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## **Untrusted Political Elites and Citizens: is it a contradiction of the transformation period or...? (Ukrainian case)**

Throughout the world, both in Western democracies and post-soviet countries of Eastern Europe, one can observe a decline in political trust. Is this an issue local to any of these countries or a global problem that the modern world faces? What are the factors and processes that influence the political trust?

Despite the differences in the level of economical development and maturity of democracy institutions, many countries suffer from the lack of the political trust. In the countries of the West, the decline of the political trust in the society probably reflects a more general decline of respect for the authority that has come with the development of the post-material cultures. As people start to take their well-being for granted, they no longer feel the need to be protected by the state and apparently begin to question and assess their leaders by more demanding standards.

In the post-soviet countries a transformation is taking place. New political systems are being installed into these nation-states. In Ukraine the factors which have lead to decrease in political trust are quite different than the other neighboring countries. The purpose of this article is a critical overview of levels of political trust during the independence period.

### **TRUSTING INSTITUTIONS**

In both post-communist countries and in Ukraine in particular, like in most transforming societies the role of political elites guiding the process of reforms increases. The elite can perform its function only when it has the trust of the people. The results of numerous sociological researches show that the Ukrainian elites have passed the stage of high trust in 1991, when transition to the democratic state was initiated. In the first year of President L. Kravchuk's term, his power could be called highly legitimate with confidence. But soon the President had to recognize that he had underestimated the importance of the economical problems Ukraine faced. Because of that, a gradual decrease of the level of trust towards to President and government is observed. This process takes the permanent character. It is worth noting that after the presidential elections of 1994 the level of trust to the President increased from 16% to 33% in 1995, which can be described by hopes related to a new leader coming to power. During the 16 years of Ukrainian independence the Prime Minister of the Ukrainian government had been displaced almost every year. Still, it did not help to implement all promised political programs but gave the opportunity for president to be elected twice.

Throughout the independence period, the trust in political institutions was very low. Thus we can speak of a crisis of legitimacy of Ukrainian ruling elite. For example, according to Panina,<sup>1</sup> in 2004 (before the elections), 13% of respondents trusted the President, 9% the Parliament, 11% the Government, confirming the lower levels of trust registered for the respective institutions during the last ten years.<sup>2</sup>

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<sup>1</sup> Panina, Nataliy. (2006). *Ukraincke syspilctvo 1992-2006: sociologichnii monitoring*. [Ukrainian society 1992-2006: sociology monitoring]. Kiev: Sociology Institute NAS Ukraine.

<sup>2</sup> Karklins R. "Typology Of Post-Communist Corruption", *Problems of Post-Communism* 49:4 (July/August 2002).

**Table 1** The dynamics of trust in the Ukrainian President and Government: 1994-2006

	Trust in the President		Trust in the Government	
	trust	do not trust	trust	do not trust
1994	11%	51%	16%	53%
1998	8%	62%	10%	61%
1999	10%	62%	13%	58%
2002	10%	59%	13%	59%
2004	13%	58%	11%	58%
2006	30%	41%	15%	50%

Sources: Panina, 2006: 27.

Notes: 5 points scales were used in all cases. Trust includes those giving positive answers (the first two points of the scale), while mistrust includes the last two points (4 and 5). Indecision ("not sure", the midpoint of the scale) is not included in the table.

The decline of the authority of the state and political structures, social institutions in general, mass dissatisfaction with the system of power distribution and other significant social resources led to an increase in social tension. People were dissatisfied with the current economical situation and inability of the government to change it; they also believed that many government officials abused their status for the sake of personal enrichment at the expense of the society. At the same time, people did not see any acceptable alternative, mostly they did not engage in political opposition, but rather assumed the attitude of passive hostility to the political elite, relying only on themselves and family networks. As opposed to ordinary citizens public social representations accuses the political and economic elite of frequently breaking the law, (table 2). An acceptable alternative presented itself at the presidential elections of 2004. The distrust in the then-current political elite and its candidate, prime-minister V. Yanukovich, was one of the major factors contributing to the ultimate victory of the opposition candidate, V. Yushchenko. Currently the new government enjoys a high trust level (over 50%). Many believe that the new political force will be able to quickly improve the economic situation and eliminate corruption. Further evolution of the political trust in Ukraine will depend on how the new government will fulfill this promise.

**Table 2** Public representations about the measure in which Ukrainian elites respect the law

<i>In your opinion in which measure, the following categories respect the law in today Ukraine?</i>	<b>More often respect</b>	<b>Hard to tell</b>	<b>More often break</b>	<b>No answer</b>
Representatives of legislature (members of Parliament)	4%	33%	<b>63%</b>	0,2%
High-ranking officials of ministries	3%	32%	<b>65%</b>	0,3%
High-ranking officials of the Presidential Administration	4%	40%	<b>56%</b>	0,6%
Ordinary officials	10%	41%	<b>49%</b>	0,2%
Entrepreneurs, business people	7%	41%	<b>49%</b>	0,2%
Citizens	<b>45%</b>	41%	14%	0,4%

Source: Vorona & Shulga, 2003: 600.

### INVOLEMENT IN MASS PROTEST ACTIONS

In the first 13 years of Ukrainian independence (1991-2004) there were very few cases of mass protest actions. The relatively low support for such actions (see table 3) explains somehow the causes. Behind these lies nevertheless a non-participatory culture, as well as the lack of organization of the civic society: the number of voluntary associations is quite reduced.

**Table 3** The level of social acceptance of different protest activities in Ukraine, 1994 & 2006

<i>Which of the following protest activities appears to you as an effective and admissible measure for me to adopt when considering the need to protest about something?</i>	1994	2001	2004	2006
Collecting signatures for a petition	17%	20%	22%	22%
Lawful meetings and demonstrations	17%	27%	19%	27%
Participation in election campaigns	16%	20%	19%	20%
Threatening a strike	8%	9%	4%	5%
Boycott (refusal to comply with the decisions of the administrations and other bodies of power)	7%	9%	3%	5%
Picketing of government offices	4%	8%	5%	7%
Unauthorized meetings and demonstrations	2%	4%	1%	1%
Hunger strikes	2%	4%	2%	2%
Establishment of armed forces independent of Presidential and governmental control	2%	3%	-	1%
Unlawful strikes	2%	2%	1%	1%
Seizure of buildings	1%	2%	2%	1%
None of these methods appear as an effective and admissible measure for me to adopt	32%	30%	37%	31%
Difficult to answer	30%	27%	19%	18%

Source: Panina , 2006: 19.

For 2004, the levels of support for specific protest forms seemed to record a slight increase: in Panina study,<sup>3</sup> the respondents were asked what form of legal protest they would chose if their rights or interests were violated by the government. The most frequent answer 37% remained “no form seems effective to me”. However, 22% would participate in signing petitions and 19% in public meetings. Thus we can say that Ukrainians did not participate in mass protests, despite being dissatisfied with the government, primarily because they thought that such protest would not result in any change. On the hand, in late 2004 we saw a massive outburst of protest during the events of “Orange revolution” in Ukraine. This apparently signifies a new tendency for more active social position and civic participation of Ukrainians.

Why such as radical change happened is one of the hottest and most highly debated topics in Ukraine. Currently no-one can claim to have completely exhausted the explanation of why this is so. One can only suggest hypotheses. We think that massive participation in the protest actions was influenced by a combination of causes. First, Ukrainians really were dissatisfied with the current regime, which is

<sup>3</sup> Panina, Nataliy. (2004). *Ukraincke syspilctvo 1992-2004: sociologichnii monitoring*. [Ukrainian society 1992-2004: sociology monitoring]. Kiev: Sociology Institute NAS Ukraine.

confirmed by the low level of trust in the past. The opposition candidate, Victor Yushchenko, managed to persuade the electorate that he is different from the old elite and that he has real chances to win – thus, for the first time in the modern history of Ukraine, an acceptable alternative to the current power presented itself. Second, after the election results allegedly were rigged, the opposition called the nation to fight for their choice. In other words, they convinced the people to stand up not only for the specific candidate, but rather for themselves. This gave the protesters a feeling that they are defining the fate of their country, which was attractive to many. Finally, comparison of the “Orange revolution” to similar events in Yugoslavia and Georgia shows so many similarities that we can suspect that consultants experienced in this style of political struggle had their role in the Ukrainian events.

Such a massive involvement in a mass-protest action is however exceptional, as it proved to be in the cases of the similar manifestations which accompanied the communist breakthrough in Central and Eastern European non-soviet countries in the late 80s. DDR, Czech Republic, Romania, Bulgaria, Hungary experienced the same high rate of popular participation in street protest meetings in 1989, which had a very low level of formal organization. The situation remained the same during the first years after the regime changes, but participation in such actions dramatically decreased when the regime changing goal (an issue which attracted the majority consensus) was reached.

#### MEMBERSHIP IN ASSOCIATIONS

It might seem that transition to democracy has to influence upon active civic participation, but the results of the numerous opinion polls show quite the opposite. Within the Tonnies approach such participation can be seen as an opportunity for gaining special advantages or as an obvious way of connection at Durkheim social solidarity approach. Accordingly to the Ukrainian data it can be seen that the structure of involvement in different types of public associations remained almost unchanged starting 1994.<sup>4</sup> The dominant majority of the population, over 82 %, do not belong to any kind of association, while most of the people who join an association as members choose traditional organizations, either trade unions (in many the membership is more or less mandatory), or the religious associations.

Ukrainian society has grown from the Soviet society. In the USSR there were a number of formal organizations, membership in which, although formally voluntary, was a necessary prerequisite for successful career. Starting from Young Pioneer Organization in schools, continuing with the Komsomol at a university, the Communist Party at work, as well as Trade Unions and various professional unions such as Union of Artists, etc., a Soviet citizen was obliged to participate in all these “voluntary” organizations throughout his or her life. Although many of them were conceived with useful goals in mind, bureaucracy often reduced them to a burdensome formality. Thus majority of members considered their membership as unnecessary, but would not leave their organization because it was considered inappropriate and could hurt their careers. As the result, with the fall of the Soviet

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<sup>4</sup> Panina, Nataliy. (2006). *Ukrainckie sypylctvo 1992-2006: sociologichnii monitoring*. [Ukrainian society 1992-2006: sociology monitoring]. Kiev: Sociology Institute NAS Ukraine, p.12



Union most of these organizations fell apart, leaving their ex-members with a strong belief that any association is a useless formality.

It is interesting to note that the youth, the most active group of the society and also the one least affected by the Soviet legacy, also shows low interest in public associations. According to sociological research and statistical data, youth non-governmental organizations, despite the stable tendency to grow in number and diversity, are often limited in the number of members 2-3 %. <sup>5</sup>

Therefore, we are witnessing the situation where the lack of active position of citizens and low level of participation in NGOs leads to different branches of power being corrupted and the lack of control over them.

People do not expect any support from outside and rely only on themselves and their family networks, which, in turn, may result in such a form of corruption as the use of social connections and 'blat'.<sup>6</sup> Thus, bribing and using of connections in this perspective are the best ways to control the situation and to reduce the uncertainty.

Corruption is simultaneously a determinant and the consequence of unstable democracy. It is necessary to underline that corruption is not a new phenomenon. It is closely connected not only with the current state of affairs in a country but also with the previous political regime.

In Soviet times, all resources of the country were in collective property or, in other words, in the property of the state. Only a small number of people could influence on the allocation of resources and had access to them. As some researchers point out, " 'give-and-take' practices in Russia are often justified as examples of 'forced corruption'.<sup>7</sup> Constant deficit of goods and services in the country resulted in the situation of 'blat' relationship when it was especially important to have connections because only money could not solve the existing problems.

Following the logic of Ivan Krastev, in post-communist era "blat was replaced by bribery...the economy of favors was replaced by the economy of paid services."<sup>8</sup> Moreover, Rasma Karklins contends that the basic features of corruption are similar all over post-communist region, which lets him build a special typology of post-communist corruption.<sup>9</sup> However this classification mostly deals with different dimensions of political corruption. It is hard to disagree with the conclusion that "old elites survived the change of regimes and continue to hold power in a new form."<sup>10</sup> In all republics of the former Soviet Union, people previously holding different departments and ministers became presidents. The major form of transition to a new era was the acceptance of the communist way of development as a mistaken one.

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<sup>5</sup> Ukrainian Government. (2002). New generation of independent Ukraine (1991 – 2001). A yearly report for the President of Ukraine, the Parliament and Cabinet of Ministers of Ukraine. Kiev, p. 109

<sup>6</sup> Lovell Stephen, Ledeneva Alena, Rogachevskii Andrei. (Ed.). (2000). *Bribery and blat in Russia: negotiating reciprocity from Middle Ages to the 1990s*. London: Macmillan Press Ltd.

<sup>7</sup> Ibid., p. 10

<sup>8</sup> Krastev, Ivan. (2005). Corruption, Anti-Corruption Sentiments, and the Rule of Law. In Adam Czarnota, Martin Krygier, and Wojciech Sadurski (Ed.), *Rethinking the rule of law after communism*. Budapest: Central European University Press. p.333

<sup>9</sup> Karklins R. "Typology Of Post-Communist Corruption", *Problems of Post-Communism* 49:4 (July/August 2002). p.22-24

<sup>10</sup> Ibid., p.28

However, it is incorrect to expect any changes in transaction behavior in one moment. It is a lengthy process of changes in the system of values and norms and socializing of the new generation in respect the law.

Post-communist regimes, according to Andras Sajo, use dubious and legal standards to give aura of democratic legitimacy to governmental sleaze.<sup>11</sup>

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<sup>11</sup> Ibid., p.29

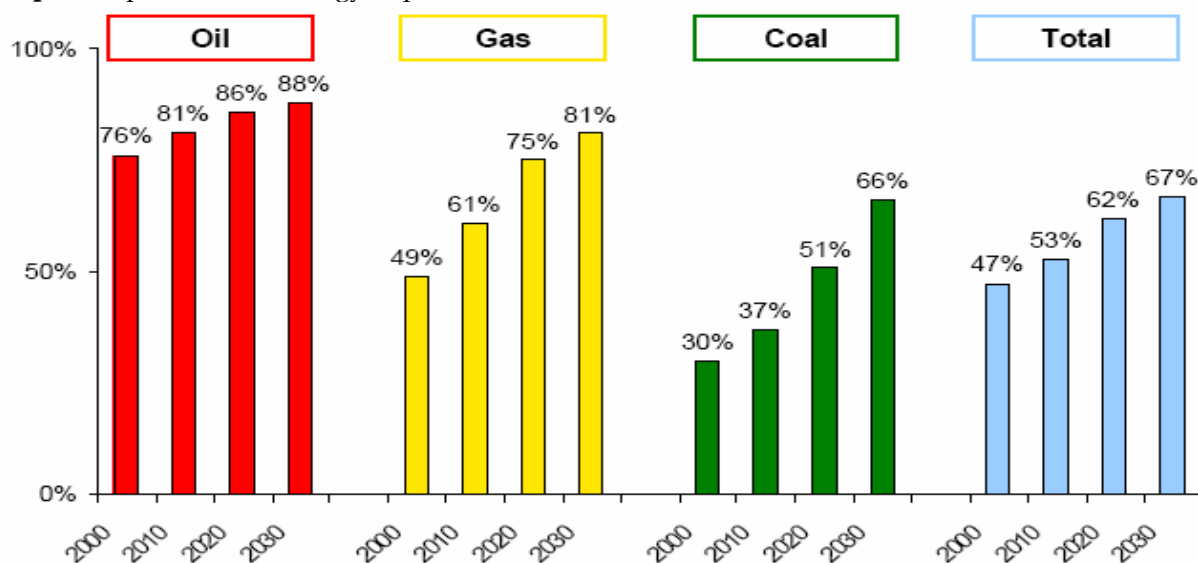
## Energy crisis and its impact on policies in the new EU Member States

### ENERGY CRISIS

At first sight global energy crisis seems to be clearly identified, deeply understood and loaded with a bunch of solutions brought in by a large number of scientists, environmentalists, politicians, even pop stars. Usually energy crisis is closely tied up with shortage of energy sources resulting into problems with reliable energy supplies. Violation in energy security obviously leads towards rise in energy prices, worsening political relations and even further to geopolitical conflicts. Increase in energy costs restrains purchasing power with severe consequences for households and industries. Better to let alone imagining the impacts of wild and long-running energy clash between suppliers and customers. Rising concerns are justified. The oil and gas trade row between Russia and Belarus in the beginning of 2007 is a fresh example of the importance of energy security in European union.

When talking about the energy crisis the primary trigger of such discussions is oil. Unfortunately, premiere oil league in the world is dominated by countries with politically and economically unstable environment such as Saudi Arabia, Iraq, Iran, Russia, Venezuela. Many consider the illegible political regimes in these countries as the principal reason for increasingly rising fears over energy security. Urgent action has been more than needed in Europe. As European energy commissioner Andris Piegals said Europe faced a major energy crisis in the next twenty years unless we act now. Some four fifths of energy use comes from oil, gas and coal while the EU dependency on their imports is expected to rise from current 50% to almost 70% in 2030.

**Graph 1** Dependence on energy imports EU-25



Source: European Commission

European union believes that energy crisis could be overcome or its effects could be softened at least by diversification of primary energy sources and

optimization of energy mix in the EU with higher share of renewables. But renewables alone without consideration any other energy policy options would probably turn out to be not efficient, costly and miss-targeted. There is an enjoyable package of policy measures to enforce sustainable and secure energy supply. Those include well-minded efforts - liberalization and creating single EU energy market, efficiency improvements, but also kind of controversial exploration of the idea of EU energy regulator or proposal to ownership unbundling, i.e. legal break-up of distribution and supply chains in big energy utilities.

#### **ENERGY POLICY**

To be sure about launching the energy policy reflecting energy security issues there is a strong need to evaluate its impacts on environment, fuel supply, oil price, competitiveness, international effects and costs of the policy options. On the other hand, EU must be very careful not to over-regulate the energy business. Otherwise it could do more harm than good. Today it feels like everybody is disillusioned about the energy liberalization. European Commission is getting a little bit nervous due to slow pace of liberalization and lack of political will to meet the commitments in individual EU countries. National regulators are impatient on liberalization, trying to introduce new powerful measures to hold back price increases. Individual member states are not happy with liberalization as they gradually loose control over liberalization process at home. Industries - both power generators as well as fuel suppliers do not like frequent changes, low predictability of the environment and they lack stable energy framework. And last but not least - consumers are paying higher bills in spite of benefiting from more competition and lower prices. But can we really blame liberalization and deregulation for high prices? No. There are solid fundamentals to make current energy price levels quite legitimate: growing energy consumption, depletion of primary sources, need for terrific investments aimed at ageing power plants, rising global energy demand.

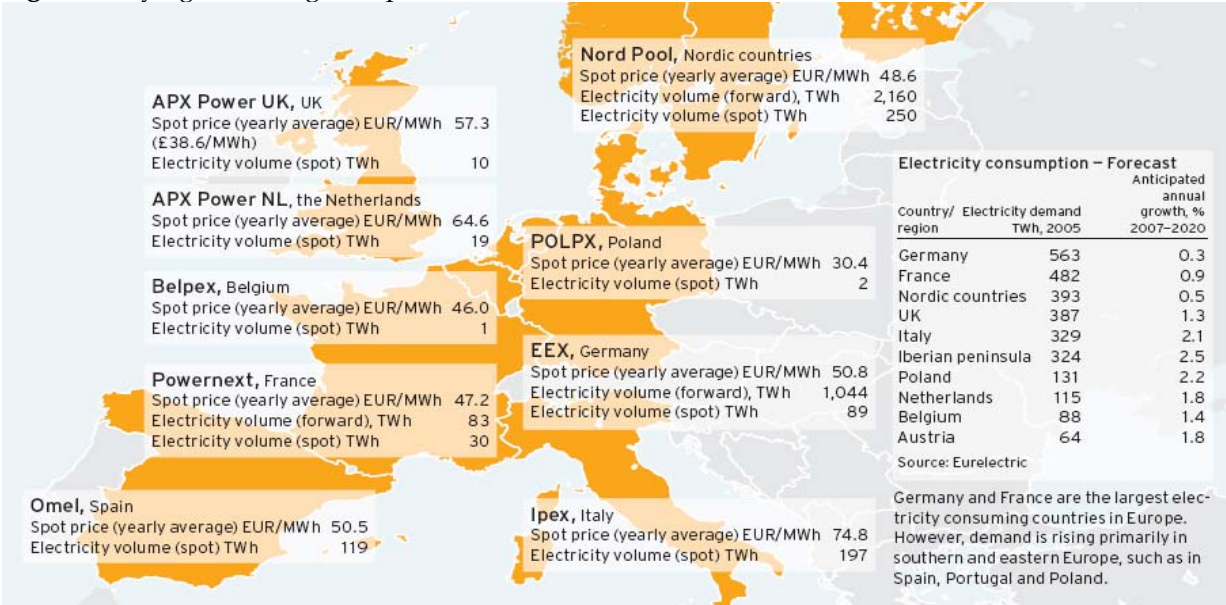
The key driver of the future development of european energy market is the deregulation and liberalization in power and gas markets. Fully integrated EU electricity and gas markets are expected to foster competition, deliver better services and low prices. Most of the EU countries failed to incorporate 2003 Directives into their national legislation by 2004. Commission took some of them to the European Court of Justice in 2005. Although Brussels is trying to push for more energy market openings, its power to do so in practise is limited. Much depends on individual governments and regulators.

Liberalization of energy markets is taking gradual steps with culmination in July 2007. As of the middle of this year all the customers will have the right to choose the energy supplier. However, experience shows that supplier switching (i.e. changing the incumbent energy supplier for an alternative supplier) is not as usual as expected.

European Commission would like to see energy prices in single EU market low and similar. Nowadays the prices in individual countries differ wildly - even 50% difference is not a rare. Huge regional differences in prices will not disappear in short-term horizon, if ever. Many reasons lead toward such a claim. Countries are endowed with different primary sources of energy. Scandinavians are rich in hydro the price of which is rather low, the same applies on France where nuclear accounts

for some three fourths of total power generation. On the other hand Italians relying much more on gas endure one the highest power prices in EU. Market structure, mechanism of regulation, cross-border capacities, internal power generation fleet are amongst other factors of huge differences in electricity prices – just to mention a few.

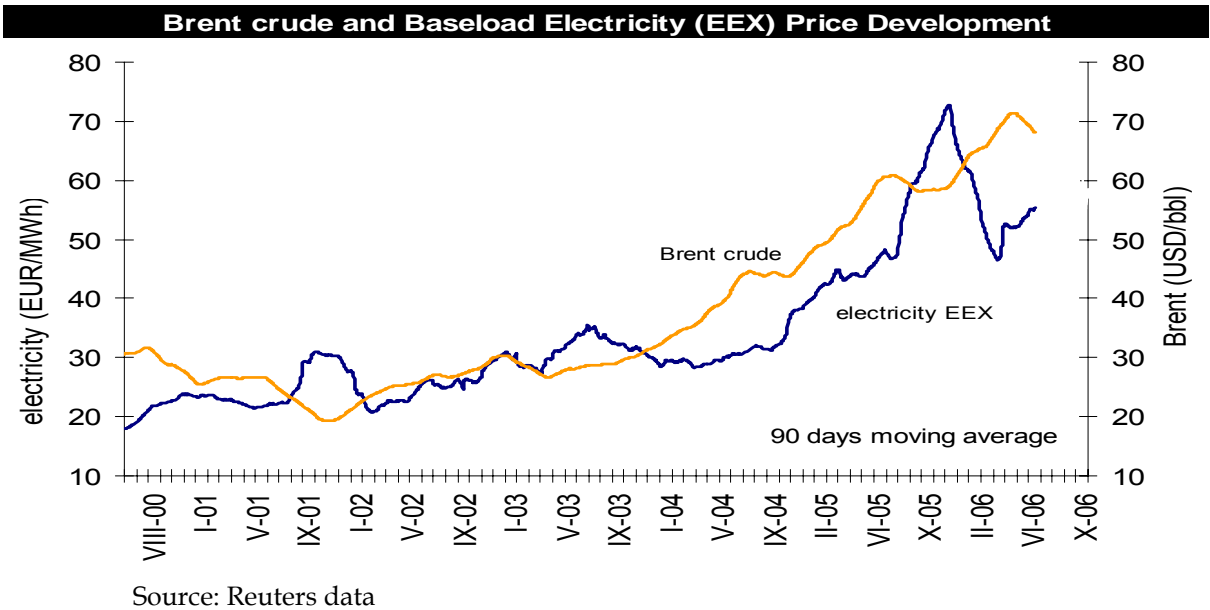
**Figure 1** Key figures in regional power markets in EU



Source: Vattenfall

Entering the EU new member states have been required to follow the common policy in the field of energy. Especially liberalization and deregulation of energy markets were keenly awaited by newcomers with hope to spur competition and bring down the energy prices. Unfortunately price benefits of liberalization were absorbed by upward move of the whole energy complex around the globe, including EU. Brent hit an all time high in 2006 (78 USD/bbl), activating the gas prices as well as electricity prices rocketing.

**Graph 2** Price Development of Brent crude and Power baseload (EEX, Leipzig) USD/bbl, EUR/MWh, 90 days moving average



Of course, high energy prices are not by far the only impulse for EU energy policy to appeal a sound response. Security, sustainability and climate changes have contributed much to the EU's endeavour for searching the alternatives to conventional energy sources.

Betting on renewables seems to be a good choice for European Union, especially wind energy is reckon to be a success particularly in top wind movers – Germany, Spain and Denmark. However, new EU members must still expand their renewables production under their agreements of joining the EU. Of course, tackling with energy security is much wider matter for European Union – both old and new members – than building wind farms across countryside. One of the major challenges associated with energy security in Europe is the strategy for biofuels – fuels made from organic material used in transport. By blending biofuels into gasoline or diesel EU seeks to contribute to the energy diversification, greenhouse gas savings and to support european agriculture. Biofuels represent a new market opportunity for european farmers to serve a new – energy – market, besides food industry. For struggling farmers in new EU members states biofuels represent a great opportunity to boost their business. This observation indicates that biofuels could bring in even more substantial implications one can imagine – not only in energy, but for example in the EU common agricultural policy as well.

#### RENEWABLES

Historically high levels of prices on EU energy market in 2006 make energy the top EU agenda, particularly renewables were on the spotlight. One of the key energy documents in Europe – Green Paper on sustainable, competitive and secure energy, adopted in 2006, indicates six policy areas where EU must act indispensably. All the areas are set to provide sustainable development, competitiveness and the security of supply. Policy tools were designed to prevent or at least to help softening the energy constraints in european countries. Those areas are as follows:

- internal electricity and gas markets
- security of supply and solidarity between member states
- energy mix
- climate change
- technology
- external energy policy
- 

Renewable promotion in EU is not a new or sudden but rather careful and long-continuing agenda. There are several factors stimulating EU policy makers to integrate renewables into energy policy:

- **Demand** – growing consumption
- **Supply** – peak oil, instable oil suppliers, reserves depletion, import dependence
- **Environmental** – greenhouse gas emissions
- **Technology** – technology transfer, R&D
- **Social-Economical** – new jobs, tax revenues

**Table 1** Key EU energy policy development

<i>Document</i>	<i>Year</i>	<i>Objectives</i>
White Paper on renewable energy	1997	Target to double the share of renewable energy from 6% to 12% of the final energy consumption by 2010
Green Paper on security of energy supply	2000	To ensure security of energy supply
White Paper on transport policy	2001	The aim to substitute 20% of diesel and gasoline by alternative fuel by 2020
Renewables (RES-E) Directive 2001/77	2001	EU-wide target of 21% of renewables share in electricity production by 2010
Biofuels Directive	2003	Indicative target 5,75% share of biofuels in transport fuels
Biomass Action Plan	2005	Objective of increasing the use of energy derived from forestry, agriculture and waste
EU Strategy for biofuels	2006	To promote biofuels, improve cost-competitiveness, to support developing countries
Green Paper on sustainable, competitive and secure energy	2006	To increase security, ensure of competitiveness of EU economies, to promote environmental sustainability
EC energy policy package / Renewable Energy Roadmap	2007	20% target of the overall energy consumption in EU coming from renewables by 2020; target for each EU member to achieve at least 10% of their transport fuel consumption from biofuels

Source: EC data

Environment has been put a top priority by European Commission in a debate about the energy strategy. EU leaders, gathered on March 8-9, 2007 at Brussels, endorsed Commission's recommendation to have a binding 20% renewables target by 2020, i.e. 20% of overall production of energy - electricity, transport and heat - will be based on renewables. Debate is not a smooth stuff as the opinions on mandatory nature of renewables target widely differ amongst countries. EU Parliament representatives and renewable industry welcomed the idea of 20% binding target however are disappointed by failure to set separate sector targets. On the other hand there is group of countries whose ministers are still quite calm about finding ways how to achieve 20% target. To translate a single target of 20% renewables in the EU energy into national energy policies could prove as a tough task. At the same time EU made a firm commitment to reduce greenhouse gas emissions at least by 20% by 2020 and is willing to commit 30% emissions cut once other industrial countries will join.

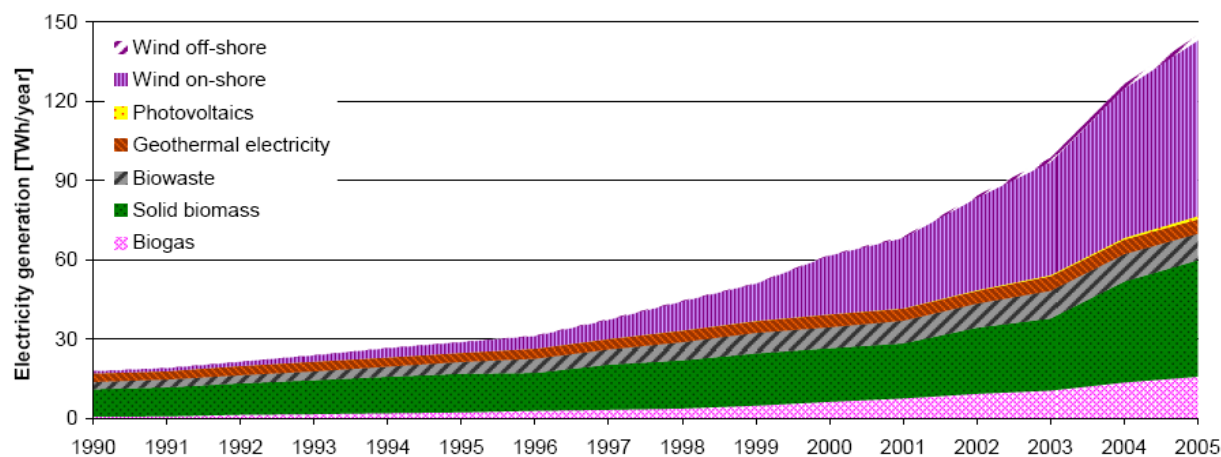
#### **ELECTRICITY FROM RENEWABLES**

The EU Directive 2001/77 defined indicative overall target for old EU members - 21% of electricity must be generated from renewables, including large hydropower facilities. Each member state designed its own renewable energy mix based on existing renewables status and potential (e.g. Austria with the largest share of renewables on power production agreed on 78% of renewables as of 2010, while Belgium - the lowest renewables share - on 6%). By adopting Directive 2001/77/EC

new member states were required to dramatically increase the share of renewable. Slovakia for example, set rather ambitious target shifting renewable power from 17,9% in 1997 to 31% by 2010, while Poland is obliged to strengthen renewables from 1,6% to 7,5% respectively.

Figures are revealing that the share of renewables on electricity production will likely to be fewer than 20% in 2010. With current policies in place and business as usual scenario, EU - as it claims - is aimed to reach some 19% electricity production from renewable sources by 2010. One of the reasons is that a certain number of countries did not launch the active policy in renewables. Only nine member states, mostly from old EU-15 (incl. Germany, Denmark, Finland, Sweden) are well on track to achieve their targets, while others lag behind. Wind energy has made a particularly great progress already breaking 40 GW capacities – a target to be met in 2010. This is however not a common EU effort, but rather a success of individual countries, especially Germany, Spain and Denmark contributing to over 80% of the total EU-15 wind power capacity.

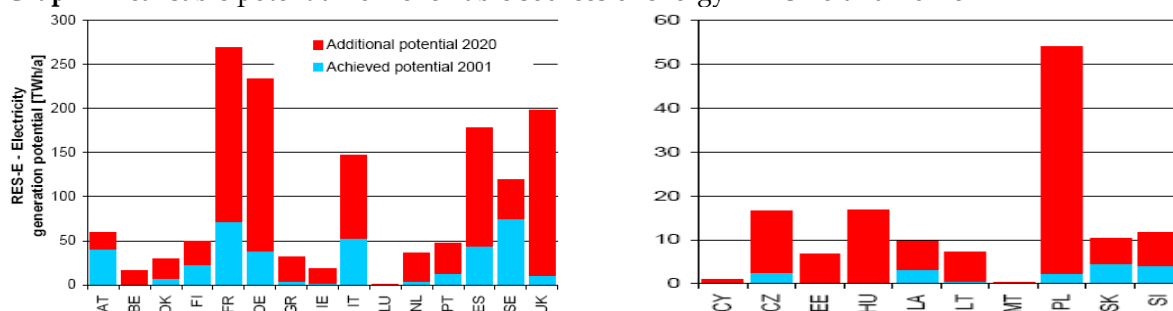
**Graph 3** Development of renewable electricity generation in EU-25 (non-hydro)



Source: EC: Renewable Energy Road Map

In new member countries EU-10 renewables potential in EU-10 is much more unexploited compared to old EU-15. Biomass will account for a lion's share of building renewables capacity in EU-10, but wind and hydro will also play an important role. In 2006, new wind power capacity in EU-10 tripled to 183 MW with Poland, Lithuania and Hungary accounting the most.

**Graph 4** Realisable potential for renewable sources of energy in EU-25 and EU-15



Source: FORRES 2020: Analysis of the RES's evolution up to 2020



Current renewable debate in EU is focused more on climate and environment while it does not bring clear answers about the tangible benefits for customers – residential and industrial. The fundamental barrier in advancing the renewables in power production is their cost-competitiveness and limited potential of renewable sources in some countries. Production costs of electricity made from renewable sources of energy are still higher than from conventional fossil fuels. Thus green power has been supposed to rely heavily on subsidies. Electricity from renewables is more expensive than from fossil fuels pushing up the final price for consumers. There were not a large number of economically viable projects of generating electricity running without feed-in tariffs (i.e. electricity tariffs usually set by energy regulator in higher than market price to motivate investors coming in) or other forms of subsidies. Finally, cost burden of support schemes is put on the final consumer. As technology is advancing hand in hand with efficiency improvement the wind (especially off shore) is becoming increasingly viable, even without subsidies. Industry involved believes that it is inevitable to foster an early stage of launching the renewables. Increasing demand and production as well as technology progress are supposed to bring about the economies of scale, large-scale commercial spread and economic viability of renewables. And opponents of high support for renewables must bear in mind that conventional sources are also often a subject of support – subsidies for coal mining is not a rare in EU.

**Table 2** Power production costs from different sources of energy - comparison

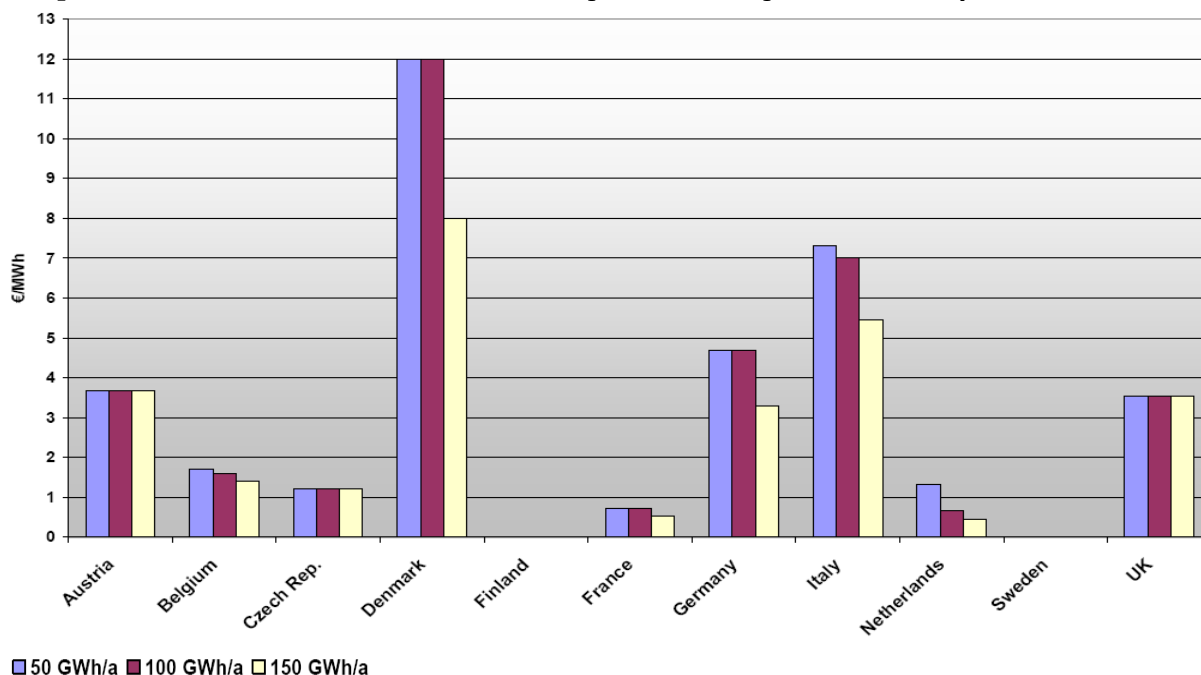
<i>Energy source</i>	<i>2005 costs (EUR/MWh )</i>	<i>Projected costs 2030 (EUR/MWh)*</i>	<i>emissions (kgCO<sub>2</sub>/MWh)</i>	<i>EU-27 fuel dependency (2005)</i>	<i>Fuel sensitivity</i>
Natural gas (CCGT)*	35 – 45	40 – 55	400	57%	Very high
Oil	70 – 80	80 – 95	550	82%	Very high
Coal	30 – 45	45 – 75	800	39%	Medium
Nuclear	40 – 45	40 – 45	15	almost 100%	Low
Biomass	25 – 85	25 – 75	30	nil	Medium
Wind – on shore	35 – 175	28 – 170	30		nil
Wind – off shore	50 – 170	40 – 150	10		
Hydro (large)	25 – 90	25 – 90	20		
Solar	140 – 430	55 – 260	100		

Source: IEA, EC

\* Combined Cycle Gas Turbine, \*\* With 20-30 EUR/t CO<sub>2</sub> costs

Energy intensive industries are strong critics of renewables because of their over-pricing the electricity (see graph 5). When connecting wind turbines to the grid, transmissions system operator must secure alternative electricity sources for balancing the grid once the wind does not blow and turbine is idle with no power supply. Grid operator must ensure there will be a reserve capacity able to cover wind power outage, for instance. This backup service costs money and contributes to the final end-user price. Vattenfall – big energy utility – estimates such intermittency costs amounting to some 3,5 EUR/MWh, but this could vary in individual countries. Currently only hydro power plants and to certain extent also biomass can compete with fossil fuels in wholesale power marketplace.

**Graph 5** Promotion of renewables in EU – consequences on the price of electricity



Source: study carried out by IFIEC, 2004

With raising the oil price the gap between costs of renewable-based power generation and power generation based on conventional fossil fuel is narrowing and vice versa, however. Moreover there is a strong commitment by EU to put financial burden on power generation not meeting the increasingly stricter environmental requirements. EU emissions trading scheme is considered to be a step forward, however broader consensus on cutting carbon emissions - including top polluters USA and China - is lacking.

### BIOFUELS

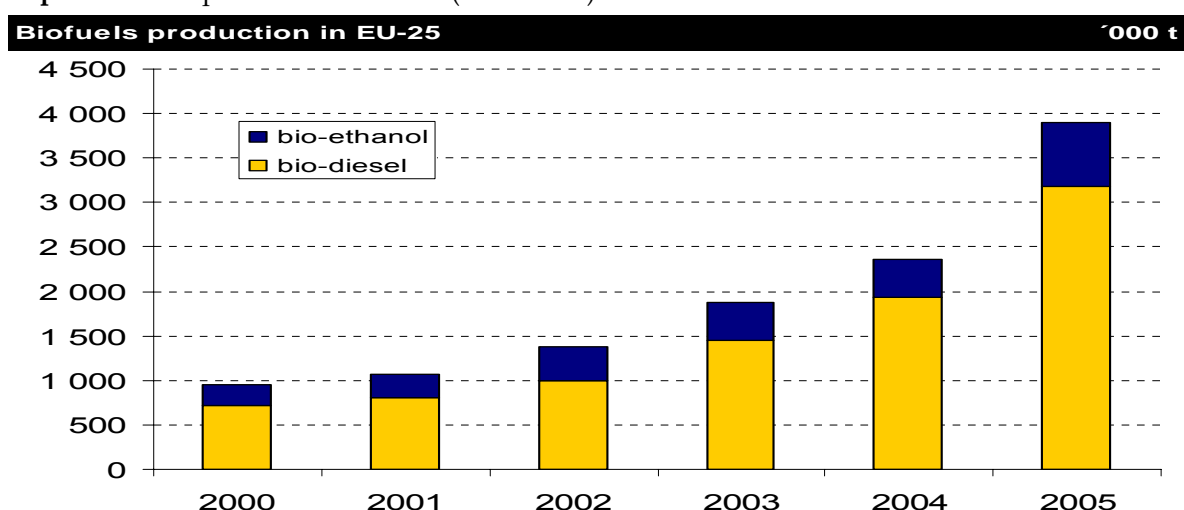
Biofuels are poised to play an exceptional role in the energy policy of European union. EU has decided to boost up the biofuels use seeking for greenhouse gas emissions reduction, speed up decarbonisation of transport fuels, to enlarge variety of primary fuel sources, to provide new revenue opportunities in rural areas, to evolve long-term substitutes for fossil fuels thus reducing dependence on fuel imports as well as creating a marketplace for new energy players. It is assumed that development in biofuels production will bring in new opportunities of revenue and employment revival in rural countryside.

Reasons for backing biofuels are similar with those already identified when talking about renewable sources for production of electricity:

- Security of supply
- Diversification of energy supplies
- Reduction of greenhouse gas emissions and non-GHG emissions
- Creation of jobs
- New market opportunities for the agricultural sector
- Technological development and technological transfer.

There are two main types of biofuels blended with conventional (made from oil) transport fuels. The first one - bioethanol is produced primarily from grains, starch and sugar crops and blended usually with gasoline, while second one - biodiesel - is made from oilseed crops. Biofuels began to draw serious attention in EU at the beginning of new millennium unlike Brazil or USA - world leading bioethanol producers - where important policies were implemented well before 80's. In 2001 there was only marginal - 0,3% market share of biofuels in EU transport fuel market. Prices of crude oil were below 30 USD/bbl - a weak incentive to push for biofuels to substitute cheap oil in transport. Despite cheap oil prices EU decided to take cautious approach: recommended member states to promote the use of biofuels and set the 5,75% target of the biofuels share in petrol and diesel market (Directive 2003/30/EC). During 2000 - 2005 production of biofuels in EU quadrupled (see graph 6). The share of produced biodiesel is 80%, while remaining 20% represents bioethanol. Europe is the biggest biodiesel producer in the world.

**Graph 6** Biofuels production in EU-25 (ths. tonnes)



Source: eBio, EC data

In 2006 bioethanol production in EU hit another record - some 1,56 bn litres were produced (1,2 mil. tonnes) a rise by 71% y/y. In Europe 11 countries produced bioethanol, of which five were new member states - Czech Republic, Poland, Latvia, Lithuania and Hungary - together accounting for 200 mil. litres (13% share in EU-25). This year and 2008 there will certainly be an increase in number of fuel ethanol producing countries. The biodiesel capacity was projected to reach some 6 mil. tonnes in 2006, of which some 514 ths. tonnes (close to 9%) accounts for new members EU-10.

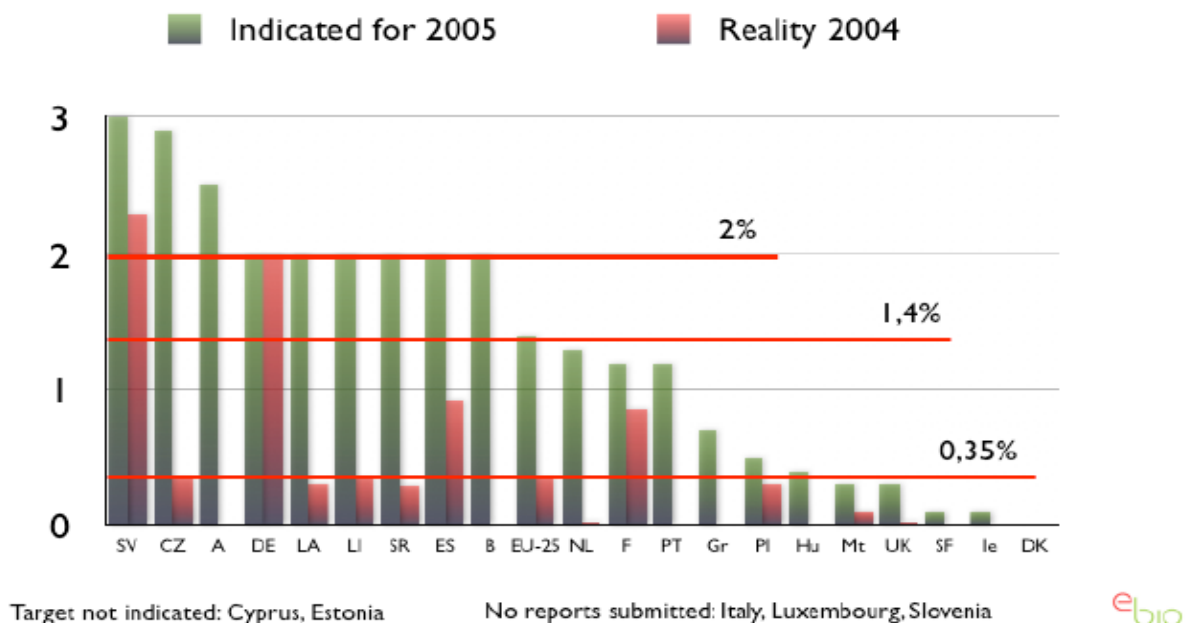
**Table 3** Summary - production of biofuels in EU-25

	2004		2005		Top producers
	t	%	t	%	
Bioethanol	497 040	20%	721 927	18,5%	Spain, France, Germany, Sweden, Italy, Poland
Biodiesel	1 933 400	80%	3 184 000	81,5%	Germany, France, Italy, Czech Republic, Poland

Source: EuroObserver data

To reach an indicative 5,75% goal by 2010 EU needs to produce approximately 18-19 mils. toe (tonnes of oil equivalent) of biofuels. EU gave individual countries the power to implement its own biofuel measures within the 2003/30 Directive frame and to set national reference targets. Meeting the targets is rather disappointing, because of different national policies around Europe, lack of political will and non-mandatory nature.

**Graph 7** Biofuels achievements in EU-25



Source: eBio

In 2005 biofuels market share reached 1% according to EU estimates – less than 2% reference value, even less than 1,4% share if all EU members meet their targets. Only Germany (focused more on biodiesel) and Sweden (focused on bioethanol) reached the reference value. Leading promoters of biofuels use are Germany, Sweden, Austria, France, Spain – old EU-15, while EU eastern region is represented mainly by Poland or Hungary which started to boost up biofuels in 2006 heavily.

In addition to the impacts of biofuels on oil market and oil dependence, development of biofuels from agricultural feedstock (usually grains or sugar beet in EU), could offer to the agricultural sector and rural areas great opportunities for diversification and job creation. With growing biofuels capacities in EU the cultivation of energy crops is supposed to rise strongly and provide farmers new market opportunities. And the EU common agricultural policy (CAP) must reflect such a challenge. EU bioethanol production is estimated to use about 1,2 mil. tonnes of grains (0,4% of the total EU-25 consumption) and 1 mil. tonnes of sugar beet in 2004 (0,8%). Biodiesel production swallowed some 4,1 mil. tonnes of rapeseed in 2004 (40% of the rapeseed production in EU-25). By 2003 when CAP reform was unveiled the energy crops support of 45 EUR/ha for total guaranteed 1,5 mil. ha area was introduced. In September 2006 Commission proposed to expand 45 EUR/ha energy crop support also for new EU-10 members and another 0,5 mil. ha area was added to the scheme. Biofuels are supposed to retrieve massive surpluses of cereals in EU, to build up new market relations and boost farmers' revenues.

**Table 4** Expected production of energy crops used for biofuels production in EU-25 (mil. t)

	2004	2006*
Cereals for bioethanol production	1,2	3,7
Sugar beet for bioethanol production	1,0	5,0
Oilseeds for biodiesel production	4,1	N

Source: EC – Biofuels in the EU, fact sheet, 2006, \*estimate

The EU aim to support biofuels in the early stage of development is fine, but there are also weaknesses apparent in current european biofuel fever. The environmental contribution of biofuels is not as evident as their supporters would like to see. It is widely accepted that burning biofuels leads towards less emissions compared to burning oil or its derivatives. However, if bioethanol power plant is supplied with electricity produced from coal, the environmental benefits of using such biofuel are diminishing. Kiel Institute for World Economics claims for example that almost the same quantity of fossil fuel was necessary to produce bio-ethanol as the gasoline which is being replaced. This could be improved through increased yields of the feedstocks that are used in biofuel production and technology advance. Sceptics also point out that increase in use of biofuels is resulting into more land cultivation with negative environmental effects, in Brazil even to rain forest destruction. Key issue is cost-effectiveness and commercial viability of biofuel production. Without any support (e.g. tax exemptions) blending biofuels into gasoline or diesel makes them more expensive for customers at petrol pump. The reason lies in the much cheaper production of transport fuels from oil than production of biofuels. The threshold price of oil at which the production of biofuels (with currently available technologies and no subsidies) becomes profitable in Europe is estimated to be over 70 USD/bbl for biodiesel, and well over 90 USD/bbl for bioethanol. Moreover, production of bioethanol in EU is not competitive to Brazil or USA – leading fuel ethanol producers. Production costs of bioethanol in EU usually do not go below 0,50 EUR/lit, while Brazil is able to comfortably gain bioethanol from sugarcane for half of that costs. If there are no trade barriers for import of biofuels imposed by EU, Brazilians could entirely flood Europe with bioethanol. Production costs of biofuels in EU do not allow them to compete with fossil fuels in the short term without subsidies.

**Table 5** Key statistics on bioethanol production in selected regions (2005)

	Europe	USA	Brazil
Bioethanol production (ths t.)	730	11.800	12.900
Main feedstock	Grains	Maize	Sugarcane
Production costs (EUR/lit)	0,50 - 0,55	0,40 - 0,45	0,20 - 0,25

Source: EC data

#### IS GREEN POWER THE ONLY REMEDY TO ENERGY CHALLENGES?

High prices of electricity and gas determined by market are hardly to justify EU for intervention and renewables dictate. At the end costly renewables could make (and are really making) prices even higher. If investors' confidence is hampered by poor predictability of the environment (if governments are changing support

schemes frequently for example) expansion in renewables will not happen in a desirable way. To rely merely on renewables to handle energy crisis would be short-sighted. Recent energy tensions in Belarus and Ukraine gas crisis in 2006 helped to re-open a nuclear debate in Europe that was idle for two decades due to controversy over safety after the Chernobyl accident in 1986. In January 2007, European Commission openly supported building new nuclear capacities on behalf of energy security and carbon cuts. Nuclear will find a stable place in building EU energy portfolio both old and new member states.

Also energy saving measures is important part of EU energy policy, contributing significantly to energy security. EU-10 countries, in particular have great potential to exploit energy efficiency. There is already a range of EU laws adopted in the area of energy efficiency in buildings and energy services. To maximise their potential the legislation need to be fully implemented by all member states. Based on study of Ecofys, better insulation in buildings could save EU-10 new members billions while reducing the oil dependency at the same time.

There is a risk of proving green-energy targets not to be economically efficient way of emissions reduction. To put a price on carbon emissions could be a way to go but without global compliance the impacts are questionable. According to PriceWaterhouseCoopers if strong financial incentives are put in place through carbon taxes to make renewables more attractive, then there is a room for optimism. However current price of carbon emission in EU Emission trading scheme is around 1 EUR/t – hardly motivating enough for switching cheap coal for investments into expensive clean technologies. As EU demands stricter emissions cuts in the second trading period 2008-2012 the outlook for carbon price is improving and stimulating clean investment decisions. Yet recent study of McKinsey recommends energy savings and increasing the efficiency except of massive investments into costly renewables power plants.

All the efforts of EC is praiseworthy, but national governments have to take into account the impacts of „being green“ on their economies. Reinforcing the renewables could make the EU energy-intensive industry less competitive if kind of global green agreement, including USA and China, is not reached. Thus, the dispute over renewables in EU as well as in the world is far from being finished. Nevertheless, Europe would like to play a crucial global role in advancing renewables, even exporting technology and possibly in developing renewables abroad. But setting too ambitious targets could be another problem in building the EU global environmental charisma. It seems to be likely that Europeans are going to miss their Kyoto targets. Power production from renewables will not reach a declared 21% target. And no doubt EU will fail to blend biofuels into petrol and diesel in 5,75% energy content as it proposed a couple of years ago. Assignment of increasingly demanding green targets while not meeting the previous (softer) ones could jeopardize EU's credibility in reinforcing its environmental zeal. Countries with limited renewables potential are cautious being hurried in taking in bold green commitments. On the other hand it is questionable if countries with sufficient potential will be keen to become greener than required when chasing the EU common 20% target in order to compensate those with lagging behind. Undoubtedly, better to set overmuch brave targets than do nothing.

## CONCLUSION

There is no single solution in designing the future energy policy both in old and new members. Energy market in EU-27 is so complex that simple responds to global challenges does not exist. Sure enough energy crisis therapy (or better to say prevention) must be accomplished in a deliberate way hearing the voices of all the parties involved - i.e. industries, households, suppliers. Energy is essential due to its substantial consequences not only on purchasing power of households, but also on energy-intensive industries in EU and their competitive position in the world. Simply, energy is crucial for economy to work. Energy policy of EU members must reflect all the global challenges encompassing the oil, gas and coal import dependence as well as climate change and sustainable development.

Concerns about both energy security and global warming have induced the investment boom into clean energy not only in EU but all over the world. But restraints of launching renewables, resulting mostly from their cost (un)competitiveness will persist until technology progress and economies of scale do not make them competitive enough to fossil fuels. There could be a risk of renewable investment bubble crush, if political will in EU weakens, oil prices decline, technology improvements in renewable not bearing the fruit or fighting a global warming loses its breath, just to mention a few affairs. Fortunately, none of them seems to occur in the years to come.

The room for EU to manage the energy supply side is getting smaller and on the contrary over-dependence on fossil fuels is getting increasingly stronger. Internal market for renewables is reckoned as another step towards sustainable energy development and less oil dependence. But European renewables alone are not going to beat global warming until a wider global commitment is reached.

EU's leadership in the global environmental agenda will strengthen even more. Renewables are going to be more substantially incorporated into the energy policies of European countries, especially eastern Europe will rock. Period of cheap energy prices is definitely over, it seems. There is tremendous bundle of investments needed to be carried out in the following years. Race to renewables will not be an easy ride as already indicated. Debate on renewables target embraced controversial views and opinions. EU should avoid energy over-regulation. Consumers, eager to pay lower bills, must be aware that renewables and decrease of electricity price currently do not go hand in hand, unfortunately. Enforcing renewables will not directly lead to decreasing the electricity or gasoline prices. Just the opposite - obviously, renewables are making the end-user prices of transport fuel or electricity higher. But renewables could be a downward price pressure factor - as a competitive energy source to fossil fuels. Leading fossil fuel suppliers to Europe must accept growing emphasis on clean energy in EU and consider them as competing substitutes. At current stage of development the competitiveness of renewable lies in the strong political commitment to environment rather than in cost-effective production.

The key will be a balanced approach in tuning up the energy mix as well as a rational dialogue with primary energy suppliers. EU energy mix must combine energy efficiency improvements with more renewables, more nuclear energy and carbon friendly fossil fuel solutions provided they prove to be cost-efficient and safe.

Energy is not the only EU policy to be shaped and amended by promotion of

renewables. There is common agricultural policy, external trade policy as well as environmental policy to be affected by reinforcing green energy strategy in EU. The renewables impact is much broader – there is new impetus to employment, technology development, promoting innovation and the knowledge-based economy in EU. Commission encourages EU member states to support plenty of actions in the field of renewable energy. Member states, and especially new ones, have the great opportunity to exploit their huge renewable potential through taking well-balanced and targeted actions. Positive direct and also multiplication effects will materialize soon.

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## The idea of social justice: the problems and perspectives in globalised Europe

The social justice in European Union today is seriously threatened. The spreading of the idea of free market and extreme liberalization of economy as the consequence of the economic globalization and unlimited mobility of the capital enables to multinational firms the growing their gains by three forms: They can remove their production to the countries and regions with low prices of working power. They can sell their products in the countries with high purchasing power. And finally, they can pay their taxes in the countries with the lowest taxes. What does it mean for social justice? The unlimited mobility of the capital enables the big corporation to leave the country with high taxes and forward social system and to go to the countries which make for capital the best conditions regardless the social benefits of their citizens. It seems that the governments have no choice of economic policy. Since they want to allure the foreign investments, they must lower the taxes to the rich people and corporations and so they must cut the social system. That is the process of dying of welfare state.<sup>12</sup> The solidarity and social justice became dangerous for the governments in current global economy and the redistributive policy is the spectre for the economic growth.

If Europe in sixties and seventies was the example of social just society with powerful social system and strong welfare state, nowadays Europe becomes neoliberal. In my essay I would like to enter this political context and to present some ideas about the theory of distributive justice in all its forms and modes. We can imagine the social justice as the market justice, justice of deserts, justice of redistribution or justice of needs. Today the *market justice* wins thanks to globalization. However, the alternatives exist. We should point out these alternatives to see the perspectives of social justice in Europe. Because without alternative the political culture in Europe will suffer. The dictate of one ideology is not the condition that we wished. So, let's say some more ideas about the theory of justice.

### THE INDIVIDUAL AND REDISTRIBUTIVE JUSTICE

I would like to start with a noteworthy example of American libertarian Robert Nozick.<sup>13</sup> Nozick describes the example of the basketball player Wilt Chamberlein who is excellent player and who attracts all the fans with his skills. Does he deserve his bigger income if he is the best? That's the Nozick's question. He answers that Chamberlein does deserve his bigger income. Because if Chamberlein plays basketball so well to make people willing to pay more money to see his skills than they would pay to see his team-mates, Nozick thinks that the money belong to him by deserve.

In the Nozick's example we can find the ordinary and often used

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<sup>12</sup> See Keller, J.: Soumrak sociálního státu. SLON, Praha 2005; See also Barša, P., Císař, O.: Levice v postrevoluční době. CDK, Brno 2004, p.95-96

<sup>13</sup> Nozick, R.: Anarchy, State and Utopia. Basic Books, Publishers, Inc., 1974, p.160-163

argumentation and so we should consider it now. If we start with our intuition about the Chamberlain bigger wage, we will come to the conflict of the very intuitions about the justice. The first one is based on the idea that everybody should get as much as he or she deserves and so the people who are more competent deserve more than less competent ones or maybe they deserve all the fruits regardless the others. Nozick uses this mode of the intuition about justice in his example. Let's call this dimension of justice the justice of performance or *the individual justice*. By this concept the evaluation of the individual should be relative to the performance he or she spent. In this case we should consider especially the quality of the performance, since the more competent should be justly evaluated *by deserve* in relation to his or her performance. However, the question is, who will appoint the quality (or deservingness) of the performance?

The answer of modern neoliberals, including Nozick or Hayek, is simple – the free market mechanism. Those thinkers also strongly reject any different mechanisms of evaluating the performances. However, as we know, in the history of thinking we can face the different mechanisms of the appointing the quality of the performance, for example, the significance of the performance for the community or the apriori supremacy of the performance of the privileged classes or the moral power of the performance (i.e., the moral deserve). Finally, Marx was the first thinker who stopped to inquire the mechanism of appointing the quality of performance and who turned his attention to its quantity and so to the produced labour. As well in his idea of communism he took into the consideration next distributive principle negating the mechanism of appointing the quality of performance – the human needs. But let's return to the individual justice and remember that by this concept the individual is evaluated and rewarded on the base of his or her own qualities (no matter the way of appointing them) regardless the others or the society as a whole. The just or unjust is only the relation of the individual to his or her property and the relation of individual with his or her property to other individuals with their property is irrelevant in this case. Remember that we can meet with three basic claims concerning the individual justice in nowadays political theory:

- i. The just is anything what was achieved by individual in coincidence with the actual law and with the market mechanism (Nozick, Hayek etc.);
- ii. the just is to be awarded in relation to the produced labour or to get the flat contribution in relation to the needs (Marx);
- iii. the justice should include the moral deserves (in some aspects of his ideas, let's say, MacIntyre).

On the contrary, the second intuition about the justice is based on the idea that we should consider also the less competent individuals (no matter the criterion of quality of performance) and so nobody should be accessed in a way to lose the human dignity or even the very possibility to survive. This intuition is based on the attitude of justice as a equal respect and it is awoken in the peoples minds especially in the extreme situations, for example in mentions of the suffering of the starving and poor people. To say it simple: if someone *justly* achieved the billions dollars and someone else is *justly* starving, it is not *just* at all. In this case the procedural justice or

individual justice is not enough and on the contrary we need the outputs-oriented principle of the social justice. The point of this approach of justice is to equalize the social conditions for all individuals or at least to assure the dignified minimum wage for the survival of every human being. The relation of the individual to his or her property is related to his relation to other individuals with their property or his relation to the society in which he is a member. So if in the case of individual justice we can speak only about the just relation between the individual and the property, in the latter case we speak about the just relation between the individuals each other. This attitude to the justice used to be called the social or distributive justice, but if we understand the social justice as a unity of individual justice and this second form of justice, the term social justice would be confusing. So let's say this dimension of social justice *the redistributive justice* since it de facto necessary demands the redistributive policy.<sup>14</sup>

Now, come back to the Nozick's example. The advantage of the example with the unordinary basketball player is hidden in three aspects:

- i) It points out the cooperation in the social life (as it is in basketball);
- ii) it abbreviates the appointing of the quality of the performance, because in the sports performance it is apriori appointed what to find valuable<sup>15</sup>;
- iii) it reduces the issue to the case of the natural endowments of the individuals which was called by John Rawls the natural lottery.

If we consider only the dimension of individual justice which Nozick prefers, we will ignore the issue of the natural lottery in favour of the naturally more competent, more endowed and more *prepared for market*. Rawls fundamentally objects this attitude and he says that the natural endowments are nothing relevant for society to evaluate and award the endowed individual more than others. Namely, the human being doesn't choose his natural endowments and so he cannot deserve it. They are given to he or she, he or she is born with them regardless the deservingness. To say it by Rawls words, this is the game of natural lottery and nobody can choose the card he or she will get in the game. It is false to moral theory to decide about the justice after the cards (i.e. the endowments) are given. It would lead to extreme malignance and subjectivity and that's impervious in the case of justice.<sup>16</sup> So, Rawls eliminates the natural endowments of people from the issue of justice. If we abstract of those competencies and we use his famous veil of ignorance, we can rightly inquire the issue of justice. Then, if we ask Chamberlein behind the veil of ignorance what does he think about the distribution of income for the basketball match, he wouldn't probably agree with Nozick's idea to give much more or everything to the best player and much less or nothing to the rest of the team. Namely, behind the veil of ignorance he wouldn't know whether he was the best from the team.

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<sup>14</sup> Similar distinction of two basic intuitions about justice in modern society is presented also in MacIntyre, A.: Ztráta cnosti. OIKOYMENH, Praha 2004.

<sup>15</sup> Compare the term *practice* as MacIntyre uses it. (MacIntyre, A.: Ztráta cnosti. OIKOYMENH, Praha 2004)

<sup>16</sup> Rawls, J.: Teorie spravedlnosti. Victoria Publishing, Praha 1994, p.71

## DIFFERENCE PRINCIPLE

The Rawls' solution of the problem with distributive justice is the example of the redistributive justice as we defined it before. Rawls offered his two principle of justice including the difference principle that accepts the social inequalities only if they bring the most possible benefits for the less advantaged (i.e. the poorest) people. He based the argumentation to this principle on the model of original position where the social contract is adopted under the fair conditions including the veil of ignorance. He supposed that the subjects of the social contract would accept the inequalities if the benefits for the less advantaged were the most possible. However, as we can object, his refusal of the strict equality is based on the utilitarian model of the mutual benefits and so his point became the growing utility and not the just distribution. So, the Rawls objection to utilitarianism that it ignores the fundamental question of justice – the distribution – can be focused on his own theory in the case of difference principle. His principle of social justice is, namely, based on the calculation of mutual benefits and not on the distributive-justice-as-it-is. The objections of Alasdair MacIntyre and Michael Sandel are similar. They think that the Rawls liberal theory of justice is only the seeking the rationality of the system and so it is only the metamorphism of Sidgwick utilitarian attitude to social justice as the aggregative benefit of the group.<sup>17</sup>

Rawls continues with the argumentation against strict equality using the argument of the jealousy. He says that behind the veil of ignorance the envy is something unknown and so the difference principle can admit the inequalities since the people don't envy their possession each other. However, as we can object, we cannot understand the strict equality as a derivate of the pure envy and on the contrary the difference principle as a derivate of pure absence of the jealousy. It is hardly to suppose, namely, that Rawls' subjects of the social contract would vote for his difference principle, if they weren't a little bit of competitive, greedy and also jealous. If the subjects behind the veil of ignorance weren't formed by the imperative "to have the most as possible" (*pleonaxia*) but if they were formed by, for example, Erich Fromm's imperative "to be the most as possible", there will be no idea of the social contract subjects to find the alternative to the system of strict equality which is the first and automatic solution of the social justice issue, especially behind the veil of ignorance. Now we can see the next serious problem with Rawls' theory in general. Namely, the subjects of the social contract which were modelled by Rawls are not the neutral subjects of the pure rational abstraction, but, on the contrary, they are the liberalist mirror of the modern bourgeois people commanded by the *pleonaxia* and the cupidity. In word, both Rawls' subjects and the principles of justice are the creation of the pure liberal tradition. The communitarians objected Rawls theory in this sense as well. Sandel focused on the objection that the Rawls' subjects are the acquisitive individualists and only as the acquisitive individualists they vote for the utilitarian most benefit regardless the accepted inequalities in society.<sup>18</sup> Also Michael Walzer objects, the Rawls' subjects are the creation of Western liberal tradition understanding the people as the burgees forced by the instrumentally focusing on

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<sup>17</sup> Compare MacIntyre, A.: Transformácia liberalizmu na tradíciu. In: Gál, E., Novosad, F.: O slobode a spravodlivosti (Liberalizmus dnes), Archa, Bratislava 1993, p.191

<sup>18</sup> See Sandel, M. J. : Liberalism and the Limits of Justice. Cambridge University Press, Cambridge 1982

the performance. Even the equality of opportunity which is demanded by the Rawls second principle of justice is worthy only of the life of the human being is understood as a career. So, the liberal equity is the equity in the scramble for the wealth and it is the feature of bourgeois equity. By communitarians, Rawls' concept of distributive justice is only the bourgeois justice.<sup>19</sup>

Rawls argumentation against the strict equality is supported also by the considering so called *context of justice*.<sup>20</sup> This means in Rawls' theory that the subject behind the veil of ignorance have the basic highly general information about the real world. Though the subjects behind the veil of ignorance don't know their endowments, interests, social status, wealth, gender etc, they know the basic information of the humanities. In this way they find out that the economic system of strict equality is less effective and so the strict equality should be overcome to create the better standard of living for everybody including the most disadvantaged. This is next motivation for the decision of Rawls' subject to prefer the difference principle and not strict equality. However, this argument is very similar to the previous one. In a fair and democratic contract conditions is maybe rational to vote for well-ordered society on the basis of the argument of efficiency. But we cannot substitute the democracy and the justice. From the distributive-justice-as-it-is point of view the point of efficiency plays no role at all. The efficiency is the value from the different basket. Namely, the justice-as-it-is doesn't mind if the huge cake is divided or if only the little desert is divided. The society can be more just even if the average welfare is decreasing.<sup>21</sup> The claim for the efficiency (i.e. the claim to have as much as possible resources for distribution) stands out of the sphere of the distribution-as-it-is. Rawls added to the issue of distributive justice also the issues of efficiency, democracy, utility – simple, the issues of complex well-ordered society. By this step he passed the sphere of distribution and so the issue of justice.

We can agree with Rawls that rational burgees behind the veil of ignorance would vote for his well-ordered society on the basis of the difference principle, but it is hardly to suppose that the difference principle is adequate principle of social justice from the point of view of distribution. From this point of view we should suppose *ad definitionem* either strict equality or the less social inequalities as possible. However, the Rawls' principles of justice could be welcomed as the noteworthy attempt to harmonize the both values of just distribution and effective economy in the conditions of market society. It could be the mean for rejecting the Hayek's assumption that the social justice logically negates the idea of economic growth.

#### MARKET AS A GAME

Let's say a few notices to Hayek in this context. I would like to emphasise that the economic efficiency cannot be considered the social value by itself. If an economic system is maximally effective and produce enormous amount of assets, but all the production falls to, let's say, only one person, then it is absurd to say that the economic efficiency is a value for the society. The efficiency of the economic system

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<sup>19</sup> See Walzer, M.: Hrubý a tenký. O tolerancii. Kalligram, Bratislava 2002, p.29-40 and Walzer, M.: Interpretace a sociální kritika. FILOSOFIA, Praha 2000, p.48-49

<sup>20</sup> Rawls, J.: Teorie spravedlnosti. Victoria Publishing, Praha 1994, p.87-89 and p. 320-321

<sup>21</sup> Compare Blackwellova encyklopedie politického myšlení. CDK, PROGLAS/JOTA, Brno 1995, p.494

becomes the social value only in the combination, for example, with the just distribution of the products of this efficiency, i.e. with the combination of other values. That is the motive for opening the issue of social justice. But Friedrich von Hayek completely rejects this project. One of his reasons is the argument or rather analogy of the market mechanism and the game. Hayek asserts that intervention to the game rules during the match is unjust. If we understand the market as a game which has the given rules, we cannot intervene to these rules during the game with the objective to remove the burden from one player and to make the game more difficult to another player.<sup>22</sup>

However, we can object to Hayek that the market is not the voluntary game which was freely chosen by its players. Man or woman enters the ordinary game when he or she likes it or if he or she is prepared for it or if he or she has the competencies for the game etc. But we are born to be a part of the market jungle and we are condemned to play this game regardless our wishes and desires. If we boycott this game, we risk the starvation or minimally the loss of the material means for our human dignity. This basic lack of liberty in the ideology of liberty discredits other liberal assumptions about the liberty and freedom on the market mechanism. If people don't voluntarily choose the market game, it is correct to intervene to this game with the objective to help the less prepared players. Since the market is not the appropriate game for everybody. As well as we cannot expect that the excellent ice-hockey player will be awarded in the football match, we cannot expect that the man or woman who doesn't have the endowments for the market game will be successful in the fight for life in the market mechanism conditions. The market is specific game which prefers some competencies before different ones. Because this game is not voluntary, the interventions to this game are not only relevant but even needy.

Next Hayek objection to the project of social justice refers to the moral deserves. He asserts that the moral deserves cannot be objectively appointed in the society and so we should let this *appointing* on the market mechanism. Why we should prefer the market mechanism from the moral point of view? Hayek cannot answer. However, the question for us is a different one. Is it possible to appoint the moral deserves in the society? If not, one part of our concept of individual justice saying that the justice should include the moral deserves would be irrelevant. I don't have enough space for deep argumentation in this partially case. I just would like to point out the considerations of communitarians MacIntyre and Walzer about the significance of community and its conceptions of the good and virtues. If we don't work with the universal and hypothetical models of Kantian liberals as Rawls, we can rely on the common understanding of the communities concerning the moral deserves, morally worthy occupations, morally worthy behaviour etc.<sup>23</sup> I think that the community should evaluate the morally worthy occupations as the teacher, doctor, miner etc. also in the bonus material way and it is not impossible to fill up another mechanisms of evaluating with this conception of just distribution based on the moral values.

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<sup>22</sup> See Hayek, F.: *Právo, zákonodárství a svoboda*. 2) *Fatamorgána sociální spravedlnosti*. Academia, Praha 1991, p.72-73

<sup>23</sup> See Walzer, M.: *Spheres of Justice. A Defense of Pluralism and Equality*. Basic Books, Inc., Publishers, New York 1983 and MacIntyre, A.: *Ztráta cnosti*. OIKOYMENH, Praha 2004

In the introduction we were talking about individual and redistributive justice and then we mentioned some notices to the *market form* of individual justice of Nozick and Hayek and to the *redistributive project* of Rawls. We also just now briefly mentioned the *moral deserves form* of individual justice on the example of communitarism. I would like to say a few words to the last partial issue which I outlined in my preliminary distinction of distributive justice. It is the issue of the *labour form* of individual justice and the conception of justice based on the needs. The latter is ideally the solution of both individual and redistributive justice. Both mentioned dimension of distributive justice are represented by Marx and his followers.

#### CLASS, LABOUR AND NEEDS

Before I point out the labour and the needs in the case of justice, I would like to consider one more point of Marxist theory which is noteworthy and very alternative to the attitudes of both liberals and communitarians that we were talking about. It is the class attitude to the case of justice and to the case of society in general. The Marxists refuse to speak about the society as a unity, about its goals and values, about the ideal of universal justice and about the overlapping concept of well-ordered society. The liberal theories with their attempts of modelling the timeless and universal idea of justice are interpreted by Marxists as the narrowly bourgeois. Namely, the goal is only the bourgeois equality of opportunities which is the interest of the class of capitalists and which concerns only the destroying of the non-market class privileges. The proletarian equality which is the goal of Marxist proceeds to destroy all the classes. In this case Marxism doesn't fake anything. It doesn't speak about the classless universal interests or the hypothetical construction full of the conjunctions like "if the fair social contract had existed, we would have agreed on this and this principles". Marxism doesn't rely on that the class of the rich after reading the books of Liberal idealists and on the behalf of the idea of eternal justice will altruistically help the class of the exploited and the poor. By Marx the idealistic philanthropy cannot solve anything. The class of the exploited should help by itself and this is possible only by understanding and maintaining of its interests. By Marxism the justice is about the class interest as well as the politics in general.<sup>24</sup> I think we shouldn't forget this moment in our discussion about political issues and values because the abstract models and hypothetical theories can be misleading in their ideal projects. I don't want to claim that the ideal theory is not important and I deeply accept the Rawlsian contractualistic projects or his *realistic utopias*. However the relevant political theory should include also the political interests and the political fight.

Now I would like to say a few words about the Marx project of socialism which should be adorned by the slogan "to everybody according to his work". However, though the Marx project as it was described in *The Critique of the Gotha Program*<sup>25</sup> was

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<sup>24</sup> See Lenin, V.I.: Kto sú „priatel'ia ľudu“... In: Holata, L.: Marxisticko-leninská filozofia. Antológia z diel filozofov. Pravda, Bratislava 1977, p.512-513; Engels, F.: „Anti-Dühring“ Pravda, Bratislava 1976, p.116

<sup>25</sup> See Marx, K.: Kritika Góthajského programu. In: Marx, K., Engels, F.: Vybrané spisy II. Svoboda, Praha 1950, p.19-20

not only about the individual justice but also about the public funds as the economic means of efficiency and also about the redistribution etc., the Marx slogan as-it-is is based on the pure meritocracy.<sup>26</sup> More endowed would be more evaluated and the inequalities would increase in time.<sup>27</sup> However, Marx supposed that the strict equality of the income is misleading. Such equality would only substitute the unjust relation of the individual worker to his work for the relation of all workers to the work. The society would become an abstract capitalist in this case. Therefore Marx strongly rejects the strict equality (so called rude communism) including the complete levelling.<sup>28</sup> So, there is the agreement between the Liberalism, Communitarism and classical Socialism in refusing the strict equality. In this case maybe the Rawls' refusal of natural lottery is more radical then Marxist idea of socialism.

Anyway, the completion of Marx theory is in the idea of communism, which is ideally dominated by the slogan "from each according to his ability, to each according to his need". From the formal point of view it is the idea of individual justice, but the fulfilling of this idea would lead to complete solution of the problem with distributive justice including redistributive one. Namely, if we don't need to divide the cake, because everybody has got so much cakes as he or she wants, then the problem of distribution exists no more. However, this image is naturally rather from the dreamland and not from the real world. But the credo of communism is not so unrealistic if we interpret it in a different way. Metaphorically, what if the problem with the dividing the cake is solved not because the abundance of the cakes is so enormous, but because for everybody is only the little desert enough? What if the solution is hidden not in the characteristic of "the cake", but in the appropriate interpretation of "wanting"?

