

**Institutional Analysis:  
Understanding  
Socio-Economic Phenomena**

Thematic issue edited by:  
Anna Ząbkowicz, Michał Pietrzak,  
Anna Jurczuk

**SOCIAL  
ENTREPRENEURSHIP  
REVIEW**

**VOL. 2/2023**

## EDITORIAL BOARD / EDITOR-IN-CHIEF

Marek Ćwiklicki, Cracow University of Economics, Poland

## DEPUTY EDITOR – MANAGING EDITOR

Agnieszka Pacut, Cracow University of Economics, Poland

## MEMBERS OF THE EDITORIAL BOARD

Eglė Butkevičienė, Kaunas University of Technology, Lithuania  
Rossella Canestrino, Università Parthenope, Italy  
Małgorzata Ćwiek, Cracow University of Economics, Poland  
María Teresa de la Garza, Tecnológico Nacional de México in Celaya, Mexico  
Marius Dan Gavriletea, Babes-Bolyai University, Romania  
Maya Giorbelidze, Cape Breton University, Canada  
Sanja Gongeta, College of Applied Sciences "Lavoslav Ružička" in Vukovar, Croatia  
Norbert Laurisz, Cracow University of Economics, Poland  
Magdalena Małecka-Lyszczek, Cracow University of Economics, Poland  
Pierpaolo Magliocca, Università di Foggia, Italy  
Abeer A. Mahrous, Cairo University, Egypt  
Dorota Murzyn, Pedagogical University of Krakow, Poland  
Cecile Nieuwenhuizen, University of Johannesburg, South Africa  
Agnieszka Pacut, Cracow University of Economics, Poland  
Marzena Starnawska, University of Warsaw, Poland  
Olena Shtepa, Borys Grinchenko Kyiv University, Ukraine  
Renata Śliwa, Pedagogical University of Krakow, Poland  
Audrone Urmanaviciene, Tallinn University, Estonia  
Pham Vu Thang, Vietnam National University Hanoi, Vietnam  
Martyna Wronka-Pośpiech, University of Economics in Katowice, Poland  
Agnieszka Żur, Cracow University of Economics, Poland

## INTERNATIONAL EDITORIAL ADVISORY BOARD

Swati Banerjee, Tata Institute Of Social Sciences, India  
Carlo Borzaga, University of Trento, Italy  
Michael Bull, The Manchester Metropolitan University, United Kingdom  
Bernard Enjorlas, Institute for Social Research, Norway  
Angela M. Eikenberry, College of Public Affairs and Community Service, USA  
Jerzy Hausner, Chairman of the GAP Foundation Council, Chairman of the Open Eyes Economy Summit Program Council, Poland – Honorary Board Member  
Kai Hockerts, Copenhagen Business School, Denmark  
Lars Hulgård, Roskilde Universitet, Denmark  
Janelle Kerlin, Georgia State University, USA  
Michael Roy, Glasgow Caledonian University, United Kingdom  
Artur Steiner, Scotland's Rural College, United Kingdom  
Ermanno Tortia, University of Trento, Italy

## PUBLISHER

**Cracow University of Economics**  
**Małopolska School of Public Administration**  
**Collegium of Economy and Public Administration**  
ul. Rakowicka 27, 31-510 Krakow, Poland  
tel. + 48 12 293 74 80, tel./fax: +48 12 293 75 59  
e-mail: ser@uek.krakow.pl

## DPT

**Zakład Poligraficzny Uniwersytetu Ekonomicznego w Krakowie**  
ul. Rakowicka 27, 31-510 Kraków

ISSN: 2720-7277

The online journal is the primary and reference version.

ISSN: 2081-321X (printed version 2007–2020)

eISSN: 1898-7435 (online version, since 2007)

All articles are double-blinded, peer-reviewed by at least two independent reviewers.

The detailed list of reviewers is published on our website once a year.

Copyright and License: Open Access, licence: CC BY-ND 4.0.

The journal is distributed free of charge.

All articles published in SER are tagged with an identification number employing the Digital Object Identifier (DOI) System.

Quoting of articles in the journal Social Entrepreneurship Review is permitted with acknowledgement of the source.

The journal is available at [ser.uek.krakow.pl](http://ser.uek.krakow.pl)

# TABLE OF CONTENTS

---

---

## ARTICLES

<b>Anna Ząbkowicz, Michał Pietrzak, Anna Jurczuk, Editorial</b> .....	<b>5</b>
<b>Yanrong Guo, Michał Moszyński, Institutional interplay in China's economic system on the example of hukou</b> .....	<b>11</b>
<b>Michał Pietrzak, Aleksandra Chlebicka, <i>Gemeinschaft</i> versus <i>Gesellschaft</i>: Cooperatives and the problem of free-riding in the provision of collective goods</b> .....	<b>27</b>
<b>Katarzyna Kamińska, Quality of institutions and international competitiveness of the Visegrad countries in the second decade of the twenty-first century</b> .....	<b>47</b>
<b>Maciej Miszewski, The vision of institutional reforms: <i>Capital and Ideology</i> by Thomas Piketty</b> .....	<b>60</b>
<b>Michał Pietrzak, Book Review of <i>The State and Dominant Groups in The Economy: The Approach of Institutional Political Economy</i> by Anna Ząbkowicz</b> .....	<b>71</b>
<b>Anna Jurczuk, Zofia Łapniewska, Renata Śliwa, Anna Zachorowska-Mazurkiewicz, Forum for Institutional Thought: A platform for an exchange of ideas about institutional economics in Poland</b> .....	<b>82</b>

## Editorial

This special issue is a showcase of many different ways in which economists use institutionalism. The institutional approach, as one of the Nobel winners, Gunnar Myrdal believed, would gain importance simply because effective solutions to practical problems that gather around us are strongly desirable (Wilkin, 2016, p. 231). According to this approach, the economy results from the development of certain institutions that uphold a specific way of making money and specific social relations. It is thanks to institutions that cooperation is sometimes gainful, while in other cases, it is socially unproductive, generating economic stagnation and decline. Another prominent institutionalist, Oliver Williamson, proposed a typology which may give a feeling of what institutions are about. It may be as well helpful for this editorial team in their strain to present the underlying logic of this special issue.

Williamson deems social order to be founded on culture and embedded in universally shared values. This most general level is conventionally marked as level 1. In this context, the environment of human activity is created by formal *rules* of the game (such as constitutional provisions). This type of institution is associated to level 2. In turn, the *ways* of playing the game constitute level 3. These are institutions that coordinate the activities of members of society (e.g. cooperatives). This layout (levels 1–3) organises the image for institutionalists, who leave issues of current use and allocation of resources for neoclassical economists to explore. For this type of activities, Williamson dedicates level 4. As we know, this is the object of neoclassical economics that induced most of the analyses known as mainstream economics.

This issue presents a selection of studies conducted by members of the Forum for Institutional Thought Association. This is a union of representatives of social sciences who are convinced that the institutional approach currently offers the best way to understand the world around us. Since 2015, the Forum has been working to create and reinforce ventures that develop as a platform for the study of institutions.

The issue opens with an article that discusses a set of specific rules that govern registers of internal migration in China (*hukou*). As explained earlier, such institutions belong to level 2. The authors' perspective is particularly noteworthy, for they aim to consider migration regulation in comparison with other subsystems. Namely, they analyse the interaction of *hukou*, pay, and working conditions, as well as the rules of access to social security and education. Moreover, they assess *hukou* from the perspective of the entire economic system's logic. As a criterion, they adopt 'effectiveness' rather than 'efficiency,' which economists typically do.

Let us emphasize two major aspects of this key analytical criterion. First, the authors make an important distinction between economic intentionality (e.g. orientation on economic-growth) and social intentionality (protection from poverty, equal educational opportunities). From the

viewpoint of Chinese economic growth, *hukou* is effective. However, it is not so for subsystems of social security and education, as it aggravates inequalities in personal income and access to education. The reason is that economic migrants suffer discrimination. The authors consciously avoid labelling the state of affairs with this word, taking rather pragmatic attitude which needs to be stressed here. Namely, their attitude is by no means free of ethical reflection. Rather than that it simply corresponds with the international convention as presented by one American university professor discussing *hukou* on the World Bank's website. The authors are preoccupied with effectiveness, but a reading of their paper should leave no doubt that the institutions concerned have moral dimension. The blatant curtailment of the civil rights of labour migrants by the *hukou* system can and should be outrageous, despite the fact that compulsory household registration provides the Chinese economy with cheap labour and contributes greatly to reducing social-security costs by periodically relieving employers and local authorities of the obligation to provide internal migrants with benefits and allowances, housing and access to education.

The scope Michał Moszyński and Yanrong Guo define allows us to speak of an approach in the macro dimension. The length of the analysed period (1978–2022) gives the study a historical character. This article represents the new institutional economy approach, analysing selected formal institutions on Williamson's level 2, but from perspective closer to Douglas C. North rather than to Williamson himself.

The next article also discusses a specific institutional arrangement, but at a lower level of generality. Its subject is a specific way of playing the game that is the cooperative, and it would therefore have to be assigned to level 3 according to Williamson. The authors interestingly present the multilayering of this form of collaboration, which combines both business (*Gesellschaft*, company) and community aspects (*Gemeinschaft*, group of individuals).

The authors identify the problems induced by the dual nature of cooperatives. In that context, property rights to profits and other benefits are hybrid, as they involve both entitlements as private properties and as collective goods (namely public goods and common pool resources). Where public goods and common pool resources are concerned, there emerges the free-rider problem. Another problematic consequence of such a nature of cooperatives is in the tension between the business (*Gesellschaft*) and the community aspects (*Gemeinschaft*). Again, these authors argue we should recognise what constitutes economic capital cooperatives and distinguish it from social capital. Accordingly, in cooperatives, the importance of institutions that are informal, 'soft,' and embedded in the culture of a given society or social group – rather than in law – is much greater than in commercial companies like corporations. In the light of this analyses, what gains particular importance is maintaining the norm of reciprocity and reputational concerns. However, do socio-cultural norms endure in collectives with numerous members? The authors pose even more interesting questions. Does the community aspect compensate for restrictions on property rights in cooperatives? Do cooperatives stand a fair chance in confrontation with large commercial companies? Are cooperative hybrids, to be efficient, doomed to small numbers of members? Or, perhaps, new technologies will help overcome the barrier seen in the declining impact of community considerations as cooperative members rise in number. The Internet provides tools that remove communication barriers and could (although not necessarily) be used to organise collective actions, including the activities and relations between members of a cooperative.

This institutional analysis by Michał Pietrzak and Aleksandra Chlebicka is much closer to the micro-dimension than the previous one. Moreover, it gives greater importance to informal

ways of conduct. Despite all differences, this article like the previous one fits within the scope of new institutional economics, albeit it draws more inspiration from the works of Oliver Williamson and Ronald Coase. Let's make a point that both the subject itself and its description with help of the '*Gesellschaft-Gemeinschaft*' concept are related with sociologist thinking. In the course of this introduction it will become clear that boundaries between different social sciences are easily crossed by various institutionalists.

The third article shows how to examine the quality of institutions using the expert method. The article does not directly discuss institutions, but it presents how numerous economists try to integrate institutional analysis into mainstream economics. The effort to measure and translate the institutional factors to numbers is characteristic of these trials. In this particular case, Katarzyna Kamińska presents selected proxies and the numerical values assigned to them to assess how well the Visegrad countries improved their economies competitiveness. The comparison is based on indices indirectly evaluating institutions' quality according to the World Economic Forum. For example, the indices refer to confidence in politicians or corruption. Calculations were based on surveys of managers' opinions. Such data is published in regular reports, and in this case, the data come from the *Global Competitiveness Report*. Organisations like the World Economic Forum and their publications constitute an extensive and relatively easily accessible database, which may explain why researchers use them so keenly. However, we should remember that – despite the impression of accuracy that the figures create – there is a large degree of discretion in this method. It is not only about the selection of proxies at will but also about tacit evaluation criteria. The article provides some conclusions with regard to competitiveness improvement which are based on silent assumptions. Namely there exists institutional structure that enhances competitiveness, and the more an economy approaches this institutional pattern, the more competitive it becomes.

Nonetheless, such an attempt deserves due attention at least because of its dimension. Assessing the international competitiveness of entire economies is undoubtedly macro-dimensional. Furthermore, it consists not only of formal rules in a country but also of its cultural practices (such as low/high confidence). This corresponds to the highest degree of generalisation in Williamson's terms, resembling levels 2 and 1. In this sense, Katarzyna Kamińska's article shifts focus away from analysis of selected institutional arrangements and their meaning (articles by Moszyński & Guo or Pietrzak & Chlebicka) to systemic institutional change.

In turn, Maciej Miszewski reviews Thomas Piketty's *Capital and Ideology* with an emphasis on the change leading from 'private capitalism' to 'participatory socialism' (Piketty's notions). What is Miszewski's focus then, is systemic transformation and its theoretic layer, as seen by Piketty. Allow us to explain why we deemed the reading of *Capital and Ideology* important for this special issue. Miszewski leaves little doubt that the book's background lies in the theoretical scaffolding consisting of institutions, albeit with little explicit information from Piketty. First, Piketty states that capital, market, profit, and wages are constructs that depend on the legal, fiscal, and educational (and other) systems, which for institutionalists means a dependence on the system of formal institutions (level 2). Such 'socio-historical constructs' are based on each society's ideas about a just system and economy. Those ideas are nothing more than an ideology that gives cohesion to value hierarchies on a social scale, which we may transpose on the institutions from Williamson's level 1. Ideology is connected to politics, because what provides balance between different social groups and narratives is another category of institutions: mediation institutions.

Will a change in fundamental perceptions – as Piketty suggests – suffice to change the system? Does the evolutionary nature of change Piketty advocates have any chance in the current reality? Is global ‘tax justice’ not another utopia? These and many other questions put by Miszewski are shared by the editors of this issue who hope that this critical review will provoke individual reader’s questions as well. Piketty tries to make diagnosis in aim to define specific paths toward better social order. This venture alone is ambitious and precious. Importantly, Piketty’s vision contains elements close to social economy, such as postulates regarding universal capital subsidies for young citizens, organization of worker cooperatives, and private companies co-management.

The issue’s major section closes with a review of a book that attempts to embrace the contemporary configuration of capitalism from political-institutional perspective. Anna Ząbkowicz’s book (*Państwo wobec grup dominujących w gospodarce*) considers a socio-economic system in which universally shared values and formal institutions remain under the influence of a specific type of state, namely a social democratic state. In this analyses the eponymous ‘dominant groups’ hold central position. They appear as a collective actor in two aspects, namely as large organizations focused on economic benefits as well as their representations in the polity dedicated to economic and ideational interests. Ząbkowicz begins her study from the premise that contemporary economy is largely based on a game between the state and business groups. The latter can impose their objectives on social environment – including the state. While building institutions important to the economy and implementing public policies, the state is subject to pressures from organised interests and social coalitions. On the other hand, alongside the bureaucratic and political institutions that make the state, mediation institutions channel polity activities and institutionalised interest representation. Therefore, what matters in the perspective adopted by Ząbkowicz are power relationships and dependencies, along with institutionalisation of economic and political processes. This approach definitely diverges from neoclassical economics and draws from the achievements of political economy and broadly defined institutionalism whose achievements lie in explaining collective action and are due to holistic approach, a version championed by Gunnar Myrdal. Ząbkowicz synthesised the achievements of both political and institutional economics. Her method is rather difficult to classify in accordance with Williamsonian typology, so the reviewed book may be an interesting example of doing institutional economics, markedly different from the approaches presented in the articles described above. This is the reviewer’s concern that Ząbkowicz seems to underestimate the achievements of new institutional economics.

Michał Pietrzak’s review finds in Ząbkowicz’s book a description of the main problem the modern state faces. It is the debt state that operates in conditions of a conflict over the distribution of income between its creditors and its citizens. Thereby, it is consequently losing its abilities for promoting economic growth in terms of resources at disposal and effective control. Furthermore, state power gradually erodes due to its diffusion among technocratic intergovernmental organisations and large private organisations with cross-border interests. Does the inclusion of power relations into the perspective of economics provide new insights? Do large business groups present a counterpower against the state indeed? Should they raise concern and demand extraordinary scrutiny? Has net effect of their functioning in terms of wellbeing more than one meaning? We recommend this reading.

The final text, by Anna Jurczuk, Zofia Łapniewska, Renata Śliwa, and Anna Zachorowska-Mazurkiewicz, describes the object and scope of activity of the Forum for Institutional Thought Association. Operating since 2016, the Forum is an important platform for the exchange of



ideas and scientific experience among representatives of various disciplines, including economists, lawyers, political scientists, and sociologists – coming from leading Polish academic centres and united by the conviction that the institutional approach currently offers the best way to understand the world around us. The Forum organizes and co-organizes seminars and scientific conferences of national and international scope, and it prepares scientific publications presenting its members' research results. Encouraging interdisciplinary study of institutions, the Forum supports its members in their professional development and inclines them to broad research perspectives.

All the articles in this issue attribute a special role to the analysis of institutions in explaining socio-economic phenomena. Institutions matter, and one cannot understand the economic reality without considering the broadly defined institutional environment. The variety of approaches presented in the articles responds to the institutional system's complexity, which consists of a multilevel, multifaceted structure of laws, rules, norms, and power relations. Institutions differ from one another in their range of influence, method of creation, and susceptibility to change over time. The articles in this issue uncover various elements of institutional architecture, which enables us to gain a multifaceted view of the institutional environment of economic activity.

We hope that this issue will encourage many to explore institutional economics. Hopefully, the variety of themes covered here may be of help for scholars to widen their reflection on institutional economics.

Anna Ząbkowicz, Michał Pietrzak, Anna Jurczuk  
*Thematic editors*

## References

Wilkin, J. (2016). *Institutionalne i kulturowe podstawy gospodarowania. Humanistyczna perspektywa ekonomii*. Wydawnictwo Naukowe Scholar.

## About Author/s

**Anna Ząbkowicz**, PhD, Professor  
University of Lodz  
Faculty of Economics and Sociology  
Department of Institutional Economics  
and Microeconomics  
POW 3/5, 90-255 Łódź, Poland  
e-mail: anna.zabkowicz@uni.lodz.pl  
ORCID:0000-0003-1977-0884

**Anna Jurczuk**, PhD  
University of Białystok  
Faculty of Economics and Finance  
Department of Political Economy  
ul. Warszawska 63, 15-062 Białystok, Poland  
e-mail: a.jurczuk@uwb.edu.pl  
ORCID: 0000-0002-6467-4747

**Michał Pietrzak**, PhD, Professor  
Warsaw University of Life Sciences  
Institute of Economics and Finance  
Department of Economics and Organisation  
of Enterprises  
ul. Nowoursynowska 16, 02-787 Warszawa, Poland  
e-mail: michal\_pietrzak@sggw.edu.pl  
ORCID: 0000-0002-0418-3436

### Acknowledgements and Financial Disclosure

None reported.

### Conflict of Interest

The authors declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.

### Copyright and License



This article is published under the terms of the Creative Commons Attribution (CC BY 4.0) License  
<http://creativecommons.org/licenses/by/4.0>

**Published by Krakow University of Economics – Krakow, Poland**



**Ministry of Education and Science  
Republic of Poland**

---

The journal is co-financed in the years 2022-2024 by the Ministry of Education and Science of the Republic of Poland in the framework of the ministerial programme "Development of Scientific Journals" (RCN) on the basis of agreement no. RCN/SP/0391/2021/1 concluded on December 9, 2022 and being in force until December 8, 2024.

# Institutional interplay in China's economic system on the example of hukou

Yanrong Guo, Michał Moszyński

---

**Abstract:** **Background:** The introduction of the 14th Five-Year Plan (2021–2025) re-emphasizes the transformation of China's economic order and draws the hukou system back into the limelight. Hukou, a system of population registration and movement control developed since the 1950s, has experienced several reform waves. It is worth examining its new strategic role as a supporting element of the evolving Chinese economic system in interaction with other institutions.

**Research objectives:** The article aims to examine and assess the evolution of the hukou and its interaction with other formal (meta)institutions: the labour market, welfare system, and education system, as well as its institutional support for China's economic model.

**Research design and methods:** We based the study on qualitative research using our two-level model for analysing the relationship between selected institutions and the evolution of hukou.

**Results:** The changes in the household registration system go in line with China's evolving economic strategy. The hukou's relationship with individual institutions has been effective or ineffective depending on the period.

**Conclusions:** Hukou has played a major role in supporting the Chinese economic model in terms of the supply of cheap labour, local economic development, and talent selection.

**Keywords:** hukou, labour market, China's economic system, institutional change

**JEL Codes:** I24, I38, J21, J42, P25, O53

---

## Suggested citation:

Guo, Y., Moszyński, M. (2023). Institutional interplay in China's economic system on the example of hukou. *Social Entrepreneurship Review*, 2, 11–26. <https://doi.org/10.15678/SER.2023.2.01>

## 1. Introduction

Sixty-five years have passed since the Chinese government introduced the hukou system in 1958. It is a nationwide institution aiming to regulate and restrict population movements (Chan & Buckingham, 2008, p. 587). During the communist economic era, hukou was a central tool to prevent the movement of 'undesirable' rural populations to the cities when the government actively pursued industrialization (Chan, 2010, p. 358). Indeed, the hukou system was, is, and will be crucial to China. In particular, in the released 'Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Vision 2035,' hukou's key institution is closely related to the demographic strategy, the strategy of expanding domestic demand and the strategy of science, technology and innovation therein, which reinforces hukou's importance in China's future economic model.

Since China's reforms and opening up in the last century, it has gradually developed into an export-oriented open economy, and as the World Bank (2008, p. 22) puts it, in the past, China insisted on 'importing what the rest of the world knew and exported what it wanted.' Following this economic model, the Chinese government chose to ease restrictions on population movement through several reforms of hukou. Consequently, the Chinese government could rapidly build up its industrial base and participate in the world market backed by its abundant cheap labour. Meanwhile, China has managed to maintain high economic growth for decades by imitating, learning from, and adapting technologies, institutions, and industries from the developed world at low cost and risk, with the advantage of 'latecomers.' The slowdown in China's economic growth started in the 2010s and the government's new strategic plan suggests that the Chinese government is developing a new economic model. Simultaneously, the reform of the hukou system has become increasingly profound. However, it remains a challenge to resolve the complex legacy of reform and opening up, involving education, the labour market and social welfare.

In sum, the changes in China's hukou system are closely related to the evolution of China's economic model. Its shape and outcomes will have a significant impact on the global economy, therefore changes in the hukou system that affect these processes are issues worth exploring. As Ostrom (1990) argues, institutions are nested in multiple layers. This means that it is not only necessary to analyse the mechanisms of change in individual institutions but also to capture the interactions between institutions concerning other elements of the economic order (Moszyński, 2016, p. 379). Therefore, this paper focuses on the institutional context in China's economic model from the perspective of institutional economics, in particular how the hukou system interacts with other Chinese formal 'rules of the game' and plays its supporting role in China's economic strategy.

The article consists of five parts, including an introduction and conclusions. The literature review will define the concept and nature of hukou and present current research on the institution. Next, we will present the research methodology and research process. The main body of research will contain the analysis of interactions of hukou with the chosen formal institutions and end with conclusions.

## **2. Literature review**

Economists provide various definitions of an institution from different perspectives (Commons, 1931; Hayek, 1973; Hodgson, 2006; Veblen, 2005). North presents one of the most broadly accepted definitions of the institution (1990, p. 3): 'Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.' Meanwhile, in the vast body of research in institutional economics, many scholars have presented different perspectives on how institutions change. Generally, it can be divided into three categories based mainly on research approaches. The first is the view that institutional change is centralised and based on collective choice; the second one treats the process of institutional change as an evolutionary (bottom-up) process; and the third is the view that institutional change is due to the changing expectations rather than rules (Coccia, 2018; Kingston & Caballero, 2009). Due to the lack of space for a deeper analysis of the theory of institutional change, we will limit ourselves to stating that the changes in the hukou system were top-down and that its shape influenced the other studied elements of the institutional system

more spontaneously. Given the long research period, we will also use the term 'evolution' to describe the gradual reforms of the hukou system.

The research related to the hukou institution is abundant. Economists explored the origin and development of hukou (Chan & Buckingham, 2008; Cheng & Selden, 1994; Young, 2013), what roles hukou played in the economic system, many studies analysed this area from the migrant workers' point of view (Cui & Cohen, 2015; Kuang & Liu, 2012), and others explored the institutional interactions between hukou and other institutions like the education system or the land system (Xiao & Bian, 2018; Lu & Wan, 2014). To our knowledge, no scholars have thus far investigated the parallel relations of hukou with the labour market and China's urban welfare and education system.

### **2.1. Introduction of hukou**

We may trace hukou's history back to the 1950s. During 1949–1957, the Chinese government was preparing to build the hukou system but it did not spread to the whole country. Initially, in 1951, its official purpose was 'to maintain social peace and order, safeguard the people's security, and protect their freedom of residence and movement' (Cheng & Selden, 1994, p. 662). In fact, the implementation of the hukou resulted in strict restrictions on people's freedom of residence and movement, as we will show in the following sections. In 1955, the government extended the hukou from cities to rural areas (Lu & Wan, 2014, p. 671).

Three years later, the Chinese government issued Regulations on Household Registration in the People's Republic of China introducing the hukou system and it has remained influential to this day. Hukou not only served as a recording system, but also worked as a state institution that artificially interfered with the movement of people through regulations and restrictions and contributed to the country's industrialization as a key instrument in the Mao era (Lin et al., 1998). The hukou system required the government's approval for all internal movements, which meant that Chinese citizens lost their freedom to reside and move within the country since then (Chan, 2010, p. 358). Meanwhile, the hukou system distinguished between citizens living in urban and rural areas (urban and rural hukou), using geographical location and workplace as the basis for dividing units for the first time, replacing China's previous units defined by kinship (Cheng & Selden, 1994, p. 663). Specifically, every Chinese citizen receives an individual hukou after birth according to the division classification criteria. The classification is based on two main components (the hukou dual classification), which are 'socio-economic eligibility and residential location.' The former determines whether an individual's hukou is of an 'agricultural' or 'non-agricultural' type (also known as rural or urban hukou) and the latter determines the official or 'permanent' residence of the individual's hukou (Chan & Buckingham, 2008, pp. 587–589). Clearly, hukou's purpose contradicts the government's initial declarations. 'Freedom of residence and movement had long since disappeared from the list of state-guaranteed rights' (Cheng & Selden, 1994, p. 662).

The hukou system has played an important role in China's rapid growth in the past (Chan, 2010; Watson, 2009), but it has also become an important institutional obstacle limiting the healthy development of Chinese society and social equity and national economic integration (Young, 2013). Song (2014) found that the hukou system is not conducive to economic efficiency and equity.

The actual impact of the hukou system on Chinese society is controversial and some scholars have strongly criticised it. As Perry and Selden (2010, p. 90) mention, in the late 1990s, most of the critiques were about the distortions that the hukou system brought to the economic

system since the restriction of the labour movement was unbeneficial to the economy due to blocking the inflows of talented people. In the new century, more and more scholars began to criticise the hukou system from the perspective of human rights and citizenship. Some articles directly state that the hukou system is essentially a 'China's caste system' or a cornerstone of 'apartheid' (Chan & Buckingham, 2008; Donzuso, 2015; Freeman, 2015; Perry & Selden, 2010). We believe that despite the economic role the hukou has played and continues to play in China's development, its cruel and harsh divisions have blocked an important dimension of civil liberties. This is unacceptable from an ethical point of view. Today, the pace of reform of the hukou system in China has not stopped. The future of the unequal and divided Chinese dualist socio-economic structure caused by the hukou system needs further discussion.

## **2.2. *Hukou's interplay with other institutions***

As mentioned above, different institutional arrangements interact with each other to form different institutional systems and their interplay can cause institutional change. Moreover, studying changes in the hukou system requires attention to its interactions with other institutions.

