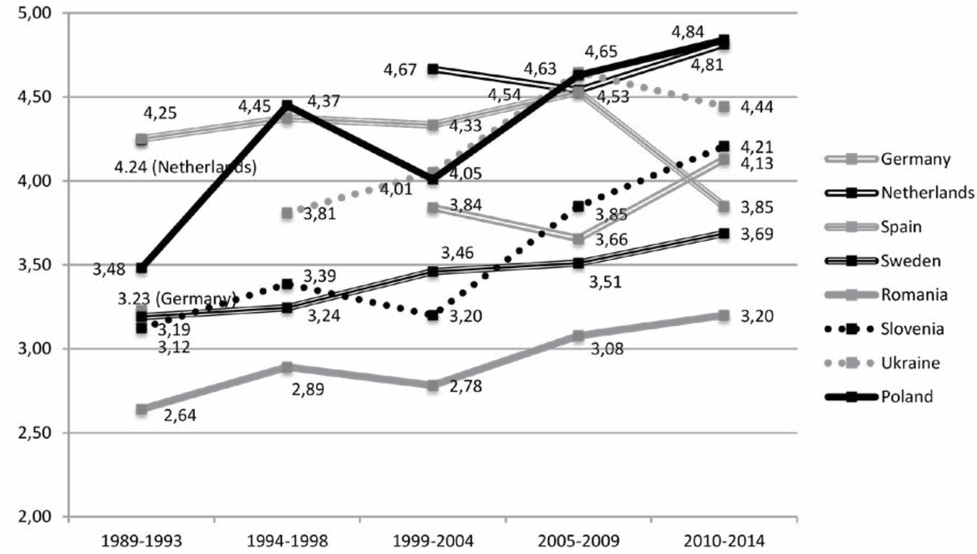
The attitudes towards competition, as measured in the recent wave of WVS, were on average very similar in Eastern and Western Europe. Both extreme values were noticed in Eastern Europe (Poland – lowest acceptance for competition, Romania – highest acceptance). Still, even between these two countries, differences remain small (1.2 points). Overall, in the most recent period (2010-2014), there was a continuation of a soft trend towards less support for competition in six countries and a reversed development in two (Spain and Romania). Given that competition is another key mechanism indispensable for the functioning of a free market economy, a growing opposition against it can be seen as an indicator for the overall radicalization against the capitalist order.

CONCLUSIONS

The crisis, seen through the lens of macroeconomic data, shows its different faces across Europe. The slowdown of economic performance was noticeable in every country, but some (in our sample Poland and Germany) were hit less than others (Spain, Ukraine). The reaction of the labor markets was even less homogenous – in Germany, unemployment was cut by half compared to pre-crisis levels, while in Spain it increased more than three times. At the same time, the crisis did not cause a significant increase in social inequality practically anywhere, but deeply worsened the situation of public finance in virtually all countries.

In light of WVS data, the social support for a liberal, free-market economy has been consistently weakening over the last 25 years in all eight countries subject to analysis in this article. We can see a clear picture of left-radicalizing European societies which are less willing to accept social inequalities as a way to incentivize economic activity and see more disadvantages of open competition. There are also signs of growing populism – societies wish for a more active role of the state (including public ownership of companies) vis-à-vis individual responsibility. The shift away from liberal values took place both in Western and Eastern Europe, although the trends in the latter were somewhat more volatile. What may come as a surprise is the fact that the crisis period did not bring a significant change to the radicalization trends observed since 1989, neither in terms of the direction, nor pace of the ideological evolution. If anything stands out, it would be the expectation for the state to take more responsibility. This expectation increased during the crisis period in all countries, while the picture emerging from the previous waves of the survey was more diversified.

Figure 5: “Competition is good” (1p) vs. “Competition is harmful (10p)”



Source: World Values Survey, http://www.worldvaluessurvey.org/wvs.jsp

Based on the WVS data there is also no correlation between the depth of the crisis and the radicalization of economic perceptions in the society. For example, Spain was hit by the crisis particularly hard and the public opinion was very stable in its views on economic questions. In Germany and Poland, on the other hand, the shift towards more state interventionism was much more pronounced. One interpretation of this could be that these societies were relatively satisfied with how their governments dealt with the crisis and therefore supported the continuation of a more active economic policy. Another interpretation, a more accurate one in my view, is that social preferences on economic policy choices are disentangled from the actual performance of the countries. This would mean that the protagonists of a liberal economy need to invest more efforts into supporting their views in the public debate. Clearly, it was not the economic slowdown that shifted the economic views of European societies into the left corner and allowed populism to emerge more efficiently in the public debate. This has been present since much earlier, but undoubtedly continues to grow.

This article expresses the personal opinion of the author and not that of the European Court of Auditors. ●

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