Human needs could be interpreted in various ways. Marx writes that the needs are historically relative to the contingencies of the production.<sup>29</sup> Walzer writes that people don't have the needs, but the notion of their need and those notions are connected with the history and the culture.<sup>30</sup> As we can say, the insatiate desire for the material wealth which is immanent to the Western capitalist societies is the need only for concrete particular culture. The different economical conditions could create complete different features of the personalities than the modern market individual has.<sup>31</sup>

There is very usual distinction of needs to real needs and false needs. The *real needs* have the threshold and there are not relative to other people. There are not the derivative of pleonaxia and unlimited consumption. On the contrary, the *false needs* are rather the desires and they have no limits. You can find this distinction in the

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<sup>26</sup> See Bahro, R.: The Alternative In Eastern Europe. Printed by Lowe&Brydone Printers Ltd, Thetford, Norfolk, NLB 1978, p.177-178 and p.208-209

<sup>27</sup> See Lenin, V.I.: Stát a revoluce. Michal Zítka - Otakar II., Praha 2000, p.108; Lukács, G.: Existencialismus či Marxismus? Družstvo Nová osvěta, Praha1949, p.167

<sup>28</sup> See Marx, K.: Ekonomicko-filozofické rukopisy z roku 1844. In: Marx, K., Engels, F.: Vybrané spisy v piatich zväzkoch. Zväzok 1 (1843-1849). Pravda, Bratislava 1977, p.61 and p.77

<sup>29</sup> Narskij, I.S. a kol.: Dejiny marxistickej filozofie 19.storočia. Pravda, Bratislava 1982, p.307

<sup>30</sup> Walzer, M.: Bezpečnosť a blahobyt. In: Kis, J.: Současná politická filosofie. OIKOYMENH, Praha 1997, p.426; pozri tiež Fromm, E.: Strach ze svobody. Naše vojsko, Praha 1993, p.132

<sup>31</sup> Compare Fromm, E.: Strach ze svobody. Naše vojsko, Praha 1993, p.20



works of the Frankfurt School writer Marcuse or Fromm<sup>32</sup> and also in the ideas of J.M. Keynes<sup>33</sup> etc. By Marcuse and Fromm the capitalist system supports the creation of false needs because the unlimited consumption is *raison d'être* of market mechanism.<sup>34</sup>

It is not my goal to follow all the ideas of the social critics from Frankfurt School though I find them very interesting. I just wanted to outline that the distributive principle based on needs is possible only in the condition of *real needs*. Maybe Walzer is true and such conditions are unreal and so we should consider different theory of justice. His suggestion is about the distinction of eleven spheres of justice with their internal criterions and the point is hidden in the principle of divided spheres where the distributive criterions and dominant good in one sphere doesn't intervene to another spheres.<sup>35</sup> I think that behind this principle is hidden the ordinary liberal idea of equality of opportunity, but I don't have enough space to be more concrete in my argumentation for now. My goal was to present some aspect of the modern discourse about social justice and to show that the market mechanism cannot be considered the just mechanism from this point of view. There are alternatives and I think that all the alternatives which I mentioned here are more appropriate to modern human being than market justice.

The European Union faces the important challenges in a case of character of state. The *spectre* of minimal neoliberal state seriously threatens the vision of Europe and I think that the complex analysis of social justice could help to avert this vision. There are a lot of theoretical and practical problems in the projects of social justice, but I believe that this discourse can be very fruitful and that we shouldn't forget the social dimension of Europe any more.

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<sup>32</sup> Fromm, E.: Umění být. Naše vojsko, Praha 1994; Marcuse, H.: Jednorozměrný člověk, Naše vojsko, Praha 1991

<sup>33</sup> See Bell, D.: Kulturní rozpory kapitalismu. SLON, Praha 1999, p.11

<sup>34</sup> Fromm, E.: Mít nebo být? Naše vojsko, Praha 1992, p.64; Fromm, E.: Anatomie lidské destruktivity. Nakladatelství Lidové noviny, Praha 1997, p.259; Habermas, J.: Problémy legitimacy v pozdním kapitalismu. FILOSOFIA, Praha 2000, p.59

<sup>35</sup> Walzer, M.: Spheres of Justice. A Defense of Pluralism and Equality. Basic Books, Inc., Publishers, New York 1983

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## Specifics of European market - Approach of Intercultural Psychology

Intercultural psychology is an empirical science, that studies the influence of culture on human behavior as well as members of diverse cultures. Intercultural psychology searches similarities and differences between these cultures.<sup>36</sup>

Over the last decades, there has been a big discussion going on over the process of globalization in the world. Světlík states that globalization is a process that causes a convergence of organizations and integration, which undertakes national, regional systems.<sup>37</sup> The European integration is part of this globalization process. There is a big discrepancy between the opinions of scholars over these processes. According to Vos while early writers saw convergence as inevitable, subsequently the dominant approach has stressed the persistence of national variation, sometimes even increasing divergence.<sup>38</sup> Světlík states, that on the one hand Europe is becoming a homogenous area from the view of values, wishes, life styles and that the differences between national markets are disappearing.<sup>39</sup> On the other hand, the differences between nations, regions, ethnic groups remain, and in many cases they are more vivid than before.

These processes appear in political, economical sphere as well as in communication, management and marketing. Levitt's article "The Globalization of Markets" stated that the globalization was supposed to transform the world into a homocultural market place where all the customers can be approached by the same marketing strategy or advertising appeals, values, irrespective of the culture they belong to.<sup>40</sup> From this point of view brand and marketing standardization could be usable across countries with little or no adaptation on local markets.

This opinion was challenged by many authors in the field.<sup>41</sup> These authors state, that the base of personal, social, professional and business encounters is the knowledge of not only the language and some specific information (laws, ethics, foreign policy, etc.) but also the knowledge of mentality and culture of the foreigners.

According to the De Mooij's opinion it was anticipated, that the differences in values, assumptions of each nation in the new Europe will converge, but they did not.<sup>42</sup> These values are rooted very deeply in history of each nation, and they are

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<sup>36</sup> Průcha (2004) *Interkulturní psychologie*. Praha: Portál.

<sup>37</sup> Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing.

<sup>38</sup> Vos, K. J. (2006) Europeanization and Convergence in Industrial Relations. In: *European Journal Of Industrial Relations*. Vol 12, Num.3. pp. 311-327

<sup>39</sup> Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing.

<sup>40</sup> Dahl, S. (2004) *Cross-Cultural Advertising Research: What Do We Know About the Influence of Culture on Advertising?*. Middlesex University Discussion Paper No. 28. Available at SSRN: <http://ssrn.com/abstract=658221> 1.1.2007)

<sup>41</sup> Ibid.; Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing; De Mooij, M. (2003) Convergence and Divergence in Consumer Behavior: Implications for Global Advertising. *International Journal of Advertising* (22) pp. 183-202; etc.

<sup>42</sup> De Mooij, M. (2003) Convergence and Divergence in Consumer Behavior: Implications for Global Advertising. *International Journal of Advertising* (22) pp. 183-202

very stable and immutable. Višňovský explains that the culture that holds each person presents a self interpretation scheme for people.<sup>43</sup> So even in a more or less artificial political formation each grouping of people need its core values to interpret itself, its personal history and identity. Hofstede and Hofstede even state that the differences between nations across Europe are expanding.<sup>44</sup> The national groups in the EU are regaining their identity and they require the political acceptance of this identity. These nationalities were here long time ago, what was different was the intensity and extensity of intercultural encounters which certifies the members of one national group their belonging to their ingroup and the justification of distinguishable attributes of one nationality from the other, in other words, their national identity.

Kukoč provides another contribution to the cultural convergence and divergence debate with the illustration of moving from “melting pot” principle of cultural assimilation of culturally distant groups to the principle of “salad bowl”, that implies that there are various ingredients (cultures) in a big bowl, which never loose their original identity and never fully blend to form one substance.<sup>45</sup>

According to these debates we suppose that it is very important to consider intercultural differences and similarities as psychological characteristics of other cultural or ethnic groups in communication, education, in management practices in supranational organizations as well as in targeting foreign markets even in European Union. Světlík defines marketing that respects intercultural differences as intercultural marketing, which assumes that culture influences consumption decisions, consumption behavior and preference of certain marketing strategies.<sup>46</sup> It is important to know the specific characteristics of national cultures when doing business in their market.

## CULTURE

Each person has behavior patterns and thinking patterns that were gained through learning during his lifetime. Most of these were learned in childhood. These patterns are very hard to change after they are stabilized.

There are at least hundred definitions about what culture is in the scientific literature. Cultural anthropologist Budil states,<sup>47</sup> that there are not so many other concepts that are so hard to define like culture. Culture can be defined as a collective mental program that distinguishes a member of one group or category from another one;<sup>48</sup> it can be a shared system of representations and meanings (Goodenough);<sup>49</sup>

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<sup>43</sup> Višňovský, E. (2006) K filozofii ľudskej prirodzenosti . In B. Šulavíková, E. Višňovský (Ed.) *Ľudská prirodzenosť a kultúrna identita*(s.13-52). Bratislava: Iris

<sup>44</sup> Hofstede, G.; Hofstede, G. J. (2006) *Kultury a organizace. Software lidské mysli. Spolupráce mezi kulturami a její důležitost pro přežití.* Praha: Linde.

<sup>45</sup> Kukoč, M. Reshaped Regional Multiculturalism in the Post- Communist Europe. In:Falťan, Kusý (1999) *Europe: Expectations and Reality.* Paris: Unesco.

<sup>46</sup> Světlík, J. (2003) *Marketing pro evropský trh.* Praha: Grada Publishing.

<sup>47</sup> Budil, I. T. (2003) *Mýtus, jazyk a kultúrmí antropologie.* Praha: Triton.

<sup>48</sup> Hofstede, G. (1983) National Cultures in Four dimensions. *International Studies of Managment & Organization.* Vol. 13, pp 46-74.

<sup>49</sup> In: Usunier, J. C. (1998) *International & Cross-Cultural Managment Research.* London: Thousand Oaks.

basic assumptions or value orientations (Kluckhohn, Strodtbeck).<sup>50</sup> Budil defines culture as a sphere of shared norms, values, ideas and language. Hall assumes that culture is subconscious.<sup>51</sup> He compares it to an invisible control mechanism in our thoughts. According to his opinion, this mechanism becomes conscious only when it is challenged or confronted for example by meeting a different culture.

According to the definitions culture is a concept, which is mainly subconscious and which is representing a collection of shared, learned values manifested in behavior and other artifacts of the group.

The differences between certain cultures are manifested in various ways. The onion model of culture represents the main attributes that distinguish one culture from another.<sup>52</sup> This onion model has symbols in its top layer, underneath which are the heroes, rituals and at the core of the concentric circles are values.

Symbols are word, gestures, patterns or articles that have certain shared meanings of the members of one culture. Heroes are live, dead or fictional people representing desired characteristics in a cultural group. Rituals are collective actions, that are unnecessary reaching a stated task, but those are socially essential. Rituals are by themselves the reasons why they are provided. Symbols, heroes and rituals are named practices of members of a culture and they are vivid to the outside watcher, but their meanings remain hidden.<sup>53</sup>

The core of the culture onion is represented by values. Those are general tendencies for prefer certain states or affairs over others.<sup>54</sup> The values are gained through socialization mostly until the age of twelve years, and for the future life they are very stable. Values are not matter of thinking and consideration when acting or reacting in our everyday lives. Values are usually derived from behavior of people. Stable values in a certain society that are expected from the members of this society are called norms.<sup>55</sup>

Going back to our topic, considering intercultural marketing the outlined elements of culture are very important when trying doing marketing approaches to foreign cultures. Marketing is using these elements of culture. Marketers and especially advertisers need to know symbols, heroes, rituals and mainly the values of the target society when trying to assess their needs and so doing business. Dahl (2004) uses the term of culturally congruent marketing and advertising.<sup>56</sup> It means that efficient marketing approaches consider these elements of the target society and they create steps of marketing strategy that is well suitable for certain society according to the shared meanings and representations.

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<sup>50</sup> In: Usunier, J. C. (1998) *International & Cross-Cultural Management Research*. London: Thousand Oaks.

<sup>51</sup> Dahl, S. (2004) *Intercultural Research: The Current State of Knowledge*. Middlesex University Business, School Discussion Paper ([www.stephweb.com](http://www.stephweb.com) 1.1.2007)

<sup>52</sup> Hofstede, G.; Hofstede, G. J. (2006) *Kultury a organizace. Software lidské mysli. Spolupráce mezi kulturami a její důležitost pro přežití*. Praha: Linde.

<sup>53</sup> Ibid.

<sup>54</sup> Ibid.

<sup>55</sup> Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing.

<sup>56</sup> Dahl, S. (2004) *Cross-Cultural Advertising Research: What Do We Know About the Influence of Culture on Advertising?*. Middlesex University Discussion Paper No. 28. Available at SSRN: <http://ssrn.com/abstract=658221> 1.1.2007)

The problem of assessing these elements is a wide issue in intercultural psychology research. When these values, symbols and norms and habits are assessed in order to create marketing strategies we can talk about intercultural marketing research that uses psychological methods and constructs for applied tasks and aims. Over the past decades there has been couple of approaches trying to measure, operationalize and name these differences. Researchers as Hall,<sup>57</sup> Schwarz,<sup>58</sup> Trompenaars came up with methodologies of intercultural research that would classify and name differences of members of one culture from another. However, the most cited and replicated research method of this issue is the Hofstede's method which led use to the well known five dimensional model of intercultural differences, that is widely used in different fields such as education, management, marketing, intercultural communication.<sup>59</sup> Hofstede's dimensions indicate general level of differences of values held between nations. These dimensions subscribe different meaning of the basic elements in life and they are mirrored in social life such as profession, communication, leadership, negotiation styles, etc.

#### **HOFSTEDE'S CULTURAL DIMENSIONS**

Hofstede derived his dimensions of national culture out of the database of his extensive research that was done on IBM subsidiaries. He administered his questionnaire to 116 000 employees of a multinational company in 65 countries of the world and tried to identify working related values. These samples were almost identical (same education, hiring process, corporate culture) except of their nationality. He supposes that the differences he found in values are the matter of culture or nationality. He distinguished four dimensions of national culture: power distance, individualism/ collectivism, masculinity/ femininity, and uncertainty avoidance. Later based on the research of Michel Harris Bond he added to the list of dimensions the fifth one, which is long term orientation.<sup>60</sup>

None of these dimensions is isolated from another. When we are trying to characterize any national culture we need to consider the combination of all of them. These dimensions are conveyed with an index from 0 to 100 points, which makes the five dimensions comparable across cultures.

Hofstede did not state that in one nation everybody holds the same values.<sup>61</sup> He stated that there is a mean tendency to answer on the basis of similar values. He always emphasizes that his dimensions are derived from group not individual analysis, and from this reason he does not recommend to stereotype individuals about the values held in their national culture.

#### ***Power Distance Index***

The power distance measures the extent to the society and its individuals

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<sup>57</sup> In: Dahl, S. (2004) *Intercultural Research: The Current State of Knowledge*. Middlesex University Business, School Discussion Paper ([www.stephweb.com](http://www.stephweb.com) 1.1.2007)

<sup>58</sup> Schwartz, S. (1999) A Theory of Cultural Values and Some Implications for Work. *Applied psychology: an international review*. Vol.48, pp.23-47.

<sup>59</sup> Hofstede, G. (1983) National Cultures in Four dimensions. *International Studies of Management & Organization*. Vol. 13, pp 46-74.

<sup>60</sup> Ibid.

<sup>61</sup> Ibid.

tolerate an unequal distribution of power in organizations and society as a whole.<sup>62</sup>

In the cultures where there is a large power distance autocratic or paternalistic leadership is preferred. Organizations have strict hierarchy; status of powerful and rich is emphasized. The inequality between people is expected and accepted. The powerful and rich members of the society are opinion leaders for less powerful members of society (France, Belgium, Portugal).

In low power distance societies members tend to feel equal. The powerful members do not emphasize their power and wealth but they try to adjust their lives to the less powerful. In organizations democratic decision making is going on and the superiors are not expected to know the right answer to everything (Scandinavian countries, Austria).

People in the societies with high power distance buy a lot of products that emphasize status (cars, watches, jewelry). The advertising appeal underlines status, protecting of children, and respect to elderly. They often use celebrities in advertising or opinions of older people that are considered as experience holders.<sup>63</sup>

In the advertising of the societies of small power distance we can find parodies of bosses, experts, elderly or powerful people. Strong advertising appeal in these societies is morality. It is not unusual when a daughter advises her mother or grandmother in these advertisings.<sup>64</sup>

### *Individualism/ Collectivism*

This dimension measures the relationship between individual and groups that prevails in the society.

In an individualistic country people look after themselves and their immediate family only. Individual in these societies have a strong feeling of independence and responsibility for themselves. They have a right to privacy and this privacy is taboo for others. Everyone is expected to have his own opinion. The biggest value is an open assertive communication (USA, United Kingdom).

In a collectivistic society there is a strong we consciousness. The identity of individual is not based on his own achievements, but on his membership of the groups that he belongs to. These groups look after him in exchange for loyalty. The social relationships are the dominant content of the self concept of individuals (Portugal, Greece).

In individualistic societies it is effective to use slogans as: I, You, Go your own way. There is only one or two people appearing in advertising.<sup>65</sup>

On the other hand in collectivistic societies in consumption behavior references of other members of group one belongs to have the dominant place. In advertising there are symbols and entertainment which are very hard to transfer and understand in different societies. Advertising are full of people and members of extended families.<sup>66</sup>

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<sup>62</sup> Usunier, J. C.; Lee, J.A. (2005) *Marketing across Cultures*. London: Prentice Hall

<sup>63</sup> Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing.

<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

<sup>66</sup> Ibid.



### *Masculinity/Femininity*

The dimension of masculinity, femininity measures if there are preferred values that correspond with males of females.<sup>67</sup>

In masculine country the dominant values are assertiveness, achievement, success, earning money, showing possession, and caring little for others. In masculine societies there is a substantial role differentiation between males and females (Austria, Italy, Ireland).

People in these societies buy foreign goods. They tend to trust to advertisements. Competition, hyperbole, comparing is present in advertising. The advertising text includes information about what can be gained and achieved after the product usage. The advertising might have aggressive character, what is unacceptable in the feminine countries.<sup>68</sup>

Feminine societies favor nurturing roles, interdependence between people, and caring for others. The ideal in these societies is the good social atmosphere. Conflicts are solved with discussion not with violence; the top value in discussion is consensus (Scandinavian countries, Czech Republic).

People in these societies are not keen on buying goods that show status of its owner. They prefer buying goods that are reliable and safe. The advertising and marketing is oriented on relationship and there are no hyperboles in the advertisings.<sup>69</sup>

### *Uncertainty avoidance*

This dimension is the measures the extent to which uncertainty and ambiguity threatens the members of the society on the one side or if they consider it to be a part of everyday life.<sup>70</sup>

Where uncertainty avoidance is high there are many formalized rules, structured life and competence is a strong value resulting in belief in experts. The new is hardly tolerated and accepted. There is a higher level of anxiety in these societies. People remain in their jobs even if they are not satisfied, because it is less stressing for them as the uncertainty after they quit (Greece, Portugal, Belgium, France, Spain).

New brands are hardly accepted in these countries. The advertising formats are structured; they include long explaining texts, outcomes of official tests of the product.<sup>71</sup>

Societies where uncertainty avoidance is weak do not have so many rules and laws, and even those that they have are considered as formality. People in these societies accept ambiguity, new situations, changes, and are not feared from future. Rules in the life are flexible to situation. The subjective well being of members in these societies is in general higher (Denmark, United Kingdom, Ireland).

Advertising uses instead of long, serious explaining texts rather humor,

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<sup>67</sup> Usunier, J. C.; Lee, J.A. (2005) *Marketing across Cultures*. London: Prentice Hall

<sup>68</sup> Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing.

<sup>69</sup> Ibid.

<sup>70</sup> Hofstede, G.; Hofstede, G. J. (2006) *Kultury a organizace. Software lidské mysli. Spolupráce mezi kulturami a její důležitost pro přežití*. Praha: Linde.

<sup>71</sup> Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing.



parody, joy. The advertising does not need so many information clues, it just need a clear explicit conclusion.<sup>72</sup>

#### **LONG TERM ORIENTATION**

Extent to which a society exhibits a pragmatic future oriented perspective rather than conventional historic or short term pragmatic is measured by the dimension of long term orientation.<sup>73</sup> Long term oriented countries are particularly found in East Asia and value acceptance of change, perseverance, peace, thrift. Short term orientation is present in western world. The emphasize in these societies is in present or past time, people expect immediate satisfaction of their needs.

#### **FUTURE RESEARCH**

Despite the fact that more and more countries are joining EU the past years, Europe remains a multicultural environment considering different value preference, different ways of communication, different management practices driven form historic and cultural environment from each country. There is a big amount of research conducted interdisciplinary that try to describe, predict or base on these intercultural differences.

Our aim for future is to provide an integrated study of intercultural differences between Slovakia and countries of EU, as well as some other countries that a large amount of literature is available. Slovakia, as a postcommunist country held a very little part in the intercultural research conducting different cultural dimensions held across Europe. This way we could state empirical evidences for similarities and differences between our country and other countries based on the analysis studies from these countries. Driven from these we are planning to investigate and explain specifics of the attitude towards advertising in our culture, the perception of different advertising styles and psychological appeals by detected Hofstede's dimensions, as well as contribute the empirical evidence for effective advertising strategies. Because this kind of research is widely used all over the world, we could compare our outcomes with other countries.

We are planning to combine qualitative and quantitative approaches in methodology. We are very interested in Hofstede's model of cultural dimension that is widely replicated all over the world in different fields of intercultural research. The quantitative part would be contributed by the VSM 94, and the qualitative part would be contributed with focus groups and individual interviews, that aim small differences between the parts of Slovak population based on age, nationality, gender, education etc. These informations would contribute more complex outcome than just either one methodology.

#### **CONCLUSION**

The world is full of conflicts which are mainly based on the lack of communication, different values and mindsets of people. Number of these conflicts might arise in a multicultural environment unless we find a way to understand our

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<sup>72</sup> Světlík, J. (2003) *Marketing pro evropský trh*. Praha: Grada Publishing.

<sup>73</sup> De Mooij, M.; Hofstede, G. (2002) Convergence and Divergence in Consumer Behavior: Implications for internationalretailing. In: *Journall of retailling*. (78) pp 61-69.

environment. Intercultural research of differences and similarities is needed not because we question whether there are cultural differences between countries or not. We know there are differences, but until we find out and name what these differences knowing that they exist will not help us prevent or solve conflicts.

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## **Understanding Participation and Action Research: Action Research Methodology as a Tool for Involvement of Stakeholders in Social Research**

The contemporary division between Left and Right is often perceived in the division between participative leadership for former and authoritative leadership for later. The approaching presidential contest in France could be an example. Ségolène Royal, the candidate of the Left based her candidacy around the "participative democracy," with users invited to take part in a host of on-line forums and debates. Nicolas Sarkozy, the candidate of the Right, on the other hand builds an authoritative image of strong interior minister.<sup>74</sup> In Slovakia and in other Central European Countries both leaders of the Right as well as leaders of the Left prefer an authoritative image. Understanding the psychological and methodological aspects of participation may give a hint for its more extensive use in public discussion and more effective public policies.<sup>75</sup>

In general, certain social science paradigms (usually standing against the so-called "normal science") claim that "the issue of quality in participation and relationship can strongly impact upon the quality of useful, pragmatic outcomes."<sup>76</sup> For example, in systemic thinking, in order to achieve a meaningful understanding of any situation it is necessary both to study the cultural context as well as interpretations and perceptions that people from cultural context. So, an "authentic" understanding of any action context requires participation of all stakeholders, that is, all people involved in taking action as well as people affected by those action. This may be achieved only if people enter into action context as both an actor and a researcher.<sup>77</sup>

Taking into account the economic, political, philosophical and spiritual aspect of participation<sup>78</sup> we will focus on the psychological and social aspect. From the first researches in the field of organizational and social psychology on participation in

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<sup>74</sup> The Associated Press (2006 November 16). Segolene Royal: The 'gazelle' of French politics bolts ahead of the pack. International Herald Tribune [Electronic version]. Downloaded from [http://www.iht.com/articles/ap/2006/11/17/europe/EU\\_GEN\\_France\\_Royals\\_Rise.php](http://www.iht.com/articles/ap/2006/11/17/europe/EU_GEN_France_Royals_Rise.php)

<sup>75</sup> Uzzell, D., Barnett, J. (2006). Ethnographic and Action Research. In Breakwell, G. M., Hammond S. & Fife-Shaw C. Research methods in psychology. London. Sage.

<sup>76</sup> Reason, P., Bradbury, H. (2006). Conclusion Broadening the Bandwidth of Validity: Issues as Choice-Points to Ensure Quality in Action. In Reason, P., Bradbury, H., Handbook of Action Research: The Concise Paperback Edition. London, Thousand Oaks & New Delhi: Sage Publications, p. 346

<sup>77</sup> Flood, R.L. (2006). The Relationship of 'Systems Thinking' to Action Research. In Reason, P., Bradbury, H., Handbook of Action Research: The Concise Paperback Edition. London, Thousand Oaks & New Delhi: Sage Publications, p. 122

<sup>78</sup> Lister, M. (2007). Institutions, Inequality and Social Norms: Explaining Variations in Participation [Electronic version]. The British Journal of Politics and International Relations 9 (1), 20-35; Reason, P. (1998). Political, Epistemological, Ecological and Spiritual Dimensions of Participation. Studies in Cultures, Organizations and Societies [Electronic version], 4(2), pp. 147-167.

managing organizational/social change, the results showed, that the participation was a prerequisite for its successful implementation, in addition claiming that total participation had stronger effect than the representative participation.<sup>79</sup> Since then the concept of participation has developed and can be described from the three aspects: 1. form of participation (degree of formalization, direct vs. indirect, access to decision-making), 2. outcomes of participation (fulfilment of the need for control or self-development, compatibility with democratic values) and 3. contextual influences on participation outcomes (organizational culture).<sup>80</sup> Further we will discuss the motivational aspect of participation.

Finally, we will present the action research methodology as a tool for involvement of stakeholders in social research and change.<sup>81</sup>

### PARTICIPATION IN PUBLIC SPACE

In political studies the term *participation* is often directly linked to electoral participation and it is measured through the poll turnout. The theories that try to explain the differences in the participation include socio-economic resource, rational choice, and social capital approaches.<sup>82</sup> Each of the theories mentioned above leave a certain blank space. The socio-economic resources (i.e. wealth and education) in many democratic countries have risen broadly, though the level of political participation (turnout) have remained the same or even declined.<sup>83</sup> Social capital approach has difficulty in accounting for the change over time<sup>84</sup> and the rational choice approach does not properly explain "why people do participate, as according to rational self-interest, people should not vote."<sup>85</sup> As "the turnout varies much more from country to country than it does between different types of individuals", Lister claims that the institutions have an impact on voting behaviour and thus on level of participation. He suggests to study the welfare institutions, that are the main source of contact with government for many people and that form the societal norms. The means-tested institutions isolate individuals and place them in the subservient relationship to government. It inhibits the social norms of solidarity and participation.<sup>86</sup> Lister quotes the Kumlin's research according which "the experiences with empowering institutions yield more political trust than do experiences with less

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<sup>79</sup> Coch and French, quoted from Coghlan, D., Brannick, T. (2003). Kurt Lewin: The "Practical Theorist" for the 21<sup>st</sup> Century [Electronic version]. Irish Journal of Management.

<sup>80</sup> Lines, R. (2004). Influence of participation in strategic change: resistance, organizational commitment and change goal achievement, The Journal of Change Management [Electronic version], Vol. 4, No.3, pp. 193-215.

<sup>81</sup> Danley, K.S., Ellison, M.L. (1999). A Handbook for Participatory Action Researchers. Boston, MA: Boston University, Center for Psychiatric Rehabilitation [Electronic version]. Downloaded at 15th August 2006 from <http://www.bu.edu/cpr/products/books/titles/PAR%20Handbook.pdf>; and Schmuck, R.A. (2006). Practical Action Research for Change. London, Thousand Oaks, New Delhi. Corwin Press.

<sup>82</sup> Lister, M. (2007). Institutions, Inequality and Social Norms: Explaining Variations in Participation [Electronic version]. The British Journal of Politics and International Relations 9 (1), pp. 20-35

<sup>83</sup> Verba et al., cited from Lister, (2007).

<sup>84</sup> Putnam, cited from Lister, (2007).

<sup>85</sup> Green and Shapiro, cited from Lister, (2007), p. 21

<sup>86</sup> Ibid., p. 32

empowering institutions.”<sup>87</sup> The term *empowerment* links this political studies point of view with the broader understanding of participation in social and psychological sciences.

Speaking about broader understanding of participation not as a poll turnout but as public involvement in decision process about issues that broadly affect the public interest, we may call it a public participation. It may mean simply providing opportunities to comment at public hearings, vote in referenda, or participate as members of an interest group or a social movement satisfies people’s needs to participate. In other instances, more elaborate forms of involvement are necessary. Governmental agencies and private companies that initiate and organize public participation are experimenting with innovative methods. These “social experiments” include citizen juries, citizen panels, Internet conferencing, advisory boards, water quality councils, scenario workshops, informal round tables, living room meetings, deliberative opinion polls, and visioning conferences, to name a few. But no matter what they are called, these processes involve bringing people together so they can talk about a specific issue, become informed about it, and arrive at a strategy for what to do.<sup>88</sup>

According to Webler and Tuler the two dimensions play an important part in “good” public participation. It is fairness and competence (see table 1).

**Table 1** Principles from the Theory of Fair and Competent Citizen Participation

<b>Fairness:</b> Attend the discourse
<b>Fairness:</b> Initiate discourse
<b>Fairness:</b> Participate in discourse
<b>Fairness:</b> Participate in decision making
<b>Competence:</b> Access to information and its interpretations
<b>Competence:</b> Use the best available procedures for knowledge selection

Source: Webler and Tuler, 2002)

The NGOs working in field of development often use the participation as a catch-all term that covers any activity with community. To deal with this overly broad use of this term Arnstein narrowed participation to “redistributing decision making power from professionals to community members”.<sup>89</sup>

From the research – Cornish “participation” in community project with Indian sex workers she identified four domains of participation:

- *Participating in accessing project services* – it included the access to condoms, health clinic but also provided the women with a source of comfort and support, an access to representation and way out of isolation.
- *Participating in providing project services* – the peer educators were used to disseminate info about and achieve project goals. To be able to participate in

<sup>87</sup> Lister, (2007), p.26.

<sup>88</sup> Webler, T. & Tuler, S. (2002). Unlocking the puzzle of public participation [Electronic version]. Bulletin of Science, Technology & Society, 22 (3), pp. 179-189.

<sup>89</sup> Cited from Cornish, F. (2006). Empowerment to participate: a case study of participation by indian sex workers in HIV prevention [Electronic version]. Journal of Community & Applied Social Psychology, 16 (4), p. 303.

delivering the project services, participants need to have tools to provide those services, and be able to follow project procedures. The sex workers needed to be “more empowered” when insisting on use of condom, than the condom-averse client.

- *Participating in shaping project workers’ activity* – discussions about punctuality lead to change in the work arrangement. The project workers were empowered to define their working practices by themselves.
- *Participating in defining project goals* – role of project in relation to the needs of sex workers were under consideration on several meetings. Even though, some ideas of legalization of sex work and forming the trade-union were unrealistic within the scope of project, the sex worker were empowered to think and talk about these concepts.<sup>90</sup>

The importance of participation and consequently an empowerment to change the project setting is often discussed in participative projects. In action research with youth living on the streets, even the trivial activities such as deciding about snacks were taken as an opportunity to for participation. The importance of full participation led to particular decision, for example, allowing the evaluation to be submitted after project deadline.<sup>91</sup>

#### **PARTICIPATION AND SOCIAL SCIENCE**

To improve our understanding participation in the context of social science we should focus on the goals of participation in the human inquiry. The main characteristics of participative / participatory research include a) being non-linear, iterative and flexible, b) exploring local knowledge and perceptions, c) engagement of people as active contributors d) use and adaptation of conventional research methods in new “local” context, e) alignment of power in research design. See Table 2 for comparison of participatory and conventional research. Participative research consists less of modes of research which involve participation in data collection than of those which address issues of the setting of agendas, ownership of results, power and control.<sup>92</sup>

The emphasis on the empowerment and distribution of power in participation is present in all further viewpoints presented in this paper. We see that involvement of people is not enough by itself. It requires the shift of power from researcher – and if applied to public policy from institutions, that allow people to set own goals, search for solutions, try it in practice and re-evaluate them due to their experience and context.

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<sup>90</sup> Cornish, F. (2006). Empowerment to participate: a case study of participation by indian sex workers in HIV prevention [Electronic version]. *Journal of Community & Applied Social Psychology*, 16 (4), pp. 301 – 315.

<sup>91</sup> Reason, P., Bradbury, H. (2006). Conclusion Broadening the Bandwidth of Validity: Issues as Choice-Points to Ensure Quality in Action. In Reason, P., Bradbury, H., *Handbook of Action Research: The Concise Paperback Edition*. London, Thousand Oaks & New Delhi: Sage Publications.

<sup>92</sup> Cornwall A., Jewkes R. (1995). What is participatory research? *Social Science and Medicine*, 41(12), pp. 1667-76.

**Table 2** Participatory and conventional research: a comparison of process

	<b>Participatory research</b>	<b>Conventional research</b>
What is the research for?	Action	Understanding with perhaps action later
Who is the research for?	Local people	Institutional, personal and professional interests
Whose knowledge counts?	Local People's	Scientists'
Topic choice influenced by?	Local priorities	Funding priorities, institutional agendas, professional, interests
Methodology chosen for?	Empowerment. mutual learning <sup>8</sup>	Disciplinary conventions. 'objectivity' and 'truth'
<b><i>Who takes part in the stages of research process?</i></b>		
Problem identification	Local people	Researcher
Data collection	Local people	Researcher. enumerator
interpretation	Local concepts and frameworks	Disciplinary concepts and frameworks
Analysis	Local people	Researcher
Presentation of findings	Locally accessible and useful	By researcher to other academics or funding body
Action on findings	integral to the process	Separate and may not happen
Who takes action?	Local people, with/without external support	External agencies
Who owns the results?	Shared	The researcher
What is emphasized?	Process	Outcomes

Source: Cornwall and Jewkes, 1995

### **PARTICIPATION AND ORGANIZATIONAL BEHAVIOUR**

It is not easy to define participation. It is a wide term that cover various contents. In organizational behaviour it is defined as “a process in which decision-making, problem-solving, action-planning, or similar activities are shared and performed jointly by hierarchical superiors and their subordinates. To participate, superiors and subordinates work together to identify alternatives, consider preferences, and finalize judgements.”<sup>93</sup>

Defined in this manner, participation differs from direction, in which superiors follow autocratic procedures and act alone. Participation also differs from consultation, in which superiors ask subordinates for their inputs and opinions but then weigh alternatives and make a final choice on their own. Less obviously, perhaps, participation differs from delegation, in which superiors remove themselves and cede complete authority to their subordinates. Whereas participation requires that outcomes reflect needs and interests shared across hierarchical levels, delegation

<sup>93</sup> Wagner, J.A. (2003). Use Participation to Share Information and Distribute Knowledge. In: Locke, E.A., The Blackwell Handbook of Principles of Organizational Behaviour. Blackwell Publishing, Blackwell Reference Online. Retrieved on 6<sup>th</sup> March 2007 from [http://www.blackwellreference.com/subscriber/tocnode?id=g9780631215066\\_chunk\\_g978063121506622](http://www.blackwellreference.com/subscriber/tocnode?id=g9780631215066_chunk_g978063121506622)

is more likely to allow subordinates the autonomy to act in accordance with personal desires.<sup>94</sup>

#### **WHY PARTICIPATION?**

Participation either on the national level or on the organizational level is believed to have numerous positive effects.

Political participation derives the benefits for society from theories of democracy. Firstly, more citizens participating means that more individual opinions and preferences are being taken into account. More individual voice in democracy translates into better representation, which produces a collective outcome that more closely approximates common good and that promotes equality and justice. Secondly, as individuals follow politics, collect information, express preferences and deliberate about politics, they develop into capable democratic citizens more fit to the inclusion to the polity. And thirdly, the more participation is considered to be good for system-level stability. Better attended elections provide more popular support for politicians and policies, thereby signifying the legitimacy and stability of both government and nation.<sup>95</sup>

From methodological point of view the participation guarantees the faithfulness of the phenomena under study.<sup>96</sup> While conventional research generates "knowledge for understanding", which may independent of its use in planning or implementation, most participative research focuses on "knowledge for action". Focus on locally defined priorities and local perspectives and involving local people as participants in research and planning has been shown both to enhance effectiveness and save time and money in long term.<sup>97</sup>

#### **PARTICIPATION AND BEHAVIOUR**

Social theorists have long suggested that participation influences human behaviour by a) involving participants directly in ongoing processes, thereby securing their commitment to participatory outcomes through the "sense of ownership" stimulated by their personal involvement, or by, b) providing participants the opportunity to exchange and collect information, and to become more fully informed and knowledgeable about ongoing activities and participatory results.<sup>98</sup> Organizational researchers have similarly speculated that participation might influence behaviour in organizations through two distinct mechanisms, one termed motivational and the other cognitive.<sup>99</sup> The early studies indicated that participation motivates people, for example by giving a chance to fulfil their social needs and consequently it have positive effect on satisfaction and performance.<sup>100</sup>

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<sup>94</sup> See Wagner, (2003).

<sup>95</sup> Junn, J. (1999). Participation in liberal democracy: The political assimilation of immigrants and ethnic minorities in the United States [Electronic version]. *American Behavioral Scientist*, 42 (9), pp. 1417-1438.

<sup>96</sup> See Reason, P., Bradbury, H. (2006).

<sup>97</sup> Cornwall A., Jewkes R. (1995). What is participatory research? *Social Science and Medicine*, 41(12), pp. 1667-76.

<sup>98</sup> Pateman, cited from Wagner, (2003).

<sup>99</sup> See Wagner, (2003).

<sup>100</sup> Coch and French, cited from Wagner, (2007); see also Coghlan, D., Brannick, T. (2003). Kurt Lewin: The "Practical Theorist" for the 21<sup>st</sup> Century [Electronic version]. *Irish Journal of Management*.



For example, in the framework of sociotechnical systems the participative design was developed to overcome the certain constraints of redesign processes:

- The redesign process was long and complicated
- We were unable to expand redesign efforts from their initial site to the whole organization
- Successful projects often were not sustainable through time
- Our expert driven process (design team, steering committee) generated resistance instead of commitment and energy for change.<sup>101</sup>

The effect of participation was explained through intrinsic task motivation: the desire to work on something because it is interesting, involving, exciting, satisfying, or personally challenging. According to Fried and Ferris autonomy is strongly related to internal work motivation.<sup>102</sup> Argyris claims that participation are valued because they fill very general needs of normal healthy adults. These needs are to develop from passive infants into active adults, to move from dependent to independence in relationship, to increase the one's range of effective behaviours, to understand complex problems and opportunities and to see them as challenges, to develop a long term perspective, to move from position of subordinancy to equality and to gain autonomy over one's behaviour.<sup>103</sup>

However, further research on participation that understood it as "process of influence sharing" produced ambivalent results. Some confirmed positive correlation between level of participation, some produced zero or near-zero relationship, and some even negative correlations.<sup>104</sup> Meta-analysis of collected published researches on the issue<sup>105</sup> concluded that participation likely correlation with performance and satisfaction were both on the order .11. The change in level of participation therefore explains only 1% of change in satisfaction and performance. The participation showed more potent effect in smaller groups (up to 12 members) and with less complex tasks.<sup>106</sup> It casts doubt on the motivational role of participation at workplace. Though, the research design for measuring effect / relationship with performance and satisfaction used in analysed studies could challenge these findings. For example some researcher studied participation with people sitting around table, discussing problem and trying to find out solution for their assignment. The questions about external validity and also about lack of empowerment in such situation could be raised

Participation should have positive effect on creativity an innovation. A "working atmosphere" favourable to creativity and innovation requires participation and freedom of expression, but also requires high performance standards. Research

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<sup>101</sup> Emery, F. (1995). Participative design: Effective, flexible and successful, now!. *Journal for Quality & Participation*, 18(1), 6. Retrieved on December 16<sup>th</sup>, 2006 from the MasterFILE Premier database.

<sup>102</sup> Cited from Schepers, P.; Berg, P.T. (2007). Social Factors of Work-Environment Creativity [Electronic version]. *Journal of Business and Psychology*, Vo. 21, No. 3, p. 412

<sup>103</sup> Cited from Lines, (2004), p. 196; see also Letovancová, E. (2002). *Psychológia v manažmente*. Bratislava. Vydavateľstvo Univerzity Komenského.

<sup>104</sup> See Wagner, (2003).

<sup>105</sup> Wagner, J.A (1994) Participation's effects on performance and satisfaction: A reconsideration of research evidence [Electronic version]. *Academy of Management. The Academy of Management Review*, 19, (2), pp. 312 - 330.

<sup>106</sup> See Wagner, (2003).

found that participative management is important for creativity to flourish, and being able to participate in decision making was a key process in enhancing innovation. Creativity is fostered when individuals and teams have a relatively high level of autonomy in the day-to-day conduct of their work and a sense of ownership and control over their work and ideas. Participation may offer the freedom needed to look for and to test new ideas.<sup>107</sup>

In contrast to the motivational mechanism, within the framework of the cognitive mechanism the focus is on participation defined as a “process of information sharing”. From this perspective, participation's effects on organizational behaviour are thought to be a function of the increased knowledge and deeper understanding afforded by participatory information sharing. Researchers have proposed that participatory information sharing might influence participant behaviours in several ways, for example: a) knowing how to do a job increases the opportunity to do the job productively; b) understanding how a job fits into the larger picture of work group interdependence and organizational mission enables effective adjustment to changing work conditions; c) sharing knowledge and insights encourages common understanding and greater cooperation ; and d) being able to access and make use of the collective information of an organization's membership increases the likelihood of successful organizational innovation and creativity.<sup>108</sup>

Interesting is the context of change management. Situational condition of change concerns the extent to which tasks, group conditions, and organizational contexts are stable, consistent, and predictable – under conditions of low change, versus dynamic, variable, and unpredictable – in situations of high change. In the presence of low change, success can be achieved by following familiar procedures. High amounts of change require that variability first be sensed, and that modifications then be made to existing plans and processes to match them to the demands of changing conditions. Such process require information about the nature of change and the state of changed conditions. To the extent that such information is available to some but not necessarily all participants, participation can facilitate information dissemination and lead to successful adaptation and continued productivity.<sup>109</sup> Lines found participation to have the strong effect on all outcome variables (post change organizational commitment, resistance toward change – negative correlation, achievement of change objectives) after completion of strategic change process.<sup>110</sup>

Another psychological approach to participation is through its relation to community (resp. group). Campbell and Jovchelovitch<sup>111</sup> claim that when speaking about community we refer to a group of people who:

1. Share an **identity** which the community is able to articulate. Thus participating

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<sup>107</sup> Schepers, P.; Berg, P.T. (2007). Social Factors of Work-Environment Creativity [Electronic version]. *Journal of Business and Psychology*, Vo. 21, No. 3, pp. 407-428.

<sup>108</sup> See Wagner, 2003.

<sup>109</sup> See Wagner, 2003.

<sup>110</sup> See Lines, 2004.

<sup>111</sup> Campbell, C., Jovchelovitch S. (2000). Health, Community, and Development: Towards a Social Psychology of Participation. *Journal of Community and Applied Social Psychology*, 10, pp. 255-270.

is an action organically linked to the awareness a social group possesses, of who it is, what it wants, how it projects itself in a future time horizon in which the identity can be perpetuated, renegotiated and if needed changed.

2. Share a set of **social representations**, which organizes the worldview of community members and guide their interpretations of reality and everyday practice. It stresses the importance of local knowledge. Process of participation provides platform for, expression, confrontation and re-negotiation of various social representations.
3. Share conditions and constraints of **access to power** (material resources and symbolic). Social change through participation can only be understood if one understands the ambiguity of power relations.

### ACTION RESEARCH

Action research is a methodology that promotes participation, both in the research and in change. It builds on the non-positivist traditions of social science. Its theoretical background includes humanistic psychology, systems thinking, critical theory and feminism. And it still bears the hallmark of its fathers, social psychologist Kurt Lewin, who dedicated his life to understanding and improvement of human lives through use of social science and charismatic philosopher John Dewey.

Rather than research being a linear process of producing knowledge, which later applied to practice setting, action research integrates the development of practice with the construction of research knowledge in a cyclical process. Instead of being research on social setting and people within it, it is research from inside that setting carried out either by participants themselves or researcher working in collaboration with them. It has an immediate impact since it is an integral part of day-to-day work.<sup>112</sup>

Action research can be described as a family of research methodologies which pursue action (or change) and research (or understanding) at the same time. In most of its forms it does this by

- using a cyclic or spiral process which alternates between action and critical reflection and
- in the later cycles, continuously refining methods, data and interpretation in the light of the understanding developed in the earlier cycles

It is thus an emergent process which takes shape as understanding increases; it is an iterative process which converges towards a better understanding of what happens.

In most of its forms it is also participative (among other reasons, change is usually easier to achieve when those affected by the change are involved) and qualitative.<sup>113</sup>

As we said, the action research is by its nature the participative process. It cannot be constructed and performed outside the given environment and without

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<sup>112</sup> Noffke, S., Somekh B. (2004) Action Research. In Somekh, B., Lewin, C. (Eds.). Research Methods in the Social Sciences. London, Thousand Oaks & New Delhi. Sage Publications.

<sup>113</sup> Dick, Bob (1999) What is action research? Retrieved on 8<sup>th</sup> April 2007 from <http://www.scu.edu.au/schools/gcm/ar/whatisar.html>

involvement of the stakeholders. His emancipatory character, in other words empowering character, provides participation with context, that enable to enhance lives of people and sustain the outcome of research / change.

Carr and Kemmis<sup>114</sup> divided action research according to the level of critical ability of its participants on technical, practical, and emancipatory, claiming that only former is the only true action research. (see table 3). Zuber-Skerritt concludes from her practice, that action research itself is a process that develops from technical type of inquiry toward critical one. Most action researchers start with technical research, then proceed to practical one and finally gain skills and perform critical modes of inquiry.

**Table 3** Types of Inquiry

Type of Inquiry	Goals	Role of Facilitator	Relationship between facilitator and participants
1. Technical	- effectiveness / effective practice - professional development	Outside expert	co-optation (practitioners depend on facilitator)
2. Practical	- as above (1) - practitioners' understanding - change of consciousness	Socratic role, support of participation and self-reflexion	Cooperation (process consulting)
3. Emancipatory	- as above (1) and (2) - emancipation of participants from dictation of tradition, from self-deception, coercion - critique of bureaucratic systematization - transformation of organization or system	Process moderator (responsibility is evenly distributed among participants)	Collaboration

Source: Carr, Kemmis, cited from Zuber-Skerritt, 2002

An advantage of action research is also the wide array of techniques, derived from general methodology. They include methods for research of personal practice, usually educational practice. That kind of action research (AR) can be considered to be form of personal and professional development, with living network of scholars that share their experiences.<sup>115</sup>

Other popular kind of AR is Participatory Action Research (PAR). It refers to a research method, typically concerned with organizational self-assessment, in which the subjects of the study participate with the professional researcher throughout the

<sup>114</sup> Cited from Zuber-Skerritt, O. (2001). Action Learning and Action Research: Paradigm, Praxis and Programs. In Sankaran S, Dick B, Passfield R, et al (eds). Effective Change Management Using Action Learning and Action Research: Concepts, frameworks, processes, applications. Lismore. Southern Cross University Press.

<sup>115</sup> See BERA PRACTITIONER-RESEARCHER SIG E-SEMINAR 2006-2007, 2006.

research process, from the initial design to the final presentation of the results and discussion of their action implications.<sup>116</sup> Such research tends to be initiated i.e. by NGOs or public initiatives as in case of PAR in small communities in New York - Canalside (Canalside Quality of Life Coalition) and South Lake (Community Vision Forum). Former was supported by Cornell University.<sup>117</sup> Or are realized at the premises of institutions such as psychiatric out-patients centres or hospitals.<sup>118</sup>

Numerous methods deals with organizational development. Other, such as PhotoVoice are based on acknowledgement of different kinds of knowledge. There are several methods, structured processes, that help communities to develop. They include Search Conference, Future Search, Communities that Care, Asset Mapping and Asset Building. Usually, they contain certain level of action research methodology: data collection, collective reflection and evaluation, that leads to strategic planning and action.<sup>119</sup>

### CONCLUSION

In our paper we come trough the various aspects and worldviews of participation. We explore what we may understand under the term participation and theories that try to explain its importance and effect on human behaviour. We focused on research that confirms but also disconfirms basic assumptions about benefits of participation.

After evaluation of the research evidence we suggest that participation is valuable concept for research and for practice. Though empowerment is the prerequisite to positive effect of participation. Participants in are not a passive agent in the social process, that is freely manipulated by researcher or managers. People are active in their environment, develop their own knowledge and interpretations of reality, and thus participation is not a goal but a tool for self-actualization and emancipation.

Action research provides established and well supported set of tools for understanding, and managing complexity of our world and, at the same time, tools for making the world a bit better place to live in. The participation is a crucial point in this methodology, as action research is conducted for the benefit of community and people, within the community and with / by people from the community. I believe that the enthusiasm of first action researches performed at our faculty is a good sign for development of action research tradition in Slovakia.

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<sup>116</sup> See Danley and Ellison, (1999).

<sup>117</sup> Greenwood, D.J., Schafft K.A. (2003). Promises and Dilemmas of Participation: Action Research, Search Conference Methodology, and Community Development [Electronic version]. Journal of the Community Development Society, Vol. 34, Retrieved on 16<sup>th</sup> August 2006 from [http://www.cardi.cornell.edu/external/canal/Schafft\\_Greenwood.pdf](http://www.cardi.cornell.edu/external/canal/Schafft_Greenwood.pdf).

<sup>118</sup> See Danley and Ellison, (1999); Barrett, (2006).

<sup>119</sup> See Greenwood and Schafft, (2003).

RODRIGO BUGUEÑO DROGUETT

## **Happiness and Optimism: the attitudes of post-communist nations of Central Europe**

*"A look backwards, is worth more than a forward"*  
Archimedes

### **INTRODUCTION**

In the context of the cultural, economic, social, and political changes are new members of the European Union which represent the centre of Europe, they have different perceptions and in that perspective we will try to describe them. They have a common past -product of regimens of the "real socialisms" what brings a load values and attitudes that are difficult to forget or to erase.

Our work this divided into three parts:

The first one will be a reflection on a personal level about the Slovaks, that is to say a subjective perspective. And it will have as an objective to explore and to cause discussion. Sadly for human phenomena always a rational answer is sought, but the perceptions and feelings are as subjective as the human condition, then only remains to feel, later we can calculate and to measure. The second part will have more exploratory character, but has greater proximity with it scientist occupying public opinion surveys data on Slovakia. The third part will be centered in a comparison among the different countries of centre of Europe on diverse environments linked with optimism and perception of the future. Our strategy of analysis goes from the particular to the most general, is like the intuition, experiences and reflections to de empirical public opinion.

### **1. PERSONAL PERSPECTIVE OF THE OBSERVER**

The life is done in the moments as said being Jorge Luis Borges, Argentine writer, such you see be right, but the summation of them the total gives us, that should have an intention and a will to have a sense.

Who defines the how to live? In general, our own perceptions, our experiences, socializations etc.

The Slovak society needs urgently to rewrite its history, its identity. It is too weak set against the dependence that had of the Czechs and the same time currently compare it to all its neighbors of the European Union. The halušky and the bryndza, the hockey and the beer, they do not make a nation, they are support, but are not sufficient. The youths prefer to leave to work to other countries to obtain fast money, is totally lawful from the point of view of the rational action, cost and the benefit. But what happen with the people who are on 50 years old? They perceive the changes, but not the numbers. The distrust and the lie have been present for a very long time, like a form of protection, first during the real socialisms, to avoid the death, the torture and the pain. Now it serves as method to obtain economic benefits and necessary "contacts", the perception is that.

We believe that the competence is very necessary, but with the same rules of the fair play and transparent for all, what we know is that they do not exist still,

because there is a tradition to support those of "friends". Therefore the ministries and public positions need urgently to be the most capable by means of transparent concours and the scholarships also. Surely in the form all is more transparent now by the European Union, but in practice they continue applying the corruption and not ethical methods, that the society perceives it. Therefore mechanisms should be created to develop trust that I believe is the first step to achieve a real change in the society. Giving guarantees of probity and that the society feels part of the government and have pride.

By my experience in Chile, the theme of the privatizations even itself is not finished to study totally.<sup>120</sup> They were facts in dictatorship therefore nobody protested, but with the past to the time many former -officials of the dictatorship now belong to the boards of directors of those same businesses privatized creating networks of economic of "friendship". That same it could occur in centre of Europe and surely occurred in Russia, the Society knows it, but does not demand changed because does not know how.

The mass media have a duty but they are at service of whom can pay them, therefore with the foreign investment is possible that have greater independence to be able to oversee and that the public opinion finally can free itself. Besides there is a television of low quality, doesn't exist a great newspaper of style of the New York Times that does lack with opinion of level, only fashionable lampoons and discussions of low level. Therefore there is not really a culture of the reading of high level neither a climate of public opinion developed.

The lie and the suspicion also exist in the West cultures like: Germany, England or the United States.

But then how can they survive these practices in a democratic context with economies of market?

We believe that this would be able to explain because the History should be rewritten in the Slovak case - that would have an effect of the idea of identity. We imagine that the Hungarians have identity of its past, but during the "real socialism" that stretch of its history was silenced and amputated of its memory. That is to say, that the free market and the western democracy were established without anesthesia, without giving time to assimilate it neither to understand it, it was only applied in its harder code of „cost and benefit“.

Why Does happen this in Slovakia?

It can be due to the different way that the advantages of the system of free market perceived and that the process of transition was not only political and social but most of all cultural represented in the perceptions and in the imaginary that remained orphan. Therefore it had to be reconstructed with different codes and logic, and we interpret it as a post-communist rational action opposed to the Anglo-Saxon and Scandinavian rational action, perhaps more flexible and pragmatic.

Therefore the countries that did not have dictatorial regimes such as England or USA, are different, but we would be able to give the argument for Germany where there was the Nazism or the fascism in Italy, but by another we would be able to add that in those countries the history was rewritten and that the identity was sufficiently

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<sup>25</sup> See Huneus, Carlos, *The Pinochet Regime*, Ed. Lynne Rienner, USA, 2007, 559 pages.

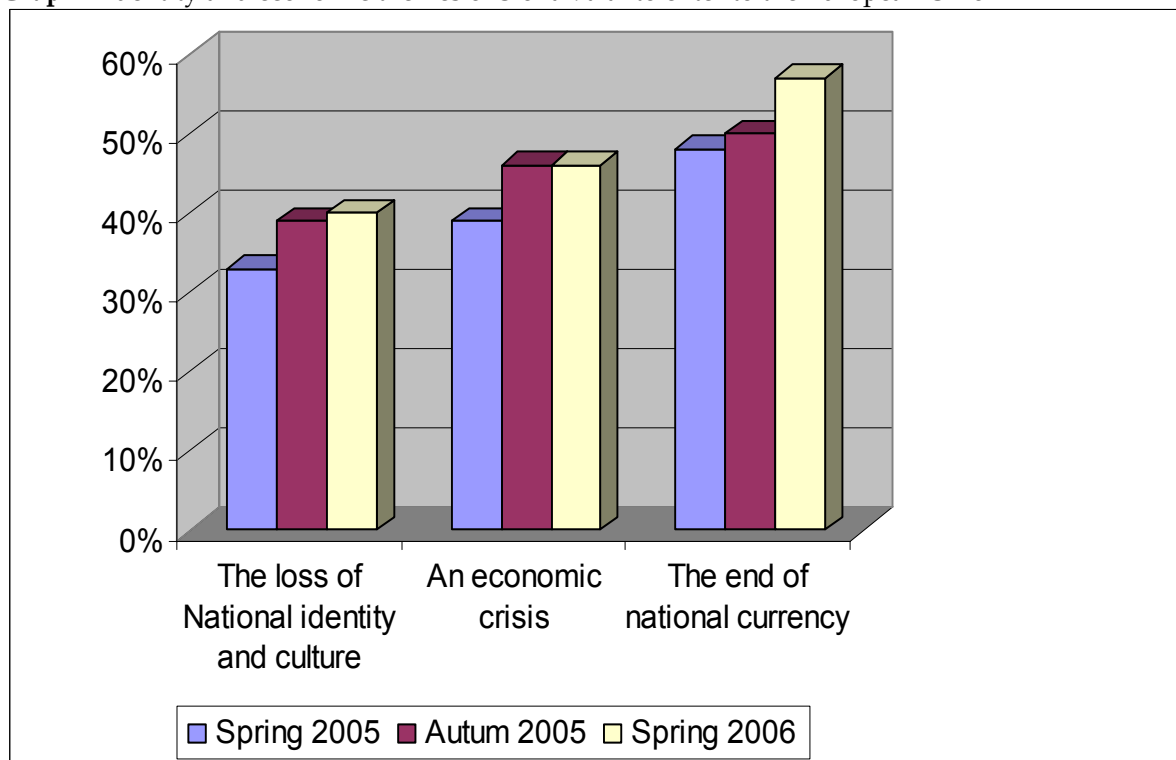
strong to resist it.<sup>121</sup> It is interesting, what Ronald Inglehart concludes respect to that the democratization<sup>122</sup>, does not necessarily bring the happiness<sup>123</sup>. The democratization is the construction of the political democracy inside a not democratic state.

Therefore, it can be that in a long-term way it would be able to find something of happiness. But when we speak about transition we can't have in our minds just the economic or political topics, but cultural, the values, aptitudes, inclinations and preferences. But the process of transition is hard, is to begin again, is re-thinking, is to be rewritten, and finally is to reborn cartographing a present. Therefore that historic transit of the experiences does that certain values themselves deteriorate and that function not with the same emphasis or the same logic.

## 2. SLOVAKIA'S PERCEPTIONS WITH RESPECT TO ITS ENTRANCE TO THE EUROPEAN UNION

It is interesting to detect the fears of Slovakia respect to the European Union. In the following table we can see:

**Graph 1** Identity and economic themes of Slovakia al to enter to the European Union



Source: Eurobarometer

<sup>121</sup> From the point of view about the influences of the political past in the Public Opinion polls we can see the example of Spain about Franco, and in Chile Pinochet, to see: Huneus, Carlos. *Chile País Dividido: La Actualidad del Pasado*, Ed. Catalonia, Chile, 2003, 292 pages.

<sup>122</sup> It is important the participation Mass Liberty aspirations. To see: Christian Wezel and Ronald Inglehart, "Liberalism, Postmaterialism, and the Growth of Freedom", *International Review of Sociology*, Vol. 15, N°1 March 2005, pp. 81-108.

<sup>123</sup> Inglehart, Ronald, *Democracy and Happiness: What Causes What?*, Paper presented at conference on human happiness at Notre Dame University, October 22-24, 2006.



In the graphic we can detect several things, for example in the theme of fear to lose the national identity<sup>124</sup> and the culture. The tendency exists to enlarge the fear, and that can be seen diminished by the entrance of new members, because against every logic a greater entrance would be able to be seen affected with a greater identification of each country with himself, this, because the **language** should be respected, for example.

The worrying things are the economic topics because for example the topic of an economic crisis that increases of 39 % to 46 % is still being in the following poll. That is to say next to 50 % of the population is afraid of this topic what does not stop being worrying.

With regard to the topic of the fear the end of the national currency has two interesting readings and the effect is incredible because on the one hand it is something linked to the economic thing, but other - that the majority of the analysts has not detected the currency, because it is not only for his intrinsic value, but mainly for his representative and cultural value. There is an interesting example specifically of the Spanish who still calculate euro with the peseta (the old Spanish currency), that is to say it is a form of identification, and the identity is not only an economic value but, a cultural value that identifies them.

That's why the euro tries to represent in every country the hereditary symbols, but till now it has not achieved the wished effect, because the society imagination of every country is still present in each of the national coins.

### 3. CENTRE EUROPE COMPARING: THE HAPPINESS, THE VALUES AND THE OPTIMISM

#### 3.1 *Happiness*

According to the professor of the London School of Economics, Richard Layard, happiness can be related in spite of feeling good, enjoying the life. Therefore sources of happiness exist but at the same time the opposite sources also exist to feel pain and misery.

The interesting thing is that in the public opinion polls there is a high grade of response to how happy we are: " happy ", " very happy " or " not too happy ", with 99 % of responses, it is very high compared to other questions or other topics.<sup>125</sup> Therefore it is something that the societies are interested in very much and at the same time it has been demonstrated by empirical studies that the persons are happier or feel major pleasure among others than being alone.<sup>126</sup>

The discussion would be, and in this I go beyond Professor Layard, because with how many people would you feel better, "" with many, "with few" or "only with one to speak"? This is in discussion in which moment, because many times we want to be alone for think, to reflect and to be with ourselves. That is to say, the form is

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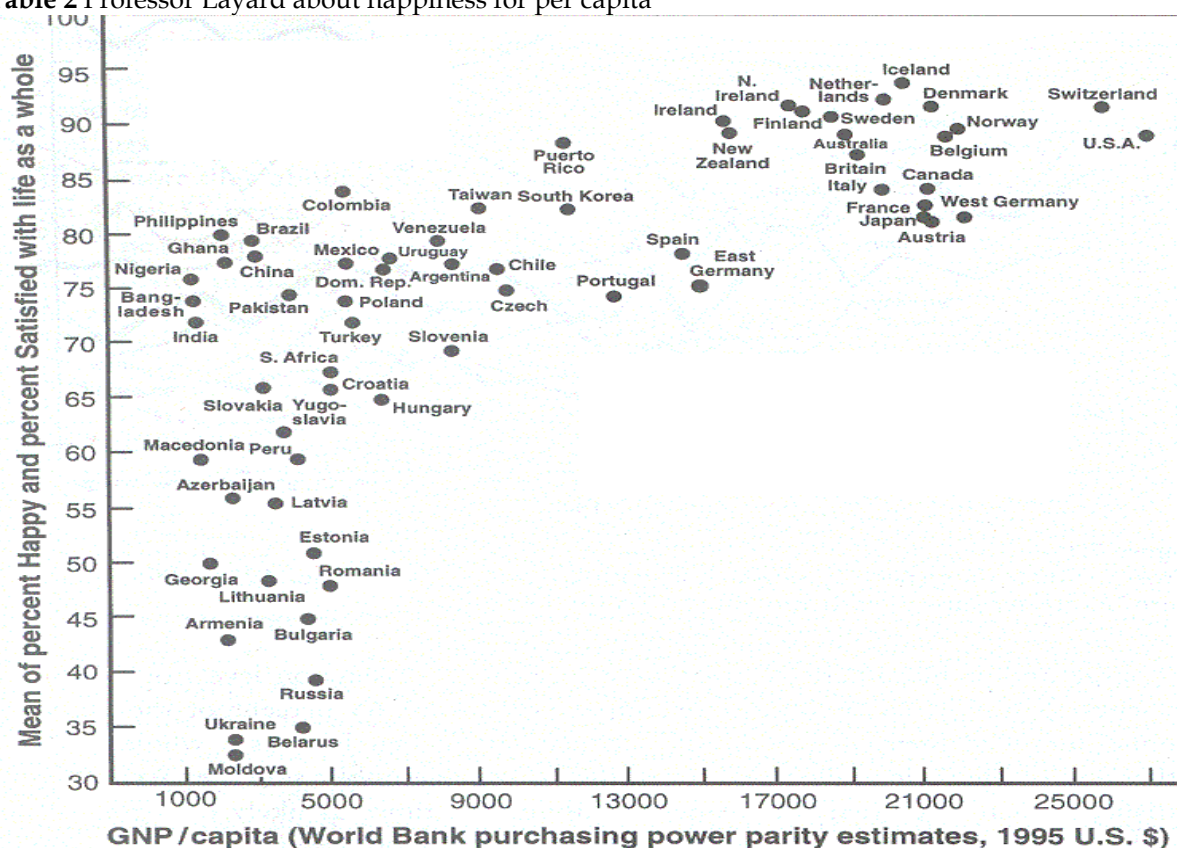
<sup>124</sup> We understanding Identity as: The collective identity is the state of implicitly conscience shared of some individuals that recognize and they express its ownership to a category of peoples, to a community that receives them.

<sup>125</sup> Layard, Richard, "The Secrets of Happiness", New Statesman, pp 25-28, 3 March 2003, In <http://cep.lse.ac.uk/layard/RL362.pdf>

<sup>126</sup> Idem

the discussion of the theme, not thus the fund. Because the human is a social animal, that is not in discussion, in spite of the technological advances. It is interesting that the changes by income per capita varies on 15 thousand dollars per year or if the income is lower. Therefore countries that are on that number feel a little satisfaction. See the following picture:

**Table 2** Professor Layard about happiness for per capita



Source: Layard, Richard, "The Secrets of Happiness", New Statesman, pp 25-28, 3 March 2003, In <http://cep.lse.ac.uk/layard/RL362.pdf>

It is interesting to observe the African case, Brazil and Mexico etc, but in the central Europe countries exists interesting differences.

We can notice that two countries with different position regarding the faith have similar positions for satisfaction and happiness, that is to say Poland and Czech Republic. And on the other hand Hungary has a better economic distribution per capita than Slovakia, but in terms of satisfaction and happiness it's in a similar position or even a little low opposite to its nearby country.

According to Professor Layard there exist 6 principal factors that affect the happiness<sup>127</sup>: Mental health, satisfaction and insured work, a sure and affectionate private life, security of the community, freedoms and values.

And as well as the Professor we put emphasis on the values because according to him it's a social product and the biggest taxpayer of the happiness therefore we will concentrate on this point.

<sup>127</sup> Layard, Richard, "The Secrets of Happiness", New Statesman, pp 25-28, 3 March 2003, In <http://cep.lse.ac.uk/layard/RL362.pdf>

### 3.2 The values

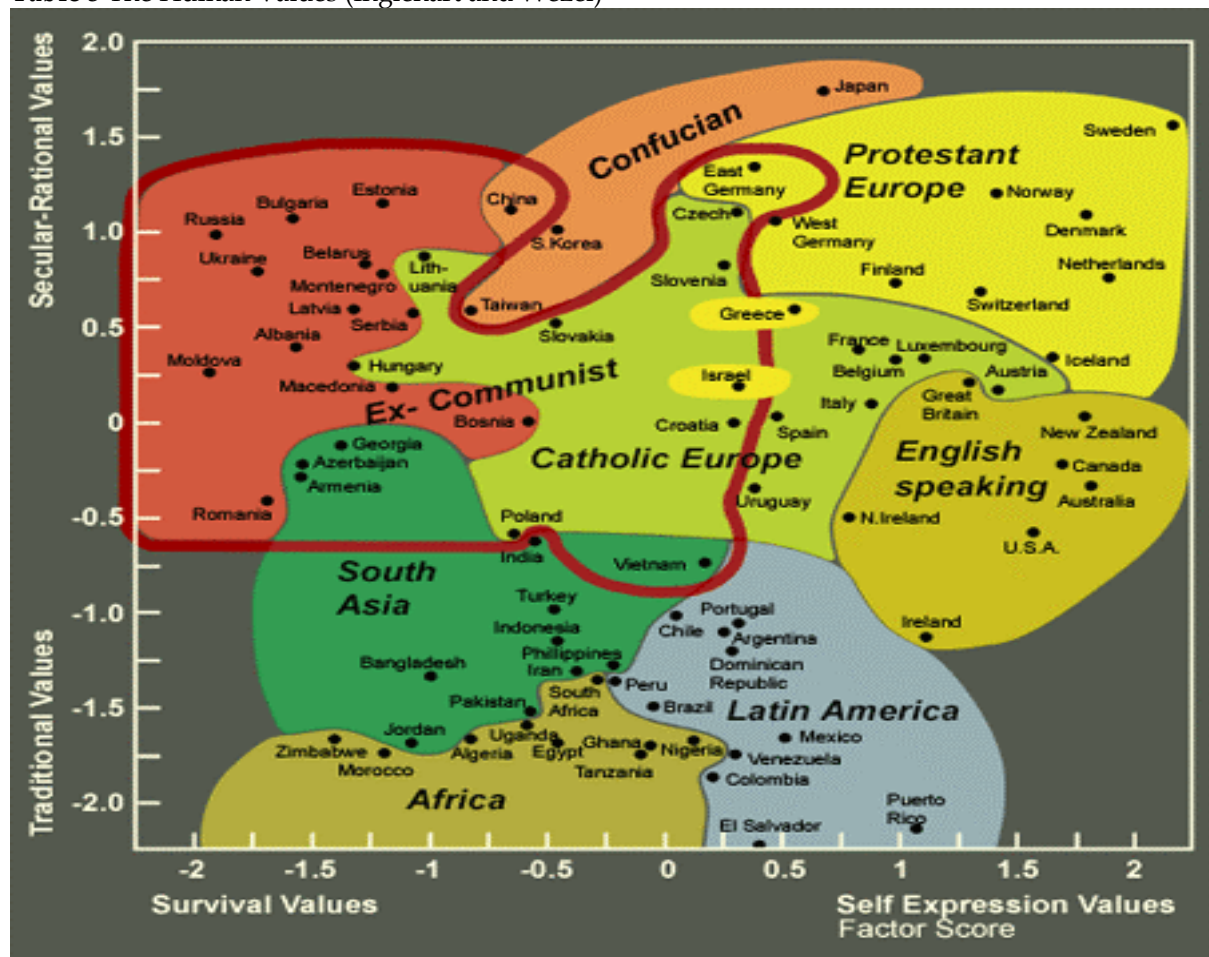
Values allow us to trust in others and that make us feel better and more secure obtaining interpersonal confidence, therefore we link it on coexisting.

The value links with the possessed thing and costs for itself and it is considered that it causes positive things. In our study we link it to the social values that are to say to the human values as the trust.

Inside this we can see that there exist useful goods that serve to obtain other goods and the non-useful goods that cost the same as the human values for example. The topic is that the persons manipulate the values to obtain useful goods like the material goods are, but they do not stimulate not material values that might be inside the category of post-materialistic values, which link to the spiritual satisfactions or similar benefits.

In the following table we can observe a global panorama:

**Table 3** The Human Values (Inglehart and Wezel)



Source: Inglehart-Wezel, Cultural Map of the World, <http://www.worldvaluessurvey.org/>

In the table we can appreciate the different positions of the central Europe countries in the study of Ronald Inglehart y Christian Wezel. It is interesting to detect in the table the defined positions between these countries.

Slovakia is inside the most secular values, therefore the religion does not have a big weight in real terms, therefore it has major tendency to accept the topic as the euthanasia, divorce, etc. For other it does not reach the values of the personal

expression, product that has not achieved an entire industrial development. Therefore, it is not a postindustrial society and its values are like: society of the knowledge, tolerance of the diversity and the development of the imagination.

The case of Czech Republic is even more secular and it has major industrial development. Therefore it would have tendency to be a society of the knowledge and the postindustrial values, but it still have lots of work to do.

The case of Hungary is a little similar to Slovakia in the topic of the secular rational values, but in the values of survivor it has less weight than Slovakia. Therefore it needs a major opening to the tolerance and the values that bear it, because the industrial development is not sufficient if there is no cultural change.

The case of Poland is special; we can appreciate a major influence of the traditional values and the weight that has the catholic religion that is not discussed. But in terms of post-materialistic values it is more or less in the same situation as Slovakia, that is to say it must create instances for opening the way for tolerance, etc.

### 3.3 Optimism

We would be able to define it as a tendency for expecting that the future grant favorable results. The optimism is the value that gives us the support to front the difficulties with good spirit and perseverance, discovering the positive things that have the people and the circumstances, trusting in our capacities and possibilities along with the aid that can receive. Optimism is not the same thing that the happiness, but it's the capacity that has person to be in peace with himself, that has confidence in the future and transmits it to the others. That is to say in the bad moments these people remove the positive thing of the situation.

The countries that are analyzed are new members of the European Union and therefore we believe that they would be able to have different perceptions respect to the future and in that context we can detect some tendencies regarding to some themes, mainly about the personal perceptions of optimism in personal economy, of the country and the theme of the work that fundamentally gives dignity and enlarges the self-esteem.

First we will see some macroeconomic indicators for the subsequently seen surveys of the Eurobarometer:

**Table 4 Macroeconomics indicators**

		<b>CZ</b>	<b>HU</b>	<b>PL</b>	<b>SK</b>
	<b>2003</b>	3,6	3,4	3,8	4,2
<b>GDP</b>	<b>2004</b>	4,2	5,2	5,3	5,4
	<b>2005</b>	6,1	4,1	3,4	6,1
	<b>2006</b>	<b>6,2*</b>	<b>3,5*</b>	<b>5,0*</b>	<b>6,4*</b>
	<b>2003</b>	-1,3	1,3	-4,5	0,9
<b>Employment</b>	<b>2004</b>	0,2	-0,3	3,9	1,3
	<b>2005</b>	<b>1,2</b>	0,2	1,5	<b>2,5*</b>
	<b>2003</b>	8,3	5,9	20,0	17,4
<b>Unemployment</b>	<b>2004</b>	8,4	6,3	19,0	17,1
	<b>2005</b>	<b>7,9</b>	<b>7,3*</b>	<b>17,6*</b>	<b>15,3*</b>

Source: European Bank reconstruction and development, [www.ebrd.com](http://www.ebrd.com)

**Table 5** Some indicators of Transition (Economics and infrastructures)

		Large scale Privatization	Small scale Privatization	Enterprise restructuring	Competition Policy	Overall infrastructure reform	Telecommunications	Railways	Electric power	Roads	Water and waste water
S K	2003	4,00	4,33	3,33	3,00	3,00	3,33	2,67	4,00	2,33	2,67
	2004	4,00	4,33	3,33	3,33	3,00	3,33	2,67	4,00	2,33	3,00
	2005	4,00	4,33	3,67	3,33	3,00	3,67	3,00	4,00	2,33	3,00
	2006	4,00	4,33	<b>3,67</b>	<b>3,33</b>	3,00	<b>3,67</b>	<b>3,00</b>	4,00	2,33	<b>3,33</b>
C Z	2003	4,00	4,33	3,33	3,00	3,33	4,00	3,00	3,33	3,00	4,00
	2004	4,00	4,33	3,33	3,00	3,33	4,00	3,00	3,33	3,00	4,00
	2005	4,00	4,33	3,33	3,00	3,33	4,33	3,00	3,33	3,00	4,00
	2006	4,00	4,33	3,33	3,00	3,33	<b>4,33</b>	3,00	3,33	3,00	4,00
P L	2003	3,33	4,33	3,33	3,00	3,33	4,00	4,00	3,33	3,00	3,33
	2004	3,33	4,33	3,33	3,00	3,33	4,00	4,00	3,33	3,00	3,33
	2005	3,33	4,33	3,67	3,00	3,33	4,00	4,00	3,33	3,00	3,33
	2006	3,33	4,33	<b>3,67</b>	3,00	3,33	4,00	4,00	3,33	3,00	3,33
H U	2003	4,00	4,33	3,33	3,00	3,67	4,00	3,33	4,00	3,33	4,00
	2004	4,00	4,33	3,33	3,33	3,67	4,00	3,33	4,00	3,33	4,00
	2005	4,00	4,33	3,67	3,33	3,67	4,00	3,33	4,00	3,67	4,00
	2006	4,00	4,33	<b>3,67</b>	<b>3,33</b>	3,67	4,00	3,33	4,00	<b>3,67</b>	4,00

Source: European Bank for reconstruction and development , [www.ebrd.com](http://www.ebrd.com)

- In her we see in general a growth of the GDP especially in Slovakia and Czech Republic.

- An increase in the employment, especially in Slovakia.

- Descent of the unemployment especially in Poland and Slovakia, but with increment of the unemployment in Hungary.

Surveys link the personal perceptions of country to the future.

- In the Indicators of Transition about Economics and infrastructures, Slovakia has good performance in: Telecommunications, Railways, Water and waste water and has high level of Small scale Privatization.