Many studies revealed hukou's impact on the labour market. In particular, the situation of migrant workers has drawn a lot of attention, because the loosening of labour mobility regulations has not been accompanied by the improvement of welfare, public service, and resource allocation. The expression 'migrant worker' – also referred to as *nongmingong* – generally means a specific category of urban workers who still possessed a rural hukou even though they have already worked and lived in the cities for a long time (Donzuso, 2015, p. 1). The hukou system has brought about inequality in social status between the urban and rural populations and made institutional discrimination against migrant workers its most prevalent type (Kuang & Liu, 2012). Moreover, many economists define hukou as the main obstacle to the mobility of migrant workers in China and the main reason for their low wages (Wu & Zhuoni, 2014; Qiao, Xueya, & Xianguo, 2009, as cited in Cui & Cohen, 2015). Furthermore, the hukou system impacted the urbanisation level in China which was incomplete, because a large proportion of urban residents (without local hukou) did not enjoy urban benefits and were excluded from urban society (Lu & Wan, 2014, p. 672). Xiao and Bian (2018) examined the interactions between university education, hukou and type of workplace and noted that university education provided institutionalised hukou transfer opportunities for rural-born people. One study found that the point system and residence permit system introduced by the 2014 hukou reform brought about new forms of education and social stratification rather than social equality (Dong & Goodburn, 2020). Chen (2019) highlighted the importance of the interaction between the hukou and the economic system and argued that before 1978, the inequality between urban and rural areas was related to the nature of work, which was more important in the industrial sector than the manual labour in the agricultural sector, and that hukou was not a barrier to mobility, but the communist economic system was. It was not the reform of the hukou that lifted the restrictions on rural-urban mobility during market economy reform, but the government's step-by-step adjustment of the whole economic system. Lu and Wan (2014) examined the barriers to labour mobility in China's urbanisation process by combining the hukou system with the land property institution.

### 3. Research method and materials

We employed institutional analysis to examine the process of change in the hukou system after the 1980s, to interpret its relations with the three other (meta)institutions or subsystems: labour market, urban welfare system, and education system as well as to assess its function in China's economic model. Helmke and Levitsky's (2004) institutional adaptation model inspired our qualitative study. Helmke and Levitsky developed a typology of institutional adaptation to capture the interaction between formal and informal institutions. We applied this approach to analyse the relationship between selected formal institutions, as other researchers have also previously done (Wang, 2020). We developed a two-level model to analyse and interpret the relationship between hukou and selected formal institutions (Table 1).

The first level concerns the relationship between hukou and a given formal institution in isolation from the economic system as a whole. From the perspective of a specific institution, such as the labour market, we asked how hukou affects its functioning. A given relationship can support the operation of the given institution and make it perform better or worse. This produces a twofold relationship: effective or ineffective.

The second level of consideration refers to the relationship between hukou and a particular institution from the perspective of the entire economic system and the state's economic strategy. Consequently, we classified and evaluated institutions by asking to what extent the relationship between the hukou and the selected institution generates an appropriate outcome in terms of the growth and development strategy of the Chinese economy. For the sake of simplicity, we assumed that a relationship can be of two types: effective (if it corresponds to the overall logic and fits the current strategy) or ineffective. Noteworthy, we took the word 'effective' from Helmke and Levitsky's model, knowing that sometimes 'efficient' may fit better. We did not analyse the ethical side of the political process. It is governed by its logic and, in the final instance, political arguments prevail over others.

**Table 1. A two-level model of the relationship between hukou and selected institutions**

The level of analysis	Labour Market	Urban welfare system	Education system
Meso (1st level)	A given relation with hukou can be effective or ineffective in terms of supporting the functioning of the institution in question		
Macro (2nd level)	A given relation can be effective or ineffective in terms of the overall logic of the economic development strategy of the state		

Source: own elaboration.

We assumed that the analysed rules of the game are largely formal and – due to the specificity of the Chinese political system – the state may easily shape and modify them to fit the logic of long-term economic strategy. Therefore, the Chinese government treats them as tools, hence, we may interpret hukou's reforms and change of its relations to a given institution as institutional policy, the reconstruction of the institutional environment at the second level in Williamson's schema, or the policy of economic order in the ordoliberal nomenclature.

We applied a long-term analysis dividing the research period 1978–2022 into three sub-periods related to hukou reforms. This enabled us to explain changes within China's institutional order, reforms of specific elements of it, as well as modifications to the overall development strategy. It enabled us to understand that purely economic inefficiencies in some areas

can be tolerated from a political point of view because they fit the government's agenda. However, if the inefficiencies are too great or socially unacceptable, they may force reforms of specific elements of the system and a shift to a new institutional equilibrium.

## 4. Results

In this section, we will analyse the evolution of the hukou institution since 1978 and explore its interactions with three important elements of the Chinese economic order: the labour market, the welfare system, and the education system. The secondary data from the official sources helped us explain the hukou's institutional support for China's overall economic strategy.

### 4.1. *The hukou reforms*

Chinese government gradually modified the hukou system in three main phases: 1978–2002; 2003–2013, and from 2014 to the present. The analysis of its changes focused on these three key periods.

During the period 1978–2002, the reform of the entire Chinese economic system proposed by Deng Xiaoping brought about the idea of reforming the hukou institution. After 1984, the Chinese government gradually relaxed restrictions on the movement of people (Q. Zhang & Hoekstra, 2020, p. 3). Firstly, the Chinese Ministry of Public Security officially introduced the temporary residence permit system and the identity card system in 1984, which relaxed the strict controls on migration that had been in place from 1958 to 1979. Then, the government introduced the 'Blue Stamp Hukou System' in cities such as Shanghai in 1992. Moreover, some cities began experimenting with a residence permit system in 2000, but these did not spread to the whole country (fully implemented in 2016). Finally, in 2002, the government discontinued the transitional hukou types at the beginning of the hukou reform, such as the blue-stamped hukou. Consequently, China's migrant population rose from 6.6 million in 1982 to 121 million in 2000 (UNICEF, 2018). While complementary measures like the temporary residence permit system allowed for the so-called floating populations to stay in the city for a short period, the welfare system linked to the hukou continued to make a strict distinction between local and non-local hukou. The design and operating mechanism of the hukou system in the Mao period was in fact aligned with China's early economic strategy of rapid industrialization (the socially disastrous Great Leap Forward) (Chan, 2010, p. 358), but it has also become the cornerstone of the problem of uneven urban and rural development in China in the later years. The reform and opening-up policy that started in 1978 enabled the release of a large amount of ultra-low-cost rural labour created during the communist economy through a series of measures represented by the hukou system, resulting in a 'reserve army of labour'. Simultaneously, the adoption of a labour-intensive and export-led growth strategy created a large number of jobs in China (Chan, 2010, p. 358). The interplay between the hukou system and the national strategy led to rapid economic growth. However, although the hukou system underwent a few reforms after 1984, the distinction between urban and rural areas remained in force. The type of hukou and permanent residence inherited from the parents can only be changed if certain conditions are met. The process of changing from a rural (agricultural) hukou to an urban (non-agricultural) hukou is still complex in more developed cities in China (J. Zhang et al., 2019, p. 2). As a result, many rural residents without a local hukou are often worse off than urban residents with a local hukou in terms of employment opportunities, income, and benefits, and face a widespread form of social discrimination (Q. Zhang & Hoekstra, 2020, p. 3).



China's hukou institution has evolved from an 'internal passport system' that controlled the movement of people to achieve rapid industrialization to a welfare exclusion tool used to protect urban welfare resources and reduce local financial pressures during the transition of the economic system. The focus of the division of the hukou system has also changed from agricultural and non-agricultural hukou to local and non-local hukou.

In 2003, the Sun Zhigang incident sparked concern in Chinese society about the hukou system and soon afterwards China abolished the 'custody and repatriation law.' With the central government's decentralisation of financial and administrative powers, local authorities received more decision-making power over hukou policy. The hukou system underwent the second round of reform, dominated by economic rationality. Fearing that the relaxation of the hukou policy would lead to financial pressure, the local authorities granted hukou to their preferred groups, such as businessmen who invested heavily, by setting high standards of hukou policy (Fangmeng, 2018, p. 191). At this point, the local hukou policy had become a system similar to Western immigration policy (Li et al. 2010, as cited in Fangmeng, 2018, p. 190). Some scholars compared the hukou registration policies of Chinese cities and found that there are several channels provided by local authorities including investment, tax payment, and house purchase to get a local hukou. For example, the amount of investment in hukou in first-tier cities (Beijing, Shanghai, Guangzhou, and Shenzhen) is 43.59 times higher than in fifth-tier cities (less developed) (J. Zhang et al., 2019). During this period, the mobile population rose from 147 million in 2005 to 245 million in 2013 (UNICEF, 2018). In 2011, Guangdong Province, a major labour-importing province in China, took the lead in implementing a points-based household registration system, providing new ideas for reforming China's hukou system. It is a new framework adopted by some cities that gives newcomers full urban membership (Losavio, 2019, p. 111). Generally, authorities use this point system to manage international migration. Governments create a list of attributes and assign a point value to it and when individuals earn enough points they obtain a work visa (Dong & Goodburn, 2020, p. 3). The difference is that in China, people use sufficient points to apply for household registration. The hukou institution has begun to evolve as a tool for local authorities to promote economic development, but the welfare exclusionary effects of the hukou institution remain.

In July 2014, China's State Council issued 'Opinions on Further Reform of the Household Registration System,' which set the development goal of establishing a unified urban and rural household registration system. The government lifted the restrictions on household registration in small and medium-sized cities and small towns with an urban permanent residents population of less than one million, relaxed the conditions for household registration in large cities, and China's megacities (Beijing, Shanghai, Shenzhen, Guangzhou) began to implement a points-based household registration system. Cui and Cohen (2015) stress that this policy was an important element in the transformation of the hukou system from a system that distinguished between urban and rural residents and separated the population into a system that managed the population and benefited the working class. In 2019, the National Development and Reform Commission (NDRC) of China issued New Towns' Planning and Construction, emphasising the need to continue the reform of the household registration system, and in the '14th Five-Year Plan for New Urbanization Implementation Plan' for 2022, the authorities removed further restrictions. Moreover, various cities in China introduced policies for attracting talents to complement the hukou system in an effort to stimulate urban innovation. Arguably, the reform of the hukou experienced a major step forward in 2014. While the points system seems to offer migrant workers hope of obtaining a local hukou more transparently, the ease

of their settlement remains firmly in the hands of local authorities (J. Zhang et al., 2019, p. 19). In 2016, the residence permit replaced the temporary residence permit, offering the hope of breaking down the barriers that separated the local population from the outside population that had dominated the welfare system.

After 2015, the changing political situation in the world including the rise of trade protectionism, the deterioration of Sino-US relations, and the war between Russia and Ukraine severely hampered China's technological and economic exchanges with the world. Moreover, as China's economic growth slows, many economists are concerned about the sustainability of China's economic model, which is beginning to face a decline in external demand, a demographic problem, environmental protection, and rising labour costs. In fact, the government is also eager to develop a new version of the Chinese economic model. As early as 2015, it proposed the 'Made in China 2025' strategy, which places technology at the forefront of future economic development and is committed to industrial upgrading of manufacturing industries and increasing the added value of exported goods, so as to escape the role of 'the world's workshop' in the international division of labour. In 2022, the Chinese government issued 'Guideline on expanding domestic demand' (2022–2035). This shows the importance of technology, the domestic market, and the capacity for innovation in China's future development. The further abolition of restrictions on population mobility under the reform of the hukou system will facilitate the integration of China's segmented labour markets. The points-based hukou system, with education, skills and innovation as the main criteria, will also fit in with the future development of China's economic model.

In 2022, with the introduction of the 14th Five-Year Plan, China's hukou system may turn out to be a talent selection tool used to achieve the transformation of an efficient and consumption-driven economy. Probably, it is one of the systems that will serve China's future economic goals of urbanisation strategy, developing a domestic demand and innovation capacity.

Concluding, this section clearly showed the relationship between the hukou system and China's economic strategy. Changes in the hukou system are closely related to China's development strategy and also demonstrate the important role it plays in the country's economic model. Thus, we took the transformation of China's economic model as a baseline for analysing the interaction of the hukou system with other institutions since the 1980s and its supporting role in the economic system.

#### **4.2. *Hukou's interactions with the labour market***

China's operating labour market only gradually emerged after the 1978 reforms (Freeman, 2015). Previously, the government allocated all the workers' jobs, and the peasants were tied to the land. Simultaneously, the hukou system prevented migration between urban and rural areas. With the rise of a market economy and a change in the economic model, coupled with the reform of the hukou system which increased the population's mobility, the Chinese government gradually established a labour market in the true sense of the word.

The increased population mobility led to a large number of surplus rural workers moving to the cities and mostly to the labour markets in the eastern regions where employment opportunities are plentiful, especially the Pearl River Delta region, the Yangtze River Delta Region, and the area around the Bo-Hai Sea, including Beijing and Tianjin (Xizhe, 2014, p. 100). Based on data from UNICEF (2018), the number of migrants in China rose from 6.6 million in 1982 to 244 million in 2017, accounting for 17.6% of the total population. As the majority of the migrant population, the total number of migrant workers in China was 220 million in 2008, with the

eastern regions absorbing 71% of the total number of migrant workers leaving the province. The total number of migrant workers in China in 2022 reached 295 million, of whom 154 million worked in the eastern region (National Bureau of Statistics [NBS], 2023).

Most of the employment opportunities in the labour market for the migrant population come from the manufacturing and construction industries, because China's strategy prioritizes the development of labour-intensive industries and foreign trade. Meanwhile, in the 1990s, the government stopped forcing companies to provide housing, medical, and pension benefits for their employees. Moreover, the government abolished the work distribution system and companies received the freedom to employ their own staff. This meant that the market rather than the state determined the distribution of a large amount of labour liberated from the rural land. In 2022, in terms of the main employment sectors of migrant workers, the share of migrant workers working in manufacturing was 27.4%, the average monthly income was 4694 RMB. The share of those engaged in the construction industry was 17.7%, the average monthly income was 5358 RMB. The proportion of those engaged in wholesale and retail trade was 12.5%, the average monthly income was 3979 RMB (NBS, 2023). Thus, the relaxation of the hukou system balanced the supply and demand in the labour market. In the prism of the research model, we may interpret hukou as an obstacle, the removal of which gradually improved the operation of the labour market.

The interaction between the labour market and the hukou system led to the successful operation of the primary labour market in China, with many migrant workers flowing into the secondary labour market to take up jobs in the lower end of the manufacturing, service, and construction sectors. In 2021, labour productivity in China was only USD 13.53 per hour (ILOSTAT, 2022). Wages are market-determined and low-skilled migrant workers have little bargaining power. Between 2003 and 2006, the average monthly wage for migrant workers was below USD 1000 (Watson, 2009). Just as the hukou system was a powerful instrument during the Maoist industrialisation, it was also an effective tool for China's rapid economic transformation and the engine of China's foreign trade development during the construction phase of the market economy from a macro point of view. Without a market-oriented labour system with high labour mobility China would be unlikely to increase productivity so rapidly and successfully redistribute labour across sectors (Freeman, 2015, p. 110).

Since 2014, with the deep reform of the hukou system, the Chinese government removed the restrictions on the movement of people in small and medium-sized altogether. The points-based hukou system attracted high-quality labour to the labour markets of larger cities. With the establishment of the Labour Law in 1994, the Labour Contract Law in 2006, and the minimum wage system in 2004, China's labour market became well-institutionalised. In 2022, the average monthly income of migrant workers was 4615 RMB (NBS, 2023), which is higher than the minimum wage set by the state. However, although the hukou system no longer strictly restricts free movement as it did before, China's labour market remains occupationally segregated. There are long-standing policies that discriminate against the migrant population and urban employers are often biased against people of rural origin (Guo et al., 2017) tying migrant groups to the secondary labour market. Summarizing, in this subperiod, the outcomes between China's hukou system and labour market are ineffective as they work together to discourage factors mobility within the labour market, which is an obstacle to Chinese urbanisation strategy and building an economy based on internal demand.

The number of people of working age (15–59 years) has been declining since 2012 (Xizhe, 2014). With the depletion of surplus rural labour and China's manufacturing technology catch-

ing up with that of developed countries, China must rely on innovation to shift to an efficiency-driven growth model if it is to continue its high growth rate (Jinglian & Shitao, 2014, p. 70). This means that the existing Chinese economic model is no longer efficient and the state needs its new version. In fact, we may observe further hukou reform in the economic goals set by China in recent years.

#### **4.3. China's urban welfare: How does it relate to hukou?**

We have mentioned the link between hukou and welfare in previous sections. Between 1984 and 2002, during the temporary residence permit system, cities did not have to pay for the benefits of non-local migrants, such as pensions, health insurance, housing, etc. The relation was ineffective, because it excluded migrant workers from the benefits of urban welfare and exacerbated the inequality between urban and rural hukou.

Since the 1990s, local authorities received the power to set hukou access policies and a few transitional types of hukou like the 'blue-stamp hukou' granted migrants some urban population rights such as eligibility to buy a house. However, local authorities lack the incentive to provide benefits to the mobile population and most of them are excluded from the urban welfare system (Fangmeng, 2018, p. 185). The cost of employing migrant workers was low because, among other factors, employers were not required to pay social insurance, and after 2003, the government relaxed local hukou policies for specific groups of people. The 2008 Labour Contract Law requires all employers to sign labour contracts with employees, including migrant workers, and to provide them with social insurance. However, the government has not strictly enforced the law and many migrant workers with low incomes continue to have no social security. In 2009, the labour contract signing rate for migrant workers was 42.8%, in 2016, it dropped to only 35.1% (China Labour Bulletin, 2021, August 18). Thus, the household registration system helps to maintain the low income and low welfare of migrant workers and provides cheap labour for labour-intensive industries (Watson, 2009). Without access to welfare benefits, a large number of migrant workers need to solve their own housing problems and buy commercial properties; in 2018, the majority of migrant workers (61.3%) lived in rented accommodation, 19% bought their own home, and 12.9% lived in employer-provided accommodation such as factories (China Labour Bulletin, 2021, August 18). Migrant workers build the cities they live in and bring in large amounts of consumption. However, decentralisation and a strong desire for local economic development have made the hukou a powerful tool for local authorities to attract elite groups, while sacrificing unskilled groups. Therefore, while we may speak of an increase in efficiency in a purely economic sense from the point of view of the winning elite, we must assess this relationship as ineffective (in our model) due to the social objectives of the welfare system.

In 2014, the government abolished the categories of hukou and unified them as resident hukou and focused the household registration system on the division of local or non-local hukou. It was only in 2016, during the period of the residence permit system, that mobile groups began to gradually gain access to urban public services.

To summarise, a series of reforms to the hukou system attempted to break the rigid urban welfare distribution of the past, but with little success. Because of the nature of the welfare system tied to the hukou, developed cities continue to use the hukou filter mechanism to give the green light to investors and skilled workers, leaving large numbers of unskilled workers excluded from urban welfare (Müller, 2016, p. 60). In terms of outcomes, the interplay of hukou and urban welfare was in line with the reform and opening-up strategy which was based on

abundant low-cost labour. Thus, we may assess it as effective from the macro-level analysis in the model.

#### 4.4. China's education system and hukou

Education is one of the benefits that urban hukou holders enjoy. After the reform of the hukou system, the influx of children into the cities with their migrant parents inevitably conflicted with the previous system of schooling by territory. China's education system is divided into compulsory education including primary schools and junior secondary education, high school level education, and higher education (Ministry of Education of PRC, n.d.).

In terms of compulsory education, as part of the city's benefits, only parents who meet certain conditions can enrol their children in education in public schools free of charge, which generally relates to residence permits, social security, work contracts, or whether they have local hukou. It is difficult for migrant children to access schools because of the hukou issue. To meet the educational needs, private schools for migrant children have emerged in almost every city in China (Liang et al., 2008, p. 29). However, private school fees are high. There are also public migrant schools, but they suffer from poor facilities and low-quality teaching. These factors contribute to the problem of left-behind children. Between 2000 and 2015, the number of children left behind in China increased significantly. In 2000, 30.2 million children were left behind, 27 million of them in rural areas, and in 2015 – 68.8 million and 40.5 million respectively (UNICEF, 2018). In addition to the complicated admission steps, the *jiedufei* system (extra fees for students with non-local hukou) in public schools makes education more costly for the children of non-local household holders. It was as late as 2010 that the Ministry of Education abolished the extra fees at the primary school level. The hukou reduces the educational opportunities for children who move with the family to protect the educational resources of local hukou residents, making the education system unequal. Therefore, we may assess the relationship as ineffective from the point of view of the operation of the education system and its social tasks.

Along with the hukou reform, local authorities adjusted the conditions for the enrolment of children of migrant workers. The conditions vary but basically relate to the length of residence and residence permit as a prerequisite. In general, children of migrants who hold a residence permit and have a certain number of years of residence can attend public schools; otherwise, children of migrants can only attend schools founded by migrant workers themselves. The same criteria for residence permit and point accumulation amounts apply to higher education. In this respect, local governments complicated the administrative procedures for the education of migrant children by requiring hukou eligibility to take the entrance examination (*gaokao*). Thus, the university entrance examination system based on the hukou system relies on an unequal and complex mechanism that prevents many migrant workers' children from pursuing their education (Donzuso, 2015). Moreover, another study found that the return to education in China's higher education expansion was 17% for men compared to 12% for women (Huang et al., 2022). Higher returns to education show a strong link between education and the labour market. To a certain extent, this increases the attractiveness of cities with good educational resources. However, the increased hukou-based selection mechanisms prevent most people from accessing good educational resources. Thus, the hukou is ineffective in terms of the allocation of educational resources.

The hukou system has always played an important role in the interconnection with the education system. In an education system, especially at the compulsory education level where hukou is still an important criterion of consideration, the hukou system continues to be an

important cause of inequity in education resources. According to the National Bureau of Statistics of China, the number of graduates from China's general universities has risen from 147,000 in 1980 to 9.673 million in 2022. Behind the universalisation of education, there is the problem of the distribution of educational resources and opportunities, which remains problematic especially as China has proposed an innovation strategy and is trying to revise its development model. Therefore, we assess the outcome between hukou and education as ineffective.

## 5. Conclusions

With the help of a developed model, we examined and assessed the interaction of the hukou system with the labour market, the urban welfare system, and the education system since the 1980s from meso and macro level perspectives as well as its institutional role in China's economic system.

We constructed our entire discussion based on three main phases of the hukou evolution, which occurred in 1978–2002; 2003–2013, and from 2014 to the present. According to the results of the meso-level analysis, the interaction between the hukou system and the labour market and the urban welfare system showed a fluctuating nature in terms of effectiveness depending on the period of analysis. Only the education system has remained stably ineffective. According to the results of macro-level analysis, the relationship between hukou and one chosen institution was linked to the economic system and national strategy by generating different outcomes (see Table 2).

**Table 2. The relationship of hukou with chosen institutions during the three phases of reform**

The level of analysis	Labour Market	Urban welfare system	Education system
Meso	P1–2: <b>increasingly less ineffective</b> , relaxation of the hukou system balances supply and demand in the flexible labour market P3: <b>ineffective</b> , migrant groups were tied to the secondary labour market	P1: <b>ineffective</b> , hukou worsens the welfare of migrant workers P2: <b>ineffective</b> , hukou with high qualification requirements block the access of unskilled migrant workers to welfare P3: <b>effective</b> , hukou starts to bring welfare benefits to migrant workers	P1–2: <b>ineffective</b> , hukou worsens the educational chance of children of migrant workers P3: <b>ineffective</b> , hukou's selecting mechanism increased the attractiveness of cities with good educational resources
Macro	P1–2: <b>effective</b> , a large rural labour force supports the reform and opening-up strategy P3: <b>ineffective</b> , obstacles to China's urbanisation strategy	P1: <b>effective</b> , the hukou and welfare systems together contribute to cheap labour in line with the reform and opening-up strategy P2: <b>effective</b> , only open to people who can bring 'good input' for cities to promote the local economy P3: <b>ineffective</b> , the burden on local authorities will increase	P1–2: <b>effective</b> , works with hukou to reduce the financial pressure on the local government P3: <b>ineffective</b> , may result in a loss of educational opportunities for talents, contrary to the innovation strategy

Note: The first phase (P1): 1978–2002; the second phase (P2): 2003–2013; and the third phase (P3): 2014–2023.

Source: own elaboration.

Concluding, the hukou system significantly influences the chosen institutions. Moreover, a combination of effects from the meso and macro levels influenced hukou's evolution. The combination of effectiveness at both levels can be a proxy for the need for, and the likelihood of, reform. For example, effectiveness at both levels implies a good 'institutional equilibrium', no need for change, and a low probability of reform. During the first two phases, the combination between hukou and the labour market gradually reached a good result at the two levels, which means there was no need for significant change. Thus, the gradual reform of the hukou responded to the choice of the national strategy (P1–2). Accordingly, the reform of the hukou system is very probably on its way because of ineffectiveness at both levels after 2014. In the first two periods, the hukou and urban welfare were ineffective at the meso-level but generated an effective relationship at the macro level in line with the country's economic strategy. Such a combination indicates the need for reform, but also its low probability. This means that social objectives are secondary in the national strategy and economic objectives prevail. However, with the introduction of the urbanisation strategy, the Chinese government is gradually enrolling migrants into urban welfare, which is effective at the meso-level and ineffective at the macro level (P3). Thus, a reform is necessary (and probable) as the combination of two levels is suboptimal. The education system is tightly connected to urban welfare and the hukou system makes it more unequal at the meso-level (P1–2). However, for the economic system, the cooperation of the hukou system and education allowed developed cities to successfully avoid the costs of migrant groups, as the local government did not have to bear the increased costs of educational facilities (P1–2). Although the combination of the two levels suggests the need for reform, it is improbable. Furthermore, in the new version of China's future economic model blueprint, both the hukou and education systems are ineffective at the meso-macro level (P3), which illustrates the high probability for the reform of both to fit with the new innovation strategy.

Since 1978, the reform of the hukou system significantly impacted the labour market, the education system, and the welfare system. Based on the results, we suggest that future reforms of the hukou system should focus on improving the occupational mobility of migrant groups in the labour market (geographical mobility underwent significant liberalisation) and on the rational allocation of educational resources.

China built its past economic success on a complex relationship between the hukou, the labour market, urban welfare, and the education system. Having shed some light on these issues, we believe that this nexus remains central to the new transformation China is currently undergoing. We believe that scholars should further analyse this topic, especially in the field of social inclusion, civil liberties, equity, and population structure in relation to the new economic model and new development strategies.