The following board we can see five questions linked to these topics and they are in three measurements:

**Table 6** Perception of the Optimism in Centre of Europe

Q	Eurobarometer	UE-25			UE-15			CZ			HU			PL			SK		
		B	W	S	B	W	S	B	W	S	B	W	S	B	W	S	B	W	S
I P	EB 63	34	11	5	34	11	5	31	22	55	28	21	49	33	15	43	34*	17	46
	EB 64	35	13	49	35	13	49	27	33	58	30	21	46	34	13	47	29	24	44
	EB 65	35	12	51	35	12	51	29	33	54	34	17	46	34	14	47	33	18	47
II C	EB 63	19	37	38	18	38	38	24	39	42	16	41	39	22	32	36	25*	32	38
	EB 64	19	39	37	18	41	36	22	33	43	19	38	40	24	25	38	17	48	31
	EB 65	21	35	38	21	36	38	22	36	49	26	27	40	18	34	41	22	38	35
II I P	EB 63	24	18	55	24	17	56	21	37	58*	19	29	51	22	49	26*	27*	44	4
	EB 64	25	19	53	25	19	54	22	38	57	22	29	46	21	51	21	35	41	1
	EB 65	25	19	54	25	19	54	21	37	58*	28*	19	49	21	53	23	28	47	7
I V C	EB 63	18	42	44	18	43	33	21	34	40	14	44*	36	22	36	7	26	38	31
	EB 64	19	40	35	19	42	34	21	36	42	14	44	35	22	41	1	20	39	35
	EB 65	21	38	36	21	39	35	22	37	53	20	28	45	18	37	1	24	33	37
V P	EB 63	22	91	61	23*	91	61	17	11	58	12	20*	55	21	92	62	20	16	49
	EB 64	22	90	60	23	90	60	14	0	56	12	23	49	17	75	65	16	14	47
	EB 65	22	91	61	23	91	61	85	5	61	17	16	49	11	10	60	19	13	51

Source: Eurobarometer N° 63-64 and first result 65.

**I Question. - What are you expectations for the next twelve month: Will the next twelve month be better, worse or the same, when it comes to...? Your life in general.**

**II Q. - What ...**The economic situation in (Our country)

**III Q. - What...** The financial situation of your household

**IV Q. - What...**The employment situation in (Our Country)

**V Q. - What...** Your personal job situation

**B=Better, W= Worse, S=Same, P=Personal, C=Country**

1- In this personal question we detect, in general that all they spread to 30% or more than it's positive appreciations are even near the average of the European Union that is 35%, less Czech Republic with a 29%.

2.- There is a tendency to perceive better the economic situation of the country compared with the total of the European Union of the 15 and 25 members. Even when the pessimism is predominant in the Slovak case with 48%, on the other hand there is a tendency to diminish the pessimism in Czech Republic and Hungary. But at the same time there is predominance for the skepticism in the Czech case because

according to them all will continue the same way.

3.- In this question regarding personal level, we can appreciate three important ideas: On the one hand the Czechs show again a high skepticism with 58%. Hungarians have an increase in their positive opinion that would explain in the same time a drop in their pessimism in the third measurement (65) descending from 29% to 19%. The Slovaks on the other hand they maintain a high pessimism passing from 27% to 35%, being stabilized in 28% that nevertheless is superior to the average of the European Union with 25%.

4. - In this question about the work in the country, is interesting the impact of negative appreciations especially in the Czechs, Hungarians and Slovaks. Nevertheless, the prevailing skepticism is on the side of Czechs.

5. - in this topic on the personal perception of the work, there is not a large fluctuation but we can detect a positive and stable opinion of the countries of the European union (15) and a tendency downward of negative opinions in the Hungarian case.

### CONCLUSIONS

-Regarding my perceptions for Slovakia and the Slovaks, they owe rewrite it's history, because It will not be possible to build their future without remembering where they come from. We don't refer to being chauvinists, neither irrational nationalists, it only needs a conscience of the past and the identity for reconstruction and to defense it.

-Slovakia entered the European Union, had doubts, had fears, but these fears are necessary because they are the only form to have a conscience of the value of what had, has and what would be able to have. I do not refer only to the economic topics, but also to the fears of losing the identity, those topics serve to reaffirm the values of the culture and the nation. What is important is not to be afraid of the economic globalization and the political globalization, is important to be flexible but always in guard.

-The happiness is a lot more than to feel well in one moment, it's learning, and does not function alone, but needs the values and the optimism, which reinforces this moment feeling and multiplies it to make it long - lasting. The eternal happiness perhaps doesn't exist, but if it is possible to multiply the pleasant moments, we can be a little happier day by day.

Our work tried to approach an edge of the complex real life. We try to describe a present that has many contradictions. Lately Slovakia has improved in economical aspect, but needs something more. I think that finally are the social relations are the ones that should improve, to face to a complex global world, but not therefore negative.

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## Social Costs of Structural Changes: Symbolic Processes of Social Exclusion in the Realm of Public Discourse<sup>1</sup>

### INTRODUCTION

Slovakia is commonly regarded as a successful story of democratic transition and economic transformation. The post-2002 development has been seen in an even more positive light as the country underwent a number of thorough reforms which fundamentally changed the whole socio-economic system. The courage of the second Dzurinda government (2002-2006) to put through the reforms has been widely appreciated abroad.

Given this story of success it becomes puzzling how a country praised for remarkable reform accomplishments, rapid economic growth and gradual increase of living standards can, at the same time, be a homeland of people living in persistent poverty and long-term unemployment; of people who inhabit shanty settlements without basic infrastructure; are segregated from the outer world; have very limited access to public services and do not participate on the development of the society. These striking contradictions raise a serious concern: how is it possible that a significant segment of Slovakia's population is effectively excluded, both materially and symbolically, from the country's progress and growing affluence?

In answering this disturbing question I do not contribute to the Slovakia's success story. While I do not challenge a number of positive achievements of the recent years; my argument goes against the grain of many scholarly and popular accounts. I explore peculiar *social costs* of structural changes which have been brought about for certain groups of citizens. I attempt to uncover symbolic processes of social exclusion through which particular ethnicity became essentialized; laziness ethnicized and poverty reified in the realm of public discourse. By focusing on one of the crucial reforms Slovakia has recently underwent – the reform of social policy in 2004 – I explore the way in which inherited social inequalities have been further reproduced within and through the discourse of social policy.

As Slovakia is an ethnically heterogeneous polity, the reproduction of inequalities could and, in fact, did occur along the ethnic line. I argue that the overall progress is being achieved at the expense of a sizeable segment of one ethnic minority – the segregated Roma communities. Therefore I illustrate the way in which a universal, group-neutral social policy adopted in a polity marked by ethnicized socio-economic inequalities may further reproduce and reinforce those inequalities, both materially and symbolically. It is precisely Roma who can be arguably seen as a group that was at the highest risk in the general context of transition. The reform may have further broadened the gap between a significant portion of this minority and the rest of the society and left only minor prospects for the eradication of ethnicized inequalities in the country.

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<sup>1</sup> This text is based on the exploration of the discourse of social policy in Slovakia and processed in more detail in the M.A. thesis submitted to the Nationalism Studies Program at the Central European University in Budapest in the academic year 2005/2006. Complete thesis entitled *Ethnicized Laziness: Roma in the Slovak Social Policy Discourse* is accessible at <http://www.ceu.hu/nation/theses/Dral.pdf>.



I adopt an alternative approach to the conventional policy analysis and examine the social policy from the perspective of hidden ethno-political struggles over scarce resources as they are reflected in the existing power relations. These struggles may be analyzed, among other domains, also in the domain of public *discourse*. This approach by no means neglects the 'material' outcomes of social policy. However, as I perceive the two dimensions, material and symbolic, to be complementary and equally important, I contend that crucial to the study of public policies are also social meanings, concepts, definitions, preconceptions, stereotypes and discursive practices which shape the policy in various domains – academia, politics, media and within the broad public. The primary focus of this analysis is not the social reform as such but a broader discourse of social policy which accompanied the reform itself. Even if the discourse was triggered by concrete decisions and embedded in concrete measures as set out in several policy documents; the analysis goes beyond such narrowly conceived policy domain.

## 1. THEORY AND METHODOLOGY

### 1.1. *Critical discourse analysis*

The conception of discourse adopted here is largely inspired by the critical discourse analysis (CDA), particularly by the work of Norman Fairclough. For him, discourse functions at once as a *mode of representation* and as a *mode of action*.<sup>2</sup> While the former refers to particular forms in which people act upon the world and each other; the latter points to the way people apprehend the world, actions and relations by construing and circulating meanings. These meanings may be widely shared social meanings, depending on the reliability or symbolic power of those who articulate and/or disseminate them and the responsiveness or acceptance of those who receive them. Some meanings can, in turn, inspire actions which points to the two-way dynamics in the relation between the two modes.

The study of discourse differs from the conventional policy analysis. It focuses primarily on the 'symbolic' implications of policy. I contend, in accord with Fischer, that basic to the study of public policy is the interpretation of social meanings.<sup>3</sup> In this respect, policymaking is "*a constant discursive struggle over the definitions of problems, the boundaries of categories used to describe them, the criteria for their classification and assessment, and the meanings of ideals that guide particular actions.*"<sup>4</sup>

In the explored case, the social policy discourse *presents* (reflects) the ways in which different actors – politicians, experts, journalists and 'ordinary' citizens – act upon each other; position themselves and others; articulate and disperse particular social meanings related to social issues. At the same time, the discourse, for its part, substantially inspires and contributes to the actions of relevant actors and thus actively *re-presents* (constructs) definitions and perceptions of social issues.

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<sup>2</sup> Norman Fairclough, *Discourse and Social Change* (Cambridge: Polity Press, 1992), 63.

<sup>3</sup> Frank Fischer, *Reframing Public Policy. Discursive Politics and Deliberative Practices* (Oxford: Oxford University Press, 2003), 139.

<sup>4</sup> *Ibid.*, 60.

Discourse is at once a text, a discursive practice and a social practice,<sup>5</sup> with an ascending level of abstraction from texts to social practices. The three levels create concentric circles. When adopted to the social policy discourse (1) the inner circle includes various texts (policy documents, expert analyses, news reports) which are all comprised in (2) the intermediate circle of discursive practices (e.g. of praising, blaming, stereotyping) and these are embedded in (3) the outer circle of broader social practices (non-discursive ways of inclusion/exclusion, institutional discrimination, etc.). By analyzing texts one can arrive at the identification and interpretation of discursive practices embedded in them and at their contributive role to broader social practices occurring in the society.

On a final note, discourse as social practice inevitably relates to the existing social structure. In fact, social structure marked by inequalities between people is both a condition for, and an effect of, social and discursive practices. Thus, on the one hand, discourse is shaped and constrained by the existing structure of social relations and the unequal distribution of material and symbolic power while it is itself socially constitutive of social relations and unequal positions through discursive means. Discourse generates (1) subjects, (2) objects, and (3) concepts and constitutes the corresponding (1) social identities (subject positions); (2) social relationships (shaped by norms, conventions, institutions) and (3) systems of knowledge.<sup>6</sup> When applied to the social policy discourse it follows that the discourse sets up social identities (of the poor, of Roma, unemployed, etc.); enacts social relationships (e.g. between Roma poor and the rest of the society); and is shaped by certain meanings, ideas, concepts, preconceptions and stereotypes (e.g. culture of poverty, laziness).

### **1.2. Analytical framework**

In the interpretation of social meanings and practices in the Slovak social policy discourse I utilized concepts of *frame/framing*, *storyline*, *subject-positioning* and *hegemony*.

*Frame* is a principle of organization “which governs the subjective meaning we assign to social events.”<sup>7</sup> Framing captures how certain actions that can be described on one level are recognized as signifying something else, whose exact nature depends on the context. These actions are ‘rekeyed’ which means that the very activity is only slightly transformed or not at all, but it utterly changes the perception of this activity.<sup>8</sup> Frames are cognitive schemes which preset perception by highlighting certain aspects and, at the same time, excluding others. As a result, it is through particular frames that various agents are able to define problems, problematize issues, state diagnoses or mobilize people. As will be discussed later, social protests in Slovakia were multiply ‘rekeyed’ which was possible due to the refocused representation of the unfolding events.

*Storyline* is a “basic linguistic mechanism for creating and maintaining discursive order, or

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<sup>5</sup> *Ibid.*, 73.

<sup>6</sup> Fairclough (1992), 64.

<sup>7</sup> Erving Goffman, *Frame Analysis. An Essay on the Organization of Experience*. (Boston: Northeastern University Press, 1986), 143.

<sup>8</sup> *Ibid.*, 45.

responding to a destabilizing jolt to the discursive order”<sup>9</sup> Storylines are typically based on the known through which they conceptualize the unknown. Each storyline is “a generative sort of narrative”<sup>10</sup> which allows actors to draw upon various categories to give meaning to specific social phenomena and narrate them in a coherent and meaningful way. Its primary function is to suggest unity in the variety of separate discursive components of a problem that otherwise have no clear or meaningful pattern of connections. Storylines are thus short-hand narrative constructions which condense large amounts of factual information intermixed with normative assumptions and value orientations.<sup>11</sup> Generative storylines of the analyzed social policy discourse are categorized as cultural and structural, the former being dominant, the latter dissenting.

The very way storylines generate narratives and various issues or events are framed determine the *position* of various actors in the discursive field. By attributing meanings social actors assign themselves and others to different positions; they claim authority as politicians, experts, officers, locals and from these positions contribute to the discourse.<sup>12</sup> Finally, the concept of *hegemony* refers to the dominant ways of constructing objects (issues) and subjects (actors), the construction being a site of constant discursive struggles. Hegemony of some discourse in a particular place and time is always an ‘unstable equilibrium’<sup>13</sup> of existing power relations which makes discourse “not only an activity in a power struggle, but a stake in it as well.”<sup>14</sup>

Adopting this analytical apparatus, the analysis identifies and interprets the ways of framing discursive objects – social issues; positioning of discursive subjects – social actors; and utilizing discursive concepts. Framing strategies reveal the way various actors construed and/or adopted social meanings, how these were further interpreted, contested, highlighted or neglected. Two broad narratives are accounted for: the dominant storyline or hegemonic narrative of ‘Roma laziness’ and an alternative storyline or dissenting narrative of ‘structural poverty’.

## 2. DISCOURSE OF SOCIAL POLICY – SYMBOLIC STRATEGIES OF SOCIAL EXCLUSION

I claim that the discourse of the Slovak social policy reform was based on the exploitation of the ethno-cultural stereotype of “Roma laziness” which was effectively re-constructed from the existing repertoire of social meanings. It functioned as an underlying idea, as a way of conceiving the problem and as a tool of positioning its subjects – the Roma. It discursively operated as *the presumption of laziness* and was present throughout the evolution of the discourse and in its various domains: its basic concepts were adopted from the existing scholarship on poverty, utilized by policy-makers during the drafting period, legislative process, policy promotion and administrative implementation well until the implementation period of the social reform and the social unrest it triggered in

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<sup>9</sup> Fischer (2003), 86.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid., 86-8.

<sup>12</sup> Ibid., 83.

<sup>13</sup> Antonio Gramsci, *Selection from the Prison Notebooks* (New York: International Publishers, 1971) (cf. Fairclough (1992), 92.

<sup>14</sup> Fischer (2003), 76.

February 2004. At this rupture the formerly implicit presumption became explicitly articulated and effectively outplayed more complex – structural – explanations of ethnicized poverty and inequality in Slovakia. As a result, the poverty of Roma was reified through the ethnicization of laziness and its essentialist attribution to Roma. This discourse not only reflected the social reality – it actively re-constructed it.

The whole discursive evolution is conceived as a spiral which captures the dynamic of descending complexity in the presentation and representation of Roma poverty within the Slovak social policy discourse. The spiral illustrates how the presentation and representation of Roma poverty is affected by rules and constraints at various institutional and discursive domains which shape, filter, narrow or broaden, prioritize or neglect the issue. The domains are interconnected and overlapping, influenced and reinforced by each other. As a result, it is very difficult to capture the resulting discourse in its complexity and ambiguity.<sup>15</sup> Admitting that my focus is selective and refraining from any claims for the ‘proper’ interpretation of the whole discourse I believe that the issue of Roma poverty passed through the spiral with this stereotypical and moralizing burden of the presumption of laziness whose ‘omnipresence’ varied only between ‘being implicitly assumed’ and ‘being explicitly articulated’.

### *2.1 Sociopolitical background of the social reform*

Slovakia, as all post-communist countries of Central and Eastern Europe, has been experiencing dual transition: the process of economic restructuring from centrally planned to market economy *and* the process of political restructuring of the former totalitarian regime to liberal democracy with limited and decentralized governance. These far-reaching structural changes significantly affected the structure of labor markets and overall socio-economic standing of the entire population.

Parallel to the economic restructuring was the effort to ease social costs and soften potential conflicts triggered by the transformation. The basic institutional mechanism developed for this purpose was the social safety net. It was designed as a temporary institution that would facilitate the gradual transfer of employees between various sectors of economy; maintain a tolerable level of unemployment; and protect those individuals who cannot participate on the labor market before falling into poverty.

Social costs of transformation, risks of unemployment and falling into poverty have not been evenly distributed across the population. From the very start various social groups were differently disposed to adapt to the changing environment. Majority of the population, despite being impoverished in the early stage of the transformation, was able to retain the position on the labor market, change jobs or make use of the new opportunities in the private sector. These individuals were the ‘winners’ of the transformation. On the other hand, ‘losers’, especially unskilled and seasonal workers, found it increasingly difficult to adapt to the change of the labor demand and to retain jobs in the declining enterprises. If they did not participate in

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<sup>15</sup> See the Appendix. The attached table lists various stages through which the issue of Roma poverty passed. Each stage has its own operational logic and adds a new dimension to the consideration. Not all stages are discussed here; I focus primarily on the domains of academia, state institutions and the media.

the informal economy; lacked support from the family or were not involved in social networks they most likely remained long-term unemployed with bleak prospects for advancement. Moreover, due to the rapid increase of living costs and gradual retrenchment of welfare their temporary impoverishment often evolved into persistent poverty and high risk of social exclusion.

In their assessments of the post-communist transition, scholars frequently attribute the position of losers to the Roma population. Although Roma have historically been among the poorest people in all countries of the region, the extent of the collapse of their living conditions is regarded as unprecedented.<sup>16</sup> High incidence of Roma poverty is viewed as a consequence of the low level of educational attainment, lack of skills and low social capital, discriminatory practices on the labor market, poor housing and health condition and many other factors which create a *cumulative disadvantage* for most Roma and potentially lead to their social exclusion.<sup>17</sup> These *structural* factors are historically inherited, often embedded in the institutional structures and enforced by a myriad of daily interactions between Roma and non-Roma. As a result, some scholars talk about the 'ethnicization of poverty'.<sup>18</sup>

The Slovak scholarship accounted for certain peculiarities of Roma poverty and for this purpose it utilized several concepts and theories of the western scholarship. At the same time, the Slovak social reform was very similar to the free-market policies adopted by conservative governments in the United States and the United Kingdom during the 1980s. Therefore, before engaging into the analysis of the Slovak social policy discourse, it is useful to briefly discuss some parallels and inspirations of the precedent cases in both the western academia and politics.

## 2.2. Poverty: structure versus culture debate

In the search for parallels in the domain of scholarship on poverty it is possible to distinguish two different approaches, which can be rather simplistically labeled as *structuralist* and *culturalist*. Structural explanations point to the broader, systemic arrangements which co-determine the status of various individuals and groups in a given society. Different positions entail varied ranges of opportunities and the corresponding variety of available life strategies and mobility paths. Structural assessment is clearly applicable to the phenomena of poverty and social

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<sup>16</sup> Dena Ringold et al., *Roma in an Expanding Europe: Breaking the Poverty Cycle* (Washington: World Bank, 2005), 2.

<sup>17</sup> *Poverty and Welfare of Roma in the Slovak Republic* (Washington: World Bank, 2002), VIII.

<sup>18</sup> Rebecca Emigh, Eva Fodor, and Ivan Szelenyi, "The Racialization and Feminization of Poverty?" in *Poverty, Ethnicity, and Gender in Eastern Europe During the Market Transition*, eds. Rebecca Emigh and Ivan Szelenyi (Westport: Praeger, 2001), 1-32. These authors hypothesize strong *racialization* of poverty in Slovakia. In fact, 'ethnicization of poverty' can refer to two different phenomena: 1. a simple fact of a disproportionate ratio of poor in one ethnic group as compared to some other group; 2. a contestable assertion that poverty has some different 'quality' for some ethnic group which reflects its position in the society. The two meanings are different but the two phenomena can co-exist in the real world: Roma may be disproportionately more poor and, at the same time, distinctly poor from the rest of the poor. If this is possible it is necessary to assess those special features, causes and consequences of Roma poverty and, if the distinctiveness is confirmed, to propose differentiated policies for the alleviation of poverty of different groups.

exclusion in the context of transition where these risks were lower for those who were included in formal and informal social networks and possessed sufficient material and/or social capital to manage the temporary hardship. Importantly, structural considerations of poverty point to the fact that unfavorable conditions or cumulative disadvantages can be hardly overcome only by individual effort. Alleviation of poverty of structurally disadvantaged often requires a systemic change.

The second stream of scholarship acknowledges the importance of structural factors for the incidence of poverty but adds another – ‘cultural’ dimension to the consideration. Some authors employ such concepts as ‘culture of poverty’ or ‘dependency culture’ which indicates certain shift in focus to the individual or collective responses to the structural arrangements or their changes.

The seminal, and controversial, account of Oscar Lewis on the ‘culture of poverty’ considers this phenomenon as an adaptive reaction to persistent poverty, chronic unemployment or underemployment which is levied by various value and behavioral adjustments. These adaptive patterns assist in coping with the unsaturated material and symbolic needs and can be further reproduced between generations. For Lewis, culture of poverty grows and flourishes in countries where

- (1) economy is based on wage labor and production for profit;
- (2) high unemployment rates persist for unskilled labor;
- (3) low wages are offered for unskilled work;
- (4) state fails to provide social and economic policies for low-income population;
- (5) dominant group promotes a set of values which stresses accumulation of wealth and explains low economic status as a result of personal inadequacy or inferiority;
- (6) kinship system is bilateral rather than unilateral.<sup>19</sup>

Obviously, except for the last characteristic, all factors point to the systemic arrangement while the second last represents a symbolic or discursive reflection of the given setting from the perspective of the dominant group. It is thus possible to interpret Lewis’ concept as ‘cultural’ only in its reliance on adaptive and reproductive mechanisms, similar to conventionally conceived ‘anthropological’ cultures. The crucial difference lies in the fact that the culture of poverty, by its very nature, does not set any imperative for its protection or preservation as is the case of ‘anthropological’ cultures. To the contrary, the underlying ethos of Lewis’ account serves as a memento that culture of poverty may emerge in a variety of historical contexts, provided that the conditions listed above are fulfilled.

Such a reading of Lewis stands in a sharp contrast with other culturalist accounts which exchanged the concept of ‘culture of poverty’ for ‘dependency culture’. While both concepts gain different meanings in different contexts, they share an emphasis on the adaptive and reproductive mechanisms. However, the concept of dependency culture differs from its older counterpart by its strong emphasis on rational behavior and intentionality which drives the reproduction of ‘dependency’. It adds economic concerns into considerations by implying that it is undesirable and morally wrong on the part of the citizens ‘entrapped’ in

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<sup>19</sup> Oscar Lewis, “The Culture of Poverty,” in *On Understanding Poverty*, ed. Daniel P. Moynihan (New York: Basic Books, 1968), 187.

dependency to use public resources and provide nothing in return.<sup>20</sup>

The 'dependency culture' argument goes beyond the account of structural factors and emphasizes adaptation of the new poor to the existing welfare system which is generally seen as too generous and not motivating its recipients to seek employment. In the rhetoric of the new right and in the popular discourse these people were frankly labeled as parasites and lazy. The new policies attempted to tackle the problem by cutting welfare provisions, introducing the obligation to work for benefits ('workfare'), and by increasing the control of abuse. This triggered criticism from the structuralist and human-rights standpoints. Several scholars rejected the 'dependency' argument by stressing the underlying structural causes and refused to 'blame the victims' for these problems.

The example of the western countries provides an instructive lesson which can teach us to avoid many shortcomings on the level of practical policy as well as public discourse. The social policy reform in Slovakia responded to very similar problems and adopted very similar remedies – unfortunately, with very similar mistakes. The analyzed discourse of the Slovak social policy seems to be a re-run of the same story.

### *2.3. Structure versus culture in the Slovak scholarship on Roma poverty*

The structure versus culture dispute seems highly applicable to the post-communist environment, especially in regard to the assessment of the 'new poverty' which emerged during the transition, and specifically in relation to one category of transition's losers – the segregated Roma. Slovak academia imported several concepts from the study of poverty and adjusted them to the peculiarities of the local context. At the same time, it is not always obvious if the adoption of terminology was coupled with paying sufficient attention to the discursive burden that some of the concepts obtained in their original contexts.

Virtually each scholarly account of Roma poverty in Slovakia discusses the conditions Roma face in the spheres of education, employment, housing, health care, political participation and human rights. Roma are seen as disadvantaged in all of them and the combination of these disadvantages is said to be conducive for falling into poverty and social exclusion in many individual cases. The causes are attributed to both the historical heritage of exclusion, discrimination and persecution as well as to the developments under transition.<sup>21</sup>

In addition, scholars frequently point to the uneven patterns of the country's development which reveals a sharp contrast between the country's 'center' and the periphery.<sup>22</sup> The Roma minority is concentrated precisely in the underdeveloped regions of the country and this justified the adoption of the concept of *double marginalization*. It refers to the condition of a significant portion of the Roma

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<sup>20</sup> Lawrence Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: Free Press, 1986); Charles Murray *Losing Ground: American Social Policy 1950-1980* (New York: Basic Books, 1984).

<sup>21</sup> See Michal Vašečka, (ed.) *Čačipen pal o Roma. Súhrnná správa o Rómoch na Slovensku* (Global Report on the Roma in Slovakia) (Bratislava: Institute of Public Affaires, 2002).

<sup>22</sup> Ľubomír Faltán, Peter Gajdoš, and Ján Pašiak, *Sociálna marginalita území Slovenska* (Social Marginality on the Territory of Slovakia) (Bratislava : Space, 1995).

population who live in segregated settlements which are themselves territorially concentrated in the marginalized regions of the country. Despite the lack of the data based on ethnicity, the two macro-factors indirectly reveal that the correlation between poverty and Roma ethnicity is high Roma.<sup>23</sup> As a result, Roma are disproportionately over-represented among the poor, relatively to their total share in the population.

Several scholars also point to the immense diversity of the Roma population itself. Especially the cultural and social gap that exists between the Roma elite and Roma poor is often highlighted.<sup>24</sup> Heterogeneity of Roma population combined with structural factors, both seen as conducive to the incidence of poverty and social exclusion of *some* Roma, is cogently summarized in the qualitative account by Radičová.<sup>25</sup> According to the author, the basic differentiation of the Romany population is conditioned by four factors: (1) the state of the region; (2) the type of integration or segregation; (3) the total number and concentration of Roma in a locality; (4) the ratio of majority and Romany local population. Radičová's basic claim is that "*in proportion to marginalization degree of given regions of Slovakia, also poverty degree of certain population group, especially the Romany group, is increasing.*"<sup>26</sup> In other words, status of the region underlies the nature and depth of poverty existing within it.

As a result, socially integrated Roma do not inhabit segregated settlements and are less likely to be poor in absolute terms (whereas they may well be relatively poor as members of any other ethnic or social group). On the other hand, Roma who live in segregated settlements experience absolute poverty and social exclusion.<sup>27</sup> What follows from this brief sketch is clear: There is a structurally determined poverty of Roma in Slovakia.

However, in the debates about poverty related to one structurally delineated category of Roma – the segregated Roma – the culturalist concepts usually enter the debate. In fact, the variance between the Slovak scholarly accounts on Roma poverty lies in the use, omitting or neglect of the cultural concepts. If used, they usually supplement the dominant structuralist argument, although in different scope and intensity. There is a significant difference in the use of culture of poverty concept on the one hand and of the dependency culture on the other. Crucially, the nature and depth of poverty (absolute versus relative); the territorial patterns of residence (segregation versus integration); and discrimination (its presence or absence) are those factors which differentiate the poverty of the segregated Roma from other groups of poor in Slovakia. It thus seems plausible to think that if the culture of

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<sup>23</sup> Roman Džambazovič et al., *Chudoba a sociálna exklúzia/inklúzia: Skupiny najviac ohrozené sociálnou exklúziou a námety na riešenie/prevenciu*. (Poverty and social exclusion/inclusion: The most endangered groups by social exclusion and suggestions for the resolution/prevention) (Bratislava: SŠPR, 2004).

<sup>24</sup> Michal Vašečka "Vzťah majoritnej populácie k Rómom" (The relation of the majority population to the Roma) in *Krajina v pohybe. Správa o politických názoroch a hodnotách ľudí na Slovensku*. ed. Oľga Gyarfášová (Bratislava: Institute of Public Affairs. 2001), 225-50.

<sup>25</sup> Radičová, Iveta. (2001a) "Chudoba Rómov vo vzťahu k trhu práce v Slovenskej republike" (Poverty of Romanies in connection with the labor market in the Slovak Republic) *Sociológia - Slovak Sociological Review* 33, 5: 444.

<sup>26</sup> Ibid., 439.

<sup>27</sup> Ibid., 443.



poverty emerges in Slovakia, it is most likely the segregated Roma who will be its potential bearers. The word 'potential' is important: from the analyzed scholarship it is not clear if there *is* already the culture of poverty in the segregated settlements or if it is the most likely scenario if there no external intervention precludes it.<sup>28</sup>

The situation is quite different in regard to the use of the dependency culture concept. Radičová, for instance, after discussing the notion of double marginalization, adds another term – the multiplied 'cultural dependency'.<sup>29</sup> This concept characterizes social life in closed communities with a homogenized structure, single pattern of social behavior which is manifested by passivity, resignation and apathy. People 'entrapped' in dependency culture follow a single life strategy which is aimed at mere subsistence. Importantly, these features are typical for the reproduced absolute poverty and are not typical features of ethnicity. It is primarily a problem of social exclusion and only secondarily an ethnic problem.<sup>30</sup>

Radičová's account is interesting precisely for its blend of the dominant structural argument on (Roma) poverty and a supplementary cultural argument applied to a specific group – the segregated Roma living in absolute poverty. It specifies conditions under which the dependency culture evolves and accounts for the interplay between structural conditions (exclusion from stratification pyramids and social networks, inequality of opportunities, cumulative disadvantages) and behavioral adjustments as embedded in the concept of dependency culture. It is worth to keep the treatment of these two dimensions in mind as further it will be marked by significant shifts in emphases between them.

Radičová herself reformulated the argument about coping strategies of the absolutely poor and segregated Roma which "*by far, do not exhaust themselves by the strategy of social parasitism*"<sup>31</sup> and divided the strategies into passive, active/work-bound and escapist, the last including reliance on the state provision and migration. Elsewhere the idea was formulated in a more ordinary way: "*The Roma from segregated settlements are significantly less interested in search for work than the Roma coming from integrated localities, in some cases they are not interested at all. Their strategy rather rests on relying on social benefits and informal economic activities.*"<sup>32</sup> Given the context in which it was asserted, it cannot be simplistically regarded as a clear instance of the presumption of laziness operating in the scholarly discourse. Radičová, in fact, explicitly rejected the simplified media coverage which alluded insincerity of Roma in looking for jobs and pointed to their engagement in the public works.<sup>33</sup>

However, when arguments *are* simplified and taken out of context, as it

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<sup>28</sup> Džambazovič and Jurásková discuss it as a possible consequence of social exclusion the segregated Roma face. On the other hand, qualitative field research indicates it might be already a reality. Iveta Radičová (2001b), *Hic Sunt Romales* (Bratislava: Space), 102.

Roman Džambazovič and Martina Jurásková, "Sociálne vylúčenie Rómov na Slovensku" (Social Exclusion of Roma in Slovakia) in 549-551 in Vašečka (ed.) (2002), 549-53.

<sup>29</sup> This is a literal translation. The text obviously points to the 'dependency culture'.

<sup>30</sup> Radičová (2001a), 444-5.

<sup>31</sup> Radičová, Iveta (2001c), "Roma = Problem," *Sociológia - Slovak Sociological Review* 33, 5: 435.

<sup>32</sup> Radičová, Iveta (2001b), 436.

<sup>33</sup> Ibid.

happened in the later development of the social policy discourse, one can retrospectively trace the nucleus of such discursive (mis-)use precisely to the scholarship on Roma poverty. Not each Slovak scholarly account provides a detailed analysis of the structural causes of Roma poverty. In some works the *possibility* of dependency tacitly turns to *reality* and is not explicitly attributed to the segregated Roma but to *the* Roma. This shift is facilitated by the fuzziness of the term 'culture' which conflates two distinct notions: Roma culture in the anthropological sense and culture of poverty / dependency culture attributed to some Roma. Regardless the crucial difference between the two, the adoption of the very same word 'culture' effectively blurs the assessment of structural roots of Roma poverty and redirects attention to the Roma culture as such, or rather to its popular image among the majority. Poverty is then seen as an integral part of Roma culture.

The conflation enables the discursive misuse of the culturalist assessment of poverty and triggers the emergence of other narratives outside the academia. These domains share a common practice of *discursive ethnicization of poverty* which differs from *ethnicized poverty* (the fact of a disproportionately high number of Roma poor). It differs in the deployment of additional meanings, partly adopted from the supposedly Roma culture. Discursive ethnicization of poverty is done in two basic modes.

The first mode is reification of Roma poverty – it appears normal that Roma are poor. This perception is based on a simplified perception of poverty as failure and in this case is applied collectively. The accompanying discursive practice is that of blaming the victims. The second, inter-related but different mode, is 'essentializing' of Roma poverty – it appears as a part of the putative 'Roma essence' to be poor. It is thus not only their fault, but their essence. This belief is reinforced by everyday experience that many Roma *are* indeed poor. The accompanying discursive practice is that of 'impasse argument' which claims that the problem is basically unsolvable and several 'reasons' are spelled out: Roma are unchangeable, inadaptable, unmanageable, uncooperative and so forth.

I contend that both modes of the discursive ethnicization of poverty are parasitic on the culturalist assessment of poverty. These discursive practices cannot make use of the structuralist argument as it downplays agency in the explanation of poverty. The culturalist approach, in contrast, depends to a large extent on *some* assessment of poor individuals in relation to their condition. The two modes are not used only in the popular discourse or 'folk sociology' but some scholars adopt them as well.

In the article entitled "Chances and Specifics of Employing Graduates of Roma Ethnicity" Lukáč bases his argument on the assertion that "***their cultural and social features became decisive for the first mass dismissal from employment in the beginning of the 1990s***", which, according to him points to the fact that: "...for a long time (even during full formal employment before 1989) most Roma expressed low regard for education in their value orientations, which is closely connected to their value positioning of work as an activity necessary for securing life necessities. ***These two basic features can be regarded as an integral part of the Roma culture, which determined their past as well as present position in the society.***" <sup>34</sup> The assertion both essentializes Roma

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<sup>34</sup> Marek Lukáč, "Možnosti a špecifiká zamestnávania absolventov rómskej národnosti" ('Chances and

ethnicity and reifies Roma poverty: the former by regarding low praise for education and work as an 'integral part of the Roma culture' and the latter by explaining 'the past and present position in the society' by these very traits.

Moreover, it is *the Roma* who are described in the article as "highly problematic" and this attribute is directly linked to their culture (or rather what author considers to be the Roma culture). The Roma are further said to be only little interested in resolving their situation by, for instance, establishing small businesses or by participating in the retraining programs. According to Lukáč, this fact '*may be related to their insolvency and also to the need of strong activity, effort and some specific capabilities required for this kind of activity.*'<sup>35</sup> Roma are apparently viewed as not disposed for 'strong activity, effort and capabilities' to do the small business. What is implied by this assertion is a clear manifestation of the presumption of laziness at work.<sup>36</sup>

In concluding, the Slovak academia generally adopted and used the concepts of 'dependency culture', 'welfare dependency' and other equivalents only to supplement the dominant structural explanation of Roma poverty. However, the structural pre-determination was not always emphasized but either taken-for-granted or simply omitted. The sequence of intertextual chain may well develop in such a way that what is clearly stated in one text; may be only cited in another; in yet another only assumed and in the last entirely omitted. As a result the initial, broadly structural, argument (with only conditional use of cultural component) gradually shifts to the predominantly cultural assessment and, almost unnoticeably, to the quasi-cultural essentialism and reification. The next stage in this development is represented by policy documents with their characteristic framing of laziness.

#### **2.4. New Social Policy: main objectives**

The fundamental component of the Slovak social policy discourse is the social reform itself which was officially termed as 'New Social Policy' (NSP). In my account I focus briefly only on some aspects of the extensive reform, especially the new regulation of material need, social provision as well as the implementation of the pivotal principles of the reform: motivation and activation.

NSP was a complex reform which comprised amendments to or drafts of thirty laws drafted by the Ministry of Labor, Social Affairs and Family (MLSAF). The Minister Ľudovít Kaník explained the need for reforming the old social policy which, according to him, only strengthened the social safety net which led to the "*increase of ineffective expenditure and passivity of recipients.*"<sup>37</sup> The cause of expensiveness and inefficiency was seen in the lack of motivation on the part of welfare recipients to do something in return for the provision of benefits. This was pronounced as if the existing legislature stipulated such reciprocal activity, which

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Specifics of Employability of Romany School Graduates) Sociológia 33: 5 (2001), 512. (emphasis added)

<sup>35</sup> Ibid., 514. (emphasis added)

<sup>36</sup> Ibid. The author does not mention that besides insolvency, also lack of education, narrow social networks or low social capital may explain why many Roma do not make use of this opportunity. If he explored the roots of this condition he could have hardly stopped in pointing simply to the lack of effort and activity.

<sup>37</sup> *Nová Sociálna Politika* (New Social Policy), p. 2.

was not the case. Recipients who used the system were thus indirectly blamed for something which was not even regulated in the existing legislation.

The reformers also contended that the old system instead of assisting citizens with lowest incomes to escape from 'dependency' on benefits, further deepened such dependence. This was caused by only a marginal or even no increase of net incomes after the unemployed found a job under the old system. The condition was conceptualized as a *poverty trap* and was assigned a major role in creating the dependency culture which "*suppressed the natural human trait of labor activity.*"<sup>38</sup>

NSP followed two general principles that "*each meaningful legal work is better than inactivity*" and "*employment growth is the most effective way to fight against poverty.*"<sup>39</sup> In regard to the vulnerable groups, it spelled out a precept to make the long-term unemployed actively participate in resolving their hardship through the measures of the 'Active Labor Market Policy'. The slogan adopted for the whole reform was "Making work pay."

The recurrent emphasis on enhancing motivation (which was present already in the electoral and government program documents), suggests that incentive to work was considered as generally low. It was especially the long-term unemployed who were discursively positioned in this way without accounting for other than motivational reasons for maintaining their unemployment status. The wording of the cited documents reveals that they were inspired by the Slovak scholarship in a very selective way: they did not account for uneven development of the country, lack of jobs in some regions or other structural factors leading to the high unemployment rate. The invocation of motivation and activity along with frequent remarks on the pervasive abuses of the social system reveal the presumption of laziness was clearly operating in the policy discourse, although still implicitly. Gradually it became the dominant theme, primary target of the policy measures and explicit referential point of its accompanying discourse.

### **2.5. New Social Policy: main measures**

MLSAF fundamentally revised the system so that, in the rhetoric of the Ministry, social assistance could no more be conceived as a substitute for regular income. The new regulation of material need enabled this shift and substituted the old understanding of social provision as an unconditional compensation with the conception of a conditioned temporary aid.

Two draft regulations served as a base for the NSP: amendments of the legislation on material need and on subsistence minimum.<sup>40</sup> Rationale for their adoption was summarized in the Explanatory Report of the former, which informed that the ratio of people to whom social provision is granted together with 'jointly considered individuals' amounted to 11% of the country's population whereas there were significant regional differences in the scope of the provision. Furthermore, the Report contended that the receipt of social benefits unmotivated especially those individuals "*who lack deep-rooted working habits, have generally lower standard of living*

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<sup>38</sup> *Ibid.*, p. 6.

<sup>39</sup> <http://www.employment.gov.sk/mpsvrsr/internet/home/page.php?id=984&lang=en>

<sup>40</sup> Zákon č. 599/2003 Z.z. o pomoci v hmotnej núdzi (Act on Assistance in Material Need No. 599/2003), Zákon č. 601/2003 Z.z. o životnom minime (Act on Subsistence Minimum No. 601/2003 Coll.).

and more numerous families as is common in the society.”<sup>41</sup> Report’s politically correct language had an obvious addressee – the Roma – as laziness, poor living standards, and numerous families are common attributes attached to them by the majority. Legislators’ implications also corresponded with the popular belief that Roma extensively abuse the social system by refusing to work and having a lot of children in order to be entitled for higher benefits.

The reform slogan ‘Making Work Pay’ was achieved by the retrenchment of welfare to the extent when only physical survival was guaranteed by the state. The new determination of the relationship between the material need and subsistence minimum was based on a premise that the fact of being in material need depends on the income not only of the person in question but also of ‘jointly considered individuals’ (members of family or household). If the sum of their joint incomes exceeded the sum of the subsistence minimum set by the law they were *not* in material need and became ineligible for social provision. If the sum was lower the considered persons were in the condition of material need but, most importantly, it “does not necessarily mean that they are automatically eligible for social assistance.”<sup>42</sup> Social provision was provided solely “to secure fundamental life standards,”<sup>43</sup> which is not identical with the subsistence minimum. This draft legislation passed the Parliament without substantive changes. The only remarkable modification occurred in the title of one law: the initial *Act on Alleviation of Material Need*’ was renamed, quite tellingly, to the *Act on Assistance in Material Need*.

The NSP also simplified the old social system by establishing only one basic social benefit and four allowances: health care allowance, housing allowance, security allowance and activation allowance. In regard to this scheme, a crucial change emerged in conditioning the eligibility to allowances by the confirmed eligibility to the basic benefit. The conditionality of social provision was stipulated in several ways and, in effect, further complicated the receipt of additional financial means. The receipt of some allowances designed as compensatory mechanisms was determined in such a way that they were inaccessible for many claimants. As a result, the lowered social income could not increase and reach the subsistence minimum.<sup>44</sup>

The overall philosophy of the NSP was epitomized by a new activation allowance which was considered to be the system’s pivotal provision. It was granted to those individuals who got activated in the community services, voluntary work; who participated in the retraining programs or otherwise improved their qualification.<sup>45</sup> The activation programs were organized primarily for the long-term unemployed and ‘socially dependent’ citizens. Activation was designed as an

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<sup>41</sup> *Dôvodová správa k Zákonu č. 599/2003* (Explanatory Report to the Act No. 599/2003 Coll.)

<sup>42</sup> *Nová Sociálna Politika* (New Social Policy), p. 8.

<sup>43</sup> Explanatory Report., Article 10.

<sup>44</sup> For instance, housing allowance was provided monthly for a household except for the cases when the claimant did not pay off the debt caused by the unpaid expenses connected to the usage of housing. It is well known, that it is just the inhabitants of segregated settlements who are often in debts for the payment of utilities. The new legislation did not help them to get rid of the debts (for instance by loans) but prevented them for claiming the benefit for the very reason of being indebted. *Nová sociálna politika* (New Social Policy), p. 15-7

<sup>45</sup> *Ibid.*, p. 6.

instrument for regaining or maintaining working habits which would increase employability of their participants on the labor market.<sup>46</sup> Duration of activation activities was set for a minimum of ten hours per week.

By the very nature of labor subsumed under the term 'activation works', by their conditional relation to welfare provision, and by their, in fact, compensatory function for the cut social provision, these new social policy measures strongly resemble the workfare schemes introduced in the United States. Workfare, as the word itself suggests, is based on the requirement to perform some kind of work by those who receive social benefits.<sup>47</sup> However, workfare potentially conveys a number of other meanings and assumptions which were criticized in the western scholarship from the structuralist standpoints.

By conditioning the welfare receipt the state makes, at least implicitly, the recipients responsible for their unfavorable condition. As Wilson put it, "*it is the moral fabric of individuals, not the social and economic structure of society that is taken to be the root of the problem.*"<sup>48</sup> Workfare thus blames the victims.<sup>49</sup> This results in making those 'guilty' for their unfavorable condition redeem their guilt by participating in the schemes which fail to take into account the very reasons for which welfare provision is justified as "*welfare is provided precisely because of the handicaps suffered by the least advantaged.*"<sup>50</sup> In other words, citizens are being denied provision because of underlying structural causes for which they are not responsible such as the change of the structure of economy in the context of transition with the subsequent change of labor demand.

Blaming the victims triggers the attribution of a whole range of mostly negative characteristics to the poor and unemployed. They are used to stigmatize them in supposing tendency to deviant or unacceptable behavior. Ethnic minorities are one of the easiest targets. In these cases blaming can take shape of a cultural argument – negative traits or behavior are perceived as stemming from some distinctive culture which makes its members not only responsible for being different but it effectively sanctions their difference. It thus essentializes and reifies their difference at once. Social policy can be apparently a very effective instrument for triggering such discursive punishment if a cultural group is predominantly poor, as in the case of the Roma in Slovakia.

## 2.6. Riots

Media coverage of the social unrest triggered by the NSP represents the domain of the social policy discourse in which the presumption of laziness got explicitly articulated. What follows is a selective illustration of some of its multiple layers in the period between February 12 to March 1, 2004.<sup>51</sup> It demonstrates how the

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<sup>46</sup> *Nová sociálna politika*, p. 21.

<sup>47</sup> Sandro Cattacin et al. "Workfare, Citizenship and Social Exclusion," in *Citizenship and Welfare State Reform in Europe*, ed. Jet Bussemaker (London: Routledge, 1999), 58.

<sup>48</sup> William J. Wilson: "Citizenship and the Inner-City Ghetto Poor," in *The Condition of Citizenship*, ed. Bart van Steenberg (London: Sage, 1994), p. 53.

<sup>49</sup> Alan Walker, "Blaming the Victims" in *The Emerging British Underclass*, ed. Charles Murray (London: Institute of Economic Affairs, 1990), 74.

<sup>50</sup> Cattacin (1999), 64-5.

<sup>51</sup> The whole corpus of media outputs comprised more than 500 news items. All translations are mine.

media coverage and popular perception merged with others domains of discourse (scholarly, political) to the point when their separation does not make sense anymore.

### **2.6.1 How riots became news**

The events following the launch of the social reform in February 2004 were initially perceived as small-scale, scattered and insignificant protests of few people in eastern Slovakia. Thus they did not make it to the headlines of the 'national' media and appeared at most in the regional press. Similarly, the first robbery was reported in the evening news of TV Markíza only retrospectively and four days after it happened.<sup>52</sup>

The protesting citizens were initially 'invisible' in the public. However, once the protests dispersed, negativity combined with peculiarity; criminal nature of some of the reported actions and, perhaps most importantly, the involvement of the visible 'others' made the unrest a dominant theme for the weeks to follow. What became to be called the 'Roma riots' was monitored on the front pages for two full weeks in all Slovak media, reflected in the foreign press and noticed by international organizations. However, the riots first needed to become 'Roma' to gain such attention.

### **2.6.2. How riots became 'Roma riots'**

It is undisputable that after the launch of the reform local citizens engaged in peaceful public protests in a number of municipalities. These individuals expressed their discontent with the NSP which harshly affected their living condition and, in their view, did not provide them with sufficient opportunities to compensate the cuts of social income. This social motif was explicitly declared from the very start. Nonetheless, the protests were soon rekeyed and generalized as 'Roma unrest' instead of 'social unrest'. The nature of actions did not change much but their perception changed dramatically.

The temporal co-occurrence of the protests in some municipalities and of robberies in others were soon discursively linked and, in effect, compromised the demands of the protesters by the criminal deeds of the rioters. The Roma ethnicity again served as a linkage – both protesters and rioters were put into a single category of Roma. This justified the conflation of different individuals, claims and actions under one ethnic label.

Despite the fact that most of the protests were peaceful, the definition of the events as 'Roma riots', 'Roma unrest' or 'Roma robberies' was adopted and reproduced in the media. In the course of few days the labeling got much more expressive: "Roma mob hysteria"; "Roma raids"; "Roma looting"; even "Roma war"<sup>53</sup> For instance, the daily Nový Čas published the following banner headlines in four consecutive days:

*"Nothing Will Stop the Roma Anymore!";  
"They're Already Plundering Central Slovakia!";*

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<sup>52</sup> Evening News, TV Markíza, Feb. 18, 2004.

<sup>53</sup> In the sequence: TV Markíza on Feb. 18; Radio Twist and TV Joj on Feb. 21 and Daily Nový Čas on Feb. 25.

*"The Roma War: Eastern Slovakia Threatened";  
"The Revolting Roma Stopped by Weapons".<sup>54</sup>*

Obviously, these headlines published in the daily with the highest circulation in the country played on the sentiments of threat. They deliberately portrayed 'them' (*the Roma in general, not protesting Roma or simply protesters*) as threatening 'us'. They also suggested that Roma, while looting, move westwards and therefore threaten the entire country. Eventually, the daily 'appeased' its readership, it had itself mobilized, by reporting on the police repression. In the given context, the headlines did not only portrayed the protesters stereotypically but they generalized the image to the whole Roma population with a simultaneous consecration of the use of force against them.

Importantly, the shifts in framing were publicly reaffirmed by authorities. On a press briefing on February 24 which followed the extraordinary session of the Government (which decided to deploy the military in eastern Slovakia) the Minister of Interior declined accusations about the initial underestimation of the problem by saying: *"There is no reason to speculate if the situation is serious or not-so-serious. Well, we all see, that **the Roma problem** has now gained new features and that something occurred which has never before: **the Roma unrest**."*<sup>55</sup> The Minister thus excused the initial inaction of the authorities by adding the Roma ethnic marker to the description of the events. He did not explain their seriousness by pointing to the intensity of violence or the scope of damage, he only pointed to its 'Roma' nature. On the direct inquiry of a journalist *"You stated yesterday that it has not been yet a social unrest. Is it already a social unrest today?"* the Minister responded briefly: *"It is the Roma unrest."*<sup>56</sup> The answer of the Minister explicitly differentiated the 'social' and the 'Roma' and coined the authoritative apprehension of the problem. The Minister did not have to explain what he meant by defining the situation in this way; his utterance was still meaningful and convincing as it hinged upon a tacit assumption that everybody knows what kind of problem the Roma pose.

### 2.6.3. How Roma became rioters

Journalist: *"Mr. Minister, are you not worried that the change of the system of social benefits will increase crime rates?"*

Minister of Labor: *"The first hit will not be very pleasant, especially for the Roma community, that must be admitted. However, it was more than time to cut the vicious circle when the whole enormous group of citizens, an ever-increasing group of citizens favored the system in which entire families did not work since young age, did not have deep-rooted work habits and in this way more and more generations were growing up. That is a system of total addiction, dependency culture on state assistance and loss of natural habits."*<sup>57</sup>

*"Minister of Social Affaires Ľudovít Kaník says that the changes of social system 'are*

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<sup>54</sup> Daily Nový Čas, Feb. 23-6.

<sup>55</sup> Daily News, TV TA3, Feb. 24.

<sup>56</sup> Ibid.

<sup>57</sup> News, TV TA3, Feb. 18. Interestingly, the notion of dependency is translated to Slovak as addiction ('závislosť') rather than dependency ('odkázanosť'). This semantic shift is relevant as one can be 'addicted' to social benefits in the same way as to drugs or alcohol. The negative connotation is less apparent in the case of 'dependency' as it rather implies a need for assistance.



*not ethnically driven' and only divides people on active and passive."*<sup>58</sup>

These apparently contradicting statements uttered by the same Minister underlie the most contentious aspects of the social policy discourse – the implicit/explicit targeting of the policy as well as the attribution of laziness to *the* Roma. As discussed before, the Slovak scholarship provided a theoretical framework and spelled out the specific target group for which activation seemed necessary. When the riots occurred various experts voiced their notion of 'dependency culture' or 'culture of poverty' in the media, although the emphasis considerably shifted: it was not anymore presented as a probability but as matter of fact.

Naturally, the state authorities did not question whether the Roma in Slovakia did live in the culture of poverty. To the contrary, the reformers utilized the argument in their public defense of the adopted measures. However, they did so very selectively and pointed to the need to end the unacceptable situation of dependency by cutting the welfare and through this by motivating the unemployed to get jobs. The provision of social assistance to those who were not capable to get out from the supposed dependency on their own was thus narrowed to the restrictive policy. Drawing precisely on the culture of poverty concept, the Minister of Labor rejected any responsibility for the unrest that followed the launch of the reform: *"Responsibility for the situation rests in the decade-long habit to live on benefits. Such a situation is simply unacceptable (unbearable)."*<sup>59</sup>

The initial, more or less, structurally based argument about dependency as a habitual response to the social-structural conditions slipped down to the discursive practice of linking some cultural traits, attributed to *the* Roma in general, with their social situation. The practice thus both essentialized the putative Roma nature and reified their poverty. Given the strength and pervasiveness of such assertions, the dissenting opinions could have been articulated only defensively. The critics were forced to prove the opposite if they wanted to challenge the presumption of laziness. The dispute was carved in this way and it did not really matter anymore if the supposed laziness was caused by structural or cultural factors.

#### **2.6.4 Laziness versus lack of jobs**

*"If there are no created job positions people may be active, but don't have the opportunity."*<sup>60</sup> (Local NGO director)

*"It is an absolute nonsense that there is not enough work. Anybody who has ever been in a Roma camp knows that there is a lot of work and if they only cleaned it up, removed all trash, there is a lot of work even for twice as many people."*<sup>61</sup> (Minister of Labor)

If the government decided that the provision of welfare would be conditioned by work, it would be reasonable to expect that it would simultaneously ensure its

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<sup>58</sup> The Slovak word 'podfarbené', translated here as 'driven', literally means 'colored'. "Ministerstvo práce: My Rómom nerobíme zle" (The Ministry of Labor: We do not do bad to the Roma), Feb. 20, Daily Sme.

<sup>59</sup> TV Markíza News, Feb. 21.

<sup>60</sup> "Polícia vraj už kontroluje situáciu" (Reputedly, police already controls the situation), Hospodárske noviny, Feb. 24.

<sup>61</sup> "Mimoriadne rokovanie vlády o rómskom rabovaní nebude" (Extraordinary cabinet session about the Roma robberies will not be held), Národná obroda, Feb. 23.

availability. However, the public works set up by the NSP were inherently limited by the demand on the part of the municipalities or other institutions and their ability to pay the labor. Besides the disputes about the Roma (un)willingness to work the discourse of social policy thus had another dimension – a race in approving or disapproving the availability of jobs.

Closer reading of the excerpts quoted above suggests that the two ‘camps’ referred to two different things. The Minister claimed that there is an enormous amount of work in the messy environment of the Roma settlements. He talked about *work* to be done. On the other hand, the NGO representative referred to *jobs* which were not created and are generally unavailable in the regions where the segregated Roma live. The notions *work* and *job* do have two equivalents in the Slovak language – ‘práca’ and ‘zamestnanie’ – but both are commonly expressed by the word *práca*. Therefore if one talks about plenty of ‘práca’ in the settlements one does not talk about the available jobs but the work to be done.

The ‘laziness versus lack of jobs dispute’ comprised several other layers which cannot be discussed here in more detail. Suffice it to say that one layer of dissenting voices emphasized discrimination on the labor market as a major factor voiced by many Roma. Another layer emphasized structural causes of high unemployment of Roma as discussed in the scholarship and illustrated by the situation in concrete localities. The state authorities competed with the alleged lack of jobs by providing counter-examples and by appealing to the local representatives to be more active in creating job opportunities.

### **2.6.5 Social problem becoming a security concern**

The call of an extraordinary session of the Government further added to the urgency of the problem, symbolically acknowledging it from the highest levels. At the session the government adopted only one decision – the deployment of the military in the regions where the rioting occurred. The main objective was officially announced as securing or re-establishing public order and protecting public and private property. The whole issue thus got effectively rekeyed from the social issue to the security problem while its ethnicized nature remained. The troops, including special forces, were moved to suppress the ‘Roma riots’.

The Prime Minister provided his first official statement to the events in which he denounced rioting as unjustifiable by any reasons. He maintained that the riots were not triggered by the social reforms but organized by the ‘criminal elements’. According to him, the government did not underestimate the situation and did not cross the bearable threshold of social reform. Most interestingly, he supported the official stance of the Ministry of Labor: *“For thirty years there has not been enough courage to deeply think about the question why those who do not work and only speculate how to abuse social welfare earn more than those who work. Perhaps, for this reason such a moment had to come.”*<sup>62</sup> The presumption of laziness thus got confirmed from the highest executive official of the country, despite the fact that it was based on a false claim that the Roma have been living in the 30-year long dependency.

In sum, the analysis of the media coverage suggests that the analyzed events were first effectively rekeyed from a social issue to an ethnic problem (‘Roma riots’)

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<sup>62</sup> Ibid.

and later to the security issue. The Roma were positioned as undeserving poor who do not want to work and are essentially lazy. This delineation of the discursive battlefield was a much simplified and ethnicized version of the scholarly 'culture versus structure' debate.

### 3.4. Preliminary conclusions

The dominant storyline of the social policy discourse operated in the broader context of the discourse of transition. It played on the dominant leitmotif of societal change and the inevitability of reforms. The New Social Policy problematized the position of citizens and the role of state in such a way that the state was seen as too costly and detrimental for economic growth and therefore the restriction of redistribution and activation of citizens were perceived as necessary. 'Motivation' and 'activity' established the mode of apprehending and judging discursive objects and subjects.

The discursive objects of both the dominant and the alternative storylines were the social issues of unemployment, poverty and social exclusion, particularly in relation to the country's Roma. When applied to subjects, the dominant storyline, unlike the alternative one, positioned them through the victim-blaming concept of 'dependency culture', which pointed to the unacceptable addiction of Roma on welfare provision. Through this framing of the social problem, derived and simplified from the scholarship on poverty, the 'dependency culture' informed the policymaking. One of the main subjects of the NSP – the long-term unemployed, poor and socially excluded Roma – were positioned as individuals who deviate from the normatively prescribed principles which emphasized activity and sanctioned the *"lack [of] deep-rooted working habits, generally lower standard of living and more numerous families as is common in the society."*<sup>63</sup> As the policy objects became the matters of the state's withdrawal the subjects were positioned as people who do not deserve positive state intervention unless they activate themselves.

What the dominant storyline downplayed were the multiple structural disadvantages the 'dependent' individuals face and which significantly hamper their activation and motivation. This was the major point of criticism from the alternative storyline. However, due to the dominance of the dependency framing the alternative argument of structural disadvantage was in the defense. The exploration of the Slovak social policy discourse showed that even if the hegemony of the presumption of laziness was partly contested, for instance in some media, they did not reverse the reframing of the structurally disadvantaged position of Roma to the ethno-culturally attributed laziness which then 'explained' their poverty. As a result, the concept of dependency culture in the scholarship, the activation measures in the social policy and the stereotype of Roma laziness in the prevalent media reflection and popular perception had the same point of reference, although it was articulated in different ways, within different contexts and with a varying degree of complexity.

There are two important aspects I will briefly discuss in connection to the analyzed discourse: the dilemma of group-neutral versus group-specific policy-making and implications of ethnicized poverty for citizenship in the social

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<sup>63</sup> *Dôvodová správa k Zákonu č. 599/2003* (Explanatory Report to the Act No. 599/2003)

environment marked by inequalities and the resulting unevenness of power relations and economic redistribution.

### **3.4.1. Implications for policy-making**

The fundamental dilemma of policy-making in the context of diverse societies evolves around the choice between universal and differentiated policies for different groups. Interestingly, in relation to Roma poverty, both the Slovak scholarship and social policy rejected its explanation/targeting ethnically. In other words, the phenomenon was conceived not as an ethnic but a social problem. However, where the scholarship called for adopting differentiated measures to tackle some specificities of the problem in relation to some groups, the policymakers applied social policy to all groups of poor without reflecting the peculiar problem of social exclusion faced by some of them. They justified it by preferring civic or universalist approach and thus conflated the peculiarity of poverty of the segregated Roma (explained not by ethnicity but by segregation which is ethnic only in the sense that many Roma and not members of other ethnic groups inhabit segregated settlements and are socially excluded) with the ethnic approach to social policy.

As a result, the only differentiation established by the policy – the specification of the category of the ‘disadvantaged job seekers’ – proved insufficient in tackling the problem of long-term unemployment and social exclusion of the segregated Roma. The advancement of their situation is not possible only by the activation measures, even if these modestly increased the incentives for employing the ‘disadvantaged job seekers’. What is needed is a comprehensive policy of social inclusion that would take into account problems which are characteristic only for some groups, such as the unavailability of jobs resulting from the discrimination on the labor market. The social policy which restricts social income and introduces the entitlement conditioned by work should take these problems into account as otherwise the cuts of benefits cannot be compensated. Therefore, the Slovak social policy certainly *was* differentiated but it was not differentiated *enough* to assist in such situations.

It is crucial to emphasize that in order to target the segregated Roma they need not be distinguished according to ethnicity. Their poverty and social exclusion is not an ethnic problem and their ethnicity thus does not require any social policy intervention. The fact that poverty in Slovakia is ethnicized in the sense that there is an overrepresentation of one ethnic group among the poor should not justify the adoption of ethnic-specific social policies. These would stigmatize recipients and possibly render very similar outcomes as the discursive ethnicization of poverty which facilitated the merging of all Roma, including those who are integrated and employed, into one category of lazy people. In this case the division between the absolutely and relatively poor citizens (regardless ethnicity) which should have been targeted by two different policies eventually turned into a symbolic split between Roma and non-Roma which transcended the domain of social policy and reinforced the unfavorable interethnic relations between the two groups.

What is needed is neither the adoption of ethnic-neutral (‘civic’) policies which would not target the specificities of the segregated Roma nor the adoption of ethnic-specific policies which would target *the* Roma as an ethnic group. Instead of

the explicitly articulated group-specificity and insensitive group-neutrality (which is never neutral in its impacts) we should adopt group-*sensitive* policies. These would be based on the 'civic' principle but would simultaneously take into account the specificities of different groups in regard to poverty and social exclusion in the segregated settlements.

### **3.4.2. Implications for citizenship**

In regard to the issues of citizenship, persistent and reproduced poverty is certainly detrimental to social cohesion and political participation. Poverty is not only a lack of material resources but encompasses social exclusion, lack of access to social services and various psychological dimensions of being poor. Poverty and social exclusion are multidimensional phenomena which are linked to many other spheres of social life and thus should be targeted with similarly multidimensional policies of inclusion. Their implementation should not be outweighed by restrictive measures without sufficient compensations and, at the same time, should not be viewed only through the lens of fiscal constraints and the imperative of economic growth.

Rapid growth coupled with the restriction of social welfare was characteristic for the Slovak success story but the costs and benefits seem to be very unevenly distributed along the center/periphery as well as the Roma/non-Roma divide. If one can identify clear group-specific outcomes, as was the case with the restricted welfare, it is more than relevant to ask what such policies indicate about the power relations between various groups within in a single country. I contend that the identified symbolic implications of the reform are indicative of the mode of inclusion and exclusion from both material and symbolic resources in relation to different segments of the Slovak population, particularly the groups of Roma and non-Roma citizens. I tried to show how the inherited inequalities were further reproduced through the discourse and how the analysis of specific policies may uncover hidden ethno-political struggles stemming from the socio-economic and symbolic inequalities.

In regard to the interethnic relations, the provided evidence suggests, at least on the symbolic level, that the very same structural disadvantages which characterized the relations between the Roma and non-Roma in the past centuries, including the communist period, are being reproduced to a great extent also nowadays. This happens despite the fact that the Roma are not forcefully assimilated anymore and have an opportunity to represent their interests in the public domain. However, these gains did not materialize in the emergence of a strong and responsive political representation of the Roma which could more likely prevent the adoption of policies that may have negative impact on the situation of this community. The continual fragmentation of the Roma representation and general unresponsiveness of the 'majority' parties makes Roma politically voiceless and unable to effectively demand the adoption of group sensitive policies. As a result, the apparent recognition cannot prevent the unevenness of redistribution.

The reform drive of the ruling coalition in Slovakia problematized the scope of redistribution and focused on its restriction. However, in the same time when the social assistance was halved, the basic unconditional benefit fell below the defined

subsistence minimum, and the government facing social unrest refused to subsidize the creation of jobs for the long-term unemployed and socially excluded, the very same government increased the inflow of foreign direct investments by providing million-crown subsidies for each newly created job. The rationale was to increase employment and economic growth, however, the inflow of the capital was very unevenly distributed both inter-regionally and inter-ethnically.<sup>64</sup>

If one of the main goals of the reform was to save financial resources by cutting social assistance, knowing for which group of citizens it was mostly provided, and if another policy decision was to subsidize qualified job positions whose potential employees were least likely coming from this group of citizens, the overall policy was not at all about the restriction of the excessive redistribution but simply about its redirection. The very fact that poverty in Slovakia is to a large extent ethnicized and characteristic particularly for one ethnic minority gives salience to the conclusion that the overall progress of the majority was achieved at the expense of the marginalized minority.

This leads me to the final consideration of the analysis about the issues of symbolic power and symbolic violence. As illustrated throughout the text the presumption of laziness operated in such a way that it affected the apprehension and perception of objects (poverty), subjects (Roma) and concepts (dependency) which discursively (re-)constructed the 'nature' of Roma and positioned them as undeserving poor. The social policy discourse did not only reflect the social reality – it constructed it. The prevalent discursive practices were reflections of the existing social structure in which many Roma occupy the lowest positions, both material and symbolic.

As the presented analysis of the social policy discourse focused primarily on the symbolic level of social exclusion Bourdieu's conceptualization of symbolic power and symbolic violence appears to be very inspiring. Symbolic power is the power to recognize and denote things in certain ways by those who possess symbolic resources and this power is distributed very unequally. According to Bourdieu symbolic power is "*a power of constructing reality*"<sup>65</sup> and is based on the possession of symbolic capital. "*Symbolic capital is a credit; it is the power granted to those who have obtained sufficient recognition to be in a position to impose recognition.*"<sup>66</sup> Symbolic power is the power to recognize and denote things in certain ways, to construct their reality. Because society's symbolic resources are very unequally distributed the power to construct reality becomes a scarce resource. Not everybody is able to define reality, only few individuals and institutions have this capacity. The identified hegemony of the laziness storyline in the discourse of social policy does not directly reveal who concretely possess this capacity, but it clearly indicates who does not – the Roma.

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<sup>64</sup> In regard to the regional distribution, most of the new investments flew to the western part of the country. Each newly created job in Kia/Hyundai plant was subsidized by 2, 902 thousand Slovak crowns (USD 96 thousand; 3 400 jobs); in Hankook by 3, 647 thousand Slovak crowns (USD 121 thousand; 1508 jobs). Ministry of Finance of the Slovak Republic (internal document).

<sup>65</sup> Pierre Bourdieu, "On Symbolic Power," in *Language and Symbolic Power*, ed. John B. Thompson (Cambridge: Harvard University Press, 1991), 166.

<sup>66</sup> Pierre Bourdieu, "Social Space and Symbolic Power," in *In Other Words: Essays Toward a Reflexive Sociology*, ed. Loic J. D Wacquant (Cambridge: Polity Press, 1994), 137-8.

Moreover, symbolic power has different effects from other forms of power (political or economic). Its impact is more pervasive because the unequal distribution of symbolic resources affects not just what different individuals and groups can or cannot practically do, but also their ability to describe the social world itself. It affects the perception of inequalities in the social world, including the unequal distribution of those very symbolic resources themselves. This 'power of symbolic power' is often perceived as natural and is thus 'misrecognized'. Misrecognition of symbolic inequalities enables symbolic violence – „a gentle, invisible form of violence, which is never recognized as such, and is not so much undergone as chosen.“<sup>67</sup> It is an indirect form of domination which operates without formal compulsion or physical violence and can be exercised only with the complicity of those who do not want to know that they are subject to it or even that they themselves exercise it.<sup>68</sup> At the same time, symbolic violence can only be exerted on people predisposed to it – in their world of common sense, *habitus*, a world that seems self-evident.<sup>69</sup>

The inherited and further reproduced inequality of Roma in Slovakia is usually *misrecognized* as a consequence of the ethno-political struggle for material and symbolic resources. Poverty and social exclusion of a significant portion of Roma population are misrecognized as the ultimate outcome of unequal power relations and of their exercise in symbolic and material domains. The resulting inequality is achieved through the exercise of symbolic violence of the majority over this minority. High number of racially motivated attacks, of physical violence and intimidation, including that conducted by the state, is only a small, although the most visible, fragment in comparison to the symbolic violence exercised in everyday encounters, practices and words. It is a non-physical, 'gentle' form of violence which pervades inter-ethnic relations between Roma and non-Roma and which is rarely recognized. The complicity of its operation enables misrecognition on the part of those who commit it or are targeted by it, depending on their positions and dispositions in their worlds of common sense, in their *habitus*.

## CONCLUSION

Slovakia may have overcome the period when minority rights were ostentatiously breached. It seems, however, that ethnocentrism did not wither away but only gave way to its subtler and more pervasive versions. It concentrated on the struggle over material resources by symbolic means. Such a nationalism is not banal in its consequences; it is ingrained in our everyday practices and utterances. It is not less harmful as an open oppression – its operation may mark the development of the entire societies with the same force and intensity and for a very long time.

By trying to recognize our misrecognitions we can see why certain definitions of reality become dominant and others are silenced, why certain discourses become hegemonic and other dissenting. As silences can never be total and dominant definitions are always open to challenge, the uncovering of misrecognition can help us understand what is at stake in the very choice of words we use in scholarship, politics, media and everyday life. This analysis attempted to show that social costs of

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<sup>67</sup> Pierre Bourdieu. *The Logic of Practice* (Cambridge: Polity Press, 1990), 127.

<sup>68</sup> Bourdieu (1991), 164.

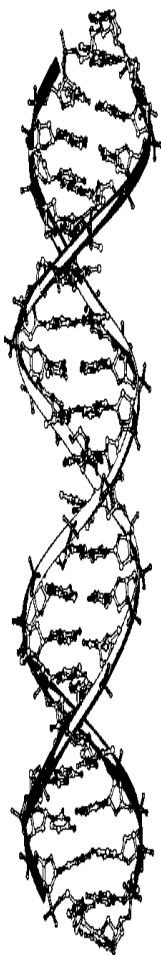
<sup>69</sup> Bourdieu (1990), 131.

transition have an important symbolic dimension which can have much more tangible consequences than one would expect. It is better not to underestimate them if our ultimate goal is to live in the societies where group belonging is not detrimental for the individual advancement.

Attribution of laziness is, after all, not a big deal. There are many lazy people in the world, including the author of these lines. However, it does become problematic when the attribution of laziness gets ethnicized – when it is indiscriminately attributed to the whole ethnic group; when this lazy ethnicity is essentialized – conceived as the decisive feature of all group members in all situations; and when it reifies problems these groups or individuals face. In the analyzed case study, the three practices were combined and caused that Roma were regarded as all lazy; their supposed laziness was conceived as their nature and this ‘explained’ their poverty.

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#### Appendix: Spiral of the Social Policy Discourse



Actors	Activity	Rules/constraints	Concerns	Dilemmas
1. academia	research	paradigms, theories, conceptualizations	scientific accuracy	culture vs. structure
2. think-tanks	expertise	economic performance	efficiency, costs and benefits	growth vs. redistribution
3. state institutions	policymaking	effective governance, social control	social problems	civic vs. ethnic principle
4. government, parliament	governance legislation	political ideologies, interests, payoffs	effective governance	public support vs. unpopular policies
5. bureaucracy	implementation	administrative procedures, local realities	enforceability	expediency vs. routine
6. PR agencies	promotion	marketing rules	media and public attention	attractiveness vs. complexity
7. media	news coverage, watchdog	media routine, entertainment	criticism, public service	profit versus ethics
8. the public	perception	meanings and stereotypes	welfare, security	fear vs. solidarity



## Surviving strategies for SMEs in economies dominated by multinational companies

### INTRODUCTION

In traditional fairy tales, the approach of a giant would cause the villagers to flee their homes and all their belongings for fear of being crushed or swallowed alive. This is not unlike the reaction of many SMEs in emerging markets in Eastern Europe, Latin America and Asia to the prospect of competition from powerful multinational companies. For many SMEs, the arrival of multinationals often appears to be a death sentence. Accustomed to dominant positions in protected markets, they suddenly face foreign rivals possessing a daunting array of advantages: greater financial resources, advanced products and technology, powerful brands, and seasoned marketing and management skills.

As protectionist barriers crumble around the world, many SME managers assume they can respond to the threat of multinationals in one of only three ways: by calling on the government to reinstate trade barriers or provide some other form of support, by becoming a subordinate partner to a multinational, or by simply selling out and exiting the industry. But like David against Goliath, with the right strategy, SMEs can defend their position and maintain their hold on local markets.

The problem is that very few companies can compete in the world of big concentrations. The relatively lightweight and somewhat clumsy **dinosaurs** in most countries have a slim chance of competing, or even surviving as independent entities, when they face the American (and a few other multinational) tyrannosaurs on their own ground.

The other field, where the small can play, may be less visible in the lofty game rooms of high finance; but can bear rich rewards for good and patient gardeners. The dilemma is how to persuade big companies to behave a bit less like hungry dinosaurs and treat us a bit less like scared sheep?

As Gerry McGovern<sup>1</sup> asked in his article of 'The Myth of the Individual': „How come if this is the age of the small player that the so-called dinosaurs are getting fatter and fatter as they gobble up more and more?"

### 1. DESCRIPTION OF MAIN STRATEGIES

Most emerging-market companies have assets that give them a competitive advantage mainly in their home market. They may, for example, have a local distribution network that would take years for a multinational to replicate. They may have longstanding relationships with government officials that are simply unavailable to foreign companies. Or they may have distinctive products that appeal to local tastes, which global companies may be unable to produce cost effectively. Any such asset could form the basis for a successful defense of the home market.

Some competitive assets may also be the basis for expansion into other markets. A company can use its access to low-cost raw materials at home, for example, to undercut the price of goods sold in other countries. Or a company may use its expertise

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<sup>1</sup> Gerry McGovern, 1998

in building efficient factories to establish operations elsewhere. Assets that may seem quite localized, such as experience in serving idiosyncratic or hard-to-reach market segments, may actually travel well. By paying close attention to countries where market conditions are similar to theirs, managers may discover that they have more transferable assets than they realize. The more they have, the greater their chance of success outside the home base.

These two parameters - the strength of globalization pressures in an industry and the degree to which a company's assets are transferable internationally - can guide strategic thinking. If globalization pressures are weak, and a company's own assets are not transferable, then the company needs to concentrate on defending its turf against multinational incursion. We call a company employing such a strategy a defender. If globalization pressures are weak but the company's assets can be transferred, then the company may be able to extend its success at home to a limited number of other markets. That sort of company is an extender.

If globalization pressures are strong, the company will face bigger challenges. If its assets work only at home, then its continued independence will hang on its ability to dodge its new rivals by restructuring around specific links in the value chain where its local assets are still valuable. Such a company, in our terminology, is a dodger. If its assets are transferable, though, the company may actually be able to compete head-on with the multinationals at the global level. We call a company in that situation a contender.

We can plot these four strategies on a matrix. (See the exhibit "Positioning for Emerging-Market Companies.") As with any strategic framework, our matrix is not intended to prescribe a course of action but to help managers think about the broad options available.

To gain a clearer view of all four options, let's look at how companies have used them to succeed in a newly competitive environment. We'll start with industries where the globalization pressures are weak, then move to industries where those pressures are strong.

Table 1

POSITIONING FOR EMERGING-MARKET COMPANIES			
		Competitive Assets	
		customized to home market	transferable abroad
Pressures to Globalize in the Industry	high	<b>Dodger</b> focuses on a locally oriented link in the value chain, enters a joint venture, or sells out to a multinational.	<b>Contender</b> focuses on upgrading capabilities and resources to match multinationals globally, often by keeping to niche markets.
	low	<b>Defender</b> focuses on leveraging local assets in market segments where multinationals are weak.	<b>Extender</b> focuses on expanding into markets similar to those of the home base, using competencies developed at home.

Source: Harvard Business Review, March-April 1999

## 2. DEFENDING WITH THE HOME FIELD ADVANTAGE

Multinationals typically optimize their operations on a global level by standardizing product characteristics administrative practices, and even pricing, all of which can hamper their flexibility. Products designed for affluent consumers often aren't profitable at prices low enough to attract many buyers in emerging markets. And even if they are, a multinational might damage its global brand by selling its products cheaply.

For defenders the key to success is to concentrate on the advantages they enjoy in their home market. In the face of aggressive and well-endowed foreign competitors, they frequently need to fine-tune their products and services to the particular and often unique needs of their customers. Defenders need to resist the temptation to try to reach all customers or to imitate the multinationals. They'll do better by focusing on consumers who appreciate the local touch and ignoring those who favor global brands.

Multinationals can't compete simply by selling standardized products at lower cost. Alternatively, high transportation costs in some sectors may discourage a global presence. In all of these industries, companies can still prosper by selling only in their local markets. MNCs lack this familiarity with local tastes; they have found their products appeal mainly to fashion-conscious city dwellers.

### *Place in the garden*

Defenders are one of the oldest - still living - ancestral reptiles in the "garden" wearing a petrified thick skin - like **hippopotamus** - around them having developed the instinct to survive under all climatic circumstances, yet wise enough not to attack on big predators.

### *Specimens of the race*

Slovart Music, s.r.o. is the music company, the oldest and largest independent music publishing house in Slovakia at present, the true cradle of classical music. Its specialty has been recording and publishing early music and pieces that did not find a way into the repertoire of the mass-market publishers. Slovart Music realize recordings in his own production predominantly with home ensembles and soloists and releases under Slovart Records label. To consistently deliver exceptional artistic value, Slovart Music employs only award winning professional artists in all its recordings. In addition, to ensure the highest quality recording, it uses only the latest, state-of-the-art recording facilities and equipments Slovart Music is the first Slovak publishing house recorded and released high resolution multi-channel format SACD or multi-medium DVD-audio. Its original repertoire and unparalleled quality has established Slovart Music the leading musical publisher in the international arena of classical music.

Just like Slovart Music, Hungaroton used to be a backbone of the music industry in Hungary. Its history reaches back to 1951 when the Hungarian state founded a record manufacturing company. Lacking competition in the region, it soon grew up to be noted in the surrounding countries too. After the liberalization of the market in 1988, Hungaroton Record Company (MHV) almost collapsed under the pressure of new western music and the technical revolution. Through several privatization links, it eventually ended up at Fotex group in 1992. The organization became a firm member since then, though it is not clear whether they are over the lean years. The technical revolution - CD copying, File sharing in the Internet, Mp3 players - can even further

horrifies the present market situation; they are dreading from attacks of foreign publishing companies too.

In the meantime, they do not give up and try to defend their position as much as they can. And obviously, they are doing an accurate job. They are not tempted to follow the strategy of big multinationals. They concentrate on customers who appreciate the local touch by focusing on Hungarian serious music. The company releases 150 new records annually, out of which 80 is of serious music, or renewed classics (Bartók, Kodály, for instance). On the other hand, they working with 'youngsters' too, like Groovehouse, whose talent is a promising business opportunity to undermine and have also proved the expectations by obtaining many golden record awards and miscellaneous prizes from Bravo and Golden Giraffe.

They do not want to lose the battle with technical revolution, too, rather surf the wind of it when made the decision to publish the lead products in DVD, as well, with digital surround effects. They are also planning to build a website, from which their customers can download their favorites in a minute.

Generally, we can say, Defenders may have to bear the loss of losing some part of their market, but by finding their core target group and watching and fulfilling their needs can result them a sustainable – yet smaller in size – and stable business opportunity, which hardly can be threatened by foreign big multinationals that are not aware of the knowledge the company have collected from the local markets at the very neighborhood of its customers.

### 3. EXTENDING LOCAL ADVANTAGES ABROAD

**Extenders** seem to have realized the goals in the home market and feel strong and self-confident enough to step onto foreign lands with their proved strategies and range of goods. They want to run forward to collect as much information as they can before the dinosaurs might arrive.

Extenders have to be fatten up enough from the domestic market to cover the lost of weight may happen at scouting unknown paths. They are convicted of the good quality and competitiveness either of their product, service or business strategy. Extenders cover and focus only on niches that are generally provides more than usual profit margins and short return on investment. Their product is often a result of a research; an invention protected by patent.

#### *Place in the garden:*

Extenders are relatively new creations that have the skill to get relatively easy access to niches – like a **giraffe**. They are wandering to foreign places if they see fresh green on trees and settle down to feed if they sniff no bigger predators in the neighborhood.

#### *Specimens of the race:*

The Hungarian Fornetti differs from the former companies in many ways. It was established only in 1997. However the company is just 10 years old, one could look at it as the successful realization of the "American dream", and it goes over any Hungarian dreams, undoubtedly. The company has 3000 franchise partners, out of which 1000 are situated outside the Hungarian border, in 14 countries. Beside Eastern-European target markets, Fornetti was impudent enough to step on the dreadful "Euroland", too, where the biggest rivals have been kneading dough for hundred years and got fatten on lean

flash of small bakeries decades ago. Thus they ventured to trial the market of Austria, Italy, Germany, Sweden, Great Britain and so on through a long list.

Fornetti was smart and brave enough to find the market niche and exploit it in the proved way, they experienced in Hungary. They have created clear franchise system, they make good-quality and tasty mirlit small-cakes - so far unknown for the market - and they try to invent new flavors according to the customers' needs.

Franchise is a solution, provided the system is very precise, practical and can be easily and clearly looked through by interested firms. Last year, on 'Franchise Europe' magazine's 'Best 500' list, Fornetti was taking the 3<sup>rd</sup> place among European franchise systems, a list led by big MNCs like Mc Donalds and Tecnocasa.

The Polish company VOBOS can be a good example for how to exploit a patent protected invention in the construction industry. They are bringing to the market the very latest gypsum-cardboard technology for finishing corners and angles in the interior decoration industry. The flexible material raises the quality of workmanship in dry building, while significantly shortening the time of construction with gypsum-cardboard.

These panels also allow the finishing of any curve and column (of a minimum average of 12cm, and a maximum height of 6 meters), arches and curved walls without weakening the integrity of the material. Thanks to the world patent, they are protected from the attacks of the big multinationals in the sector, such as Lafarge, Knauf, or Rigips.

#### 4. DODGING THE ONSLAUGHT

**Dodgers** are softball players that live according to clear rules and weak enough to catch up with breaking force of multinationals. Their customers are not loyal to the brand, or simply the product can easily be substituted with a similar one. The loss can be charged to the technological revolution, changed customer habits, or diverted consumer needs by an impressive and agile marketing campaign. They usually become degraded to a lower distribution level, or they are pressed to simply quit the market, the sooner the better, to minimize loss. In a more favorable situation they become accompanied with a stronger multinational by creating a joint venture or a sub-contractor relation.

##### *Place in the garden*

Dodgers are gentle, tamed and prideful ungulates grazing fat meadows in the open-air - like **buffalos** - that, if not watching carefully, can easily be a pride of cruel predators. They have a better chance to survive creating flocks.

##### *Specimens of the race*

Skoda had enormous investments in capital-intensive manufacturing (not to mention a large number of jobs) that the Czech government was understandably reluctant to drop in order to refocus on other parts of the business.

When markets opened in Eastern Europe, Skoda's position became untenable. Multinational carmakers arrived with the sort of insurmountable advantages made possible by their global scale: superior models, well-known brands, and financial muscle. The Czech government soon sold the company to Volkswagen, which subsequently restructured Skoda's operations, invested heavily in new products and technology, and positioned it as the value brand in Volkswagen's global line of

vehicles.

Just as defenders focus on market segments responsive to their local strengths, the most dodgers move to links in the value chain where their local assets still work well. But, as Skoda's experience shows, not all companies can make the jump that dodgers have to make. Some may be able to restructure around distribution and service because it was already active in those areas; Skoda had little room to maneuver because it was devoted almost entirely to one part of the value chain.

While distribution and service are common resources for dodgers, there are others. One approach is to supply products that either complement multinationals' offerings or adapt them to local tastes. When Microsoft moved into China, for example, local software companies shifted their focus from developing Windows look-alike operating systems to developing Windows application programs tailored to the Chinese market.

Dodging may be the most difficult of the four strategies to execute because it requires a company to revamp major aspects of its strategy - and to do so before it's swept under by the tide of foreign competition. But by focusing on carefully selected niches, a dodger can use its local assets to establish a viable position.

## 5. CONTENDING ON THE GLOBAL LEVEL

**Contenders** are hardball players that are smart, swift, agile and always in action, not satisfied with the status-quo. The management is well trained and has special sense to carry out missions. The company turns a high percentage to R+D and marketing means. They improve the company skills to best match the leading multinationals, in addition they find solution to the missing points too, which they exploit maximally, as well.

If their assets are transferable, they may be able to become full-fledged multinationals themselves. The number of these contenders is steadily increasing, and a few, such as Acer of Taiwan and Samsung of Korea, have become household names. The reasons for their success are similar to those of any thriving company that competes in a global industry. However, contenders often have to take into consideration a different set of opportunities and constraints. Most contenders are in commodity industries where plentiful natural resources or labor give them the low-cost advantage.

Contender 'satellite companies' are able to transfer the knowledge it gained by being part of a production consortium directly to its core business. But finding a viable niche in a global industry usually means an extended process of restructuring. Many companies may have to shed businesses that can't be sustained on the global level. To many managers in emerging markets who are conscious of links between their businesses, that process will be difficult. But shedding businesses, outsourcing components previously made in-house, and investing in new products and processes are the keys to repositioning contenders as focused, global producers. Indeed, the need to get smaller before getting larger is one of the major themes in the corporate restructuring process under way in Eastern Europe.

### *Place in the garden:*

Contenders are moving in the air, being really hard to see and attack. They are relatively small, but has a strong body, strong will - like a **vulture** - and do not fear to

follow the steps and stay behind of Tyrannosaurus Rexes. We can find them always around the big predators, watching them bear down on the enemy. Following, they dive under too and have a feast on the meat that was left over or not recognized by big predators.

### *Specimens of the race:*

Asseco Slovakia a.s. is an important Slovak system integrator and supplier of IT solutions, technologies, and services for financial institutions and commercial companies. The company has been established in 1999. Product portfolio of the company consists of banking and insurance information systems, information systems for building societies, systems for payment cards, health information systems, e-commerce, reporting and custom-made solutions. The list of company's key clients includes big international financial and non-financial institutions.

At the end of 2004 the company formed a strategic partnership with a similar Polish software company. The idea of both companies to make this decision was especially the trend of IT market globalization and the related low ability of the local companies to compete in canvassing clients by multinational suppliers of IT services. Their ability was to grow, cross the border of the domestic market and gradually develop a strong group of ICT services providers on the Central-European market. The group's turnover for the year 2005 reached SKK 2 billion.

Asseco Slovakia aims at the Slovak, Czech and Hungarian market; Asseco Poland at the Polish, Russian and Ukrainian market. Currently the commercial activities reach also the Romanian market, where Asseco Slovakia operates in the building savings market.

In Hungary, Raba, for example, used to produce a diverse line of vehicles and components - from engines and axles to complete buses, trucks, and tractors. When markets in Eastern Europe opened, the company faced a collapse in demand. Yet as the automotive industry rapidly consolidated globally, Raba managed to avoid Skoda's fate. It focused on the worldwide market for heavy-duty axles, a segment in which its technology was fairly close to the standards of international competitors. Restructuring has paid off, especially in the United States, where the company has captured 25% of the large market for heavy-duty tractor axles. Axles now account for over two-thirds of Raba's sales, and nearly all of them are exported.

By contrast, the company's remaining operation in the wider engine and vehicle market, where it operates only in Eastern Europe, is facing a severe challenge from such major multinationals as Cummins and DaimlerChrysler. Despite Raba's extensive service network, the globalization pressures in that industry, throughout its value chain, may be too strong to withstand.

Perhaps the greatest challenge for contenders is to overcome deficiencies in skills and financial resources. Especially in high-tech industries, where product life cycles are short, contenders are often put at a disadvantage by their distance from leading-edge suppliers, customers, and competitors. The cost of capital is also much higher for them than it is for their multinational rivals, a direct result of the greater political and economic risk in emerging markets. The most successful contenders - those that have moved beyond competing solely on the basis of cost - have learned to overcome those disadvantages by accessing resources in developed countries.

An extreme example is Korea's Samsung, which moved to the frontier of memory

chip technology by establishing a major R&D center in Silicon Valley and then transferring the know-how gained there back to headquarters in Seoul. But even contenders in mature industries can benefit from looking abroad.

## 6. MANAGING TRANSITIONS

A recurring theme in these examples is the importance of being flexible in response to market opportunities. This familiar advice is often forgotten by managers from emerging markets, for whom industry boundaries have traditionally been taken as a given, in many cases established by government mandate. Liberalization is now making the structure of many industries much more fluid, and managers exposed to new kinds of competitors need to realize that they can respond by positioning their companies in a variety of ways.

By better understanding the relationship between their company's assets and the particular characteristics of their industry, managers can also anticipate how their strategies may evolve over time. As more and more companies learn to compete in global markets, we are bound to see a growing number of aggressive contenders like Asseco. But few are likely to make the jump soon, in part because globalization pressures in many industries will continue to be weak. We suspect that many of the most successful companies will remain focused on their local markets, strengthening their main sources of competitive advantage. Others will build on a successful defense of their home base and look for opportunities abroad, but they may never make the final step up to global competition. Managers will need to revisit their assumptions and conclusions as the capabilities of their companies develop. Not only will managers find their strategies likely to evolve over time, but the nature of their industry may change as well. In many emerging markets around the world today, we've found a fundamental dynamic. Multinationals are seeking to exploit global scale economies while local enterprises are trying to fragment the market and serve the needs of distinct niches. The former bring an array of powerful resources that can intimidate even the most self-assured local manager. But like David against Goliath, the smaller competitor can rise to the challenge and prevail.

## CONCLUSION

After all, how can EMCs compete in the face of the vast financial and technological resources, the seasoned management, and the powerful brands of, say, a Compaq or a Johnson & Johnson? Those options vary, depending on the strength of globalization pressures in an industry and the nature of a company's competitive assets. In the worst case, when globalization pressures are strong and a company has no competitive assets that it can transfer to other countries, it needs to retreat to a locally oriented link within the value chain. But if globalization pressures are weak, the company may be able to defend its market share by leveraging the advantages it enjoys in its home market. Many companies in emerging markets have assets that can work well in other countries. Those that operate in industries where the pressures to globalize are weak may be able to extend their success to a limited number of other markets that are similar to their home base. And those operating in global markets may be able to contend head-on with multinational rivals. By better understanding the relationship between their company's assets and the industry they operate in, executives from emerging markets have to gain a clearer picture of the options they really have when multinationals come to stay.



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## **The obstacles of social inclusion of disadvantaged youth: Lithuanian experience in comparison with other EU countries**

### **INTRODUCTION**

The discourse of social inclusion and exclusion became particularly important during the last decades due to attempts of welfare states to be more socially responsible, to strengthen social integration and actively involve all social groups to participate in solving of social problems. The problem of social exclusion is getting headlines in recent political declarations. The renewed Lisbon strategy 2005 puts great emphasis on combating social exclusion through educational, social and employment policy measures. This issue is also reflected in all National Lisbon Strategy Implementation Programmes 2005-2008 of EU countries. Besides there are special political strategic documents directed towards combating social exclusion - National Action Plans for Social Inclusion in all EU countries.

There is some main tendency to understand social exclusion as phenomenon where people or groups are excluded from various parts of society or have their access to them impeded. In this way the notion of social exclusion refers to non-participation in important areas of society such as the labour market, politics, culture, leisure activities, social relations and housing. It is also believed that social exclusion occurs in part through a process in which people are gradually excluded as a result of some social problem leading to several other subsequent problems. Social exclusion thus is regarded as a consequence or an accumulation of social problems in different areas, but it also reflects structural problems in a society in which individuals or groups do not have access to certain areas of that society.

From the critical point of view, however, one can ask at least a few essential questions: what stands beyond the notions of social exclusion and inclusion, what is the price to be labelled as socially excluded group and why the implementation of above mentioned strategic policy faces many difficulties almost in every society. In this paper it will be made attempts to seek the answers to outlined questions – to analyse theoretical background of discourse on social exclusion and inclusion and to reveal the obstacles of the social inclusion of one of social group – of disadvantaged youth. To examine the mechanism of social exclusion of the youth is interesting here because it is most recent phenomenon which gains extraordinary emphasis in public policy of EU. The basis for empirical evidence will serve the experience and results of researches gained during implementation of EQUAL project on social integration of disadvantaged youth into the labour market in Lithuania.

### **THE DISCOURSE ON SOCIAL EXCLUSION AND INCLUSION**

The term of social exclusion was coined in France by Rene Lenoir in 1974.<sup>2</sup> Lenoir was not aware at the time of the use that would subsequently be made of the term and

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<sup>2</sup> See Gore, Ch., (1995). Introduction: the Markets, Institutions and Social Exclusion, Social exclusion: rhetoric, reality, responses. A Contribution to the World Summit for Social Development, ed. by G.Rodgers, Ch.Gore and J.B. Figueiredo, ILS, Geneve, pg. 10; De Hann, A., (1998). Poverty and Social Exclusion in North and South" Bulletin IDS, Brighton, vol.29, No.1.; and Silver, H., (1995). Reconceptualizing Social Disadvantage: Three paradigms of Social Exclusion, Social Exclusion: rhetoric, reality, responses. A Contribution to the World Summit for Social Development, ed. by G.Rodgers, Ch.Gore and J.B. Figueiredo, ILS, Geneve, p. 312.

he employed it merely to raise the alarm at the inability of an expanding economy to include certain physically, mentally or socially disabled groups. It became a popular term in France in 1980s to express new forms of poverty associated with technological change and economic restructuring – unemployment, ghettoisation, disruption of family. It did not replace poverty as a concept but referred to the broader process of social disintegration – an increasing rupture of bond between the individual and society.

The sociological perspective on social exclusion was outlined by George Simmel in the essay “Der Arme” (The Poor): “It is the common end of the most diverse destinies, an ocean into which lives derived from the most diverse social strata flow together. No change, no development, no polarisation or breakdown of social life occurs without leaving its residuum in the stratum of poverty. Thus, what makes one poor is not the lack of means. The poor person, sociologically speaking, is the individual who receives assistance because of this lack of means”, therefore “the poor as a sociological category emerges not by a particular degree of need and want, but by the receipt of support or if social norms would demand that support should be given.”<sup>3</sup>

According to Hvinden, the common underlying idea here is that poverty and social exclusion may be interpreted as a social relationship, and not only as a lack of or deficiency of means: “the poor are primarily constituted as a sociological category by being assisted by others, rather than through ordinary reciprocation with others. It is as objects for reactions or measures of others rather than as autonomous subjects.”<sup>4</sup>

Nowadays, as Atkinson points out, there are “as many theories of social exclusion as there are writers on the subject.”<sup>5</sup> However, it is possible to extract at least two main theoretical patterns to conceptualise the social exclusion:<sup>6</sup>

- **Positivistic** (or objective, structural), which makes accent on not „normal“ characteristics and circumstances of social groups that cause the behaviour which do not correspond the norms of given society.
- **Constructivist** (or subjective, social interaction), which emphasises the interaction between socially excluded groups and social groups that make this „exclusion“ – create labels, definitions and take some actions.

The theoretical assumptions for positivistic conception of social exclusion:

- Society in essence agrees on common norms and because of this it is quite easy to distinguish deviant forms of living.
- The definition of social exclusion is related with the activity, the goal of which is to stop the spread of social exclusion.
- Social activity confirms once again that society is consolidated by common norms that become the measure of social exclusion.

The assumptions for constructivist conception of social exclusion:

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<sup>3</sup> Simmel, G., (1908). The Poor, Georg Simmel on Individuality and Social Forms, ed. by D.N. Levine, Chicago: University of Chicago.

<sup>4</sup> Hvinden, B., (1995). Poverty, Exclusion and Poverty, Research in Community sociology, No.5, pp.15-33.

<sup>5</sup> Atkinson, R., (2000). Combating Social Exclusion in Europe: The New Urban Policy Challenge, Urban Studies, vol.37, p. 1039.

<sup>6</sup> Poviliunas, A., 2006. Social exclusion, paper presented to the Institute of Public Policy and Management conference “Social Partnership”, Vilnius, 24-25 April, 2006.

- Social groups interact through common symbols. This symbolic interaction allows for these groups to identify and classify (label) each other and to act according to this classification.
- The labelling not only differentiates social groups, but also stigmatises.
- Social groups act on the basis of created and/or received labels (definitions).

Therefore, if a positivistic approach analyses the structural framework of social exclusion, deviant and dysfunctional behaviour of excluded groups, the constructivist approach tries to explain how this exclusion mechanism works, invites to analyse the interests of some social groups to exclude others and how excluded groups react to the exclusion.

The most explicit example of constructivist critics of phenomenon of social exclusion can be found in Hvinden "Poverty, exclusion and poverty": "If we accept the thesis that the major objective of the assistance to the poor de facto has been to protect society as 'totality' or at least the interests of the dominant group in society, we may according to Simmel also understand better the ways in which schemes for poor relief tend to be worked out: they have not been designed to create equality or an equalisation of the living conditions of the poor and the better off. Rather it has sought to modify the most extreme expressions of the social differentiation, and hence the social structure could continue to be based on this differentiation. Since the goal has only been to maintain status quo, the assistance provided is not made more generous than deemed necessary to achieve this objective".<sup>7</sup>

Similarly Silver warns that institutionalisation of social exclusion may "create a social boundary or a permanent division between the 'ins' and 'outs'"<sup>8</sup> and "exclusion discourse may also ghettoise the more spectacular forms of cumulative disadvantage, distracting attention from the general rise in inequality, unemployment, and family dissolution."<sup>9</sup>

Actually this line of thinking allows question the usability of concept "social exclusion" as such. According to some authors, it becomes a "catch-all notion...a politically correct and ultimately meaningless mask."<sup>10</sup> The concept of social exclusion is "a largely negative, ideological and value laden concept reflecting middle class prejudice and implying a crude 'them and us' dichotomy."<sup>11</sup> The recent movement towards concept of social inclusion instead of social exclusion does not help the situation as it is "just another link in a chain of shifting terminology", if to paraphrase the phrase written by Kilmurray on social exclusion,<sup>12</sup> without changing the pattern to label other social groups that they have some characteristics that are deviant from "whole" society and they need to be included.

Moreover, the issues of social exclusion and inclusion as a rule finds great

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<sup>7</sup> Hvinden, B., (1995). Poverty, Exclusion and Poverty, Research in Community sociology, No.5, pp.15-33.

<sup>8</sup> Silver, H., (1994). Social Exclusion and Social Solidarity: Three Paradigms, International Labour Review, vol.133, p. 545.

<sup>9</sup> Ibid., p. 540.

<sup>10</sup> Stroebel, P., (1996). From poverty to Exclusion: A Wage-Earning Society or a Society of Human Rights?, International Social Science Journal, vol.48, p.129.

<sup>11</sup> Randolph, B. and Judd, B., (1999). Social exclusion, Neighbourhood Renewal and Large Public Housing Estates, paper presented to the Social Policy Research centre conference "Social Policy for the 21<sup>st</sup> Century: Justice and Responsibility", university of New South Wales, 21-3 July, 1999, p.5.

<sup>12</sup> Kilmurray, A., (1995). Beyond Stereotypes, Social exclusion, social inclusion, online, available: <http://cain.ulst.ac.uk/dd/report2/report2b.htm>

support in public policy resulting in paternalistic patronage policy measures. As Poviliunas<sup>13</sup> sum up the main characteristics of paternalistic policy:

- Reflect values and attitudes, which are perceived as „natural“ in a given society.
- Not only identify the object of social care services, but also separate it and stigmatise;
- Determine the social practice oriented to dole and the forms of social care based on symbolic dominance.

Paternalistic policy actually does not help empower disadvantaged social groups as it is oriented to maintain status quo.

Therefore, in analysis of the obstacles of social inclusion of disadvantaged youth it will be made attempts to put aside the positivistic approach with its emphasis on social, economic, political, legal, cultural and etc. circumstances that can become the cause of exclusion of one social group from others, on consequences that can be caused by social exclusion, and means that can minimize and control the extent of social exclusion. It rather will be adopted the critical constructivist approach, from which one can ask such questions about the exclusion technology:

- When and why some social group is defined as social excluded group?
- What is the mechanism of typologisation?
- What kind of actions is taken by other social groups on a basis of such definition?
- What are the consequences of these actions?
- How do the representatives of excluded social group react to the received labels and stigmatization: How does behaviour of them changes? How the relations towards other social groups changes? How do the identity and self-perception changes?

#### **THE OBSTACLES OF SOCIAL INCLUSION OF DISADVANTAGED YOUTH: WHAT IS WRONG WITH THIS?**

The last decade can be described by enlarged attention towards situation of youth in Europe. One after another was manifested the European Commission White Book – New Impulse for European Youth<sup>14</sup> and European Youth Pact (2005). First strategic document deals more with activation of youth civic participation, second – with promotion of social inclusion. The European Youth Pact was the basis of emphasis on youth politics in renewed Lisbon strategy 2005. Besides in specialised programmes and institutions for reducing social exclusion<sup>15</sup> the enlarged attention towards youth policy also can be observed.

Lithuania as a new member of EU had to assume certain obligations due to youth and social exclusion. There were passed the National Lisbon Strategy Implementation Programme 2005-2008 and National Action Plans for Social Inclusion for 2004-2006 and 2006-2008 years. Also it was created new Youth Department at Ministry of Labour and Social Care. Therefore, the special attention towards issues of social exclusion and youth policy was actually “imported” from EU. In this way it is

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<sup>13</sup> Poviliunas, A., 2006. Social exclusion, paper presented to the Institute of Public Policy and Management conference “Social Partnership”, Vilnius, 24-25 April, 2006.

<sup>14</sup> Youth White Book, 2001. Online available: <http://www.vjrt.lt/get.php?f.29>

<sup>15</sup> The Social Inclusion Process, Community Action programme to Combat Social Exclusion, Directorate General of Social Cohesion, OECD Equity and Social Exclusion, etc.

easy to answer to the question from constructivist approach - when and why youth social group is defined as social excluded group.

Mostly related with issue of social exclusion is youth subgroup called disadvantaged youth. Here disadvantage is understood as a complex phenomenon, according to which "unequal opportunities and risks of social exclusion results from interplay between a structural lack of accessibility, manageability and relevance of transition opportunities and an individual lack of resources."<sup>16</sup> As we can see, this definition is built according to positivistic approach and emphasise the structural and personal deficits, despite it refers to constellation of disadvantage rather than to "problem" or "risk" group.

Why this group became so important for social policy nowadays, because of its own wish or some other groups became very interested in this? The answer lies in the described background for necessity of youth policy in Europe as it is presented in European Commission White Book – New Impulse for European Youth (2001). There it is stated that European society experiences the phenomenon of aging because of reduced birth-rate and longer life time. From 2000 till 2020 the percentage of 65-90 years old people will increase from 16 till 21 percent, while percentage of youth from 15 till 24 years old will decrease till 11 percent. This demographic change will cause the shortage in work power and financial resources for pensions, etc. Therefore, for the aim to reduce this shortage one of the tasks is to pay more attention towards increasing of youth employment, with as rule in most EU countries remains almost twice as high as the general one. This is one of ways to preserve the existing order in society, the „status quo“, and not a way to care really for youth situation.

Based on this emerged need to increase youth employment there are recommended and implemented a lot of means for improvement of situation. For example, in Lithuania some of them are based on introducing some privileges for youth in labour exchange offices (e.g. youth employment programmes and longer period for searching job with guaranteed unemployment allowances), some on creation of more formal professional training possibilities, establishing youth career centres, etc. As it was realised that most of these measures do not essentially change the situation, mostly due to low motivation of youth to work, it was created special project for finding the innovative ways to motivate the disadvantaged youth for integration into labour market in framework of EQUAL programme.

The aim of this project "Strengthening Youth Motivation for Employment" was formulated as such - to diminish the social exclusion of the disadvantaged youth by improving the measures of public policy. The background for this project was described in this way:

- the unemployment among youth with low education attainment is almost twice as high as the unemployment of youth with higher education.
- lack of qualified programmes and approved measures to address the TG;
- lack of a variety of measures, solving the multiple problems of TG;
- the help is offered only to those who have a motivation and come looking for help;

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<sup>16</sup> Thematic Study on Policy Measures Concerning Disadvantaged Youth, (2006).

- existing institutions and programmes are designed to accommodate the needs of the youngsters with the completed obligatory education (in Lithuania – 10 years of secondary school).

Therefore, one of the greatest problems for this project to solve was to motivate for the employment and to provide vocational and social skills training for the most disadvantaged young people from poor environment and with low educational attainment.

During the activities and researches of this project it appears that in economic situation as it is in Lithuania - on one hand - stabilization of economy, strong growth and decreasing unemployment, while on the other - alarmingly high emigration (especially among youth) rates - to find the employment for youth is not a big challenge. At first it was tried to increase motivation to work through additional training - special courses on economy, management, enterprise, training for driving license and even seminars on developing of social skills. Despite this training was given by use of not traditional methods of teaching - instead of fixed programmes and classrooms it was used adopted programmes to the competences of these youngsters and teaching was provided in close relation with practice - the results were not so impressive. Even in cases then young persons were finally accepted in a real job place, they soon dropped out of these jobs or emigrated abroad.

The main causes of failure of this project roots in:

- Conflict character of relationship between these young persons and other persons - teachers, trainers, officials from labour exchange offices, employers. The relationship suffered from label attached to this youth - “disadvantaged youth” - with associate with aggressive, conflict behaviour, lack of not only material and knowledge resources, but also social skills. It was the obstacle to create mutual trust and understanding, to reduce distance and to accept these youngsters as equal among others.
- The emphasis on increasing motivation for employment. It appeared that every young person have his/her motivation, but this motivation as a rule does not correspond with expectances of others - to learn by imposing of knowledge, to train for uninteresting professions, to go for a job, where they can not express themselves.

The best results of this project were attained by:

- Increasing of self-esteem through encouraging approach towards youth capacities. This requires the strong belief and trust in youth capacities and great flexibility and open-mindedness. One of best method appeared to be Art therapy method. It uses a mix of psychological, psychiatric and art methods (painting, dancing, drama) in a therapy that helps to activate the individual. The most important element of this therapy is the person, his/her creations (art) and the therapist (acting as an interpreter). This method is easy to adjust to a particular group of people; it is fun and not invasive, therefore, it is often accepted very positively by the target group; and the person himself/herself is the main communication agent, meaning he/she can find solutions for himself/herself, which as an experience is very empowering.
- Mutual trust built through development of a friendly relationship and personal contact with youngsters.

Social workers develop a personal relationship, which has a strong bounding effect, increases youth motivation and improves successful integration chances. The social

worker engages in such relationships with several young people on individual bases – tries to find out their particular difficulties, and discusses what other help is needed. This approach proved to be the most successful in work with disadvantaged youth, as it helped motivate the youth to stay and accomplish their training and also provided them with the individual attention that many of them were lacking.

- Education through work.

This method implies providing vocational education through practice rather than through “desk education”. The education is organised through various practical tasks – initially from small practical works and finally with the real jobs done under tutoring by the teacher. This method is particularly suitable for youth that need a less formal and more practical environment for learning. The main advantages of this method are – being able to do “real work” motivates youth to learn; practice done during the training boosts the youth self-esteem and it can also be included in the CV; close contact with the teacher promotes learning of the working culture and relationship building at work, and teaches them to handle work responsibilities.

- Individual approach – the learning and support is individualized according to the requirements of every youngster. Flexibility – individual plans are truly individual and are developed around the needs of the particular young person.

This method implies adjusting the training not only to the level of knowledge of the TG, but also to their learning skills and patterns. This means the teacher firstly assesses his/her students’ knowledge and capacities to learn in different techniques, and then adjusts the course of training to suit them. The teacher should then permit flexibility for each student to follow his/her own pace of learning, allowing students to reach the same knowledge level in different time frames. This method for youth with different learning patterns who suffer low self-esteem enables learning without stigmatisation.

- Work in groups, experience of community. Motivating youth to learn by giving them responsibilities and duties.

This method is mainly aimed at developing strong community skills and increasing youth motivation to stay in the re-integration programmes. It has been noticed by experts that disadvantaged youth often lack the abilities to live in the wider society. Very often they are segregated into small groups with similar backgrounds from close locations which cannot offer solutions for the problems they face. Therefore, this method implies the creation of a different community with different rules that are set by the youth, but with the assistance of social workers in order to create a different community experience and offer alternative patterns and positive experiences for communal/group interaction.

- Ongoing training of social workers, which allow them to learn new approaches and methods, in order to break previous stigmatising relationships and empower young persons.

In short it can be concluded that really matters in improving of youth situation is not employment or vocational education on themselves as they do not guarantee successful integration into the labour market and society. So the issue is not employment or the creation of learning jobs but the real issue deals with empowerment: How can teachers, the labour office, and employers empower pupils in order to make them less dependent and improve their position on the labour market (and in society) in the long run?

Empowerment highlights the fundamental importance of decreasing distance



and creating equal relationships between youth and other social groups. This starts by thinking in terms of competences of young people and not in terms of deficiencies. It has to do with the recognition that educational institutions, labour exchange offices, social service organisations, etc. are meant to serve young people and not the other way around. There is a need not to adapt the youth to the existing order, but to look for other ways of education, other kinds of employment, other ways of participation in civic life. There are no unmotivated, not active, not interested in future youth, rather the youth is among the first who feel changes in the society and want to participate in these changes. Why when society wants to restrict, to exclude them from new developments – because of fearing changes?

Other innovative projects in EU countries (in Netherlands, Sweden, Austria) have developed successful strategies for integrating disadvantaged youth into labour market. For example in Austria, the project space!lab is directly aimed to empower young persons by creating innovative teaching methods and offering not traditional work experience. During this project young people learn about professions by making photos and other visual material with their reflections on this that enables to reveal youth voice and make it visible in public space. Besides it was offered to train and work in open space – to organise public events, to work in parks and remake their shape according to youth interests. The participants had to get used to this public visibility, at the same time it was a source of empowerment, as in general the target group is rather ignored, its eagerness and readiness to work is not taken seriously. These activities leave “traces in town”, visible signs of work done by young people “remote from the labour market”. This is valuable as empowerment for the self-perception of participants and sensitises public perception for the needs of youth. However, their best practices can be hardly implemented in Lithuanian context, where, for example, dual education tradition does not exist, non-formal education has little recognition, etc.

Therefore, in face of rapid social and economic transformation in Lithuania, which placed disadvantaged youth outside the system, some crucial changes are necessary. On one side, there is a need to develop a system of social guidance for disadvantaged youth in order to empower them and to increase their visibility in a social/educational policy context. This social guidance system should be based on the principles of close co-operation and social partnership among responsible institutions and also incorporate the principle of a “single contact person”. Besides, educational system must include formal option for youth with practical learning patterns and more alternative ways to gain necessary for employment knowledge and skills. On the other side, vocational training for disadvantaged youth is not effective without personal and social skills development and vocational training programmes should be adjusted to patterns of learning of youth.

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## The Role of International Organizations in the Making of the Contemporary World – Historical Consequences

### FOREWORD

International organizations became during their 200-year existence very significant phenomenon in international relations. From technical and communication areas of cooperation to peacekeeping, food and nutrition problems, war conflict preventing, and so on.

International organizations became important forums for expressing opinions on variety of problems that accompany the mankind since the turn of 18<sup>th</sup> and 19<sup>th</sup> centuries. First modern international organizations were connected with the technical developments of that era – transport, electricity, communication. These organizations were followed by others that were focused on improving the man's life in different areas of living.

In the beginning the cooperation among nations was developing on bilateral basis. Soon the representatives of states, groups, and individuals realized that multilateral cooperation through some kind of international forums – international organizations – is more efficient and better for problem solving.

During their development international organizations evolved through several stages – from short term and concrete cooperation to long term, systematic and complex cooperation in variety of issues.

International organizations play important role in contemporary international relations. What should be their tasks in the future? This article attempts to answer this complicated question.

### 1. PRECONDITIONS FOR CREATION OF INTERNATIONAL ORGANIZATIONS

Preconditions linked with the creation of international organizations can be divided into three main categories<sup>17</sup> as shown in chart 1.

In general the basic material precondition of creation, development and functioning of international organizations is supposed to be technical progress with its new discoveries and innovations. Technical progress helps to development and acceleration of social life internationalization. This progress is the basic cause and material base of the mankind development throughout all of its history.

**Chart 1** Basic preconditions for creation of international organizations

Precondition	Precondition Fulfillment
<b>Material</b>	▲ Technical progress (new discoveries and innovations)
<b>Economic</b>	Economic interdependency World market
<b>Political</b>	▲ Mutual agreement on cooperation in particular issue (among state political representatives) ▲ Profitability of this cooperation for all members ▲ Ability to agree on objectives and principles of international organization

<sup>17</sup> Morawiecki, W.: Funkcii meždunarodnoj organizacii. Moscow: Progress, 1976, pp. 41-43.

The process of ongoing internationalization resulted in time to huge expansion of multilateral cooperation and simultaneously triggered and evoked more intense economic interdependency among the nations and states. Thus intense economic interdependency was and still is one of the economic preconditions of international organizations creation. Another economic precondition is world market which was formed in the 19<sup>th</sup> century. Nowadays world market and world economy are the powers that significantly affect the international relations.

All of these processes – technological progress impact, economic interdependency, creation and development of world market – evinced at first in the field of transport and telecommunication. On that account the first international organizations were active in these issues<sup>18</sup>. The development of science and technology, economic and social progress, growing economic interdependency, and mutual relations strengthening among states and nations inevitably led to joint cooperation of these states through international organizations.

Despite these facts, the most important preconditions of international organizations creation seem to be political preconditions. Chiefly on the political preconditions depend the creation, development, and functioning of international organizations. Absence of these preconditions proves to be the most important obstacle of new international organizations creation even the material and economic preconditions are fulfilled<sup>19</sup>.

Generally the existence of material, economic, and political preconditions affects the creation and later functioning of international organization. After the creation international organization slowly develops, chiefly in nonpolitical areas that are considered rather irrelevant by national governments of member states. Later the cooperation in political issues begins. National governments delegate authority to the organs of international organization<sup>20</sup>.

## **2. HISTORICAL DEVELOPMENT OF INTERNATIONAL ORGANIZATIONS**

The development of international organizations can be seen in the era long past. What is to be mentioned is the fact that the relations among the nations and monarchs from different territories were based mostly on the agreements of mutual cooperation in war and defense issues. Nowadays the situation is diametrically different. The nations and their representatives tend to cooperate in peace and current problematic issues.

Each of these stages is unique because of unique international relations that existed in each stage.

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<sup>18</sup> International Telecommunication Union (1868), Universal Postal Union (1874), World Meteorological Organization (1878), World Intellectual Property Organization (1883), International Railway Union (1890) and others.

<sup>19</sup> The absence of political preconditions caused that after World War II the International Trade Organization (ITO) was not created. ITO was supposed to carry out and promote the code of principles in international trade. Due to problems among the potential member states, the ITO was not created. Its functions were carried out by General Agreement on Tariffs and Trade (GATT) and since 1995 by World Trade Organization (WTO).

<sup>20</sup> As an example consider the European Union (EU). In the beginning the cooperation of member states developed through the free trade zone (European Coal and Steel Community). Later the custom union was created. It was followed by another regional integration stage – common market with free movement of goods, services, labor, and capital. Since the end of 90's the monetary union is functioning. There exists an assumption that in the future the EU should become political union – the highest form of integration so far.

Concerning the prenatal stage, rise of international organizations in this period is rather insignificant. The most important institutions that existed in this period were Greek fraternities and war alliances. Greek polis started united because of religious celebrations, sport events (the Olympics), and Persian threats. These formations were the most significant kinds of organizing life in this period. They were based mainly on geographical and cultural closeness.

The development out of European continent in this era was chiefly based on war alliances. One of the oldest treaties of this era is the agreement between Egyptian Pharaoh Ramses the Second and Hittite king Chattushil the Third signed in 1273 b. C. Main articles of this treaty concerned defense alliance and mutual non-attacking<sup>21</sup>. In the half of 6<sup>th</sup> century b. C. the agreement between the Cchou dynasty and the Huns was signed concerning mutual non-attacking and conciliation court for problems solving.

In old India there was the Manu code of law signed related to the politics, trade, diplomacy and war affairs.

**Chart 2** Historical stages of evolution of international organizations

<i>Prenatal</i>	(mankind origins - 1650)
<i>Early</i>	(1648 - 1814)
<i>First modern international organizations</i>	(1814 - World War I)
<i>International organizations after the World War I</i>	(1919 - World War II)
<i>International organizations after the World War II</i>	(1945 - 1989)
<i>Contemporary stage of evolution</i>	(1990 - ?)

In the early stage of development no international organizations are created, but the basis for their creation is laid by the Peace of Westphalia with its sovereign state system in Europe.

Public international unions are the first modern international organizations that came out from the first quarter of the 19<sup>th</sup> century after the Vienna Congress in 1814-15. This period of international organizations development is described as the period of the first modern international organizations. Their creation is due to favorable conditions created by political, economic, and material preconditions from this period. The functioning of these first modern international organizations can be divided into two basic areas of work: 1. cooperation related to **peace and security preserving**, and 2. cooperation related to **economic and social issues**.

Besides the first international intergovernmental organizations also the first international non-governmental organizations emerged<sup>22</sup>.

In this period occur also the first attempts of intergovernmental and non-governmental organizations' cooperation.

Next stage, after the end of World War I, is strongly related to the impacts of war. The war with its impact on the population and political elites in various states evoked wide discussion concerning the peace settling of disputes and future possibilities of war preserving.

After the ratification of the Versailles Peace Treaty from 10<sup>th</sup> January 1920, the League of Nations was founded. Even though the League proposed the lofty ideals, the failures of its activities prevailed over its successes and the League faded away from

<sup>21</sup> Krejčí, O.: Mezinárodní politika. Prague: Ekopress, 2001, p. 316.

<sup>22</sup> The International Red Cross, World Peace Congress, International Institute for Agriculture, and others.

the international scene. On its remains the most powerful international organization so far was found – the United Nations.

Even though the objectives of world peace preserving and cooperation among nations were not fulfilled, the League's activities between two world wars compared to the activities of international organizations before the World War I the League manifested significant progress in the development of international organizations and will still represent the milestone in the development of not only international organizations but also the development of international relations.

In the period after the World war II he cooperation among nations developed mainly in the areas of politics, security, economy, culture, and social life. The cooperation was carried out not only by intergovernmental organizations, but also by non-governmental organizations, and by their mutual cooperation.

The development of international organizations after the World War II was marked by several developments in international relations:

1. Bipolar confrontation.
2. Decolonization.
3. Oil shocks in the 70's.
4. Bretton-Woods failure in the 70's.
5. New agenda in international relations.

So long the last development stage is contemporary stage of evolution since 1990. This stage is specified by several features not known in previous stages complementary to previous features:

1. International terrorism.
2. Environment pollution.
3. Depletion of natural resources (oil).
4. Increased migration.
5. Other.

All of these problems predominates the contemporary international relations. Their solving will preoccupy the mankind in the close future with probability of these and new problems in the next decades.

### **3. CONTEMPORARY WORLD AND ITS PROBLEM ISSUES**

After the analysis of preconditions that led to the creation of international organizations and historical stages that international organizations came through we should figure out what their role is in contemporary world and what their role in the future will be.

Concerning the different types of international organizations, their agenda varies from one to another covering almost every single issue of current development of the human society. Global threats arose in last couple of years<sup>23</sup> threatening all living in this world. New security issues came up mainly new forms of international terrorism and the use of weapons of mass destruction.

Global trends contribute to current developments, either it be computers, medicine, or nuclear energy, trade liberalization, and others.

Global governance with its problems is another important aspect of functioning of international organizations in contemporary world.

The outlooks for next century are forecasted by famous prognostic institutions

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<sup>23</sup> Comparing to some thousands of years of human development

and personalities. We entered the 21<sup>st</sup> century with the whole complex of problems, the most important being<sup>24</sup>:

1. Growing gap between the rich and poor states and between the different groups in these states.
2. Social exclusion and poverty.
3. Problems with the dynamics of development and output increase in developing countries.
4. Growth of unemployment in the industrialized countries.
5. Spreading of ethnic and religious conflicts.
6. Diversification of public and private actors on the international scene.
7. Environmental threats.
8. Terrorist attacks threats.
9. Population explosion.
10. Food security.
11. Sustainable development and others.

These questions are already discussed in the international fora. In the past few decades or recent years they became everyday agenda of international organizations that are focused on these problems.

The growing gap between poor and rich countries is of a great importance. It divides the world into North and South, but also in the West and East differences that deepen every day. International political organizations with the help of financial organizations and non-governmental organizations are needed and will be needed in an attempt to eliminate this gap. Significant efforts are to be made for achieving the great goal of poverty eradication.

The issue of poverty is even one of the Millennium Development Goals – year 2015 has been set to eradicate poverty and give every human chance to have enough food for his or her disposal.

Developing countries encounter the problems with economic output, they are often entangled in the “Circle of Poverty”. These countries experience complicated problems concerning the growth of economy. Since this problem persists, they are not able to manufacture enough goods, the people are not paid enough for their work (if any), they have no chance to buy basic goods and services, and so on it continues.

Because of high living standard, the industrialized countries experience the problems with unemployment. The demographic development in these countries is getting worse. Too old people make demands on social system in these countries. Less and less children are born, making it worse for productivity in industrial sectors of these countries.

In the last couple of years the mankind encounters problems concerned with ethnicity and religion. Especially the Arabian countries with Islamic religion are affected by this. The problems with ethnic minorities can be seen in industrialized countries where they form important part of the population.

The diversification of public and private actors in the international scene is carried out through their different interests on the welfare of the human beings. Transnational corporations and the activities carried out by them sometimes mean extreme threat to the environment and humans.

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<sup>24</sup> Lysák L.: Medzinárodné organizácie. Bratislava: Ekonóm, 2001, pp. 234-235.

Environmental threats came up in the past few decades. The mankind has plundered the planet and it takes its toll now. The greenhouse effect, icebergs melting, new diseases – these are only a few forms of how the planet tries to survive our hostility toward her.

Since September the 11<sup>th</sup> 2001 the terrorist attacks turned into something real and for many people it became their everyday life. Discussing and action must be taken to eliminate these threats for future human development.

Population explosion became one of the global problem issues of the whole world mainly in the second half of the 20<sup>th</sup> century. Actions were taken to ease this problem, but much more must be done in the future to help to stop this explosion in the developing countries. At least until they are able to take care of their people through economic development without harming the environment as it is done today.

Hand in hand with population explosion is the problem of food security. This will become even more apparent in the future in case no prevention is taken in developing countries in trying to stop the uncontrolled population growth.

The last, but not least is the concept of sustainable development that might be a cure for our trouble world.

These are some of the major problems that have to be solved in order to leave the planet appropriate for our children and grandchildren and for their descendants.

The international organizations are that power that might be able to help to solve some of these problems, though the functioning of international organizations is accompanied with some problems.

If we consider the most important universal and economic organizations, they encounter serious problems in contemporary world.

According to Archer<sup>25</sup> the growth in the number of intergovernmental organizations is likely to decline with their number remaining at about 250, whilst the number of non-governmental organizations could grow modestly in the 21<sup>st</sup> century. Based on his studies, he divides the intergovernmental organizations into those dealing with issues of international peace and security and those covering economic, social, and environmental issues<sup>26</sup>.

Considering the UN as the most significant universal intergovernmental organization in the world (with its specialized agencies, programs and funds, research and training institutes, and of course many non-governmental organizations as observers), it surely needs reform. This reform should not concern only the Security Council, but also its system. Too many staff makes it more complicated to help those in troubles. The UN must be able to take appropriate actions when needed, mainly in the area of peace preserving and in the settlement of war conflicts. Cofi Annan, the former Secretary General, stated in his Millennium report on the 3<sup>rd</sup> of April 2000 the key problems that must be solved in the next century. He presented his vision of the UN in the 21<sup>st</sup> century. This vision encompasses the creation of networks of the UN, intergovernmental organizations, civil society, private sector in individual countries and non-governmental organizations. All these should unite in order to settle all the global problems of these days – AIDS, poverty, education, water supplies, and others. These goals may be fulfilled by the work of organizations network. For example Food

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<sup>25</sup> Archer, C.: International Organizations – Third Edition. London: Routledge, 2001, p. 175.

<sup>26</sup> See Archer, C.: International Organizations – Third Edition. London: Routledge, 2001, pp. 175-181.

and Agriculture Organization (FAO) should find the ways of securing enough food for all the humans either through existing programs, or new ones that might be more effective than current programs.

Concerning the important issue of trade liberalization, the World Trade Organization (WTO) plays the key role in this area. It has to cope with many problems that accompany problems of developing countries and their economy growth. The last round of liberalization talks brought nothing new. The countries are divided in particular issues on how to liberalize trade. The problems persist in the area of agriculture, information technology, working standards, and others. Nowadays the agenda for next round is negotiated. In case of failure, the liberalization will be endangered with all the consequences for the world.

Financial institutions, the World Bank (WB) and the International Monetary Fund (IMF) are rather ineffective in their work. Critiques of the IMF say that it is not able to forecast the crisis in the countries thus the problems with balance of payments and others arise. The WB and its help in developing countries is often misused and insufficient. The financial support for these countries must be more addressed than it is now.

Organization for Cooperation and Development (OECD) also has the agenda concerning help for developing countries. It is more a discussing forum now. It should do more to help those countries that are in the need of assistance. Though, on the other hand it is useful in providing the information concerning governance, macroeconomics, information technology, and many others. The problem is that sometimes discussed problems do not meet the requirements of developing countries.

In the near future the Organization of Petroleum Exporting Countries (OPEC) probably will play even more important role than it is today. It is caused by natural resources, mainly oil, depletion. The shortage of oil reserves may cause the oil prices to rise at the levels that will cause problems in some industry sectors not only in industrialized countries but also in the developing countries.

These are just few important organizations that play and will play key role in the current and the future world. Too much must be done to overcome all the problems of contemporary world. The international organizations are subjects capable of helping to solve these problems.

## CONCLUSION

The role of international organizations in the contemporary world is very crucial. They help in preventing and solving the global problems of this world. They have much to do in the future because the problems are not to be simple overcome.

We have to realize that not only the international organizations but also the staff of these institutions will play significant role while trying to dissolve all the problems from trade liberalization to environmental problems.

The mankind witnesses two contrary processes. Today's world is undergoing the processes of globalization and regionalization. The future development of the world and of the role of international organizations will depend on which of these two processes will prevail.

In case globalization prevails, the future development will be based on multilateral system with important role of international organizations. They will be responsible for development in almost the all areas of human life. International organizations will serve as fora where the problems are not only discussed, but also



solved through appropriate actions.

Regionalization and its influence, as it is happening today, will lead to creation of few macroregions in the world economy. These will cooperate on the basis of bilateral agreements between each other. The cooperation will blossom more inside these integrated regions than among these regions. This will lead to lowering of the role of international organizations because the cooperation would be developing rather inside regions.

The probable scenario is that regionalization will prevail hence the less important role of international organizations.

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**MARIA GRESSOVA**

## **Ukraine – Possible New Member State of the EU with Post-Transition Economy – and the EU**

One of the most significant aspects from economic and political point of view is the EU interest for Ukraine because of its favorable strategic location. It is not only the crossroads between the EU and Russia, but it is also important transit road for Russian energetic sources on their way to Europe. This fact is one of the most important also for Slovakia (concerning balance of payments, which is continuously in deficit because of almost no export to Russia and import of natural resources on the other hand). Despite the great number of inhabitants Ukraine was rather less significant to the EU.

Relations between Ukraine and the European Union were established in December 1991, when the Minister for Foreign Affairs of the Netherlands as the EU Presidency, on behalf of the Union officially recognized the independence of Ukraine.

Ukraine was the first country of the former Soviet Union to conclude the Partnership and Co-operation Agreement (PCA) with the European Union in June 1994. After ratification by Ukraine, the EU and its member states, the PCA came into force in March 1998. It highlights respect for shared fundamental values as an essential element for the relationship; provides an appropriate framework for political dialogue; sets the principal common objectives in terms of harmonious economic relations, sustainable development, cooperation in a number of areas, and support to Ukraine's efforts towards democracy; as well as creating an institutional framework for pursuing these goals.

At present there are 7 priorities of the EU-Ukraine cooperation envisaged by the PCA's framework: energy, trade and investments, justice and home affairs, adaptation of the Ukrainian legislation to that of the EU, environment, transport, trans-border cooperation, and collaboration in the sphere of science, technology and outer space.

The PCA established a Cooperation Council to supervise implementation of the Agreement. It meets at ministerial level at least once a year. The PCA also provides for regular political dialogue at parliamentary level within the Parliamentary Co-operation Committee.

The Ukraine-EU Co-operation Council may decide to set up any other special committee or body that can assist it in carrying out its duties and shall determine the composition and duties of such committees or bodies and how they shall function. At present in the framework of Ukraine-EU Co-operation Council have been established and function 4 Subcommittees and 3 Working Groups:

1. EU-Ukraine Subcommittee on Trade and Investment.
2. EU-Ukraine Subcommittee on Finance, Economy and Statistics.
3. EU-Ukraine Subcommittee on Transport, Energy, Civil and Nuclear Cooperation, Environment, Science, Education and Technology.
  - EU-Ukraine Working Group on Energy Savings and Renewables.
  - EU-Ukraine Working Group on Climate Change.
  - EU-Ukraine Working Group on Energy Strategies.
4. EU-Ukraine Subcommittee on Customs and Cross-boarder Cooperation,

## Combating Illegal Migration, Money Laundering and Illicit Drugs<sup>27</sup>.

EU relations with Ukraine are based on a variety of agreements, the most important of which are the Partnership and Co-operation Agreement and the EU-Ukraine Action Plan, adopted in February 2005. Both sides have clarified their position towards each other in internal political strategies. On the EU side, the basic approach to relations with Ukraine was laid down in the Common Strategy of 1999. For Ukraine, the Presidents Strategy for European Integration of 1998 has repeatedly been confirmed by former President Kuchma and received support from the Parliament.

In 2004, the president of Ukraine, Viktor Yushchenko, said that Membership of Ukraine in the European Union is a strategic goal of his foreign policy. Yushchenko was elected mainly by citizens in the western, northern and central parts of Ukraine that want stronger links with the European Union. Eastern parts of the country are also supportive of the integration into EU, however, to a lesser extent. It is not clear if or when Ukraine will join the European Union, nor is it an official candidate country as yet. Presidential Secretariat of Ukraine has set 2017 as the target year for Ukraine's entry into EU.

President Yushchenko declared European Integration a strategic priority of Ukraine, a course reflected by the creation of the post of Deputy Prime Minister for European Integration in the new government. A number of specific agreements in the fields of trade, science and technology, and nuclear energy are also in place. Technical assistance has been provided since the early 1990s in support of the transition process towards democracy and market economy, through the TACIS program. Total assistance since 1991 in the framework of the TACIS program, macro financial and humanitarian assistance amounted to more than 1 billion euro.

The European Union is responding to the changed political reality in Ukraine with concrete steps to strengthen the EU-Ukraine relationship. The EU supports the new leadership's own ambitious program of political and economic reforms with a substantive and realistic package, designed to answer Ukraine's wish for increased integration with Europe.

Most political factions in Ukraine advocate joining the EU and developing ties with Western Europe. However, some in the EU are more doubtful concerning Ukraine's prospects. In 2002, EU Expansion Commissioner Günter Verheugen said that "a European perspective" for Ukraine does not necessarily mean membership within 10 to 20 years; however, it is a possibility<sup>28</sup>. A Ukraine-EU Troika meeting in April 2004, on the eve of the newest wave of expansion, dealt a blow to Ukraine's European aspirations when the EU ministers failed to grant market economy status to Ukraine; however, this was before the success of the Orange Revolution there. The EU recognized on the 1<sup>st</sup> of December 2005 Ukraine as a market economy<sup>29</sup>.

On January 13, 2005, the European Parliament almost unanimously (467 votes to 19 in favor) passed a motion stating the wish of the European Parliament to establish closer ties with Ukraine in view of the possibility of EU membership.

The EU-Ukraine Action Plan is part of the EU's European Neighborhood Policy (ENP) through which the EU aims to create an area of stability, security and prosperity

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<sup>27</sup> <http://www.ukraine-eu.mfa.gov.ua/eu/en/556.htm>

<sup>28</sup> [http://en.wikipedia.org/wiki/Ukraine\\_and\\_the\\_European\\_Union](http://en.wikipedia.org/wiki/Ukraine_and_the_European_Union)

<sup>29</sup> <http://ekonomika.etrend.sk/59358/europska-unia/eu-priznala-ukrajine-statut-trhovej-ekonomiky>

for itself and its neighbors to the East and South. It aims to create a ring of friends around the borders of the new enlarged EU and is designed to prevent the emergence of new dividing lines between the enlarged EU and its neighbors. It offers partners the chance to participate in various EU activities, through greater political, security, economic and cultural co-operation.

The ENP is distinct from the issue of potential membership. It offers a privileged relationship with neighbors, which will build on mutual commitment to common values principally within the fields of the rule of law, good governance, the respect for human rights, including minority rights, the promotion of good neighborly relations, and the principles of market economy and sustainable development. The level of ambition of the EU's relationships with its neighbors will take into account the extent to which these values are effectively shared.

The Action Plan sets out the following priorities<sup>30</sup>:

- Further strengthening the stability and effectiveness of institutions guaranteeing democracy and the rule of law.
- Ensuring the democratic conduct of presidential (2004) and parliamentary (2006) elections in Ukraine in accordance with OSCE standards.
- Ensuring respect for the freedom of the media and freedom of expression.
- Developing possibilities for enhancing EU-Ukraine consultations on crisis management.
- Enhanced co-operation in the field of disarmament and non-proliferation.
- Enhanced co-operation in our common neighborhood and regional security, in particular working towards a viable solution to the Transnistria conflict in Moldova, including addressing border issues.
- Accession to the WTO, which is a first and crucial step towards a Free Trade Agreement with the EU.
- Intensified bilateral trading links, focused on the gradual removal of restrictions and non-tariff barriers that impede bilateral trade. As part of this the EU will support the Ukraine in implementing the necessary regulatory reform.
- Improving the investment climate, through non-discriminatory, transparent and predictable business conditions, simplified administrative procedures and by the fight against corruption. Tax reform, improved tax administration and sound management of public finances.
- Establishing a constructive dialogue on visa facilitation between the EU and Ukraine, with a view to preparing for future negotiations on a visa facilitation agreement, taking account of the need for progress on the ongoing negotiations for an EC-Ukraine readmission agreement.
- Gradual approximation of Ukrainian legislation, norms and standards with those of the European Union; further reinforcing administrative and judicial capacity.
- Encourage dialogue on employment issues and best endeavors, in accordance with the PCA, to ensure that treatment of migrant workers does not discriminate on grounds of nationality.
- Full implementation of the Memorandum of Understanding on the closure of the Chernobyl nuclear power plant, including completing and starting-up of the

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<sup>30</sup><http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/05/106&format=HTML&aged=0&language=EN&guiLanguage=en>

'K2R4' nuclear reactors, in compliance with the internationally accepted nuclear safety standards.

Aimed at strengthening and enriching the Action Plan, the Council has agreed the Ten Points for Closer Co-operation in support of a democratic and reform-oriented Ukraine<sup>31</sup>:

1. To initiate early consultations on an enhanced agreement between EU and Ukraine, as soon as the political priorities of the ENP Action Plan have been addressed.
2. To explore possibilities for closer co-operation in the area of foreign and security policy, including European Security Defense policy, particularly with regard to Transnistria. Ukraine will also be invited, on a case by case basis, to align itself with EU positions on regional and international issues.
3. To deepen trade and economic relations between the EU and Ukraine. The review of the existing feasibility study on establishing a Free Trade Area between Ukraine and EU will be accelerated with a view to enable an early start to negotiations once Ukraine has joined the WTO. The EU is also moving quickly on agreements that will provide access to EU markets for Ukraine's steel and textiles exports – which between them make up 30% of Ukraine's exports to the EU. An EU-Ukraine steel agreement is under negotiation; an EU-Ukraine textile agreement was adopted by Council this week.
4. To lend further support to Ukraine's WTO accession and to offer Ukraine continued assistance in meeting the necessary requirements. The EU was one of the first partners to conclude its bilateral protocol with Ukraine in March 2004, whereas negotiations with certain other key WTO members continue.
5. To intensify ongoing contacts with Ukraine to help it resolve the outstanding issues relating to the granting of "market economy status".
6. To intensify negotiations regarding visa facilitation, taking into account security aspects, with a view to opening negotiations before the next EU-Ukraine summit in October. In this context, progress in the ongoing negotiations on an EC-Ukraine readmission agreement will remain essential.
7. To enhance co-operation in key sectors, including energy, transport, the environment, as well as private sector development. Preparations will be made for a high level dialogue on energy and related issues and the environmental dialogue will be upgraded. Ukraine will be treated as a priority country in the ongoing preparations for the extension of Trans-European Networks.
8. To step up support for Ukraine's legislative approximation process, including with instruments borrowed from the Enlargement process such as TAIEX and Twinning.
9. Efforts in the fields of democracy and rule of law will be an immediate imperative and further targeted assistance including support for strengthening of civil society is envisaged.
10. To maximize access to funding from the European Investment Bank (EIB), making up to 250 million of EIB lending available to Ukraine, and provide

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<sup>31</sup> [http://ec.europa.eu/comm/external\\_relations/ukraine/intro/index.htm](http://ec.europa.eu/comm/external_relations/ukraine/intro/index.htm)

increased financial assistance to Ukraine through the relevant instruments in order to help Ukraine to pursue its reform process.

In order to ensure co-ordination of all activities of the European Union and its Member States, the EU has drawn up Common strategies, setting out overall policy guidelines for activities with individual countries. Common strategies are an innovation of the Amsterdam Treaty (article 13 of the Treaty on the European Union).

New Country Strategy Paper (CSP) for Ukraine covers the period 2007-2013. Assistance to Ukraine over that period will principally be provided under the new European Neighborhood and Partnership Instrument (ENPI) which is being established to promote the development of an area of prosperity and good neighborliness between the European Union and the partner countries covered by the European Neighborhood Policy (ENP).

The principal objective of cooperation between the EU and Ukraine at this stage is to develop an increasingly close relationship, going beyond past levels of cooperation to gradual economic integration and deeper political cooperation, including on foreign and security policy.

The National Indicative Program (NIP) for 2007-2010 translates this into support for three priority areas<sup>32</sup>:

- democratic development and good governance
- regulatory reform and administrative capacity building
- infrastructure development, in particular in the transport, energy and environment sectors, in close collaboration with the EIB, EBRD and other IFIs.

The EU-Ukraine trade and economic cooperation has recently experienced notable intensification. From year to year the bilateral foreign trade turnover and direct EU investment in the Ukrainian economy are constantly increasing. Today the EU is the largest foreign trade partner of Ukraine.

**Table 1** EU trade with Ukraine

Year	Imports	Yearly % change	Share of total EU imports	Exports	Yearly % change	Share of total EU exports	Balance	Imports + Exports
2001	5 276		0.54	6 967		0.78	1 691	12 243
2002	6 025	14.2	0.64	7 758	11.3	0.86	1 733	13 783
2003	5 715	-5.1	0.61	8 830	13.8	1.01	3 115	14 545
2004	7 270	27.2	0.70	10 460	18.5	1.08	3 189	17 730
2005	7 668	5.5	0.65	13 045	24.7	1.23	5 377	20 713
3m 2005	1 901		0.72	2 479		1.06	578	4 380
3m 2006*	1 969	3.6	0.60	3 708	49.6	1.35	1 739	5 678
Average annual growth		9.8			17.0			14.0

<sup>32</sup> [http://ec.europa.eu/world/enp/pdf/country/enpi\\_csp\\_ukraine\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/enpi_csp_ukraine_en.pdf)

**Table 2** Ukraine trade with EU

Year	Imports	Yearly % change	EU Share of total imports	Exports	Yearly % change	EU Share of total exports	Balance	Imports + Exports
2001	5 198		29.55	5 527		30.68	329	10 724
2002	5 729	10.2	31.97	6 105	10.5	32.60	376	11 835
2003	6 859	19.7	32.27	6 972	14.2	32.70	112	13 831
2004	7 536	9.9	32.40	7 876	13.0	30.22	340	15 412
2005	9 543	26.6	32.93	7 400	-6.0	27.21	-2 143	16 943
3m 2005	1 841		32.78	1 842		28.87	1	3 683
3m 2006	4 063	120.7	43.72	1 826	-0.9	23.93	-2 237	5 888
Average annual growth		16.4			7.6			12.1

Source: [http://trade-info.cec.eu.int/doclib/docs/2005/july/tradoc\\_113459.pdf](http://trade-info.cec.eu.int/doclib/docs/2005/july/tradoc_113459.pdf)

Remaining outside the EU borders, Ukraine has successfully associated with the realization of the EU Common Security and Defense Policy (ESDP). Ukraine takes part in the EU Police Missions in Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia. The expected conclusion of an Agreement on the security procedures for exchange of classified information and of an Agreement establishing a framework for Ukraine's participation in the EU crisis management operations, should contribute to strengthening legal base of cooperation in this sphere. The EU also recognizes an important role of Ukraine in providing security and stability on the continent as well as its vast industrial and technological potential in the military sphere.

In the context of the EU enlargement Ukraine strives to prevent the creation of a new dividing lines in Europe and advocates non-discriminatory approach to the regime of movement of its citizens across the territory of the EU Member States. The work in this direction in particular includes: perspective introduction of long-term multiply visas for the citizens of Ukraine who take part in economic, cultural and sports exchanges with the EU on a permanent basis; simplification of visa regime for citizens of Ukraine - border areas inhabitants and in the long-term prospect - facilitation of visa regime for all categories of the Ukrainians.

Ukraine and the EU proceed with dynamic cooperation in the sphere of energy, including the nuclear one, agriculture and environment. The EU political and financial assistance to Ukraine in addressing the most urgent problems in the energy sector as well as in mitigating the consequences of the Chernobyl catastrophe is gradually increasing.

The EU has also provided support for reforming the control system of the Ukrainian gas-transporting system, holding technical audit of the oil terminal "Pivdennyi" and technical and economic assessment of the project of transportation of the Caspian oil by Odesa-Brody-Gdansk pipeline, development of the alternative energy and modernization of the coal industry etc.

The EU-Ukraine cooperation in the sphere of outer space is also very promising. Given Ukraine's place among 8 countries demonstrating significant technological background on space programs, on 2 September 2004 the European Commission sought Council approval for its recommendation to start negotiations on a cooperation agreement with Ukraine on the development of a Civil Global Navigation Satellite System (GNSS). The cooperation is expected to cover research and scientific activities especially on standardization issues, regional integrity monitoring and financial

investment in GALILEO.

In March 2007 the EU and Ukraine started talks about a new „wider agreement“, which be a free-trade area and a closer relationship in the questions of energy policy between the EU and Ukraine. EU is more skeptical for an official agreement of EU-Membership of Ukraine.

EU negotiations on the so-called "Enhanced Agreement" with Ukraine are expected to last at least one year. The talks are aimed at drawing Kiev closer to the EU. The current EU partnership and cooperation agreement with Ukraine, signed in 1998, is due to expire next year.

The EU-Ukraine dialogue is carried out through annual meetings of the EU-Ukraine Summit with the participation of the President of Ukraine; Cooperation Council with the participation of the Prime-Minister of Ukraine; Cooperation Committee; Committee on parliamentary cooperation; regular Ukraine-EU Triyka meetings; permanent expert consultations. The EU and Ukraine annually hold more than 80 different official meetings and consultations at the high and expert levels.

However, plans for a free-trade area can only be launched as soon as Ukraine has completed its accession process to the World Trade Organization (WTO). Ukraine hopes to join the WTO within the first half of 2007.

The special focus of the new agreement will be placed on energy. Ukraine is one of the most important transit countries for energy supplies coming from Russia. The EU is also aiming to renew its energy partnership with Russia by the end of 2007.

The EU had to dash Ukraine's hopes of a membership perspective. Chief negotiator Andriy Veselovsky said that his country was seeking to „integrate into the EU“, but the main problem was to bring „these ideas to the Commission“<sup>33</sup>.

„Ukraine is aiming for EU membership and a cooperation agreement currently being negotiated with the bloc should not be seen as a substitute. An enhanced agreement is not an alternative to membership<sup>34</sup>“ V. Yushchenko said at a press conference following a meeting with Danish Prime Minister Anders Fogh Rasmussen on 16 March in Copenhagen.

## CONCLUSION

Ukraine is a country of 48 million people about the size of France, and with a per capita GDP that's miles below even the poorest of the EU countries, Ukraine has been considered too big, and too economically and politically dysfunctional, to be seriously considered for membership.

But if everything goes right, Ukraine could possibly become standard state based on democratic principles, with Russian and Ukrainian speaking people and even the member of the European Union, association of states that share the same democratic principles.

Following the events which led to the “orange revolution” at the end of 2004, Ukraine has pursued an agenda of ambitious reforms to root democracy and the market economy firmly in the country and to bring Ukraine closer to the EU.

There are many tasks and strategic decisions to be taken by new Ukrainian president V. Juscenko. These are not to be implemented in short term, they are rather

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<sup>33</sup> <http://www.euractiv.com/en/enlargement/eu-ukraine-start-operation-talks/article-162232>

<sup>34</sup> [http://www.eubusiness.com/news\\_live/1174064411.15](http://www.eubusiness.com/news_live/1174064411.15)



long-term decisions. Despite the current economic growth, there are many reform steps yet to be taken, further liberalization of state controlled prices, and, of course, privatization or re-privatization of state owned strategic companies.

Ukrainian priorities are still balancing between the orientation toward the EU and orientation toward the Russia. Russia would welcome Ukraine joining the EU. According to President Vladimir Putin, the probable incorporation of Ukraine into the EU „does not directly concern Russia; while the Russian side has much to say on the issue“<sup>35</sup>.

Of course, even though many of the population hope that Ukraine will become fully integrated to the EU and will be a real part of the EU, there are also other opinions on how the future of the country should look like.

According to sociological pools in the country, there are still more and more people that refuse the idea of integration to the EU and NATO. Still more people tend to have more positive attitude to accession to the Common economic area with Russia, Belarus and Kazakhstan<sup>36</sup>.

According to social pool conducted by the TNS Opinion Agency, the people in the EU would like to see the Ukraine in the EU with 34 % against. For example, there are 44 % respondents in favor of joining and 50 % are against in Germany. There are 65 % in favor and 19 % against in Spain. France: 56 % for – 36 % against, Italy: 59 % for – 29 % against, Great Britain: 47 % for – 41 % against, Poland: 73 % for – 15 % against. Of all asked, there is 33 % who think that Ukraine will join the EU before 2018<sup>37</sup>.

Ukraine has declared interest of becoming a member of the EU. On the other hand, the EU is not ready for accession of Ukraine and is not able to provide Ukraine with at least the perspective of accession. Ukraine has also become rather tired of continuous waiting for the EU decision. Even after the fulfillment of all the Copenhagen criteria, Ukraine should stay outside the EU structures, according to the European Neighborhood Policy.

Nowadays, everything is dependent on the reforms that have to be carried out in the country and on the impact they will have on the economy of Ukraine. This means the improvement of economic, political, military and science and technological areas of life.

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<sup>35</sup> <http://www.euractiv.com/en/enlargement/ukraine-wants-eu-upgrade-new-neighbourhood-action-plan/article-133525>

<sup>36</sup> <http://www.uceps.org/ua>

<sup>37</sup> <http://www.podrobnosti.ua/society/2007/01/29/390457.html>

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<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/05/106&format=HTML&aged=0&language=EN&guiLanguage=en>

## **The increasing FDI investments of Asian automakers in CEE – new requirements for supply chain, transportation & logistics services**

### **1. INTRODUCTION**

As foreign direct investment (FDI) has been considered key factor to foster economic growth and automotive industry has been one of the most important contributions to economy development. As a result, governments in the world have made many efforts to attract FDI into automotive industry, countries in CEE are a good example of this trend because in recent years Asian automakers has been investing and seeking new facility locations in this region. However, these increasing investment flows in CEE could not been kept in the long-terms unless CEE countries have met new requirements such as the adequate development of supply chain, sustainable transportation solutions and effective logistics services.

### **2. THE INCREASING FDI INVESTMENTS OF ASIAN AUTOMAKERS IN CEE**

Automobile manufacturers are global players. They have taken advantage of the continuously liberalised world trade in terms of exports and have opted for local production or investment in countries with still well protected markets. This strategy, a mix of export activity and presence in key markets, has fostered their position as a key industry worldwide. Currently, global automobile production is shared as follows: Western Europe with a share of 31.4% (16.5 mil. units), Asia-Pacific 30.3% (16.1 mil. units) and North America 29.1% (15.5 mil. units), Central and Eastern Europe and South America count for 4.6 and 3.5 %, Africa and the Middle East for 0.6 and 0.5%.<sup>38</sup>

The increasing investment of Asian automakers in CEE (Central and Eastern Europe, especially the EU new members, i.e. Slovakia) will predict the demand for transportation of semi-products, components and raw materials from Asia to CEE to supply for automotive manufacturing industry (*figure 1*). In Slovakia, KIA Motors - Korean automaker invested EUR 1 billion to build facility and manufacturing chain at Žilina. KIA Slovakia started serial production on December 7, 2006 and it would boost its annual engine production from the originally planned 300,000 to 600,000 units. Engine production should hit full capacity in 2012. In 2010, when the plant is running at full capacity, it will produce 300,000 cars per year. Since EU accession in 2004, Slovakia has been chosen by many companies as a location for cross border logistics functions serving Austria, Hungary, the Czech Republic, and Poland<sup>39</sup>. The important issue for transportation and logistics services in Slovakia is when automotive

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<sup>38</sup> WTO, International Trade Statistics, 2006

<sup>39</sup> [www.spectator.sk](http://www.spectator.sk) accessed on 10 December 2006.

manufacturing industry develops; it will foster the enlargement of transportation. The demand in moving components, raw materials from suppliers in Asia (i.e. Vietnam crude rubber exports to Slovakia for tyre production) will increase and need an efficient supply chain with cost-effective. Another important matter concerns in the transportation is how to operate cargo flows in the unbroken transport chain with the combination of modes of transport modes to ensure delivery of the shipments from Asia to Slovakia be just-in-time, door-to-door and cost-effective.

**Figure 1** Car Assembly Plants in Central & Eastern Europe



Source: CEE Opportunities for OEM Suppliers

<<http://www.deloitte.com/dtt/article/0,1002,sid%253D11630%2526cid%253D108709,00.html>>

The automotive sector is currently one of the fastest growing sectors in the CEE. It is expected that other automotive manufacturers will establish their operations in this region and thus will generate significant opportunities for supplying companies to serve the needs of Original Equipment Manufacturers (OEMs). It is forecasted that more than 3 million car units will be produced annually in the CEE region by the year 2010<sup>40</sup>.

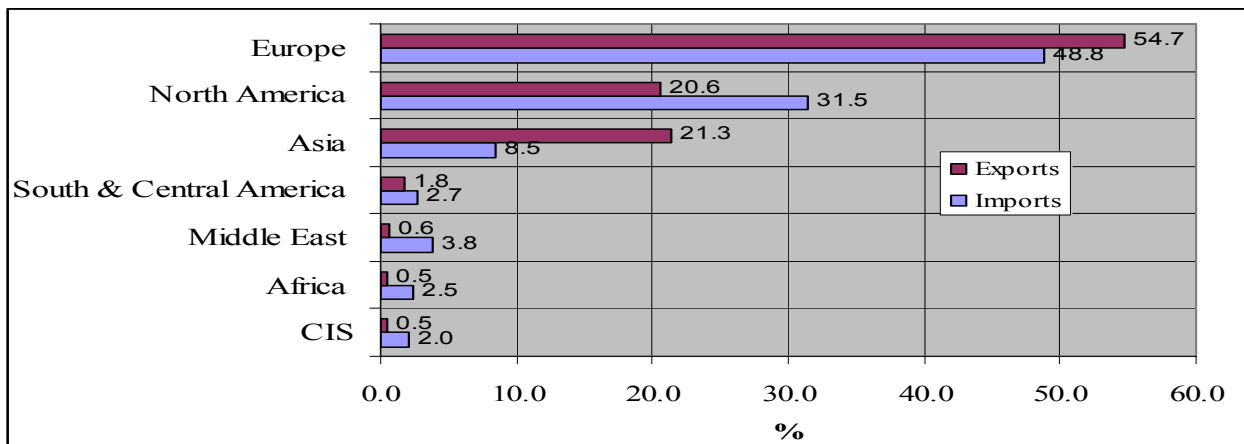
### 3. NEW REQUIREMENTS OF AUTOMOTIVE INDUSTRY IN CEE FOR SUPPLY CHAIN, TRANSPORTATION AND LOGISTICS SERVICES

The EU is now the largest automobile manufacturing region in the world,

<sup>40</sup> According to survey of Ernst & Young organization  
 <[http://www.ey.com/GLOBAL/content.nsf/Slovak\\_Republic\\_E/2005\\_Europe\\_is\\_still\\_no1\\_destination\\_for\\_foreign\\_investors](http://www.ey.com/GLOBAL/content.nsf/Slovak_Republic_E/2005_Europe_is_still_no1_destination_for_foreign_investors)>

a situation that will not change significantly during the next five years<sup>41</sup> (Figure 2). Due to the EU's large share in the global production, its automobile logistics sector keeps a very important role. Moreover, the automotive manufacturers are looking forwards new production locations in EU new member countries, therefore, it is very necessary to improve the distribution infrastructure (without restrictions and bureaucracy) and select modes of transport (without broken) in order to increase the efficiency of the entire automotive logistics chain.