## References

- Chan, K. W. (2009). The Chinese Hukou System at 50. *Eurasian Geography and Economics*, 50(2), 197–221. <https://doi.org/10.2747/1539-7216.50.2.197>
- Chan, K. W. (2010). The Household Registration System and Migrant Labor in China: Notes on a Debate. *Population and Development Review*, 36(2), 357–364. <https://doi.org/10.1111/j.1728-4457.2010.00333.x>
- Chan, K. W., & Buckingham, W. (2008). Is China Abolishing the Hukou System? *The China Quarterly*, 195, 582–606. <https://doi.org/10.1017/S0305741008000787>
- Chen, Y. (2019). The Myth of Hukou: Re-examining Hukou's Implications for China's Development Model. *Review of Radical Political Economics*, 51(2), 282–297. <https://doi.org/10.1177/0486613418783885>

- Cheng, T., & Selden, M. (1994). The Origins and Social Consequences of China's. *The China Quarterly*, 139, 644–668. <https://doi.org/10.1017/S0305741000043083>
- China Labour Bulletin. (2021, August 18). *China's social security system*. <https://clb.org.hk/en/node/15436>
- Coccia, M. (2018). An introduction to the theories of institutional change. *Journal of Economics Library*, 5(4), 337–344. <https://ssrn.com/abstract=3315603>
- Commons, J. R. (1931). Institutional Economics. *The American Economic Review*, 21(4), 648–657.
- Cui, R., & Cohen, J. H. (2015). Reform and the Hukou System in China. *Migration Letters*, 12(3). <https://doi.org/10.33182/ml.v12i3.283>
- Dong, Y., & Goodburn, C. (2020). Residence Permits and Points Systems: New Forms of Educational and Social Stratification in Urban China. *Journal of Contemporary China*, 29(125), 647–666. <https://doi.org/10.1080/10670564.2019.1704997>
- Donzuso, N. N. (2015). 'Equality of Opportunities' in Education for Migrant Children in China. *Global Social Welfare*, 2(1), 9–13. <https://doi.org/10.1007/s40609-014-0012-y>
- Fangmeng, T. (2018). The Hukou: China's Achilles' Heel? In R. J. Lewis (Ed.), *Public Policymaking in a Globalized World* (pp. 185–201). Routledge. <https://doi.org/10.4324/9780203712429>
- Freeman, R. B. (2015). *A Labor Market With Chinese Characteristics*. Routledge. <https://dash.harvard.edu/handle/1/30803030>
- Guo, J., Guan, L., Fang, L., Liu, C., Fu, M., He, H., & Wang, X. (2017). Depression among Chinese older adults: A perspective from Hukou and health inequities. *Journal of Affective Disorders*, 223, 115–120. <https://doi.org/10.1016/j.jad.2017.07.032>
- Hayek, F. A. (1973). *Law, legislation and liberty*. Vol. 1: *Rules and order*. Routledge.
- Helmke, G., & Levitsky, S. (2004). Informal Institutions and Comparative Politics: A Research Agenda. *Perspectives on Politics*, 2(4), 725–740. <http://www.jstor.org/stable/3688540>
- Hodgson, G. M. (2006). What Are Institutions? *Journal of Economic Issues*, 40(1), 1–25. <https://doi.org/10.1080/00213624.2006.11506879>
- Huang, B., Tani, M., Wei, Y., & Zhu, Y. (2022). Returns to education in China: Evidence from the great higher education expansion. *China Economic Review*, 74, 101804. <https://doi.org/10.1016/j.chieco.2022.101804>
- Hung, J. (2022). Hukou System Influencing the Structural, Institutional Inequalities in China: The Multifaceted Disadvantages Rural Hukou Holders Face. *Social Sciences*, 11(5), 194. <https://doi.org/10.3390/socsci11050194>
- ILOSTAT. (2022). *Statistics on labour productivity*. <https://ilostat.ilo.org/topics/labour-productivity/>
- Jinglian, W., & Shitao, F. (2014). China's Economic Reform: Processes, issues, and prospects (1978–2012). In G. C. Chow, D. H. Perkins (Eds.), *Routledge Handbook of the Chinese Economy* (pp. 55–75). Routledge.
- Kingston, C., & Caballero, G. (2009). Comparing theories of institutional change. *Journal of Institutional Economics*, 5(2), 151–180. <https://doi.org/10.1017/S1744137409001283>
- Kuang, L., & Liu, L. (2012). Discrimination against Rural-to-Urban Migrants: The Role of the Hukou System in China. *PLOS ONE*, 7(11), e46932. <https://doi.org/10.1371/journal.pone.0046932>
- Liang, Z., Guo, L., & Duan, C. (2008). Migration and the well-being of children in China. *The Yale-China Health Journal*, 5, 25–46. [http://csda.albany.edu/imc/migration\\_and\\_the\\_well-being\\_of\\_children\\_in\\_china.pdf](http://csda.albany.edu/imc/migration_and_the_well-being_of_children_in_china.pdf)
- Lin, J., Cai, F., & Li, Z. (1998). The China Miracle: Development Strategy and Economic Reform. *The China Journal*, 4. <https://doi.org/10.2307/2667712>
- Losavio, C. (2019). Building Wealth Through a Stratified Inclusion: The Point-based Hukou System in Zhuhai. In N. Aveline (Ed.), *Pathways of Sustainable Urban Development Across China* (pp. 109–121). Imago Editor. <https://shs.hal.science/halshs-02873431/#>
- Lu, M., & Wan, G. (2014). Urbanization and Urban Systems in the People's Republic of China: Research Findings and Policy Recommendations. *Journal of Economic Surveys*, 28(4), 671–685. <https://doi.org/10.1111/joes.12078>
- Ministry of Education of the People's Republic of China (PRC) (n.d.). *Number of Students of Formal Education by Type and Level—Ministry of Education of the People's Republic of China*. [http://en.moe.gov.cn/documents/statistics/2021/national/202301/t20230104\\_1038067.html](http://en.moe.gov.cn/documents/statistics/2021/national/202301/t20230104_1038067.html)
- Moszyński, M. (2016). Institutional Conditioning of the German Labour Market in the Face of the Global Economic Crisis 2008–2009. *Ekonomia i Prawo. Economics and Law*, 15(3), 371–383. <https://doi.org/10.12775/EiP.2016.025>
- Müller, A. (2016). Hukou and Health Insurance Coverage for Migrant Workers. *Journal of Current Chinese Affairs*, 45(2), 53–82. <https://doi.org/10.1177/186810261604500203>
- National Bureau of Statistics (NBS). (2023). *Migrant Workers Monitoring Survey Report (2022)*. [http://www.stats.gov.cn/sj/zxfb/202304/t20230427\\_1939124.html](http://www.stats.gov.cn/sj/zxfb/202304/t20230427_1939124.html)



- National Bureau of Statistics (NBS). *Number of Graduates of Regular Institutions of Higher Education (10000 persons)*. <https://data.stats.gov.cn/english/easyquery.htm?cn=C01>
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. <https://doi.org/10.1017/CBO9780511808678>
- Ostrom, E. (1990). *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge University Press.
- Perry, E. J., & Selden, M. (Eds.). (2010). *Chinese Society: Change, Conflict and Resistance* (3rd ed.). Routledge. <https://doi.org/10.4324/9780203856314>
- Song, Y. (2014). What should economists know about the current Chinese hukou system? *China Economic Review*, 29, 200–212. <https://doi.org/10.1016/j.chieco.2014.04.012>
- UNICEF. (2018). *Figure 1.18 Migrant Population, 1982–2017*. <https://www.unicef.cn/en/figure-118-migrant-population-19822017>
- UNICEF. (2018). *Figure 10.2 Number of Children Affected by Migration, 2000–2015*. <https://www.unicef.cn/en/chapter-10-children-affected-migration>
- Veblen, T. (2005). *The Theory of the Leisure Class: An Economic Study of Institutions*. Aakar Books.
- Watson, A. (2009). Social Security for China's Migrant Workers – Providing for Old Age. *Journal of Current Chinese Affairs*, 38(4), 85–115.
- World Bank. (2008). *The Growth Report Strategies for Sustained Growth and Inclusive Development*. <https://openknowledge.worldbank.org/server/api/core/bitstreams/df194a38-cb6f-5553-8fd8-e48a8a7c9574/content>
- Xiao, Y., & Bian, Y. (2018). The Influence of Hukou and College Education in China's Labour Market. *Urban Studies*, 55(7), 1504–1524. <https://doi.org/10.1177/0042098017690471>
- Xizhe, P. (2014). Population in China: Changes and Future Perspectives. In G. C. Chow, D. H. Perkins (Eds.), *Routledge Handbook of the Chinese Economy* (pp. 90–102). Routledge.
- Young, J. (2013). The Hukou System. In: *China's Hukou System*. Palgrave Macmillan (pp. 27–64). Palgrave Macmillan London. [https://doi.org/10.1057/9781137277312\\_3](https://doi.org/10.1057/9781137277312_3)
- Zhang, J., Wang, R., & Lu, C. (2019). A quantitative Analysis of Hukou Reform in Chinese Cities: 2000–2016. *Growth and Change*, 50(1), 201–221. <https://doi.org/10.1111/grow.12284>
- Zhang, Q., & Hoekstra, J. (2020). Policies towards Migrants in the Yangtze River Delta Urban Region, China: Does Local Hukou Still Matter after the Hukou Reform? *Sustainability*, 12(24). <https://doi.org/10.3390/su122410448>

### About Author/s

**Michał Moszyński\***, NCU Professor, PhD. habil.  
Faculty of Economic Sciences and Management  
Department of Economics  
Nicolaus Copernicus University in Toruń  
ul. Gagarina 13a, 87-100 Toruń, Poland  
e-mail: moszyn@umk.pl  
ORCID: 0000-0003-1197-8744

\* Corresponding author.

**Yanrong Guo**, MSc  
Doctoral School of Social Sciences  
Nicolaus Copernicus University in Toruń  
Bojarskiego 1, 87-100 Toruń, Poland  
e-mail: yanrong.guo@doktorant.umk.pl  
ORCID: 0000-0002-0394-7123

### Authors contributions

Conceptualization: M.M. (50%) and Y.G. (50%); Research design and methodology: M.M. (50%) and Y.G. (50%); Original draft preparation: M.M. (20%) and Y.G. (80%); Formal analysis: M.M. (40%) and Y.G. (60%); Writing of the work: M.M. (20%) and Y.G. (80%).

All authors have read and agreed to the published version of the manuscript.

### Acknowledgements and Financial Disclosure

None reported.

### Conflict of Interest

The author declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.

### Copyright and License



This article is published under the terms of the Creative Commons Attribution (CC BY 4.0) License  
<http://creativecommons.org/licenses/by/4.0>

**Published by Krakow University of Economics – Krakow, Poland**



**Ministry of Education and Science  
Republic of Poland**

---

The journal is co-financed in the years 2022-2024 by the Ministry of Education and Science of the Republic of Poland in the framework of the ministerial programme "Development of Scientific Journals" (RCN) on the basis of agreement no. RCN/SP/0391/2021/1 concluded on December 9, 2022 and being in force until December 8, 2024.

# *Gemeinschaft* versus *Gesellschaft*: Cooperatives and the problem of free-riding in the provision of collective goods

Michał Pietrzak, Aleksandra Chlebicka

---

**Abstract:** **Background:** Cooperatives are unique entities that combine both non-profit and business attributes, reflecting the dual nature of *Gemeinschaft* and *Gesellschaft*.

**Research objectives:** This article aims to explore the hybrid nature of cooperatives and the tension between community and business aspects in the context of the provision of collective goods. Specifically, we focused on the free-riding problem, which can harm the viability of cooperatives.

**Research design and methods:** We based the article on critical analysis and discussion of the literature. The research questions were as follows: What is the inherent nature of cooperatives? What is the essence of the free-rider problem in cooperatives? How could the dual nature of cooperatives help deal with the problem of free-riding?

**Results:** We discussed different *Gemeinschaft*-based approaches to mitigate free riding, such as kinship selection, direct reciprocity, and indirect reciprocity, which, however, create limitations on the size of the group of cooperators. There is tension between *Gemeinschaft* and *Gesellschaft*, as increasing membership for economic growth can lead to the erosion of social capital. We discussed three possible solutions, including massification, privatization, and leveraging the possibilities of online communities.

**Conclusions:** Only the last approach, namely leveraging possibilities of online communities offers the solution to the difficult situation caused by the tension between *Gemeinschaft* and *Gesellschaft* as it does not violate the cooperative identity while still allowing for increased scale of the operations.

**Keywords:** cooperatives, collective goods, free-riding problem, *Gemeinschaft*, *Gesellschaft*

**JEL Codes:** B52, D02, D23, J54

---

## **Suggested citation:**

Pietrzak, M., & Chlebicka, A. (2023). *Gemeinschaft* versus *Gesellschaft*: Cooperatives and the problem of free-riding in the provision of collective goods, *Social Entrepreneurship Review*, 2, 27–46. <https://doi.org/10.15678/SER.2023.2.02>

## **1. Introduction**

While economic theory ascribes the provision of private goods to the business sector (the second sector), the provision of public goods is primarily attributed to the government (the first sector). However, there is also the voluntary sector of NGOs (the third sector), which provides a wide range of pure and impure public goods. In this context, we focused on the phenomenon of cooperatives, which are hybrid entities that share attributes of both business firms and non-profits.

Since Draheim's (1952) seminal work, researchers studying cooperatives have emphasized their dual nature (e.g. Bonus, 1991; Valentinov, 2004). According to this view, members of a cooperative form both a social group and a business firm. Nilsson and Hendrikse (2011) recognize that this dual nature of cooperatives is parallel to Tönnies' distinction between *Gemeinschaft* (community, fellowship) and *Gesellschaft* (modern society, but also a company/corporation), as introduced in his influential monograph (1988 [1887]).

The dual nature of cooperatives comes with both strengths and weaknesses (Bonus, 1991). For example, the challenges posed by vaguely defined property rights (Cook, 1995; Furubotn & Pejovich, 1970; Hansmann, 2000; Jensen & Meckling, 1979; Pejovich, 1969; Pietrzak, 2022; Vitaliano, 1983) are rooted in the ownership suppression observed in cooperatives. This suppression is directly connected to the social nature of the group of cooperators. According to Porter and Scully (1987), vaguely defined property rights can be a source of inherent inefficiency in cooperatives. On the other hand, such suppression is a crucial feature of cooperatives as social groups (*Gemeinschaft*). The social side of cooperatives offers some interesting solutions that can be successful in dealing with the free-rider problem, a well-known challenge in collective action.

This article aims to address three key questions pertaining to cooperatives:

- What is the inherent nature of cooperatives?
- What is the essence of the free-rider problem in cooperatives?
- How could the dual nature help deal with the problem of free-riding?

The structure of the article is as follows. The introduction provides the rationale for undertaking the problem articulated in the title. Next, we will discuss the nature and attributes of cooperatives as dual entities, which are hybrids between *Gemeinschaft* and *Gesellschaft*. Following this, we will present the nature of the free-rider problem in cooperatives. Then, we will discuss the potential solutions to the free-rider problem. Finally, we will present how the *Gemeinschaft* (community) side of cooperatives could help deal with the problem of free-riding in the provision of collective goods. We will finish with the synthetic conclusions. We based the article on a critical analysis and discussion of the literature.

## 2. Cooperatives and their dual nature

Cooperatives operate in various sectors, such as agriculture, finance, energy, housing, and retail, and are examples of self-help initiatives that deserve special attention in turbulent global conditions. For smaller and relatively weaker market players, there is an important need to regain a sense of subjectivity. According to the International Cooperative Alliance, a cooperative is 'an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise' (ICA, 2023).

From the above 'Statement of the Cooperative Identity,' one can easily deduce the dual nature of cooperatives, being both a social group and a business firm. As a social group, cooperatives offer potentially a sense of community, social capital, and civic engagement in the provision of diverse collective goods. At the same time, they must strive to be effective and efficient to deliver economic benefits to their members and survive in the competitive marketplace.

Nilsson and Hendrikse (2011) recognized that the dual nature of cooperatives is parallel to Tönnies' (1988 [1887]) classical sociological distinction between *Gemeinschaft* and *Gesellschaft*.

We should understand *Gemeinschaft* as a community of people who know each other and have relationships based on altruism and reciprocity. The relationships of *Gemeinschaft* members are autotelic in nature and satisfy the needs for security and belonging. *Gesellschaft* refers to modern mass society, fulfilling its needs through business and state institutions. Members of modern society are linked by formalized business relations and obligations to the state based on calculation and selfishness. Relationships between people here are instrumental, exchanges are equivalent, and the payment of benefits is immediate (Bierówka, 2009; Hołda-Rózewicz, 1992; Nilsson & Hendrikse, 2011; Szacki, 1988, pp. XIII–LII; Sztompka 2007, pp. 98–99, 212–123, 220–221, 501, 568; Tönnies, 1988, pp. 27–119; Załęski, 2011).

We should see *Gemeinschaft* and *Gesellschaft* as ideal types of interpersonal relations. In this view, we may see a cooperative as a hybrid of *Gemeinschaft* and *Gesellschaft*. The social group of cooperators owns and controls the firm, striving to receive benefits from it. The firm exists to satisfy the desires of the social group's members. The difference between the cooperative as a social group and the cooperative as a company implies different behavioural logic behind the activities within this dual unit. Borrowing Tönnies' dichotomy from classical sociology, we could state that *Gemeinschaft* logic rules within the membership group, while *Gesellschaft* logic dominates the business firms (cf. Szacki [1988, p. XXIV] who compares *Gesellschaft* to the company). Thus, the challenge for cooperatives is to align between the membership logic and the business logic (Nilsson & Hendrikse, 2011). Therefore,

there is a risk for poor alignment between the two or that the alignment that takes place is on the conditions of one organizational unit at the expense of the other one. In any case, there is a risk of inefficient operations. ... If the cooperative society is dominated by the business firm, there is a risk of members becoming uncommitted and losing their trust in the cooperative. Thus, members may reduce their trade, not invest in the cooperative, and refrain from controlling the firm. Similarly, if the cooperative society forces the firm to adapt to its own demands only, there is a risk that the firm does not become competitive enough. (Nilsson & Hendrikse, 2011, p. 1)

The pursuit of alignment between *Gemeinschaft* logic and *Gesellschaft* logic is a unique characteristic of cooperatives.

It is generally accepted that we consider a cooperative as a specific form of management because of the distinct rules of conduct, the so-called cooperative principles. In some countries, e.g. in the USA, these principles (in the so-called American version) are part of the cooperative's definition in normative acts. However, there is no single, universally accepted, set of cooperative principles (Frederick, 1997, p. 5; Henning 2015, p. 272). In Europe, the most common are the principles of the International Cooperative Alliance (ICA):

- voluntary and open membership,
- democratic member control,
- member economic participation,
- autonomy and independence,
- education, training, and information,
- cooperation among cooperatives,
- concern for community.

In addition to the principles of the ICA, the second widely used principles are the so-called American principles or USDA principles. They are popular also among European cooperative researchers (e.g. Nilsson, 1999, p. 452; Van Bekkum, 2001, p. 16; Mierzwa, 2005, pp. 42–43; Pie-

trzak 2006, 2022). This set of cooperative principles is as follows (Frederick, 1997, p. 5; Dunn et al., 2003, p. 5):

- the user-benefits principle,
- the user-ownership principle,
- the user-control principle.

These principles are at the same time basis for the widely accepted definition of a cooperative: ‘a cooperative is a user-owned, user-controlled business that distributes benefits on the basis of use’ (Henning 2015, p. 272).

Compared to the ICA (European) rules, the US rules are more liberal, pragmatic, and flexible, which results from a kind of minimalism. Meanwhile, ICA principles are more demanding (cf. Mierzwa, 2005; Pietrzak 2006; Szabo 2005). According to Boczar, ‘cooperative principles do not belong to absolute truths, formulated once and for all. On the contrary, they are debatable and discussed’ (1991, p. 14). To understand the specific nature of this type of organization, we will examine a slightly modified definition proposed by Pietrzak (2022, pp. 354–355), who tried to compile European and American approaches by enlisting the principles in two variants – a more pragmatic one and a more radical one.

A cooperative is an organization, i.e. a deliberate, purposeful system of interaction between members and the business firm that they have established. Cooperatives’ key peculiar attribute, namely their dual nature, means that they consist of two parts: the community of members and the enterprise established by them. The cooperative’s primary goal is to improve the economic and social situation of its members and their families through self-organization within the community. Moreover, cooperatives differ from other economic and social activities because of the principles enlisted in Table 1.

**Table 1. Cooperative principles and their practical meaning in two variants**

More pragmatic variant	More radical variant
<b>The User-Benefits Principle:</b>	
<ul style="list-style-type: none"> <li>– The majority of members’ benefits are tied to usage and shared in proportion to usage (at least 50% of total benefits).</li> <li>– Limited return on capital (not deviating from the return on safe financial instruments, e.g. government bonds).</li> <li>– Transactions mainly with members (at least 50% of transactions).</li> </ul>	<ul style="list-style-type: none"> <li>– The lion’s share of members’ benefits is tied to usage and shared in proportion to usage (nearly 100% of total benefits).</li> <li>– No return on capital at all.</li> <li>– Transactions only with members.</li> </ul>
<b>The User-Owner Principle:</b>	
<ul style="list-style-type: none"> <li>– The cooperative’s equity comes from the members.</li> <li>– Limited transfer of equity shares (conditionally permitted inheritance and sale of shares in the equity of the cooperative’s firm – but only with the consent of the cooperative’s decisive bodies).</li> <li>– Withdrawal of equity shares is limited (obligation to finance by the members the permanent, non-withdrawable fund, although it does not have to be dominant in the equity structure; possible existence or even dominance of a variable share fund (floating) that is paid out upon termination of the membership).</li> <li>– A limited number of equity shares per member.</li> </ul>	<ul style="list-style-type: none"> <li>– The cooperative’s equity comes from the members.</li> <li>– Prohibited transfer of equity shares.</li> <li>– Withdrawal of equity shares is strongly limited (the permanent, non-withdrawable fund has to have the dominant share in equity; it is not paid out upon termination of the membership).</li> <li>– A limited number of equity shares per member.</li> </ul>

More pragmatic variant	More radical variant
The User-Control Principle:	
– Control of the cooperative is exercised by members making decisions through democratic voting, although limited plural voting in proportion to shares is allowed up to a maximum of 5 times of single voting rights (this can be regulated by the maximum number of shares per member).	– Control of the cooperative is exercised by members making decisions through democratic voting, which is interpreted directly, namely: one member-one vote.
Principle of investment in social capital:	
	<ul style="list-style-type: none"> <li>– Obligation to educate members and employees.</li> <li>– Cooperation between cooperatives.</li> <li>– Concern for the local community.</li> </ul>
Other principles:	
	<ul style="list-style-type: none"> <li>– Voluntary and open membership (in the sense of non-discrimination, but not borders open to everyone without cost).</li> <li>– Autonomy and independence.</li> </ul>

Source: Pietrzak, 2022, p. 354.

Cooperatives' ownership structure reflects their unique nature as it shares some characteristics with private property and common pool resources. The peculiarities of cooperatives make them different in many respects from an otherwise similar corporation (public limited company) and other forms of private ownership. A common feature of both cooperatives and civil law partnerships, Ltd. companies, and public limited companies – distinguishing them from individual private ownership – is the fact of sharing property rights (cross-sectional partitioning of property rights [Alchian, 2006 (1961), p. 31]), and therefore, decision sharing. However, the main difference in the case of cooperatives is the incomplete definition of property rights (see Table 2). A cooperative's member is simultaneously a supplier or a buyer and an owner. This relationship with the cooperative (using the cooperative's services) is essential and property rights are inextricably linked to it. Typically, shares in a cooperative's equity are not transferable, although a member can receive a partial return of shares if he/she resigns from membership. In contrast, shares in limited or public limited companies are transferable, but there are often restrictions on the transferability of ownership rights in civil partnerships, making them similar to cooperatives in this regard (see Table 2).

**Table 2. Completeness of property rights in cooperative ownership in comparison to diverse forms of private ownership**

Completeness of property rights	Ownership type				
	Individual private ownership	Civil law partnerships	Ltd. company	Public limited company	Cooperative ownership
Transferability of property rights	Full	None or restricted	Full	Full, very easy	None or restricted
Exclusivity of property rights	Full	Full	Full	Full	Mixed, some property rights to the benefits have attributes of private good, and some – of collective goods

Source: own elaboration.

The power to take certain actions against a good to which one has the right is the crux of property rights. The most significant feature of cooperatives that sets them apart from other types of private ownership is the bounded exclusivity of property rights to the benefits generated by the cooperative. This is due to the wide array of benefits provided by cooperatives, which have attributes of collective goods (pure public goods and common pool resources). This fact induces the problem of free-riding (Cook, 1995; & Meckling Jensen, 2000 [1979]; Pietrzak, 2022; Vitaliano, 1983).

### 3. Cooperatives as collective goods suppliers and the free-rider problem

To put it simply, we may divide the provision of goods into two categories: private goods and public goods. However, this categorization is not comprehensive enough to capture the diversity of goods. For instance, Ostrom (2003) notes a discussion between Musgrave, who argued that public goods are non-excludable, and Samuelson, who argued that public goods are non-rivalrous. Ostrom indicates the need to use both criteria proposed by Musgrave and Samuelson simultaneously (Ostrom, 2003, pp. 240–242), as illustrated in Table 3.

**Table 3. Classification of economic goods**

Musgrave's criterion	Samuelson's criterion	
	Rivalrous in consumption	Non-rivalrous in consumption
Excludable	private goods	club goods
Non-excludable	collective goods (or public goods in the broad meaning)	
	common pool resources (CPR)	public goods (in the strict meaning)

Source: own elaboration based on Jakubowski, 2012, p. 43; Olson, 1971, pp. 9–16; Ostrom, 2003, pp. 240–242.

Table 3 shows the four types of goods resulting from the combination of excludability and rivalry. Understanding the different categories of goods is particularly relevant for cooperatives, because they typically create many economic goods, which could potentially cover all of the categories presented in Table 3. However, in this text, we would like to focus on collective goods, the provision of which suffers from the free-rider problem.

Czarnik defines free riding as the act of benefiting from a public good without contributing to its provision (2007, p. 47). In other words, a free-rider is an economic actor who takes advantage of public goods without paying for them (Kargol-Wasiluk, 2008, p. 98). Olson identifies public goods as goods whose nature is such that if one person ( $X_i$ ) in a group ( $X_1, \dots, X_p, \dots, X_n$ ) uses them, it is not feasible to prevent the other members of the group from also using them. Olson refers to such resources as 'collective goods' (Olson, 1971, p. 14). Noteworthy, Olson's condition is in fact Musgrave's criterion (see Table 2). If the goods are non-excludable that means it is difficult to prevent people from using them once they are provided. As a result, people have an incentive to let others pay for the provision of such goods while they enjoy the benefits without bearing the costs of the provision.

Ostrom (2003) objects to the validity of a broad definition of public goods and popular solutions proposed to mitigate free-riding, such as government intervention. She emphasizes that Musgrave's classification, adopted by Olson, led Olson to undertake the overly ambitious task of developing a universal theory for all goods meeting the non-excludability criterion. If we



simultaneously take Samuelson's criterion into account, the collective goods category breaks down into public goods and common pool resources (CPR) – as shown in Table 2. According to Ostrom, attempts to build a common theory for the entire category of collective goods are counterproductive (2003, pp. 241–242). As Ostrom (2011 [1990]) convincingly demonstrated in her famous book, communities carrying on common pool resources can effectively deal with the problem of free-riding without recourse to government. Common pool resources are rivalrous in consumption. Ostrom (2003) proposes that the free-rider problem in CPR could be solved by striving to achieve at least partial exclusion by 'building walls' (Ostrom 2003, p. 241). In her book (Ostrom 2011 [1990]), 'clearly defined boundaries' (p. 90) constitute the first design principle drawn from the practice of long-enduring CPR institutions. This principle means that it is necessary to determine who can use the shared resources and define the boundaries of the pool of shared resources as such. 'Without defining the boundaries of the CPR and closing it to "outsiders," local appropriators face the risk that any benefits they produce by their efforts will be reaped by others who have not contributed to those efforts' (Ostrom 2011 [1990], p. 91).

How do these observations relate to cooperatives? Jensen and Meckling were the first to address the 'common-property problem' found in employee cooperatives, should the cooperative strictly follows the open membership principle with zero entry costs (Jensen & Meckling 2000 [1979], p. 43). New employees admitted to such companies receive the same residual claims as those previously employed who already made some investments. Vitaliano (1983) upholds Jensen and Meckling's argument regarding agricultural cooperatives, noting that even if new members incur entry fees, they are rarely required to make these initial fees equal to the value of the entitlements they acquire as part of their membership.

Continuing Vitaliano's work, Cook (1995) renamed the issue as the free-rider problem and distinguished between its internal and external aspects. The free-rider problem manifests in cooperatives in two forms: internally, i.e. new members receive the same benefits as existing members (this is how Jensen and Meckling (2000 [1979]) and Vitaliano (1983) understood the problem), and externally, whereby non-members benefit from the cooperative's effects. An external free-rider problem involves the fact that some of the benefits of cooperatives may be public goods in the narrow sense (cf. Table 2). An example of such a situation is the corrective effect of cooperatives on market failure (the so-called competitive yardstick role).

Cook's (1995) distinction corresponds with Ostrom's differentiation between two categories of collective goods. The internal free-rider problem relates to the category of common pool resources. Cooperatives generate benefits for all members while making it difficult to exclude from the consumption of these benefits the members who have not paid the 'full price' for them, i.e. newcomers.

The role of a cooperative as a competitive benchmark could be an example of the external free-rider problem in cooperatives. Since Nourse's (1945) advocacy, a key rationale for the economic justification of cooperatives is their competitive yardstick role. According to Nourse (1945), the presence of efficient cooperatives in any sector affects the behaviour of other market players, forcing them to behave more competitively. As a result, the whole industry functions in a way that more closely approximates the ideal of free competition, thus benefiting social welfare. In its role as a competitive yardstick, the cooperative acts as a tool to correct market imperfections (Ginder, 1993; Ingalsbe & Groves, 1989; Nourse, 1992; Zeuli & Crop, 2004). However, in such a case, any potential member could easily refuse to contribute to setting up and running a cooperative while still gaining the benefits of more attractive market prices that have changed positively as a result of the cooperative's establishment (Cook 1995, p. 1156).