**Figure 2** Regional shares in world trade in automotive products, 2005 (%)



Source: WTO: International Trade Statistics, 2006.

Global sourcing is intensively reflected through the diversification of material resources, the increase of global manufacturing, the division of production phases, etc. The reasons of sourcing globally might be identified as follows:<sup>42</sup> lower price from foreign sources (74%), availability of foreign products not available locally (49%), firm's worldwide operation & attitude (28%), advanced technology available from foreign sources (28%), higher-quality products available from foreign sources (25%).

The allocation of manufacturing sites tends to be shifted to developing countries in Asia or new EU members in Central and Eastern Europe has been making the significant changes in global business environment.

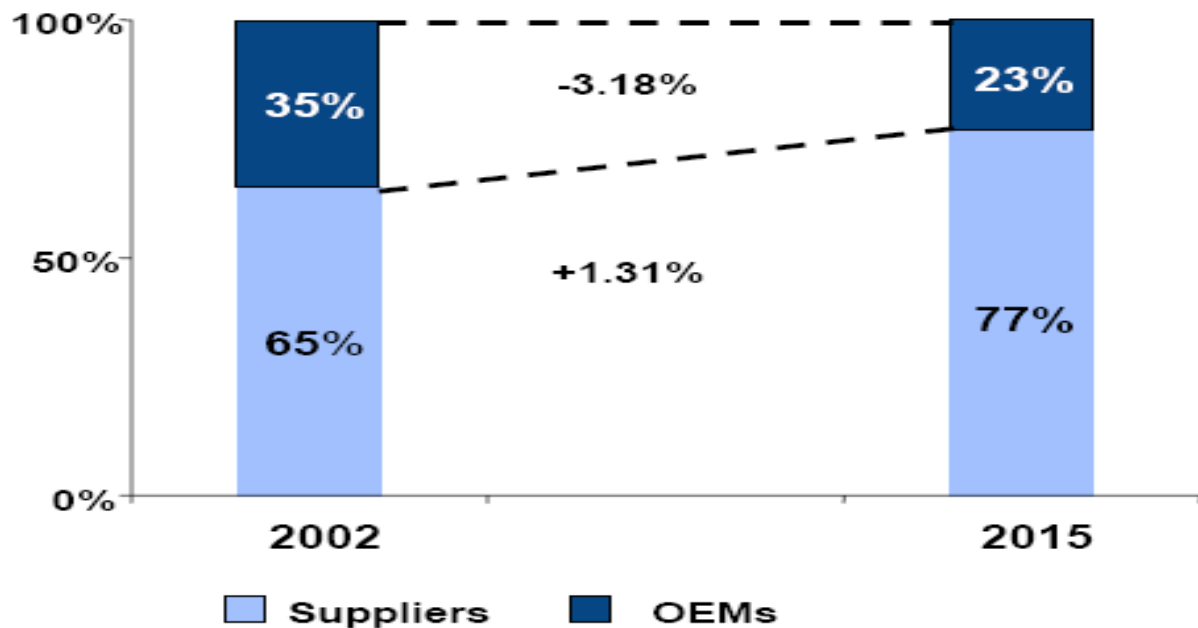
Today automobile suppliers produce nearly double the value globally relative to OEMs.<sup>43</sup> All of the growth in 2015 is expected to be realized by suppliers (figure 3).

**Figure 3** Share of industry between suppliers and OEMs (2002/2015)

<sup>41</sup> Michel Costes, from the consultancy company Mavel, interview in *International Transport Journal* 5-6/2006.

<sup>42</sup> Ball & Mc Culloch: *International business, the challenge of global marketing*. 7<sup>th</sup> edition, 1999, p.566.

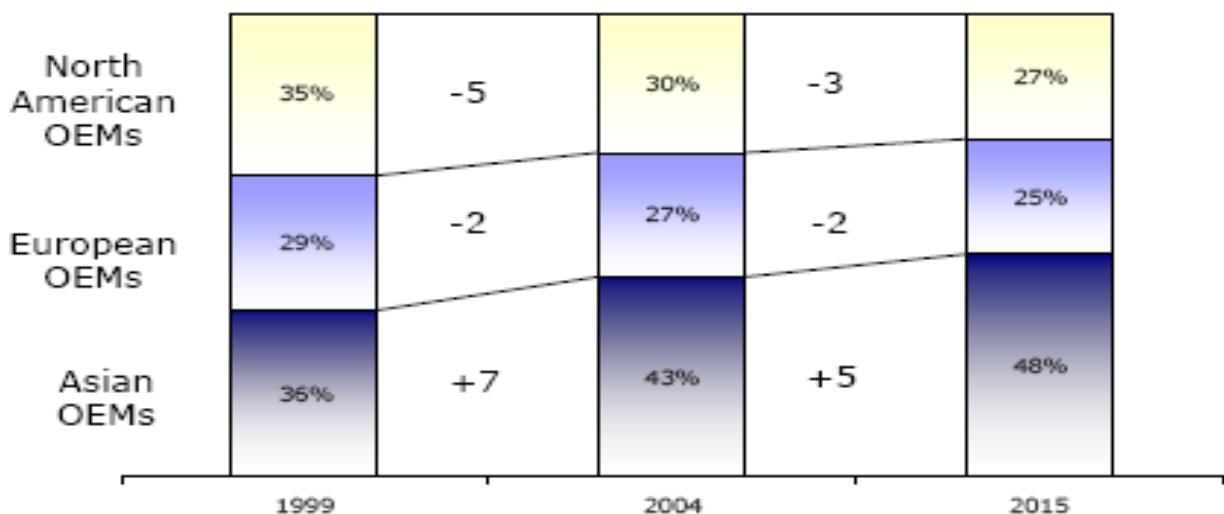
<sup>43</sup> OEMs stands for Original Equipment Manufacturers; Craig Fitzgerald: *Strategic Positioning - Never More Important in the Automotive Industry*. In: *Automotive Parts Suppliers Council*. PMA: May 2006.



Source: Adapted from Introduction to FAST (Future Automotive Industry Structure in 2015 Study. Mercer Management Consulting, based on Craig Fitzgerald: Strategic Positioning – Never More Important in the Automotive Industry)

Besides, global automotive production share between OEMs and suppliers tend to increase in the share of suppliers and reduce in that of OEMs (Figure 4). However, this trend is not similar to different areas. While OEMs in Europe reduced their share from 29% in 1999 to 27% in 2004 and will reduce to 25% in 2015, OEMs in Asia increased their share from 36% in 1999 to 43% in 2004 and will continue to 48% in 2015 (figure 4).

**Figure 4** Global Automotive Production Shares (1999, 2004, 2015)

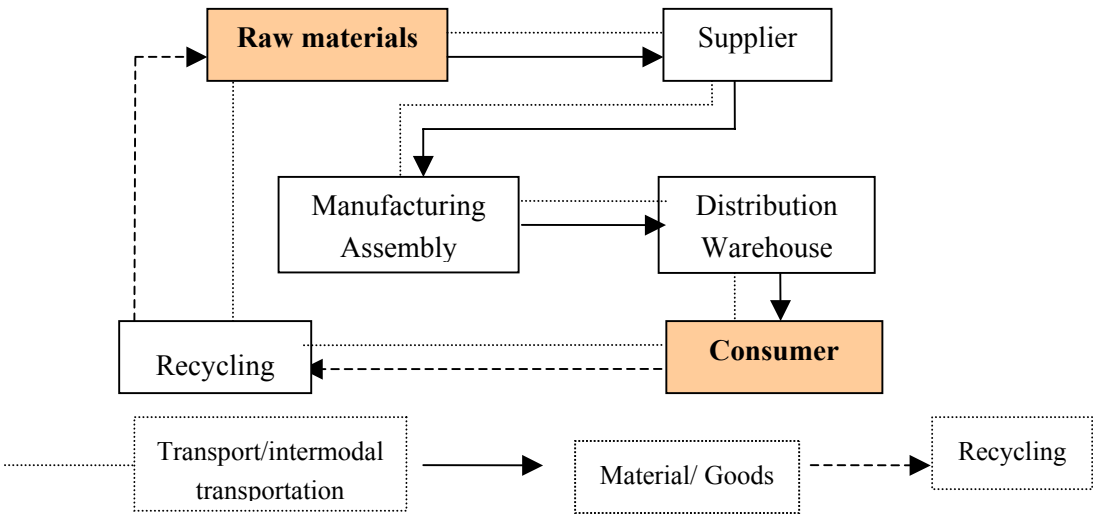


Source: Automotive News, Accenture Analysis, GSM Worldwide & Craig Fitzgerald: Strategic Positioning – Never More Important in the Automotive Industry.

This tren presented the capability and competitive advantages of Asian OEMs

and showed the opportunities for automobile suppliers of automotive industry in CEE. The availability of quality-focused, cost-effective freight transportation services could affect the competitiveness of automobile companies in the battlefield of regional and global economic field. In response to the demand for competitive, transportation services will continue towards the integration of services and the complete cycle of logistics (figure 5).

**Figure 5** Phases of Logistics cycle



Source: The author Ho Thi Thu Hoa, 2006.

The era of information and communication technology and the diversification of the modes of transport have been fostering the integration of supply chains. This integration can permit the optimization of trade-offs between the components of supply chains as well as between the service and cost aspects of the modes within supply chains. Information capability and supply chain relationships will require careful balancing of all the business objectives of both the manufacturers and the suppliers.

The competitive advantages of integrated supply chains include shorter delivery times, more reliability, less schedule disruptions, lower stock levels, faster implementation of design changes, fewer quality problems, stable and competitive prices, and higher priority given to orders.<sup>44</sup> The key determinants for supply chain of automotive industry would be the location of the assembly plant, transportation infrastructure. Besides, consolidation ability of manufacturers is also very necessary. Table 1 may help determine to what extent local manufacturing operations are consolidated globally and regionally.

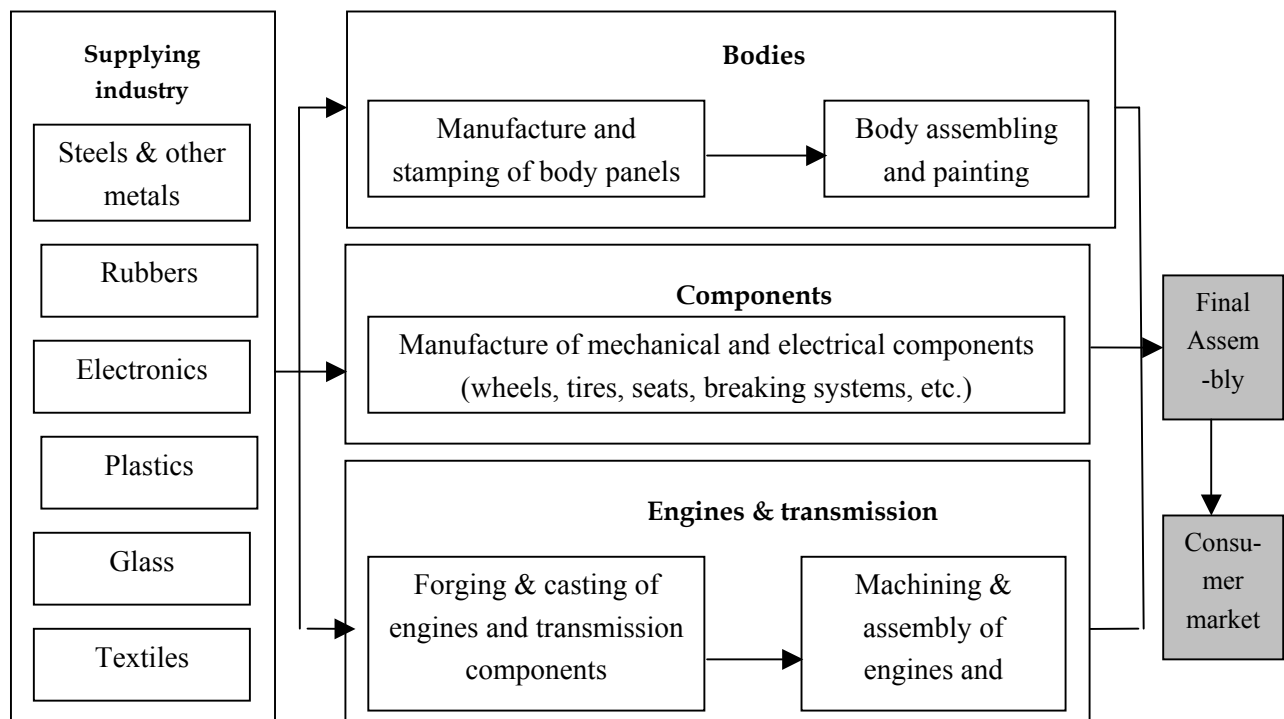
<sup>44</sup> Christopher, (1998).

**Table 1** Automotive industry supplier location

Location from assembly	Product Characteristics	Parts/Components
Global	High technology, low variability, light, compact	Integrated circuits
2000 km	Economy of scale, moderate variability, moderate weight and bulk	Alternators, starters, radiators, hub units
300 - 400 km	Modules/systems assemblies for specific vehicles, moderate variability, heavy or bulky	Heating, ventilation, air conditioning systems, fuel tanks
20 - 30 km	Modules/systems assemblies, sequenced exactly in vehicle assembly, heavy or bulky	Seats, alarms, dashboard, painted bumpers

Source: Maxton and Wormald: Time for a Model Change, pp. 151-152.

Process of global supply chain is not similar at each economic sector. The characteristics of production sectors will therefore, decide how to implement design or operate its supply chain. Figure 6 describes one example of the automobile supply chain.

**Figure 6** The automobile supply chain

Source: Rodrige J-P.: The Geography of Transportation Systems. USA: 2004



#### 4. CASE OF SLOVAKIA - NEW REQUIREMENTS FOR SUPPLY CHAIN, TRANSPORTATION AND LOGISTICS SERVICES

##### *Some opportunities for Slovakia in developing automotive industry*

Slovakia ranked 12th in the top 15 most attractive countries for investments in the world (the Czech Republic ranked 7th) and is the 6th most considered destination for new investments or expansion projects in Europe. It is also the 5th most attractive European country by “corporate taxation” criteria following the United Kingdom, Ireland, Poland and Switzerland. Slovakia gained the 5th highest share of foreign direct investments in the automotive industry, after France, the Czech Republic, Poland and the United Kingdom. *Together with other Central and East European countries, Slovakia is becoming more attractive for foreign investments. It is probably because of low costs and an attractive tax system. But there still must be a lot of work done to gain the same level of investments as Poland or Czech Republic”, comments Peter Chrenko, Country Managing Director of Ernst & Young in Slovak Republic. “But the trend is very positive. The report shows, that in 2004 Slovakia has doubled its market share of FDI in automotive industry”.*<sup>45</sup>

##### *Some obstacles for Slovakia in operating supply chain, transportation and logistics services*

Slovakia is a landlocked<sup>46</sup> country, therefore, it tends to face enormous cost disadvantages. Limão and Venables (2001) have investigated the dependence of transport costs on geography and infrastructure for over 100 countries, including developed and developing countries, and estimated that a 10 percentage point increase in transport costs typically reduces trade volumes by approximately 20%.

**Table 2** Performance by modes for freight transport in Slovakia (2000 – 2005)

Year	Total Mil.tkm	Rail		Road		IWT		Air	
		Mil.tkm	% of total	Mil.tkm	% of total	Mil.tkm	% of total	Mil.tkm	% of total
2000	26957	11234	41.674	14340	53.196	1383	5.130	0.22	0.001
2001	25743	10929	42.454	13799	53.603	1015	3.943	0.352	0.001
2002	25907	10383	40.078	14929	57.625	594	2.293	0.703	0.003
2003	27461	10113	36.827	16859	61.393	488	1.777	1.263	0.005
2004	28941	9702	33.523	18517	63.982	721	2.491	0.6	0.002
2005	32665	9374	28.697	22550	69.034	740	2.265	0.756	0.002

Source: Slovak Ministry of Transport, Posts and Telecommunication < [www.telecom.gov.sk](http://www.telecom.gov.sk) >

The imbalance between modes of freight transport (*Table 2*) is another obstacle of

<sup>45</sup> According to survey of Ernst & Young organization

<[http://www.ey.com/GLOBAL/content.nsf/Slovak\\_Republic\\_E/2005\\_Europe\\_is\\_still\\_no1\\_destination\\_for\\_foreign\\_investors](http://www.ey.com/GLOBAL/content.nsf/Slovak_Republic_E/2005_Europe_is_still_no1_destination_for_foreign_investors)>

<sup>46</sup> A landlocked country is one that has no coastline, meaning no direct access to sea or ocean. As of 2006, there are 43 landlocked countries in the world. <[www.wikipedia.org](http://www.wikipedia.org)>.

Slovakia. During 2000 – 2005, only road transport has increased in the share of total modes of freight transport, while rail transport and IWT have gradually reduced from 41% and 5% of total in 2000 to 28% and 2% in 2005.

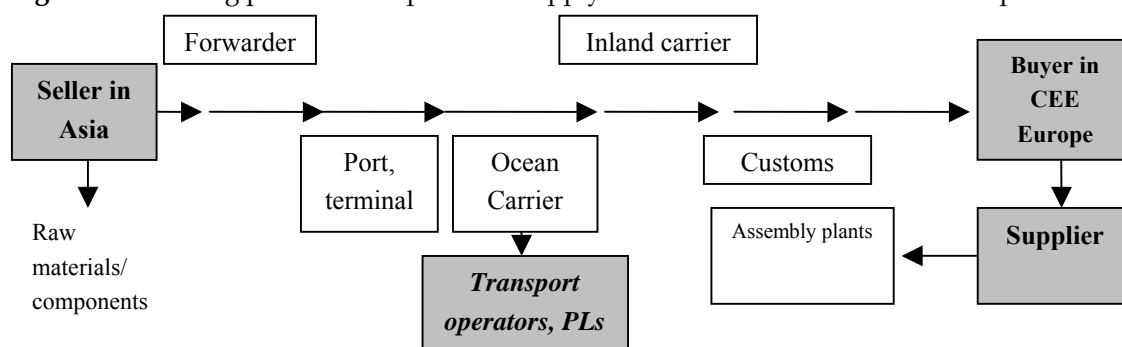
When asked that which mode of transport could replace for road transport in moving their transit goods (raw materials, e.g. natural rubber from Asia via Germany to Slovakia, the owner of supplier company in Slovakia said that it could be rail transport because of avoiding congestion and sometimes the authority control (taking some hours). But there is no choice for inland waterway transport (the reasons are time delay, no common, no interest, no experience, etc.).

### *Solutions to meet new requirements for supply chain, transportation and logistics services in Slovakia*

Modal shift from road transport to rail transport and IWT (e.g. using IWT on Danube River makes connection from Asia to seaports on Black Sea of the new EU members, then to Slovakia) will facilitate its transport service and avoid congestion and environmental effects from road transport and overloaded capacity in seaports of Western Europe (e.g. Hamburg, Bremenhaven).

The role of party logistics (PLs) in this transport chain is very important, because they will be a link connecting between the consigner of goods and the consignee of goods. In the trends of contemporary transportation, the consigner of goods will not take care of the means of transport this responsibility will be transferred to PLs, who will be in charge of the timing, the journey of shipment, the way of handling, marking, packaging and warehousing as well as concerned documents (Figure 7).

**Figure 7** Modelling process of shipment in supply chain between the Asia and Europe



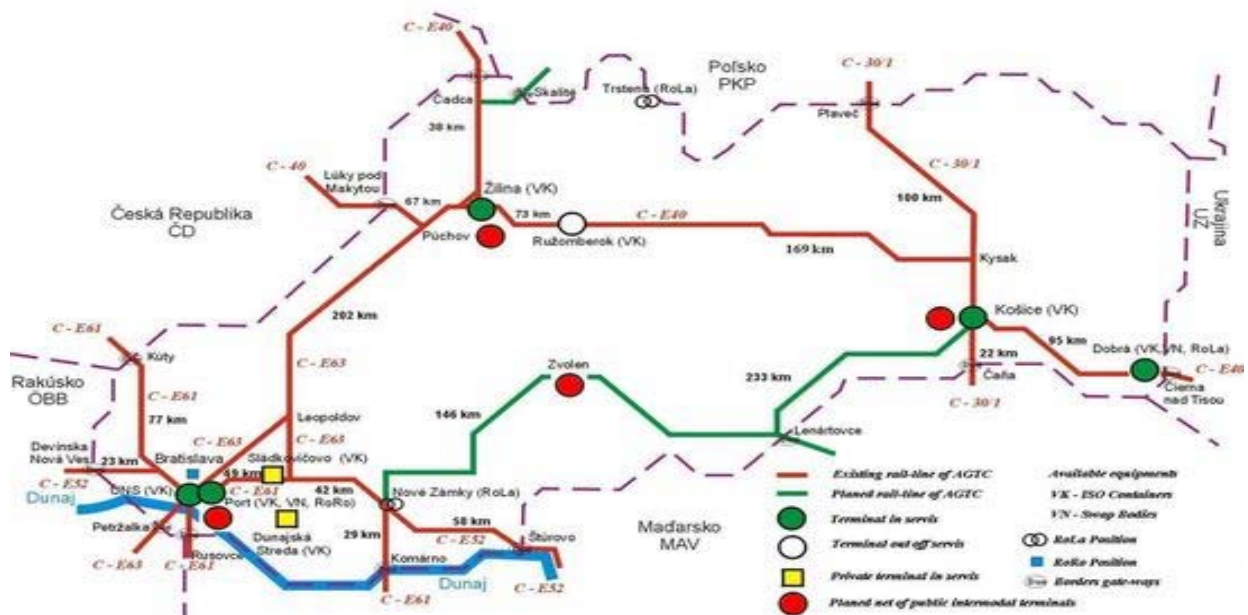
Source: The author Ho Thi Thu Hoa, 2006.

Improving waterway infrastructure, modernizing and investing in intermodal infrastructure (e.g. intermodal terminals, ports, handling equipments) will change the traditional manner of freight transport and achieve high efficiency for transportation and logistics service. Besides, the development of river transport network will enhance the external trade for Slovakia and make the opportunities for this country integrate

into the international transport network. IWT is really the golden key for Slovakia, to foster its foreign trade and overcome the obstacles of geographical disadvantages.

Developing intermodality, modal shift of road transport to IWT and rail transport (especially for cargo flows, including components, raw materials for automotive industry), changing the traditional transport routes (by road transport from seaports in Germany) to IWT (combining sea transport from Asia to Black Sea, then by IWT to Slovakia (environmentally friendly transport) are significant solutions. The advantage of this trend is the promotion of EU transport policy (White Paper) and suitable to global warming from World Economic Forum (2007 in Davos, Switzerland). It is very necessary to improve the transport infrastructure at the both levels - national and regional, perform the infrastructure investment from the financial capital of public private partnership (PPP). Intermodal terminals have to be upgraded and enlarged, currently, there are some terminals in Slovakia, located in Bratislava, Žilina, Kosice, Ružomberok, Dunajská Streda, Sládkovičovo, Dobrá etc. (Figure 8) but infrastructure and capability of these terminals have not yet been adequate to requirements of integrated transportation.

**Figure 8** AGTC <sup>47</sup> railway lines and location of combined transports transshipment points and terminals in Slovakia - current and future to 2010 year



Source: Slovak Ministry of Transport and Telecommunication, 2007.

Adequate transport infrastructure will efficiently promote combination of transport modes and improve logistics chain of region and as a result, the manufacturers and investors will benefit from the competitive advantages of transport

<sup>47</sup> AGTC: European Agreement On Important International Combined Transport Lines And Related Installations.

and logistics services with the low transport costs and logistics services cost-effective.

Suppliers network is in the scale of global, trans-continental. Therefore, increasing FDI investments in CEE generally and in Slovakia particularly have been requiring the participation of many sectors in economy such as transportation, logistics services, supply chain, etc. in the scale of CEE and the enlargement of supply chain network to different regions in the world (e.g Asia, ASEAN, East Asia).

## 5. CONCLUSION

The future potential of supply chain, transportation and logistics services in CEE will be together the development trend increasingly of automotive industry in this region. And the attraction of CEE countries to the FDI of Asian automakers will not keep in long-terms unless CEE countries have continued to upgrade transport infrastructure, improve transport network, develop and integrate supply chain network and logistics services into global network.

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## Implementation of Reforms and Structural Imbalances of the Slovak Economy

### 1. INTRODUCTION

During a last few years, The Slovak Republic (SR) has obtained reputation of being *one of the most reforming countries* in the world. Slovakia bounds to such repute especially for implementation of reforms aimed at reduction of public expenditure, introduction of flat tax rate, remarkable privatization of so-called „natural monopoly“ enterprises, extensive government's subsidization of FDI as well as for rather significant improvement of business environment. Concurrently, the Slovak economy has started to derive profit from cohesive and other policies of the EU aimed at integrated markets creation, accelerating the convergence process.

Slovakia has also achieved *success on international political as well as economic level*. Accession to ERM-II system, the first among V4 countries, indicated appreciation of macroeconomic performance of the country. Membership and active participation of SR in such organizations as NATO, OECD or non-permanent membership in UN Security Council mean confirmation of sharing basic human values – human freedom, idea of democracy, protection of private ownership and free markets.

Basic macroindicators outline reasonably positive impacts of changes presented above, even though *some of the reforms* – especially „unconventional“ pension and health care system reform – *bring questions about their long-term sustainability* (so financially as politically). Reduction of solidarity manifestations has lead to several negative responses, notably from major EU countries representatives along with depression of some non-flattering primacies of the SR much of whose are connected with the labour market imbalance. Therefore, *the aim of the paper is to point out on some structural difficulties and threats that linger hidden behind impressive macroindicators*.

The rest of the paper is organized as follows. *Section 2* briefly reviews recent economic developments in Slovakia including comparison to the rest of V4 countries' performance. Some positive impacts of numerous reforms are also presented at this section. *Section 3* is addressed to structural difficulties and threats mentioned above. *Section 4* contains a simple analysis of opportunities and risks for the Slovak economy resulting from planned early Euro adoption.

### 2. RECENT DEVELOPMENTS IN SLOVAKIA PROVIDE GROUND FOR OPTIMISM

During latest period, Slovakia belongs to most-dynamic economies in Europe and such temper has been confirmed also in 2006. Simply, in terms of *GDP growth*, Slovakia is yet a several years Central-European leader and is achieving multiple GDP growth volume than most EU countries (see table 2.1). *Such assertive evolution could be assigned to several systemic and economic stimulus related to EU accession, as well as some reform steps aimed at business environment improvement and simplification* (especially Labour Code amendment contributing to labour market flexibilisation, tax reform reducing administrative costs and enchainning foreign investors). From the long-run perspective, *foreign direct investments* (hereafter FDI) seem to act as a key determinant of economic growth in Slovakia.

**Table 2.1:** Real GDP growth rate (percentage change on preceeding year)

	2002	2003	2004	2005	2006	2007 <sup>f</sup>	2008 <sup>f</sup>
Czech Rep.	1,9	3,6	4,2	6,1	6,0 <sup>(f)</sup>	5,1	4,7
Hungary	4,3	4,1	4,9	4,2	3,9	2,4	2,7
Poland	1,4	3,8	5,3	3,5	5,8	4,7	4,8
Slovakia	4,1	4,2	5,4	6,0	8,3	7,2	5,7
EU-25	1,2	1,3	2,4	1,7	2,9	2,4	2,4

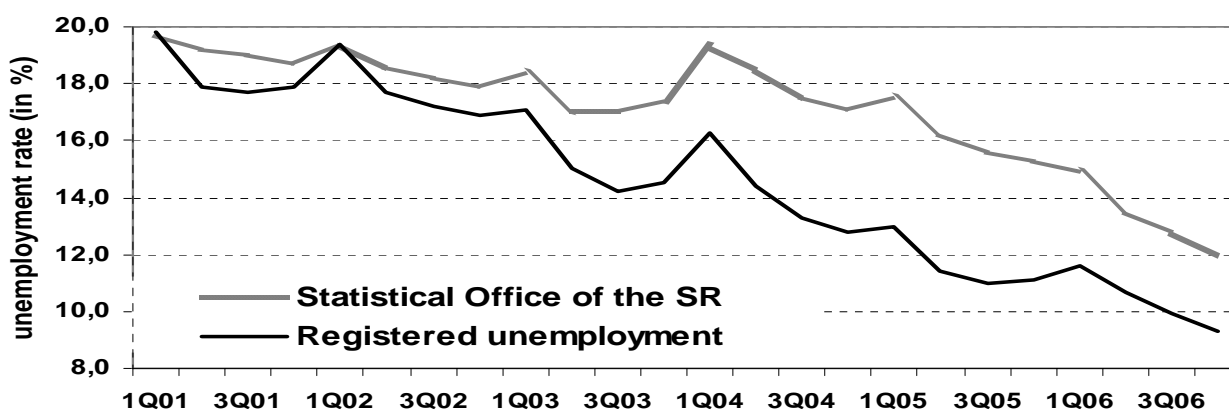
Source: Eurostat

## 2.1 Unemployment

High unemployment rate has been one of the ultimate economic difficulties in Slovakia since middle 90's, even if *since 2004 it declines rapidly*. Monitoring of unemployment rate evolution in Slovakia is, however, connected with some inconvenience. The two institutions observing unemployment - Head Office for Labour, Social Affairs and Family (hereafter UPSVaR) ; and Statistical Office of the SR - use different methodology of unemployment measuring - providing different results. The UPSVaR methodology appears from number of unemployed persons registered at local Offices for Labour, Social Affairs and Family. The Statistical Office performs its own selective surveys. As we can see on graph 2.1, unemployment rate according to UPSVaR declines swifter than referred by the Statistical Office. The difference is currently about 3 percent of the unemployment rate which means approximately a hundred thousand unemployed persons. These people, according to surveys of the Statistical Office, belong to the group of unemployed but labour offices do not, for various reasons, register them as applicants for a job.

In my view, there is no point in arguing which estimate is "more accurate". In spite of distinctness of the two methodologies, in long-term they provide at least unvaried tendency. Perhaps, the "right" unemployment rate underlies somewhere between the two estimates, as the Statistical Office's estimate could be overrated (quizzes do not have to list a true response) and UPSVaR results are probably underestimated (in consequence of rather strait conditions of registration). However, what is relevant is that since 2004 both estimates show rapidly declining rate of unemployment.

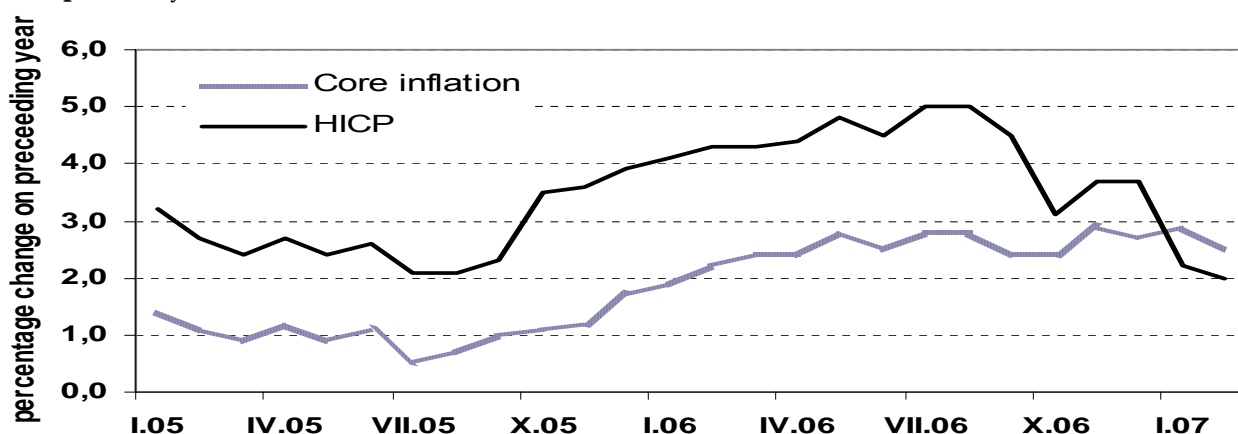
**Graph 2.1** Unemployment developments in Slovakia (percentage of total labour force)



## 2.2 Inflation

The level of overall inflation (measured by HICP) was in 2006 markedly influenced by „controlled prices“ whose contribution to the total price growth was almost 40 percent. Another relevant factor of speeding inflation was food prices and particularly in first half of the year also sharply increasing oil price. Interesting position occurs since beginning of 2007 (see graph 2.2) as the level of overall inflation is below core inflation following cut-down of controlled prices (gas) as well as implementation of lowered VAT rate on pharmaceuticals. However, continuously growing trend of core inflation since half of 2005 is worthnoting. Its main drivers are, obviously sharply growing real wages (5% average growth rate during 2005 and 2006), as well as boosting household lending (during first 10 months of 2006, bank borrowing to household sector increased by over 20%). As a result, average real growth of private consumption was almost 7% during last two years. Whereas the key drivers of the inflation should remain at similar level in 2007, price developments could be perceived as the main risk to intended Euro adoption since January 2009.

Graph 2.2: Dynamics of inflation



## 2.3 Public Finance

Quite favorable evolution in public finance of the SR in recent years reflects mutual effects of following factors<sup>48</sup>:

- strong economic growth,
- public finance management reform,
- tax reform,
- fiscal policy changes,
- strong fiscal discipline.

*On the revenue side of public finance, main positive factors for improvement were strong economic growth together with some mollification of long-lasting strain on labour market. Some of the reforms – especially in field of labour market (tightened conditions for registration of unemployed) social system (re-definition of social benefits eligibility), and healthcare system - have resulted in reduction of general government budget expenditures. Public finance management reform carried increased efficiency and transparency in management both on revenue and expenditure side of the budget. Improved fiscal discipline have resulted mainly from engagement with the EU (Stability*

<sup>48</sup> see Autner, Hofreiter and Ochotnický, (2007).



and Growth Pact), government's will to access the EMU in January 2009 and general political consensus in fulfilling given liabilities.

The tax reform, based on a concept of so called „flat tax rate“ (established at 19% level in Slovakia), has been a theme to many ardent debates. A few years after its implementation, *following positive impacts of the tax reform could be presented with certainty:*

- simplification of tax collection system and related reduction in transaction and administration costs of taxable units,
- increased transparency of the tax system, shortened feasibility of tax evasion,
- improved perception of the SR among potential foreign investors following low income tax,
- unification of VAT rate has generated increased revenues for the public budgets, which could be also perceived as a positive impact from someone's point of view.

On the other hand, *a certain part of the public together with some of our EU partners mentions the following negatives:*

- reduction of solidarity
- so-called „tax dumping“ – such term is quite often used especially by „net contributors“ to the mutual EU budget. In the connection, a spontaneous question occurs: why Slovakia demands transfers from the EU budget if it has chosen much lower taxation for the purpose of entice producers from the „old“ EU to remove their production plants from these countries?

With reference to policy mix, *the tax reform has eventuated in significant reduction of fiscal policy ability to act as an automatic stabilizer.* This matter can eventually appear as markedly negative after EMU accession, i. e. after autonomous monetary policy dropout.

However, all the factors described above have resulted in *significant fiscal consolidation.* In recent years, net government lending-to-GDP ratio has tended to sustainable levels, while government debt-to-GDP ratio is lowering markedly (see table 2.2). The development of fiscal criteria of EMU accession hence appears as safe for euro adoption in January 2009. The fiscal consolidation in Slovakia contrast to developments in some other countries of the region, namely Hungary. A slight decline of general government balance is observable also in Czech Republic (see table 2.2).

**Table 2.2** General government financial indicators (percentage of GDP)

	2004		2005		2006 <sup>f</sup>		2007 <sup>f</sup>		2008 <sup>f</sup>	
	NL/ NB*	D**	NL/ NB*	D**	NL/ NB*	D**	NL/ NB*	D**	NL/ NB*	D**
Czech Rep.	-2,9	30,7	-3,6	30,4	-3,5	30,9	-3,6	30,8	-3,2	31,0
Hungary	-6,5	59,4	-7,8	61,7	-10,1	67,6	-7,4	70,9	-5,6	72,7
Poland	-3,9	41,8	-2,5	42,0	-2,2	42,4	-2,0	43,1	-1,8	42,7
Slovakia	-3,0	41,6	-3,1	34,5	-3,4	33,0	-3,0	31,6	-2,9	31,0
EU-25	-2,7	62,4	-2,3	63,3	-2,0	62,5	-1,6	61,4	-1,4	60,4

Source: European Commission (see European Commission, 2006)

\* Net lending/net borrowing of the general government

\*\* Debt-to-GDP ratio

## 2.4 Conclusion

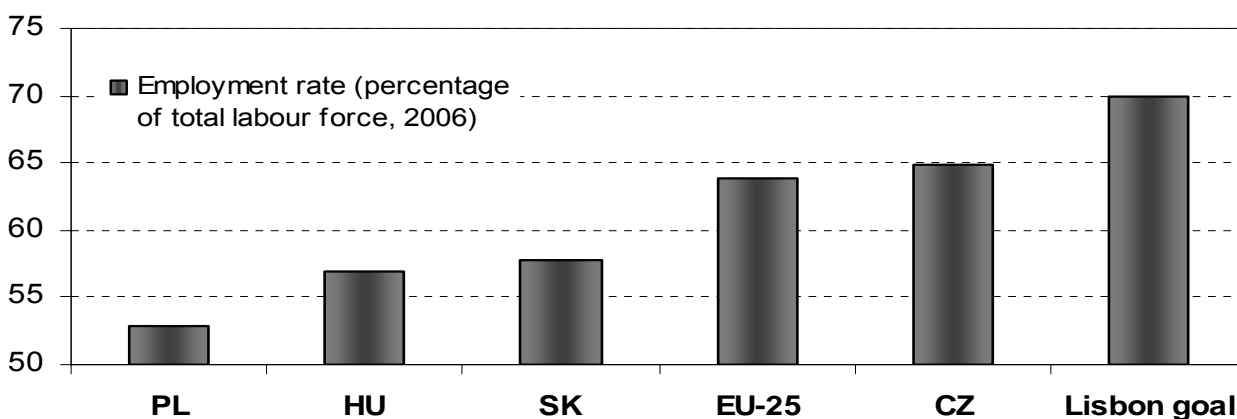
Yet a flash look on basic macroindicators offers deduction on current remarkable good mood of the Slovak economy. To a large extent, such developments can be assigned to numerous reforms implemented during recent years. Improved perception of the country has attracted large FDIs which have resulted in strong growth, decreasing unemployment rate, and together with other factors it contributed also to fiscal adjustment. Nevertheless, as presented in the following section, there are still some structural difficulties and threats lingering hidden behind impressive macroindicators.

## 3. QUESTIONS NESTLING BEHIND IMPRESSIVE MACROINDICATORS

### 3.1 Labour market

In section 2.1, rapidly declining rate of unemployment was observed. Still, deep strain on labour market is indicated rather by *low total employment rate*<sup>49</sup>, which is far below EU-25 average and yet farther below Lisbon Strategy goal established as 70% employment of total labour force (see graph 3.1). Low employment rate involves, besides wasted economic potential, also creation of budget stress (lower then „potential“ incomes, higher then „optimal“ expenditures). The conjunction of *budget impacts of low employment rate and pension system reform*<sup>50</sup>, which are both negative, is, to a great extent, *eliminating the space for cut-down of social contributions charging on labour*, which is often promoted especially by Slovak businesses.

**Graph 3.1:** The Lisbon target for employment remains distant



Source: Eurostat

The labour market difficulties appear from a mix of various issues. The World Bank's report<sup>51</sup> which have, inter alia, assessed developments on Slovak labour market,

<sup>49</sup> according to Eurostat definition, the employment rate is calculated by dividing the number of persons aged 15 to 64 in employment by the total population of the same age group.

<sup>50</sup> A pension reform was launched in 2005, affecting social contributions by redirecting 9% of gross wages to a funded (second) pension pillar. Due to gradual transition and a widespread public interest in this pillar, these revenue transfers are estimated to increase from some ½% of GDP in 2005 to about 1¼% of GDP in 2006, 2007 and 2008 which means significant depression of incomes of public social welfare system.

<sup>51</sup> The World Bank. The Quest for Equitable Growth in the Slovak Republic (A World Bank Living Standards Assessment). Report No. 32433-SK. The International Bank for Reconstruction and Development. Washington D. C. 2005.

mentions that reforming steps of the previous government aimed at reduction in public expenditures will probably heighten social exclusion of certain groups of the population. The paper also draws attention to *labour market duality in the Slovak Republic*. While on one hand, there are professions and regions that are able to turn the strong growth to account markedly, there is also a large number of population getting marginalised on the other hand. *The duality shows itself evidently through following deformities:*

- a) *persisting and deepening regional differences of unemployment rate* – Slovakia has, within EU-25 countries, second highest variability of unemployment reate among regions at the NUTS2 as well as NUTS3 level, right after Italy. While in certain districts, the incoming foreign investors have troubles with hiring enough workers, there are also regions where the unemployment rate stays continually above 20%. Such contrast indicates deep troubles and imbalances in functioning of the economy. A dispatch construction of infrastructure (the problem is, especially transportation infrastructure) in stricken regions could be the needful motion for ensuring social and economic cohesion of the country. A stronger support to small and medium businesses in backwarding regions from the government, as well as local authorities, also appears to be desirable. On the other hand, *employment mobility is needed to increase*, as the Slovak labour market has traditionally been characterized by very low mobility in terms of job turnover, spatial migration, and/or changes in the labour market statuses.
- b) *the question of long-term unemployment* – nearly 65 percent of the unemployed are unemployed for more than a year, which is the highest share of long-term unemployment in the EU-25. Unsurprisingly, the average unemployment duration in the SR in 2004 (27 months) was markedly above that of the EU-15 (17 months). Moreover, the group of long-term unemployed is rather insensible to the economic dynamics. While short-term unemployment shows signs of cyclical fluctuation, it appears that long-term unemployment increases together with growth of total employment but do not drop when the situation on labour market recovers.. Respectively, it declines very slowly. Simply, the long-term unemployed are far less likely than others to find new employment and hence these people are at particularly high risk of becoming excluded from the labour market and the society at large.
- c) *excessive unemployment of low-skilled workers* – since 2000, while total unemployment rate have been generally declining, the job opportunities for low-skilled workers have continually been slicing. At the same time, the job opportunities for those with completed tertiary education have continually been increasing. As a result, the employment rate of low-skilled has, during 1998 – 2005 period, declined by 10 percent. The employment rate of men with only basic education completed was just 30 percent in 2004, which is less then a half of the EU-15 average.
- d) *excessive unemployment of young people under age of 25* – since 2000, it has been characteristic that the employment of older workers grows on the expense of the younger. Even if this is in accordance with the Lisbon goals, it involves a certain risk in a country like Slovakia, where the labour force is relatively young to European standards<sup>52</sup>. Within last few years, the unemployment rate of young people tends

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<sup>52</sup> The average age of the Slovak labour market participant is around 37 years compared to about 39,5

around 30%, compared to OECD – Europe average at 18,3%. Moreover, almost 60 percent of the young unemployed are workless for more then a year. Such unfavourable statistics shows, inter alia, weak flexibility of educational system in regard to the labour market needs, as well as insufficient effectiveness of active labour market measures<sup>53</sup>.

Not only in connection with the labour market, *absent societal conception on integration of Romany minority appears to be awfully negative*. Non-incidentally, the eastern and southern districts of Slovakia, those with highest concentration of Romany minority, are also those with highest unemployment rate. The possibility of the Romany to participate actively on the labour market is, on the present, extremely low. That is because this minority is characteristic by inherency of several marginalizing factors. In most cases, these citizens are concerned as low-educated, with almost none working skills and, furthermore, unemployed in the long term.

### 3.1.1 Conclusion

The labour market can be marked as the major problem of the Slovak economy. Elimination of the troubles discussed above is, apparently, a „long-distance race“. Inter alia, it will probably necessitate (i) more effective active policies of the labour market (particularly regarding the Romany minority), (ii) countenance to small and medium businesses (as an ultimate factor of job creation in outland), (iii) elimination of asymmetric furnishment by basic infrastructure (asymmetric in terms of regional distribution), and (iv) increased flexibility of educational system regarding the labour market needs.

### 3.2 Dependency on external sources

Another weakness of the Slovak economy consists in lack of savings creation, or *dependency on external financial as well as technological sources* respectively. Real private consumption growth, as one of main demand drivers of the current strong GDP growth is therefore achieved partly through growing debt of households. Concurrently, household savings creation is declining (see table 3.1). Economic growth and investment activity are thus consequent to FDI inflow. At the same time, majority of incoming FDIs heads for „traditional“ sectors (auto industry, electrical engineering) with lower share of value added, making use of inexpensive labour force and free access to the single European market.

**Table 3.1** Net household savings (% of net household disposable income)

	2000	2001	2002	2003	2004	2005
Czech Rep.	3,3	2,2	3,0	2,4	0,2	n.a.
Poland	8,4	9,9	6,0	5,3	4,1	5,3
Slovakia	4,8	3,1	2,7	3,1	1,9	2,4
EU-25	6,7	7,7	7,6	7,8	7,3	n.a.

The assertion that extensive FDI inflow is the determining impulse of boosting activity in Slovakia, seems almost like a cliché. However, gross capital formation was

years in EU-15.

<sup>53</sup> for more, see Kostolná, (2006).

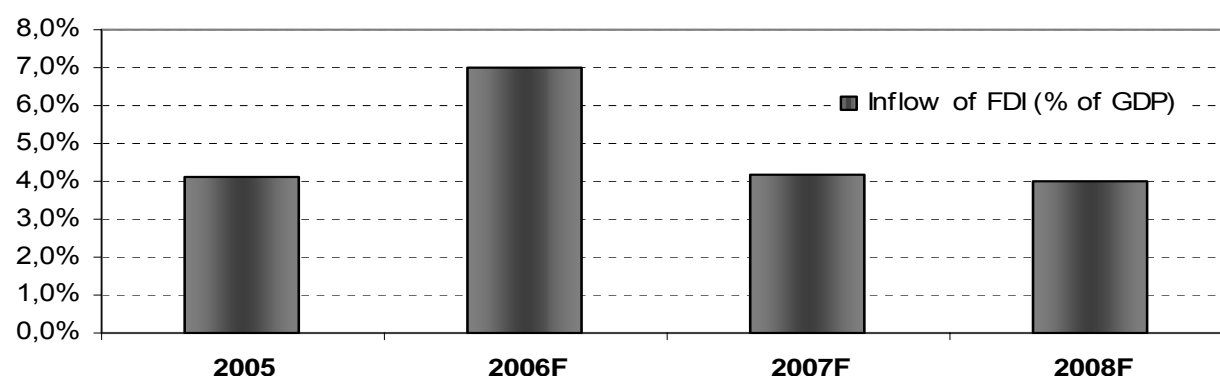
mounting up by almost 16 percent (y-o-y) during 2005 and 2006 while its share on total GDP was cca 30 percent. During oncoming period, realized investment should rebound in increased export performance. The trade balance should hence, in medium-term outlook, tend to approximately aligned position (see table 3.2).

**Table 3.2** Current account of the BOP and its main components (2004 – 2010F, percentage of GDP)

	2004	2005	2006F	2007F	2008F	2009F	2010F
<b>Goods</b>	-3,7	-5,2	-4,6	-1,8	-1,3	-0,9	-0,7
<b>Export</b>	65,7	67,5	75,2	79,5	81,1	82,1	83,1
<b>Import</b>	69,4	72,7	79,8	81,3	82,3	83,0	83,7
<b>Services</b>	0,6	0,7	0,9	0,9	1,0	1,0	1,0
<b>Factor Income</b>	-1,0	-4,2	-3,9	-3,7	-3,6	-3,4	-3,3
<b>Current Transfers</b>	0,4	0,0	0,7	1,0	1,0	1,1	1,1
<b>Current Account</b>	-3,6	-8,6	-6,9	-3,5	-2,8	-2,3	-1,9

The current account gap is, however, expected to be covered by surplus in financial account, based especially on anticipated further FDI inflow (see graph 3.2). What is worth noting is markedly negative net factor income from abroad which will, to a great extent, eliminate the positive impact of adjusting trade balance. Hence, the current account balance is anticipated to remain negative. There is no need to any deep thought to recognize the dividends on direct investment paid to nonresidents as the main driver of negative net factor income. Net factor payments to abroad will, however, also be rebounded in key aggregates of the national accounts as an element reducing Slovakia's gross national disposable income.

**Graph 3.2** Inflow of the FDI

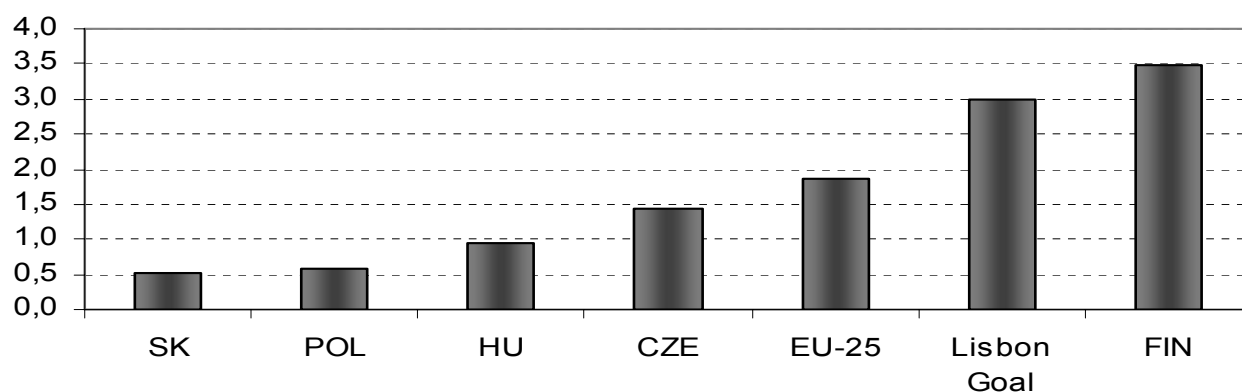


The real trouble can occur in case that foreign investors would decide to remove their producing capacities to the countries with even lower costs on labour force, as continuous growth of real wages in on-coming period is anticipated. Such case actually already happened and is known as „Portuguese syndrome“. The country's international price and wage competitiveness decreased as a result of strong growth of real wages not covered by labour productivity, as well as in deed fixed exchange rate after EMU accession. Since that time, the Portuguese economy have been stagnating.

Within the scope of the country's dependency on external sources of economic growth, *the dependency on technology and innovations import can be also observable*. Therefore, influential role in labour productivity growth has, besides relative slow

growth of employment, technology imported from abroad. The level of gross domestic expenditures on R&D, which was the lowest among EU-25 countries in 2005, is fully explanatory (see graph 3.3). Likewise, the level of expenditures on educational system stagnates. At the same time, there exists a public consensus on only average, or below the average respectively, level of the Slovak educational system. However, none structural reform of the educational system has been implemented till now.

**Graph 3.3.** Gross domestic expenditure on R&D (GERD), Percentage of GDP, 2005



Source: Eurostat

### 3.3 Weak innovation activity affects prices in foreign trade

Weak innovation activity in Slovakia affects also unfavourable price developments in foreign trade. The comparison of price indices (deflators) of exports and imports, or their split respectively, serve the purpose of *terms of trade* (of goods and services) enumeration. Terms of trade are in literature<sup>54</sup> often regarded as one of the most important indicators of the quality of a country's participation on international division of labour. Improvement of a country's terms of trade is achieved if prices of its exports grow more rapidly than prices of imports<sup>55</sup>. The volume of terms of trade advises much about standard of assessing process in a country (terms of trade improvement is mostly achieved by countries with leading position in using latest results of technical advance into production process).

**Table 3.3** Terms of trade goods and services (1995 = 100)

	2001	2002	2003	2004	2005	2006 <sup>f</sup>
<b>Czech Rep.</b>	108,4	111,8	112,0	112,4	109,9	109,0
<b>Hungary</b>	98,4	99,5	99,3	98,7	97,1	95,1
<b>Poland</b>	91,4	90,7	90,3	93,3	93,8	93,1
<b>Slovakia</b>	94,4	95,4	95,3	94,9	93,4	92,7

Source: European Commission

As shown in table 3.3, the Slovak economy could not fully deal with price developments in foreign trade. Country's exporters can achieve foreign markets rather due to price or cost competitiveness than by innovation of their products. Such thesis can be also fallen

<sup>54</sup> See e.g. Donoval, M.: Výmenné relácie v zahraničnom obchode. Biatic: odborný bankový časopis, č. 9/2006. Bratislava 2006.

<sup>55</sup> The more is the indicator  $P_{EX}/P_{IM}$  above 1 (or above 100 percent), the less amount of goods and services has a country to export in order to ensure a unit of imports.

back on volume of real effective exchange rate (REER) indicator<sup>56</sup>, which have appreciated by almost 30 percent since 1999. In the connection, the case of the Czech Republic (CR) is worthnoting, as the country was able to turn into account developments in both areas until 2004: advancing terms of trade (quality competitiveness) and REER appreciation (price and cost competitiveness) had occurred at the same time. However, a slight deterioration of terms of trade developments is observable also for the CR since 2004.

### 3.4 Conclusion

Even if extensive structural reforms implemented in last couple years have succeeded in many areas, unfortunately, there are still many weighty shortcomings that have not been resolved or have even been deepened. If the country wills to enjoy the label of „Central European tiger“ even after a few years, it has to develop sufficient strategy on regional cohesion, as well as innovation activity encouragement. The Government's financial instead of verbal support to R&D could be the right first step.

## 4. A SIMPLE ANALYSIS OF OPPORTUNITIES AND RISKS RESULTING FROM PLANNED EARLY EURO ADOPTION

### 4.1 Opportunities

Intended EMU accession in oncoming years (probably in January 2009) is undoubtedly going to be the most distinguished event from the point of monetary policy as well as the whole economy as such. While accounting opportunities of EMU accession, *it is suitable to distinguish between its direct and indirect scopes*. Direct scopes should begin to work almost immediately after the country's Euro adoption. Most frequently, the following direct assets of EMU accession are noticed (see Šuster, M., and collective, 2006):

- dismantled exchange risks against Euro area countries as the ultimate Slovakia's business partner. Moreover, the exchange risk against other relevant currencies (CZK, USD) should be also shortened<sup>57</sup>,
- removed transactions cost on transactions paid in Euro,
- removed administrative costs on accounting,
- improved price transparency, notably in light of private consumers and tourists.

Among main indirect positive scopes of Euro adoption, i. e. such that should rebound pending some time but their long-run effect is anticipated, the following are worthnoting:

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<sup>56</sup> The REER (or Relative price and cost indicators) aim to assess a country's (or currency area's) price or cost competitiveness relative to its principal competitors in international markets. Changes in cost and price competitiveness depend not only on exchange rate movements but also on cost and price trends. The specific REER for the Sustainable Development Indicators of the Eurostat is deflated by nominal unit labour costs (total economy) against IC34 (= EU25 + 9 other industrial countries: Australia, Canada, United States, Japan, Norway, New Zealand, Mexico, Switzerland, and Turkey).

<sup>57</sup> EUR/USD and EUR/CZK currency pairs are, in the long term, more steady than SKK's exchange rate against the two currencies. According to calculations of the National Bank of Slovakia (NBS), the total effective daily volatility of SKK against relevant currencies (measured as weighted average of particular currency pairs, where weights are shares on foreign trade) was 0,63% during 2001-2005 period. After Euro adoption, the volatility should drop on 0,35%. In case that other V4 countries access the EMU, the effective exchange volatility would drop on cca 0,17%.

- boost in foreign trade – especially with Euro area countries following generally reduced costs on its execution,
- inflow of FDI,
- reduced capital costs and improved capital source accessibility especially for small and medium businesses,
- in case that previous assumptions come into practice, a synthetic premise on speeding GDP growth could be made.

Whereas the EMU accession benefits are rather well-known and publicly enough presented, there will be no more attention paid to them in this paper.

## 4.2 Risks

However, many economists point out on existing discrepancy between the Maastricht criteria, accenting *nominal convergence*, and general requirements imposed on so-called optimal currency area accentuating *structural convergence* degree of involved countries. The actual version of the EMU is characteristic by existing wage rigidity, limited mobility of labour force and a low rate of fiscal integration within the EMU<sup>58</sup>. At the same time, price and wage flexibility, mobility of labour force and enough rate of fiscal integration represent exceedingly important factors of fluent absorption of so-called “asymmetric shocks”<sup>59</sup> after a loss of autonomous monetary policy including eliminated floating exchange rate.

In the connection, an *asymmetric structure of the EMU appears to be negative due to relation between single monetary authority (ECB) and presently thirteen independent fiscal authorities*. In terms of medium and long-term perspective, a question on fiscal sustainability in the EMU countries occurs. The European Commission’s report on developments and prospective of public finances<sup>60</sup> has alleged presence of risks to long-term sustainability of public finances inter alia in three of the largest Euro-area countries – Germany, France and Italy – mainly due to insufficient preparedness to ageing population. In case that mentioned countries (and some other as well) will not solve the situation in on-coming years, there exist objective risk of permanent excessive deficit appearance while certain proportions of its costs would be transferred to the rest of the EMU members through increased interest rate. Accordingly, an opinion of Jan Frait<sup>61</sup> obtrudes, that further „quality“ of Euro is, to a great extent, dependent on on-coming policies of future institutions about which we actually do not know anything. Moreover, *enforcing of SGP requirements has shown to be rather tender during latest years*. Even if the SGP was reformed in 2005, the efficiency of taken measures will show itself only in the future.

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<sup>58</sup> The mutual budget of the EU is low (in 2006, it represented only 1,24% of GDP, while almost half of expenditures are intended to agricultural policy funding). In addition, there does not exist any relevant system of cyclical transfer contributions in the EU neither in EMU that could be comparable e. g. To the layout functioning in the USA which subsidizes the stabilisation of regions excessively affected by an „asymetric shock“ (see following note) by 40 cent for each 1 USD of GDP slump.

<sup>59</sup> Asymetric shocks affect (positively or negatively) each country included in a currency area but their impact on particular countries is different (asymetric). In some countries, the impacts of the shock are positive while in other countries the incidence of the shock is negative. Asymetric nature has also shocks indeed affecting accessory countries in a single-direction (either positive or negative) but with different intensity.

<sup>60</sup> See European Commission. Public finances in EMU – 2005, *European Economy* No. 3/2005, Office for Official Publications of the EC. Luxembourg 2005.

<sup>61</sup> Since 2000, Jan Frait is acting director of the Czech National Bank.



In chapter 3.2, rapidly growing debt of households was observed. In connection with intended EMU accession in January 2009, there exists clear expectation on further decrease of interest rates, which will probably cause *additional boost of debt*. Therefore, significant risk of „overheated“ economy exists. In the connection, fulfillment of further fiscal consolidation plans<sup>62</sup> seems to be essentially important, as it should perform against excessive demand acceleration.

Critics of single European currency concept also mention excessive *heterogeneity in development degree of involved countries* which will even raise after new countries accessment<sup>63</sup>. However, the weight of the argument is lowered by fact that already now, in present-day Slovakia, there already exist sharp regional differences. While the region of Bratislava produces more than 100 percent of EU's GDP per capita average, some regions do not reach even 40% of the average level. Besides, alike differences had existed even within certain „old“ countries before Euro introduction (eastern vs. western Germany, southern vs. northern Italy).

### 4.3 Conclusion

In any case, intended EMU accession will be the integrating step with most voluminous impact on the Slovak economy. Euro adoption will be probably expressly appreciated by Slovak exporters. The Slovak economy is certainly pro-exportly oriented (with export-to-GDP ratio over 85%), hence definitely positive impact on the supply side of the economy is expected. However, terminal fixation of EUR/SKK currency pair on lower than „optimal“ level could eventuate in slow growth of effective demand and living standards of the population. Besides, accelerating price convergence between Slovakia and rest of the EMU after Euro adoption is very probable. What is important is that also price of labour input should also follow this trend to avoid slump in living standards. Several questions are also connected with desirability of the single monetary policy of the ECB use while regarding needs of small, highly open and fastly converging Slovak economy. Lost possibility to converge (nominally) through appreciating exchange rate could actually lead to the slower convergence of living standards. The exact quantification of cost and benefits of resigning on autonomous monetary policy will be therefore executable pending couple years.

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<sup>62</sup> According to latest update of Convergence program of the SR, cyclically adjustet budget deficit should be under 1% of GDP until 2010.

<sup>63</sup> In 2008, right before anticipated SR's accession to the EMU, the country's GDP per capita should, according to estimation of Eurostat, reach 65% of the EU average

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## Islam in Europe: Banning the Headscarfs

Islam is now the largest minority religion in Europe and there are more Muslims than Catholics in Protestant northern Europe and more Muslims than Protestants in the Catholic south. Europe's Muslims far outnumber European Jews. Yet, while there is constant debate on the place of Islam, few Islam, some Europeans respond by reasserting the primacy of Christianity, while others assert the commitment to secularism as an essential European value.

When the new constitution of the EU was drafted, German, Italian, Polish, and Slovakian delegates argued that a reference to "God" and to "Christian values" should be incorporated in the text, and they were supported by the former French president, Valéry Giscard d'Estaing, a Roman Catholic.<sup>64</sup> Greece, Denmark, and Ireland fought to include a preemptive paragraph (Article I-51(3)) that protected existing church privileges against the convention's antidiscrimination clauses, arousing the ire of the British Humanist Society and the International League of Nonreligious and Atheists (IBKA), a German-based association of atheists.<sup>65</sup> Nonetheless, academics have also voiced the view that the moral identity of Europe rests on secularized Christian values, which other faiths (by implication, Islam) are perceived not to share.<sup>66</sup>

### BANNING THE HEADSCARFS

The status of the Muslim headscarf – the hijab – has provoked more debate about Islam in Europe than any other issue. This is because it seems to sum up so many of the concerns that trouble Europeans when they consider the Islamic minority in their midst. These range from the status of Muslim women to wider questions of religious freedom and even national identity. And the controversy has created odd bedfellows, feminists and conservatives joining in an unlikely alliance, ostensibly in order to protect women's right to choose.

In 2004 the French government and five German state governments (Baden-Württemberg, Saarland, Hesse, Lower Saxony, and Bavaria) passed legislation to prohibit the wearing of the Muslim headscarf. Berlin passed ban in February 2005. In Germany, the laws affect teachers in public schools, and sometimes public employees generally, but not students. In France, only the students are affected.

Feminist supporters of the scarf bans argue that it is demeaning to women to have to cover up their hair and bodies. The practice is presented as an emblem of the repression of women in Islam. Women would not subjugate themselves if they were free to choose, they argue, and therefore a ban is needed to protect women's rights.<sup>67</sup>

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<sup>64</sup> Murray, T.: "Europe debates God's place in new constitution". In: Christian Science Monitor, April 10, 2003.

<sup>65</sup> <http://www.ibka.org/en/articles/ag03/euconst.html>;

<http://www.humanism.org.uk/site/cms/contentPrintArticle.asp?article=1398>.

<sup>66</sup> Seidentop, L.: Democracy in Europe. New York: Columbia University Press 2001, p. 191.

<sup>67</sup> Sixty French and North African intellectuals, writers, and professors signed a manifesto declaring themselves "pro-Islam" but opposed to the misogyny, homophobia, and anti-semitism that they argue characterize the Islamic "revival" in France. See: Manifeste. Être de culture musulmane ... et contra la misogynie, l'homophobie, l'antisémitisme et l'islam politique. Prochoix. La revue du droit de choisir, 28, spring 2004, p. 69-72.

However, it would be unusual for a government to force women to be “free” by prohibiting them from a specific action, such as wearing a headscarf. Gender equality enforcement was a prominent issue in the debates but was in no case the reason given by legislators to pass the legislation.

The ostensible reason for banning the scarf in both Germany and France was the need to protect fundamental public values, but the endangered values apparently at stake were different, and the prohibitions were differently tailored. France and Germany are the only countries to have taken legislative action to date, but headscarf controversies are everywhere. Banks, cleaning companies, department stores and food chains, day care centers, and hospitals all over Europe have refused to hire women who wear headscarves. New EU employment law prohibits refusals to hire on religious grounds, but the religious status of the headscarf is contested and court challenges are, in any case, time-consuming, and the outcome uncertain.

The headscarf is now part of the European streetscape. In France, the headscarf is referred to as “the veil” – “le voile islamique” – and women who wear it are described as being “veiled”. However, this terminology gives the wrong impression in most cases. The contested piece of clothing may be made of a flimsy chiffon or expensive silk, or it may be a heavy, folded, black scarf made of thick fabric. One of the difficulties with enforcement turns out to be how to determine exactly which types of head coverings are prohibited.

Although the word “hijab” is used in English simply to refer to the headscarf, properly speaking it refers to the general obligation to dress modestly.<sup>68</sup> A more rigid interpretation of Islamic dress codes involves wearing the headscarf with a tight tube sock or hood pulled over the hair and a jilbab, a floor-length dress coat. However, most women who wear a scarf otherwise dress in conventional western clothes, and for many covering-up is something you do in the mosque and on other special occasions.

Headscarf fashions and conventions vary from country to country in Europe, and in part reflect the varying ethnic origins of Muslims. Pakistani and Indian Muslim women usually wear a thin scarf with the colorful salwar kameez, a tunic with pajama-style pants. Many women coordinate the color of their scarf with jeans or smart suits. And women wear the headscarf for many different reasons: tradition, choice, and yes, sometimes because they are told to do so by fathers or husbands, imams or sheiks. Young women who wear the scarf generally tend to stress choice and self-discovery as their reason for doing so.<sup>69</sup>

Only a few of the women leaders wore headscarves, but many of the young activists did. Their mothers in most cases did not wear a scarf. In contrast, several parliamentarians and prominent women leaders who do not wear the scarf said that their mothers did. It would seem that among the politically active women the headscarf is not worn out of tradition but by choice, and to make a statement about their faith and identity. All thought that women who wear the scarf pay a heavy penalty.

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<sup>68</sup> The word “hijab” comes from the Arabic word “hajaba” meaning to hide from view or conceal's. Woman should not show her beauty or adornments except what appears by uncontrolled factors such as the wind blowing her clothes, and the head covers should be drawn so as to cover the hair, the neck and the bosom. In: <http://www.usc.edu/dept/MSA/humanrelations/womeninislam/whatishijab.html>.

<sup>69</sup> Gaspard, F. - Khosrokhavar, F.: *Le Foulard et la République*. Paris: Découverte, 1995.

## SITUATION IN FRANCE

The French ban took effect with the start of the 2004-5 school year. The law prohibits students from wearing "ostentatious" religious symbols. The Jewish kippa (yarmulke) as well as "oversize" crosses are prohibited together with the Muslim headscarf. The Sikh turban was inadvertently included and France's 6,000 Sikhs tried subsequently but unsuccessfully to negotiate an exemption based upon the claim their turban is "ethnic" dress rather than a religious symbol. Since the ban primarily affects teenage girls, one problem arising from the ban is how to educate the girls who are staying away or have been sent home from school for violating the ban.

The scarf only gradually became a charged political symbol of the presence of Islam in France. It first became a political issue in October 1989, when a principal of a secondary school in Creil, a Paris suburb, expelled three girls for wearing the scarf. In November that year the Conseil d'Etat, the highest administrative court, issued a ruling that the wearing of headscarves for religious purposes in public schools did not violate the principle of *laïcité* or other French law. In December that year, the socialist Prime Minister, Lionel Jospin, issued the first of a series of government rules that gave principals the authority to make decisions about the permissibility of the headscarf. Controversy broke out again one month later when teachers went on strike in support of a principal who had expelled girls for wearing the headscarf. Officials, teacher's unions, and various public figures became involved. A second "circulaire" was issued, once again stressing the principals' rights to decide, but the controversy did not go away. In the Fall of 1994, more girls were expelled from school for refusing to take off the headscarf and further government regulations were issued. In 1999, seventy teachers of a middle school in Normandy went on strike on a Friday during Ramadan, in protest against girls wearing the hijab.

Also in 1999, the Conseil d'Etat ruled that school principals had the authority to set dress codes "compatible with the proper functioning of the class, notably in gymnastics and science". This decision undid a decision by a lower court from 1996 that held in favor of a girl who had been expelled from school for wearing the hijab. The lower court had given priority to freedom of expression and freedom of religious belief, but the court held that neither prevented school principals from setting dress rules. It was nevertheless a balanced decision, because the court also held that the school had not provided sufficient evidence that the headscarf was a danger to the girl and prevented her from participating in gym and science classes. From 1989, when the high court first ruled on the headscarf, until the 2004 legislation, the legal status of the headscarf remained the same: the scarf did not pose a problem for French principles of secularism, but principals could set dress codes which disallowed wearing the scarf during certain activities if well-founded and specific reasons were given.

As a result of the decision, the then socialist government headed by Lionel Jospin hired a "scarf-mediator", whose task it was to mediate between girls and the schools when conflicts arose. In effect, principals were free to set their own rules and the mediator, Hanifa Chérifi, the government official in charge of mediating headscarf conflicts, was only moderately busy.

Controversy erupted again with the start of the school year in 2003, when two girls, Alma and Lila Lévy, were thrown out of school for wearing the headscarf. The girls had a Jewish father and a mother who, albeit Muslim, did not wear the scarf. Alma and Lila quickly became celebrities, appearing in tabloids and women's

magazines explaining how they color-coordinated their headscarf with their outfits, while their father threatened a lawsuit. This time, the president, Jacques Chirac, a conservative, declared that the headscarf breached the separation of church and state and was a source of social disorder.

French newspapers regularly reported that fundamentalist clerics force young women to wear the headscarf and prominent feminists criticized Islam and Muslims, and headscarf wearing, as demeaning and repressive of women. In April 2003, Nicolas Sarkozy, who had been negotiating with various Muslim associations to create the CFCM, the French Muslim council, surprised his audience at a meeting of all the main associations by reverting to a "tough on Muslims" stance and announced that henceforth all women would be required to remove their headscarf for picture-taking for ID cards and drivers' licenses.<sup>70</sup>

In July, Chirac created a presidential commission to "update" the French law of 1905 on the separation of Church and state, which is regarded as establishing the principles associated with "laïcité". Reexamination was needed, he argued, in view of the multireligious nature of contemporary French society and with particular reference to the question of "the veil". Members of the commission subsequently denied that it had been charged with the task of "reexamining" secularist principles and the law of 1905, yet the title of the commission and the official announcement of its creation mentioned both and suggested that this was precisely their task.<sup>71</sup> The committee members rewrote the committee's change in the course of their work.

In December 2003, a group of French feminists, actors, designers, and intellectuals took out an advertisement for a petition in the fashion magazine, *Elle*, which was also published in *Le Monde*, which argued that Muslim women are suppressed by the headscarf and in need of the legal protection provided by a law that would forbid them to wear it.<sup>72</sup> The Chirac government agreed. Hitherto unknown for his support for feminist issues, Chirac expressed his concern in terms of the rights of women. At an early stage of the commission's deliberations, the commission president, Bernard Stasi, also expressed the view that the Muslim headscarf is "objectively" a sign of the suppression of women. Young girls wore it only because they were forced to do so by parents, grandparents, older brothers, or religious groups.<sup>73</sup> Hanifa Chérifi, the headscarf "mediator", testified to the French National Assembly that since a majority of Muslims do not wear the headscarf, it is the symbol of Islamic fundamentalism.<sup>74</sup> When asked if girls might freely choose to wear the headscarf, she responded that choice is meaningless among fundamentalists.

The Stasi commission issued its report on December 11, 2003, and recommended banning all clothing or jewelry displaying 'ostentatious' religious symbols.<sup>75</sup> But now the rights of women had dropped out as a primary concern, presenting the new law to

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<sup>70</sup> Bowen, J. R.: Muslims and Citizens. France's Headscarf Controversy. Boston Review, February-March 2004, p. 31-35.

<sup>71</sup> M. Chirac crée la „commission Stasi“ pour redéfinir la laïcité. In: *Le Monde*, July 2, 2003.

<sup>72</sup> *Le Monde*, December 9, 2003, p. 23.

<sup>73</sup> Laïcité: le voile islamique est „objectivement un signe d'aliénation de la femme“. In: *Le Monde*, November 2, 2003.

<sup>74</sup> Assemblée Nationale: Rapport fait sur la question du port des signes religieux à l'école. Tome II, 1ère partie. Auditions, juin 11, 2003, p. 26.

<sup>75</sup> Commission de réflexion sur l'application du principe de laïcité dans la république: Rapport au Président de la république. Remis le, décembre 11, 2003.



the National Assembly, the prime minister, Jean-Pierre Raffarin, stressed the importance of protecting the French way of life. 'Integration is a process that presupposes a mutual wish [to integrate], a shift towards certain values, a choice of a way of life, a commitment to a certain view of the world proper for France.'<sup>76</sup>

On February 10, 2004, the National Assembly voted 494 to 36 in favor of the legislation.<sup>77</sup> The dissenting votes came from members of the center-right UDF and the Communist Party. Edouard Balladur, a former prime minister from the RPR, now part of the UMP, Chirac's coalition, voiced concerns about the constitutionality of the bill. In his view, Article 10 of the Declaration of the Rights of Man and Article 9 (1) of the European Convention on Human Rights allowed for restriction of religious freedom only if this is justified by the need to protect social and legal order.<sup>78</sup>

The Stasi commission had anticipated such concerns, and probably shared them. Article 9 of European Convention on Human Rights grants everyone "the right to freedom of thought, conscience and religion; this right includes freedom to change his religion or belief, and freedom, either alone or in community with others and in public or private, to manifest his religion of belief, in worship, teaching, practice and observance". Yet the convention also leaves the door wide open for governments to legislate on religious matters. Article 9(2) allows governments to limit "manifestations" of religion or belief, albeit "only to such limitations as are prescribed by law and are necessary in a democratic society in the interests of public safety, for the protection of public order, health or morals, or the protection of the rights and freedoms of others". The headscarf bans exploit this exemption, Patrick Weil, a political science professor and one of the members of Stasi commission, subsequently explained, "the Convention authorizes the limitation of the expression of religious faith in the case of problems of public order or attacks on the freedom of conscience of others".<sup>79</sup>

#### SITUATION IN GERMANY

The headscarf is seen in a different light in Germany. The German bans were a matter of state law, and what exactly is prohibited varies from state to state. In Berlin, the legislation included all civil servants and all signs of faith, encompassing crucifixes and yarmulkes together with the Muslim headscarf. In other states, only the headscarf is affected. And in Bavaria, a ban on headscarves was accompanied by a law that required the placing of crucifixes in public schools. The problem, it is argued, is that women who wear the scarf are acting as missionaries for their faith, and proselytize in the classroom for values that are incompatible with fundamental German values.

The controversy began in July 1998 when the Stuttgart school system refused to hire as German-Afghani woman, Ferestha Ludin, as a teacher, because she wore the headscarf. She had come to German as a political refugee from the Taliban, and had started wearing the headscarf later. She took her case to court and, in September 2003, the German Constitutional Court reached an ambiguously worded decision that held

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<sup>76</sup> Raffarin, J. P.: Project de loi relatif a l'application du principe de laïcité dans les ecoles, college et lycees publics. In: Assemblée Nationale, February 3, 2004;

[http://www.diplomatie.gouv.fr/actu/print\\_bul.asp?liste=20040204.html](http://www.diplomatie.gouv.fr/actu/print_bul.asp?liste=20040204.html).

<sup>77</sup> The popularity of the measure was conspicuously present in the National Assembly's debates. A spokesperson for the prime minister noted that 72 percent, in effect "the whole world", supported the bill; <http://www.assemblee-nationale.fr/12/cra/2003-2004/153.asp>.

<sup>78</sup> Ibid.

<sup>79</sup> Weil, P.: Lifting the Veil of Ignorance. In: Progressive Politics, 3, March 1, 2004

that her rights had been violated and yet gave local governments the authority to legislate against the headscarf. Ms Ludin's rights were violated, the court said, because no law existed that prohibited teachers from wearing the headscarf.<sup>80</sup> The decision thus set off the rush to pass state laws banning the headscarf.

The court did not reach its decision, as one might have expected, on the grounds that religious freedom is guaranteed by Article 4 of the German Constitution. The refusal to hire Ms Ludin was unlawful simply because no prior law existed in the state of Baden-Württemberg (where Stuttgart is the state capital) saying that teachers could not wear a headscarf. The Stuttgart school system had argued that the schools were obliged by the Basic Law's Articles 6 and 7 to remain neutral in religious questions, and that the headscarf constituted proselytizing. The Court did not directly address the neutrality argument but declared that competence to regulate the meaning of neutrality rested not with the federal government but with the states (which in what follows will be referred to by the German term, "Länder", in order to avoid confusion.)

The decision, together with a 1995 ruling in which the Constitutional Court struck down a Bavarian law school mandating the placement of a crucifix in every classroom, can be seen as the beginning of a muddled dialogue between the Länder governments and the Court on the meaning of the constitution's provisions with respect to religion.<sup>81</sup> The Bavarian legislature reacted to the 1995 decision by passing a new law that once more mandated the placing of crucifixes in classrooms, and referred to Christianity as the Bavarian cultural inheritance. The new law bypassed the court's objections to the previous law by creating a procedure for complaint. Students (or parents) may demand that the crucifix be removed from the classroom, if they can demonstrate "serious and consequential reasons" for removing it. School principals are charged with the responsibility of reviewing complaints and must, in doing so, also be sensitive to the concerns of the religious majority of the community.

Following the Ludin decision, on April 1, 2004, Baden-Württemberg passed a law prohibiting teacher from wearing the headscarf in the classroom. The prohibition of religious symbolism was justified on the argument that the headscarf is a threat to core "Western" norms and constitutes a challenge to the fundamental values of the state. The crucifix was not banned from the classroom, however, on the argument that universal human rights and democracy derive from Christian norms. The legislators accepted that the state must be neutral in religious matters, but they deny that this means it should be neutral with respect to fundamental values. On the contrary, public schools are charged with the task of educating children in the values on which the republic is based. The Christian Democratic culture minister, Annette Schavan, who pushed the bill through with great speed, gave as the reason for the apparent inequity in the treatment of Christianity and Islam, that Christianity is an essential part of the value systems of the "occident". It is therefore a matter of public ethics to keep Christianity in the classroom. "We cannot allow a spiritual vacuum to emerge that would leave our society without guidance. We must stand by our cultural and religious traditions as they are expressed in our Constitution."<sup>82</sup> The constitution in question is

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<sup>80</sup> BVerfG, 2 BvR 1436/02 vom 3.6.2003, Absatz-Nr. (1-140). Available at:

[http://www.bverfg.de/entscheidungen/rs200030603\\_2bvr143602.html](http://www.bverfg.de/entscheidungen/rs200030603_2bvr143602.html).

<sup>81</sup> BVerfGE 93, 1 (May 16, 1995). See par. 112, BVerfG, 2BvR 1436/02 (September 24, 2003).

[http://www.bverfg.de/entscheidungen/rs200030603\\_2bvr143602.html](http://www.bverfg.de/entscheidungen/rs200030603_2bvr143602.html))

<sup>82</sup> Land Baden-Württemberg, Meldung vom 01.04.2004. See also Financial Times Deutschland, November 11, 2003.



that of the state of Baden-Württemberg, but it should be noted that the Länder are also obliged to observe the values and rights expressed in the federal constitution as well as the international conventions on human rights to which Germany is a signatory.

Cultural policy is subject to devolution to the Länder. Religious freedoms a federal matter. After the Ludin decision, the Constitutional Court was criticized for bucking its obligations by defining the headscarf as a cultural matter rather than an issue of religious freedom. One of those critics was Johannes Rau, the departing Federal President, who pointed out that if Germans wanted to ban the Muslim headscarf in schools they would also have to ban Catholic nuns' wimples or priests' habits.<sup>83</sup> The states count on the constitutional Court's reluctance to assert federal power over the Länder. But the argument that the crucifix is "value-neutral" and the Muslim headscarf is "religious proselytizing" because the former is part of the value heritage of occidental nations and the latter not clearly engages the constitution's definition of religion, and will likely wind its way back to the Constitutional Court.

A member of the German Bundestag told that, in her view, when the history of how Muslims changed Europe will be written; the conclusion will be that they promoted secularism and the separation of church and state. Because of this decision by the constitutional court (the Ludin decision), there is a discussion about secularism. Things will not change in two months, but it is very interesting that Islam has brought a new dimension to the discussion in this country.

In the Ludin decision, the Constitutional Court dodged engagement with two articles in the German Constitution, Article 3 which stipulates that "All persons shall be equal before the law" (section 1) and "No person shall be favored or disfavored because of sex, parentage, race, language, homeland and origin, faith, or conscience, and freedom to profess a religious or philosophical creed, shall be inviolable" (section 1). It does not seem possible any longer to postpone a legal interpretation of the application of these articles from German Muslims.

#### EUROPEAN HUMAN RIGHTS LAW

Headscarf controversies have ended up in courts across Europe, and the bans have mostly been deemed legally acceptable. Human rights enforcement is now entrusted to two European courts, the European Convention of Human Rights (ECHR), and the ECJ, which interprets EU law. Confusion arises because the courts have different jurisdictions-different countries are signatories to the treaties enforced by the two courts-and the ECJ has so far ruled only on employment law and EU citizenship issues. In the recent treaty expansion, parts of the ECHR have been incorporated into EU law and the ECJ will in the future be able to apply some of the same rights paragraphs that in the past have only applied under the Convention. It typically takes ten years for a case to wind its way through the court to a decision, which means we will have to wait a while to see what role the court will play.

The Consolidated EC Treaty (Amsterdam plus Nice) restates the prohibition Article 13(5) to include discrimination base on sex, racial or ethnic origin, religion or belief, disability, and age or sexual orientation, and empowers the commission to "take action". This means that the Commission can take the initiative and issue directives.<sup>84</sup>

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<sup>83</sup> <http://www.heute.t-online.de/ZDFheute/artikel/9/0,1367,POL-0-2095209,00.html>.

<sup>84</sup> The language repeats Article 14 in the European Convention on Human Rights, which states: The enjoyment of the rights and freedoms set forth in this Convention shall be secured without

The difference is that antidiscrimination rules have now moved from the realm of international law to directly applicable community law. It is probable that in the medium-term the Commission may assume the more important role as arbitrator of the diffusion of convention norms into domestic law and policymaking.

## CONCLUSION

Within certain boundaries, the collective and individual levels of tolerance prevailing in society are subject to constant negotiation and adjustment. The headscarf issue is an interesting example of the negotiation of boundaries. Most European Muslim leaders think that women should be free to choose to wear the headscarf or not, but they also draw the line at the niqab and the burqha, the tent-like head to toe cover that the Taliban and other radical Islamic groups require women to wear. It is regarded as an ethnic custom that is debilitating for routine social intercourse and detrimental to pluralist coexistence.

The headscarf bans are seen as an invasion of the freedom to choose, and an attempt to legislate religious expression that is demeaning to Muslims as a group and contrary to Western values. Most Western European countries have gone through one or more episodes of public controversy and legal challenges on the issue of the right of Muslim women to wear the headscarf at work or in public setting. In the Netherlands and Britain, the headscarf is widely tolerated by private and public employers. In other countries headscarf conflicts led to lower-level arbitration and have not been a matter of national lawmaking.

After the controversies, wearing of headscarf has become a symbol of resistance, a symbol of personal statement of identity among some Muslim women. They did not use to wear one previously and now they do because they are protesting about certain political developments. But they are not fundamentalists. Muslim women regard government dictates in this matter as another interference with their freedom and another obstacle to their social integration.

Headscarf bans have become a litmus test for European feminists. On one side are feminists who argue that backsliding cannot be allowed, and the force of law must be used to defend women's gains. And in the other side are feminists who say that consciousness changes slowly and that the most successful changes are voluntary.

Huntington's thesis rests on two postulates. The first is that religion is the predominant source of identity and value orientation for Muslims. 'Liberal' and 'Muslim' values are irreconcilable. The religious Muslim cannot separate public law and private religion. Only individuals who renounce key parts of Islam can be trusted as interlocutors in democratic societies. The second postulate is that Islam and Christianity are competing for global control. Islam is represented as monolithic and intent on world domination. As the Princeton historian, Bernard Lewis, put it, "in any encounter between Islam and unbelief, Islam must dominate".<sup>85</sup> From this perspective, a Muslim school-girl's headscarf is imbued with symbolic significance beyond the individual girl's reasons for wearing the scarf.

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discrimination on any ground such as sex, race, color, language, religion, political or other opinion, national or social origin, associated with a national minority, property, birth or other status.

<sup>85</sup> A somewhat different and stronger criticism of the Islamophobia concept and its usages can be found in Malik, K.: The Islamophobia Myth. Prospect, January 2005. Also available at:

[http://www.kenanmalik.com/essays/islamophobia\\_prospect.html](http://www.kenanmalik.com/essays/islamophobia_prospect.html).

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## **A Study of General Trends Found in the Slovak Financial and Bank Sectors as an Indication of Increased Stability of This Sector**

### **1. INTRODUCTION**

The aim of this study is to identify general trends of growth in an effort to show increasing stability of bank sector in Slovakia. The study contains a consideration of three main processes - (i) a process of re-structuring of credit portfolio, (ii) privatization of banks, and (iii) financial integration – and the effect of the processes on stability and development of bank sector, which led to a creation of the identified general trends. Subsequently, a few of the general trends of development and pan-European integration and globalization will be presented to support the findings.

Basis of the study are profiles of three main Slovak banks, which will point at effective returns on capital and success of the financial strategies on global market.

### **2. METHODOLOGY**

A research process of collation and categorization of information from specialized literature, WEB pages, and individual statistics provided by Slovak banks has been used in the process of writing. Subsequently, a method of analysis of commencement of various general trends in selected Slovak banks with foreign capital has been used to assess the role and sustainability of identified trends.

The effects of the particular events shaping the Slovak bank sector can be anticipated to be as follows:

1. The overall macroeconomic stabilization in terms of increasingly stable interest rates and rising purchasing power of the population at large present the most obvious positive spillovers to the past and present bank sector which manifests as increasing profits
2. Increasing macroeconomic stability caused a drastic decline in perceived risk with a concomitant foreign investment in bank sector
3. The once present classified loans ought to become virtually non-existent if an internal stabilization took place
4. Deepening of capital markets should be detected: rising value of the stock market, new approach to savings through investment, rising number and value of loans etc.

### **3. GENERAL BACKGROUND**

The greatest success of the European Union (later EU) is an economic integration – a creation of common market, in which the principles of “four freedoms” (free movement of goods, services, labor and capital) are upheld. In May 2004, Slovakia joined the EU and has become an active part of the most successful common market on Earth. In order to complete the integration process, Slovakia is required to satisfy Maastricht criteria for accession to European Monetary Union (with anticipated entry in 2009). Indispensable role in this process will surely belong to financial and bank sector, their further development and effect on the economic growth and productivity in the whole Slovak economy.

#### 4. PROCESS OF RE-STRUCTURING OF SLOVAK BANKS

The bank system consists of a central bank and a network of commercial banks. The formation of individual bank system is defined by historical and economical conditions of each individual country, which produces varying results.

The bank system in Slovakia is not an exception to the main rule; it consists of central bank – National Bank of Slovakia – and a fast growing wide network of commercial banks, some of which attained foreign capital shares (15 banks with foreign capital and 2 without)<sup>86</sup>. This dynamic development is subsequent to the inevitable process of re-structuring of credit portfolio and transformation of ownership basis taking place over the 90s. The main characteristics of 90s Slovak bank sector is rapid growth of so-called “loss-making loans” – classified loans. One of the main reasons for the presence of these classified loans is a frequent occurrence of incorrect managerial decisions in at that time state owned banks. Nonetheless, it is justified to state as the main reason the fact that Slovak economics, strongly dependent on external factors, had to adjust to the new market environment after a loss of eastern sales outlet. This change affected a large number of companies, which could not economically survive and, of course, could not fulfill their financial liabilities to the banks.

On the other hand, a strong political pressure was initiated to force the banks to provide for huge loans and thus help to boost the economy. The bad economic situation was reflected on the increasing volume of the classified loans more than often given on direct political premise. However, this factor has been present in the economies of all Central and Eastern European countries. In neighboring countries (especially Poland and Hungary) the impact of these loans on bank sector was greatly alleviated by relatively high inflation, which depreciated the value of the loans. The cumulative losses produced in banks slowly grew into a threat to bank sector’s liquidity. The banks were not able to manage the threat on their own, mainly because of the absence of effective economic and legal system.

A program of bank (and business) sector reform was created and initiated in co-operation with economists from World Bank for the Region of Central Europe. The program consisted of three main components: (i) a process of re-structuring and privatization of banks, (ii) a solution to the problem of classified loans and (iii) an introduction of new legal system. A specialized agency, *Slovenska Konsolidacna a. s.*, has been formed in order to tackle the problem of classified loans. All the “loss-making loans” were transferred into this agency, which was solely supposed to deal with them further. The privatization of the purged Slovak banks took place after an arrival of foreign investors (all of them strong capital groups), which increased the capital basis. Foreign capital and strong know-how, together with increased competition amongst the banks started to diminish the differences between Slovakia and the rest of the European Union.

Due to this wide-ranging process of restructuring we were able to note a positive development in the bank sector during the last couple of years. The bank sector underwent a successful thorough transformation. In the years 2000-2001 the three largest state-controlled banks – *Slovenska sporitelna*, *Vseobecna uverova banka* and *Investicna rozvojova banka* were finally re-structured, privatized and thus strengthen by the foreign capital. “Loss-making loans” were replaced by government bonds and

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<sup>86</sup> “Development of Banking Sector in Slovakia ” (National Bank of Slovakia)

subsequently transferred to the above-mentioned *Slovenska Konsolidacna a.s.* The government released bonds worth 113 billions Slovak Crowns (2.9 billions Euros) representing 13% of GDP<sup>87</sup> for this purpose, which illustrates the extent of the former crisis. 90% of the Slovak banks are at present owned by foreign investors from the countries of EU. The entry of foreign investors resulted not only in a huge inflow of capital and strengthening of capital basis of the banks, but also in improved business and loan environment, strategic administration, management, marketing and whole communication with clients.

## 5. CONTEMPORARY SLOVAK BANK SECTOR

Especially during past couple of years, the bank sector represented an important and stable attraction for the direct foreign investment. Moreover, this sector is ranked amongst the fastest growing ones. Presently, Slovakia is considered to be one of the best places for investment in Central Europe and new EU members. Slovakia has become reliable and attractive country – an example of macroeconomic stabilization with a real GDP growth of 8.3%<sup>88</sup> and a complete account of economic reforms (f. e. the tax reform with flat tax). Slovak banks following the examples from around Europe adopted a model of universal banking<sup>89</sup>.

**Table 1: Acceleration of economic growth of Real GDP in % in Slovakia**

Year	2004	2005	2006
Real GDP	5,5	6,1	8,3

Source: National Bank of Slovakia, <http://www.statistics.sk>

**Table 2: An overview of selected Slovak Banks with their foreign investor**

Banks based in Slovak Republic	Main Investor, share in %	Country of Origin
<i>Privatbanka, a.s.</i>	BASL Beteiligungserwaltung, GmbH, 49,6% ( 100 % owner is Meisl Bank AG)	Austria
<i>HVB Bank Slovakia, a.s.</i>	Bank Austria Creditanstalt AG, 100 %	Austria
<i>Istrobanka, a.s.</i>	Bank für Arbeit und Wirtschaft, AG, Wien (BAWAG), 100 %	Austria
<i>OTP Banka Slovensko, a.s.</i>	OTP Bank, Rt., Budapest, 97,23 %	Hungary
<i>Poštová banka, a.s.</i>	Istrokapital, a. s., 55,47 % Slovenská konsolidačná, a.s., 37,14 %	Slovakia
<i>Dexia banka Slovensko, a.s.</i>	Dexia Kommunalkredit Holding, 79,0 %	Austria
<i>Slovenská sporiteľňa, a.s.</i>	Erste Bank, 100 %	Austria
<i>Tatra banka, a.s.</i>	Raiffeisen International Bank Holding, 66,03 %, Tatra Holding, 12,86 %	Austria
<i>UniBanka, a.s.</i>	UniCredit Group	Italy
<i>Všeobecná úverová banka, a.s.</i>	Banca Intesa, 96,49 %	Italy
<i>Ľudová banka, a. s.</i>	Volksbank International AG, 88,57 %	Austria
<i>Československá obchodní banka, a.s.</i>	KBC Bank N.V., Brusel, 89,97 %	Belgium
<i>ING Bank, a.s.</i>	ING Group	Netherlands

Source: own processing from [www.banky.sk](http://www.banky.sk), Internet pages of the individual banks, 9<sup>th</sup> March 2007

<sup>87</sup> “Banky majú budúcnosť” (approximate translation: “Banks have future”)

<sup>88</sup> Source: Selected Macroeconomic Indicators, National Bank of Slovakia

<sup>89</sup> To wit a bank that can simultaneously operate as a traditional commercial bank as well as an investment bank

At the moment, an increased competition in terms of attracting and sustaining clients is taking place between the three largest banks: *Slovenska Sporitelna* (later *SLSP*), *Vseobecna uverova banka* (later *VUB*) and *Tatra banka*. After a consideration of available information it is possible to present the general analysis of the trends within these banks, portray their consistency and relate these trends to an increasing stability together with increasing returns on investment capital in Slovak financial and bank sector.

***Profile A: Vseobecna uverova banka (VUB):***

The process of restructuring has been followed by a privatization, after which the Italian *Banca Intesa* has become a strategical owner of *VUB*. The contract has been signed on 21<sup>st</sup> November 2001<sup>90</sup>. Actual share of investor represented 94.47%. The major investment has been an actual purchase of the bank with a price of 550 millions Euros (or almost 23.8 billions Slovak Crowns, average year-exchange rate 2001). ***VUB is the most profitable of all Slovak banks*** and it is not a surprise that in six years since the privatization it has already produced a net income of 18.366 billions Slovak Crowns (493 millions Euros, average year-exchange rate 2006) – more than three quarter of the initial investment. The present share of *Intesa Holding International S.A.* is 96.49%.

Financial group *Intesa* is a leading Italian bank group operating from Milan. It is the largest bank unit in Italy and amongst the most important banks in Europe in terms of volume of transactions and equity shares. It has a total of 11.5 millions clients, 9 in Italy and 2.5 abroad. Through a network of subsidiaries and a large number of electronic distribution engines it provides a wide spectrum of financial services. It operates in more than 30 countries. The *Intesa Group* is responsible for the largest proportion (20%) of foreign trade between Italy and the rest of the world.

It specializes geographically in the region of Central and Eastern Europe in its foreign-political activities. It already controls three most important bank subjects in this area: (i) *VUB* since 2001, (ii) *Central-European International Bank* (CIB) since 1998 (fourth biggest Hungarian bank), (iii) *Privredna banka Zagreb* since 2000 (second biggest Croatian bank).

It is obvious that the activities of the group around *Banca Intesa* are aimed at a formation of strong financial group with a pan-European importance. *Banca Intesa* claimed that its long-term interest in Slovakia is to turn *VUB* into the best universal bank.

Market shares of *VUB* bank in Slovakia in 2006: deposits 18.6 %, loans 13.2 %, mortgage loans 29.4 %.

***Profile B: Slovenska sporitelna (SLSP):***

The process of restructuring has been followed by a privatization and purchase by Austrian *Die Erste Bank* in January 2001<sup>91</sup>. *Erste Bank* paid 522 millions Euro (22.6 billions Slovak Crowns, 2001). ***SLSP is the biggest and the second most profitable Slovak bank***, when it produced 3.7 billions Slovak Crowns (99 millions Euros) in 2006 alone. In six years since the privatization it made a profit of 16.857 billion Slovak Crowns (452 millions Euros, 2006) and thus paid more than three quarter of the sum

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<sup>90</sup> Information in this section have been collated from: "Annual report 2001" (National Bank of Slovakia)

<sup>91</sup> Information in this section have been collated from: "Annual report 2001" (National Bank of Slovakia)



*Erste Bank* purchased the bank for.

*SLSP* ranks amongst the most important financial institutions in Slovakia. It has the longest tradition in providing the services of a savings bank, a tradition spreading over more than seven decades. *SLSP* is a commercial bank engaged in banking and financial business activity providing bank services characteristic for modern international banks. The position of the bank is documented by the fact that it administers more than 5 million client accounts, over 50 percent of all deposits of households and businesses, and over 25 percent of individuals in Slovakia. Market shares in Slovakia in 2006: deposits 22.7 %, loans 18.5 %.

According to the management of *SLSP*, the main ambition of *Erste Bank* is to strengthen its position in Central and Eastern Europe, which corresponds to the expansion in this region. The aim is to create a group of independent banks that are part of one big group – *Erste Bank Group*. *Erste Bank* gained acquisitions in Hungary (1998), Croatia (1999), Czech Republic (2000), and again in Croatia in 2002.

### ***Profile C: Tatra banka:***<sup>92</sup>

A descendant of a legendary *Slovenská Tatra Banka* (formed in 1885) was re-created in 1990 as the first private bank in Slovakia. Obviously, there was no need for this bank to undergo an intricate process of re-structuring. Nevertheless, a foreign investor communicated an interest in purchasing this bank already in 1990. The investor was Austrian *Raiffeisen International Bank-Holding* supposedly the most effective member with the biggest shares (69.17%) of total assets of *RZB Banking Group* (actual share 66.03 %). Presently, *Tatra banka* grew to become a modern universal bank with a complex offer of financial services for companies as well as individual clients. As the first private bank, currently **the third biggest bank** and definitively the most effective bank in the long run, it has justly grown to become one of the most dominant players on the Slovak bank market.

In terms of profit *Tatra Banka* is ranked third with profit of 2.8 billions Slovak Crowns (74.7 millions Euros, average year-exchange rate 2006).

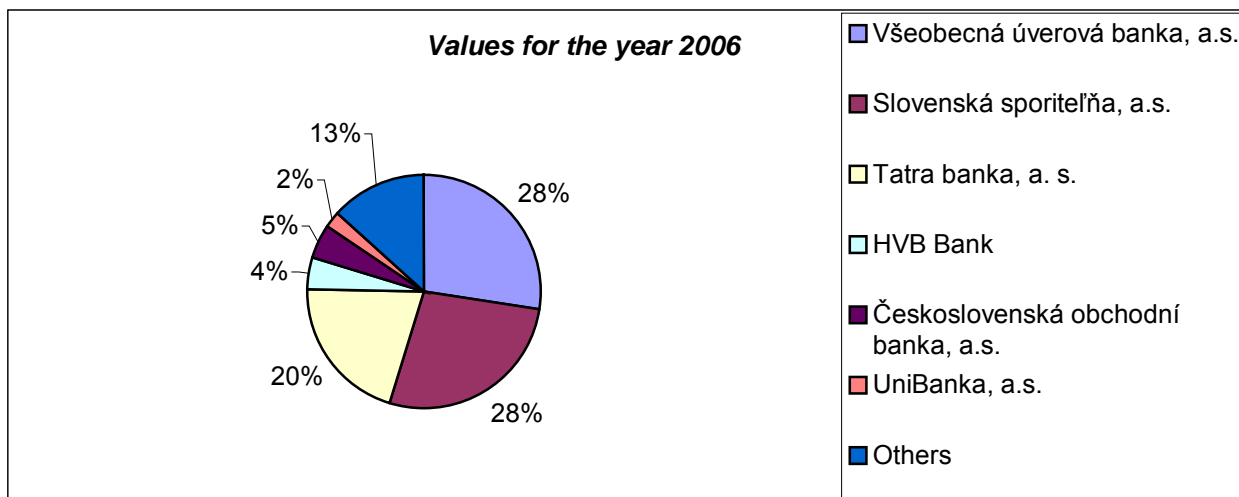
**Table 3: Net Income/ Profit of selected Slovak banks in millions of Slovak Crowns**

Bank/Year	2004	2003	Year-on-year change	2006 (preliminary)	2005	Year-on-year change
<i>Všeobecná úverová banka, a.s.</i>	3 139	4 520	- 1 381	<b>3 758</b>	3 834	- 76
<i>Slovenská sporiteľňa, a.s.</i>	2 849,9	1 377,99	1 471	<b>3 743</b>	3 314	429
<i>Tatra banka, a. s.</i>	2 240	2 050	190	<b>2 785</b>	2 419	366
<i>HVB Bank</i>	906,27	594,2	312,07	<b>606</b>	752,8	- 146,8
<i>Československá obchodní banka, a.s</i>	676,4	539,4	137	<b>660</b>	310	350
<i>UniBanka, a.s.</i>	376,032	280	96,032	<b>316</b>	381,7	- 65,7

Source: own processing and calculating from [www.banky.sk](http://www.banky.sk), 9<sup>th</sup> March 2007, [www.etrend.sk/11839/financny-sektor](http://www.etrend.sk/11839/financny-sektor)

<sup>92</sup> Information in this section have been collated from: “*Tatra banka – Moderná cesta k úspechu*” (Approximate translation “*Tatra banka – a modern road to success*”)

**Graph 1** Profit of selected banks as proportions of total profit of bank sector in Slovakia in 2006



**Note<sub>1</sub>:** Table contains profits provided by banks according to Slovak accounting standards.

**Note<sub>2</sub>:** Banks in Slovakia reported a total profit of almost 15 billions Slovak Crowns (400 millions Euros, average year-exchange rate 2006, 1EUR=37.248 SKK) as opposed to 9.1 billions Slovak Crowns (210 millions Euros, average year-exchange rate 2001, 1 EUR=43.309 SKK) in 2001. Revenues, interest and fees from loans constitute the major part of the profit followed by revenues from payment operations and other services. The profits are only partially constituted by returns from financial markets. With a **falling interest rates** the major constituent of the profits are becoming the increasing fees. This trend seems to be of a long-term nature.

## 6. INTEGRATION, MERGERS AND CO-OPERATION OF VARIOUS FINANCIAL INSTITUTIONS

The insurance sector underwent very similar changes to those of the bank sector. Many foreign insurance companies and financial groups entered Slovak market and purchased shares in Slovak insurance companies or, more precisely, a privatization of the state-owned shares. The new phenomena are investments into mutual funds (whereas the Slovak mutual funds are the fastest growing in the whole Europe). A reform of pension funds enabled banks and insurance companies to introduce a new spectrum of services for the future pension funds. Bureau for Financial Market<sup>93</sup> of Slovak Republic started releasing licenses for a formation of new "pension managerial companies" in 2004. Eight new companies started fiercely competing for the client. Actual situation in year 2007: after mergers real exists **six pension companies** with more than 1.5 millions clients. A rarity is a co-operation between subjects such as *VUB* and *Generali a. s.* (transnational insurance company) in order to form a pension managerial company that would manage the funds and ensure appreciation of the capital in the long-run.

The biggest integration process and bank merger in Slovakia will be a deal between UniBank and HVB Bank merging into UniCredit Bank in April 2007. The expected cost of the first bank merger in Central and Eastern Europe merger is estimated at 200 millions Slovak Crowns. According to the financial indicators, one can predict that the resulting **UniCredit Bank** will take **the fourth place** among the Slovak banks. However, it is estimated that due to resulting economies of scope, the cost structure and firm finance plan will be the second most efficient amongst Slovak banks. The unification of information infrastructure, new firm strategy, re-branding and re-

<sup>93</sup> Approximate translation of "Úrad pre finančný trh"

designing, advertisement campaign represents the largest items on the merger's budget.

## 7. CONCLUSION

Three conclusions can be drawn from the study:

1. The process of re-structuring of credit portfolio, privatization of bank and a strategy aimed at stabilization were inevitable prerequisite for existence, performance and further development of banks in Slovakia. The basis for economic growth was thus created together with structural reforms of the business environment.
2. Presence of foreign investors, transfer of know-how and existence of competing market environment created above-standard conditions also in the financial market. The evidence of success of European financial strategies is: the above-mentioned profiles of the three most profitable Slovak banks and first bank merger. The common characteristics are ever-increasing profits, widening spectrum of services and sophisticated bank products, widening network of subsidiaries, surge in the number of clients, investment and market activities and co-operation with transnational financial corporations.
3. Returns on capital proved to be more than efficient in record short time. For example, only in six years the profits generated by *VUB* already cover more than three quarter of the huge initial investment.

The three basic processes mentioned in the introduction fulfilled their purpose. The general trends identified in this study are a clear indication of recuperation of Slovak financial and bank sector, with a strong signs of potential growth. The Slovak financial sector is becoming more and more compatible with the rest of the EU. The only point to achieve now is an accession to the European Monetary Union. As of March 17<sup>th</sup> a new exchange rate has been set – the Slovak Crown appreciated to 35.4424 per Euro from 38.455 in November – another indication **falling risk** in the economy.

Most experts agree that a wider consolidation in European bank sector will take place within the next few decades further shaping the internal economy and bank sector in Slovakia. **The subjects of my research** – firm (corporate) management, risk regulation, legal framework for bank sector – will determine the preparedness and attractiveness of the bank sector in the coming European and global consolidation of the industry.

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VUB Annual Report 2005, <http://www.vub.sk/download/VUBannualreport05.pdf>, Date visited: 20<sup>th</sup> March 2007

## The 'Third Sector' and its Problems in the Slovak Republic - Challenges and Trends

### 1. THE THIRD SECTOR

The Third sector is not a new phenomenon in Central and Eastern Europe. It could be said that its tradition stretches back to the middle ages. The 19th and the first half of the 20th centuries saw an expansion of group activities and voluntarism in most of the countries of this region. However, the third sector was almost obliterated by the subsequent wave of authoritarianism based on fascist and communist ideologies, only to experience a revitalisation after the revolutionary changes in the 1990s. The non-profit sector is neither a post-revolutionary phenomenon, nor one imported from the Western democracies. What we now refer to as "the Third sector" – charity, philanthropy, group activity, and voluntarism – has long been a part of our history; one which is now undergoing a revival and development. But during the four to six decades of complete social stagnation in the post-communist region, the third sector has evolved and changed in the rest of the world. It represents a significant force today, not only spiritual, but also political and economic. We can see that the state of the third sector serves as a sensitive indicator of the situation in society, the level of freedom, and the prospect of economic and spiritual prosperity.<sup>94</sup>

It is not easy to make a specific definition of the Third sector as this category involves a wide range of organizations and activities. It is known as the "sector of many names" – each of which emphasises a different aspect: *non-profit sector*, *voluntary sector*, *public-benefit sector*, *non-governmental organisations*, *non-state organisations*, *charitable (humanitarian or philanthropic) organisations*, *self-help groups*, *clubs*, *civil sector*, *non-statutory or informal sector* (the British term), *tax-exempt sector* (the American term), *économie sociale* (used in France and in institutions of the European Union), and the German terms *gemeinnützige Organisationen* and *gemeinwirtschaftliche Unternehmen*. We can also meet some new terms used by specific organizations or authors like *other visible hand* or *viva activa* (active life).

Lester Salamon and Helmut Anheier have formulated a comprehensive definition of the third sector based on five criteria for non-governmental (or non-profit) organizations (NGOs):<sup>95</sup>

- NGOs have a **formal structure** – they are formalised and institutionalised to a certain extent, and are therefore capable of entering into contractual relations, for example;
- NGOs are of a **private (non-government) nature** – that is, they are not a part of the public apparatus, and public administration officials do not dominate their boards of directors. However, this does not mean that they cannot close contracts with

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<sup>94</sup> Bútorá, M. at al.: *A Reader for Non-profit Organizations*. 1<sup>st</sup> edition. PDCS : Bratislava, 2003. 259 p. ISBN 80-968934-0-8

<sup>95</sup> Ibid., p. 14-15.

public institutions, receive government support, or rank government officials amongst their members;

- NGOs are **not oriented towards making profit to be distributed amongst their owners**. They respect the non-profit system of distributing funds. Any profit made is reinvested into programmes related to their main mission;
- NGOs are **independent**, functioning on the principle of self-determination. They are controlled neither by the government, nor by institutions other than themselves. After registration, their activities are governed by their founding statutes. They have their own control mechanisms implemented by the board of directors (or the supervisory board), or by their members;
- NGOs are of a **voluntary nature**; i.e., a certain amount of voluntary participation is present. This is true of both volunteer workers and board members. Organisations receive donations and non-material contributions in the form of unpaid work.

Two criteria are generally added to these basic characteristics of NGOs to differentiate them from church-based organisations, political parties, and trade unions:

- NGOs **are not religious in nature**; i.e., their main objective is not to promote religion or engage in religious education;
- NGOs are **not politically oriented**; i.e., their main objective does not involve uniting political candidates, or attempting to achieve political power (this criterion eliminates political parties as such but does not affect politically oriented civic associations).

## 2. LEGISLATIVE

The fundamental Act of the State - the Constitution of the Slovak Republic (passed on 1 September 1992 and published in the Collection of Laws under No. 460/1992), does not contain any provisions directly related to non-governmental organisations (as for example conditions for providing grants to non-governmental organisations or to concluding agreements with non-governmental organisations). However, the Constitution lays down the basic legal provisions that indirectly regulate the existence and activities of NGOs in Slovakia - the article 29 guarantees the right to associate freely in communities, societies or other associations and the article 37 establishes the right of every citizen to get freely associated with others in order to protect his/her economic and social interests.<sup>96</sup>

The discussion about The “Non-profit code” which should regulate whole Third sector, legal forms of NGOs, relations between NGOs and businesses and governmental organisations and all the non-profit activities started a pair of years ago but is still no over.

In fact there is no notion of a NGO defined in any generally binding legal regulations. The law does not state which legal forms permitted by the legal rules of the Slovak Republic are available to NGOs. There are several legal forms that can be specifically ranked as possible forms NGOs defining the conditions for their

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<sup>96</sup> Detailed survey of the current legislative regulation in the Slovak Republic, related to an option of co-operation between nongovernmental organisations and State and self administration, ICNL, 1999. <[www.icnl.org](http://www.icnl.org)> online [2007-03-20]

constitution and function.<sup>97</sup>

### ***Civic associations***

Civic associations, trade unions and organisations of employers are being grounded pursuant to Act of the National Council of the SR No. 83/1990 Coll. on Association of Citizens, as amended, that explicitly stipulates as civic associations the communities, societies, unions, movements, clubs and other civic associations except those having as their purpose to deny or to restrict personal, political or other rights of citizens; military organisations and in general organizations, whose activity could lead to breaching the Constitution and laws. A civic association is established by registration at the Ministry of Interior of the SR. Trade unions and organisations of employers acquire legal personality on the day following the delivery of the proposal for registration to the Ministry of Interior.

### ***Foundations***

Foundations act pursuant to the Act of the NC of the SR No. 34/2002 Coll. on Foundations and Amendment and Supplement of the Act of the NC of the SR No. 207/1996 Coll. A foundation is a specific association of things, finances, securities and other values appreciable by money, which the establisher designed to meet a generally beneficial purpose. A foundation is a legal entity, and the state authorities can interfere with its position and activities only within limits of law. A foundation is considered established on the day it is entered into the Register of Foundations kept by the Ministry of the Interior.

### ***Non-profit organisations providing generally beneficial services***

Non-profit organisations providing generally beneficial services pursuant to Act No. 35/2002 Coll. on Non-Profit Organisations Providing Generally Beneficial Services and Amendment and Supplement of the Act of the NC of the SR No. 213/1997 Coll. are legal entities whose subject of activities is to provide generally beneficial services. A non-profit organisation can independently, on its own behalf and responsibility, perform also other activities to make profit, if this is entirely used to provide generally beneficial services. The Act defines clearly which activities can be considered as beneficial services (e.g. health care, education, protection of human rights). The register for non-profit organisations is kept at the Regional Office with local competence depending on the location of the registered office of the organisation. The Central Register for non-profit organisations providing generally beneficial services is kept at the Ministry of the Interior of the Slovak Republic.

### ***Non-investment funds***

Non-investment funds pursuant to Act No. 147/1997 Coll. on Non-Investment Funds and on Amendment and Supplement of the Act of the NC of the SR No. 207/1996 Coll. are non-profit legal entities associating financial means designed to reach a generally beneficial purpose or individually designated humanitarian aid for an individual or a group of persons whose life is in danger or who need urgent

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<sup>97</sup> Kútik, J. – Langerová, P.: *Verejný sektor (základné pojmy, charakteristika, financie, kontrola)*. 1st edition. Trenčín : FSEV TnUAD, 2006. 138 p. ISBN 80-8075-185-4

assistance against elemental disaster. A non-investment fund is registered by the Regional Office of local competence depending on the location of the registered office of the fund. The Central Register for non-investment funds is kept at the Ministry of the Interior.

**Table 1** Number of registered NGOs in SR (2002 - 2006)

Legal forms of NGOs in SR	2002	2003	2004	2005	2006
<b>Civic associations</b>	20 803	20 575	23 789	25 257	26 927
<b>Non-investment funds</b>	345	440	513	497	590
<b>Non-profit organisations providing generally beneficial services</b>	215	397	831	1021	1 239
<b>Foundations</b>	553	249	305	325	345
<b>Together</b>	21 916	21 661	25 438	27 100	29 101

Source: Ministry of Interior of the SR

Some authors consider other similar organizations like **municipal associations**, **professional associations**, **church-based organizations** or **organizations with foreign element** as a part of the Third sector, but this contribution does not deal with the problem of defining the content of this term.

### 3. FINANCING

According to Dluhá and Marček there are many criteria for classification of NGOs' financial sources.<sup>98</sup> They can be sorted by:

- Acquirement (internal and external),
- Nature (financial and non-financial like things, information or know-how),
- Origin (domestic and foreign),
- Donor (public, individual or private – foundations, companies),
- Form (type of the source – grant, donation, contract, collection, etc.).

The public administration reform completed in 2005 brought decentralization of power on regional and local level, shifted new competencies and funds to local governments and municipalities. They are now more in charge of public service delivery and are motivated to cooperate with and to fund local NGOs as the public authorities administer more funds after a fiscal decentralization. Local NGOs are becoming valuable partners and are more than before getting involved in social contracting and local cross-sector partnerships with public administration (especially in social services area) or even businesses. The cross-sector cooperation develops also thanks to new funding opportunities coming from European structural funds. Slovakia, unlike other countries, such as Poland or Hungary, does not have a unite legal definition of public beneficiary and a public benefit status, even official concept of the sector's development or public policy, which would define priorities, measures, organize relationships with the government and other actors, and thus promote its

<sup>98</sup> Dluhá, M. – Marček, E.: *Financovanie neziskového sektora na Slovensku*. 2004.

<[www.partnerstva.sk/buxus/docs/PANET\\_financovanie\\_ns.pdf](http://www.partnerstva.sk/buxus/docs/PANET_financovanie_ns.pdf)> online [2007-03-21]



complex and coordinated development is missing. Despite that, there are mechanisms of **direct and indirect public support** to public beneficial purposes and NGOs within them.<sup>99</sup>

**The direct form** of public support involves e.g. provision of grants and subsidies; social contracting with public institutions and cofinancing of projects financed from the European funds. After legislative changes in 2005 the division of lottery games proceeds (up to 1 bil. SKK annually) is no longer directly used for supporting the NGOs' activities but became a direct income of the state. The direct subsidy policy of the government aims to support priorities stated by each ministry independently. Annually the number of funds distributed in this way through the state budget (Item No. 64 201 (642 001) of the State Budget - Civil Associations, Foundations and Similar Organizations) counts on approximately 1 bil. SKK. The majority (around 65%) of the funds distributed through this mechanism are granted to „traditional“ organisations, which used to be recipients of these funds for many years already (e.g. Volunteer Fire Protection, Slovak Association of the Anti-Fascist Fighters, Confederation of political prisoners of Slovakia, National Centre of Human Rights, Slovak Red Cross or Slovak Catholic Charity). The rest is distributed in open grant-making schemes. Besides the ministries subsidies are distributed by some of the remaining state funds as well (e.g. The Anti-Drugs State Fund).<sup>100</sup>

**The indirect public support** consists of cuts and exemptions in several taxes and duties and 2% income tax allocation mechanism. The idea of giving a portion of paid income tax to generally beneficial purpose was inspired by Hungarian example, first used in 2002 (1%, only individuals) and subsequently extended to legal entities which could allocate the income tax portion in 2004 (for the year 2003). In 2003 the proportion was increased to 2% for individuals and legal entities (table 2).

**Table 2** Amount of allocated income tax portion

Year	Number of registered NGOs	Individuals / Legal Entities	Total amount of money	Number of tax "donors"	% of tax allocation
2002	4 034	I	101 882		1 %
2003	3 398	I	97 070	288 318	1 %
2004	3 829	I	275 917	402 057	2 %
		LE	569 256	8 364	2 %
2005	5 746	I	298 999	416 600	2 %
		LE	579 393	13 700	2 %

Source: Daňové riaditeľstvo SR

The number of registered NGOs which competed for a part of this huge amount of money rose noticeably (7084 registered NGOs in 2006). After parliamentary elections in June 2006 the government decided to change some principles of this mechanism – the minimum amount of tax portion for individual donors rose and some of the generally beneficial purposes were excluded. NGOs protest against these changes and the dialogue between NGOs and government is still not at the end.

However, it is quite sure that the institute helps communication among NGOs, individuals and companies. Organisations are pressed to develop their communication

<sup>99</sup> Marček, E.: Changes in the civil sector in Slovakia and challenges of its financing. Civil Szemle, 3-4/2006, p. 201-217

<sup>100</sup> Ibid.

and fundraising strategies – they feel a pressure for more transparency, brand- and trustworthiness building. On the contrary individuals and companies are more interested in NGOs' activities and support of particular organizations. This was the motivator for NGOs for presenting their ideas, activities and future plans in more attractive way.

**Cofinancing** of the European funds also belongs to direct public support. In general, it can be said the participation of NGOs in the **pre-accession and post-accession funding** in the programming period of 2004-2006 has been low – beaurocratic, administrative and capacity demanding conditions and the lack of a more NGO friendly and participatory approach from the government, especially in the process of programs designing, prevented many nonprofits from taking part. Moreover many of those NGOs who got involved in social projects funded by Equal found themselves on an existential threat edge. It is questionable whether the new programming period of 2007-2013 will broaden opportunities and improve these conditions; at the moment it is possible that NGOs dealing with social issues, regional and community development will have better chances for EU funding than before.<sup>101</sup>

But in fact we can say that NGOs can propose to four types of sources – domestic and foreign ones, both divided into public and individual. As the big foreign foundations directed their funds further on East and public support is for many of NGOs – especially small or those with not so popular activities – hard to reach, it is important to follow new trends:<sup>102</sup>

- ✓ multi-source financing,
- ✓ self-financing,
- ✓ rising effectiveness and transparency of financial management,
- ✓ rising portion of voluntary work,
- ✓ professionalism,
- ✓ project management,
- ✓ cofinancing,
- ✓ cross-sector cooperation,
- ✓ effective promotion,
- ✓ donor culture a. o.

#### 4. MARKETING STRATEGIES IN NGOS

There are nearly 30 thousand of NGOs registered in Slovakia; most of them are civil associations. They vary widely in activities, in a range of the services they offer, in amount of their members and staff and especially in their professionalism. The smaller the organization is, the more probably, that it is managed by a group of just enthusiastic people. They surely share the same ideas and spend all of their free time developing them – in fact, the first step – creating a formal organization proves their good will.

After 1989 the Third sector and its organizations went through five significant phases of development:<sup>103</sup>

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<sup>101</sup> Marček, E.: Changes in the civil sector in Slovakia and challenges of its financing. Civil Szemle, 3-4/2006, p. 201-217.

<sup>102</sup> Španková, J. – Langerová, P.: *Trendy a zodpovednosť MNO*. A contribution to conference „Trendy hospodárskeho a sociálneho rozvoja v krajinách EÚ“, FSEV TnUAD Trenčín, 5.-6.12.2006. (in print)

<sup>103</sup> Rostášová, M.: *Úvod do marketingu neziskových organizácií*. Efekt, 6/2004. p. 21.

- ✓ **diversification** (redefinition of NGOs' mission);
- ✓ **consolidation and professionalism** (educating the management and first steps in NGOs' cooperation – creating of SAIA, which undertook a responsibility for monitoring the development of the Third sector);
- ✓ **emancipation** (presentation of activities and interests of the Third sector by Grémium tretieho sektora, massive entry of the foreign grant projects and development of professionalism – mostly in the area of winning the financial support from grants);
- ✓ **mobilization** (further education, training and diversion of the competences to develop professionalism);
- ✓ **stabilization** (organizations are at this level prepared to face the changes in external environment and adapt to them – e. g. to tax or law changes).

Going through this process was not an easy deal even for the big and good managed NGOs, most of the smaller organizations still put all their effort to just simple survival with changeable success. Effective usage of marketing tools is essential to create a **positive image** of NGO. This is necessary because the image of the organization, the message it is sending out to its donors, local and state government and the public is the most important basis for their decisions by which all these subjects backwards influence the organization.

Most of the people trying to learn something about the marketing meet sooner or later the name of Philip Kotler. It is not surprising, that even the popular and essential Reader for NGOs in Slovakia provides its readers with Kotlers advice how to sell their products successfully. But soon after recognizing the basic principles, we came across definition problems – **WHAT do we sell actually?** Most NGOs offer some material goods or services, but these are not really products – they only work as a back up, an implement for something different – **an IDEA**. Secondly – who buys our product? Consumers vary tremendously in age, income, education level, mobility patterns, and taste.<sup>104</sup> Which consumer groups should we request? Then there is another problem – NGO should speak not only to its clients or consumers of their services and goods but also to donors – individuals, governmental organizations, foundations, legal entities or public in general – every subject needs to be provided with mildly different sort of information.

It is good to take into account that NGOs' products have some common attributes:<sup>105</sup>

- ✓ **Untouchable** - client buys a service without knowing, how good or bad the outcome will be. Trying to low his uncertainty, the client would consider the facilities and staff of the organization, their knowing, behaviour and willingness, propagation materials and particularly previous information about the organization and its image;
- ✓ **Indivisible** – services are produced and provided at the same time and the client has to be in direct touch with the provider;

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<[http://www.partnerstva.sk/buxus/docs/EFEKT\\_Marketing\\_Uvod.pdf](http://www.partnerstva.sk/buxus/docs/EFEKT_Marketing_Uvod.pdf)> online [2007-22-3]

<sup>104</sup> Kotler, P.: *Marketing management*. 5<sup>th</sup> edition. New Jersey : Prentice-Hall Inc., 1984. ISBN 0-13-558024-2

<sup>105</sup> Bútora, M. at al.: *A Reader for Non-profit Organizations*. 1<sup>st</sup> edition. PDOS : Bratislava, 2003. ISBN 80-968934-0-8, p. 74-75

- ✓ **Changeable**– according to the time, to the place, to the provider and to the client. It is important trying to unify the quality of services in all the parts of organization and all the staff;
- ✓ **Unstorable** – this disadvantage can be reduced by assuring enough staff at the right time. By NGOs the time before Christmas is usually very hectic.

The small NGOs really do not have enough experience to implement serious marketing strategy. As mentioned, the income tax mechanism meant for many NGOs a new beginning – for the first time they realized, that they needed some strategy, how to let people know, how to present their work effectively, in order to win a portion on tax support. The stable and well-known NGOs had both strategy and money to call it into the action, the smaller ones did not.

If we should give a general advice to NGO, how to be successful in “selling” their idea, the first step would be to avow the organization really NEED some marketing strategy. The aim of this contribution is not giving a marketing manual to NGOs. There are enough books on shop boards which can help. We just want to point out some differences between offering a typical market product and a NGOs' product.

The NGO has to follow few steps before creating a marketing strategy. The first step means – as mentioned – avowing the organization needs a strategy. Every NGO reaches this point sooner or later. The most common reason to realize that *something* should be done is lack of financial sources or problems with communication of idea to the environment – community, public, donors and government. The second step in today's Knowledge Society is know-how. The NGO and its members are facing many decisions e. g. taking part in some training or trying to discover the basic principles on their own? How about the costs? Can we afford it? Do we need to broaden our activities or find an external provider? The problem is not only to define the strategy, but to determine the NGO's attitude to different subjects (donors, public, government, legal entities). Actually, in this phase NGO usually transforms from group of enthusiastic people to more or less professional organization. Its further steps should not be ad hoc, but planned, controlled and modified according to changing conditions of the environment.

##### 5. SUGGESTIONS (COMMON CITIZEN OBSERVATIONS)

At the Volunteer Summit in Philadelphia, President Clinton declared: "To be a good citizen, you have to obey the law, you've got to go to work or be in school, you've got to pay your taxes, and – oh, yes, you have to serve your community to help make it a better place."<sup>106</sup> The last idea is great and easy to realize in the USA, where the volunteer culture has a long tradition. However, it looks like the Third sector in SR is also well on the way.

NGOs can help the public feel a good citizen if following some rules. These are just few suggestions how to act towards possible donors and clients:

1. Be positive – it is clear that many of the problems NGOs solve are long lasting and the fight against unconcern of both public and government can be exhausting. But

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<sup>106</sup> Bovard, J.: *Sovietizing American Virtue*. <<http://www.fff.org/freedom/0997d.asp>> online [2007-22-3]

in the beginning of every NGO there is an enthusiastic idea and it should be presented to public in the comprehensible way. Sometimes we meet on websites of NGOs much more of “you should not do this” instead of “we should do this” or “we managed this”. The image of NGO consists of many parts – its philosophy, its staff behaviour and appearance, its symbols like logo or the name of the organization, its reputation among the public and so on. All these parts should harmonize.

2. Be open and transparent – do not stop to present your ideas, activities and results to all parts of the environment – internal (staff and members) as well as external (public, businesses and government). Let people ask questions and answer them. Publish your annual report. Let people know, how NGO spends their money, which aims were fulfilled and present the plans for future. Use any possible way – media, schools, meetings or trades. The reminiscence NGO leaves in people should always be likeable.
3. Be flexible and innovative – be prepared for changes like the business sector is. Do not forget monitoring the new trends. E. g. the well-known animal protecting NGO “Sloboda zvierat” is still printing and selling standard postcards through volunteers. Can you remember the last time you sent the standard postcard? And was it the one with the animal on? The innovative solutions can be inspired not only by NGO's staff or members – that's why communication is very important.
4. Be modern – new technologies do not mean just to create and master a website. Look around and compare – how are the websites of the other similar organizations like? Which information do they offer? How many people visited our site and is it enough? And what about foreign visitors? Are we reachable by mobile phone as well as by fax or chat?
5. Make it easy – do not offer only a number of your account. People love quick and easy solutions. A possibility to give some money directly by internet banking or just sending a SMS from their mobile phone – that is easy. Do not wait for volunteers – organize them. One of the most successful collections in SR is “The Daffodil Day” – the collection for helping the people who suffer from cancer. Mostly everybody knows some person suffering from cancer, yes, it is sad. But it is so easy and nice to buy a beautiful yellow (what a positive colour!) flower on the street from a volunteer in the spring, when everything is flourishing and the sun is shining. And in fact, everybody wears daffodil that day. Good idea – positive image – transparency.
6. Win a support – celebrities. They also like to create their positive image by showing their passion for charity. NGO can request local-known or well-known people and build the positive image together. No matter if it is a politician, a pop star, an actress or a sportsman. The first important thing is to win his/her confidence and by this you win the attention of people who like him/her. The examples: Ladislav Ďurkovič and Ľudia proti rasizmu (People against Racism), Kamila Magálová and Sloboda Zvierat (Freedom of Animals) or many actors and actress in every year campaign Hodina deťom (An hour to children – appeal to give up your last hour's income on behalf of children).
7. Be cooperative – finding partners is always useful. Surely there are many NGOs with similar aims like yours either here or abroad. Maybe you can join or create some association or gather some new contacts. It is also important not to forget to

develop good relationships with the public and government, especially local. The cross-sector cooperation is the solution for obtaining e. g. the support from European structural funds simpler.

## 6. CONCLUSION

A Reader for Non-profit Organizations cites three titles dealing with the Third sector named A New Global Force, Power Shift, and The Other Invisible Hand. This reflects the scale, penetration and growth of a phenomenon that has fascinated social scientists and occasionally made life difficult for politicians. These titles reflect the “revolution in association” – the efforts of millions of people throughout the world to participate in something meaningful – activities which, while bringing benefits to these people themselves, also serve the public benefit and go beyond individual human destinies and horizons.<sup>107</sup> But voluntarism and enthusiasm is not enough. The Third sector's organizations in Slovak Republic have to face the changes in society and meet the new trends as well.

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<sup>107</sup> Bútorá, M. at al.: *A Reader for Non-profit Organizations*. 1<sup>st</sup> edition. PDCS : Bratislava, 2003. ISBN 80-968934-0-8, p. 16

## Lisbon Agenda and its Implications for University Education in Europe

### 1. INTRODUCTION

It is the paradox of our age that American universities which were founded after German example have now become model for the entire European system of tertiary education. European universities are not just lagging behind those in United States but are becoming more and more threatened by nascent educational centres in other countries, most notably in India and China. In 2000, Lisbon Strategy was unveiled to tackle (among others) deteriorating situation in tertiary schooling but so far with little success. As *Economist*<sup>108</sup> fittingly noted, so far, European Commission was more about talk than action and the actual agenda already needed to be reformulated and relaunched.<sup>109</sup> In 2003, China managed to surpass European countries in the number of maths, science and technology graduates. It is especially troubling since these subjects are the ones that European Union is keenest on promoting. According to Lisbon Strategy, European Union would like to see the budget for tertiary education to increase to 2% of its GDP by 2012. Currently only Scandinavian countries such as Denmark and Finland invest more than OECD average of 1,5% of their GDP in tertiary education and even they extend it by a very narrow margin. For the rest of European Union, the actual figure is around 1,2%. Even assuming European Union was able to meet its "bold" goal of 2% of GDP by 2012, it would still fall short of the huge 2,9% annual investment of United States.<sup>110</sup> So even in case everything would run smoothly (which it seldom does) the ambitious goal of Lisbon Agenda of "catching up" or even "surpassing" United States is unlikely to happen.

Obviously, a case could be made by claiming that the actual level of investment into education system does not necessarily represent its quality it matters more *how* this money are being spent. But even in this comparison, European Union education system fails miserably. United States is far more efficient in using human resources than European Union. About 83% of the researchers in the United States work in private sector in comparison to 63% in Japan and just meagre 50% in European Union. Even though the number of spin off companies is on the increase in Europe, it is still below that of United States. To make matters worse, legal grounding that American researchers enjoy is much more favourable. Bayh-Dole Law gives ownership to institutions which conducted research using public funding and in such way encourages promotion of technological innovations. This naturally leads to exodus of the most able researchers to the United States where conditions for their work are much better.<sup>111</sup>

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<sup>108</sup> *Economist*, "Charlemagne: Crisis, what Crisis?", September 8, 2005; and *Economist*, "Reform or die", January 26, 2006; and *Economist*, "Mendicant scholars", November 9, 2006.

<sup>109</sup> European Commission 2007, pp. 31

<sup>110</sup> Organisation for Economic Co-operation and Development (OECD) (2006), *Education at a Glance: OECD Indicators 2006*. Paris, OECD.

<sup>111</sup> European Commission (2003), *Communication from the Commission: The role of the universities in the Europe of knowledge*, Brussels.

Although in many instances European diversity is a positive thing, in this particular case it comes to the detriment of European Union. The heterogeneity of the educational institutional systems stifles innovation and impedes mobility of the students. Although programs such as Erasmus and Tempus and at the same time Bologna process<sup>112</sup> which attempts to form European Higher Education Area are addressing this problem already, there is still long way to go before truly integrated system comes into being.<sup>113</sup>

Taking all this into consideration, it comes as no surprise that United States universities are easily leading world ranking tables. According to the most widely used Shanghai University Index<sup>114</sup> out of the best 20 universities, only 2 are in Europe - Cambridge and Oxford. First continental university, Utrecht comes at 41st place. Gigantic endowments of the largest universities such as Harvard, Yale and Princeton are \$29, \$18 and \$14 billions respectively.<sup>115</sup> These sums of money which are partly further invested and partly donated to research are virtually unmatched by even the richest that European Union has to offer - Cambridge and Oxford. The wealthiest university in Europe, Cambridge University, is still approximately £10 billion short of Harvard's fund.<sup>116</sup> The situation of Oxford is even worse, not mentioning other universities in United Kingdom and in Continental Europe. It is certainly as Economist<sup>117</sup> has claimed, a small miracle that these universities are able to remain competitive worldwide. How did this situation come about and what can be done with it? I will try to answer these questions in turn. Most likely the problem will need to be solved by a mixture of private funding which is at this time is at appalling levels in Europe<sup>118</sup> and at the same time by promoting access to education by utilizing innovative funding mechanisms such as income contingent loans to delegate more responsibility for education on prospective students themselves. Decentralization and deregulation of education sector is important to allow greater breathing space for universities suffering from tons of red tape.

Often privatisation of the tertiary education is opposed on the grounds that it is inequitable form of funding which favours rich. I will try to answer this question as well pointing out to the fact that there is no fundamental contradiction between equity and efficiency and at the same time by showing that successful intervention in favour of equity should have been done much more early. It is the conviction of the author of this essay that private funding (or partial private funding) is not only more efficient, but also equitable way how to organize tertiary education.

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<sup>112</sup> European Commission (2000), Bologna Declaration on the European space for higher education, Brussels.

<sup>113</sup> Furlong, P. (2005), "British Higher Education and the Bologna Process: An Interim Assessment, *Politics*, vol. 25, no. 1, pp. 53-61.

<sup>114</sup> Shanghai Institute of Higher Education, Jiao Tong University, 2005, (<http://ed.sjtu.edu.cn/rank/2005/ARWU2005TOP500list.htm>).

<sup>115</sup> National Association of College and University Business Officers (2007), 2006 NACUBO Endowment Study, ([http://www.nacubo.org/documents/research/2006NES\\_Listing.pdf](http://www.nacubo.org/documents/research/2006NES_Listing.pdf))

<sup>116</sup> University of Cambridge (2006), The Cambridge 800th Anniversary Campaign Report 2005-2006.

<sup>117</sup> Economist, (2006).

<sup>118</sup> Psacharopoulos, G. (2005), "Why some university systems are collapsing: Realities from Europe", *Paper presented at the ACA Conference, Vienna*; and European Commission, (2003).



## 2. BACKGROUND OF THE EDUCATION PROBLEM IN EUROPE

The beginning of the current problems can be seen in the 1970s. Up until that time, welfare state system in Europe was able to cover most of the expenses associated with tertiary education. 1970s marked weakening of the whole concept of the provision of welfare in the favour of a more market-oriented view. At the same time large increase in the number of university students could be observed. European states were witnessing sharp increases in public funding and provision of "free" university education was no longer considered tenable. In the last 30 years, the enrolment rates of students have more than doubled from about 20% in 1970s to half today.<sup>119</sup> Although United States witnessed the same increase in enrolment, greater linkages with businesses and share of private sector in tertiary education provided a buffer to the increasing number of students and costs associated with it. European states were not able to adapt to the rising number of university applicants and government still kept covering about 80-100% of the expenses of education.<sup>120</sup> As a result, university system in European Union collapsed.<sup>121</sup> Another advantage of United States in this respect is nature of its funding. Whereas in European Union (up until recently), institutions were mostly subsidized with block grants based on inputs to the system (e.g. the number of students studying for a given degree), in United States, greater emphasis is put on the performance and outputs (such as the amount of research and its further practicability in business and elsewhere). Input funding, however, can distort educational system quite considerably. It not only favours already established universities and thus diminishes competition and creates space for monopolistic practices, but it also does not provide impetus for universities to sacrifice quality for quantity. Such subsidies to education (based on the enrolment of students) increase the attainment rates, but also dropout of the students and it is more likely that less motivated students will be applying for the universities.<sup>122</sup>

When public funding based on inputs is in place, universities tend to suffer more from bureaucracy and at the same time are more prone to the wrong decisions. Since the government would not bail out in the case of mishaps, universities tend to be less under the pressure for efficiency. This creates intricate bureaucracy and lowers transparency of the universities. On the other hand, where university funding is based more on the results of students or some other output performance indicator, greater efficiency of the universities can be observed.<sup>123</sup> There was no substantial reasoning provided for why European universities are still subsidizing education based on the outputs alone and some changes were already announced to bring about a more competitive, less bureaucratic and more transparent environment.<sup>124</sup> There is, however, a more vociferous opposition to the change to the current type of funding. It is argued that the push towards more American-like system, based on the greater share of private funding, would result in a less equitable system which would favour wealthy to the poor.

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<sup>119</sup> Jacobs, B. and Ploeg, F., van der, (2006), "How to reform higher education in Europe", *Economic Policy*, July, pp. 537 - 592.

<sup>120</sup> OECD, (2006).

<sup>121</sup> Psacharopoulos, (2005).

<sup>122</sup> Jacobs & Ploeg, (2006).

<sup>123</sup> Ibid.

<sup>124</sup> European Commission, (2003).

### 3. EQUITY

With rising levels of enrolment, tertiary education has become the centre of debates about equality of opportunity. It has been argued that universities are the cornerstone of meritocracy where future leaders are being trained which should be done irrespective of their socio-economic background. Private funding is, in this view, necessarily followed with decreasing number of (talented) students from poor families. In this perspective, only that state in which people from all socio-economic backgrounds are represented proportionally can be considered meritocratic. As I will endeavour to show, the statistics on which this research is usually based are profoundly inadequate to make such equity claims as they are unable to account for many other modalities such as differences in motivation, educational and cultural background. At the same time I will try to show that redressing societal ills and inequalities through tertiary education is a very imperfect way and, more often than not, the exact opposite is achieved where people from better backgrounds end up being subsidized by the state.

#### *Meritocratic Debate*

The current goals of educational policies were probably most profoundly influenced by Michael Young who coined the term meritocracy in his *The Rise of Meritocracy, 1870 - 2033* in 1973.<sup>125</sup> In Young's definition of the word, merit equals intelligence plus effort. Thus in meritocracy those people should rule who are most intelligent and diligent at the same time. Since attainment in tertiary education is strongly correlated with income later on, university education is considered to be an important instrument in the whole meritocratic debate. For many authors,<sup>126</sup> the measure to which society is based on merit is the amount of students from diverse backgrounds that take part in tertiary education. In this view, only if students are *proportionally* represented (based on their ethnic or socioeconomic background, gender and so on) can the society be considered meritocratic. Several sociologists<sup>127</sup> have pointed out that this is a very imperfect and simplistic measure for such a complex issue. Such view is necessarily founded on the (unsupported) assumption that merit is also proportionally represented and that a society is homogeneous in terms of values and motivation. This is a very strong claim to be made and if anything, the opposite is most likely true. According to Willis,<sup>128</sup> groups from diverse socio-economic backgrounds frequently share different and often anti-educational values. In the working class culture which he studied, tertiary education is considered to be too effeminate and only the manual kind of labour is taken to be the proper and manly job. It is not surprising to find that among these groups, enrolment tends to be much lower. Inequality in this respect is recreated by a subculture and not by insufficient access to education. In the case of people from higher socio-economic background the opposite

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<sup>125</sup> Young, M., D. (1973), *The rise of meritocracy, 1870-2033: An essay on education and equality*, Penguin Books, United Kingdom.

<sup>126</sup> E.g. Breen, R. and Goldthorpe, J. (1999), "Class Inequality and Meritocracy: A critique of Saunders and an Alternative Analysis", *British Journal of Sociology*, vol. 50, no. 1, pp. 1-27; and Goldthorpe, J. (1987), *Social Mobility and Class Structure 2nd ed.*, Clarendon Press, Oxford

<sup>127</sup> Saunders, P. (1996), *Unequal but Fair? A Study of Class Barriers in Britain*, The IEA Health and Welfare Unit, London.

<sup>128</sup> Willis, P., E., (1981), *Learning to Labor: How Working Class Kids Get Working Class Jobs*, Columbia University Press, United States.

is usually observed. Children from families with tertiary education background are much more likely to consider enrolment to be a goal worth aspiring to. It is indeed natural to find out that a person coming from the family with medical background will have better knowledge in the field and thus have advantage over those who do not. This 'cultural capital'<sup>129</sup> cannot not be accounted for in statistics that are available, but most likely exercises considerable influence on the actual enrolment rates into tertiary education (Saunders 1996). This all suggests that the debate about equity is much more complex and multifaceted problem than is apparent at the first sight. Before we make hasty conclusions about what is equitable and what is not, we should first consider all factors that could potentially come into play, even those which are not reflected by our current data.

Some authors suggest that tertiary education is already too late to successfully intervene in an unequal society. At the age of 18 (in some countries 19), prospective students are already fully fledged individuals and it is difficult to try to redress societal inequalities at this stage. Woessman<sup>130</sup> shows how the amount of money spent on education of students is most efficiently spent in the case of children from lower socio-economic background and in their early years. The increasing age has been shown to be associated with decreases the returns on every Euro spent. Thus according to Woessman trying to invest in children when they enter university is probably the most inefficient approach we could possibly take. Jacobs and Ploeg<sup>131</sup> corroborate his data adding that trying to invest public money into university education at such a stage is most likely not going to make the society more equal, but counterintuitively it will do the exact *opposite*. As in every country, children from higher socio-economic background are 'overrepresented' in universities, spending taxpayer's money essentially translates into subsidizing rich. Our good intentions can in such cases have unintended consequences of actually propounding already existing inequalities.

Finally, there is also implicit assumption that private funding is necessarily inequitable. However, evidence shows that the most accessible colleges tend to be the best schools in United States which run the most generous need-based and need-blind financial aid schemes are most often private owned. The reason for this is that these universities tend to be run very efficiently as they have to survive fierce competition and at the same time have extra revenue from charging children from wealthy families (who can afford it) which is often unavailable when all costs are covered by the government. This money then re-enter the system and benefit students from poorer backgrounds.<sup>132</sup> The loyalty of students is a factor as well. In privately funded education system, they realize that it is the school who should they thank (later on in their lives) for their education. This shows in much greater amount of donations to endowments of universities in United States than is the case of those in United Kingdom and in Continental Europe. Only meagre 10% of Oxford alumni contribute to their university or college which stands in stark contrast to 45% and 61% of Harvard's

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<sup>129</sup> Bourdieu, P. and Passeron, J. (1990), *Reproduction in Education, Society and Culture* 2<sup>nd</sup> ed., Sage Publications Ltd. United Kingdom.

<sup>130</sup> Woessman, L. (2006), "Efficiency and Equity of European Education and Training Policies", *CESifo Working Paper no. 1779*, Munich.

<sup>131</sup> Jacobs and Ploeg, (2006).

<sup>132</sup> Psacharopoulos, (2005); and Salmi, J. and Hauptman, A., M. (2006), "Innovations in Tertiary Education Financing: A Comparative Evaluation of Allocation Mechanisms", *Education Working Paper Series*, no. 4

and Princeton's respectively.<sup>133</sup> Thus it can be seen that in system with greater share of private funding the sense of loyalty is fostered more often which, in the end, helps poor and wealthy students alike. The fact that Oxford has hired former businessman to lead the University and Cambridge is launching aggressive funding campaign is a testament to the fact that even oldest universities realized that times are changing and greater reliance on private money should be sought.<sup>134</sup>

#### 4. WHY MORE PRIVATE FUNDING?

The most commonly named reason for a greater reliance on private funding in education is that it tends to be more efficient.<sup>135</sup> There is a strong correlation between privately funded universities and their performance in providing education. United States universities are winning on almost every imaginable indicator, the number of Nobel Prize Laureates, citations, size of endowments, etc.<sup>136</sup> Psacharopoulos's<sup>137</sup> case study of Greece revealed that with expansion of university students which was observed in the rest of Europe, public funding was not able to keep pace (due to unpopularity of budget increase of education bills) and lower standards for admitting students had to be instituted. This resulted in massive exodus of students to other countries. At the current time, Greece has the unfortunate world record in sending its students abroad. The evidence from other European countries tended to be similar. Costs of education have risen and government expenditure was suddenly not able to provide for the needs of its universities. Frequently these were at the same time burdened by byzantine bureaucracy which just contributed to its woes. In United States where universities are closer to the private sector which realizes value of investment into human capital and research and development, the lowering of standards did not happen. It is becoming clear that in order to plug the gap in funding and achieve goals set out by Lisbon Strategy, greater share of private funding is inevitable. Even though most of European Union countries do realize that, the picture, so far, has been bleak. Whereas in United States the private to public ratio of funding is 2.2, in European Union countries it is five times lower - 0.4.<sup>138</sup> Linkages with businesses are very weak (strongest in countries where private share is at the greatest level such as United Kingdom) and universities are still mired in red tape. At the current time, management boards of the universities are shielded by the state which is unlikely to reduce funding in case of wrong decisions. This frequently results in lowering of the performance and increasing of bureaucracy. To make matters worse, states usually have their "favourites" and continue to fund even those universities who continuously have poor record. These conditions are then favourable to the creation of "education monopolies" which lead to distortion of provided information for the public and students, and to a lowering of the standards.<sup>139</sup>

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<sup>133</sup> Economist, (2006).

<sup>134</sup> University of Cambridge, (2006).

<sup>135</sup> Barr, N. (1993), "Alternative Funding Resources for Higher Education", *The Economic Journal*, vol. 103, no. 418, pp. 718 - 728.

<sup>136</sup> Psacharopoulos, (2005).

<sup>137</sup> Psacharopoulos, G. (2003), "The social cost of an outdated law: Article 16 of the Greek Constitution," *European Journal of Law and Economics*, vol. 16, no. 3, pp. 123-137.

<sup>138</sup> European Commission (2003b), *Communication from the Commission: "Education & Training 2010" The Success of the Lisbon Strategy Hinges on Urgent Reforms*, Brussels.

<sup>139</sup> Jacobs & Ploeg, (2006).

All this does not say that public funding is necessarily inefficient, but that current type of the allocation of funds based on mostly inputs to the system (e.g. the number of students enrolling) can safely be considered outdated and replacement for it should sought.<sup>140</sup> As it is in United States, state will still be required to play key role in the provision of education. Among one of its central roles would be to act against colluding universities and emerging educational monopolies and ensuring that competition in the area remains fierce. At the same time, especially in European area, greater international cooperation and convergence of university education should be sought amid great diversity. Similarly, state should ensure equal access for students in case private institutions were unable to, but not by directly subsidizing places of students but delegating responsibility more on individual. Finally, it can provide limited funding which should be based more on performance indicators of universities rather than on the inputs to the system. State, however, should strive to meddle into governance decisions as little as possible and should deregulate its education system to decrease costs of administration and encourage competition.

### *Discourage monopolistic practices*

Two suggested measures to be adopted to bring about 'Europe of Knowledge' as envisaged in Lisbon Strategy were to increase competitiveness and ensure greater autonomy of the schools.<sup>141</sup> One of the greatest impediments to this goal are colluding universities such as Oxford and Cambridge in United Kingdom or even Ivy League in United States and monopolistic practices such as in the case of Netherlands<sup>142</sup> where increase in public funding of higher professional schools and universities resulted just in increased spending on administration and bureaucracy. In the end, amid rising donations to the system, the funds available per student have fallen by 31% and 40% in the case of higher professional schools and universities respectively. Monopolistic practices are especially problematic in the case of small countries such as Netherlands, Belgium, Czech Republic or Slovakia where long-established universities realize that there will still be greater demand for the places even in the face of considerable brain drain that is currently observable in most parts of Europe.<sup>143</sup> It is difficult to hold universities to account when no viable alternative is present. To discourage such practices Jacobs and Ploeg<sup>144</sup> suggests easing access and creation of educational institutions on the market and thus increase competition among schools. Alternatively, the so-called 'supply side vouchers' could be utilized whereby portion of the finances of the university would come from vouchers which students receive with results at their respective national examinations. The financial value of a given voucher would be linked to the performance of the student. Thus universities would be motivated to seek the best students who would contribute most to their budget. This would also, most likely, increase the weight of national examinations in the university admissions system as the amount of funding would directly correspond to the performance of the students at them. Some evidence, however, suggests that some countries which instituted it are already considering to repeal it (United Kingdom for instance). These

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<sup>140</sup> Psacharopoulos, (2005).

<sup>141</sup> European Commission, (2003).

<sup>142</sup> Jacobs & Ploeg, (2006).

<sup>143</sup> European Commission, (2003).

<sup>144</sup> Jacobs and Ploeg, (2006).

vouchers were, however, not linked to the performance of the students on their national examinations but to their ethnic (or other) background and were not used to promote competition but encourage more application from people with non-white background. In other countries, such as Chile, the system is still in place. More research on their effects on educational system is thus necessary.<sup>145</sup>

### *Decentralization:*

Evidence also suggests that universities which have greater say in their governance (and similarly greater responsibility) tend to perform much better than their state managed counterparts.<sup>146</sup> Where state does not shield its universities from wrong choices, they tend to behave more responsibly and resolutely.<sup>147</sup> Already Tocqueville<sup>148</sup> was able to notice in 19th century that a decentralized system usually performs better than a centrally planned one. University managers are frequently more acquainted with the challenges that their institutions face and are thus more likely to make right decisions than a detached bureaucrat would. As Psacharopoulos<sup>149</sup> fittingly said, current education system in European Union more resembles central planning of Eastern bloc during Cold War than a developed market society.

### *Funding reforms*

One of the goals for helping Europe becoming knowledge society is to raise the resources for research to 3% of GDP.<sup>150</sup> It is not only important to ensure that this goal will be delivered, but at the same time secure that these money will be wisely spent. At the current time, Europe experiences massive brain drain to the United States. In comparison to the US, the percentage of researchers in active population is much lower (5.4 per 1000 in EU in comparison to 8.7 in US). Europe already educates more science graduates than it is the case anywhere else, the problem is that they frequently emigrate to United States where opportunities for research are much better or abandon their scientific career entirely.<sup>151</sup> This is mainly due to the better legal system in the area. Already mentioned Bayh-Dole law ensures that innovators retain ownership of their research even in case they use public funding. This promotes practicability of the findings as it is in the interest of the researcher to pursue market-viable innovations. At the same time state benefits from increased productivity brought about by successful research. Also competitive funding and Research Councils (akin to the ones in United Kingdom) could be instituted to ensure that more practicable research gets funding and increase competitiveness in the area of university research and development. It is important to help to recognize universities as key players in R&D and support them accordingly.

There should be greater emphasis on the output funding not only in the research but also in general educational area. It is important to promote success but at the same time transparency of the system. There is some evidence that funding based on

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<sup>145</sup> Salmi and Hauptman, (2006).

<sup>146</sup> Barr, (1994).

<sup>147</sup> *Economist*, "The ivory trade: What makes America's colleges such clever investors?", January 18, 2007.

<sup>148</sup> Tocqueville, A. (1997), *The Democracy in America*, Project Gutenberg, United States.

<sup>149</sup> Psacharopoulos, (2005).

<sup>150</sup> European Commission (2002), *More research for Europe: Towards 3% of GDP*, Brussels.

<sup>151</sup> European Commission, (2003)

performance indicators increases the likelihood for obfuscation from the school authorities and thus distortion of the system. In this respect, state role is extremely important to ensure level and fair field.<sup>152</sup> Finally, greater reliance on endowment funds as a source of financing should be sought. As was already mentioned, European universities so far can not compete with their American peers in the amounts of endowment. Even endowments of the wealthiest, Cambridge and Oxford, are much lower than comparable US universities. It is important to promote loyalty of the students in their institutions and at the same time ensure that these funds have considerable leeway to invest their portfolio.<sup>153</sup> In United Kingdom, for instance, universities (and their endowment funds) are treated as charitable foundations and thus face lower taxes. However, in comparison with American universities still a lot could be done. Deregulation should be the key. As United States example demonstrates, university endowment funds are avid investors which are frequently able to beat even the best investment companies on the market.<sup>154</sup> Since their very purpose is to return invested money back into the educational system, they can play key role in improving tertiary education Europe-wide.

### *Improving Access*

With all market-based reforms, it is important to safeguard meritocratic basis of universities and ensure that capable students will get places at the university. As was already shown, direct subsidies and block grants which are currently awarded irrespective of the university performance should be replaced with a more individual approach. University education, after all mostly benefits the student himself or herself so it is important to delegate the choice to enroll to the prospective students themselves. This can be done in several ways but income contingent loans seem to be the most equitable way whereby students receive money to finance their studies and pay it back only when their later on income is sufficiently high to allow for repayment. In such a way, European states should make sure that it does not support wealthy students who are able to afford it. The advantage of income contingency loans lies in that it is a scheme which can be enacted by both private sector and the state as well. The idea was born at Yale (private university), but from that time it branched out to other parts of the world and it is currently one of the possible alternatives for poor students to cover their tuition fees.<sup>155</sup> In case private side is not able to cover the costs, state should move in and ensure that every student who needs such loans would be able to get them.