#### 4. Potential solutions to the free-rider problem

Non-mitigated free-riding problems can have several negative impacts on cooperatives' viability. It can significantly undermine the cooperative's resource base by reducing the incentives among members to contribute to the setting up and development of the cooperative. When supporting members perceive that free-riders are not contributing equally or even at all, they may become demotivated to contribute themselves. This can lead to a snowball effect in declining resources, productivity, and efficiency, which can ultimately harm the cooperative's competitiveness and its ability to generate benefits for its members. In turn, this reinforces the cooperative's death spiral. Cooperatives are built on social capital, and a free-riding attitude can undermine this capital. When members perceive such an attitude in their colleagues' behaviour, they may become less willing to cooperate. This can lead to resentment and conflict among members and ultimately result in a decline in the sense of community, trust, and will to work together. These factors are essential for the success of a cooperative, and their decline can significantly harm the cooperative's long-term viability.

Lichbach (1996; 1998) proposed a typology of solutions to the free-rider problem in cooperation. This typology varies in two dimensions: the ontology of order and deliberation. The ontology of the order can be either spontaneous or contingent, while deliberation refers to whether the actors involved in the free-rider problem discuss the situation and ultimately devise a solution. Based on these two dimensions, Lichbach's taxonomy identifies four generic solutions to the free-riding problem: market, community, contract, and hierarchy (Table 4). Each of these solutions has its advantages and disadvantages and the choice of the appropriate solution depends on the specific context and the nature of the free-rider problem at hand.

**Table 4. Lichbach taxonomy of approaches to the free-rider problem**

Ontology	Deliberation	
	Unplanned order	Planned order
Spontaneous order	Market	Contract
Contingent order	Community	Hierarchy

Source: Lichbach, 1998, p. 409.

Market approaches are characterized by spontaneous and unplanned order. They assume that individuals are driven by forces operating at the individual level and operate by changing the starting point parameters of the collective action problem. Market solutions adopt various strategies, such as increasing the benefits from cooperation or lowering the costs of collective action to create a scenario in which the expected gains are large enough for potential partners to realize that they will be better off cooperating. Another market solution is to reduce the supply of the public good, which resolves the problem by eliminating the object of free-riding. For example, Alchian and Demsetz suggest converting common rights into private rights as a 'remedy' for collective action problems. However, we cannot consider this solution a panacea (Alchian & Demsetz, 2006 [1973] pp. 91–92; Lichbach, 1996; 1998; Iliopoulos, 2009; Pietrzak, 2022).

Alternative solutions to market-based approaches modify the context in which the canonical model of collective action operates. Unlike market approaches, community solutions are

unplanned, but they are still based on contingent order. Community solutions assume the existence of preexisting communal structures or institutions. They rely on common belief systems to cope with free-riding, and they perceive preexisting social relationships and common knowledge and values among potential partners as enablers of cooperation. Using common knowledge assumes that people who expect others to contribute to the public good will do the same, which creates congruent expectations that can lead to cooperation in supplying public goods. We may use shared values to overcome narrow self-interest, as shown in a broad range of human activities such as blood donation, ideological dedication, or commitment to religious precepts. According to North (1981; 2011 [1990]), these values play a critical role in the extent to which non-wealth-maximizing motivations influence choices, as opposed to a simple hedonistic individual calculation of benefits and costs.

Contract approaches, like market solutions, focus on individuals, but these individuals can plan their society by studying how mutual contracts can produce collective action. To mitigate free-riding, contract solutions use various forms of mutual agreements engaging potential cooperators in the bargaining process over the type of solutions needed. Contractual voluntary agreements ameliorate free-riding through self-organized and self-regulated governance, typically consisting of rules, statutes, bylaws, and procedures aimed at avoiding opportunistic behaviour (Lichbach, 1996; 1998; Iliopoulos, 2009).

Hierarchy approaches are characterized by both contingent and planned order. They are based on organizations that preexist collective action, and which emerged to manage society and ameliorate the free-rider problem. For example, to solve the free-rider problem, potential cooperators could locate an entrepreneur who will organize the group and will act as an agent on their behalf. The agent could then impose some rules and procedures on the group members (in fact his/her principals<sup>1</sup>). Based on this, the agent could monitor their behaviour and punish (defection) or reward (compliance) them accordingly (Lichbach, 1996; 1998; Iliopoulos, 2009). This idea corresponds to the solution for the team production challenges: 'One method of reducing shirking is for someone to specialize as a monitor to check the input performance of team members' (Alchian & Demsetz, 1972, p. 781).

All the above-mentioned approaches to the free-rider problem have one crucial common feature: they are incomplete, as each creates a second-order free-rider problem, because the implementation of each solution is itself a second-order collective good. Thus, the preexisting institutional context, both formal (e.g. established property rights, contract law, incorporation laws) and informal (developed across communities) remains a condition for the success of any of these solutions. Moreover, to overcome the incompleteness of any particular solution, we need a combination of approaches (Lichbach, 1996; Iliopoulos, 2009).

According to Tönnies (1988), the history of humanity evinces a general trend leading from *Gemeinschaft* to *Gesellschaft*. Consequently, community-type organic relations gradually gave way to a society-type mechanical aggregate of individuals. Markets, contracts, and hierarchies (inventions of *Gesellschaft*) started dominating families and clans (*Gemeinschaft*). However, this does not mean that there can be a complete dominance of *Gesellschaft*-type relations. The

<sup>1</sup> This situation is reminiscent of the story about a riverboat pulling in China that Cheung brings up: 'A large group of workers marched along the shore towing a good-sized wooden boat ... the collaborators actually agreed to the hiring of a monitor to whip them' (1983, p. 8). This story seems to be a mere anecdote, not recorded anywhere else, but repeatedly reproduced after Cheung. However, no matter how bizarre the example, even if it is made up, it captures in an exaggerated way the essential thrust of hierarchical solutions mitigating the problem of collective action.

complete disappearance of *Gemeinschaft* ties would lead to the disintegration of social life, and in fact, there are no collectivities composed of pure-type ties (Bierówka, 2009; Szacki, 1988).

As we mentioned at the beginning, the important feature of cooperatives is that they are a dual mix of *Gemeinschaft* and *Gesellschaft*. As such, they comprise all of the four types of solutions discussed above. What makes cooperatives an idiosyncratic phenomenon is a different and unusual form of doing business as compared to 'capitalist modes of organization' (Williamson, 1998, p. 270). However, the cooperatives' *Gesellschaft* side is similar to 'capitalist modes of organization.' What makes the difference is the *Gemeinschaft* side. In the next section, we will look more closely at how the community solutions (following Lichbach's [1996; 1998] taxonomy) could help to ameliorate the free-rider problem.

## 5. How can cooperatives address the free-rider problem?

We may observe cooperation in various forms of life, from cells and organisms to insect and human communities, as documented by Konieczny et al. (2017), Nowak (2006), and Riolo et al. (2001). This phenomenon presents a challenge to both social and biological sciences, as noted by Meyer (2018). Moreover, as exemplified by Marshall and Veblen, economists have been intrigued by the potential of biological metaphors and analogies to move beyond a mechanistic view of the firm (Schubert 2012). Ghiselin (1978) suggests we should see economics (political economy) and biology (natural economics) as the two pillars that together form general economics. Economists could analyse the cooperation of economic actors and the competition between them using the achievements of evolutionary biology.

The problem with cooperation is cooperation-breaking individuals, defectors, or opportunists in Williamson's terminology. If the essence of cooperation is that an individual incurs a cost  $c$ , through which another player can obtain an advantage  $b$ , then a deviator is the one who does not incur this cost and thus does not provide an advantage to others. This definition covers also free-riding behaviours.

Based on natural selection, evolution forces individuals to compete, and therefore, it seems that it should reward only selfish behaviour and punish altruism (Hirshleifer, 1978; Nowak, 2006). In a mixed population of cooperators and opportunistic individuals, defectors are better adapted to their environment, as they receive benefits  $b$  from cooperators without incurring any costs. As a result, cooperators would disappear from the population due to natural selection in the long run. However, in a population composed entirely of cooperators, the average evolutionary fitness would be higher than that of a population consisting only of opportunists (assuming  $c < b$ ). This suggests a potential evolutionary advantage of cooperation on the group level. However, natural selection does not favour cooperation unless there are mechanisms that support it (Nowak, 2006). If we assume that reproduction, and thus trait transmission, can occur not only genetically but also culturally, we could apply this line of reasoning also in social sciences, including economics.

Cooperation is a fundamental feature of human societies and we may observe it also in various animal species. Like animals, humans have developed two primary mechanisms to promote cooperation: kinship selection and direct reciprocity. The former is the most basic mechanism that promotes cooperation between related individuals. It is successful if the degree of relatedness between individuals,  $r$  (which determines the probability of sharing common

genes), satisfies the condition:  $r > c/b$ . This mechanism creates by itself an important burden to the size of the group of cooperators.<sup>2</sup>

The second one, namely direct reciprocity (reciprocal altruism) is based on the preference for cooperative behaviours between unrelated individuals according to the principle of 'favour for favour.' One of the most popular exemplifications, which reflects the rule of reciprocity is the 'tit for tat' solution suggested by Axelrod (2006 [1984], pp. 27–54) as a strategy for iterative prisoner dilemma. In general, according to Axelrod (2006 [1984]), any effective approach to the iterative prisoner dilemma should be: nice (pp. 42–44), retaliatory (p. 44), forgiving (pp. 36, 38, 42), and clear (pp. 53–54). A condition for the stability of an evolutionary strategy based on direct reciprocity is  $w > c/b$  (Nowak, 2006, p. 1560). The challenge for reciprocal altruism, as a safeguard mechanism for cooperation, is the amount of probability  $w$  with which the same individuals may meet again. Therefore, this mechanism also creates a burden on the size of the group of cooperators. However, it is not as strict as in the kinship selection case. According to Fehr and Fischbacher, direct reciprocity is 'a strong basic explanation for human altruism in small and stable groups' (2003, p. 788).

Regarding the above discussion on the potential advantages of cooperatives, we may state that small cooperatives could overcome free-riding if their *Gemeinschaft* side was rooted in kinship (kinship selection) or acquaintance relationships (reciprocal altruism). This conclusion is in line with Chlebicka and Pietrzak's results regarding Producer Organizations (POs) in Polish agriculture (2018). Based on the survey, they found that the occurrence of family bonds is much more frequent in the case of POs with membership  $\leq 8$  farmers than having no relatives in the PO. In POs above eight members, not having family relationships with other members of the group is the norm. Almost all respondents had some acquaintances in the group. However, while there was a fraction of farmers with no acquaintances in their POs, in the case of groups larger than eight members, this situation was extremely rare. Thus, the role of family ties is giving way to acquaintance relationships as the size of the cooperators' group is growing. However, both of these ties represent bonding social capital, which creates a limit to the size of the membership of POs. The size of the group of cooperators is decisive for the survivorship pattern, as Chlebicka and Pietrzak (2018) proved using Kaplan-Meier test based on data from 974 POs from the period 2001–2017. However, according to the same authors, to set up and maintain a larger cooperation-based initiative, a sufficient stock of bridging social capital is needed. Mechanisms such as kinship selection or reciprocal altruism may not be enough to create such a stock.

As mentioned earlier, humans share with animals two basic solutions that promote cooperation. However, 'human communities represent a major anomaly in the animal world' (Fehr & Fischbacher, 2003, p. 785). 'Human altruism goes far beyond that which has been observed in the animal world' (Fehr and Fischbacher 2003, p. 785), where cooperative behaviours are largely restricted to kin groups and evidence for reciprocal altruism is scarce. The completely new human invention is indirect reciprocity.

With its 'favour for favour' principle, direct reciprocity resembles a barter-based economy. However, just as the invention of money was a breakthrough in economic development, an analogous breakthrough in the mechanisms of cooperation was indirect reciprocity. Indirect reciprocity requires significant cognitive abilities, including the use of language (Dunbar,

<sup>2</sup> Interesting examples of overcoming this burden are social insects (e.g. ants, bees), which share the same genome over pretty large groups of individuals. They achieve a high level of organization within the group through cooperative care (including care of offspring from other individuals) and labour division.

1998; Fehr & Fischbacher, 2003; Nowak, 2006). In this case, reputation plays a role analogous to money (Nowak, 2006). Helping someone builds a reputation, which is rewarded by others. These others may not have directly observed the interaction in question, but they can obtain this information through gossip, rumours, and other means. The evolutionary stable condition for indirect reciprocity is  $q > c/b$ , where  $q$  is the probability of knowing someone's reputation (Nowak, 2006). Importantly, this condition is much milder than in the case of reciprocal altruism. With the development of language, shared morality, and culture, the socialization of social norms, and the creation of institutions (cf. Dunbar, 2016; Fehr & Fischbacher 2003; Nowak, 2006), we may assume that  $q$  is much higher than  $w$  ( $q \gg w$ ).

When taking the form of strong reciprocity, indirect reciprocity can be an even stronger mechanism for supporting collective goods. This means combining the rewarding of cooperative behaviour with the punishment of community members for violating cooperation norms (Fehr & Fischbacher, 2003). To reduce free-riding, punishing defectors is particularly important. Punishment is referred to as second-order altruism, it is costly for the punisher and puts him or her at a disadvantage from the point of view of natural selection at the individual level, but it is beneficial for the group (Dunbar, 2016).

Fehr and Fischbacher's experiments on cooperation in groups showed that without punishment, cooperation breaks down completely in groups with more than eight members. The introduction of the possibility to punish free riders improves cooperation, which, however, decreases significantly in groups with more than 16 members and breaks down completely in groups of 128 or more. It is only the punishment of those members who do not punish defectors that maintains cooperation up to 512 persons, namely the upper limit of the studied groups (Fehr & Fischbacher, 2003).

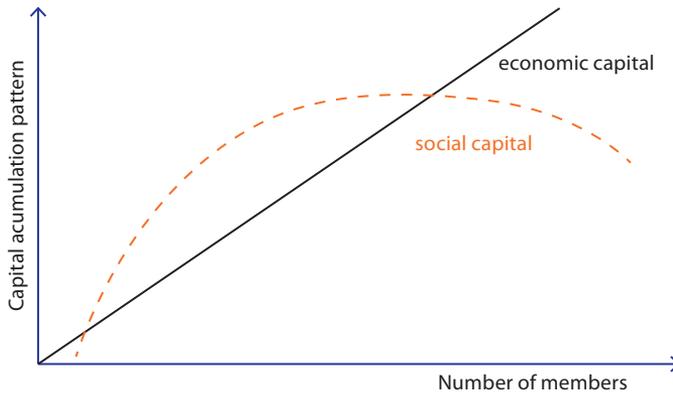
Hence, indirect reciprocity, and even strong reciprocity, allow for explaining human altruism (and therefore mitigating free-riding) in much larger groups than those possible under the umbrella of kinship or even acquaintance relationships. This is the crucial advantage of cooperatives that take care of their *Gemeinschaft* part, namely, those that are firmly rooted in communities. We mean communities that have a stock of social capital strong enough to control the temptation to opportunism. This is the prerequisite for imposing behavioural constraints by socialization and for building norms of reciprocity and reputational concerns.

On the other hand, relying strongly on community-based indirect reciprocity creates some burdens due to the limited scope regarding the effective size of the group and its growth potential. The set-up costs of social capital and the possible rate of enhancing it restrict the community's effective size.

The *Gesellschaft* part – the business run by a group of cooperators – is subject to the common pressure of increasing size due to the economies of scale and scope and to do it quickly due to the experience curve effects and network externalities. To do this, attracting new members is needed. In fact, one of the ICA principles (2023), i.e. open membership supports this need.

However, the rapid growth in a cooperative's membership base can exceed 'the capacity' of its social capital, which at some point may become a limiting factor due to the exacerbated problem of free riding. Because social capital is idiosyncratic and linked to the personal identity of its carriers, the inability to invest in social capital continuously at an appropriate level can lead to its dissipation, which tends to be more ephemeral compared to economic capital. This is reflected in Figure 1, which illustrates different patterns of economic and social capital accumulation in cooperatives. A quick (too-quick) increase in the number of members may involve

a subadditive mechanism of social capital accumulation, which can even lead to its erosion, as noted by Valentinov (2004). Therefore, a literal interpretation of open membership contradicts the principle of building ‘walls’ around the community, as espoused by Ostrom (2003, p. 241; 2011, pp. 90–91). This raises the question of why walls should be built when the gates are completely open.



**Figure 1. Different patterns of economic capital and social capital accumulation in cooperatives**

Source: own elaboration based on Valentinov, 2004, p. 17.

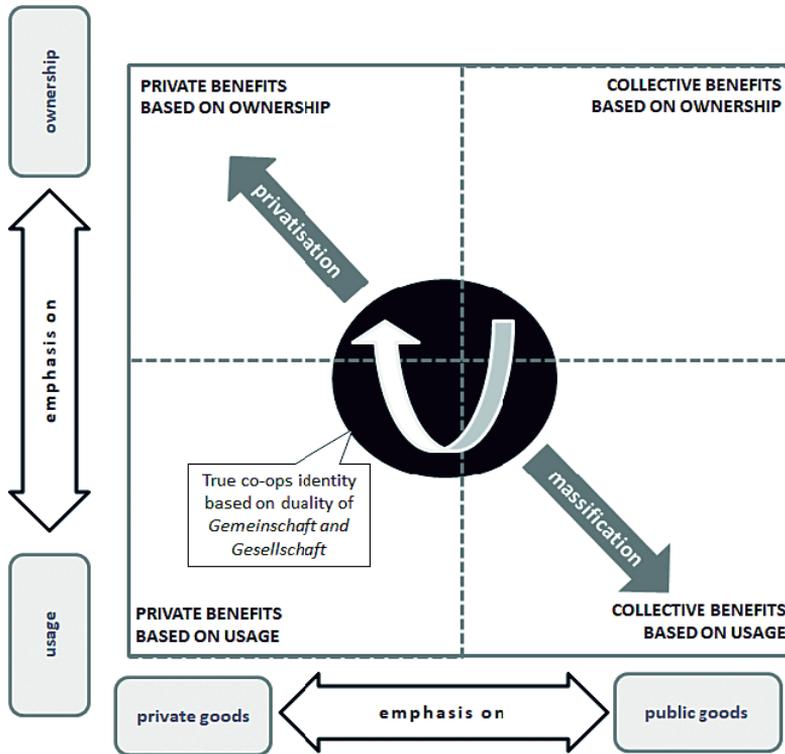
The condition of clearly defined boundaries allows for ‘building walls’ that separate a community caring for the common good from the rest of the world. In this way, the public good becomes a quasi-private good for the community’s surroundings. However, this does not mean that joining an existing cooperative community is impossible; rather, it requires effort and commitment. In our view, this is the proper understanding of the ‘open door’ principle in a community managing a common good: new members are not excluded by definition, but their admission cannot jeopardize the good that has been developed and protected by existing participants. Without this condition, cooperatives risk losing the benefits of their efforts through the invasion of outside free riders.

The benefits generated by cooperatives remain a public good within the ‘walls’ surrounding the community. Evolutionary biology and experimental economics suggest that first-order mechanisms, such as kin altruism or direct reciprocity, work well in small groups. However, expanding the community requires more sophisticated mechanisms, such as indirect reciprocity and strong reciprocity. These mechanisms require a socio-cultural community linked by common norms and the ability to enforce them.

A cooperative community (*Gemeinschaft*) understood in this way encounters size constraints<sup>3</sup> and limits to growth, which hinder the possibilities for developing the business part of cooperatives, namely *Gesellschaft*. This tension creates a kind of Gordian knot.

<sup>3</sup> Because the *Gemeinschaft* side of cooperatives is strongly based on altruism and trust (namely on social capital), Pietrzak (2022) suggests that the limiting size for the strong *Gemeinschaft* ties could be close to the so called Dunbar’s number. Dunbar’s number is an indicative upper limit of the ‘natural’ size of human communities resulting from the cognitive limitations of our brain. It is extremely interesting to note that the estimate of the limit of the ‘natural’ community (namely around 150 people) repeats with surprising convergence in a variety of contexts, both historical and contemporary (Dunbar 1998; Dunbar 2016). However, it is worth considering that modern information and communication technologies (ICT) may potentially extend these ‘natural’ limits.

In our view, there are three possible ways to cope with this tension, but only one of them does not violate the cooperative identity and does not break the dual unity of *Gemeinschaft* and *Gesellschaft* – see Figure 2. Cooperatives are close to the centre, but slightly below (reflecting the characteristic suppression of the owner role in favour of the user role) and slightly to the left (with a predominant concentration on the benefits of private goods, but with an important role for collective goods).



**Figure 2. The essence of cooperatives and potential solutions to the tensions between *Gemeinschaft* and *Gesellschaft***

Source: own elaboration based on Pietrzak, 2019, p. 357.

Let us consider the first approach to dealing with the tension between *Gemeinschaft* and *Gesellschaft*, which we call massification (the movement towards the southeast from the centre of Figure 2), because of the significant increase in the number of cooperative members. In some situations, this approach may be advantageous, particularly when the provision of goods offered by the cooperative is characterized by diminishing marginal costs (or other kinds of economies of scale and scope), while at the same time, the size of the individual contribution needed to the cooperative equity is relatively low. In such a situation, an almost literal application of the principle of open membership can prove highly beneficial. Since the entry fees and

These technologies offer opportunities to overcome transaction costs associated with building larger communities by providing substitutes for trust and reputation that are much more scalable than their 'natural' counterparts.



shares subscribed remain relatively small, the barrier to entry for new members is then minimal, making it easier to scale up by massifying membership.

On the other hand, such massification is associated with the progressive formalization of member relations and leads to the introduction of representative democracy. In such situations, there is a risk that the slogans of democratic governance and other cooperative principles become a mere façade hiding the indifference and passivity of the members, which could facilitate the alienation of activists and management from rank-and-file members. This could lead to real governance by the few (in accordance with Michels' 'iron law of oligarchy'). We could expect that despite retaining the rhetoric of *Gemeinschaft*, the bonds typical of a community are atrophying and being replaced by formalized relationships typical of *Gesellschaft* (here: the hierarchy solution – cf. Table 4).

The second way of dealing with the tension between *Gemeinschaft* and *Gesellschaft* is called privatization (the movement towards the northwest from the centre of Figure 2). We could expect pressure on cooperatives towards this direction when the equity requires substantial members' contributions to such an extent that the capital commitment of the individual member becomes very high. Therefore, to ensure and maintain such contributions, it will become necessary to increasingly secure members as investors.

In this way, in contrast to massification, the member's user role gradually gives way to the role of equity-owner. Up to a certain point in the movement in this direction, the role of the investor is still strongly linked to the role of the user. At some point, however, the concessions to the role of members as capitalists become so large that the system goes beyond the scope of a cooperative and loses its *Gemeinschaft* features. *Gesellschaft*-type relationships replace *Gemeinschaft* ties (here: the mix of market and contract solution – cf. Table 4).

The third possible remedy to the tension between *Gemeinschaft* and *Gesellschaft* appears in Figure 2 as a bright looped arrow. Let us look again at the evolutionary stability condition of indirect reciprocity:  $q > c/b$ . Both massification and privatization focus in different ways on the  $c/b$  expression from this condition. They both strive to minimize the value of this expression by decreasing the cooperation cost ( $c$ ) or by increasing benefits from it ( $b$ ). Nowadays, due to the tremendous explosion of new technologies, it is possible to reconsider the left side of the condition, namely  $q$  – the probability of knowing about someone's reputation.

The development of ICT technology, internet platforms, and social media facilitates building bigger communities even in areas where it used to be too costly or too complicated, allowing large-scale coordination (Shirky 2008). The communication tools developed and adopted due to internet access ubiquity 'are the first to fit human social networks well ... Rather than limiting our communications to one-to-one and one-to-many tools, which have always been a bad fit for social life, we now have many-to-many tools that support and accelerate cooperation and action' (Shirky, 2008 p. 158).

In traditional communities, the probability of knowing about someone's reputation ( $q$ ) is largely based on gossip and other word-of-mouth opinions. The spread of gossip could be modelled analogously to the spread of disease. Thus, when the likelihood of contact increases, the overall spread of disease or gossip increases as well (Shirky, 2008). Hence, the internet has huge potential as an enabling factor in creating so-called online communities based on communication through email lists, chat rooms, forums, or via social media platforms such as Facebook, Instagram, Discord, Twitter, Mastodon, etc.

'As a result, the spread of information and its value as a coordinating force increased dramatically' (Shirky, 2008, p. 159). However, despite these huge possibilities, the potential of web

communities as a remedy for the size constraint and growth limits of the *Gemeinschaft* part of cooperatives is still under inquiry. As Shirky states, internet tools 'do not create collective action – they merely remove the obstacles to it. Those obstacles have been so significant and pervasive, however, that as they are being removed, the world is becoming a different place' (Shirky, 2008, p. 159).

There are already some forerunners of the possible changes, namely platform cooperatives, which offer a return to the roots of collective organizing and traditions of cooperatives while simultaneously encompassing new technologies (Scholz, 2016). 'The core premise of platform cooperativism ... is to clone the "technological heart" of the new, digital platforms – social media, sharing economy, freelance websites, retail marketplaces, and other types – while redesigning algorithms and the ownership structure so that they become transparent, democratic, and revenue-redistributive in their nature' (Zygmuntowski, 2018, p. 181). The number of such initiatives is still not overwhelming, but Burnicka and Zygmuntowski (2019) estimated some potential for their development, namely PLN 48 million in Poland and EUR 1.3 billion in Europe. The economic success of platform cooperativism could be the catalyst that triggers the avalanche and becomes the turning point in cooperatives' development along the third way (cf. Figure 1). Only on this path will maintain cooperatives' true identity, i.e. the duality of *Gemeinschaft* and *Gesellschaft*. Otherwise, we could predict they lose the momentum, which may remain vital in specific niches or evolve into more *Gesellschaft*-oriented governance forms.

## 6. Conclusions

Cooperatives are hybrid entities that combine attributes of both firms and non-profits. The idea of the dual nature of cooperatives is parallel to the sociological concept of *Gemeinschaft* and *Gesellschaft* introduced by Tönnies. *Gemeinschaft* refers to a social group that is based on a sense of community, shared values, and mutual obligations. On the other hand, *Gesellschaft* refers to a modern society based on individualism, contractual relationships, and economic transactions. We may see cooperatives' community aspect in their social capital and democratic governance structure. On the other hand, the business side of cooperatives is reflected in their economic activities, such as providing services to their members and generating profits. However, due to the provision of collective goods by cooperatives, they are prone to free riding.

Based on Lichbach's typology, we described different solutions to the free-rider problem, namely market, community, contracts, and hierarchy. Solving the free rider problem through any of these approaches is incomplete as the implementation of each solution itself becomes a second-order collective good, creating another free rider problem. Therefore, success depends on the preexisting institutional context, formal or informal, and a combination of approaches is necessary to overcome the incompleteness of any single solution.

To understand how cooperatives can mitigate the free rider problem, we scrutinized the community solutions, as defined by Lichbach's taxonomy. Community solutions reflect *Gemeinschaft* part of the dual nature of cooperatives and hence are unique for such form of running economic activity. However, on the other hand, relying on community solutions restricts the size of cooperatives due to the limitations of social capital. Meanwhile, the *Gesellschaft* part of a cooperative is subject to the common pressure of increasing size due to the economies of scale and of doing it quickly due to the experience curve effects and network externalities.

Consequently, there is an inbound tension between *Gemeinschaft* (community) and *Gesellschaft* (business) in cooperatives, which creates a Gordian knot, in which increasing membership for economic growth can lead to the erosion of social capital. To deal with this tension, we propose three possible approaches, i.e. massification, privatization, and leveraging possibilities of online communities. In our view, only the last approach can solve this Gordian knot caused by the tension between *Gemeinschaft* and *Gesellschaft* as it does not violate the cooperative identity but still allows for increasing the scale of the operations.