At the same time state should be responsible for preventing potential misuse of the system. Evidence from New Zealand suggests that sometimes students attempt to evade their responsibilities by emigrating to a different countries where they are free from their financial obligations. This should be prevented and especially so in the forming European Higher Education Area by mutual recognition of such loans among European Union states.

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<sup>152</sup> Jacobs & Ploeg, (2006).

<sup>153</sup> University of Cambridge, (2006).

<sup>154</sup> Economist, (2007).

<sup>155</sup> Salmi and Hauptman, (2006).

### *International cooperation*

Finally, what is currently needed is a more international approach. Since European Union is currently much more heterogeneous in regards to culture and institutional system alike, it is important to make degrees comparable and recognized by the governments of all European states. Bologna Process which was launched on 2000 is making great progress in the area, but it is important to ensure that this does not falter. Bringing about European Higher Education Area will increase competition and quality among European universities considerably and improve mobility of the students. The programs such as ERAZMUS and LEONARDO DA VINCI should be promoted especially in countries which lag in their ability to attract foreign students.<sup>156</sup> However as Furlong<sup>157</sup> has shown, there are still vast differences especially in the fee paying regimes that need to be transcended before such all-inclusive Education Area can come into being. Finally, as students are facing more restrictive visa policies in United States,<sup>158</sup> opportunity has arisen for Europe to make the access to higher education within Europe easier and thus increase the supply of talented students from abroad. Visa application system for students and especially the more skilled ones should be streamlined and their later on integration into European labour market encouraged.

### **5. CONCLUSION**

There is no single "right" cure for the current malady in which European tertiary education system is currently in. On the contrary, more multifaceted and complex solution to the problem should be sought. Proponents of private or public funding alike frequently simplify the problem and propose black and white vision of the situation. It is clear, however that European university system would benefit from more extensive business linkages and emergence of research centres such as Silicon Fen in Cambridge and at the same time of greater competition among universities. Deregulation and decentralization of universities and devolving competencies on the lowers level possible is also a good approach how to make management boards of universities more accountable for their policies. However, this does not mean that the role of the state is necessarily outdated or even detrimental to efforts in improving tertiary education in Europe. On the contrary, state can still play important role in ensuring transparency, easing access of foreign students and new universities on market and at the same time institution of a more output based funding and thus improving competitiveness and quality. At the same time, care should be given to provide same education opportunities for people from all socio-economic backgrounds. As has been shown, this can be done by introduction of innovative funding mechanisms such as income contingency loans which delegate responsibility to the students themselves while enabling them to cover even (potentially) steep tuition costs. European Union can also improve technological innovation more directly by, for example, contributing funds to create European Institute of Technology. It is important, however, to ensure that the Institute would not be under protection of the state but would compete with other already successful centres of research such as ETH Zurich,

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<sup>156</sup> European Commission (2004), Progress towards the Common Objectives in Education and Training: Indicators and Benchmarks, Brussels.

<sup>157</sup> Furlong (2005)

<sup>158</sup> *Economist*, "Lexington: American Idiocracy", March 24 2007.



University of Cambridge and others on a fair playing field. To sum up, there is still a lot out there for Lisbon Strategy to succeed. In order to disprove Economist's claims of ineptitude, more action and less chatter is needed.

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## EU's Energy Policy Perspective: Designing a Sustainable Energy System

### INTRODUCTION OR TO WHAT EXTENT CAN WE COUPLE COMPETITIVENESS AND SUSTAINABILITY?

Energy<sup>159</sup> causes things to move and change. Without energy involved in economic processes, there would have been no dynamism and things would remain silent. However, as we know from basic lessons of economics, the economic system doesn't remain static, but tends to change in many of its aspects, attributes and patterns. Energy thus plays a crucial role in observing all of the dynamic processes. Besides, it is important to stress, that physics taught us, that even the simplest unit of information has an energy value. Therefore, if we speak about society dependent on the utilization of information, or more appropriate would be to say knowledge, we can not avoid involving energy in describing the processes of such a society.

From the beginning of industrial age, we have firstly enjoyed the abundance of energy in the form of fossil fuels. As coal had continuously replaced the wood as a dominant energy source for incineration purposes since the middle of the 18<sup>th</sup> century, afterwards oil proved to be more useful for certain industrial and transportation processes and replaced coal. However it was also oil, which gave us a first global proof that resources are limited. Much of the academic discussion in the 70ties and in the following decades questioned the issue of limits to resources base, even to economic growth, and how this sensitive precondition could be dealt with.

In reality, politicians have not generally given enough attention to the issues of scarcity of resources, limitations of economic growth and environmental constraints since then, even though the negative consequences of human activities are becoming increasingly obvious. If we have seen lot of academic research, ongoing discussion among the public and changes in institutional framework of many international organizations, not of much action has been done solely by politicians (even though there have been many exceptions). But things change, as we "put more energy" into more proper research and as the mentioned consequences are becoming better understood. Politics now seems to react to these challenges with more gratitude and tries to advocate necessary action after some delay. Therefore we increasingly observe new attitude towards issues of environmental security from politicians, who now give more value to the quality, not just quantity of economic output.

Similarly, it is so with energy and energy policy. In the article we focus on the energy policy within the EU, which is now being on the move to become a community policy. We find particularly interesting the connection between the energy use and

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<sup>159</sup> *Energy* in technical terms represents the potential for causing changes; the ability to do work. For the clarity of terms used in the article, it is important to stress, that energy from the physics' point of view (more specifically according to the 1<sup>st</sup> law of thermodynamics) can not be neither created (produced), nor destroyed (consumed). Therefore we prefer to describe these processes as a use of energy. Besides energy, there is another important term (mostly used by physicists or in the field of economics by ecological economists) that has important value in describing work or dynamic processes. This is the *exergy*, as a measure of the actual potential of a system to do work; a measure of the potential of a system to cause a change as it achieves equilibrium with its surroundings. It is therefore the maximum of a work attainable from a unit of a material.

climate change. In order to tackle one of the most serious global problems of the world – the climate change – the energy system needs to become sustainable, as we try to explain in this article. However, the central point remains to be the connection between economic performance and environmental constraints, or if it tends to be more a trade-off or a synergy. We believe that economic performance is based on environmental conditions and not *vice versa*. Healthy environment enables according to our opinion economic processes to run smoother. But the environment doesn't only have an economic value; moreover it has an important immaterial value, which extends the breadth and width of an economic system. Based on this argumentation we try to give a specific outlook for the energy use in the EU and what effects it will have on the emerging common energy policy of the EU-27. The main research question of the article is: "Can the EU design its energy system in an environmentally sustainable manner, while keeping eye on its socio-economic goals based on the Lisbon agenda?"

#### **1. ENVIRONMENTAL AND ENERGY SECURITY – TWO MAJOR TASKS TO ENSURE THE SUSTAINABILITY**

Let us start with the latter aspect of the security – energy security. The issue of energy security has gained much on importance during first and second oil shocks and has dominated the discussion about energy in general since then. Energy security has historically focused primarily on concerns about oil disruptions in the oil-producing world, with particular focus on the Middle East. The energy security is nowadays concerning much broader scope of issues such as electricity energy disruptions in form of power black-outs, political and social conflicts that could endanger constant energy supply, terrorist activities, nuclear threats, etc.<sup>160</sup> Many national states and their economic integrated groups are becoming gradually worried about the future of their energy supply – mostly in what extent they will be dependent on foreign energy sources and how their energy portfolio will be diversified. Increasing dependence on foreign energy reserves is creating caution if the sovereignty of individual states could not be threatened. Moreover, the increasing dependence on energy, as the energy use is constantly rising, puts even more pressure on unevenly distributed energy sources. Different strategies aimed at control over energy sources for next decades are expected to appear. On the other hand the outcome of these strategies could vary for each of their bearers, what could bring a new shift in political power. For instance, China as the second largest national economy (based on purchasing power parity) is very actively fixing contracts on its energy supply in order not to threaten its economic interests. On the other hand the EU is worried about the reliance of its strategic energy suppliers (mostly Russian Federation) with years to come. In order to face the development tendencies in the world economy, the EU is regarding the energy security as crucial for its sustainable economic development<sup>161</sup>.

Mentioning sustainability, not only its economic dimension is in the forefront. Social and environmental dimensions are not less than equally important. We believe that dealing with environmental security in the context of energy policy will be at least as critical as dealing with energy security. Besides, we believe that focusing on environmental security could be beneficial for energy security issues too. For instance,

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<sup>160</sup> WEF (World Economic Forum): *The New Energy Security Paradigm*. Geneva: WEF, 2006, p.40.

<sup>161</sup> Energy security issues are of interest also to corporations active in extracting and energy industries. Energy security represents in this sense concern of corporate sector about its future profits what is determined by the access to new reserves, ability to develop new infrastructure, and stable investment regimes, WEF, (2006), p. 9.

if we diversify our energy portfolio more in favour of renewable energy sources, which are less environmentally harmful, we can secure also our energy supply, or not become more dependent on foreign energy supply when the energy demand is increasing. Therefore, we see energy and environmental security interconnected. But environmental security is mostly important for specific issues, where climate change is the central one. Also negative external costs of air pollution and other kinds of environmental degradation have to be included in decisions about energy policy when the sustainability criteria are to be met.

Climate Change refers to any change in climate over time, either due to natural variability or as a result of human activity. Recently it has been caused by increasing anthropogenic concentrations of so called greenhouse gases. According to the Intergovernmental Panel on Climate Change there has been a vivid connection between human activities and climate change since the beginning of the industrial epoch<sup>162</sup>. Now we have “very high confidence that the globally averaged net effect of human activities since 1750 has been one of warming”.<sup>163</sup> Even the recent evidence proves these conclusions. This winter was definitely the warmest in last 127 years – since the records have been made. Eleven of the last twelve years (1995 – 2006) rank among the 12 warmest years in the instrumental record of the global surface temperature. According to some scientists, we are experiencing such a climate change that is similar in intensity to the one that happened 55 million years ago, but lasted for 200 000 years.<sup>164</sup>

For the next two decades “a warming of about 0.2°C per decade is projected. Even if the concentrations of all greenhouse gases and aerosols had been kept constant at year 2000 levels, a further warming of about 0.1°C per decade would be expected.”<sup>165</sup> Global average temperature increases have been estimated in different scenarios at levels from 1.1 °C to 6.4 °C till the end of the century. The scenario with lowest temperature increases predicts following patterns in the world economy: “[R]apid change in economic structures toward a service and information economy, with reductions in material intensity and the introduction of clean and resource efficient technologies. The emphasis is on global solutions to economic, social and environmental sustainability, including improved equity, but without additional climate initiatives.”<sup>166</sup>

Climate change is overall expected to have negative impacts and effects on human society and environment. In other words, negative impacts of climate change will prevail over the beneficial ones. For instance, developing countries are very vulnerable, because a larger share of their economies is in climate sensitive sector and they lack necessary financial means and capacities to adapt to climate change.<sup>167</sup> On the

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<sup>162</sup> “Global atmospheric concentrations of carbon dioxide, methane and nitrous oxide have increased markedly as a result of human activities since 1750 and now far exceed pre-industrial values determined from ice cores spanning many thousands of years. The global increases in carbon dioxide concentration are due primarily to fossil fuel use and land-use change, while those of methane and nitrous oxide are primarily due to agriculture.” (IPCC 2007, p. 2)

<sup>163</sup> IPCC (Intergovernmental Panel on Climate Change): *Climate Change 2007: The Physical Science Basis - Summary for Policymakers*. Paris: IPCC, 2007, p.5.

<sup>164</sup> Lovelock, J.: *The Revenge of Gaia*. London: Penguin Group, 2006. ISBN-13: 978-0-713-99914-3, p. 59.

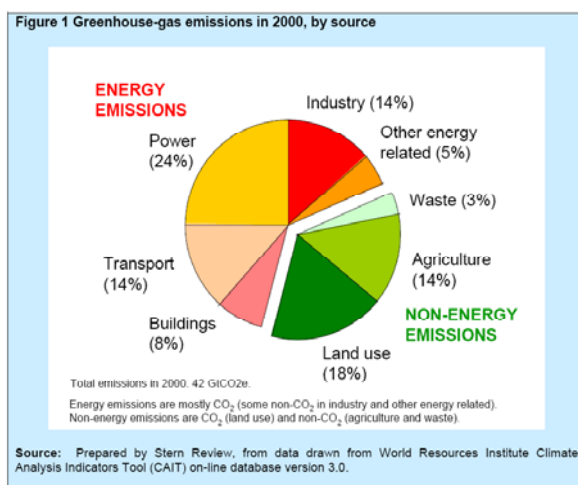
<sup>165</sup> IPCC 2007, p. 12.

<sup>166</sup> Ibid., p.18.

<sup>167</sup> Common, Michael – Stagl, Sigrid: *Ecological Economics*. Cambridge: Cambridge University Press, 2005. ISBN 0-521-01670-3, p. 495.

other hand, it is very controversial to put monetary value to different impacts, for instance when human lives are of concern<sup>168</sup>. But recently, we have seen estimates of costs of climate change related to world GDP. The mostly discussed study on climate change among economists is the so called Stern Review, written by a team of economists supervised by British chief economist Sir Nicholas Stern, which tries to put a range of predicted costs to business as usual scenario<sup>169</sup>.

There has been lot of questioning whether the monetary estimates in the Stern Review have been done correctly, but this will remain outside of our scope in this article. Under the BAU scenario in the Review, climate change will reduce welfare by an amount equivalent to a reduction in consumption per head of between 5 % and 20%. But the other message is important. Prevention is much cheaper than the remedy. Annual costs of stabilization at 500-550ppm<sup>170</sup> CO<sub>2</sub>e could be around 1% of GDP by 2050.



- **The transition to a low-carbon economy will bring challenges for competitiveness but also opportunities for growth.** (Stern 2007)
- For the economy as a whole, there will be benefits from innovation that will offset some of the costs of 'decarbonizing' the economy. All economies undergo continuous structural change; the most successful economies are those that have the flexibility and dynamism to embrace the change.
- Markets for low-carbon energy products are likely to be worth at least \$500bn per year by 2050, and perhaps much more. Individual companies and countries should position themselves to take advantage of these opportunities.
- Energy efficiency and diversification of energy sources and supplies support energy security, as do clear long-term policy frameworks for investors in power generation. Carbon capture and storage is essential to maintain the role of coal in providing secure and reliable energy for many economies.

If we consider the economy from the ecological economics' point of view, we have to deal with complexity of the world and nature, uncertainty of future outcomes of today's actions, and irreversibility of certain actions executed today (when we exceed the threshold values). We will be never certain about costs of climate change predicted 10 and more years ahead, but argument of investing 1 % of world GDP into prevention (it could be perceived even as an insurance), while increasing competitiveness and quality of life, is a viable argument for action to prevent the BAU from happening.

<sup>168</sup> "Estimates of aggregate impacts are controversial because they treat gains for some as canceling out losses for others and because the weights that are used to aggregate across individuals are necessarily subjective." (Third Assessment Report of IPCC, Working group II, p. 958)

<sup>169</sup> "The scientific evidence points to increasing risks of serious, irreversible impacts from climate change associated with business-as-usual (BAU) paths for emissions. Moreover, the impacts of climate change are not evenly distributed - the poorest countries and people will suffer earliest and most. And if and when the damages appear it will be too late to reverse the process." (Stern 2007, executive summary)

<sup>170</sup> For comparison, the current concentration of greenhouse gases in the atmosphere is around 425 parts per million (ppm) of carbon dioxide equivalent (380 ppm carbon dioxide only), and it has recently been increasing by over 2 ppm each year. If we stabilize in 2050 at 550ppm CO<sub>2</sub>e, then there is at this level at least a 77% chance - and perhaps up to a 99% chance, depending on the climate model used - of a global average temperature rise exceeding 2°C. Stabilizing climate at 550ppm CO<sub>2</sub>e would require global emissions to peak in the next 10 - 20 years, and then fall at a rate of at least 1 - 3% per year. By 2050, global emissions would need to be around 25% below current levels. These cuts will have to be made in the context of a world economy in 2050 that may be 3 - 4 times larger than today - so emissions per unit of GDP would need to be just one quarter of current levels by 2050. Stern, Nicholas: *The economics of climate change*. Cambridge: Cambridge University Press, 2007. ISBN-13: 9780521700801, executive summary)

## 2. PROJECTIONS OF THE ENERGY USE IN THE EU TILL 2015 AND 2030

In previous chapter we have noticed (figure 1) that energy sector was the source of approximately 65 % of greenhouse-gas emissions in 2000. Regarding the energy policy of the EU, we have to look at energy outlook of the EU for next decades and then compare the scenarios of energy use with postulates about climate change and greenhouse-gas emissions made in previous chapter. This way we can approach the energy policy from the sustainability point of view, after integrating environmental and societal dimensions.

For the energy outlook we will use 4 different scenarios. The first three scenarios were used by the International Energy Agency in its most recent World Energy Outlook.<sup>171</sup> The last scenario is a so called "Winning the oil endgame scenario" used by the Rocky Mountain Institute in its self-titled energy study.<sup>172</sup> This is a scenario of an oil-free economy.

**Table 1** EU-25 Energy outlook till 2015-2030

EU-25	Energy demand (Mtoe)				
	2004	2015 - RS	2015 - APS	2030 - RS	2030 - APS
Coal	311	290	281	283	182
Oil	656	695	671	685	620
Gas	417	500	469	597	523
Nuclear	257	231	259	147	214
Hydro	26	31	32	33	35
Biomass and waste	77	115	131	158	189
Other renewables	11	32	34	70	85
TPES from renewables	114	178	197	261	309
TPES from RES / TPES	6%	9%	10%	13%	17%
<b>Total primary energy supply</b>	<b>1 756</b>	<b>1 894</b>	<b>1 877</b>	<b>1973</b>	<b>1847</b>
<b>Approximate division into sectors</b>					
Power generation and heat plants	712	768	767	788	720
Industry	378	418	410	441	410
Transport	361	401	389	434	404
Residential, services and agriculture	475	527	520	593	557

	Electricity generation (TWh)				
	2004	2015 - RS	2015 - APS	2030 - RS	2030 - APS
Coal	975	1 015	955	1165	657
Oil	131	126	121	56	53
Gas	605	868	617	1332	856
Nuclear	988	885	995	564	822
Hydro	300	359	369	385	405
Renewables (excluding hydro)	156	419	427	802	888
<b>Biomass and waste</b>	<b>90</b>	<b>145</b>	<b>144</b>	<b>201</b>	<b>191</b>
<b>Wind</b>	<b>59</b>	<b>255</b>	<b>261</b>	<b>529</b>	<b>586</b>
<b>Geothermal</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>13</b>	<b>17</b>
<b>Solar</b>	<b>1</b>	<b>10</b>	<b>12</b>	<b>50</b>	<b>77</b>
<b>Tide and wave</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>9</b>	<b>18</b>
TG from renewables	456	778	796	1 187	1 293
TG from RES / TG	14%	21%	23%	28%	35%
<b>Total generation</b>	<b>3 155</b>	<b>3 672</b>	<b>3 484</b>	<b>4304</b>	<b>3681</b>

	CO <sub>2</sub> emissions (Gt)				
	2004	2015 - RS	2015 - APS	2030 - RS	2030 - APS
<b>Total CO<sub>2</sub> emissions</b>	<b>3 847</b>	<b>4 048</b>	<b>3 879</b>	<b>4216</b>	<b>3465</b>
Power generation and heat plants	1 366	1 470	1 383	1593	1080
Total final consumption	2 306	2 409	2 330	2460	2227

Source: *World Energy Outlook 2006* (OECD/International Energy Agency, Paris, 2006)

RS – Reference Scenario (IEA 2006)

APS – Alternative Policy Scenario (IEA 2006)

<sup>171</sup> IEA (International Energy Agency): *World Energy Outlook 2006*. Paris: OECD/IEA, 2006. 600 pages. ISBN 92-64-10989-7.

<sup>172</sup> Lovins, Amory B. et al.: *Winning the Oil Endgame – Innovation for Profits, Jobs, and security*. Snowmass: Rocky Mountain Institute, 2005. 332 pages. ISBN 1-881071-10-3.

From table 1 we can make following conclusions. Firstly, we need to compare total CO<sub>2</sub> emissions of years 2015 and 2030 with the baseline year 1990. In 1990 EU-25 emitted into the atmosphere 3 808 Mt of total anthropogenic CO<sub>2</sub> emissions. Supposedly, according to the World Energy Outlook, total CO<sub>2</sub> emissions of the EU-25 should be about 240 Mt higher in *Reference Scenario*<sup>173</sup> (RS) or about 71 Mt higher in *Alternative Policy Scenario*<sup>174</sup> (APS) in 2015. In 2030 the difference will already increase to 408 Mt in RS, however, under the APS total CO<sub>2</sub> emissions will be lower as in 1990 by 343 Mt. In the latter case it is about 9 % below the 1990 baseline. Most of the decrease should be achieved in power generation sector.

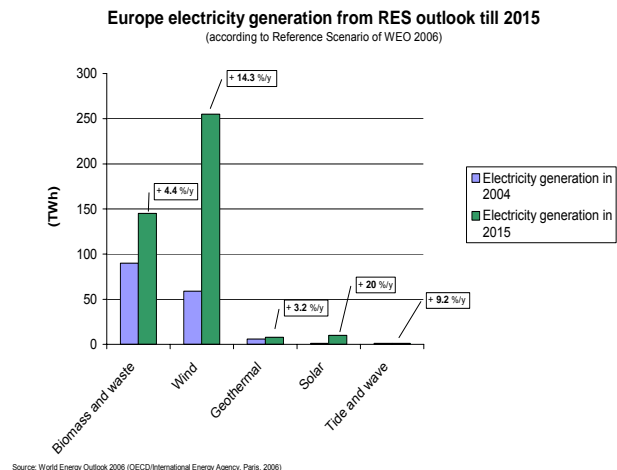
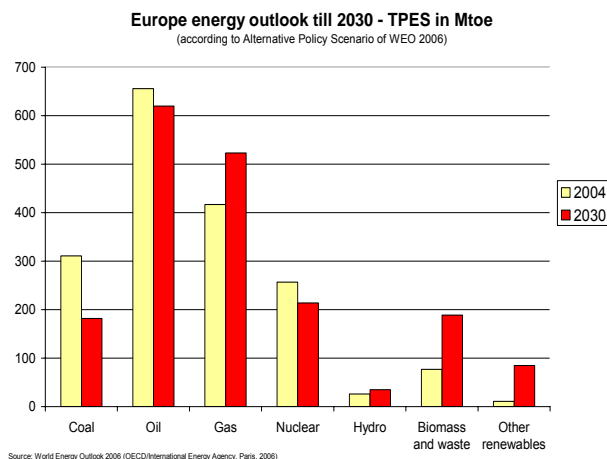
Therefore, we consider the APS as a more probable one, when the sustainable development goals of the EU are to be met. Under this scenario, the total primary energy supply (TPES) should grow annually by 0.2 % till 2030, what is about 6.4 % less as in RS. Electricity generation of the EU-25 will achieve around 3 times faster growth rates in APS, though these should be 14.5 % lower as in RS. The biggest difference occurs in utilizing the potential of renewable energy sources (RES). Their use should grow much faster for certain types of RES, mostly tide and wave (+109.2 % change vs. RS), solar (+54.4 %) or geothermal (+23.7 %). Overall, RES are expected to grow 7.2 % annually till 2030 according to APS, what is almost 9 % higher increase as in RS. Following graphics show us certain aspects of the energy outlook in EU-25.

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<sup>173</sup> *Reference Scenario* of the World Energy Outlook 2006 takes account of those government policies and measures that were enacted or adopted by mid-2006, though many of them have not yet been fully implemented. Possible, potential or even likely future policy actions are not considered. (IEA 2006) In this scenario, global population is assumed to grow 1 % annually on average and average annual GDP growth till 2015 is projected to be 4 %. Global primary energy demand grows by one-quarter till 2015 and fossil fuels remain to be dominant source of energy. Relative role of oil should decrease on behalf of gas. Fuel mix is expected to become more carbon intensive and global CO<sub>2</sub> emissions increase faster as energy use. Coal remains the leading contributor to emissions. From geopolitical perspective, China should overtake the US before 2010 as biggest carbon emitter. (IEA 2006)

<sup>174</sup> *Alternative policy scenario* follows energy security and CO<sub>2</sub> mitigation objectives. World primary energy demand in 2030 is about 10% lower in the Alternative Policy Scenario than in the Reference Scenario. CO<sub>2</sub> emissions are cut by 5 % in 2015 and 16 % in 2030 relative to the Reference Scenario, what will be encouraged by more efficient production and energy use. APS yields additional financial savings in cumulative investments as compared to RS. Fuel savings by consumers also outweigh the extra demand side investments required to generate these savings. Electricity related investments yield particularly big savings. On average, an additional dollar invested in more efficient electrical equipment, appliances and buildings avoids more than 2 dollars in investment in electricity supply. This ratio is highest in non-OECD countries. The payback periods of the additional demand side investments are very short, ranging from one to eight years. They are shortest in developing countries and for those policies introduced before 2015. Nuclear power could make a major contribution to reducing dependence on imported gas and curbing CO<sub>2</sub> emissions. With higher fossil-energy prices is nuclear power relatively more competitive. And even more with carbon tax. Implementing APS will take considerable will to push these policies through, many of which are bound to encounter resistance from some industry and consumer interests. (IEA 2006)

**Graph 1 (IEA 2006)**



Going *beyond the Alternative Policy Scenario*<sup>175</sup> is the only path to achieve sustainable energy system in which “energy supplies are secured and climate change is arrested”.<sup>176</sup> Much stronger policies are needed to keep global CO<sub>2</sub> at a constant level. Practically, as the IEA’s report states, we will need technological breakthroughs that profoundly change the way we utilize energy. Sooner steps are proposed in order to put more efficient and low or zero-carbon energy systems in place. Even today’s technologies – that are already available and close to commercialization – could be implemented into our energy systems and particularly into the EU’s one. The EU could take the first mover advantage as a global market leader with light-carbon technologies, which are expected to increase in their overall market-size (see page 4).

The “*Winning the oil end game*” scenario provides us with even farther reaching solutions. In order to decrease our relative and absolute carbon intensity, we will have to undergo dramatic changes in production and consumption patterns, while increasing the efficiency rates of energy and material efficiency, setting optimal values for emissions and taking into consideration the issues of solidarity<sup>177</sup>. The self-titled study has been made for the needs of the USA, however, it is applicable worldwide.

<sup>175</sup> *Beyond the Alternative Policy Scenario* illustrates how the extremely challenging goal of capping CO<sub>2</sub> emissions in 2030 at today’s levels could be achieved. Annual CO<sub>2</sub> emissions are to be cut by 8 Gt more than in Alternative Policy Scenario and 14.3 Gt compared to Reference Scenario by 2030. Four fifths of the energy and emissions savings in the BAPS case come from even stronger policy efforts to improve energy efficiency, to boost nuclear power and renewables-based electricity (32% share of electricity generated in 2030, compared to 27% in APS and 22% in RS) generation and to support the introduction of CO<sub>2</sub> capture and storage technology and best forestry practices. Subsidies that encourage wasteful use of energy need to be progressively removed. Besides economic incentives which encourage energy users and producers to switch to low carbon technologies need to be adopted. This will be another stimulus for deploying the low-carbon or zero-carbon technologies and thus for increasing their market potential. The most effective policies for increasing EE include: reducing energy demand in transport sector by setting new fuel-efficiency standards and introducing vehicle efficiency programs, or programs that set new standards for all products according to best available technology. Other possibilities for saving energy are in residential and services sectors. New policies to promote renewables can be expected to have considerable implications for investment in this source of electricity. To achieve this, governments will have to introduce vigorous incentives. Focus is to achieve savings in electricity, industrial, residential, transportation and power generation sector. (IEA 2006)

<sup>176</sup> IEA, (2006).

<sup>177</sup> Efficiency, optimum and solidarity aspects of the sustainability refer to author’s (RM) own previous studies.



**Four integrated steps to become an oil-free economy (applicable in USA, but also worldwide):**

1. **Double the efficiency of using oil:** "The investments needed to save each barrel of oil will cost only \$12 (in 2000\$).
2. **Apply creative business models and public policies:** "To speed the profitable adoption of super efficient light vehicles, heavy trucks, and airplanes. Combined with more efficient buildings and factories, these efficient vehicles can cut the official forecast of oil use by 29% in 2025 and another 23% soon thereafter - 52% in all (in USA)."
3. **Provide another one-fourth of [U.S.] oil needs by a major domestic biofuels industry.**
4. **Use well established, highly profitable efficiency techniques to save half the projected 2025 use of natural gas,** making it again abundant and affordable, *then substitute part of the saved gas for oil. If desired, the leftover saved natural gas could be used even more profitably and effectively by converting it to hydrogen, displacing most of the remaining oil use* – and all of the oil use if modestly augmented by competitive renewable energy.

Source: Lovins et al. 2005

Energy efficiency improvements are considered to be the greatest internal energy source within our energy system. The concept of generating "negawatts" instead of new watts is based on the fact, that energy savings are cheaper (in the Winning the oil endgame study about 4 – 5 times when calculating with the price of oil), than generating new watts from new energy sources. The EU can still achieve tremendous energy saves, if its energy system is optimized and made more efficient, or in other words made sustainable.

### 3. CONCLUSIONS - CREATING A SUSTAINABLE ENERGY SYSTEM IN THE EU

The EU has been continuously committing itself to stricter environmental rules and to more focus on sustainable development issues. Most recently, the Presidency Conclusions of the Brussels European Council from 9<sup>th</sup> of March restated the need to develop a sustainable integrated European climate and energy policy. Besides, more effort should be given to research and development, innovations, business environment in order to increase the competitiveness of the EU in the world economy. Further job creation a social cohesion should follow in order to achieve higher levels of prosperity.

The European Council underlines the vital importance of achieving the strategic objective of limiting the global average temperature increase to not more than 2° C above pre-industrial levels. Energy Policy for Europe (EPE) should pursue the following 3 objectives, while each Member State can set its energy mix individually. The objectives are: (1) increasing security of supply; (2) ensuring the competitiveness of European economies and the availability of affordable energy; (3) promoting environmental sustainability and combating climate change.

In order to combat the climate change, it is proposed to strengthen and extend global carbon markets, to support the development, deployment and transfer of the carbon light technology, to deal with the effects of climate change with appropriate adaptation measures, to act on deforestation and to address emissions from international aviation and maritime transportation. Effective climate change mitigation will require a major transformation of the energy and transportation systems and of the thermal design of buildings and that this transformation ought to become a driving force within the Lisbon Strategy, to boost growth and competitiveness. The EU intends to develop a strategy to make Europe the most energy efficient economy in the world, by setting targets for annual reductions in energy intensity in the order of 2,5 – 3 %.

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## Consuming Post-revolutionary Generation? Re-thinking the Meaning of Logo as a Metaphor of Consumer Lifestyles

### INTRODUCTION

What impact has social change had upon young people? To what extent do consumer lifestyles play a key role in structuring their identities? How successful has sociology been in dealing with the nature of young people's lives? What is the meaning of "Logo" in the post-revolutionary Czech generation?

The field of consumption is a space to which is contemporary youth commonly related. In this context a plurality of opportunities and choices innate to democratic societies are observed through the prism of consumption understood as a potential of generational formation defined as so by youth itself. The aim of this text is to explore the consumption patterns of post revolutionary young Czechs and to question the stereotype that they are nothing but hedonistic or self-centered passive consumers.<sup>178</sup>

The hinge point is rethinking the concept of "anticipated generation"<sup>179</sup> supported by two main hypotheses: (a) the lifestyles experienced by young people function as mechanisms of social and cultural exclusion or inclusion (b) these inequalities could overgrow into a potential source of intra generational conflict. This intra generational conflict among youth is accentuated as a hypothetical potential for creating a real historical generation<sup>180</sup> defined by youth itself. These assumptions are based on "unfulfilled hopes" invested into "anticipated generation" as a symbol representing the future of new Czech democratic society. The issues are the ways in which the post revolutionary youth fulfills the hopes of former generations that were invested in them when they were children.<sup>181</sup> In Czech historical context it means, that in comparison to a "war generation" (1948), or to a "1960s generation" (1968) the generational awareness of youth after 1989 will not have primary a political character. It will take place in the field of consumption with its wide spectrum of lifestyles where some of them could become important and desirable as life strategies of young people's realization. These ones turn out to be typical to the extent that they will unite youth as a historical generation.

### A GENERATION OF CONSUMERS? ANTICIPATED GENERATION, UNFULFILLED HOPES AND MEDIA REPRESENTATION OF CONTEMPORARY YOUTH.

The text is the process of searching out the identity of contemporary youth as a "generation in process of making". The very first intention to more explore the relation between the youth and consumer lifestyles emerged in summer 2005, at time when I was working as a barmaid at a VIP music club, very popular among local youth. There

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<sup>178</sup> Sak, P. Saková K. 2000, 2004. *Mládež na křižovatce*. Praha: Svoboda Servis.

<sup>179</sup> E.g. Bourdieu, P. 1984. *Distinction: A Social Critique of the Judgment of Taste*. London: Routledge and Kegan Paul.

<sup>180</sup> Mannheim, K. 1964. „The Problem of Generations“. Pp. 276-323 in *Essays on the Sociology of Knowledge*, ed. by K. Mannheim. London: Routledge & Kegan Paul.

<sup>181</sup> Marada, R. 2004. "Social Construction of Youth and Formation of Generational Awareness after Socialism". in *Society, Reproduction and Contemporary Challenges*, ed. by P. Mareš. Brno: Barrister & Principal. Pp. 149-168.

I observed and analyzed an authentic world lived by one category of contemporary youth labeled as “gilded urban kids”. The research focused on the general patterns of self-identity behaviors demonstrated in the sample involving reoccurring mannerisms and collective mentality of those who identified with the Club. The young people perceived the Club as a place that filled them with unique kind of self-confidence. Some of them carried this identity with “cool place” to a point they considered it home and fellow members as family. What was relevant was the process in which young people of a city formed a specific identity. This process was based on a particular form of dependence on a specific lifestyle, particularly, on definable Club environment that influenced the formation of their identity. The consumers perceived the image of the Club as a “cool place” and this “coolness” transferred to the consumers themselves, diminished boundaries between a consumer’s identity and image through two processes: (a) implicit association with cool places (the subconscious joining of the celebrity with the Club) (b) and explicit association with cool places (the wearing of designer clothing, specially Diesel and Replay brands). These two themes formed the basis for the paper’s fundamental argument - seeing the strong authority of a consuming lifestyle in articulation a subculture of “the gilded urban kids”. Nevertheless, this experience has influenced the ways I explored the Czech youth as a general group: I evaluated the general according to a part. Despite I focused my ethno methodological research on a subculture to explore the relation between the youth and consumerism I strongly agree with Steven Miles,<sup>182</sup> to transmit the attention to what he calls “mainstream youth”, to construct a grounded and critically aware discussion and understanding of future development of Czech youth in changed conditions after ’89.

Sociologists have traditionally tended to focus on extreme cultural expressions of youth at one end of the spectrum and conceptions of “disadvantaged” youth at the other. On this basis there has been a tendency to extract meaning from either melodramatic expressions of lifestyle or from structural conceptions of youth disadvantage as a basis for further generalizations about the nature of youth as a whole. ... Not all young people are submerged in the melodrama of subcultural life or the terrors of drug addiction and alcohol consumption. In many ways young people are an index of social norms. But for too long sociology has neglected what I will describe as “mainstream youth” in favor of sociology of the melodramatic and perhaps more worryingly of the “problematic”, which as a result has underestimated the degree of complexity that characterizes young people’s lives.<sup>183</sup>

The question is, if we can understand the youth as a category. Marada<sup>184</sup> clarifies this problem in his statement: “Youth is a relational category in a similar sense to Bourdieu’s understanding of social class: it is a product of the process of making distinctions in everyday life, experience, and self-understanding.”<sup>185</sup> This is partly a self-reflection, partly a support of my assumption of “anticipated generation<sup>186</sup>”, which

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<sup>182</sup> Miles, Steve. 2000. *Youth Lifestyles in a Changing World*. Open University Press.

<sup>183</sup> Ibid., p.3.

<sup>184</sup> Marada, (2004).

<sup>185</sup> Ibid., p.160.

<sup>186</sup> Bourdieu (1984) writes on anticipated relation towards the future resulting from experiences of

needs to be more explained. The intention of this chapter is therefore to construct a grounded and critically aware support of youth lifestyles in a changing world. I propose two sources of explanation specific for Czech context: (a) the predictions and hopes invested into a young people after the Velvet revolution by some of the sociologist, (2) and reflection of these expectations, mostly interpreted as disillusionment, empowered through media presentation of "hedonistic youth".

In 1991, the Czech composite authors published a sociological study called "*The Sociological Research of the Younger Generation*."<sup>187</sup> The publication summarized the topical knowledge from sociological researchers of young people which were realized in 70's and 80's in Czechoslovakia. Extraordinary significant findings were that gradual those important changes in the values orientation of youth and deflexion from official activities and official culture have been occurred. The book dealt "with more common problems of generations and issues of their mutual relation and influence in direct relation to role, importance and situation of young people in period of revolution changes liked with the November 1989."<sup>188</sup> The last part of this work is also a certain attempt at formulation of perspectives and possible development trends which could be expected in the following development of youth during the time the text was written. The authors saw the prior virtue of the youth in its cultural-political capital described as "significantly moral-political capital."<sup>189</sup> The hope was built on liberty through which the young people could deal with this capital according to themselves. Nevertheless, this expected independence had still a strong political character - its orientation toward the future not the past was ideologized as unburdened by communistic ideas. But eighteen years later, the term ideology related to the youth discourse, is still vital. It is the ideology of consuming culture.

Another Czech author, Josef Alan<sup>190</sup> sees similarly the role of young student generation in 1989 - 1990 to be very specific. What is interesting, he enhances this role not to be being accidental. To support his statement uses a historical perspective and compares the '89 to generations of '48 and '68. He sees the Czechoslovakia as a special case, where the after war development of radical, revolutionary social transition was unique because of its regular 20 years generational intervals. In his predictions was more skeptical than the authors above, and questioned the possibility of inter generational conflict. According to Alan, one of its sources would be a specific life program (strategy) of the young generation, linked more to the new social circumstances than to former generational legacy.

I used these two examples to demonstrate the role of so called "anticipated generation". In this sense a term generation is based on assumption that a *generation is formed when a formative historical experience coincides with a formative period of people's lives*.<sup>191</sup> Nevertheless, there is another source of skepticism, that deep-drawn from unfulfilled hopes of older generations (intergenerational conflict) - stereotype medial

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former generations.

<sup>187</sup> Kabátek, A. 1991. Sociologické výzkumy mladé generace a aktuální poznatky a výsledky. Ústav pro informace ve vzdělávání, INFORMACE.

<sup>188</sup> Kabátek 1991: 38

<sup>189</sup> Kabátek 1991:31

<sup>190</sup> Alan, J. 1990. "Generační zázemí našeho společenského vývoje." in: *Sociological Revue*. Praha: ČSAV Akademie, 4:321 - 325

<sup>191</sup> Marada, (2004) p.153. An elaboration of this thesis can be found in Mannheim (1964b) and many other authors.

representation. Inclination for judging a complex (contemporary youth in general) according to overlapping parts (subcultures<sup>192</sup>) is in fact innate to all of us (public meaning). It is a common practice intensified mostly through the media presentations.

Stanley Cohen,<sup>193</sup> in his work *Folk Devils and Moral Panics*, speaks about the "Moral panic". Cohen's study originated from his interest in the youth culture and its perceived potential threat to social order. Throughout each era, a group has emerged who 'fits' the criteria, such as the Teddy Boys, Mods and Rockers, Skinheads, in Czech context for e.g. the ravers (CzechTech). They all become associated with certain types of violence, which in turn also provoke public reaction and emotion, as topics in their own right. The media play a crucial role in making up a sensation of event issues such as hooliganism, drug abuse, vandalism and political demonstrations. All of that struck a harmony in public opinion, but the impact might not have been on such a large scale, were it not for the part the mass media play in the exposition of the facts. The magnification which takes place through the media's work serves to appeal to the public so that they correspond with ready-made opinions about the course of action to be taken. Osgerby<sup>194</sup> says that a negative representation (image) of youth and a moral panic is manifestative in time of deep transformation. The problem is that media act as a tribune speaker of the whole society. Beyond that media from its very nature tend to empower social clichés and stereotypes. Nevertheless they don't intend to kindle moral panic, it still occurs as beside effect of media influence. In this context an intergeneration conflict plays an important role here. It is a historically proven fact that each generation tends to idealize itself, especially in comparison to their children or grandchildren. Revolutions always entail certain hopes and needs for deep social and cultural transformation, and these hopes are transposed to the rising generation.<sup>195</sup> The disillusionment and frustration of the middle generation over political or civic conditions sometimes rise from these unfilled expectations. In contrast to the idealistic middle generation, the younger one is seen as hedonistic and consuming. But rebelliousness, experimentation, and the propensity to consume have always been attributes of youth in each generation. As Rather than asking if the contemporary youth is more consuming than former, the question should be: "what role does the consumer lifestyle play in the construction of young people's identities and how does it relate them to broader processes of social change since 1989?" In this sense I seriously consider the possibility that consumption represents the main area in which the young people play out the relationship with structure and agency, while negotiating their role and position in ever-changing world.<sup>196</sup>

This paper is not a media critique, but uses Cohen's theory to explain the label of consuming youth attributed to a post revolutionary youth as "a generation in making" through a process of self-fulfilling prophecy. Media present those issues which are the public interested in. In fact it is a mutual process. What are people

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<sup>192</sup> Malbon prefers to use the label 'tribes' (op.cit:278) which has been employed elsewhere. See Malbon, B. 1998. „Clubbing; Consumption, Identity and the Spatial Practices of Every-Night Life' in *Cool Places: Geographies of Youth Cultures* London:Routledge, pp. 266-286.

<sup>193</sup> Cohen, S. 1967. *Folk Devils and Moral Panics*, London:Paladin; and Cohen, S. 1980. *Folk Devils and Moral Panics. The Creation of the Mods and Rockers*. Martin Robertson, Oxford. p9.

<sup>194</sup> Osgerby, B. 2004. *Youth Media*. London: Routledge.

<sup>195</sup> Marada, (2004)

<sup>196</sup> Miles, (2000)

interested in govern the media. In this sense is a concept of consuming youth a self-fulfilling prophecy, partly conformity as agreement partly a protest which is innate to youth as a life course negotiating with the identity. The result is polarized attitude of the youth to consumerism. But as Simmel<sup>197</sup> points out writing particularly on fashion, the principle of specialization and a principle of generalization doesn't relate exclusively to style, but to society in general.

#### LOGO AS A METAPHOR OF CONSUMER LIFESTYLES AND THE MAINSTREAM YOUTH

The text deals with the mainstream youth. The focus is not on the parts overlapping the horizon but the horizon. This is the potential mass inhabiting a space of consumption where the awareness of being a generation might start its articulation. Although I call them a mass; I see them also to be an externally homogenous group that is at the same time internally high-heterogeneous. This text concentrates to explore the heterogeneity appearing through the plurality of lifestyles choices. Dynamics of these relations is observed through social and cultural exclusion and inclusion of chosen lifestyles. I use term "Logo" to simplify the wide range of them, and also to use it as a metaphor of those lifestyles related to consumption. Exploring the distinctive processes and relation dynamics among contemporary young people enables to focus questions on intra-generational conflict.

During November 2006 – January 2007, I collected 44 essays on theme "*When and where have I felt excluded or included based on my image?*" and "*What does it mean to be cool?*". My respondents were students of Faculty of Social Sciences MU in Brno and I planned to explore and analyze attitudes toward consumption values among FSS students as the alternative and probable opposite to the Gilded Urban Kids. Analyses of their texts showed that consumption is a problematic and conflicting issue and several questions appeared. Particularly, what are the concrete forms of social and cultural exclusion or inclusion and how and why is cultivated subjective opinion of the youth that that specific lifestyle is important? What factors participate in this subjective belief formation? What are the inclusive functions of lifestyles – as wiping mechanisms of some differences (ethnic, religious, educational, regional etc)? How "Logo" does act exclusively? Not just as a highlighter of social, class and also generational distinctions but also as a space for youth alternative lifestyles formation, of these young people who are not interested in a world of "Logo" or have are neutral and try to fulfill (realize?) themselves in a different way. These sub questions could be summarized in these general ones: What impact has social change had upon young people? To what extent do consumer lifestyles play a key role in structuring their identities, and particularly in forming the real generational self-consciousness of "anticipated generation" after 1989?

These thoughts have been accentuated during this whole work, but without connecting to generational issue, the concept of youth and the whole change after '89 would loose their sense. Only thus it is possible to properly reevaluate the question of "post revolutionary generation" and to give a new fresh and actual meaning to attributes consuming and hedonistic. The explanation is not unifying and therefore simplifying. *Vice versa*, because it tries to describe general trends in democratic Czech society a sense for historical detail and using the concept of "Logo" will show specific characteristics (features) unique only to contemporary young Czech people.

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<sup>197</sup> Simmel, G. 1957. Fashion, *American Journal of Sociology*, 62: 541 – 8 (originally published 1904).

### HISTORICAL PERSPECTIVE

Wyn and White<sup>198</sup> go as far as to argue that “today youth itself to be a consumable item, in that superficial trappings of youth are now part of the consumer market.”<sup>199</sup> In reaction on this statement, Miles<sup>200</sup> argues if young people’s experience of consumption can really be adequately described as “superficial”. Miles relates this adequateness to identity. I question Wyn’s and White’s argument within a generational context. It seems like the consumer lifestyles do matter just to the contemporary youth. For displacing this presumption would be enough to look at classical work of Georg Simmel.<sup>201</sup> Georg Simmel’s essay on fashion appeared in 1904, and was an early articulation of what later became known as the “trickle-down” theory of fashion diffusion.<sup>202</sup> As I have mentioned above Simmel sees society in general, and not only fashion in particular, in a dualistic way. There is a tension between a principle of generalization and a principle of specialization. As Simmel writes:

The only realization of this condition possible for humanity finds expression in constantly changing approximations, in ever retracted attempts and ever revived hopes.... Fashion is the imitation of a given example and satisfies the demand for social adaptation, it leads the individual upon a road which all travel, it furnishes a general condition, which resolves the conduct of every individual into a mere example. At the same time it satisfies in no less degree the need of differentiation, the tendency towards dissimilarity, the desire for change and contrast, on the one hand by a constant change of contents, which gives the fashion of today an individual stamp as opposed to that of yesterday and of tomorrow, on the other hand because fashions differ for different classes - the fashion of the upper stratum of society are never identical with those of the lower, in fact, they are abandoned by the former as soon as the latter prepares to appropriate them. Thus fashion represents nothing more than one of the many forms of life by the aid of which we seek to combine in uniform spheres of activity the tendency towards social equalization with desire for individual differentiation and change.<sup>203</sup>

If we accept Simmel’s statement, then we can see that fashion can fulfill the dual function of inclusion and exclusion at exactly the same time: it brings together all those who have adopted the fashion of particular class or group, and excludes those who have not. Thus fashion produces similarity, union and solidarity within the group and simultaneous segregation and exclusion of everyone else. The idea of class is central to Simmel’s account of fashion change. This of course assumes a society that accepts the legitimacy of hierarchy and believes that one can ascend that hierarchy in at least some senses by imitating superior classes. But in our context it does not have to be just the class, but also a problematic of generational conflicts.

As we can see in Simmel’s essay on fashion, an interest in consumerism is a

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<sup>198</sup> Wyn, J. and White, R. (1997) *Rethinking Youth*. London: Sage.

<sup>199</sup> Ibid., p. 86-87.

<sup>200</sup> Miles, (2000).

<sup>201</sup> Simmel, (1957).

<sup>202</sup> Corrigan, P. (1997). *The Sociology of Consumption: An Introduction*. London: Sage, p. 169.

<sup>203</sup> Simmel, (1957), p.543.



historical fact. What has changed is that it is primarily the youth who is valued as anything in contemporary society as consumers. If so, then why consumption is so important to young people 's experience and what role does it play in constructing their relationship with society? Starkey<sup>204</sup> argues that today 's young people are socialized into treating money and consumption as a doorway to life. This needs a historical perspective of emergence of young people as consumers. What is certain is that the youth market did not appear overnight. Fowler<sup>205</sup> argues that a distinctive youth market began to come out (in Britain) in 1930s and quotes a piece in the Manchester Guardian in 1926:

...it is the Age of Luxury....short skirts, lipsticks, vulgar films....sex novels, jazz, the Eton crop... there is almost no end to the list of abominations... Before the war and the easy years which immediately followed it, luxury was mainly a matter of means. Now any young typist from Manchester or Kensington can keep her hair trimmed and waved and her busy feet in fine stockings and pale kid shoes.<sup>206</sup>

There is a strong parallel to the media representations of Czech post - revolutionary youth described as a "hedonistic", "Diesel - display generation", "a generation trapped in a bubble of consumerism" and so forth.

This parallel calls for rethinking the relationship between the youth and consumption again. At first, the fact that the youth of today is considered to be a generation (of hedonics) needs to reevaluate the concept of generation for a second time. There are many meanings related to a term "generation". In this text it is related to a certain age and a historical change, and mostly is also in this sense a generation defined by many scientists. But is it not moreover a social construction? Therefore I ask whether there would be even a discussion about a new generation without a break year '89. And if the events of for example '68 would take a different course, and the Czechoslovakia became a democratic state, with the circumstances of a change we have now (free open market, open borders, opportunities, plurality of choices and of course, consumer lifestyles) would be the potential post revolutionary youth of '69 called (media, and generation of its parents) also hedonistic as the contemporary is? Miles says that fashion clearly played an important role in the emergence of consumer-based lifestyles during 1950 's and 1960 's. Based on hypothesis of successful revolution in '68, it would probably touch also the young people in Czechoslovakia. Nevertheless, even such political change has not happened I consider the generation of '68 not to be less consumer-oriented than it is now. During the totality there where special shops called TUZEX, where people could buy shortcoming goods. One of the most wanted items was jeans. Of course one can argue, that wearing a pair of jeans could be a hidden manifestation, a protest and disagreement with the political regime, as well as desire to imitate the West. I agree, there could be a political background (as well as for example Czech skinheads use a special dress code to express their political orientation), but I do not think that it pertained to the youth of '60 s as a whole. In contrary I suppose, that the main reason for buying the jeans had not so much politically-

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<sup>204</sup> Starky, M. 1989. *Born to Shop*. Eastbourne:Monarch.

<sup>205</sup> Fowler, D. 1995. *The first teenagers: The Lifestyle of Young Wage Earners in Interwar Britain*. London: Woburn Pres.

<sup>206</sup> *Ibid.*, p. 106.

orientated base but more consumer-oriented, howsoever trivial and vulgar it can sound - this kind of clothes was trendy, cool, and nice and distinguished the rebellious young people from the generation of their parents as a symbol of youth.

#### THE MEANING OF LOGO IN THE POST REVOLUTIONARY CZECH GENERATION

It is pluralism of semantics of symbolism and meanings which differentiate the people of '89 from those of '68. While in '60s the jeans symbolized the difference, it is not the same today. The breaking point occurred in '80s when to a symbol of a brand was given a new meaning. Tibor Kalman, the famous graphic designer, summed up the shifting role of the brand this way: "The original notion of the brand was quality, but now brand is a stylistic badge of courage"<sup>207</sup>

When Levi's began to lose market share in the late nineties, the trend was widely attributed to the company's failure - despite lavish ad spending - to transcendent its products and become a free standing meaning. "Maybe one of Levi's problem is that it has no Cola," speculated Jennifer Steinhauer in *The New York Times*. "It has no denim-toned house paint. Levi makes what is essentially a commodity: blue jeans. Its ads may evoke rugged outdoorsmanship, but Levi has not promoted any particular life style to sell other products."... At Diesel Jeans, owner Renzo Rosso told *Paper* magazine, "We don't sell a product; we sell a style of life. I think we have created a movement...the Diesel concept is everything. It is the way to live, it's the way to wear, it's the way to do something."<sup>208</sup>

A wide spectrum of different music styles, fashion and others expressions of lifestyles related to consumerism, in other words the social and cultural exclusion or inclusion of "Logo" is a relatively autonomous sphere of conflicts among the young people that makes those involved feel a sense of commonality within a category of contemporary youth. But again as Simmel has already written: "if obedience to fashion consists in imitation of such an example, conscious neglect of fashion represents similar imitation, but under an inverse sign."<sup>209</sup> Therefore I see the field of consumption important for generational awareness, apart from the fact that young people have different attitudes towards it, they articulate their opinions still within this space.

As Marada points out: "The world of youth is defined by internal conflicts as much as it is defined by distinctions between the worlds of childhood and adulthood"<sup>210</sup> And supports his statement by applying this process to the process of social construction of generational consciousness, since "it is difficult, indeed impossible to imagine a generation as a friction free or homogenous (in terms of political views, lifestyles, artistic tastes, religious attitudes etc.) groups."<sup>211</sup> Similarly Mannheim and Corsten<sup>212</sup> have written on the role of internal conflicts in the process of social construction of generations.

The concept of "Logo" explains why it is at the same time difficult to identify

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<sup>207</sup> Klein, N. 2000. No Logo. New York: Picador, p. 24.

<sup>208</sup> Ibid., p. 23-24.

<sup>209</sup> Simmel (1971), p. 307.

<sup>210</sup> Marada (2004), p. 161.

<sup>211</sup> Ibid.

<sup>212</sup> Mannheim, (1964); Corsten (1999).

just one general condition, but as Marada<sup>213</sup> claims assignments of what is cool, authentic or moral serve as examples:

There is a strong cognitive element involved in the social construction of youth as well. The capacity to discern subtle distinctions - between house music and techno music, a free bike and a BMX bike, etc. - it is an expert knowledge of sorts. Yet this is a an expert knowledge that matters to contemporary youth, especially, and to those who want to keep track of what ´s going on - and thereby perhaps remain youthful regardless of chronological age...For the post - revolutionary generation, opportunities are already present or absent in the system they live in, and they tend to take the system as given...the post - revolutionary generation (...) is more sensitive to present behavior and performance..."<sup>214</sup>

To see the post-revolutionary young people as a homogenous group is a rough simplification. But it seems contemporary youth have become more alike in the field of consumption, specifically fashion, as the primary method of self presentation.<sup>215</sup> In this sense, ideas like "clubbing" and fashion can be understood as more than just entertainment. These extensions of consumer behavior can become a pragmatic social function portraying image and status. I consider them active consumers mastering the logic of capitals as Bourdieu points out. What is popularly called "taste" is sociologically understood as that which "brings together things and people that go together."<sup>216</sup> In my project, products and brands play an important role concerning the meanings attached to these products and brands. Orientation within the field of consumption could become a true skill and an investment to creating the social networks (friends, future jobs, and partners) that can raise their present life standard. The logic of consuming behavior is not mere hedonism but a pragmatic means of obtaining economic capital through the symbolic of Logo as a metaphor for the lifestyles presented through the brands. Such patterns could be observed in Czech graffiti subculture. Some of the writers took chances of new hi-tech technology and became the professional graphics, designers or architects. They did not leave their philosophy but used it as a capital. An expertise knowledge, know - how in their professional careers.

#### CONCLUSION

As the older generation invest hopes to the new generation to come, this paper is a testimony of my hopes invested to a generation in making, of which I am also a part. What does consumption mean to the young people of today? Consumption is a very broad concept consisting of attitudes, styles and specific behaviors, whether or not hypothetical. My assumption is that the consuming lifestyles are not a goal or just the end station (stop) for them. Because of being born and socialized into changed democratic conditions, this field could be a starting point of their live paths and at the same time the field of consumption could become a space (they are already familiar

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<sup>213</sup> Marada, (2004).

<sup>214</sup> Marada (2004), p. 162 - 164.

<sup>215</sup> Simmel, (1957).

<sup>216</sup> Bourdieu, (1984), p. 241.

with) where a collective awareness could be articulated by contemporary youth itself. Miles<sup>217</sup> sees the relationship between consumption, lifestyles and young people 's personal identity. I follow this pattern, but instead of individual identity I am focusing on collective identity (generational awareness). This point is an agreement with Corsten,<sup>218</sup> who refers to tendency of some sociologist, public intellectuals and lifestyles specialists who are discovering and proclaiming ever new generations with such frequency, as the concept of generation "becomes the mythical core term of commercials and lifestyle"<sup>219</sup> It will be the youth itself who will define itself as a generation. What attribute will symbolize its main characteristics is the matter of time – as late as the history will recognize it as a generation. I believe it could be for example "a generation of repatriates", a generation of the globetrotters who returned to a homeland using what they learned abroad, or "an educated generation", hopefully anything but not the simple "hedonistic". Now it is still a generation in process of making, regardless of what is claimed.

#### METHODOLOGY

**Summer 2005** Participant observation 11 interviews ("Gilded Urban Youth")

**November 2006 – January 2007** Collecting 44 essays on theme "*When and where have I felt excluded or included based on my image?*" and "*What does it mean to be cool?*"). Analyses exploring attitudes toward consumption values among FSS students as the alternative and probable opposite to the Gilded Urban Kids.

**January 2008 – 2010** Participating on project Value Changes in the Czech Republic (1991 – 2008) in European context (EVS 1991 – 2008) Project analyzes the historical emergence of value structures in Czech society and its ranks from the years 1991 – 2008 to understand the process of political and economic transformation in Czech society through the prism of cultural (value) change. The project is designed as part of a unique European longitudinal comparative project (EVS); therefore the gathered data can be viewed in the context of European value structure development. Collected data will enable me to pursue the question how value priorities of the young population have changed after 1989. Such information will serve as an important supplement for another research project - Patterns of Inter-Generational Conflict after 1989 that is currently under way at the Faculty of Social Studies and that focuses on potential (inter and intra) generational tension in the Czech republic after 1989.

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<sup>217</sup> Miles, (2000).

<sup>218</sup> Corsten, M. 1999. „The Time of Generations“. *Time & Society*, 8(2): 249-272.

<sup>219</sup> Ibid., p. 38.

## **Convergence and Business Cycle Correlation in the EU: An Assessment of the Level of Similarity Reached among the EU Countries<sup>220</sup>**

### **1. INTRODUCTION**

In Europe, after the latter enlargements toward the Central, Eastern and Southern Europe countries, next to the classical criteria useful to evaluate the suitability of a monetary union, more attention has been paid to the degree of real convergence reached by the EU member states. The macroeconomic debate mainly focuses on the importance of the degree of business cycles correlation and convergence between the EMU countries and the new-European Union (new-EU) members. Numerous studies have already looked at the degree of nominal convergence reached by the EU member countries.<sup>221</sup> In this paper, we mainly focus on the issue of real convergence among the EU member states.

We start our analysis presenting some noteworthy studies on the topic of convergence and correlation of business cycle among European countries. After, we apply a number of statistical approaches to evaluate the degree of “similarity” across the EU countries. We begin with a simple graphic analysis which gives us an idea about the dynamics of real GDP per capita for the countries included into the sample. Then, we test the hypothesis whether the degree of similarity between the EU member country has increased over time. We empirically check whether the level of real GDP per capita between the Developed EU member countries (DEU) and the new-EU member countries has converged more after their participation to the EU. In this paper we focus on two concepts of convergence:  $\sigma$  and  $\beta$  convergence.

The analyzed sample of countries includes 24 EU member states classified in three sub-groups: 10 Developed EU member states (Belgium, Denmark, Germany, France, Ireland, Netherlands, Austria, Finland, Sweden and United Kingdom), 4 Peripheral EU member countries (Italy, Spain, Portugal and Greece) and 10 New EU member states (Czech Republic, Estonia, Cyprus, Malta, Slovenia, Slovakia, Lithuania, Latvia, Hungary and Poland). The examined data are quarterly time series go from the third quarter of 2002 to the fourth quarter of 2005, it means seven quarters before and after the last EU enlargement in May 2004, which should make the result more remarkable.

The group of the Peripheral EU (PEU) member countries is then used as benchmarks for a better comparison of the new-EU countries (NEU), because they have also experienced what can be deemed a sort of transition or “catching up” process that has taken place at different speeds and time. Indeed, several economists take under

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<sup>220</sup> An earlier draft of this paper was presented at the International Conference of VISEGRAD Youth Association held in Zakopane, Poland, September 2006.

<sup>221</sup> See, for example Andreff, W. 1998. “Nominal and Real Convergence – At what speed?” in J. van Braband (ed) *The European Union, the transition economies, and the remarking of Europe*, Rowman and Littlefield, Boudler; and Fidrmuc, J. and I. Korhonen. 2004. “A meta-analysis of Business Cycle Correlation between the Euro Area, CEECs and SEECs – What do we know?” Focus 02/04, *Institute for Economies in Transition*.

consideration also some current euro-area countries in their analyses.<sup>222</sup> In fact, it is quite natural to compare the degree of convergence reached in the new-EU members with that of the smallest and peripheral euro-area members because the development in the latter countries group should be used as a good signal of the level of integration reached within the whole European Union (EU25). Certainly, if the degree of similarity with the EMU average of some current EMU members is lower than in the new-EU members, one could assume that the latter countries have improved in terms of real convergence and that euro adoption should not be seen as a harmful step.

## 2. SELECTED LITERATURE

The unavailability of long enough time-series for significant empirical estimation, also explains the lack of researches on real convergence in the new-EU member countries. Of course, it would be worse to wait the necessary time for collecting comparable and reliable data so that several economists have already presented some studies on such issue.

Sarajevs<sup>223</sup> uses several statistical and econometric techniques, ranging from graphic analysis, non-parametric tests and cross-section regression to dynamic panel data estimations for assessing  $\sigma$  and  $\beta$  convergence among, and within, sub-groups of current EU member countries. The author reports data on per capita GDP (in US dollar) for fifteen members of the EU and eleven Central and Eastern European countries. The whole sample country is then classified into six sub-groups. All observations are at annual frequency from 1991 to 1999. The results show that the dispersion of income ( $\sigma$  convergence) did not decrease between all sub-groups of countries. Over time, there has been a significant reduction in income variability between the EU and the CEECs sub-group. While this is probably due to intensified trade links and large integration efforts, it seems unlikely that these forces could yet produce the same impact on income level convergence. Indeed, the  $\beta$  coefficients do not fully confirm a positive convergence (absolute) within the EU subgroup itself. If there is not convergence within the EU, then it is more difficult to detect the convergence of other country groups toward the EU level. Moreover, not all subgroups show a positive degree of convergence (conditional) towards the EU-area average. Whereas the convergence is positive, it is very slow as well.

Darvas and Szapary<sup>224</sup> follow a different approach to analyse the similarity of business cycles between the EMU-12 and the eight new EU members from Central and Eastern Europe (CEECs). They assess the current degree of business cycle synchronization in the CEECs *vis-à-vis* the eurozone cycle and compare it to the current and earlier levels of synchronization in the Euro area countries. Moreover, they analyze the evolution over time of the business cycle synchronization in the eurozone countries to see whether it has increased since 1993-97. For the CEECs, data are collected over the last ten years, while for most of the other countries over the last twenty years. In order to make the findings robust, they use five measurements of synchronization, two filtering techniques (the Hodrick-Prescott and the Band-Pass filters) and two measures

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<sup>222</sup> See Darvas, Z. and G. Szapary. 2004. "Business cycle synchronization in the Enlarged EU: Co-movements in the New and Old Members" *CEPS working document n.200/04*.

<sup>223</sup> Sarajevs, V. 2001 "Convergence of European Transition economies and the EU: What do the data show" *Discussion Paper 13/2001, BOFIT*

<sup>224</sup> Darvas and Szapary, (2004).

of Euro area activity. From their results, it is remarkable that the core EMU countries show a high degree of synchronization according to all the measures used (high correlation, low volatility, small leads/lags, similar and high persistence, and similar impulse-response). For the peripheral EMU countries, the same overall trends can be observed, but their level of synchronization is less advanced. Turning to the CEECs, they can be split into three distinct groups: Hungary, Poland and Slovenia, which are the most synchronized; the Czech Republic and Slovakia, which are less synchronized; and the Baltic States, which are not synchronized at all.

Even if, in the CEECs as a whole there is minimal or even negative correlation with the EMU cycle, the comparison with the business cycle development of peripheral EMU member, may suggest that, at least for the most synchronized CEECs, the EMU membership should not reduce their business cycles synchronization with the Euro-area.

Kaitila <sup>225</sup> analyses the  $\beta$ -conditional convergence of GDP per labour force within the 15EU member countries in the period 1960-2002 and then applies the same method to estimate whether the new-EU members, in the period 1993-2002, have converged conditionally toward the EU-15 average. The author looks at real GDP per labour force to examine the development in the new EU member countries in light of the enlargement process in Europe. The results are mixed. They seem to indicate that within the EU-15 area, convergence has not taken place and that EU membership has not been statistically significant. The coefficient of the convergence variable is mainly significant and positive indicating a lack of convergence. By contrast, for the new-EU member states, the coefficient of convergence variable is negative and statistically significant, implying conditional convergence of the new-EU members towards the average of the EU15 countries.

### 3. THE GRAPHIC ANALYSIS

We can start our study from a *simple descriptive analysis* and graphic representation of the data, which summarizes the main developments and trends of the real GDP per capita for the country sub-groups included into the sample. We calculate the time series of quarterly real GDP per capita level and its growth rate for all country sub-groups and then plot their dynamics.

Table 1 and figure 1 show the country sub-groups' quarterly real GDP per capita, in euro, from the third quarter of 2002 till the fourth quarter of 2005.

**Table 1** Country sub-groups' quarterly real GDP per capita level 2002:Q3-2005:Q4 (in Euro)

	DEU	PEU	NEU
2002q03	6206	3277	1366
2002q04	6208	3269	1373
2003q01	6216	3292	1373
2003q02	6224	3284	1382
2003q03	6241	3298	1395
2003q04	6300	3297	1417
2004q01	6344	3335	1427
2004q02	6373	3339	1435
2004q03	6389	3350	1446
2004q04	6423	3346	1463
2005q01	6436	3364	1481
2005q02	6468	3378	1498
2005q03	6523	3392	1520
2005q04	6557	3395	1538

Source: Eurostat

<sup>225</sup> Kaitila, V. 2005. "Integration and Conditional Convergence in the Enlarged EU Area" *ENEPRI Working Paper n.31*/February 2005.

**Figure 1** Country sub-groups' quarterly real GDP per capita level 2002:Q3-2005:Q4 (in euro)

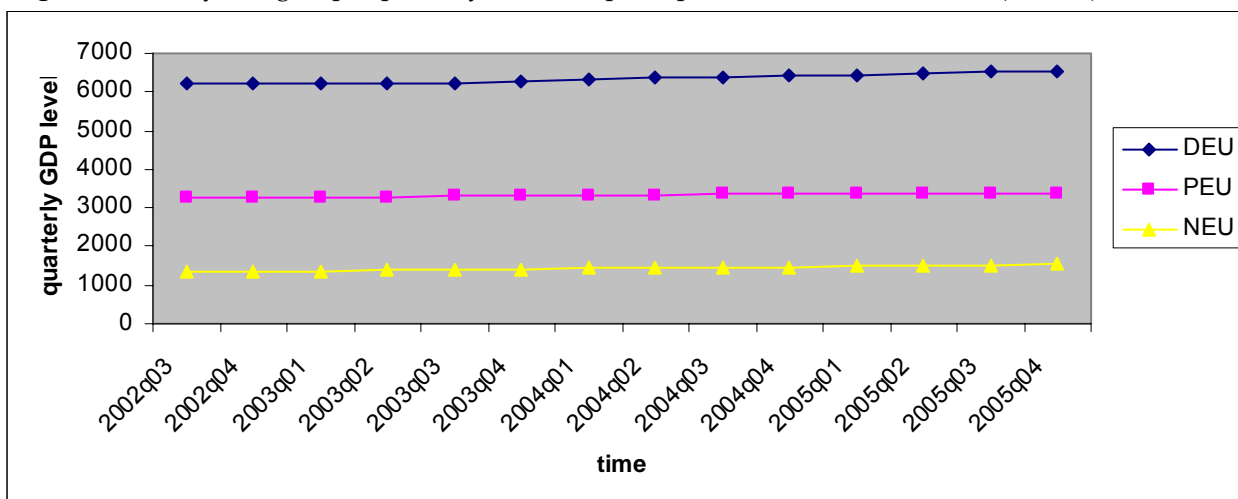


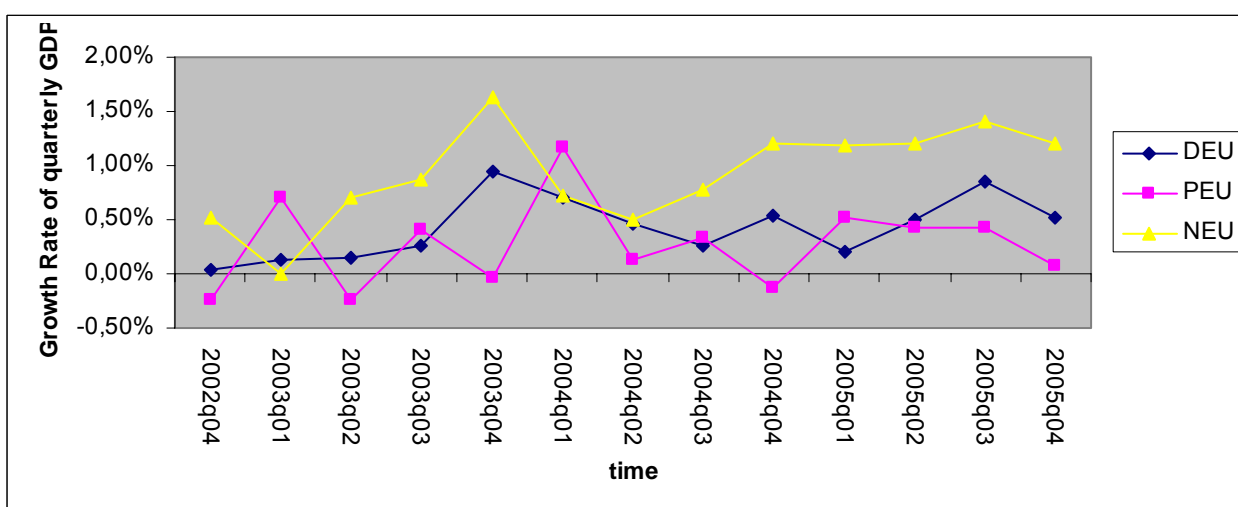
Table 2 and figure 2 show the rates of growth of the quarterly real GDP per capita for every country sub-group from the fourth quarter of 2002 till the fourth quarter of 2005.

**Table 2** Rates of Growth of country sub-groups' quarterly real GDP per capita in 2002:Q4-2005:Q4 (as %)

	DEU	PEU	NEU
2002q04	0,03	-0,24	0,52
2003q01	0,12	0,71	0,00
2003q02	0,14	-0,24	0,69
2003q03	0,27	0,41	0,88
2003q04	0,94	-0,03	1,62
2004q01	0,70	1,16	0,72
2004q02	0,46	0,12	0,51
2004q03	0,25	0,33	0,78
2004q04	0,53	-0,12	1,21
2005q01	0,20	0,52	1,19
2005q02	0,50	0,43	1,20
2005q03	0,85	0,42	1,42
2005q04	0,52	0,08	1,21

Source: Eurostat

**Figure 2** Rates of Growth of country sub-groups' quarterly real GDP per capita in 2002:Q4-2005:Q4 (as %)





#### 4. CORRELATION COEFFICIENTS ESTIMATIONS

From a simple graphic representation of the data we cannot detect any signal of convergence or correlation among the country sub-groups. For a clearer evaluation an econometric test direct to calculate the correlation coefficients of country sub-groups' real GDP per capita levels and their growth rates can be helpful.<sup>226</sup>

Table 3 and 4 show the partial correlation coefficients among the country sub-groups for two separate sub-periods (2002:Q3-2004:Q1 and 2004:Q2-2005:Q4) using the European Union (EU) average as control variable.

**Table 3** Correlation Coefficients of real GDP per capita level

	2002:Q3-2004:Q1	2004:Q2-2005:Q4
DEU-PEU	-0,087	-0,907
DEU-NEU	0,474	0,321
PEU-NEU	-0,337	0,166

Source: Author's calculations

**Table 4** Correlation Coefficients of growth rates of the real GDP per capita

	2002:Q4-2004:Q1	2004:Q2-2005:Q4
DEU-PEU	-0,344	-0,610
DEU-NEU	0,641	0,613
PEU-NEU	-0,932	0,183

Source: Author's calculations

At first look, we can see how the degree of correlation of the new-EU (NEU) members with the developed-EU (DEU) members has not notably decreased after the EU Eastward enlargement. The comparison between the new-EU countries (NEU) and the peripheral-EU (PEU) countries also shows a positive partial correlation coefficient in the period after the latter EU enlargement. Noteworthy is that for the peripheral-EU (PEU) member states included into our sample, after the May 2004, the correlation coefficient with the developed-EU (DEU) members become remarkably negative. From a certain point of view, one could argue that the EU membership has already "helped" the new-EU members to avoid the negative effects of a generalized recessionary period that influenced the rest of the European Union and mostly the peripheral European economies. In other words, we can assume that the EU membership has already put into positive effects on the economies of the new member states. Therefore, based on this assumption, the new-EU state's business cycles have not been unaffected by the EU membership. Anyway, because of the time series are too short for a conclusive judgment we must treat these results in a very careful way.

#### 5. THE CLASSICAL APPROACH

As next step, we follow a "*classical approach to convergence*" that gives us a quantitative evaluation of the convergence process. In this paper, we use the standard definitions of beta ( $\beta$ ) and sigma ( $\sigma$ ) convergence as proposed by Sala-i-Martin.<sup>227</sup>

$\beta$  convergence generally means that there is a negative relationship between the

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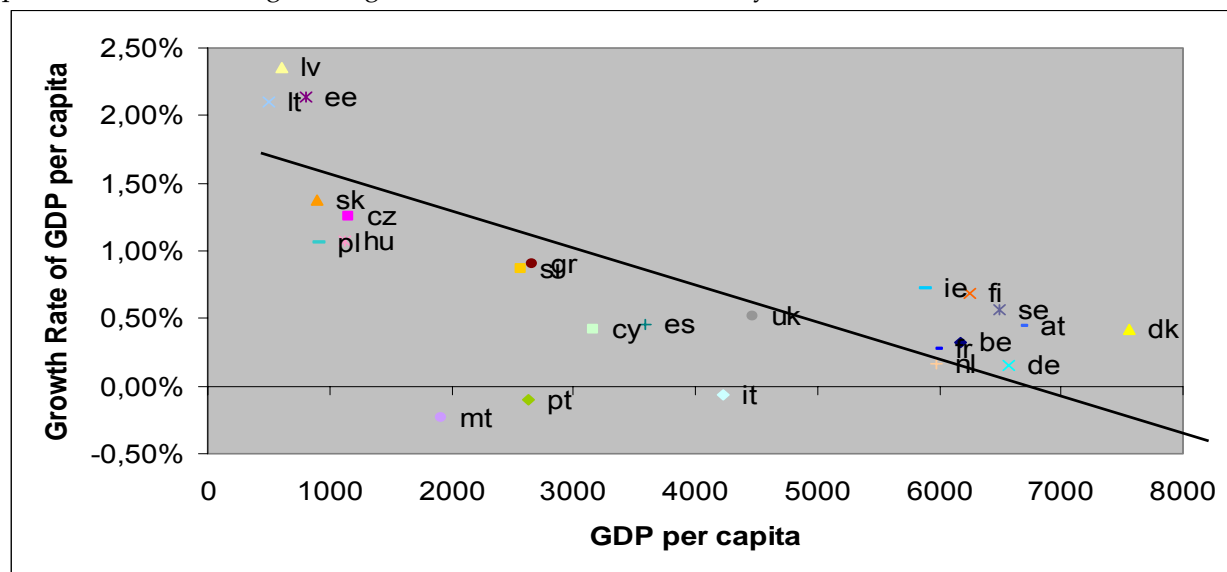
<sup>226</sup> Boreiko, D. 2002. "EMU and Accession Countries: Fuzzy Cluster Analysis of Membership" *Working Paper n.71*. Oesterreichische National Bank; and Boone, L. and M. Maurel. 1998. "Economic Convergence of the CEECs with the EU" *CEPR Discussion Paper 2018*.

<sup>227</sup> Sala-i-Martin, X. 1996. "Regional Cohesion: Evidence and Theories of Regional Growth and Convergence", *European Economic Review*, Vol. 40, pp. 1325-52.

initial level of real GDP per capita and its average growth rate. According to this definition of convergence (*absolute convergence*) all economies, in the long run, will reach their own steady-state level of real GDP per capita. In other words, the poorer states will tend to grow faster than the richer ones and will eventually catch up with them.