## References

- Alchian, A. A., & Demsetz, H. (2006 [1961]). Some Economics of Property. In *The Collected Works of Armen A. Alchian. Volume 2: Property Rights and Economic Behavior* (pp. 3–51). Liberty Fund.
- Alchian, A. A., & Demsetz, H. (1972). Production, Information Costs, and Economic Organization. *The American Economic Review*, 62(5), 777–795.
- Alchian, A. A., & Demsetz, H. (2006 [1973]). The Property Rights Paradigm. In *The Collected Works of Armen A. Alchian. Volume 2: Property Rights and Economic Behavior* (pp. 84–95). Liberty Fund.
- Axelrod, R. (2006 [1984]). *The Evolution of Cooperation*. Basic Books.
- Bierówka, J. (2009). *Zasada wzajemności w społeczeństwie informacyjnym*. Oficyna Wydawnicza AFM.
- Bonus, H. (1991 [1986]). The Cooperative Association as a Business Enterprise: A Study in the Economics of Transactions. In E. G. Furubotn & R. Richter (Eds.), *The New Institutional Economics: A Collection of Articles from the Journal of Institutional and Theoretical Economics*. Mohr.
- Burnicka, A., & Zygmuntowski, J. J. (2019). #CoopTech: Platform Cooperativism as the Engine of Solidarity Growth. InStrat.
- Cheung, S. N. S. (1983). The Contractual Nature of the Firm. *Journal of Law and Economics*, 26, 1–21.
- Chlebicka, A., & Pietrzak, M. (2018). Size of Membership and Survival Patterns of Producers' Organizations in Agriculture – Social Aspects Based on Evidence from Poland. *Sustainability*, 10(7), 2293. <https://doi.org/10.3390/su10072293>
- Cook, M. L. (1995). The Future of U.S. Agricultural Cooperatives: A Neo-Institutional Approach. *American Journal of Agricultural Economics*, 77(5), 1153–1159.
- Czarnik, S. (2007). Gry eksperymentalne i manowce racjonalistycznego egoizmu. *Decyzje*, 8, 27–52.
- Draheim, G. (1952). *Die Genossenschaft als Unternehmungstyp*. Vandenhoeck & Ruprecht.
- Dunbar, R. (1998). Theory of mind and the evolution of language. In J. R. Hurford, M. Studdert-Kennedy, & C. Knight (Eds.), *Approaches to the Evolution of Language* (pp. 92–110). Cambridge University Press.
- Dunbar, R. (2016). *Człowiek – biografia*. Copernicus Center Press.
- Dunn, J., Crooks, A., Frederick, D. A., Kennedy, T., & Wadsworth, J. (2003). Meeting the Challenge: Co-ops in the 21st Century. *Rural Cooperatives*, January/February, 4–6.
- Fehr, E., & Fischbacher, U. (2003). The nature of human altruism. *Nature*, 425(23), 785–791.
- Frederick, D. A. (1997). Co-ops 101: An Introduction to Cooperatives. *Cooperative Information Report* 55. U.S. Department of Agriculture. <http://www.rurdev.usda.gov/rbs/pub/cir55/cir55rpt.htm>
- Furubotn, E., & Pejovich, S. (1974 [1970]). Property Rights and the Behavior of the Firm in a Socialist State: The Example of Yugoslavia. In E. Furubotn & S. Pejovich (Eds.), *The Economics of Property Rights* (pp. 227–251). Ballinger Publishing Company.
- Ghiselin, M. T. (1978). The Economy of the Body. *American Economic Review*, 68(2), 233–237.
- Ginder, R. G. (1993). Aaron Sapiro's Theory of Cooperatives: A Contemporary Assessment. *Journal of Agricultural Cooperation*, 8, 93–102.
- Hansmann, H. (2000 [1996]). *The Ownership of Enterprise*. Harvard University Press.
- Henning, O. H. (2015). *Food Economics: Industry and Markets*. Routledge.
- Hirshleifer, J. (1978). Competition, Cooperation, and Conflict in Economics and Biology. *American Economic Review*, 68(2), 238–243.
- Hołda-Różewicz, H. (1992). 'Wspólnota i stowarzyszenie' Ferdinand Tönnies, Warszawa 1988: [recenzja]. *Kwartalnik Historii Nauki i Techniki*, 37(1), 164–174.
- ICA (2023). *Statement of the Co-operative Identity*. <https://www.ica.coop/en/cooperatives/cooperative-identity>

- Iliopoulos, C. (2009). The Evolution of Solutions to the Free Rider Problem in US Agricultural Bargaining Cooperatives. In A. N. Rezitis (Ed.), *Research Topics in Agricultural and Applied Economics* (pp. 77–94). Bentham Science Publishers.
- Ingalsbe, G., & Groves, F. W. (1989). Historical Development. In D. Cobia (Ed.), *Cooperatives in Agriculture* (pp. 106–120). Prentice Hall.
- Jakubowski, M. (2012). Dobra publiczne i dobra wspólne. In J. Wilkin (Ed.), *Teoria wyboru publicznego. Główne nurty i zastosowania* (pp. 42–65). Wydawnictwo Naukowe Scholar.
- Jensen, M. C., & Meckling, W. H. (2000 [1979]). Rights and Production Functions: An Application to Labor Managed Firms and Codetermination. In *A Theory of the Firm: Governance, Residual Claims and Organizational Forms*. Harvard Business School NOM Unit Working Paper No. 2000. Harvard University Press. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=173460](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=173460)
- Kargol-Wasiluk, A. (2008). Teoria dóbr publicznych a paradygmat ekonomii sektora publicznego. *Zarządzanie Publiczne*, 3(5), 91–117.
- Konieczny, L., Roterman, I., & Spólnik, P. (2017). *Biologia systemów. Strategia działania organizmu żywego*. Wydawnictwo Naukowe PWN.
- Lichbach, M. L. (1996). *The Cooperator's Dilemma*. The University of Michigan Press.
- Lichbach, M. L. (1998). Contending Theories of Contentious Politics and the Structure-Action Problem of Social Order. *Annual Review of Political Science*, 1, 401–424.
- Meyer, M. (2018). Economics and Biology – in Search of Common Ground. *Acta Sci. Pol. Oeconomia*, 17(1), 67–74. <https://doi.org/10.22630/ASPE.2018.17.1.8>
- Mierzwa, D. (2005). *W poszukiwaniu nowego modelu spółdzielczości rolniczej*. Wydawnictwo Akademii Rolniczej we Wrocławiu.
- Nilsson, J. (1999). Co-operative Organisational Models as Reflections of the Business Environments. *Finnish Journal of Business Economics*, 48(4), 449–470.
- Nilsson, J., & Hendrikse, G. (2011). *Gemeinschaft and Gesellschaft in Cooperatives*. In M. Tuunanen, J. Windsperger, G. Cliquet, & G. Hendrikse (Eds.), *New Developments in the Theory of Networks: Franchising, Alliances and Cooperatives* (pp. 339–352). Physica-Verlag.
- North, D. C. (1981). *Structure and Change in Economic History*. W. W. Norton.
- North, D. C. (2011 [1990]). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press.
- Nourse, E. G. (1992 [1945]). The Place of the Cooperative in Our National Economy. *Journal of Agricultural Cooperation*, 7, 105–111.
- Nowak, M. A. (2006). Five Rules for the Evolution of Cooperation. *Science*, 314, 1560–1563.
- Olson, M. (1971). *The Logic of Collective Action: Public Goods and the Theory of Groups*. Harvard University Press.
- Ostrom, E. (2003). How Types of Good and Property Rights Jointly Affect Collective Action. *Journal of Theoretical Politics*, 15(3), 239–270.
- Ostrom, E. (2011 [1990]). *Governing The Commons: The Evolution of Institutions for Collective Action*. Cambridge University Press.
- Pejovich, S. (2015 [1969]). The Firm, Monetary Policy and Property Rights in a Planned Economy. In B. Horvat (Ed.), *Self-Governing Socialism* (pp. 261–271). Routledge.
- Pietrzak, M. (2006). *Efektywność finansowa spółdzielni mleczarskich – koncepcja oceny*. Wydawnictwo SGGW.
- Pietrzak, M. (2022). *Fenomen spółdzielni rolników. Pomędzy rynkiem, hierarchią i klanem*. CeDeWu.
- Porter, P. K., & Scully, G. W. (1987). Economic Efficiency in Cooperatives. *Journal of Law and Economics*, 30, 489–512.
- Riolo, R. L., Cohen, M. D., & Axelrod, R. (2001). Evolution of cooperation without reciprocity. *Nature*, 414, 441–443.
- Scholz, T. (2016). *Platform Cooperativism vs. the Sharing Economy*. Rosa Luxemburg Stiftung.
- Schubert, C. (2012). Is Novelty Always a Good Thing? Towards an Evolutionary Welfare Economics. *Journal of Evolutionary Economics*, 22, 585–619. <https://doi.org/10.1007/s00191-011-0257-x>
- Shirky, C. (2008). *Here Comes Everybody: The Power of Organizing Without Organizations*. Penguin.
- Szabo, G. G. (2005). 'Co-operative identity' – a Concept for Economic Analysis and Evaluation of Co-operative Flexibility: The Case of the Dutch Dairy Co-operatives. XXI International Co-operative Research Conference: The contribution of cooperatives to community culture. University College. <http://www.ucc.ie/acad/foodbus/CCS/ICA/Ppr.Szabo.pdf>
- Szacki, J. (1988). Wstęp do wydania polskiego. In F. Tönnies, *Wspólnota i stowarzyszenie. Rozprawa o komunizmie i socjalizmie jako empirycznych formach kultury* (pp. XIII–LII). Wydawnictwo Naukowe PWN.
- Sztompka, P. (2007). *Socjologia. Analiza społeczeństwa*. Wydawnictwo Znak.

- Tönnies, F. (1988). *Wspólnota i stowarzyszenie. Rozprawa o komunizmie i socjalizmie jako empirycznych formach kultury*. Wydawnictwo Naukowe PWN.
- Valentinov, V. (2004). Toward a Social Capital Theory of Co-operative Organization. *Journal of Co-operative Studies*, 37(3), 5–20.
- van Bekkum, O. F. (2001). *Cooperative Models and Farm Policy Reform*. Van Gorcum.
- Vitaliano, P. (1983). Cooperative Enterprise: An Alternative Conceptual Basis for Analyzing a Complex Institution. *American Journal of Agricultural Economics*, 65(5), 1078–1083.
- Williamson, O. E. (1998). *Ekonomiczne instytucje kapitalizmu*. Wydawnictwo Naukowe PWN, Warszawa.
- Załęski, P. (2011). Tönnies i społeczeństwo cywilne. Źródła nowoczesnej koncepcji społeczeństwa. *Przełęcz Socjologii Jakościowej*, VII(2), 72–83.
- Zeuli, K. A., & Cropp, R. (2004). *Cooperatives: Principles and practices in the 21st century*. Cooperative Extension Publishing of the University of Wisconsin, Madison.
- Zygmuntowski, J. J. (2018). Commoning in the Digital Era: Platform Cooperativism as a Counter to Cognitive Capitalism. *Praktyka Teoretyczna*, 1(27), 168–192. <https://doi.org/10.14746/prt.2018.1.7>

### About Author/s

**Michał Pietrzak\***, PhD, Professor  
Institute of Economics and Finance  
Department of Economics and Organisation  
of Enterprises  
Warsaw University of Life Sciences  
ul. Nowoursynowska 16, 02-787 Warszawa, Poland  
e-mail: [michal\\_pietrzak@sggw.edu.pl](mailto:michal_pietrzak@sggw.edu.pl)  
ORCID: 0000-0002-0418-3436  
\* Corresponding author.

**Aleksandra Chlebicka**, PhD  
Institute of Economics and Finance  
Department of Economics and Organisation  
of Enterprises  
Warsaw University of Life Sciences  
ul. Nowoursynowska 16, 02-787 Warszawa, Poland  
e-mail: [aleksandra\\_chlebicka@sggw.edu.pl](mailto:aleksandra_chlebicka@sggw.edu.pl)  
ORCID: 0000-0002-3896-154X

### Authors contributions

M.P. (70%), A.Ch. (30%); Literature review: M.P. (50%) and A.Ch. (50%); Original draft preparation: M.P. (60%) and A.Ch. (40%); Writing of the work: M.P. (60%) and A.Ch. (40%).  
All authors have read and agreed to the published version of the manuscript.

### Acknowledgements and Financial Disclosure

None reported.

### Conflict of Interest

The authors declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.

### Copyright and License



This article is published under the terms of the Creative Commons Attribution (CC BY 4.0) License  
<http://creativecommons.org/licenses/by/4.0>

**Published by Krakow University of Economics – Krakow, Poland**

---



Ministry of Education and Science  
Republic of Poland

---

The journal is co-financed in the years 2022-2024 by the Ministry of Education and Science of the Republic of Poland in the framework of the ministerial programme "Development of Scientific Journals" (RCN) on the basis of agreement no. RCN/SP/0391/2021/1 concluded on December 9, 2022 and being in force until December 8, 2024.

# Quality of institutions and international competitiveness of the Visegrad countries in the second decade of the twenty-first century

Katarzyna Kamińska

---

**Abstract:** **Background:** The Visegrad countries are an interesting example of countries that underwent a systemic transition in the 1990s from a command economy to a market economy, which included institutional changes.

**Research objectives:** The article aims to determine the quality of institutions and the international competitiveness of the Visegrad countries.

**Research design and methods:** We conducted the research among the Visegrad countries by analysing changes in the Global Competitiveness Index and based on the currently available data from World Economic Forum reports (2011–2012 and 2019).

**Results:** The results of the analysis of the V4 group regarding the quality of existing institutions show a significant improvement in their position in the global ranking.

**Conclusions:** As a direct result of the research, we could identify areas characterised by high-quality institutions and those that still require change and special consideration by the governments of these countries.

**Keywords:** socio-economic development, international competitiveness, institutions

**JEL Codes:** O43, P37, P48, P52

---

## Suggested citation:

Kamińska, K. (2023). Quality of institutions and international competitiveness of the Visegrad countries in the second decade of the twenty-first century. *Social Entrepreneurship Review*, 2, 47–59. <https://doi.org/10.15678/SER.2023.2.03>

## 1. Introduction

One of the most important questions in economics concerns the reasons for the emergence and persistence of differences between countries in terms of the rate and level of economic growth. We have known for a long time that at the level of a given country, there is a relationship between the amount of human capital, physical capital, and technologies available there, and the per capita output of a society.

In turn, if we consider economic growth, we can find links between this indicator and society's ability to increase both physical and human capital and improve the technology available there. In the article, we understand technology in a rather broad way, which means that the

existing differences of a technological nature concern differences in the organization of production and differences in the techniques available to companies.

Within the framework of institutional economics, we may conduct a comparative analysis, which allows us to identify the institutional basis explaining why certain forms of capitalism have advantages over its other forms. This relative advantage is due to the coexistence of several factors of similar importance that complement each other (Kamińska, 2022, p. 109; Wojtyna, 2005, p. 17), with institutions being the most important factors. Various economists, including the father of liberal economics, Adam Smith, refer to the relationship between institutions and economic development and growth. Other economists who emphasize the importance of institutions in the processes of economic growth are David Landes (1998), and the 1993 Nobel Prize winner Douglass North (1990). New theories and research on economic growth indicate that we may consider capital accumulation and technological progress to be among the 'closest causes of economic growth.' In contrast, simply identifying the impact of these determinants on economic growth does not explain why some societies can accumulate capital and innovate faster than other countries. Attempting to explain the complexity of this link requires consideration of the so-called deep causes of growth (Miłaszewicz, 2011, p. 11; Hall, 1999). The relationship is two-sided, i.e. the rate of economic growth depends on the quality of a country's institutions. Conversely, the level of economic growth impacts the quality of a country's institutions.

North defines the concept of institutions as follows: 'Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction' (North, 1990, p. 3). Among rules, we can distinguish between legal rules, administrative rules, and customary relations of repeated human interactions. North distinguishes between a system of formal rules written down by humans, i.e. legal norms, and property rights, and a system of informal rules that include certain customary patterns of behaviour related to traditions, customs, conventions or norms. One of the important tasks of institutions in the modern economy is to define the role and functions of the state in the following areas: creating the institutional basis for the functioning of the market, ensuring the international competitiveness of the economy, as well as its growth, and stabilising the macroeconomic situation or influencing the market allocation of resources (Kamińska, 2022, p. 109; Jakóbiak 2006, pp. 72–92; Przesławska, 2009, p. 185). The Czech Republic, Poland, Slovakia, and Hungary form the Visegrad Group (V4), which is the only example of an informal regional arrangement of Central European states. Its creation in 1991 was a response to the challenge faced by the three countries in the region at the time. The challenges included building democratic, independent states and joining NATO and the European Union. The 1990s were a period of systemic transition for the countries of this group. Their economies were gradually opening, and the foreign trade was liberalizing. However, despite their proximity, similar geopolitical circumstances, and shared history, traditions, culture and values, their socio-economic development was mixed and trade ties between the V4 countries are relatively small. This article aims to evaluate the quality of institutions and international competitiveness of the Visegrad countries after 2010, based on data from the World Economic Forum (WEF) reports for the years 2011–2012 and 2019. The latest report available at the time of preparing the analysis concerned 2019. Therefore, the analysis did not cover the period of the Covid-19 pandemic, the outbreak of war in Ukraine, and the impact of institutions on the stabilization of the economic situation in the studied countries. However, due to its specificities, the time of pandemic and war would require a separate, in-depth analysis, and not all relevant data are available even today. The World Economic



Forum is one of several international institutions dealing with issues of studying the international competitiveness of economies. Others include the Forum, the Lausanne International Management Institute, the World Bank, the OECD, and the Heritage Foundation Research Institute. Based on accepted determinants of competitiveness, these organizations prepare ranking lists of countries in terms of their competitive position in the world, also taking into account institutional aspects of interest. We chose to use Global Competitiveness Index because of the acumen of the analysis it offers and its usefulness in meeting the article's objective. This index takes into account the factors considered crucial in supporting a high rate of economic growth. An improvement in a country's competitive position means a relative increase in its development potential (Kamińska, 2022, p.109).

The article consists of the following sections: the first one will overview the current literature, the next one will presents research method and material, describing the reports that produced the data used. The third part will explain study results. The article will end with conclusions.

## 2. Literature review

The subject of economic development and its causes is an important topic in the economic literature, which resulted in the development of many theories and research approaches. These aim to identify the factors that influence economic development processes. One of the currents dealing with this topic is institutional economics, which tries to answer the question of what is the role of institutions in shaping and accelerating economic development. Compared to mainstream economics, institutional economics offers the possibility of a comprehensive explanation of the causes of various economic problems, such as the reasons for the increase in income disparities between countries and issues related to explaining the failure of systemic transition, as well as differences in the scope of their effects observed in some post-communist countries (Kamińska, 2022, p. 110; Miłaszewicz, 2011, p. 8). Social sciences scholars analysed the importance of institutions for economic growth for over a century (Rodríguez-Pose & Storper, 2006). A very characteristic direction of research in the 1990s in industrialized countries was the analysis of and emphasis on the role of regional policy and institutional actors in economic development (Talmaciu, 2012, p. 3). In the twenty-first century, the topic of the quality of institutions as the most important growth factor appeared in research (Rodrik et. al., 2002; Nawaz et al., 2014; Ganau, 2017). According to research, increasing the economy's degree of openness positively influences an institution's quality (Kamińska, 2022, p. 110). Rodrik and Subramanian (2003) state that long-term economic development requires, first of all, building three types of institutions that will sustain its pace, and will also provide protection against these shocks and, in response to their appearance, enable socially acceptable burden-sharing. We may assign these institutions to the following groups (Rodrik & Subramanian, 2003, p. 32):

- market regulation – these are institutions that deal with externalities, economies of scale, and imperfect information (e.g. regulatory agencies in telecommunications, transport, and financial services).
- stabilizing the market – these are institutions that aim to ensure a low level of inflation, i.e. those that ensure low inflation, minimize macroeconomic volatility, and prevent the emergence of financial crises (e.g. central banks, exchange rate systems, and budget and fiscal rules).

- market legitimacy – institutions that provide social protection and insurance, include redistribution, and resolve various conflicts (e.g. pension systems, unemployment insurance schemes and other social funds).

Rodrik (2007, pp. 150–161) distinguishes five groups of institutions of particular importance for economic development:

- property rights,
- regulatory institutions,
- macroeconomic stabilization institutions,
- social security institutions,
- conflict management institutions.

These institutions are essential for economic development. If they are missing, a country's economy can be expected to remain in a stagnant phase.

In recent years, more and more economists – such as Acemoglu et al. (2001), Vijayaraghavan and Ward (2001), Rodrik et al. (2004), Stimson et al. (2005), or Andriessse (2008) – argue that compared to traditional growth drivers institutions are of equal (if not greater) importance regarding the influence on country's economic development. One group of researchers – Rodrik (2014; et al., 2004), Acemoglu et al. (2001), and Baumol et al. (2009) – claims that among the institutions studied, it is the formal institutions, and in particular property rights and regulations, that most significantly impact economic development. In contrast, the second group of researchers point to certain groups of informal institutions influencing economic development. For example, Knack (2003), Beugelsdijk et al. (2004), Bengtsson et al. (2005) point to trust, while Putnam (1993; 2000), and Baumol et al. (2009) – to social capital and cooperation.

In a well-functioning market economy, effective institutions should perform several specific functions (World Bank, 2002), which include, among others, issues related to enabling the flow of information, i.e. creating, collecting, analysing, verifying, and disseminating information and knowledge, which should take place among auditing companies, credit registers, or government regulations (e.g. in the field of media restrictions). Another function concerns tasks such as defining and securing property rights and contracts, which are carried out thanks to the country's constitution, an efficient judicial system, and informal arrangements. The last function characterizing well-functioning institutions is their ability to influence changes in the level of competition. In practice, it can affect the level of innovation and the rate of economic growth (Kamińska, 2022, pp. 110–111).

In the economy, it is possible to assess institutions' quality based on their function and compliance with the purpose of their creation, distribution issues, or their ability to create incentives that support efficient markets and reduce uncertainty (Miłaszewicz, 2011, p. 14).

Various groups of indicators are very useful measures used for this type of assessment. Their potential use can show their impact on the economic situation and economic growth, as emphasized by Aron (2000, pp. 107–112).

We may divide these indicators into two groups. The first of them includes such indicators that describe the institution's characteristics and which indirectly impact the economic situation and economic growth. Among them, we can include measures of political instability, characteristics of society, and formal institutions (Kamińska, 2022, p. 111).

The second group includes indicators that directly impact the economic situation and economic growth, such as the quality of governance describing, for example, the degree of implementation of property rights and securing contracts and property rights, as well as the quality of social capital (Kamińska, 2022, p. 111).

From the beginning of the systemic transition, the V4 countries have chosen the path of gradual liberalization of foreign trade and the process of economic integration both at the global and regional levels. During this period, these economies underwent an institutional transformation, which scholars do not analyse in this group of countries. Studies only considered individual countries (Lissowska, 2008 – Poland). There are quite a few works on the economic transition in the V4 group and the economic relations between them. They mainly concern the analysis of intra-industry trade intensities of these countries and the study of changes in their competitiveness, as measured, among other elements, by the intra-industry division of labour, which increased systematically (Czarny & Śledziewska, 2012; Gabrisch & Segnana 2003; Gabrisch, 2006; Kamiński, 2001; Molendowski, 2007).

### 3. Research method and material

We researched the quality of institutions and changes in the competitiveness of the Visegrad countries' economies by analysing changes in the Global Competitiveness Index (GCI). The Global Competitiveness Index is associated with the economist Xavier Sala-i-Martin researching the issue of economic growth and development based on data from the World Economic Forum. The measure used for this study is a set of factors that play a fundamental role in the growth of a country's productivity and competitiveness, while considering the changes in the global economy (Schwab, 2011, pp. 4–8). Since 2004, the WEF has published this index as a part of the annual World Competitiveness Report. It consists of 12 pillars divided into three basic groups:

- core requirements,
- efficiency,
- factors of innovation and sophistication.

In 2019, the WEF introduced a new methodology for calculating this indicator. This change resulted from the consequences of the 2007–2009 recession and the structural changes in economies stemming from the introduction of Industry 4.0 or changes in communication (including the development of big data), financial markets, human capital, and the innovation ecosystem (Olczyk et al., 2022, pp. 120–121).

The new method related primarily to the revision of individual variables and pillars of competitiveness. Moreover, it included a balance of hard and soft data and a clear final aggregation of pillar values into a final indicator. Until 2018, the GCI included 114 indicators grouped into 12 pillars, while GCI 4.0 consists of 103 indicators. Compared to the old index, in the new index, 56 indicators are based on hard data and 47 on soft data from the Executive Opinion Survey (in the previous index, 77 indicators were from the Executive Opinion Survey, and only 37 indicators were based on hard data). The introduced change may make the results obtained as a result of the analysis using this indicator more objective. The main difference between GCI and GCI 4.0 is the change of pillars. Thus, 67% of the indicators included in GCI 4.0 were new, and the WEF redefined a significant part of the indicators. Due to the subject of analysis in this article, it should be mentioned that the Institutions pillar has undergone a complete reorganization, as a result of which it includes – checks and balances and social capital. As for the Macroeconomic environment pillar, the list of indicators has been extended to include state finance (Olczyk et al., 2022, p. 121).

In 2019, we may describe these pillars as follows: enabling environment conveys (1) institutions, (2) infrastructure, (3) ICT, and (4) macroeconomic stability; human capital captures (5)

health and (6) skills; markets contains (7) product market, (8) labour market, (9) financial system, and (10) market size; while innovation ecosystem gathers (11) business dynamics and (12) innovation potential (Schwab, 2019, p. 2).

Our analysis focused on the first component of the GCI related to institutions and their quality. The institutions listed there play a significant role in shaping the necessary conditions for the functioning of economic entities and also enable the stimulation of growth processes in the global economy environment thanks to the appropriate adjustment of the national economic structure. A country's institutional competitiveness is inextricably linked to the quality and characteristics of its institutional environment in a broad sense, encompassing regulations of a formal nature, which can include the state, justice, bureaucracy, contract law, property law, among others, in creating the conditions necessary for high international competitiveness (Kamińska, 2022, p. 112; Dołęgowski, 2002, pp. 82–83; Przesławska, 2006, p. 188).

#### 4. Results

The economies of V4 countries began to dynamically develop in the 1990s as a result of the systemic transition from a centrally planned economy to a market economy. The nature of the transition was radical, sometimes called shock therapy, and the process of institutional changes that followed took on individual characteristics in each country. The most important factors that influenced the institutions' quality in the surveyed group of countries were the attitude and vision of political leadership in terms of the nature and institution's characteristics. Moreover, with each change of political power, the continuity and coherence of reforms proved to be important. Another group was the influence of certain cultural features, such as social capital, trust displayed by society members, and mentality and attitude to the process of institutional restructuring (Talmaciu, 2012, p. 6).

Table 1 lists the elements that make up the GCI indicator of the institutions' quality. We rated each indicator on a scale of 1 to 7.

**Table 1. Factors influencing institutional quality and GDP per capita (USD) in the Visegrad countries in 2011–2012**

Elements of the GCI indicator: the quality of institutions	Czech Republic	Poland	Hungary	Slovakia
Property rights	4.1	4.5	4.3	4.1
Intellectual property protection	3.7	3.7	4.1	3.8
Diversion of public funds	2.3	4.1	2.6	2.5
Public trust in politicians	1.7	2.5	1.8	1.7
Irregular payments and bribes	3.9	4.9	4.3	3.7
Judicial independence	3.7	4.3	3.9	2.7
Favouritism in decisions of government officials	2.4	3.3	2.8	2.1
Wastefulness of government spending	2.5	3.0	2.5	2.6
The burden of government regulation	2.6	2.6	2.3	2.7
The efficiency of the legal framework in settling disputes	2.9	3.2	3.3	2.2

Elements of the GCI indicator: the quality of institutions	Czech Republic	Poland	Hungary	Slovakia
The efficiency of the legal framework in challenging reg	2.9	3.3	2.8	2.4
Transparency of government policymaking	4.0	4.0	4.1	4.1
Organized crime	5.5	5.7	5.4	4.7
Reliability of police services	3.6	4.4	4.2	3.8
Firms' ethical behaviour	3.3	4.1	3.4	3.4
Strength of auditing and reporting standards	5.0	5.2	5.4	4.6
Institutions (the average grade obtained)	3.6	4.2	3.8	3.5
GCI 2011–2012	4.5 (rank 38 out of 142)	4.5 (rank 41 out of 142)	4.4 (rank 48 out of 142)	4.2 (rank 69 out of 142)
GDP per capita (USD)	18,288	12,300	12,879	16,104

Source: Schwab, 2011.

Analysis of the value of the GCI element relating to the quality of institutions in Table 1 allowed us to formulate several observations:

- The V4 countries were characterized by low values in terms of assessing the quality of institutions in 2011–2012, not exceeding 4.2 (the values ranged from 3.6 to 4.2). Poland had the best score during this period – 4.2 but it had the lowest GDP per capita (US\$) – 12,800 USD. The Czech Republic ranked next, followed by Hungary. The weakest performer in this group was Slovakia. In this group, GCI was more or less similar, ranging from 4.2 to 4.5.
- These countries obtained the highest in terms of the quality of institutions – transparency of government policymaking (above 4 points out of 7), organised crime (above 5 points on average) and strength of auditing and reporting standards (above 5 points on average).
- Other common areas in terms of institutional quality were: the poor effectiveness of the legal framework, characterized by inconsistency, instability, and excessive complexity, low level of judicial independence, which requires the existence and effectiveness of democratic institutions, lack of transparency of government policy, which may involve supporting various interest groups. The low quality of the institution results also from the fact that the government often selects the functionaries of public institutions based on political criteria or affiliation with specific social groups. Thus, the level of substantive knowledge recedes into the background.

Table 2 shows how the assessment of the quality of institutions and their elements changed in 2019, i.e. in the last year for which the WEF published the report.

**Table 2. Factors influencing institutional quality, 10-year average annual GDP growth % and GDP per capita (USD) in the Visegrad countries in 2019**

Elements of the GCI indicator: the quality of institutions	Czech Republic	Poland	Hungary	Slovakia
Organized crime	5.7	5.1	4.5	4.4
Homicide rate per 100,000 pop	0.6	0.8	2.5	1.5
Terrorism incidence 0 (very high) – 100 (no incidence)	99.8	99.9	100.0	100.0
Reliability of police services	5.0	4.1	4.5	3.4
Social capital 0–100 (best)	50.0	49.4	49.4	52.2
Budget transparency 0–100 (best)	61	59	46	59
Judicial independence 1–7 (best)	4.5	2.7	3.0	2.8
The efficiency of legal framework in challenging regulations 1–7 (best)	3.0	2.5	2.3	2.4
Freedom of the press 0–100 (worst)	24.9	28.9	30.4	23.6
The burden of government regulation 1–7 (best)	2.7	2.9	3.0	2.4
The efficiency of the legal framework in settling disputes 1–7 (best)	3.5	3.0	3.4	2.4
E-participation 0–1 (best)	0.62	0.89	0.71	0.81
Incidence of corruption 0–100 (best)	59.0	60.0	46.0	50.0
Property rights 1–7 (best)	4.7	4.1	4.0	4.4
Intellectual property protection 1–7 (best)	4.9	4.1	4.1	4.3
Quality of land administration 0–30 (best)	25.0	19.0	26.0	25.5
Strength of auditing and accounting standards 1–7 (best)	5.2	4.7	5.0	5.5
Conflict of interest regulation 0–10 (best)	5.7	6.0	4.0	4.7
Shareholder governance 0–10 (best)	6.0	6.3	6.0	6.0
Government ensuring policy stability 1–7 (best)	3.5	2.9	3.3	3.0
Government's responsiveness to change 1–7 (best)	3.4	3.3	3.5	2.9
Legal framework's adaptability to digital business models 1–7 (best)	3.6	3.5	3.4	3.5
Government long-term vision 1–7 (best)	3.0	3.2	3.9	2.7
Energy efficiency regulation 0–100 (best)	74.8	49.7	81.8	82.9
Renewable energy regulation 0–100 (best)	71.1	44.9	79.9	82.6
Environment-related treaties in force count (out of 29)	25	24	27	25

Elements of the GCI indicator: the quality of institutions	Czech Republic	Poland	Hungary	Slovakia
Institutions (average grade obtained)	60.9 (rank 44 out of 141)	56.4 (rank 60 out of 141)	55.7 (rank 63 out of 141)	56.3 (rank 61 out of 141)
GCI 2019	32 (out of 141)	37 (out of 141)	47 (out of 141)	42 (out of 141)
GDP per capita (USD)	22,850.3	15,430.9	15,923.8	19,581.6
10-year average annual GDP growth %	2.0	3.1	2.1	2.8

Source: Schwab, 2019.

We may draw the following conclusions about the quality of institutions in the Visegrad countries in 2019 from the above data (Table 2). The redesign of the GCI has provided deeper insights into the quality of institutions in this group of countries.

- In terms of development, the leader in this group of countries is Poland with a 10-year average annual GDP growth of 3%. Slovakia is in second place with 2.8%, followed by Hungary (2.1) and the Czech Republic (2.0). Poland was among the top 10 Emerging Markets in 2019, but the Czech Republic and Hungary are also included in the Emerging Markets group. This group includes countries that found their way from a developing economy to a developed economy. These countries are most often characterised by rapid economic growth and high investment levels. Therefore, investors perceive them as attractive. Over time, emerging markets have begun to integrate more and more with the global economy, which is manifested by increased liquidity in local debt and equity markets, as well as the development of foreign trade and FDI (Carlson, 2022).
- Poland achieved the best scores for institutional quality in the following areas: shareholder governance, e-Participation, conflict of interest regulation, and incidence of corruption.
- Compared to the previous analysed period, Poland has lost its leading position in the quality of institutions in this group of countries. The leader in the V4 in 2019 was the Czech Republic – 60.9 (rank 44 out of 141), Poland – 56.4 (rank 60 out of 141), Slovakia – 56.3 (rank out of 141) and Hungary – 55.7 (rank 63 out of 141).
- Judicial independence is still a problematic institution in the V4 countries. In Poland, the quality of this institution was the lowest rated in this group of countries – 2.7 out of 7 points and has deteriorated since the 2011–2012 report.
- The quality of social capital in the countries studied was at the midpoint of the scale. Slovakia scored the best. The Czech Republic came second, followed by Hungary and Poland. This assessment indicates the need for action to develop it further and improve its quality.
- Quite a big problem in the V4 countries is the relatively low rating of the institutions' quality (from 2.3 to 3.9 out of 7), which are responsible for the regulatory effectiveness of economic policy and its nature, predictability and adaptation to the current needs of the economy, or its long-term vision: efficiency of legal framework in challenging regulations (Poland 2.5 out of 7), burden of government regulation, government ensuring policy stability, government's responsiveness to change, and government's long-term vision. This situation may show how long and arduous the road from post-socialist economies to a free market economy is and indicate the need to adapt policies and their solutions to the current situation.

- Poland was weakest in energy efficiency regulation (49.7 out of 100) or renewable energy regulation (44.9 out of 100). The best performers in both categories were Slovakia and Hungary (more than 80 points out of 100).
- As far as the position in terms of global competitiveness is concerned, the Czech Republic was also the best performer in 2019, ranking 32nd out of 141 countries, followed by Poland in 37th position, Slovakia in 42nd position and the last place in the group of V4 countries went to Hungary in 47th position.
- If we compare the results from 2019 with the years 2011–2012, the improvement of the examined group of countries in the ranking of the analysed index is visible. The Czech Republic improved its position by six places, Poland only by four, Hungary by one and Slovakia moved up from 69th position to 42nd in 2019.

Results of the study in the group of V4 countries in terms of the development of the GCI indicator, and in particular its pillar concerning the assessment of the quality of institutions, allow us to conclude that, in general, when we compare 2011–2012 with 2019, we can observe a significant improvement in their position in the world ranking. The World Economic Forum slightly revised the institutional indicator in 2019 and added various elements related to socio-economic development, which allow for a deeper assessment of this area in the surveyed economies. The issues that require improvement in this group of countries are the quality of social capital and the nature and effectiveness of economic policy.

New Institutional Economics analyses the impact of non-market institutions on economic growth. For example, we may treat the existence of an independent judiciary as an important element of the non-market institutional environment, which can have a positive impact on reducing uncertainty in relations between entities on the market, and therefore we may treat it as a guarantee of compliance with the law by both natural persons and representatives of state authorities, and thus it will be a factor stimulating the growth of long-term investments (Kamińska, 2022, p. 117; Przesławska, 2006, p. 191).

## 5. Conclusions

We analysed the V4 countries and noted that these countries have improved their positions in the WEF ranking in the second decade of the twenty-first century. Slovakia made the biggest jump of 27 positions. Other countries improved by several levels: Poland by four places, Czech Republic by six places, and Hungary by one position. The assessment of the quality of institutions indicated some improvement, important areas that still require improvement, and institutions that have a particularly significant impact on socio-economic development, such as social capital.

The most important shortcomings of the institutions in this group of countries in the analysed period include: insufficiently good quality of legal regulations and government regulations, institutions related to the stability of economic policy, issues connected with the quality of the functioning of the judiciary, and the quality of social capital.

All the listed imperfections of the institutional system of the V4 countries may, to a varying degree, contribute to the weakening of development trends in these economies, although a long-term upward trend is visible in the group of V4 countries. The above-mentioned areas where institutions in the V4 countries perform worse should become an incentive to conduct the necessary institutional reforms. The success of these reforms will presumably increase the



international competitiveness of the V4 economies and will positively influence their socio-economic development.

However, the analysis conducted based on the GCI has its limitations, as until 2019 it was based solely on the results of surveys addressed to managers and not on hard data. This makes the objectivity of the results less clear. Until 2019, we could consider the results mainly as management's perception of the institution. Compared to other indices, such as the Economic Freedom Index (Heritage Foundation or Fraser Institute), it also does not take into account many other characteristics of the institution. It would certainly be worthwhile to conduct an analysis of the quality of institutions and their impact on the socio-economic development of the Visegrad countries using several indicators. This would provide a broader view of the process and deepen the analysis. However, the availability of GCI data from 2020 onwards constitutes a limitation.

## References

- Acemoglu, D., Johnson, S., & Robinson, J. A. (2001). The Colonial Origins of Comparative Development: An Empirical Investigation. *American Economic Review*, 91(5), 1369–1401.
- Andriessse, E. (2008). *Institutions and Regional Development in Southeast Asia. A comparative analysis of Satun (Thailand) and Perlis (Malaysia)*. Netherlands Geographical Studies.
- Aron, J. (2000). Growth and Institutions: A Review of the Evidence. *The World Bank Research Observer*, 15(1), 99–135.
- Baumol, W. J., Litan, R. E., Schramm, C.J., & Negro, N. (2009). *Capitalismo Buono Capitalismo Cattivo: L'imprenditorialità e i suoi Nemici*, Università Bocconi.
- Bengtsson, M., Berggren, N., & Jordahl, H. (2005). *Trust and Growth in the 1990s: A Robustness Analysis*. Ratio Working Papers 60. The Ratio Institute.
- Beugelsdijk, S., de Groot, H. L. F., & van Schaik, A. B. T. M. (2004). Trust and Economic Growth. *Oxford Economic Papers*, 56, 118–134.
- Carlson, D. (2022). *Why emerging markets might be worth owning in a diversified portfolio*. Britannica Money. <https://www.britannica.com/money/what-is-emerging-market-investing>
- Czarny, E., & Śledziwska, K. (2012). *Międzynarodowa współpraca gospodarcza w warunkach kryzysu*. PWE.
- Dołęgowski, T. (2002). *Konkurencyjność instytucjonalna i systemowa w warunkach gospodarki globalnej. Implikacje dla sektora usług*. Monografie i Opracowania 505. Szkoła Główna Handlowa.
- Gabrisch, H. (2006). Vertical Intra-Industry Trade Between EU and Accession Countries. *IHW Discussion Paper*, 12, 3–24.
- Gabrisch, H., & Segnana, M. L. (2003). *Vertical and Horizontal Patterns of Intra-Industry*. Institut für Wirtschaftsforschung.
- Ganau, R. (2017). Institutions and Economic Growth in Africa: A Spatial Econometric Approach. *Economia Politica*, 34, 425–444. <https://doi.org/10.1007/s40888-017-0057-3>
- Hall, R. E., Jones C. I. (1999). Why Do Some Countries Produce So Much More Output Per Worker Than Others? *Quarterly Journal of Economics*, 114(1), 83–116.
- Jakóbkik, W. (2006). Gospodarka polska na tle Unii Europejskiej. Determinanty dalszego jej wzrostu, In W. Jakóbkik (Ed.), *Gospodarka polska w procesie światowych przemian* (pp. 72–92). Wyższa Szkoła Handlu i Prawa im. R. Łazarskiego.
- Kamińska, K. (2022). Influence of Institutions on the International Competitiveness of the Polish Economy in the Second Decade of the 21st Century. In A. M. Kowalski, M. A. Weresa (Eds.), *Poland Competitiveness Report 2022. Towards a sustainable economy in a pandemic era* (pp. 109–119). SGH Publishing House. <https://doi.org/10.33119/978-83-8030-567-0.2022>
- Kaminski, B. (2001). How Accession to the European Union has Affected External Trade and Foreign Direct Investment in Central European Countries. *Policy Research Working Paper*, 2578, 3–43.
- Kandogan, Y. (2003). Intra-Industry Trade of Transition Countries: Trends and Determinants. *William Davidson Working Paper*, 566, 1–24.

- Knack, S. (2003). Groups, Growth and Trust: Cross-Country Evidence on the Olson and Putnam Hypotheses. *Public Choice*, 117(3–4), 341–355.
- Kotyński J. (2002). *Konkurencyjność Polski w UE i szanse jej podniesienia. Strategia dla Polski po wejściu do UE na lata 2004–2015*. Komitet Prognoz 'Polska 2000 Plus' PAN.
- Landes, D. S. (1998). *Wealth and Poverty of Nations: Why Some are So Rich and Some So Poor*. Abacus.
- Lissowska, M. (2008). *Instytucje gospodarki rynkowej w Polsce*. C.H. Beck.
- Miłaszewicz, D. (2011). Jakość instytucji a wzrost gospodarczy. *Studia i prace wydziału nauk ekonomicznych i zarządzania*, 19, 5–24.
- Molendowski, E. (2007). *Liberalizacja wymiany handlowej krajów Europy Środkowowschodniej w okresie transformacji. Ze szczególnym uwzględnieniem doświadczeń krajów CEFTA*. Wydawnictwo Uniwersytetu Ekonomicznego w Krakowie.
- Nawaz, S., Iqbal, N., & Khan, M. A. (2014). The Impact of Institutional Quality on Economic Growth: Panel Evidence. *The Pakistan Development Review*, 53(1), 15–31. [www.jstor.org/stable/24397923](http://www.jstor.org/stable/24397923)
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. <https://doi.org/10.1017/CBO9780511808678>
- Olczyk, M., Kuc-Czarnecka, M., & Saltelli, A. (2022). Changes in the Global Competitiveness Index 4.0 Methodology: The Improved Approach of Competitiveness Benchmarking. *Journal of Competitiveness*, 14(1), 118–135. <https://doi.org/10.7441/joc.2022.01.07>
- Przesławska, G. (2009). *Wpływ jakości instytucji w Polsce na międzynarodową konkurencyjność kraju*. Polityka Gospodarcza nr 17–18. Szkoła Główna Handlowa w Warszawie.
- Rodrik, D., Subramanian, A., Trebbi, E. (2002). *Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development*. NBER Working Paper 9305. National Bureau of Economic Research.
- Rodrik, D., Subramanian, A. (2003). *The Primacy of Institutions: (and what this does and does not mean)*, <https://www.elibrary.imf.org/view/journals/022/0040/002/article-A010-en.xml>.
- Rodrik, D., Subramanian, A. & Trebbi, F. (2004). Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development. *Journal of Economic Growth*, 9, 131–165.
- Rodrik, D. (2007). *One Economics. Many Recipes. Globalization, Institutions, and Economic Growth*. Princeton University Press. <https://doi.org/10.2307/j.ctvc4jhb>
- Rodrik, D. (2014). *Green Industrial Policy*. *Oxford Review of Economic Policy*, 30(3), 469–491. <https://doi.org/10.1093/oxrep/gru025>
- Rodriguez-Pose, A., & Storper, M. (2006). Better Rules or Stronger Communities? On the Social Foundations of Institutional Change and Its Economic Effects. *Economic Geography*, 82(1), 1–25.
- Schwab, C. (2011). *The Global Competitiveness Report 2011–2012*. World Economic Forum.
- Schwab, C. (2019). *The Global Competitiveness Report 2019*. World Economic Forum.
- Stimson, R. J., Stough Roger, R., & Salazar, M. (2005). Leadership and Institutional Factors in Endogenous Regional Economic Development. *Investigaciones Regionales*, 7, 23–52.
- Talmaciu, M. (2012). Role of Institutions in the Economic Development of Central and Eastern EU Countries. *Journal of Eastern Europe Research in Business & Economics*, 2012, <http://doi.org.10.5171/2012.328384>
- Wojtyna, A. (2005). Alternatywne modele kapitalizmu. *Gospodarka Narodowa*, 9, 1–23.
- Vijayaraghavan, M., & Ward, W. A. (2001). *Institutions and Economic Growth: Empirical Evidence from a Cross-National Analysis*. Working Paper 001302. Center for International Trade, Clemson University.
- World Bank. (2002). *World Development Report 2002: Building Institutions for Markets*. World Bank and Oxford University Press.

#### About Author/s

**Katarzyna Kamińska\***, PhD  
 World Economy Research Institute  
 Collegium of World Economy  
 SGH Warsaw School of Economics  
 al. Niepodległości 162, 02-554 Warsaw, Poland  
 e-mail: [kkamins@sgh.waw.pl](mailto:kkamins@sgh.waw.pl)  
 ORCID: 0000-0002-7936-9374  
 \*Corresponding author

### Acknowledgements and Financial Disclosure

None reported.

### Conflict of Interest

The author declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.

### Copyright and License



This article is published under the terms of the Creative Commons Attribution (CC BY 4.0) License  
<http://creativecommons.org/licenses/by/4.0>

**Published by Krakow University of Economics – Krakow, Poland**



**Ministry of Education and Science  
Republic of Poland**

The journal is co-financed in the years 2022-2024 by the Ministry of Education and Science of the Republic of Poland in the framework of the ministerial programme "Development of Scientific Journals" (RCN) on the basis of agreement no. RCN/SP/0391/2021/1 concluded on December 9, 2022 and being in force until December 8, 2024.

# The vision of institutional reforms: *Capital and Ideology* by Thomas Piketty

Maciej Miszewski

---

**Abstract:** The article is a polemic with selected considerations from Thomas Piketty's *Capital and Ideology*. As a basis for future-oriented inquiry, Piketty takes inequalities from both the economic and sociological (especially educational) sphere, along with their sources and ways to address them. The book aims to present Piketty's vision of a just system and the mechanisms to ensure its functioning. I focus on systemic issues, in which I view a discrepancy between Piketty's commendable intentions and the objective possibilities of creating a coherent vision of transition.

**Keywords:** history of economic thought, institutions, tax system, state's role

**JEL Codes:** B00, E02, H20, O11, P11

---

**Suggested citation:**

Miszewski, M. (2023). The vision of institutional transitions: *Capital and Ideology* by Thomas Piketty. *Social Entrepreneurship Review*, 2, 60–70. <https://doi.org/10.15678/SER.2023.2.04>

Another extensive work by Thomas Piketty (2022) that was just recently published in Poland has all it takes to become a subject of discussion and controversy. However, two issues may obstruct its reception. Firstly, the book spans nearly 1200 pages, and secondly, the narrative structure might confuse the reader as to Piketty's main direction of inquiry. *Capital and Ideology* has at least two interweaving layers of reflection. At first glance, we notice the empirical layer, which presents thorough research in history, sociology, politics, and economics concerning inequality phenomena. Similarly to Piketty's previous work, this layer is saturated with an enormous amount of statistical data that shows the quantitative aspect of inequality-related phenomena, their evolution, and their diversity across various regions of the world.

Piketty represents a school of evolutionary economics, stemming from the much older historical school of economics. Consequently, descriptive analysis dominates over general conclusions drawn from the presented material. However, careful reading allows us to discern a hidden theoretical layer and the associated postulatory layer beneath the analysis. This is where Piketty implicitly activates the apparatus of institutional economics. He points to this action only indirectly in the following statement:

The market and competition, profits and wages, capital and debt, skilled and unskilled workers, natives and aliens, tax havens and competitiveness – none of these things exist as such. All are social and historical constructs, which depend entirely on the legal, fiscal, educational, and political systems that people choose to adopt and the conceptual definitions they choose to work with. These choices are shaped by each society's conception of

social justice and economic fairness and by the relative political and ideological power of contending groups and discourses. (Piketty, 2020, p. 7)

Thus outlined, the image reveals a framework of formal institutions in the above-enumerated systems, along with related informal institutions that appear e.g. as a result of contact of social perceptions with reality. This includes also the informal institutions that preceded the formal ones, those passed from generation to generation which co-create 'discourses.' Later, Piketty frequently employs the term 'ideologies,' which he understands as socially unified hierarchies of values. These hierarchies mostly derive from previously established institutions, consolidated by the system of formal norms.

Hence, if we want to discuss Piketty's work, we should ask ourselves what is the main subject of his considerations. Considered both through the lens of economics and sociology (especially education), inequalities, their origins, and ways to address them form the foundation for developing future-oriented inquiries. Piketty attempts to construct his vision of both a just system and mechanisms aiming to ensure its functioning. His perspective is so broad that I had to focus on just one thread of his reflection. Thus, I decided to investigate matters of regime because they reveal the gap between Piketty's respectable intentions and the objective possibilities for creating a coherent vision of transition.

In each of the threads, Piketty employs a slightly different terminology. When discussing the historical context of inequalities' emergence and consolidation, he writes about 'ownership society rested on a promise of social stability coupled with individual emancipation through the right of property, supposedly open to all, independent of social and familial origin' (2020, p. 199). Piketty criticizes the asymmetry of formal equality before the law but omits the fundamental influence of private property on behaviours, aspirations, and the formation of societal structure in this matter (Piketty, 2022, p. 150). He appreciates the 'emancipatory aspects of private property' (Piketty, 2020, p. 122) for the first time in the book. However, to the detriment of his conclusion's accuracy, Piketty does not discuss the transitions that have been taking place in the global economy over the past 50 years. In the era of the climate crisis – in fact, a multi-faceted crisis of civilisation – we can no longer view global supply as unlimited. Meanwhile, the above 'emancipation' assumes the goal of maximally satisfying individual aspirations, which is impossible with a limited supply. This does not result from Piketty's ignorance as elsewhere he clearly postulates limiting the scope of artificial, exploitative, harmful, and polluting 'whose expression must be limited' (Piketty, 2022, p. 683). Moreover, he writes that solving the problem of global warming requires fundamental changes to the way we live (Piketty, 2022, p. 755). Rather, the point is that Piketty's individual observations do not form a full picture of a civilisation-wide economy. Furthermore, he avoids referring to the economic system he describes as 'capitalism.'

Piketty links capitalism to the flourishing of industry and financial institutions, treating it as a particular case of ownership society (Piketty, 2022, p. 186). Only thus understood capitalism is for him a system that we need to 'overcome' and replace with 'participatory socialism.' Thus, Piketty essentially proposes a regime change but frames it in the most conciliatory manner possible.

Piketty presents his proposed political model through several approximations. The slogan of 'participatory socialism' entails struggle for equality and universal education and the rejection of the cult of property, stability, and inequality (Piketty, 2022, p. 13). Piketty sees views in these features sources of economic progress and development. He regards universal suffrage, free and compulsory education, progressive taxation to the greatest possible extent,

and universal health insurance as systemically fundamental institutions (Piketty, 2022, p. 19). According to Piketty, these institutions determine the domains in which we should introduce changes. Moreover, he assumes evolutionary modifications of the solutions existing in these areas. In further considerations, the outlines of the desired system emerge more clearly. Piketty postulates excluding the public service sector from private ownership. He believes that the owners of service providers should be the state, local governments, or state agencies set up for this purpose. He calls for the expansion of the social ownership sector through the radical strengthening and introduction co-management in private companies – if it is not already present – and the promotion of employee-owned companies for smaller entities. The area of ‘big ownership’ (corporations, especially transnational corporations) is to be subjected to a progressive wealth tax, irrespective of compulsory employee participation in management (Piketty, 2022, p. 587). Piketty devotes considerable attention to the concept of this tax. Supposedly, it would eliminate private owners (by way of ‘temporary ownership’). Moreover, the funds raised through this taxation would finance a universal capital subsidy whose beneficiaries would be young citizens entering adulthood. Subsidies would aim to enable the launch of independent economic activities and the tax system would ensure the ‘continuous circulation of private property.’ Leaving aside the realities of introducing such a project, we must note that, if successful, this solution would lead to an economy dominated by smallholders who would focus on the pursuit of profit and the pursuit of a renewed concentration of capital as much as their powerful predecessors.

Although Piketty describes himself as an advocate of socialist solutions, he largely echoes earlier ordoliberal ideas: ‘Private ownership of the means of production, correctly regulated and limited, is an essential part of the decentralized institutional organization necessary to allow these various individual aspirations and characteristics to find expression and in due course come to fruition’ (Piketty, 2020, p. 605). Röpke would certainly support such a statement. Piketty is also similar to the ordoliberals in his tacit assumption that state institutions are to serve society. However, he does not raise the demonopolisation postulate, which is unnecessary if radical taxation of large entities were possible. Instead, Piketty emphasises the deconcentration of wealth. This would be an accurate approach if he understood deconcentration as the process that reverses the natural tendency of wealth to concentrate, rather than its physical, ad-hoc dispersal among a large number of newly-created owners. This ‘natural tendency’ of wealth is permanent because even small capital holders must be oriented towards the multiplication of their property. The preservation of private property as an institution that determines the way society and the economy function means an inevitable return to the state of affairs prior to the (intended) transition.

Piketty thinks we may build the system according to other principles. He believes that ‘the ideal socioeconomic organization must respect the diversity of aspirations, knowledge, talent, and skills that constitutes the wealth of humankind’ (Piketty, 2020, p. 594). We could approve of this, but among diverse desires, there dominates the desire for possession and power. However, Piketty prefers not to notice that socio-economic inequalities translate into the relations of subordination and power. He optimistically assumes that, in general, people are decent and morally sensitive, and that society cares about the future, consciously striving for development. Moreover, Piketty assumes that in most cases, society can change the system. Such optimism is not entirely justified.

Furthermore, Piketty lacks consistency. He questions the legitimacy of property rights over land and natural resources (Piketty, 2022, p. 542) and even claims: ‘The idea that strictly private

property exists and that certain people have an inviolable natural right to it cannot withstand analysis' (Piketty, 2020, p. 990). However, he postulates a universal capital subsidy, wants to multiply novice 'mini-capitalists,' and expects them to follow different rules of conduct from their predecessors. This is not about a search for a way to eliminate inequality. Piketty considers the idea of a basic income, which produces similar income effects, but views it at best as the system's secondary supplement (Piketty, 2022, p. 1148).

Moreover, he presents a programme for arriving at the desired target model:

Such a system is not only possible but also desirable: it would replace existing treaties, which allow the capital to circulate freely, with new treaties that would create a regulated system built on the public financial register. But this would require substantial international cooperation and ambitious efforts to transcend the nation-state, especially on the part of smaller countries (such as the nations of Europe). (Piketty, 2020, p. 887)

In this passage, Piketty intends to show that it is impossible to implement the proposed changes through 'social-nativist movements.' However, the passage reveals more general weaknesses. Piketty does not clearly imagine a causal force capable of consequently executing the transition: 'It is probably more realistic to prepare for somewhat chaotic changes ahead: political, social, and financial crises could tear the European Union apart or destroy the Euro-zone' (Piketty, 2020, p. 892).

Another weakness of Piketty's argument concerns the failure to specify on what scale can the proposed transitions occur (or rather: must; if they are to occur at all). Piketty writes about France as a separate entity, then about EU countries, about European countries, and finally about 'rich' countries. Supposedly, the 'rich' ones feel obliged to help the poorer ones, but Piketty does not mention the forms and extent of this help. Simultaneously, he aptly relates all the postulated changes to the climate crisis, which after all, is a global phenomenon. The same solutions that governments could apply in the highly developed countries of Western Europe will have a different effect in other countries, both because of the superpower nature of their position (e.g. USA, India) and the huge discrepancies between their economic and cultural potential.

Moreover, Piketty overlooks another important factor: time. The moment climate change will become fully irreversible is difficult to determine, but it is nigh. We do not have much time for civilisation-saving transitions. This rules out the strategy of waiting 'until everything works itself out,' which Piketty seems to favour. The reluctance to adopt a global perspective also weighs on his analyses of the migration processes. He treats them as consequences of inequality but does not link them to the climate crisis. The first problem here is that migration and local wars most often result from climate change (droughts). Second and most importantly, this crisis is not only climate-related but multifaceted, as it affects all aspects of the functioning of the global civilisation. Thus, we will overcome it only with the active cooperation of poorer countries, which if only because of their populations potential, are a destructive factor in the planetary ecosystem. On a global scale, everything is interconnected and attempts to solve one problem in isolation from the others will not be successful. Piketty confirms:

The challenge of inequality is closely related to the climate challenge. Indeed, it is clear that global warming cannot be stopped or at least attenuated without substantial changes in the way people live. For such changes to be acceptable to the majority, the effort demanded must be apportioned as equitably as possible. ... For these reasons, the issue

of democratic transparency regarding inequalities of income and wealth is of paramount importance. (Piketty, 2020, p. 656)

Unfortunately, after this statement, which might apply to the French, European, or global scale, Piketty moves on to the issue of measuring inequalities, as if it was the precision of measurement and not the active transfer mechanisms that determined 'democratic transparency.' He also tacitly assumes that an efficiently functioning democracy is a global norm. This is all the more erroneous the larger the scale we consider, because the majority of the planet's population does not experience the benefits of democracy.

Piketty concludes the argument about overcoming the climate crisis with a proposal for a carbon tax only: 'At a minimum, all proceeds of the carbon tax must be put forward financing the ecological transition, particularly by compensating the hardest-hit low-income families' (Piketty, 2020, p. 668). This is a good idea, but it addresses only a tiny fraction of the problem under consideration. The assumption that taxing carbon emissions will reduce them quickly enough is simply not true. Moreover, apart from carbon emissions, there is water and ocean pollution, methane, the problem of production and post-consumption waste disposal, not to mention biodiversity loss – all of which are interlinked. They cause people to migrate in search of liveable and habitable space. The compensations present a solution for a single, wealthy country. Global action requires investment transfers to poorer countries, preceded by education programmes and the building of proper health-care foundations. We will not control the crisis until the developed countries reduce the volume of goods production and services, including the production they managed to transfer to the underdeveloped countries. They must also re-establish democratic standards in underdeveloped countries, which will require powerful educational action and political coercion. Finally, through investment, the developed countries should create opportunities for people to be employed in their own countries and to maintain sufficiently good living conditions, if a given country can provide such opportunities. We may doubt whether such a program is ever achievable, but only this level of challenge enables us to begin a rational discussion about the crisis of civilisation.

My criticism against Piketty suffers from the same flaw as his considerations: I do not identify the driving force capable of bringing about change. However, the lack of an answer should not justify neglecting the issue.

Let us return to the postulated model of 'participatory socialism.' Supposedly, it would ensure a significant reduction in socio-economic inequality. In the introduction, Piketty emphasises that a certain degree of inequality is inevitable under any systemic conditions. The problem lies in ensuring that the overwhelming majority of the community recognises the existing inequalities and their levels as legitimate – if not fair – because 'unless reasons for them are found, the whole political and social edifice stands in danger of collapse' (Piketty, 2020, p. 1). Piketty aptly observes that the basic legitimisation of inequality is the need for security and meaning understood as the sense of belonging to a particular social group and its roles (Piketty, 2022, p. 81). However, it remains difficult to reconcile this view with a proposal for systemic change that fundamentally violates not only the wealth of particular strata and groups but also changes the social roles they held so far. Piketty writes:

Wealth is a determinant of social power in general ... Apart from occupation, education, and wealth, the social class with which an individual identifies may also be influenced by age, gender, (real or perceived) national or ethnic origin, and religious, philosophical, dietary, or sexual orientation. Class position is also characterized by the income level, which is



a complex and composite attribute since it depends on all the other dimensions (Piketty, 2020, p. 722).

Thus, Piketty portrays a complex social stratification (notice that he incorrectly uses the term 'class') that provides the individual with the above-mentioned sense of meaning and place in society. The proposed transition expands access to education, disrupts the income structure and, above all, undermines the sense of power derived from ownership. Meanwhile, Piketty's detailed solutions are technocratic. Fiscal, social, and educational policy reforms will cause a shift of resources, which will disrupt the social structure to some extent, but they will not resolve the tensions caused by the change in the status quo.

Of course, the state would be the one in charge of solving any potential problems that would stem from the reforms. Piketty views the state as the guarantor of a just transition. He is aware of the modern state's shortcomings and states that one cannot guarantee 'confidence in the state's ability to render justice fairly and impartially throughout a vast territory, to guarantee security, collect taxes, and provide police, educational, and medical services' (Piketty, 2020, p. 115). Nevertheless, Piketty believes state institutions will guarantee a success of the reforms. Two issues in particular seem relevant in this regard. The first is the role of the fiscal system as the main instrument remaining in the hands of the state. The weak point of the argument in this regard is the assumption that national governments – subject to the influence of big capital groups – will be willing and able to force legislation that goes against the interests of these groups. This introduces the second issue related to the state's role as an institution. Piketty recognises that social-democratic parties will play a key role in driving the desired reforms. This agrees with the general characteristics of Piketty's reforms programme. Both progressive taxation and the strengthening of the public service sector are traditional elements of the social-democratic programme. Moreover, despite any intended interference, the preservation of private property as the engine of the economy is also consistent with this tradition. However, we may wonder how to reconcile the radicalism of the proposed reforms with the profile of social-democratic parties. After all, the reforms must be radical if they are to achieve the desired effect in terms of both eliminating inequality and overcoming the climate crisis.

Piketty devotes considerable attention to historical-political reflections aiming to convince the reader that the gradual evolution of the social-democratic programme can ensure the success of the transition. Before discussing his arguments in detail, allow me to raise preliminary objections. Firstly, even in countries that deserve the term 'democratic state under the rule of law,' parties with a profile that coincides with Piketty's expectations do not regularly win elections. This means an inevitable disruption in implementing the desired reforms. Secondly, we once again encounter the problem of scale to which Piketty applies his ideas. In the Western Europe, although not in the whole EU, we can imagine a movement pursuing a similar agenda that would gradually attain an advantage. We can consider in this respect the support of the environmental movements, which have their own political representation in many countries. However, other European countries display more of a pretence of democracy, instead increasingly moving towards autocratic solutions. As I mentioned, we must refer to the global scale, but if we do so then the chances of implementing a social-democratic programme become close to zero. Neither the powers that remained after the communist bloc (China, Russia) nor the demographic powerhouses among the underdeveloped countries (India, Indonesia, Brazil, Nigeria, Egypt) – let alone the vast majority of smaller countries – are compatible with such a direction of Piketty's reforms. None of these countries lend itself either as a positive example to promote the programme or as a recipient country, receiving and absorbing properly chan-

nelled transfers. It is not a question of accountancy-based 'transparency' that Piketty is inclined to raise but of the lust for power and the aspirations of the political classes in most countries around the world.

In light of the above, Piketty's inquiries into the evolution of a social democracy of chances – which we may associate with this political current – lose on significance. However, within this framework, Piketty contributes several pertinent and inspiring insights. Unfortunately, he is also guilty of wishful thinking. For example, he states that

by 1945 ... private property ... had lost much of its power in countries that remained nominally capitalist but were actually turning social-democratic through a combination of nationalizations, public education and health policies, and steeply progressive taxes on high incomes and large estates (Piketty, 2020, p. 416).

This opinion is based on a false juxtaposition: capitalism vs. social democracy. The Western European welfare states in question remained fully capitalist, and despite the tributes to social services, the processes of capital concentration led to a systematic empowerment of the capital groups, which resulted in a 1975–1980 retreat from what Piketty regards as social-democratic policies.

Moreover, Piketty believes in the power of legal-fiscal solutions. In his view, the significant increase in the share of fiscal revenues in state budgets between 1910 and 1980, 'gave rise to various forms of social-democratic society' (Piketty, 2020, p. 369). However, he confuses the effect and the cause. The political pressure resulting from the activation of the labour strata after the Great Depression forced consent to an exceptional increase in fiscal burdens. The impulse came from the public. Moreover, the precedent for this had already been set. War preparations, which had just become commonplace in Europe around 1910, justified the sharp increase in taxes and eliminated the mental barrier in this regard. The Second World War only solidified ownership class familiarity with high taxes.

Piketty believes that 'the inability of social democracies to transcend the nation-state is the main weakness that is undermining them from within' (Piketty, 2020, p. 557). However, both in 1945–1980 and today, the societies of Western Europe did not cease to be ownership societies, to use Piketty's terminology. In the countries of this region, the system has remained capitalist. Piketty's fixation on fiscal instruments (in fact, merely tools of economic policy) forces him to speak of 'fiscal justice' as a separate, relevant goal. Suffice it to mention that on a global scale such 'justice' would require a world government. We cannot entirely exclude the possibility that such a body will emerge under the pressure of the global crisis of civilisation, but if it does, then the question of 'fiscal justice' will not be its main concern.

As Piketty notes, the aforementioned decay of social democracy comes with a flourish of nativist tendencies. He writes that 'the disadvantaged classes felt abandoned by the social-democratic parties' (Piketty, 2020, pp. 870–871). The lack of redistributive ambition of these parties is to underlie this feeling. This observation suffers from a double error. Firstly, Piketty attributes to public mood a continuity similar to that which we can observe in the programmes of traditional, long-established political parties. Meanwhile, from the viewpoint of public sympathies, this continuity is lacking. Instead, the important factors are the sense of belonging to a certain generation and the use of a certain media type: the Internet, television, or the press. Today, people in their twenties or thirties care about the present and the near future – not their parents' views or memories of their former political sympathies. The widespread addiction to social media is conducive to the diversification of political preferences, but not gener-

ally conducive to a deeper interest in politics. Furthermore, the influence of gender on political preferences has revealed more sharply in recent times, thus further complicating the situation. Against this background, the aforementioned feeling of abandonment appears to be a less important phenomenon.

Regardless, it seems naive to think that governments in any country with a capitalist system might have 'redistributive ambitions.' Politicians resort to redistribution to win over the electorate on a temporary basis. This applies equally well to the left, the Christian Democrats, and the nativist right. Redistribution (presumably through taxation) is only relevant where there is something to distribute. It is also out of the question in autocratic countries. Piketty does not explain how the concept of redistribution translates onto a global scale. However, he admits that after the breakdown of the communist model in 1989, 'social-democratic ... parties felt little incentive to seek an internationalist socialist alternative to capitalism and private ownership of the means of production' (Piketty, 2020, p. 871).

Some arguments concerning the sphere of ideology are more noteworthy. Piketty rejects the post-Marxist thesis of the class nature of political conflicts. However, Piketty employs the concept of 'class' by extending it to all social groups. Nevertheless, we must agree with his statement that, '[p]olitical conflict is above all ideological, not 'classist.' It opposes worldviews – systems of beliefs about a just society, which cannot be reduced to individual socioeconomic characteristics or class membership' (Piketty, 2022, p. 721). Piketty does not define the concept of ideology beforehand. Based on the course of his reflections, we may deduce that ideologies – by their very nature containing hierarchies of values – arise under the influence of collective transitions of social consciousness. Thus, using institutionalist terminology, we would say that ideologies – even those with individuals as their creators – emerge when the informal institutions operating in society no longer fit within the existing order of formalised norms. Therefore, we may see the emergence of ideologies as a manifestation of institutional change (Miszewski, 2018, p. 86).

The case of 'the emergence of a sense of abandonment' that Piketty considers corresponds to a pattern adopted in institutional economics. The habits and routines previously typical of the working stratum underwent significant changes due to the deindustrialisation (servitisation) of economies. The employed and those just trying to get a job are dispersed, so they do not form a classic proletariat. The class conflict founding the old left (including social democracy) disappeared, because one of its sides was broken. Thus, 'labour, which long identified itself as the workers' party, has de facto become the party of the educated.' (Piketty, 2020, p. 725). The left unites in a common cultural code rather than an economic interest.

Piketty's allegation that the former party of the working people 'turned its attention primarily to serving the interests of the winners in the educational competition' (Piketty, 2020, p. 833) remains pertinent only if we refer to the Western European perspective. In post-communist societies, the educational race only started at the time of the systemic transition and weakened after twenty years. The phenomena described by Piketty could only occur where barriers of informal institutions limited social mobility (migration from lower to higher strata). For societies in underdeveloped countries, the problem lies elsewhere. The dispersion of the working strata combined with the strong subordination of the ownership stratum hinders grassroots organisation and thus the formation of the typical electorate of social democracy. In the search for belonging, the poor and poorly educated people are inclined to identify with traditional slogans such as the nation. This tendency is further reinforced through the particularly strong position of army and police institutions, which constitute the basis of mostly weak statehood.

This situation – and not the social-democratic parties' abandonment – has led to the rise of nativist movements.

To summarise, Piketty presents a progressive view promoting humanistic values, which is nonetheless detached from modern world realities despite the vast amount of statistical material supporting his analysis. According to Piketty's intention, as a future model of socio-economic organisation, participatory socialism is supposed to emerge evolutionarily. 'In general, the rules appropriate to each sector should be decided by collective democratic deliberation' (Piketty, 2020, p. 595). Undoubtedly, this is a beautiful postulate, but we must consider the fact that such a debate will only produce constructive solutions if the participants are mentally and intellectually prepared for it. Depending on the scale of our considerations, preparing for the debate will require different steps. In underdeveloped countries, a prerequisite would be efforts to make educational services universal. For such a debate to be successful, it seems essential to ensure that the majority of debaters have a basic knowledge of economics, social relations, and the surrounding world in general. In countries where the problem of basic education is not so acute, the lack of knowledge about democracy is a significant barrier, which leads to people underestimating the importance of its principles. Even if knowledge of democracy is common, people learn about it mainly verbally, without a deeper reflection. Meanwhile, the principles of democracy clash to a significant extent with habits formed and rooted in the conditions of the capitalist market economy. Even in highly developed countries, the majority of citizens does not think that putting the common good before individual benefit is also profitable for the individuals in the long run. Piketty's considerations lead to unintended or at least unarticulated conclusions. To change, capitalism must deny its essence. It must reject *homo oeconomicus* not only as an error of neoclassical economics, but above all, as a manifestation of mental individualism, shaped and perpetuated by market relations.

Piketty tries to be diligent in his inquiries, even if this casts a shadow over his optimistic outlook for the systemic transition. Speaking of the progress of civilisation, he admits that it 'is not linear. It is wrong to assume that every change will always be for the best' (Piketty, 2020, p. 20). This statement allows us to take Piketty's reflections on the prospects for social development as a vision of a possible – but by no means inevitable – variant of the future. This mitigates the tone of several critical remarks above.

To summarise my reflections on *Capital and Ideology*, allow me to indicate that my description of Piketty's work is not a review of the entire book. I omitted the essential and cognitively important empirical layer, which is extremely valuable both from the viewpoint of economic history and knowledge of economic policy. Moreover, I did not address many detailed issues that could inspire both economists and sociologists. I focused solely on the weaknesses of Piketty's general approach in its prospective (postulatory) layer.

I adopted such a one-sided approach to Piketty's reflections, because I am convinced of the great importance of the issues he addresses. The threads I critically examined are those in which economics does not provide sufficiently satisfactory solutions, although it is much needed. Therefore, this critique voices my expression of gratitude to Piketty for directing the attention of the community of potential readers to these very issues. Above all, they include the problem of causal forces capable of bringing about fundamental systemic transitions, which seem indispensable in the light of another key issue, namely the multifaceted crisis of civilisation. In his reflections, Piketty discusses only two strands of this crisis, namely climate and migration. However, we cannot consider them in isolation from the other issues. The logical consequence of drawing attention to these threads is the question of the future organisation

of civilisation, in which Piketty's 'participatory socialism' is only one possible proposal. Finally, I surmise it necessary for future works to always justify methodologically reasons for adopting a global scale in contemporary socio-economic analyses, because every phenomenon from this area requires such a wide perspective.

Because of its extensive content, *Capital and Ideology* deserves the same recognition and attention as *Capital in the 21st Century*, which brought Piketty great popularity both in Poland and around the world.

## References

- Miszewski, M. (2018). Zmiana instytucjonalna a współczesne państwo. In A. Ząbkowicz, M. Miszewski, P. Chmielnicki, S. Czech (Eds.), *Zrozumieć kapitalizm*, Forum Myśli Instytucjonalnej – Humanitas, Kraków-Sosnowiec.
- Piketty, T. (2022). *Kapitał i ideologia*. Wydawnictwo Krytyki Politycznej. Warszawa.
- Piketty, T. (2020). *Capital and Ideology*. The Belknap Press of Harvard University Press. Cambridge, Massachusetts.

## About Author/s

**Maciej Miszewski\***, Professor  
University of Economics in Katowice  
ul. 1 Maja 50, 40-287 Katowice, Poland  
e-mail: e.m.miszewscy@pro.onet.pl  
ORCID: 0000-0003-1853-2876  
\* Corresponding author.

## Acknowledgements and Financial Disclosure

None reported.

## Conflict of Interest

The authors declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.

## Copyright and License



This article is published under the terms of the  
Creative Commons Attribution (CC BY 4.0) License  
<http://creativecommons.org/licenses/by/4.0>

**Published by Krakow University of Economics – Krakow, Poland**



Ministry of Education and Science  
Republic of Poland

---

The journal is co-financed in the years 2022-2024 by the Ministry of Education and Science of the Republic of Poland in the framework of the ministerial programme "Development of Scientific Journals" (RCN) on the basis of agreement no. RCN/SP/0391/2021/1 concluded on December 9, 2022 and being in force until December 8, 2024.

# Book Review of *The State and Dominant Groups in The Economy: The Approach of Institutional Political Economy* by Anna Ząbkowicz

Michał Pietrzak

---

**Abstract:** By combining the achievements of political economics and institutional economics, Anna Ząbkowicz proposed the term 'institutional political economics' in the title. The book reflects on the state–economy relation, including the perspective synthetically combining these two approaches. Ząbkowicz aimed to study the dominant entities in the economy, and the state's role in relation to them. Ząbkowicz claimed that the entities have enough power to impose their agenda on their environment, more often including the state. The state is subject to pressure from various interest groups, including big business, by building key institutions for the functioning of the economy and implementing public policies. In consequence, the modern economy results largely from a game between the state and said groups. In the perspective adopted by Ząbkowicz, what matters is the relationship between power and dependence, and the institutionalisation of the economic and political process. This approach differs significantly from the neoclassical mainstream in economics, making the reviewed book a very interesting read. The review will comprise two parts. The first one will discuss Ząbkowicz's main ideas. The second one will evaluate the monograph by listing its merits and polemizing with some of its theses.

**Keywords:** political economics, institutional economics, dominant groups, the role of the state  
**JEL Codes:** B20, B55, D43, P16

---

**Suggested citation:**

Pietrzak, M. (2023). Book Review: *Państwo wobec grup dominujących w gospodarce – perspektywa instytucjonalnej ekonomii politycznej* by Anna Ząbkowicz. *Social Entrepreneurship Review*, 2, 71–81. <https://doi.org/10.15678/SER.2023.2.05>

I had the pleasure to read Anna Ząbkowicz's monograph *Państwo wobec grup dominujących w gospodarce – perspektywa instytucjonalnej ekonomii politycznej* (The State and Dominant Groups in the Economy: The Approach of Institutional Political Economy). Let us first consider the title, which accurately outlines Ząbkowicz's focus. By dominant groups, Ząbkowicz means enterprise groups 'powerful enough to influence the rules of the game' (p. 18). Thereupon, she views the main goal of the study in analysing the ways of thinking about such groups, their domination – interpreted in terms of market failures – and the state's role towards them, while the state in turn often experiences its own, government failures when facing these groups. Hence the need to study these relations from political economy's perspective. Furthermore, Ząbkowicz observes that 'in order to understand the economy, we should study social relations' (p. 15) and refers to John R. Commons: 'social order is the coordination of individual activities

by means of broadly understood social transactions, or interactions, defined by either conflict or reciprocity and harmony' (p. 15). At the same time, Ząbkowicz emphasises that in capitalism, there exist 'substitutes' of market coordination, namely the hierarchical and community mechanisms, such as governments, companies, collectives, guilds, or families. The reference to Commons indicates that, apart from political economics, Ząbkowicz also takes from institutional economics. To synthesize the achievements of these two trends, Ząbkowicz proposes the notion of 'institutional political economy' (p. 21), which is reflected in the title of her book.

Jerzy Wilkin proposes a division into two categories of thinking in research on the foundations of human behaviour. The first, which includes mainstream economics, as well as significant research currents in the other social sciences that refer to assumptions about human rationality, seeks to develop a theory that describes universal foundations and rules concerning human behaviour. The other one attaches greater importance to cognitive-descriptive power than to the universality of theories and their predictive power: 'new studies are a step forward if they are more in-depth ... than the previous ones'<sup>1</sup> (Wilkin, 2016, p. 33). Anna Ząbkowicz clearly supports this second way of doing research, emphasising in the first paragraph of her book that she is motivated by the need to present a 'refreshing' tradition compared to the 'narrowly rationalising liberalism,' a tradition of thinking about society that helps to explain and understand the modern economy (p. 13). This tradition is to put economic phenomena in a social, political, and historical context – much more broadly than the economic context ever allows.

Ząbkowicz's book is of synthesising-conceptual nature. It is primarily based on literature review and discussion. Ząbkowicz emphasises that her work is a 'study of thoughts, meaning it does not evaluate modern capitalism, nor does it recount its history.' Instead the book's added value is 'the approach alone: moving across conventional themes of economics, but not along the fixed dividing line between individual disciplines of social sciences [in order to] understand real world problems' (p. 20). Thus, the monograph's composition is thematic, following selected problems.

The book is divided into five chapters of very different lengths: from 28 to 88 pages, 64 on average. The first chapter foregrounds the limited ability of mainstream economics to explain capitalism's economic problems, which suggested that there is a need for an approach from the perspective of institutional political economy. The second chapter focuses on the achievements of institutionalism in explaining the phenomenon of collective action, including dominant groups. The third chapter concentrates on the state and its importance to the common good. The fourth chapter continues the discussion on the state and the transformation of its position with regard to interest groups. The final, fifth chapter, attempts to answer whether cross-border capital could endure without state authority. There also are two unnumbered sections in the book: the introduction, and the conclusion. I will now discuss Ząbkowicz's findings in individual chapters.

The first chapter is titled 'Potencjał i ograniczenia wyjaśniania naukowego w ekonomii' (The Potential and Limitations of Scientific Explanation in Economics). In its first part, Ząbko-

<sup>1</sup> Immanuel Wallerstein employs a similar distinction in his discussion on the division of disciplines in modern universities (Wallerstein 2004). In the nineteenth century, there was a division of philosophy into science and humanities; although they share to this day the abbreviation 'PhD' from the Latin *Philosophiae Doctor*. 'Initially what one saw is that the social sciences tended to place themselves in the middle ... In the middle, but not comfortably in the middle. For the social scientists did not evolve a separate, third way of knowing; rather they divided themselves between those who leaned toward a "scientific" or "scientistic" view of social science and those who leaned toward a "humanistic" view of social science' (p. 7).



wicz provides a critical assessment of mainstream economics rooted in neoclassical economics, highlighting its limited ability to provide insight into the reality of capitalism's functioning. Ząbkowicz criticises the two main, parallel approaches in the economic mainstream: the formalist one is to be misguided by way of unjustified or excessive mathematisation, which is to become an end in itself, while the empirical one may introduce observation unreliability and problems with verifiability. Ząbkowicz deplores the fact that conventional economics treats the economy purely as a mechanism for allocating goods and services while overlooking issues related to privilege and power distribution.

Ząbkowicz views an alternative to the above in developing an 'economics of capitalism' that would synthesise political economy and institutional economics. These issues are the main focus of the second part of the first chapter. However, we should first highlight how Ząbkowicz understands capitalism, namely as a phenomenon different and distinct from the market – in which Ząbkowicz refers mainly to Fernand Braudel, but also to John Kenneth Galbraith and others. While market economy is in this regard the 'base economy,' aiming to satisfy basic needs, capitalism is to be the 'higher' level of economy serving the concentration of capital and the associated accumulation of power. While market economy is an automatism of mechanisms described by conventional economics, capitalism for Braudel means cleverness and flexibility, or what Galbraith describes as 'the planning sector,' the domain of large corporations.

We may recognize two attitudes towards such understood capitalist economy. The first one – represented by the research program of the institutional varieties of capitalism and new institutional economics – Ząbkowicz deems functionalist, which is to focus on capitalism's functional characteristics as a socioeconomic system. The second attitude perceives capitalism as socioeconomic relations marked by relations of power and dependence, and capital as a means of appropriating surplus. This attitude is represented by American institutionalism – the 'old institutional economics' by Veblen or Commons – and political economy, particularly Weber, Polanyi, and Galbraith. Ząbkowicz does not hide her proclivity for the latter perspective, which focuses on various groups' social positions, the associated access to goods, along with the institutions that shape people's thinking, motivations, actions, including coercion, power, and collective action.

The last two points from the list above lead us to the second chapter, titled 'Kapitalizm i kolektywny przedsiębiorca' (Capitalism, and the Collective Entrepreneur). This chapter is also divided in two parts: one about the issues of collective entrepreneurship, the other one about economic organisations and their power. The essence of collective action is to be the combination of individual efforts in a joint venture, with the source of success relying on the ability to channel individual energy into 'collective entrepreneurship.' As Ząbkowicz notes in the first part, we are now witnessing a declining share of small business (whose significant share and lower development level are related – and still symptomatic of poor countries) for the sake of large corporations and business groups' importance, simultaneously accompanied by an increase in the public sector's importance. As a result, the modern economy heavily depends on the game between powerful organisations – the state and the corporations – which happens not only in the economic but also in the political domain. According to Ząbkowicz, large economic organisations include both individual companies and groups of companies that may share capital bonds (capital groups) as well as functional ones (e.g. value chains and networks, *keiretsu, chaebol*). Ząbkowicz emphasises:

I am interested in large organisations focused on economic benefits, or in their representations. ... collective entrepreneurship also manifests itself in attempts at exerting influence

outside the product markets, money, and financial assets .... The proper domain of business groups and corporations ... is economy, but they are becoming a part of *polity*. (p. 118).

The development of collective entrepreneurship can be interpreted as the result of a series of institutional innovations, from family companies (*compagnia*) and commandite partnerships in Italian city states through East Indian trading companies (commercial capitalism) to joint-stock companies (industrial capitalism) and transnational corporations (modern capitalism). Thusly understood groups are gaining an increasingly powerful position that allows them to dominate over weaker entities. The domination involves the question of power, which is to operate on two levels: the economic/bargaining power and the political/intentional power, the latter being understood as 'the ability to influence social relations and benefit from it at the expense of others' (pp. 129–130).

In this context, Ząbkowicz refers to two analytical concepts. Offering the perspective of individuals focused on the pursuit of their own interests, methodological individualism indeed imbues economic research with an objective character but remains unsuitable for exploring the issue of dominant groups in the economy. Besides neoclassical economics, Ząbkowicz includes in this methodological tradition new institutional economics and collective choice theory. As a result, she considers the propositions of Oliver Williamson, Mancur Olson, James M. Buchanan, Gordon Tullock, and Elinor Ostrom irrelevant to the problems of her monograph. On the other hand, Ząbkowicz views as relevant the holistic tradition to which she includes the traditional (old) institutional economics.

Ząbkowicz justified this view more extensively in the second part of the second chapter. Here, she also addresses the issues of economic strength and the power of large economic organisations, akin to Galbraith's 'planning sector' governed by the 'technostructure.' Gaining an advantage by corporations happens only partly through market mechanisms as it partly also consists of the ability to impose their goals on their surroundings, including influencing the state: 'through members of the technostructure, corporations adjust social attitudes to suit their own needs. They present that which serves the technostructure as proper public policy' (p. 180).

Ząbkowicz states that business groups are best developed in the richest countries, namely in the USA, Western Europe, and Japan – developing in other advanced economies thanks to the expansion of groups from these countries, along with the liberalisation of economies and the growth of capital markets. Consequently, capitalism in Central and Eastern European countries is to be 'peripheral capitalism, dependent on the foreign investments by multinational corporations' (p. 192).

The third chapter shifts focus to the issues of the state. It is titled 'Państwo i interesy' (The State and Interests), and also comprises two parts. The first one focuses on the state from the perspective of the common good, while the second one explores the issue of interest group representation and the legitimacy of their access to the state. As Ząbkowicz notes, while microeconomics keeps a distance from these issues, almost ignoring the state's role, macroeconomics tends to overestimate the role of the state. It is the state's domain to legalise and sanction rules, therefore also to create a formal institutional matrix, which institutional economics cannot neglect. Furthermore, the state distributes wealth and income in society, which is impossible to study without understanding the distribution of power among social interest groups.

Ząbkowicz defines democratic state as 'a social structure wielding power and imposing order over a specified territory and population based on political legitimacy provided by a democratic vote' (p. 199). Politicians and bureaucrats enforce power, although the role of the

latter often transcends what could be described as merely executing their superiors' political orders. Thus understood, the state plays a game with various organised interest groups by building institutions and creating public policy. Therefore, the state's task in this regard resembles a balancing act in a constellation of more or less conflicting interests, trying to maintain independence. Ząbkowicz outlines two separate camps in economics that continue to argue about the state's role: the conservative liberals and the social liberals.

The conservative liberals perceive the state as a threat to core values such as freedom, equity, and justice because of its two main errors. First, by interfering in the market the state is to spoil it, thus threatening freedom. In extreme cases, by regulating economic processes, the state can gradually increase its control over citizens to the point of totalitarianism. Second, the state violates equity based on the equal opportunity principle by redistributing income. This does not mean that conservative liberals would like to reduce the state to a mere role of a *laissez-fairist* 'watchman.' However, they distinguish two layers of the state's role: constitutional (institutional framework) and operational. The latter is to manifest the threat from the state to the axiological order: freedom and justice. 'This stance imparts a prohibitionist direction to the conservative-liberal economists' thinking about the state' (p. 216). This way of thinking would have the state completely avoid operational actions (Hayek) or follow the subsidiarity principle (ordoliberalism).

Social economists perceive the sphere of economic activity as rooted in society (Karl Polanyi's 'embeddedness'), highlighting the problem of the underprivileged social classes' freedom. They are to recognise the inextricable link between material security and personal freedom, hence they view poverty as a type of slavery. In this take, economic security becomes the state's primary duty as the precondition and protection of freedom. This leads us to the idea of welfare state, which should actively rectify the contradictions stemming from private property, which with growing asymmetry may become the instrument of domination of some over others.

Ząbkowicz highlights the assumptions underlying these two approaches. On the one hand, the conservative liberals believe that the state can take measures to self-limit its role in the economy. On the other hand, the social liberals rather naively assume the state's benevolence.

In the second part of the third chapter, Ząbkowicz discussed the issues of space for advocacy (lobbying) in the structure of the state, which becomes an 'arena of interaction' (p. 227) of interest groups. Around the core composed of politicians and bureaucrats grow mediation institutions. Through them, social coalitions seek to translate their preferences into state actions, which questions the state's autonomy in the shaping of public policy. As a result, business interest groups and trade unions become social partners for public authorities. Thus construed, advocacy can take a pluralistic form like in the USA or the UK or a corporatist one like in many countries of continental Europe.

What is the explanation for the access of interest groups to the creation of public policy? The conservative-liberal interpretation highlights the distributive, therefore non-productive character of interest coalitions motivated by rent-seeking. Such actions disrupt not only the incentive system characteristic for a healthy market economy – and discourage investing in productive activities – but also the transparency of interface between politics and economy, along with provoking a growth of regulations and an adequate bureaucratic apparatus. A possible solution to this problem would be to separate the structure of *polity* from the economy.

By contrast, Commons – the leading figure in American institutionalism – justifies lobbying from a welfare state perspective. Commons claims that trade unions strengthen the position

of the state relative to the interests of the industrial and financial lobby. A similar take can be found in Galbraith's concept of countervailing power. Thus, from the social-liberal perspective, organised advocacy plays a system-building role.

The fourth chapter continues the discussion on the state in the context of configuring capitalism by including its interaction with interest groups. The chapter is titled 'Transformacja państwa i jego pozycji' (Transformation of the State and Its Position) and comprises three parts. The first one characterises the transformation of the post-war democratic state 'from a welfare state to a debt state.' The second part describes the changing position in the tripartite system of government (state–capital–labour). The third part discusses the legitimacy of state power.

According to Ząbkowicz, a democratic social state created after 1945 was the Western response to two threats: fascist totalitarianism and the soviet communism. This was to involve both the state and the 'capital' acknowledging the need to ensure social peace, which was the reason for the concessions to the elementary mass of taxpayers and voters: the wage earners. Strong trade unions were an additional factor that increased the bargaining power of workers. Therefore, the negotiations between the 'work' and the 'capital' proved to be a sustained praxis, institutionalised through mediation and state support in the form of industrial disputes and co-decision mechanisms. This 'marriage of convenience' resulted in a significant expansion of the post-war capitalist state's tasks, enabling a greater range of social policy than ever before. That compromise safeguarded the social balance by preventing tensions between the 'work' and the 'capital' from escalating into an open conflict, thereby also enabling smooth business practice and development. On the other hand, social security generated the loyalty to the democratic state, limiting the influence of totalising ideologies in the realm of 'work.'

As Ząbkowicz observes, after around three decades of success, the welfare state started to transform under the pressure of international economic relations and the progressing financialisation. The notoriety and scale of budget deficits in public finance systems of welfare states necessitated their financing on the financial markets. In a positive feedback mechanism, 'a debt state became the main reason of financialisation as well as its effect' (p. 281). As a result, public politics had to reckon with rating agencies' assessments that directly affect the cost of public debt financing. Thus, there emerged a tension between the state based on constraint and its creditors – guided by the logic of financial markets – on whom the state became increasingly dependent.

This situation has affected the existing social contract, the level of medical and social care, and pensions. The issue of social security started to shift partially into the domain of market, and costs started to be partly transferred to households. It is particularly visible in pensions, which Ząbkowicz claims to be symptomatic for the erosion of social security: 'the logic of individual insurance has now replaced intergenerational solidarity and group spreading of risk' (pp. 283–284). At the same time, the official representations of group interests become disorganised. On the one hand, as a result of globalisation, the dependence of 'capital' on local regulations decreased, and so did the interest in local social dialogue. On the other hand, trade unions are now losing their members and relevance.

In the last part of the fourth chapter, Ząbkowicz considers what legitimises state authority besides coercion based on law enforcement and armed forces? She indicates that it is the mission to grow national product and income, albeit in fact, it is the faith that this growth will continue: 'Long-term economic growth legitimises state power' (p. 291). She considers these issues within the framework of 'the triangle of power' whose vertices include 'the state,' 'labour' (Streck's *das Staatsvolk*), and 'capital' (*das Marktvolk*). Ząbkowicz notes that the

modern democratic state falls into a trap by striving to meet the expectation of both of these groups simultaneously. *Das Staatsvolk* expects the fulfilment of social obligations that – in its opinion – legitimise the state and for which it holds politicians accountable during elections. On the other hand, these obligations are increasingly sending the state into a certain debt spiral, which creates expectations of building macroeconomic credibility with *das Marktvolk*. By substituting taxes with credit, the welfare state becomes a debt state operating in a conflict over the distribution of income between the creditors and citizens. Ząbkowicz concludes her thoughts on this matter as follows:

the material basis for the functioning of the state is its capital and income; the extent of state control and its borrowing capacity complement this domain. Legitimising state power through economic growth during financialisation shows a fundamental weakness. The limiting of both the base and domain of the state has become the hallmark of the turn of the twentieth and twenty-first centuries. ... the state loses another basis for promoting growth in terms of resources and control. (p. 309)

The fifth and last chapter is titled 'Transgraniczny kapitał bez władzy państwowej' (Cross-Border Capital Without State Power). Ząbkowicz highlights the role of private transnational organisations and multilateral international institutions. Due to the exhaustion of sources of state power legitimacy described in the preceding chapter, as well as globalisation, we witness the growing role of large business organisations conducting cross-border business in limiting state autonomy in controlling the economy. 'Capital' can select national markets. Withholding, or outflow of foreign investment can be a potential blackmail tool. On a really large scale, it threatens to destabilise state finances. Today, GAFA companies – Google, Apple, Facebook, Amazon – and similar who ones represent 'surveillance capitalism' receive an additional reinforcement to their position. In 'surveillance capitalism,' user behaviour data becomes the capital, because it is transformable into behavioural predictive products sold to actual customers: advertisers who shape consumer behaviour. Behavioural knowledge thus becomes a source of power, which in turn can generate a symbiosis with the state, which willingly uses databases on citizens.

Apart from cross-border business, multilateral intergovernmental organisations are another factor conducive to the diffusion of state power (e.g. WTO, OECD, IMF, EU). Consequently, as Ząbkowicz observes, there is 'a growing importance of technocratic institutions in the structures of nation states ... [while] power remains in the hands of state authorities, it concentrates in technocratic public agencies' (p. 330) exempt from democratic control. The traditional state power – indivisible and assigned to a territory – is gradually eroding.

In this context, Ząbkowicz attempts to answer 'under what conditions a state of the future would be empowered to once again become a *mediating institution*' (p. 339). She notices a possibility of easing the tension between the growing power of financial markets and social obligations in the alliance of the state with the groups whose main business is related to the state: small and medium-sized enterprises, local banks, and households being both consumers and employees. This alliance could be a force to counter the internationalised 'capital.'

After summarising Ząbkowicz's main points covered in each chapter, we should now attempt to assess her elaboration. I read the book with great interest and intellectual satisfaction. Its exceptional value lies in that it organises around the eponymous problem the achievements of many scientific disciplines interested in the running of economy of – especially – capitalist economy, namely economics, sociology, political science, or history. In this respect,

Ząbkowicz freely transgresses the narrow frames of mainstream economics understood as a positive science about the behaviour of a fully rational economic man who faces the problem of production in conditions of resources scarcity, yet a science avoiding normative judgments, issues of power relations, or the authorities, which all affect the distribution of production. The neglect of these problems by neoclassical economics stems from assumptions useful for a theory that aspires to describe universal laws, which nevertheless happens for a high price, namely that of losing cognitive power and descriptive abilities.

As Sławomir Czech once said in a discussion, teaching economics often resembles teaching what he called 'lever economics': it answers which lever to pull to achieve the desired effect. However, learning how to use something is not the same as learning to understand something. Aiming for a more insightful description – thus an understanding of economic reality – Ząbkowicz utilizes achievements of political economy and institutional economics while seeking to synthesise the two currents. When doing economics – and almost always when teaching economics – we speak more about harmony than conflict. However, experience shows that many social problems stem from conflict. Furthermore, capitalism 'has many names,' and it is precisely the institutions – as the rules of the game – that determine which type of capitalism we are facing. Hence, we should regard Ząbkowicz's approach as entirely justified. Moreover, by including Polanyi's concept of 'embeddedness' – the rooting of the economy in social life – Ząbkowicz extensively refers to social sciences other than economics, which is an undoubted advantage of the reviewed book.

The value of the book is its extraordinary scientific breadth, visible not only in the range of references to various disciplines, but primarily in the complexity of discussed issues. Virtually every chapter of this study could form the basis for a separate scientific monograph. Ząbkowicz fulfils a difficult task reliably, opening a path for further scientific inquiry. Her book will certainly become the starting point of much reflection and investigation by numerous scholars, perhaps not only economists.

The monograph's biggest asset is the structure of content: not following disciplines but aspects arranged problem-wise to facilitate the identification dominant groups problems and their relations with the state. However, we may make some reservations here, albeit rather technical than substantive. I believe that a 350-page-long study could be divided in more than merely five chapters, which is something to be considered in future reprints or editions. I believe that structuring the content in smaller chapters would make for an easier read.

Moreover, Ząbkowicz presents her deliberations on often highly controversial issues in a measured manner. It is particularly visible in the third chapter, in which she presents the views of two different camps: the conservative one and the social one. Ząbkowicz provides a balanced report of arguments for and against the positions of both parties. Furthermore, we should criticise Ząbkowicz's rather unilateral presentation of large economic organisations in the second chapter; this refers to both single and groups of corporations. Although at the end of the chapter, Ząbkowicz stipulates that she does not treat these entities as wrong – keeping in mind the beneficial aspects of their operations (pp. 184–185) – the whole chapter remains highly critical of them.

In this regard, I agree with Noga (2022) who writes:

the threat to competition comes not from high concentration, which is often beneficial to households, but from the totality of institutional economic, political, and social factors that render dominant entities on markets ineffective. ... [Moreover,] global effective dominance

is a less favourable solution than effective competition for households ..., but not as negative as it is sometimes portrayed'. (pp. 12–13)

We should remember the range of mechanisms that enable large business entities to be a socially effective solutions. Noga lists 18 of them, and I will highlight here only three: economies of scale and scope, the experience curve, technological innovations (Noga, 2022, pp. 118–119). These benefits relate to technical efficiency. In turn, market monopolisation impairs allocative efficiency. However, Leibenstein (1985) notes that the differences in allocative efficiency between competitive versus monopolised sectors are surprisingly small. Naturally, Ząbkowicz discusses problems that extend well beyond allocative inefficiency, namely related to the translation of monopoly power onto political power. However, from the viewpoint of social welfare, the net effect of large economic entities' functioning is not clearly evident, and indeed – very difficult to define. Therefore, Ząbkowicz's book lacks a broader reference to these issues, which would allow for a more balanced depiction of these entities. Indeed, the problem impacts the proposed path to alleviating the tension between financial markets' power and social obligations: the state's alliance with groups whose core interests are linked to the state, which could be a countervailing force to transnational corporations. This solution needs to be taken with a grain of salt, as we cannot discern to what extent it is reasonable – and implementable.

Ząbkowicz openly declares herself a supporter of traditional institutional economics (TIE), while she seems to disregard the achievements of new institutional economics (NIE), positioning it almost identically with the criticised neoclassical economics: 'in contrast to 'old' institutionalism, 'new' institutionalism shows no ambition to challenge the neoclassical tradition in economy' (p. 149). In particular, the book lacks a broader consideration of Oliver E. Williamson's major achievements, which after all, transcend the boundaries of economic orthodoxy – yet are compatible with the considerations pursued in the monograph: (1) to give due attention to the role and different mode of operation of the 'visible hand' (i.e. hierarchical organisations) in the economy as opposed to the market; (2) to raise awareness of the importance and role of opportunism; and (3) to point out the role of institutions functioning as mechanisms to mitigate opportunism.

Finally, the ultimate polemical remark. Ząbkowicz's monograph lacks more detail regarding the events of recent years, particularly the experience of the Covid-19 pandemic, which noticeably reinforced nation states' position. After decades of neoliberalism's domination and the private sector's expansion at the expense of the public sector, the latter is slowly regaining power (Arak 2021; Zielonka 2020). As Zielonka (2020) argues:

the nation-state seems to be experiencing a striking renaissance. Borders are back .... Virtually overnight, national capitals have effectively reclaimed sovereignty from the European Union .... They are practically ruling by decree in a war-style fashion. ... The coronavirus outbreak seems to be reversing the course of history. Gone is globalisation.

Nation states reappeared between the international and local levels as the main guarantors of wellbeing and crisis management coordinators. It remains an open question whether the renaissance of nation states will prove to be a relatively short anomaly or a lasting trend. However, in the context of the Russian invasion on Ukraine, and the emerging vision of a new Cold War, one could expect an even more expansive policy of nation states.

Regardless of the above polemical remarks and discussion, I consider Anna Ząbkowicz's book to be a very valuable and much needed work. It fills an important gap in Polish literature on economics. Ząbkowicz's monograph should interest any economist who values insightful

description and understanding of reality over the precision of formal models; it should also interest those social scientists who focus issues of power and influence at the intersection of the economy and politics. Thus, Ząbkowicz's book will surely become a mainstay of political economy and institutional economics, maybe even an inspiration for ambitious senior students of economics and other social sciences.

## References

- Arak, P. (2021). *Pandemonia. Czy koronawirus zakończył erę neoliberalizmu?* Poltext.
- Leibenstein, H. (1985) 'Efektywność X' versus efektywność alokacyjna. In J. Grosfeld (Ed.), *Ponad ekonomią*. Państwowy Instytut Wydawniczy.
- Noga, A. (2022). *Teoria konkurencji. Ekonomiczna teoria wszystkiego*. Poltext.
- Wallerstein, I. (2004). *World-Systems Analysis: An Introduction*. Duke University Press.
- Wilkin, J. (2016). *Instytucjonalne i kulturowe podstawy gospodarowania. Humanistyczna perspektywa ekonomii*. Wydawnictwo Naukowe Scholar.
- Ząbkowicz, A. (2023). *Państwo wobec grup dominujących w gospodarce – perspektywa instytucjonalnej ekonomii politycznej*. Wydawnictwo Uniwersytetu Łódzkiego. <https://doi.org/10.18778/8331-059-6> (The e-book is available for free)
- Zielonka, J. (2020, March 26). Has the coronavirus brought back the nation-state? Social Europe. <https://social-europe.eu/has-the-coronavirus-brought-back-the-nation-state>

---

## About Author/s

**Michał Pietrzak\***, PhD, Professor  
Department of Economics and Organisation of Enterprises  
Institute of Economics and Finance  
Warsaw University of Life Sciences – SGGW  
ul. Nowoursynowska 166, 02-787 Warsaw, Poland  
email: [michal\\_pietrzak@sggw.edu.pl](mailto:michal_pietrzak@sggw.edu.pl)  
ORCID: 0000-0002-0418-3436  
\*Corresponding author.

---

## Acknowledgements and Financial Disclosure

None reported.

---

## Conflict of Interest

The author declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.



---

**Copyright and License**



This article is published under the terms of the Creative Commons Attribution (CC BY 4.0) License  
<http://creativecommons.org/licenses/by/4.0>

---

**Published by Krakow University of Economics – Krakow, Poland**



**Ministry of Education and Science  
Republic of Poland**

---

The journal is co-financed in the years 2022-2024 by the Ministry of Education and Science of the Republic of Poland in the framework of the ministerial programme "Development of Scientific Journals" (RCN) on the basis of agreement no. RCN/SP/0391/2021/1 concluded on December 9, 2022 and being in force until December 8, 2024.

# Forum for Institutional Thought: A platform for an exchange of ideas about institutional economics in Poland

Anna Jurczuk, Zofia Łapniewska, Renata Śliwa, Anna Zachorowska-Mazurkiewicz

---

**Abstract:** This article presents the history, objectives, and scope of activity of the Forum for Institutional Thought Association. The Forum is an initiative by a group of social sciences' representatives gathered around the belief that the institutional approach currently offers the best way to understand the world, particularly the changes that happen in the economies undergoing a systemic transition.

**Keywords:** Forum for Institutional Thought, institutions

**JEL Codes:** B25, I23

---

**Suggested citation:**

Jurczuk, A., Łapniewska, Z., Śliwa, R., Zachorowska-Mazurkiewicz, A. (2023). Forum for Institutional Thought: A platform for an exchange of ideas about institutional economics in Poland. *Social Entrepreneurship Review*, 2, 82–85. <https://doi.org/10.15678/SER.2023.2.06>

The Forum for Institutional Thought Association emerged from a group of social sciences representatives gathered around the belief that the institutional approach currently offers the best way to understand the world, particularly the changes that happen in the economies that undergo a systemic transition. The Association comprises economists, lawyers, political scientists, and sociologists – individuals from leading Polish academic centres.

Professor Anna Ząbkowicz initiated the idea of the Association in December 2015 at the Jagiellonian University. In November 2016, the Association was legally brought to life. *The Forum for Institutional Thought Association* endeavours to create and strengthen endeavours that take the form of a platform for institutional studies. We understand institutions as the *rules of the social game, norms, regulations, and habits* that shape social behaviours and create boundary conditions for political, legal, and economic decisions. The form of such understood institutions defines the political foundations for the organisation of countries, and through legal legitimacy, it affects economic performance and citizens welfare.

Institutions introduce to social sciences interdisciplinary optics because they are the foundation of mutual trust, the trust for public authorities, the effectiveness of satisfying social needs, and the quality of dispute resolution in societies.

By eliminating exploitation and monopolies, political and economic institutions shape pro-innovation incentives that affect individuals, social groups, entrepreneurs, and politicians. Through forcing them to economise, educate themselves, invest, innovate, employ new oper-

ating techniques, and resolve conflicts, the institutions foster economic development. Unfortunately, institutions can also be destructive.

Created through political processes, the shape of economic institutions conditions economic entities' actions, thus determining the wealth and poverty of nations. Influencing economic incentives and behaviours by creating legal order, including the binding force of contracts and private property protection, institutional arrangements create and reinforce the potential for the provision of public goods, shape markets as areas of economic freedom, and open opportunities for everyone according to their abilities and talents.

The Forum for Institutional Thought endeavours to strengthen the recognition of these significant institutions, including the organisations that determine social prosperity, support cooperation and collective activity, and affect production levels along with the distribution of generated wealth.

This approach gives rise to various perceptions of modern management's consequences, including serious income disparities or climate change, which may all be deduced from studies on the validity of power (derived from political decisions or economic strength) and its legitimacy (derived from law or civic participation).

The cognitive methods developed in institutional economics – which add the value of interdisciplinarity to the conducted analyses – expose elements otherwise invisible in other approaches, which circumvent or insufficiently explore their multidimensionality, dynamism, and complexity.

The issues related to the development of institutions and institutional thinking have become the subject of research and academic discussions at conferences and seminars organised by the Forum for Institutional Thought Association. These meetings aim to broaden the knowledge and bolster the awareness of the determinants, threats, and challenges to the development of learning economic reality through the prism of institutional thinking.

Organised since 2016, the seminars of the Forum for Institutional Thought stimulate important subjects that explain theoretically, methodologically, and empirically – both in a conceptual and pragmatical dimensions – the suggestions for the perception of cause, essence, and possible consequence of the observed and experienced social phenomena. These seminars happened in many Polish cities between 2016 and 2022.

The first seminar, titled 'Wokół metody. Jak badać instytucje?' (Concerning the Method: How to Study Institutions?) happened on November 7, 2016, in Łódź. The second seminar on November 20, 2017, was organised in Poznań to discuss 'Szkolnictwa wyższego w warunkach zmian instytucjonalnych' (Higher Education During Institutional Changes). The third seminar occurred in Krakow on October 25, 2018, under the title 'How Economic Tools Apply to Judicial Institutions and to Judicial Checks and Balances,' which discussed the quality of political institutions in general, systemic, and constitutional contexts. The fourth seminar in Białystok on October 25, 2019 reflected on 'Państwo i jego transformacje. Retrospekcja i projekcje' (The State and Its Transitions: A Retrospective and Predictions), which debate the different approaches to the state's role, transition, and institutions in the modern economy. The fifth seminar was held online on October 27, 2021 and was titled 'Central and Eastern European Economies in Goldilocks Age: A Model of Labor Market Institutional Choice,' and it discussed the issues of modelling an institutional choice in the labour market. The sixth seminar was also held online on February 10, 2022, in cooperation with Zespół Badawczy Mechanizmów Zarządzania Działaniami Zbiorowymi Rev 4.0 (Research Team for Group Activities Management), under the title 'Knowledge Production Regimes.' The seventh seminar happened on November 24, 2022, in Warsaw, and was titled 'Myśl instytucjonalna wobec kryzysów' (Institutional Thinking in the Face of Crises).

The seminars held by the Forum gathered numerous academicians, doctoral students, and practitioners who consider the institutional cognitive apparatus as a significant, interesting, and convincing cognitive proposal for social life.

Another important series of initiatives fostered by the Forum for Institutional Thought are academic conferences. The first such conference, titled 'Zrozumieć kapitalizm – podejście ewolucyjno-instytucjonalne' (Understanding Capitalism: An Evolutionary-Institutional Approach) happened on October 20, 2017, in Warsaw, aiming to answer how the institutional approach enables one to study social reality and draw conclusions about the nature of capitalism.

The next conference was co-organised with the World Interdisciplinary Network for Institutional Research (WINIR), initiated as a part of 'Institutions and Survival' series. It happened in Krakow on February 20–21, 2020. The most detailed part of the debate between representatives of domestic and foreign research centres explored the socio-economic reasons for abandoning democracy and hybrids of institutional determinants of governance.

Results of the Forum's scientific work spread also through its activities in the publishing market. In 2018, the Forum published a monograph titled *Zrozumieć kapitalizm. Ujęcie ewolucyjno-instytucjonalne* (Understanding Capitalism: An Evolutionary-Institutional Approach) edited by Anna Ząbkowicz, Maciej Miszewski, Paweł Chmielnicki, and Sławomir Czech, with a preface by Geoffrey Hodgson. The Forum for Institutional Thought also edited a special issue of *Catallaxy* 5.2/2020 (December).

Moreover, every two years, the Forum announces a competition for the best master thesis to promote young graduates who recognise the cognitive value of institutional economics.

The Forum for Institutional Thought plans a number of activities for the near future. On September 28, 2023, a scientific seminar will be held at the seat of the Polish Economic Society in Warsaw, aiming to discuss the issues of institutions and sustainable development. Moreover, the Forum prepares a second edition of the international conference 'Institutions and Survival,' titled 'Challenges for Sustainability,' scheduled for February 22–23, 2024, at the University of Białystok.

Finally, the Forum plans to prepare a second book, entitled *Economic Policy in Transition Economy in Institutional Perspective: The Case of Poland*, edited by Maciej Grodzicki and Anna Zachorowska-Mazurkiewicz, to be published by Routledge.

#### About Author/s

**Anna Jurczuk**, Assistant Professor  
Division of Institutional Economy  
Department of Political Economy  
University of Białystok  
ul. Warszawska 63, 15-062 Białystok, Poland  
email: a.jurczuk@uwb.edu.pl  
ORCID: 0000-0002-6467-4747

**Zofia Łapniewska**, Associate Professor  
Division of Economics and Innovation  
Institute of Economics, Finance and Management  
Jagiellonian University  
ul. prof. S. Łojasiewicza 4, 30-348 Kraków, Poland  
email: z.lapniewska@uj.edu.pl  
ORCID: 0000-0003-0002-5323

**Renata Śliwa\***, Assistant Professor  
Department of Economics and Economic Policy  
University of the National Education Commission,  
Krakow  
ul. Podchorążych 2, 30-084 Kraków, Poland  
email: renata.sliwa@up.krakow.pl  
ORCID: 0000-0001-5029-8798  
\*Corresponding author.

**Anna Zachorowska-Mazurkiewicz**, Associate Professor  
Division of Economics and Innovation  
Institute of Economics, Finance and Management  
Jagiellonian University  
ul. prof. S. Łojasiewicza 4, 30-348 Kraków, Poland  
email: anna.zachorowska@uj.edu.pl  
ORCID: 0000-0003-4313-5207

### Authors contributions

None reported.

### Acknowledgements and Financial Disclosure

A.J., Z.Ł., R.Ś., A.Z-M.: conceptualization; A.J., Z.Ł., R.Ś., A.Z-M: writing, original draft preparation; A.J., Z.Ł., R.Ś., A.Z-M: writing, review and editing; A.J., Z.Ł., R.Ś., A.Z-M.: supervision.

All authors have read and agreed to the published version of the manuscript.

### Conflict of Interest

The authors declare that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.

### Copyright and License



This article is published under the terms of the Creative Commons Attribution (CC BY 4.0) License <http://creativecommons.org/licenses/by/4.0>

**Published by Krakow University of Economics – Krakow, Poland**



**Ministry of Education and Science  
Republic of Poland**

The journal is co-financed in the years 2022-2024 by the Ministry of Education and Science of the Republic of Poland in the framework of the ministerial programme "Development of Scientific Journals" (RCN) on the basis of agreement no. RCN/SP/0391/2021/1 concluded on December 9, 2022 and being in force until December 8, 2024.