Figure 3 shows on the horizontal axis the sample countries' quarterly real GDP per capita levels (in euro) at the beginning of the sample period and on the vertical axis their average GDP growth rates until the end of the year 2005.

**Figure 3** Sample countries' quarterly real GDP per capita levels (in euro) at the beginning of the sample period and their average GDP growth rates until the end of the year 2005.



As we can see from figure 3, there is a quite evident negative correlation between the initial levels of countries' GDP per capita and the average GDP growth rates during the time period, which means that  $\beta$ -convergence has taken place for almost all countries in the sample. The figure also shows Portugal, Italy and Malta as the main outliers and the new-EU members with higher average growth rates than the others EU countries. For the new-EU member countries, which started from lower GDP per capita levels, there has been a clear trend to catch up with the euro-area members.

Indeed, what we are really interested in is a "*conditional  $\beta$ -convergence*". Conditional  $\beta$ -convergence matters if countries have different technological and human capital resources. Therefore we need to "clean" the dependence among economic growth and GDP per capita level from changes in other steady state determining variables. That is, the convergence toward the average real GDP per capita level of the euro-area. In other words, we need to calculate the speed of convergence. Even though the time-series are too short for definite results, the test highlights the relationship between the initial real GDP per capita levels and the subsequent growth rates for each group of countries. The concept of "*conditional  $\beta$ -convergence*" is given by the following regression equation:

$$\log(GDP_{i,t}) - \log(GDP_{i,t-1}) = \alpha + \beta \cdot \log(GDP_{i,t}) + \gamma \log(X_{i,t}) + \varepsilon_{i,t}, \quad (1)$$

Where:

$\log(GDP_{i,t})$  is the natural logarithm of the quarterly real GDP per capita in country  $i$  at time  $t$ ,

$X_{i,t}$  is  $k$  vector of steady state determining variables,

$\alpha$  is a constant (it doesn't change through time and country),

$\varepsilon$  is the error term,

$i = 1, 2 \dots N$  is the cross-section (country) identifier,

$t = 1, 2 \dots T$  is the subscript labelling period (quarters).

$\beta$  and  $\gamma$  are the regression coefficients whose sign we are interested in. When  $\beta < 0$  means that there is conditional convergence in the data set.

The vector of steady state determining variables includes the consumption expenditures of general government and loans to residents granted by financial institutions. These variables should be presented in ratio to GDP, because of size differences in compared countries. The government expenditures counts for fiscal regulation and loans amount were chosen to measure differences in money aggregates and financial sector development. An also loan granted to residents is part of the steady state determining vector. The convergence in prices could be reached by higher price growth (inflation) or real exchange rate appreciation. The rate of quarterly inflation is the third time series included in the steady state variables vector. The real exchange rate appreciation improvement is already incorporated in GDP per capita in PPP, which is listed in millions of Euro for all countries.

In equation (1) we have estimated the seemingly unrelated regression (SUR) as the most appropriate generalised least squares (GLS) estimator for our linear regression across all cross-sections. Table 5 shows the resulting coefficient estimations for three country sub-group pairs and all countries pooled.

**Table 5** Conditional  $\beta$ -convergence regression estimates

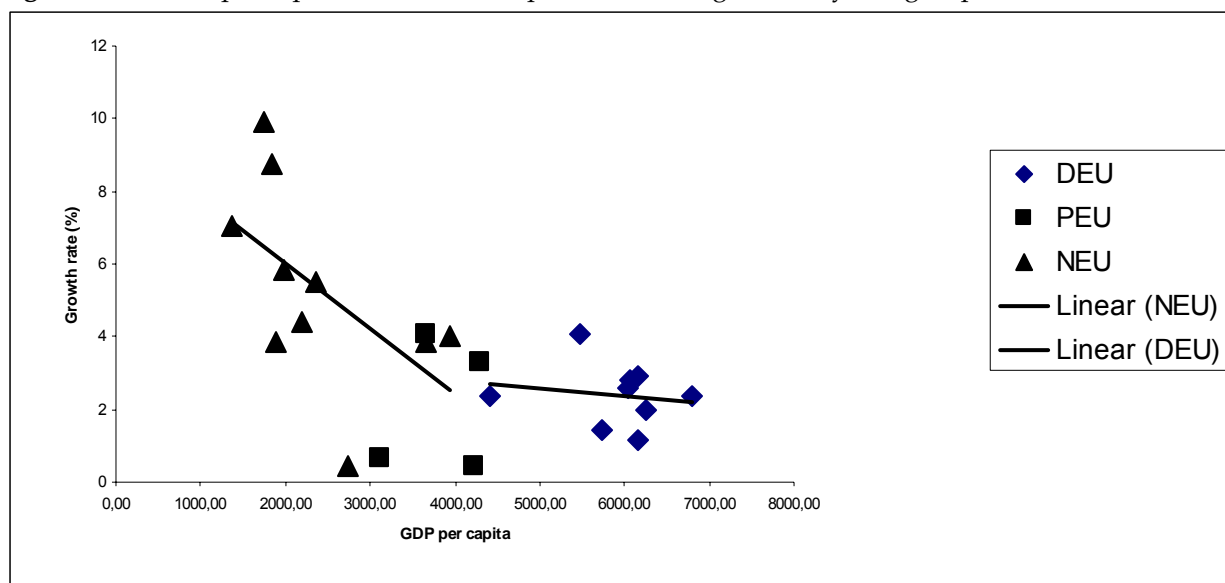
<i>Countries sub-group</i>	<i>Coefficient estimates</i>	<i>Before 2<sup>nd</sup> quarter 2004 (2002:Q3 – 2004:Q1)</i>	<i>After 2<sup>nd</sup> quarter 2004 (2004:Q2 – 2005:Q4)</i>
<i>DEU-PEU countries sub-groups</i>	$\alpha$	35.81	21.90
	$\beta$	<b>-3.7409 (-54.43)**</b>	<b>-2.3455 (-13.46)**</b>
	$\gamma$ (Government expenditure)	-0.095 (-8.58)**	-0.1347 (-2.046)**
	$\gamma$ (Loans to residents)	-0.005 (-23.42)**	-1.084989 (-5.33)**
	$\gamma$ (inflation)	0.078 (2.93)**	0.0012 (2.79)**
<i>PEU-NEU countries sub-groups</i>	$\alpha$	40.42	29.55
	$\beta$	<b>-5.4269 (-54.43)**</b>	<b>-3.1287 (-30.40)**</b>
	$\gamma$ (Government expenditure)	-0.4066 (-36.97)**	-0.054 (-5.95)**
	$\gamma$ (Loans to residents)	-0.0024 (-4.08)**	-0.00013 (-0.51)
	$\gamma$ (inflation)	0.035 (1.63)	-0.138 (-0.88)
<i>DEU-NEU countries sub-groups</i>	$\alpha$	30.862	28.457
	$\beta$	<b>-2.5394 (-37.57)**</b>	<b>-3.1351 (-40.44)**</b>
	$\gamma$ (Government expenditure)	-0.29 (-32.084)**	-0.0625 (-5.94)**
	$\gamma$ (Loans to residents)	-0.0002 (-0.72)	-0.0005 (-2.63)**
	$\gamma$ (inflation)	0.044 (2.66)**	-0.027 (-1.47)
<i>All countries</i>	$\alpha$	32.29	28.72
	$\beta$	<b>-3.676 (-32.91)**</b>	<b>-3.1596 (-21.24)**</b>
	$\gamma$ (Government expenditure)	-0.303 (-14.91)**	-0.058 (-2.68)**
	$\gamma$ (Loans to residents)	0.0002 (0.37)	-0.0002 (-0.58)
	$\gamma$ (inflation)	0.041 (0.85)	-0.031 (-0.59)

\* means significance at 5 % significance level \*\* means significance at 1 % significance level

( ) values in parenthesis are t-statistics

The dependence between the level of GDP per capita and its growth rate in single countries sub-groups are shown in Figure 4, where each point represents a single country. It is clear, that there are significant differences in growth rates and GDP per capita level in separate sub-groups. The linear trend of GDP per capita and growth rate dependence for the new EU member states is decreasing much faster than for the developed old EU members sub-group. It wouldn't be correct to construct the linear trend for the peripheral old EU members sub-group, because of small sample restriction.

**Figure 4** The GDP per capita-Growth rate dependence in single country sub-groups



The results from the estimation of  $\beta$ -convergence prove that the new-EU countries have converged faster after their EU membership than the other EU country sub-groups. As argued above,  $\beta$ -convergence is a very interesting concept because it implies convergence to the same steady state. The fact of finding  $\beta$ -convergence only few years later the Eastward EU Enlargement represents, from a long-term perspective of the EU Enlargement, a solid basis for ensuring further significant increase in the speed of convergence within the whole European Union.<sup>228</sup>

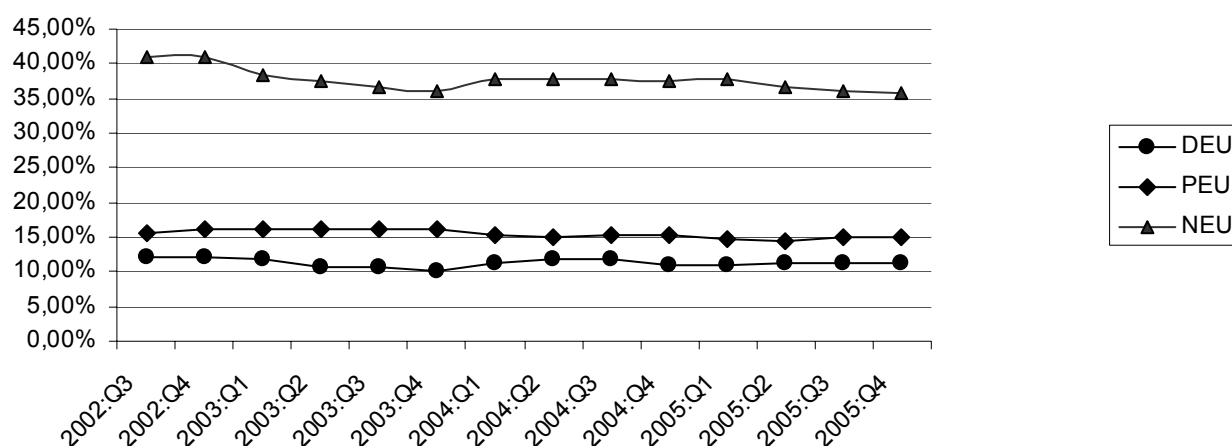
The second concept of convergence is defined as  $\sigma$ -convergence. While  $\beta$ -convergence means that there is a negative relationship between the initial level of real GDP per capita and its average growth rate and it reflects the movement of individual countries within a group, the concept of  $\sigma$ -convergence depicts the evolution (distribution) of real GDP per capita for the entire group and it implies that the dispersion (variance) of real GDP per capita tends to decline over time. If  $\sigma_t$  is defined by the time  $t$  standard deviation of log of real GDP per capita, then a group of countries are converging in the sense of  $\sigma$  if the dispersion of their real per capita GDP level decreases over time. In other words, if the variance of GDP per capita distribution decreases, the coefficient of variation (ratio of standard deviation to mean) should decrease. That is, if  $\sigma_{(t+1)} < \sigma_t$ . However, this description statistic should be interpreted with care, because one outlier value (one country with different development to other countries in the same sub-group) could cause increased variation coefficient, even if the

<sup>228</sup> Sarajevs, (2001).

variance in GDP distribution among remaining countries is decreasing. According to Kaitila<sup>229</sup>, we calculate the  $\sigma$ -convergence measuring the coefficient of variation defined as the ratio of the standard deviation to the mean value of log of real GDP per capita for each subgroups of countries and then we plot it over.

$$\sigma\text{-convergence} = \frac{\text{Standard Deviation}}{\text{Mean Value}} \times 100$$

**Figure 5** The  $\sigma$ -convergence development in country sub-groups



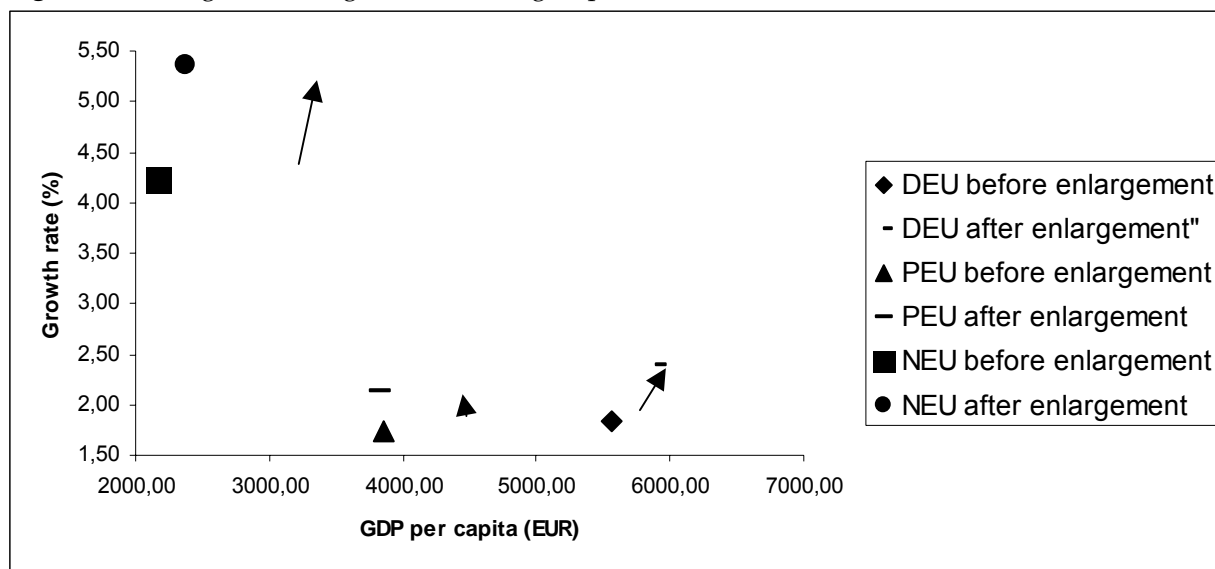
The use of this coefficient of variation for the analysis delivers a very strong convergence for the new-EU country sub-group. Summarizing the data, one can observe a significant reduction in the dispersion of the real GDP per capita among the new-EU members. The main factor that contributed to the new-EU members' convergence can be found in the deepened economic and financial integration and increased international trade links with the "developed" EU member countries. For instance, Frankel and Rose<sup>230</sup> argue that the creation of a monetary union increases the intra-union trade. If this will really happen within the EU, convergence may well continue also in the future. As possible extension of this research, I would suggest an empirical analysis of the developments of trade intensity between the new-EU members and the euro-area. This would help to identify the existence of possible relationships between trade intensity and degree of convergence among trading partner countries.

Finally, we try to depict the changes of GDP per capita and growth rate relationship over time. We computed the average GDP per capita at the beginning of analysed period (2002Q3) and at the end of the period (2005Q4) for each sub-group. We also computed the average growth rate before and after EU enlargement in each sub-group. The movement of GDP per capita and growth rate is shown in Figure 3. It is clear, that the growth rate accelerated in all sub-groups after EU enlargement, but the acceleration was strongest in new member states sub-group. Because of short analysed time period, the convergence in GDP per capita level is not clear, but we suppose, that current differences in growth rate will lead to later GDP per capita level convergence.

<sup>229</sup> Kaitila, (2004)

<sup>230</sup> Frankel, Rose, (2000).

**Figure 6** Convergence among countries sub-groups in time



## 6. CONCLUSION

In research on business cycle correlation and convergence to make conclusions is not so easy, particularly when there is a lack of previous empirical studies due to the availability of time series too short. In this paper, we shed some new light on the convergence process that according to the basic convergence theory, should take place among EU member countries. We deviate from the general literature by focusing on bilateral convergence between selected sub-groups of EU member countries. Using pooled regression estimation, we calculate the absolute and conditional convergence between EU country sub-groups from the third quarter of 2002 to the fourth quarter 2005.

We argue that the  $\beta$ -convergence (also called speed of convergence) is negative in all sub-groups pairs and in both analysed periods. All slope coefficients are statistically significant at 1 % significance level, so we can strongly reject the zero hypothesis of regression coefficients value equal to zero. For the peripheral European (PEU) countries sub-group the speed of convergence is decreasing after the EU enlargement, only in the case of new member states (NEU) and developed EU member countries (DEU), the speed of convergence increases. Anyway, the interpretation of the estimation results for the peripheral sub-group (PEU) is limited by the small number of observations. The fact also is that the negative dependence among GDP per capita and growth rate could be influenced by other so called steady state variables. After the EU enlargement, we find a decreasing speed of convergence between PEU members, on one hand, and DEU and NEU member states, on the other hand. Moreover, the speed of GDP per capita convergence between DEU members and NEU member states increased. Surprisingly, the speed of convergence for all countries sub-groups after EU enlargement didn't change significantly, only the main stream developed countries catching up process has shifted from peripheral EU members to new member states. We can conclude that the new-EU members have already reached a relatively high degree of business cycle similarity with the others EU member states. The EU membership has already put into positive effects on the economies of the new member states. Therefore, these countries would not in the future suffer more asymmetric shocks with the euro-area as a whole, at least no more asymmetric than those of the

peripheral EU member countries.

The  $\sigma$ -convergence is also present in the new-EU country sub-groups included into the sample. This outcome is very important from the viewpoint of the further EMU enlargement as it nullifies the argument that EMU enlargement process should be stopped because there is no similarity between the business cycles of the new-EU member countries and the EMU as a whole. The presence of  $\sigma$ -convergence also in the enlarged-EU-area indicates very good prospects for the future of the EU25.

Moreover, the finding of  $\beta$ -convergence only few years later the latter EU Enlargement represents, from a long-term perspective, a solid basis for ensuring further significant increase in the speed of convergence within the whole European Union with 25 member states. Consequently, it is most likely that the new countries will continue to converge on the euro-area average's real GDP per capita levels. This could be easier as far as the economic and monetary integration process will continue among European countries. As possible extension of this research, I would suggest an empirical analysis of the developments of trade intensity between the new-EU members and the euro-area. This would help to identify the existence of possible relationships between trade intensity and degree of convergence among trading partner countries.

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## **The Dunning model of the FDI implementation in conditions of the Slovak Republic**

### **INTRODUCTION**

During the past 14 years the Slovak Republic has undergone changes that have altered the character and direction of the country's politics and all spheres of economics. At the beginning of 90's the SR was transiting from the "centrally planned" to the market economy system. The main priority of the then politics was to create an environment supporting the development of business activities. During the following years the effort had been prioritised to create the environment supporting modernization processes in the enterprise sector as well as investment programmes that by means of renewal and development investments can ensure real competitiveness under the conditions of European and world markets. In order to ensure these objectives it is necessary to pay increased attention to investments. Their instability and influenceability by a large number of factors press economic policy makers to monitor them continuously.

In the 80's was made the eclectic theory about the differences in the FDI (foreign direct investment) of countries. The author was John H. Dunning. There were four main types of FDI aimed at:

1. Acquisition of production factors,
2. Acquisition of markets,
3. Utilisation of savings from measure, specialisation or the other forms of production rationalization,
4. Setting - out regional or global strategy in the technological field.

Numbers 1 and 2 are the original FDI; numbers 3 and 4 are as a result of foreign investment operation in the host country. By Dunning opinion, every firm would made FDI, if there exist some motive to do that - for example the acquisition of new markets. The entrance of the foreign investment in host country usually brings some odds for firms, but for the host country, too. Each country has to go over five phases of FDI implementation.<sup>231</sup>

Next lines are about the application of the Dunning model of five phases in the area of the FDI implementation in the conditions of the Slovak Republic.

### **1. THE FIRST PHASE OF THE FDI IMPLEMENTATION IN CONDITIONS OF SR (1994-1998)**

Like other transition economies, also the SR had great expectations with regard to the inflow of foreign investments. In its programme declaration the then government made a commitment to create environment that would enable the development of investment plans and attract foreign investments. While the country showed a high economic growth rate during the period from 1994 to 1998, it was to the detriment of

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<sup>231</sup> Táncosová J. - Slaný A.: Teoretické aspekty priamych zahraničných investícií. In: Ekonomický časopis. Bratislava. 1/2004. str. 62 - 73. ISSN 0013-3035.

the enormously growing internal and external debt. It was carried out by means of expansive state financing – excessive state consumption and investments to the gross fixed capital. The environment that had been created did not have required stability and legislation. Law enforcement was very difficult. Economic decisions were made on the basis of biased information, entities were granted tax relief based on special decisions, and many financial operations did not have any transparent rules. The capital market in fact did not work, and most transactions were carried out by direct sales. The low inflow of foreign investments was affected to a high extent by statements expressed by the country representatives who stressed unnecessary of foreign investments for the country.<sup>232</sup> All mentioned factors represent a set of factors in theory (but, as it has been proved also in practice) that discourage investors. They resulted in the rate of foreign investments flowing into the country as shown in table 1.

**Table 1**

		1994	1995	1996	1997	1998	2005	1. – 9. 2006
<b>FDI</b>	mil.Sk	28 058	38 354	65 243	72 445	106 669	504 635	627 865
<b>GDPn*</b>	mil.Sk	440 500	585 784	655 240	724 895	790 047	1 471 131	2 762 032
<b>FDI/GDPn</b>	%	5	6,5	9,95	9,99	13,5	34,3	22,7
<b>Δ FDI</b>	mil.Sk	8 033	10 296	26 889	7 202	34 224	66 980**	123 230

Source: NBS, ŠÚ SR \* GDPn – GDP in current prices \*\* Δ FDI = FDI<sub>2005</sub> – FDI<sub>2004</sub>

Though during the monitored period a slight growth of the FDI occurred, however, the net FDI increase was characterised by a fluctuating course and falling trend. It was reflected also in its share in the GDP. The most significant investments of the given period are shown in table 2.

**Table 2**

Investor	Investment	Home economy	Sector
Volkswagen	BAZ (15mld. Sk)	Germany	Car industry
Tesco	K-Mart - Prior	Great Britain	Trade
Assi - Domar	93% JCP Štúrovo	Sweden	Isolation industry
Heineken	Zlatý Bažant (800 mil.SK)	Holland	Beer
	Corgoň (200 mil. Sk)		
SAB South Africa	Šariš (1400 mil.Sk)	South Africa	Beer
France Telecom	35% Globtel	France	Telecommunications

Source: Pažitný, (1998).

Despite mentioned facts, in accordance with the classification by UNCTAD Company, since 1993 the SR belonged to the group of front-runners with a high FDI potential and high FDI performance.

<sup>232</sup> Pažitný P.: Zahraničné investície. In: Sľuby a realita. Slovenská ekonomika 1995 – 1998. M.E.S.A. 10. Bratislava. 1998. str. 103 – 110. ISBN 80-968113-7-1

Table 3

High FDI potential	High FDI performance	Low FDI performance
	Argentina, Australia, Bahamas, Bahrain, Belgium,	Austria, Botswana, Bulgaria, Cyprus, El Salvador
	Brunei Darussalam, Chile, China,	Finland, Germany, Greece, Iceland
	Costa Rica, Czech Republic, Denmark, Dominican	Islamic Republic of Iran, Israel, Italy, Japan,
	Republic, Estonia, Finland, Hong Kong (China),	Korea, Kuwait, Libyan Arab Jamahiriya,
	Hungary, Indonesia, Iceland, Ireland,	Oman, Portugal,
	Jamaica, Malaysia, Malta, Mexico, Netherlands, New Zealand,	Russian Federation, Saudi Arabia, Slovenia ,
	Norway, Panama, Papua New Guinea, Poland, Qatar,	South Africa, Suriname, Switzerland, Taiwan Province of China,
	Republic of Moldova, Singapore, Slovakia, Spain, Sweden,	Thailand, Ukraine, United Arab Emirates, United States
	United Kingdom	Uruguay, Uzbekistan and Venezuela

Source: UNCTAD

The then situation of the SR can be, according to Dunning, characterised as the first phase in the area of the FDI implementation. During this phase a country does not invest abroad. It uses other forms of international business, e.g. export, to participate in the international cooperation. Foreign enterprises place their investments on its domestic markets. At first it is done only in the limited extent because also local, specific advantages are limited, and a country is not very attractive for other countries.<sup>233</sup>

## 2. THE SECOND PHASE OF THE FDI IMPLEMENTATION IN CONDITIONS OF THE SR (1998 - 2004)

After 1998 a new stage of the development of Slovak economy has started. During that period the SR again joined the candidate countries accessing the EU. By meeting this goal the SR has become an interesting country with the market growth potential and a great deal of investment incentives that could be gained by foreign investors. The SR has gained the possibility to apply for the EU funds that helped in the country development. It was a positive signal for investors, and it contributed to the launching of negotiations on the inflow of new FDI into the country.

Slovakia has caught the wave of the worldwide FDI volume increase. During the period from 1998 to 2000 USA, EU and Japan covered up to 75% of inflow, 85% of outflow, 59% of received and 78% of placed FDI. In 2000 the EU FDI level reached the value of 805 billion USD. That time the share of the EU FDI in the FDI of accessing countries represented 80% of the FDI of candidate countries. The major shares of the EU investments were held by France, Holland, Germany and Austria. Up to 2/3 of their investments were directed to the candidate countries as FDI. From the global viewpoint the amount of investments directed to Slovakia represented only 0.003% of the total FDI.<sup>234</sup>

The SR severely lagged behind other countries in the area of investments. The most important investors in the SR were the neighbouring states – Austria, the Czech

<sup>233</sup> Táncosová, Slaný, (2004).

<sup>234</sup> FDI in brief\*: Slovakia: UNCTAD. <http://www.unctad.org/Templates/StartPage.asp?intItemID=2068>

Republic and Hungary. To eliminate this drawback, SARIO agency was created in 2001. Its mission was to help finding investors from foreign countries. During the first half of year 2002 it helped to invite FDI in amount of 18, 07 billion SKK. It increased by 20, 74 % compared with the previous year. So, the year 2002 is a breakpoint for the SR. According to the SARIO agency report, 30 projects in the area of FDI inflow into the Slovak market were implemented (see table 4).

**Table 4**

<b>Firm</b>	<b>Country</b>	<b>Firm</b>	<b>Country</b>
Volkswagen	Germany	SCA	Sweden
Delphi	USA	Samsung	S. Korea
Siemens	Germany	Woo One	S. Korea
Swedwood	Sweden	Inalfa Metal	Netherlands
Johnson Controls	USA	Sony	Japan
Deutsche Telekom	Germany	Yazaki	Japan
Orange	France	Ruhrgas	Germany
Whirlpool	USA	Gaz de France	France
U. S. Steel	USA	Yukos	Russia
Molex	USA	RWE	Germany
Motorola	USA	Schneider Electric	France
Verizon	USA	Electricité de France	France
EON	Germany	AT&T	USA
Plastic Omnium	France	Alcatel	Germany
Matsushita	Japan	Dell	USA
Emerson Electric	USA		

Source: SARIO, [www.sario.sk](http://www.sario.sk)

Their total amount, when considering only the enterprise sector, was more than 170 000 mil. SKK. Total amount was nearly 4 billion USD. In the FDI/GDP ratio was the Slovak Republic on the first place among V4 countries. The SR achieved 17%. With regard to the volume of investments the most significant ones were represented by Volkswagen (15 billion SKK), U.S. Steel, s.r.o. (485 mil. USD) in company VSŽ, a.s. Košice, Mol (270 mil. USD) in company Slovnaft, Erste Bank (380 mil. USD) buying Slovenská sporiteľňa, repurchase of 49% packet of Slovenský plynárenský podnik shares (2, 7 billion USD) or entrance of Yukos in Transpetrol.<sup>235</sup> The factors helping to attract investors include first of all financial ones, while a smaller role was played by non-financial factors:

- ✓ Investment incentives – tax holidays, contributions by the state for established jobs, promises by the state to closely cooperate with investors (providing funds for purchase of equipment, a promise to build highways...), cheap but qualified labour force, a relatively well built infrastructure, at least in some regions,
- ✓ The launching of economic reforms.
- ✓ An openness and non-saturation of the SR markets, even though from the viewpoint of their volume they represent relatively small markets.

<sup>235</sup> Brocková I. : Ekonomický rozmer zahraničnej politiky SR. In: Súhrnná správa o stave spoločnosti. Slovensko 2002. Inštitút pre verejné otázky. Bratislava. 2002. ISBN 80-88935-40-7

- ✓ The advantageous geographical position of the SR that enabled a simple access to other EU countries.
- ✓ Trust in the government, which citizens expressed in the recent parliamentary elections.
- ✓ Political and economic orientation brought by the new government.
- ✓ Assumed accession of the SR to the EU.<sup>236</sup>

Thus the SR reached the second phase in accordance with the Dunning's process of the FDI implementation. It was in the situation characterized by the increase of the FDI inflow into the country. It means that the country provided or created suitable conditions for FDI. The production volume was increasing, and it resulted in the abundant supply of the local market. The growth of production was accompanied by the growth of export. According to information provided by the Statistical Office of the SR the export of the SR in 2004 increased by 12% to the value of 898 096 mil. SKK (22 433 mil. EUR) compared with the year 2003. 82.5% of it represented export to the EU countries. This export increased by 12.9% compared with the previous year.

**Table 5**

		2001	2002	2003	2004
<b>GDPn</b>	mil. SKK	1 020 595	1 111 484	1 212 665	1 355 262
<b>EXP</b>	mil. SKK	741 313	788 589	927 747	1 018 835
<b>EXP/GDP</b>	%	72,6	70,9	76,5	75,2
<b>Δ EXP</b>	mil. SKK	79 631	47 276	139 158	91 088

Source: NBS, ŠÚ SR

Simultaneously the qualitative level of labour force increased at relatively low wages. It was expected that the extended market would subsequently attract other investments. This assumption was actually proved in the next two years. During the period from 2003 to 2004 65 new foreign investors came to the country (2003 – 22 investments, 2004 – 43 investments).<sup>237</sup>

Their benefit for the country was the FDI inflow in the amount of more than 2000 million dollars. The end-year value of the FDI in the country in 2003 was at the level of 340 billion Sk. The FDI inflow for the given year itself represented more than 26 billion Sk. The most important investments were launched by two automobile companies – Peugeot in 2003 and KIA Motors in 2004.

They brought also other subcontracting companies, which extended the number of foreign investors. That time more than 50% of investments flew into the automobile industry. Approximately 140 companies from the SR became suppliers of components, systems and modules for the automobile world. Numerically expressed it was more than 1.2. The SR started to be talked about as a country that is heading to the top of the world's automobile industry. Representatives of Peugeot company assumed that their investment in the amount of 700 mil. EUR would create a factory with the annual capacity of about 300 000 cars at the employment of 3 500 persons. Thus, in case of the full operation of the factory, the SR could produce up to 600 000 cars annually. In 2004 KIA Hyundai added to these numbers. Due to its investment it intended to produce

<sup>236</sup> Jesný M. – Marčan P.: Investori nehl'adia na náklady a stimuly. In: Trend. 14.07.2006.

<http://ekonomika.etrend.sk/71843/slovensko/investori-nehladia-len-na-naklady-a-stimuly>

<sup>237</sup> See appendix 1

about 200 000 cars annually starting from 2006, and directly employ more than 2 400 people. Having come to Slovakia it has gained access to European markets and reduced the delivery time of its automobiles to customers - the original time had been almost a month. Advantages like an investment incentive from the SR government in the amount of 15% of the KIA investments, a possibility to use sites free of charge, cash contribution for each created job and sources for purchasing equipment were sufficient incentives to construct its first car manufacturing factory in Europe in our country. A logical policy in this situation was the construction of industrial parks that should not only bring other investments to the country, but serve also as non-financial means to retain gained investors.<sup>238</sup>

However, the country was not only the FDI beneficiary. The amount of its investments abroad was very limited. Domestic firms did not dispose of any specific advantages. The biggest share of foreign investments of the Slovak Republic went to the Czech Republic, and the second biggest investment package of foreign investments was directed to GB, which that time became the most interesting European country for investors. Other investments flew mainly to Ukraine, Ireland, Luxemburg and Hungary. The volume of these investments was approximately by 5%. Totally the SR implemented FDI in the value of 18,1 billion SK.<sup>239</sup>

### **3. THE THIRD PHASE OF THE FDI IMPLEMENTATION IN CONDITIONS OF THE SR (2004- ...)**

The year 2004 was a historical breakpoint for the SR. Its accession to the EU brought about new possibilities as well as restrictions that caused the end of some advantages for the country. The most important restrictions were perhaps stringent EU rules on providing tax relief for coming investors. They referred first of all to the so called tax holidays that were extensively used in our country. The launched reform of the tax system unifying tax rates at the level of 19% could be considered a kind of compensation, to a certain extent. This step was a positive signal for investors, and it increased the amount of means from taxes for the state. Clearly defined taxation rules without useless exceptions were beneficial for investors. However, this tax policy emphasised the issue of high, and after the accession to the EU, further increasing labour costs. Since 2004 the SR along with other accessing countries started losing the advantage of a cheap labour force. This fact is one of the main characteristics of the third phase of the FDI implementation process, which the SR reached after 2004. The amount of transfers that investors have to pay within health and social insurance is constantly increasing. Both foreign and domestic investors warn that unless this issue is solved, it may eventually result in a loss of investors' interest and their outflow from the SR. In 2005 also the results of a non-conceptual behaviour of the previous government in gaining FDI for the country were manifested. (Project KIA and its impacts on the state budget). It pointed out possible impacts of inconsistent negotiations when making contracts. Significant differences among individual regions in the SR became a serious issue, too. As shown in the following table, the biggest volumes of investments were located mainly in Western Slovakia (red numbers).

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<sup>238</sup> Schonwiesner R.: Je rozhodnuté: Hyundai si vybral Žilinu. In: Trend. 02.03.2004.

<http://ekonomika.etrend.sk/31563/slovensko/je-rozhodnute-hyundai-si-vybral-zilinu>

<sup>239</sup> TASR.: Zahraničné investície v SR sa zvýšili o 25,4 mld. SK. In: Trend. 17.12.2003

<http://ekonomika.etrend.sk/30489/slovensko/zahranicne-investicie-v-sr-sa-zvysili-o-254-mld-sk>



**Table 6**

Region	Number of parks
Bratislava a Trnava	10
Banská Bystrica	9
Prešov	6
Nitra	4
Košice	4
Trenčín	3
Žilina	2

Source: SARIO

There are many reasons for this allocation; however the most frequently repeated one is the insufficient infrastructure of other regions. It refers mainly to the transport infrastructure the construction of which is more extensively supported in Western and Central Slovakia compared with its eastern part. It results in the missing highway interconnection between the east and west, or the north and south of the country. Many investors pointed out this particular issue and a possible increase of their costs as well as their requirements associated with it. The example of solving this situation is the first industrial park of that size built on a "green field" in Kechnec near Košice. It represents a mixture of firms including the automobile industry that are not direct suppliers of our major investors. However, in spite of this fact, these are big firms with resonant names. The Kechnec park keeps growing by a firm each year and gradually enables to reduce the unemployment rate in the East Slovak region. It is here where the principle of attracting investors not only by financial incentives but rather by non-financial ones is evident. A decisive role is played mainly by the cooperativeness of local administration bodies in their negotiations with investors. Among other frequent reasons is a well established and further developing telecommunication infrastructure but mainly a potential to increase productivity. Another preferred impulse is almost immediate availability of further expansion of current capacities and the problem-free gaining of sites.

## CONCLUSIONS

The pro of the SR accession to the EU is the fact that due to the launched reforms and FDI inflow, the economy of the SR experiences the most rapid growth among accessing countries. It is on the best way to meet all criteria to join the EMU in the set term. This fact creates a security for investors, and it is an incentive for their entry into our market. Simultaneously it creates a space for building not only production and logistic centres, but also for establishing science and research centres. It increases the level of labour force qualifications, know-how and specific advantages of firms, and may result in a more significant penetration into foreign markets. As a result of higher labour force qualifications and higher work productivity connected with the technological progress also the level of wages increases in the country. Centres of SAMSUNG, SIEMENS or NESS companies as well as gradually developing cooperation between automobile companies and technically oriented universities and secondary schools can be used as examples. This kind of cooperation enables to improve the interconnection between practice and theoretical preparation, create study specializations required by the practice that prepare graduates for labour markets, thus reducing a potential rate of unemployment. At the same time it enables to eliminate

brain drain. It results also in a higher level of science and research in the country. Thus the sufficiency of highly educated and qualified people could become an attraction for other investors. New incentives in the form of a high demand, technological development and modern infrastructure, as well as better results in reducing corruption and administrative obstacles could also serve to gain new investors, but mainly to retain the old ones. Acquired experience of domestic firms as well as the increased volume of the FDI invested abroad represents other characteristics. The country should gradually reach the stage of balancing its export and import investments. It does not mean that the country can afford not to grant investment incentives. Having met all these prerequisites the fourth phase follows within which the country becomes an important investor abroad with a solid position in the world market. It is capable of creating conditions that attract investors, and simultaneously it creates prerequisites for the export of investments. The fifth phase means that investments abroad are less conditioned by the country specifics and more attention is paid to dynamic factors of the development. The re-increase of foreign investments takes place again. The FDI inflow and outflow mutually converge. This stage is currently typical only for several industrially developed countries.<sup>240</sup>

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<sup>240</sup> Táncosková, Slaný, (2004).



<http://194.160.246.99/elpub/FM/Stefko1/4.pdf>

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<http://www.nbs.sk>

<http://www.statistics.sk>

## Appendix 1

Finished projects 2003 and 2004			
Firm	Country	Firm	Country
Dong Jin Precision	GB/Korea	LEONI	Germany
Clizia	Italy	Tournigan Gold	Canada
Divani Recliner	Denmark	DKI Plast	Denmark
Nordea Bank	Denmark	Peugeot	France
Fiberstruct	Netherlands	Elettromil	Italy
ECCO	Denmark	GGB	USA
Elastoform	Germany	HELLA, KG	Germany
Young Star Elektronikai	Korea	BSH GmbH	Germany
Matador	Slovakia	Plastipak	USA
Cemm Thome	France	P&P GmbH	Germany
Johns Manville	USA	ECIMEX Group	Czech republic
Plastipak	USA	NMB-Minebea	Japan
VALEO	France	HORNLEIN	Germany
Legend	Australia	Nefab	Sweden
Getrag Ford Transmissions & Getrag	Germany	Visteon	USA
OPTIMA ROBE	Austria	Hansung Electronics (Kukje)	Korea
Glunz & Jensen	Denmark	Brueckner Mashinen Bau	Germany
GGB	USA	Air Liquide	France
MPM	Germany	CLAMASON	GB
NN Euroball	Italy	Yaskawa	GB
KIA Hyundai	Korea	MIBA FRICTEC	Austria
Key Plastics	Portugal	Emmegi	Italy
DTC-Textiles Lasson	France	Bang Joo Optical Industry	Korea
Arcelor	France	Confidea	Germany
Faurecia Automotive	France	VMA Infra Industrie	Belgium
HB Logiform (HBLOGIS)	Korea	Johnson Controls 1.	USA
AVA Cooling (Haugg),	Germany	NISSENS	Denmark
Weindel Logistik Service	Germany	Vaillant Industrial	Germany
Alumatec - GG Tec	Germany	Sky Media Manufacturing (Universal Media Corp.)	Switzerland
AIREST	Austria	Aluminios Cortizo	Spain
Infineon	Germany	CONTINENTAL	Germany
SENSCOM	Korea	Johnson Controls II	GB/France

Source: SARIO

## Korean perspective of Foreign Direct investments in Central and Eastern Europe: Korean automobile industry investments in Slovakia

### 1. INTRODUCTION

From Korean-EU FTA (Free Trade Agreement) to investments and plans to secure a free trade deal, economic intertwining between Korea and the European Union is growing wider and more extensive. “The Korea- EU Framework Agreement for Trade and Cooperation” established in 1996. The EU decided in 1995 to negotiate a “Framework Agreement on Trade and Cooperation” with Korea. Two-way trade that totaled \$34.5 billion in 1995 jumped two-fold by 2005 to \$71 billion, with exports to the 27-member EU totaling \$43.7 billion and imports \$27.3 billion. The EU is now Korea’s third largest trading and its largest investment partner. For the EU, Korea is an important export market (18th largest) and its 8th biggest source of imports. Up to 1997, annual growth in bilateral trade was generally steady although understandably subject to fluctuations in both partners’ economic cycles.

**Table 1** Korean investment by region (Cumulative investment; 2006), (USD 1,000)

Region	Case	Amount
<u>Asia</u>	21,911	31,105,907
<u>Middle East</u>	145	1,249,280
<u>North America</u>	7,040	17,457,745
<u>Central &amp; South America</u>	650	4,512,932
<b><u>Europe</u></b>	<b>1,228</b>	<b>9,742,946</b>
<u>Africa</u>	188	1,116,263
<u>Oceania</u>	856	1,404,248
Total	32,018	66,589,321

Source: The Export-Import Bank of Korea, foreign investment statistics, Sept 2006

As table 1 show, Korean investments in the EU by the end of 2006 cumulated to around \$9.7 billion, accounting for 14.6 percent of the total \$66.5 billion in overseas investments. That year, Slovakia attracted the most investments, totaling \$290 million. Trailing behind were Poland, the United Kingdom, and Luxembourg. Currently, the CEE<sup>241</sup> is Korea’s preferred destination for foreign investments. Foreign investment is active in Eastern European countries, which also includes Hungary, Czech and Slovakia. They are attractive for their relatively low labor costs and zero tariffs when trading within the EU. Korean firms have moved into the region early, looking to use central Europe as a production platform for the European market.<sup>242</sup> Major investments include a plant being built in Slovakia by Kia Motors Corp., the affiliate of Korea’s No. 1 carmaker Hyundai Motor.; LG Electronics plant in Poland; and Samsung Electronics

<sup>241</sup> In this paper the term CEE will be used to refer to the EU members from Central and Eastern Europe. It means that Visegrad 4 group (Poland, Czech, Hungary and Slovakia), Romania and Bulgaria.

<sup>242</sup> Radosevic Slavo: The electronics industry in Central and Eastern Europe: A new global production location: Working paper, University College London, 2003.

plants in Hungary and Slovakia. These investments to be expand further.

While the importance of an FTA is being stressed more than ever since the end of the DDA (Doha Development Agenda) negotiations, an FTA with not only the U.S., China but with the EU, is desperately needed. The EU is Korea's second biggest export market, the biggest investor to Korea and the world's biggest demand market. A study shows that with bilateral trade volume reaching 53 billion euros in 2005, an FTA could boost Korea's gross domestic product (GDP) by up to 2 percent.<sup>243</sup>

Why Korean firms, especially *Chaebols*, which have huge capital, supports of Government and global networks in the world, search their new production place to CEE?. The viewpoint of Korean, CEE is still unfamiliar country in the EU. However, Korean firms move from Western-based operations to CEE and make joint ventures with host countries' companies. As case study of Korean investments into CEE, I analyzed Slovakia as emerging investment place, which entered the EU and NATO in 2004. Until 1997, Korean business people have not paid much attention to Slovakia simply because of its distance and their lack of understanding of its complex history and culture. Foreign investment was generally prohibited during the period of central planning system in Slovakia. Only Hungary, Poland and Romania permitted some FDI (in the form of joint ventures) and the amounts involved were small.

Therefore, Section 3 reviews push and pull factors about Korean investment. basically FDI is in general motivated by both pull and push factors. The pull factors are dependent on a host of factors that are dependent on fairly long list of domestic policies and characteristics of host countries. The push factors, on the other hand, which are external to developing countries, focus mainly on growth and financial market conditions in industrial countries. While the push factors determine the totality of available resources, the pull factors determine its allocation between countries.<sup>244</sup>

## 2. FACTORS OF CEE (PULL FACTORS): THE DETERMINANTS TO INVEST IN CEE

### 2.1. Member of European Union

In terms of Korea-CEE relations, the EU membership provides a new impetus with regard to trade and investment. Membership of the EU itself does not provide any guarantee of good returns on investments. However, it helps to ensure a certain level of political and economic stability and guarantees EU legal rights to all investors.

Since 2004, Korean firms have rapidly invested in Slovakia. According to 2006 data of EXIM Bank in Korea, total 39 cases of investment, USD 472,333,000 dollars investment into Slovakia. It is connected with Slovakia's privatization policy and Mr. Dzurinda's political and economical reforms. However, it is most important at that time, officially Slovakia entered the EU and have affect EU economical advantages, such as, zero-tariff to foreign investors especially non-EU members state investors. When EURO adapts in CEE area, it will be faster speed with a single market.

The enlarged EU economic bloc brought about a greater-than-expected boost to Korea's exports to Europe. The EU is the world's largest host region for FDI, have absorbed 38 % percent of global inflows and 39 percent of total stock in 2000. The European Union is emerging as a key destination for Korean investment, while people

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<sup>243</sup> Heungchong, Kim, "Where 'Global Europe' and 'Dynamic Korea' meet: A Korea-EU FTA from a Korean viewpoint", a paper presented APEC symposium, in Tokyo, September 27 2006.

<sup>244</sup> Ajayi, (2006).

are increasingly reluctant to invest in Southeast Asian countries and the United States. In a report on Korea's overseas investment, Korea's overseas investment reached \$149.6 billion at the end of 2005. Underscoring the growing importance of the EU as Korea's trade and investment partner, the two economies will soon seek to seal a free trade deal. Official negotiations for a Korea-EU FTA are tentatively scheduled to begin in March 2007.

## *2.2. Low cost of labor*

As factor of investment, labor costs is a CEE's comparative advantage. The term labor costs refer to the expenditure borne by employers in order to employ workers. Labor cost exercise a considerable influence on the choice of investment locations for MNEs as they account for some two-thirds of production costs for goods and services.<sup>245</sup> Low cost of production has provided a significant specific advantage for firms investing in CEE countries.<sup>246</sup> A researched by KPMG, reducing labor costs was cited by 65 percent of CEOs, three top objectives for relocating manufacturing capacity.<sup>247</sup> The benefit of 'low labor cost' played the most important role in investment decision. Slovakia's minimum monthly wage ranks among the lowest in the EU, at least among the 18 member states that have such a wage defined in law. According to Eurostat data, the minimum wage in Slovakia is 183 euro. Only Latvia and Lithuania have a lower minimum wage, at 129 euro and 159 euro, respectively. It can be said that average labor costs of Korea (over two times), but the average for Visegrad 4 is much lower that of Korea. Therefore, Korean manufacturing investors can enjoy relatively low labor cost in these Visegrad 4. But in 2005, Slovak wages rose faster than in any other OECD state, at 6.7 percent year-on-year in real terms (9.4 percent in nominal terms) during the first three quarters.

As viewpoint of cost cut-seeking investment, the price of labor costs in China, India and ASEAN Countries are cheaper than Slovakia. However, still those countries have risks and obstacles to foreign investors, especially SMEs without any government supports. As mentioned above, it is certain that EU membership of Slovakia guarantees stable environments of investors. It proved exactly that compared with before and after Slovakia entrance to EU, amount and cases of Korean investment.

## *2.3. Strategic location advantage*

Why is CEE emerging as place for foreign investment? The chief answer is geography. Countries in Central and Eastern Europe are the best candidate sites for the new plant in consideration of wage levels, brand awareness and other economic factors. Slovakia has emerged recently as an important production location. Some of literature has tried to explain the rationale for multinational's decisions to undertake FDI. Yet plant location choice among foreign countries did not generate much attention. Geographical proximity to major west European markets and production centers is a major advantage. From the strategic location of Romania and Bulgaria in the Europe continent, it related to the emerging markets of the Black Sea region, the Balkans and the Middle East as well.

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<sup>245</sup> Eurostat, (2002).

<sup>246</sup> Klein and Welfens, (1992); Reijan, (2001); Kašiková (2004); Dudaš, (2004).

<sup>247</sup> KPMG, (2006).

#### ***2.4. Incentives of investments***

Additional incentives are still important decision-making factors in CEE. Each country suggests best attractive incentives to investors. Tax-cut/ exemption, free rent for factory place, and set-up infrastructures are common policies in CEE to foreign investors. As member of the EU, it is already settled to maximum ceiling to invest on the EU regulation. However, it depends on importance, amount and sensitivity of investments in home countries. Under the terms of the agreement, Slovakia's government provides subsidies worth about 15 percent of the total investment cost, in addition to the use of factories sites. The Slovak government has also committed to building a new transport infrastructure and setting up a Korean language school for Kia employees' children. Recently making highways to Žilina, which most of Korean firms operate their factories.

### **3. FACTORS OF KOREA (PUSH FACTORS)**

#### ***3.1. Change of Korean FDI policy***

Korean FDI is almost directly or indirectly related to shifts in the structure of the world economy and especially the transformation of Korea economy. Traditionally, Korea has been an exports-oriented economy with relatively little emphasis on FDI policy. The history of the Korean outbound FDI began in 1968, but its size remained relatively small until the mid-80s, due to various regulations to control foreign reserves and firms' inability to conduct investments abroad. This situation was brutally reversed in 1998 as a consequence of the financial crisis. After the Asian financial crisis, situations changed a lot.<sup>248</sup> "Foreign Investment Promotion Act" was enacted on September 16, 1998. Finally, one important step in these recent evolutions was the October 1999 establishment, within the Korean Trade- Investment Promotion Agency (KOTRA). According to a composite indicator of FDI restrictions, that level nevertheless remained relatively high in comparison with European countries and the United States. Moreover, this mid to long term FDI vision and strategy was announced on 2006. The purport of strategy is to address changes in FDI environment, to enhance awareness of FDI and to set up a direction toward FDI attraction. The FDI policy also focusing on integration with economic policies and actual contribution to the Korean economy.

#### ***3.2. Deterioration in the Korean domestic economy environment***

In 2006, it was a difficult year to domestic Korean automakers, which have suffered great losses from a sluggish domestic market, a strong won currency, high oil price, rises in wages, land prices and distribution costs, the management environment for domestic businesses deteriorated and the shift of factories overseas has been stepped. Perennial strikes are Korean chronic factor to make deteriorate domestic business environment. Companies have suffered from repeated strikes by their trade unions. According to Financial Supervisory Service survey in Sept 2006, Almost 40 percent of 165,776 employees working at Korea's top *Chaebols* and their affiliates have joined labor unions.

Domestic exporters are suffering these days caused by the depreciation in the won-dollar exchange rates. Companies should seek other ways to make up for being

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<sup>248</sup> Kim, (2006).

less cost competitive if they want to keep profits healthy. Meanwhile, the government is advised to try to take immediate steps to slow the won's strengthening. Finally, these domestic business environments make more companies to go out to keep away from domestic risks. That mean that is it directly connected "hollow-out effect" to Korean manufacture industries, such as, light industries. It is very paradoxical to Korean economy.

### ***3.3. The globalization management strategy of companies***

After Asian crisis, Korean business companies operate on brand new management strategies. The localization of operation is the most important strategy to Korean companies. Under the shock of Asian financial crisis, the newly legislated laws have imposed a number of reform steps on the Korean corporate world, such as greater degree of management transparency, protection of the rights of minority shareholders, and lifting of restrictions on foreign investment. Companies should not centralize their management but pursue globalization all across the value chain. Pursuing cross-border takeovers can be an effective tool to go global. More and more Korean companies are looking to set up branches overseas as part of their globalization efforts.

## **4. CASE STUDY: KOREAN AUTOMOBILE INDUSTRY INVESTMENTS IN SLOVAKIA**

The automobile industry was one of Korea's major growth and export industries in the 1980s. Outbound investment has grown sharply in recent years as more Korean firms expanded global operations, and implemented overseas projects to develop national resources amid high oil prices. Domestic Korean automakers, which have suffered great losses from a sluggish domestic market, a strong won currency, high oil price in addition to the labor union strikes. The European Union (EU) remained the largest export market for Korean cars in 2006 amid declining sales in the United States due to the Korean currency won's strength. The wider EU could be a new growth engine of the economy

The automotive industry is the most dynamically developing sector in Korea and Slovakia. It is a motive power of the country's economy development and fulfils the conversion task of former armament industry in the Slovak engineering. The flagship industry of the Slovakia economy, such as, automobile manufacturing helping it industries to flourish too.

It is one of the largest overseas ventures by a Korean company in history. Hyundai Motor is the world's 10th biggest automaker, according to the latest data by the Korea Automobile Manufacturers Association, while Kia Motors ranks 15th globally. Kia Motors investment in Slovakia, it is one of the largest overseas ventures by a Korean company in history. Kia is reorganizing in Europe to fully reflect the new-found importance of CEE market. In 2003, 29% of Kia exports from Korea were destined for Europe. In 2004 that figure rose to 35% and during 2005 it reached 46% of total exports.

Hyundai Motor, Kia and other Korean major companies are rushing to set up regional offices and plants in central and eastern European countries to expand their presence in a market with great growth potential. These European countries serve as an ideal base for Korean companies as the region offers cheap Labor and low tariffs, while giving opportunities for the firms to make further inroads into the EU.

Kia Motors has selected the Žilina region of Slovakia as the home of its first-ever European assembly plant. It took eight years of deliberation for Korean car

manufacturer Kia to choose to locate its first European car factory in the north Slovakian town of Žilina, about 124 miles north east of the capital Bratislava. Kia's decision confirmed Slovakia as an important hub for the European car manufacturing industry. Several Korean parts suppliers, including affiliated Hyundai Mobis, also participated in Kia's European plant project. Since the middle of 1990s, the strategy of investors in Slovakia has changed. The new trend has been characterized by incremental takeover of ownership of joint ventures. The global trend of cost decreases has caused a number of MNEs to start to set up their services in low-cost environments. As for the joint venture structure, MNEs entering Slovakia preferred this form at the beginning more than establishing wholly owned subsidiaries. Slovak tire firm Matador and Korean company Dongwon Metal are to set up a joint venture. Representatives signed an agreement on the venture on March 2005. The new company supply car door constructions for the Hyundai-KIA plant near Žilina. The companies plan to invest EUR 10 million in their joint venture. Matador controls 65 percent and Dongwon Metal the rest. The joint venture is one of the first suppliers for Hyundai/KIA in Slovakia.

In spite of starting period of Korean investment in Slovakia, How do affect to economy of Slovakia? FDI represent a significant catalyst of structural economy changes. According to T. Mickiewicz et al,<sup>249</sup> FDI have strong influence on domestic employment through types of jobs created, regional distribution of new employment; wage levels, income distribution, and skill transfer. FDI benefit domestic industry as well as Slovak consumer by providing opportunities for technological upgradation, access to global managerial skills and practices, optimal utilization on natural and human resources, making Slovakia industry internationally competitive, opening up export markets, providing backward and forward linkage and access to international quality goods and services. In a world of increase of competition and rapid technological change, their complimentary and their catalytic role can be very valuable.

High unemployment is a long-term problem of the Slovakian economy as well as affecting society. Slovakia's unemployment rate is the second highest in the EU after Poland. Slovakia's unemployment rate posted the third greatest year-on-year decrease after Lithuania and Estonia. In the first quarter of 2006, the unemployment rate declined below 15% for the first time in seven years. The decrease in unemployment was mainly due to both the implementation of active labor market policy measures and the creation of new jobs by foreign investors in Slovakia. According to analysts, the unemployment level has decreased mainly due to the fact, that new investment created new jobs. However, another factor contributing to the decline in unemployment is the migration of a relatively large number of citizens to work abroad.

## 5. CONCLUSION

'Mega-EU' is a best economy partner to Korean companies. Huge market of Western Europe gives chances and opportunities to Korean to improve higher quality and competitiveness with developed competitors. Moreover, Central and Eastern Europe is the place to make products with inexpensive labor costs and strategical location with well-connected logistical networks. Candidates of the EU countries are already to be 'blue ocean' to investors. In terms of Korea-EU relations, current FTA

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<sup>249</sup> Mickiewicz T. et al.:The Value of Diversity: Foreign DirectInvestment and Employment in Central Europe During Economic Recovery: Sussex European Institute working paper, University of Sussex UK, 2000.

discussion is pending issue between Korea and EU, it will be turning-point to enlarging and deepening bilateral relations.

Automobile industry emerged a sensitive industry in CEE, specially Visegrad 4. All major automakers invested in this area and take great part of these country's economy and development. In this context, Korean biggest automaker, Kia Motors investment in Slovakia, it is one of the largest overseas ventures by a Korean company in history. Slovakia serves as a "base camp" for Korean companies as Slovakia offers several incentives, while giving opportunities for the firms to make further inroads into the EU huge markets. It reflects Kia's strong commitment to the European market and to meeting the increasing demand of European consumers. Still it remains several variables and barriers to investment in CEE, upgradation of Korean's economy in the world depends on how to make successful achievements and performances in CEE.

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## **Role, activities and positions of the EU within the WTO**

### **PREFACE**

The world economic agenda is defined by unprecedented split between growth and living standards. This is perhaps not so obvious in the EU, but the countries from the global South experience (at least according to statistics of the European Commission and the UN panels) more poverty and very slow development in the basic social services. One of the views of how to analyse factors contributing to this situation is to elaborate the link between the least developed countries and regional economic unions from the North. One of these is undoubtedly the European Union which current economic and trade policy is dominated by the Lisbon agenda. This strategy is to enhance European competitiveness in order to achieve full employment, social cohesion and environmental sustainability. Unfortunately this strategy currently reflects itself only in pro-business stance at the expense of the above-mentioned secondary aims. By promoting the interests of big companies only and neglecting the issues of human and environmental rights, the European Union undermines the same values upon which it was built: equality, respect to human life and democracy.

The platform for the expansion of the European corporations is the negotiating table of the WTO, and therefore the Doha development round will be our primary focus when analysing the fulfilment of competitiveness targets of the Lisbon agenda. There are three key areas worth mentioning: trade in Agriculture, Services and Industrial Goods & Natural Resources. The main commitment of the EU and the USA that the interests of the least developed countries would dominate the last talks of the WTO proved to be false. Apart from the aggressive stance of the USA and Japan, these talks were jeopardized also by strong corporate bias in the EU's trade stance.

The aim of this short report is to provide the basic information of how the European union trade agenda is formed, implemented and what are the consequences of its implementation.

### **BACKGROUND OF THE EU TRADE POLICY**

The EU has a common trade policy, meaning that in matters related to trade, including the WTO, the EU functions as a single actor. The European Commission negotiates trade agreements on behalf of the Union's 27 Member States and regularly consults a special advisory committee consisting of officials from the Ministries of member states.

At the end, the Council of Ministers confirms the conclusions of the negotiations. The only voted institution of the European triangle – the Parliament has no formal say in the current trade negotiations. However, the EU consults and informs the Parliament through the Committee on International Trade.

In March 2000, during the European Summit in Lisbon, European Heads of State and Governments agreed upon a very ambitious strategy for Europe: the Lisbon Agenda. This should ensure that Europe would turn within a decade into *“the most competitive and dynamic knowledge-based region in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”* However, to achieve this, the EU resorted to the same neoliberal business-oriented toolbox it had used previously

and unsuccessfully, including the structural-reforms of labour markets, and social security systems, and the completion of the internal market via further liberalisation and privatisation of public services. Social and environmental concerns were being adapted to the rules of business, and not vice versa.

The EU fell victim of its “competitiveness mania” when European leaders met in spring 2004 to decide that European legislation would be assessed, from then on, against its impacts on business’ competitiveness, be it environmental, social or development legislation. On the basis of this, a number of key policies were put in place to foster the competitiveness of European business within Europe. These include the “Directive on services in the internal market”, also known as the Bolkenstein directive, and the so called “better regulation” initiative which, in line with the idea of assessing European legislation vis-à-vis its impacts on business’ competitiveness, aimed at creating a more business-friendly regulatory environment in Europe. The negotiating position of the EU in the multilateral trade talks at World Trade Organisation (WTO) would have served, instead, the purpose of fostering the competitiveness of European business internationally.

This is often contrary to the EU Member States obligations to progressively achieve the full realization of citizens’ rights incorporated in the International Covenant on Economic, Social and Cultural Rights (ICESCR), not only in their own countries but also internationally.

For instance, privatising and liberalising public services, and pushing some of this through the WTO negotiations in services, can undermine universal access to water, health services and health insurance, which Governments have the obligation to guarantee as basic human rights.

#### **AGRICULTURE**

The Lisbon Agenda covers all economic areas within the EU and therefore also applies to agriculture. The central features include a market-orientated Common Agricultural Policy (CAP) and a growth-orientated policy for agricultural development. This is reflected in the following aims at the WTO negotiations:

- a) to secure and improve international competitiveness by accessing foreign markets for European products
- b) to source cheap inputs and raw materials
- c) to maintain the same protective measures in Europe as long as possible to keep foreign competitors out of the European market and maintain supplies from Europe.

The limited growth rates and saturated consumer markets in the EU make growth in the sector dependent on expanding into foreign markets. Cutting high agricultural tariffs in those sectors that prohibit market access is fundamental to secure competitiveness of European food exports. At the same time, in order to be able to sell its products on markets outside the EU, the EU food and drinks industry’s requires that Europe’s direct or indirect export subsidies are maintained as long as possible.

Although the EU offered in Hong Kong to end its export subsidies by 2013, we would effectively still be able to trade-off this commitment with all other export support areas under negotiation (e.g. export credit, food aid). It has been exactly this type of resilience to make any attempts to move in the direction of developing

countries' interests to access European markets that stiffened the negotiations before and during the WTO general council meeting in July 2006. The USA was even less willing to move.

The way the agricultural negotiations have been heading until July last year, point towards an international trade regime concerned with opening further local markets, dismantling protective measures, whilst failing to address the original development objective of the Doha development round.

Even the World Bank, Carnegie Endowment study and the European Commission sustainability impact assessment found that most developing countries and their people will not benefit from any further agricultural liberalisation. Small producers, rural communities as well as the environment, both in developed and developing countries, will loose out from the current WTO negotiations on agriculture.

### SERVICES

The WTO's General Agreement in Trade in Services (GATS) covers business services, such as legal services and computer services, as well as other commercial services with strong social impacts, including financial, distribution and transport services. Privatized public services such as health, education, postal and water services can also be further liberalized under the GATS negotiations.

The EU is the world's largest exporter of services, accounting for nearly a quarter of the world's total services exports. Services constitute "the single most dynamic economic activity" accounting for at least two thirds of the GDP and employment, according to the European Commission. The GATS negotiations, so strongly supported by the EU, are being used therefore to improve international market access for European services companies by committing WTO members to open-up their services sectors. At the same time, the EU is using the GATS negotiations to create an international trading system that will promote processes already underway in the EU, or make them permanent. The much contested internal services liberalisation agenda, known as the Bolkestein Directive, is an example of both. Once a sector is liberalised under GATS rules, foreign service providers are allowed to enter the country and invest on the same terms as national services companies. This "national treatment" will avoid that national regulations prevent, what business sees as being, unfair competition and the loss of competitiveness vis-à-vis domestic or other foreign operators. GATS rules also remove some governmental measures and regulations deemed by the industry as "barriers to trade", which could mean that, avoiding trade restrictions might get priority over the economic, social, security and environmental goals. Furthermore, GATS rules are practically irreversible once adopted, giving industry the guarantee of a "stable" and "predictable" investment environment. Consumers, however, have no guarantee, through GATS, that the quality and prices offered by the foreign service providers will be to their benefit. Nor are workers guaranteed that more qualitative jobs will be created.

The European Commission has insisted that services liberalization should be as much part of the Doha Round as agriculture and natural resources. When developing countries asked for an emergency safeguard clause that could represent the last resort to deal with the negative impacts of the GATS , the Commission raised many objections. Apart from that the EU successfully included into the GATS negotiations theremoval of restrictions on foreign ownership, which can effectively weaken the positions of domestic service providers and make the services more expensive for the

locals.

The EU is also working on dismantling the “barriers to trade” (e.g. cutting import tariffs) within the service sector. The aim is to provide European supermarkets with cheap sourcing from developing countries, to attract customers with low prices and meet increased competition from discounters.

#### **INDUSTRIAL GOODS AND NATURAL RESOURCES**

In the WTO, the liberalisation of trade in industrial goods and natural resources, including forests and minerals are discussed in the negotiations on Non-Agricultural Market Access (**NAMA**). The removal of all “trade barriers” include negotiations about binding, reducing, or eliminating tariffs, tariff peaks and non-tariff barriers for NAMA products.

Europe is the world’s largest exporter in industrial goods, representing therefore an area in which the EU aims at increasing its competitiveness in line with the objectives of its Lisbon agenda. The main sectors competing in the global markets are the chemical industry including pharmaceuticals, the automotive industry, non-electrical machinery and paper products. The European industry wants all kind of trade barriers to be removed, not only to increase its exports from Europe or among its subsidiaries around the world, but also in order to gain access to more consumer markets and cheap raw materials.

The EU has explicitly identified the NAMA negotiations as one of the top two priorities, along with GATS, of its “offensive agenda” within the Doha Round of negotiations.

The EU has made common cause with other developed countries to negotiate amongst a restricted group of countries through informal meetings. It has pressed to reduce tariffs as much as possible for all products, representing over 70% of developing country exports, through a general tariff –cutting formula, also known as a “Swiss” formula. Since the formula means that the cuts are proportional to the tariff s, hence higher the initial tariffs, higher the cuts applied to them. In practice developing countries are being requested to reduce tariffs more than developed countries (since the former have higher tariff s than the latter). This is being negotiated despite it contradicting the Doha Round mandate stating that developing countries would not have to reduce their tariffs to the same extent than developed countries. This for example in chemical sector means that countries with huge markets like India, Indonesia or Thailand would have to reduce their tariffs remarkably (currently they hold it above 25%). No wonder developing countries oppose this formula strongly. In contradiction many countries, including the UK, US and Asian Tigers, have traditionally kept individual tariff lines unbound precisely in order to guarantee full flexibility to deal with imports that threatened the existence of domestic producers. Tariffs were only reduced after the domestic industry had become competitive enough to do so. The EU and other developed countries are now denying developing countries this same approach they successfully used to develop their own industrial competitiveness.

#### **CONCLUSIONS**

The European Union is placing the external aspects of its competitiveness agenda – the Lisbon agenda – at the heart of its position at the WTO. By ensuring the external competitiveness of its industry, the EU’s position in the WTO has undermined the

Doha Development Round supposedly placing the interest of developing countries at the heart of the negotiations.

The influence of business-lobbying on setting this agenda will be the cause for Europe to fail to reach the objectives of job creation, social cohesion and environmental protection as stated in both the Lisbon Agenda and the WTO negotiations. Neglecting the negative impacts of further trade liberalization which aims at expanding markets for transnational corporations, getting access to cheaper inputs and removing measures that they see lowering their profits, can prove critical in the long term. In current situation the areas at stake are: agriculture, services, industrial goods and natural resources. The decision – makers shouldn't turn a blind eye on the sustainability impact assessments made by the European Commission and fundamentally change the EU's trade policies. It is inevitable to enhance transparency within this field, for example by adoption of European Transparency Initiative with the focus on mandatory register of lobbyists. EU Trade Ministers must completely overhaul the current EU trade policy and the negotiating mandates of the European Commission regarding the WTO and bilateral or regional trade negotiations. They should take into account the increasing studies such as from the World Bank and the Carnegie Endowment showing that the current trade liberalization agenda is not working for the majority of people. It must be recognized that the states with the smallest economies have a right to protect their internal markets and to give incentives to national producers , including the services sector. They shouldn't liberalize before the necessary regulations are in place to create sustainable societies. Public services such as health, education, social security, water and basic sanitation should be strengthened through the promotion of associations and the transfer of knowledge of public service companies in the developed countries. Their liberalisation or privatization should not be included in trade agreements.

The resource conservation and the sustainable management of natural resources should be promoted, including by stopping the further liberalization of trade in natural resources such as forests, oils, gas, metals and minerals. The EU's focus on „real market access“ for its exports and removing non-tariff barriers should be replaced by allowing developing countries to choose whether or not to reduce tariffs, and on which products. In the WTO negotiations this means abandoning the Swiss formula and respecting the mandate of Doha Round where developing countries can reduce their tariffs less than developed countries.

The European Union should promote the legally binding rules for corporate responsibility and accountability. (Actually, the European parliament asked the Commission to prepare such a draft focusing on personal responsibility of CEOs for any breach of environmental or social laws wherever the company operates).

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## Encouragement of innovations at regional level

### INTRODUCTION

Innovation plays central importance in the development of knowledge-based economy. There exists significant research that demonstrates how high levels of innovation activities influence rate of economic growth, business activity, national and regional competitiveness and others economic values. What does it mean innovation? There exist different approaches to the definition:

- Until the 1980 the dominant innovation research viewed innovation as synonymous with R&D to develop technical inventions.<sup>250</sup>
- In the 1980 was developed the modern systematic innovation theory based on broader perspective of innovation (Schumpeterian theories). This definition included questions about firm's innovation demand, adoption, and diffusion and about innovation drivers. It was about innovative strategies that firms could use to manage the steps between invention and the market.

However, the measurements of innovation performance are limited to available data and indicators.<sup>251</sup> The main sources of the data useful for the description of innovation performance are OECD, Eurostat and national and regional surveys. Innovation statistics have begun to be carried out in the 1990s so they are relatively young. Its conceptual framework is the "Oslo Manual".<sup>252</sup> R&D statistics, which are divided into input and output indicators, have a longer lifetime and their conceptual framework is the Frascati family manuals.<sup>253</sup>

At the European level, a big effort has been done by the European Commission to observe the innovation capacities of Member states/regions/sectors through the annual innovation trendchart and European Community Innovation Surveys (CIS), which gives the picture of the relative strengths and weaknesses of the innovation indicators in Member States/regions/sectors<sup>254</sup> in order to fulfill the targets of the Lisbon strategy.

One implication of the CIS results is to highlight the fact, that in several sectors is innovation strongly influenced by diffusion and using existing knowledge in new ways, rather than creating new knowledge.<sup>255</sup> Despite of this result and due to a lack of good diffusion indicators the main innovation policy instruments in all European countries stay either subsidize R&D or are linked to R&D.

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<sup>250</sup> Theories of innovation were frequently based on linear science-push models in which inputs of R&D or scientists led to outputs of publications or patents. (Arundel, Hollanders 2006)

<sup>251</sup> Methodology problems of innovation indicators contains Trend Chart Methodology Report 2006 [http://trendchart.cordis.lu/scoreboards/scoreboard2006/pdf/eis\\_2006\\_methodology\\_report\\_missing\\_indicators.pdf](http://trendchart.cordis.lu/scoreboards/scoreboard2006/pdf/eis_2006_methodology_report_missing_indicators.pdf)

<sup>252</sup> The measurement of scientific and technological activities, OSLO Manual, OECD, Eurostat 1997.

<sup>253</sup> OECD, (2003).

<sup>254</sup> European Innovation Scoreboard, European Sector Innovation Scoreboard, European Regional Innovation Scoreboard etc.

<sup>255</sup> Innovation in Europe Results for the EU, Iceland and Norway, European Commission, Eurostat 2004

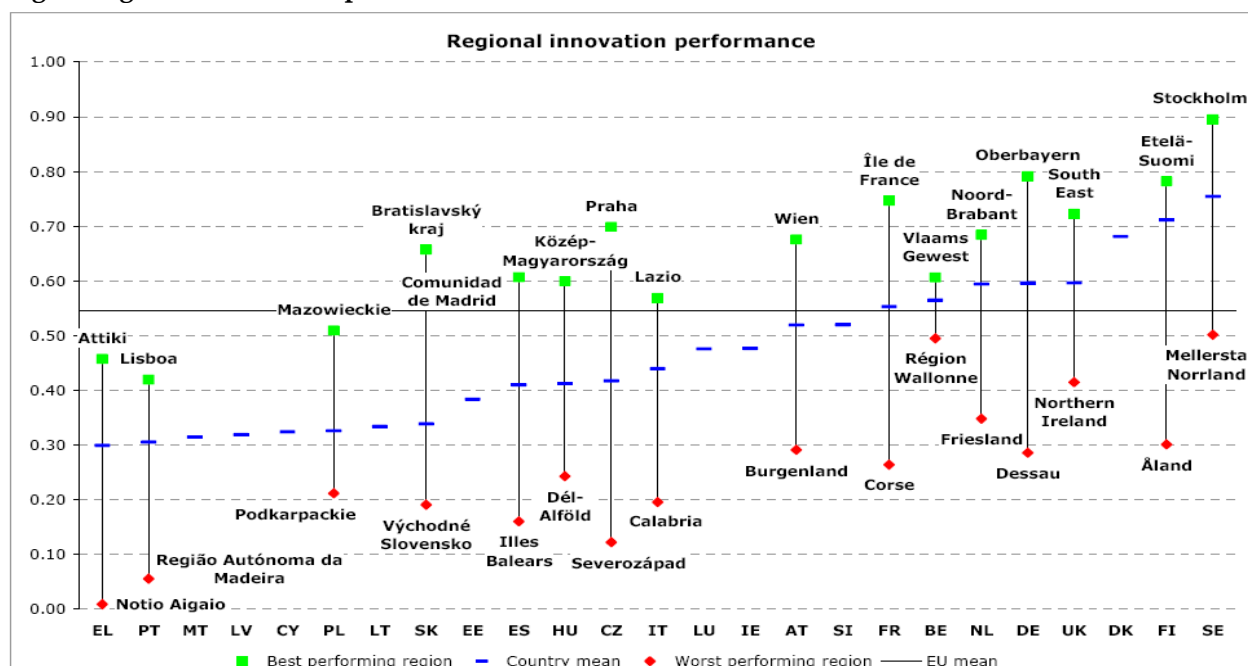
## 1. EUROPEAN REGIONAL INNOVATION PERFORMANCE

There are several approaches to describe the regional innovation potential according the selected innovation indicators. The selection of such benchmarking indicators is determined by the available statistics at regional level and by the specific dimension of innovations, which we were describing in introduction part.

The last European Regional Innovation Scoreboard (2006 RIS)<sup>256</sup> revised in January 2007 provides data of 208 regions including the regions of the new member states. The number of compared indicators was reduced from 13 (2003 RIS) to 7, which are good available on the regional level:

1. Human resources in science and technology – core (% of population)
2. Participation in life-long learning per 100 population aged (25-64)
3. Public R&D expenditures (% of GDP)
4. Business R&D expenditures (% of GDP)
5. Employment in medium-high and high-tech manufacturing (% of total workforce)
6. Employment in high-tech services (% of total workforce)
7. EPO patents per million population

Fig. 1: Regional innovation performance in EU



Source: European Regional Innovation Scoreboards 2006, European Commission

Mentioned indicators, compiled with Eurostat data, enable a comparative overview of each region's performance against the EU average.

The RIS 2006 used a composite indicator to identify the best and worst performing region for each country. From this point of view the Top - 10 performing regions in EU are mostly from Sweden and Germany, the best performing Slovak region is "Bratislava - region (Bratislavský kraj)" (on rank 29) and the worst

<sup>256</sup>European Regional Innovation Scoreboard (RIS 2006), European Commission

[http://trendchart.cordis.lu/scoreboards/scoreboard2006/pdf/eis\\_2006\\_regional\\_innovation\\_scoreboard.pdf](http://trendchart.cordis.lu/scoreboards/scoreboard2006/pdf/eis_2006_regional_innovation_scoreboard.pdf)



performing is “Eastern Slovakia (Východné Slovensko)” (on rank 189). On the 10 last ranks are regions mostly from Greece, Italy and Poland.

There are several problems in analyze of the innovative capabilities of regions. We can summarize them in follow way:

- According to NUTS classification there are large differences in the size (population, economic indicators) of compared regions<sup>257</sup>.
- Countries are divided in different size of regions.
- Different availability of data in regions.
- The regional data delayed behind national data.

## 2. ECONOMIC IMPORTANCE OF INNOVATION AT THE REGIONAL LEVEL

Innovation assumed to be one of the key drivers of national and regional economic growth. *Does innovation really matter for regions?* Exact answer could give us the statistical calculation.

*At the national level:* Surprising according the results of European Sector Innovation Scoreboards 2005 there is statistically negative correlation between used Summary Innovation Index and the growth rates of GDP per capita and labour productivity for some European countries. One explanation for not finding a positive correlation between innovation and economic growth at the country level is the fact that at the country level there could be other more important drivers of economic growth so that in aggregated data the effect of innovations does not show up.<sup>258</sup>

Similar view is analysed in European Regional Innovation Scoreboards 2006. *At the regional level:* about 35 percent of the variation in regional per capita income can be explained by differences in innovative performance. This suggests a positive relation between a region's innovative performance and its GDP growth. The high per capita income levels for e.g. Brussels (248%) and Luxembourg (251%), which aren't the innovation leader regions however, do point out that also other factors generate high incomes. (2006 RIS)

Consequently, the link between innovative performance and economic growth at national and regional level is only weak.

Another situation showed *sector analyse*: There exists significant positive correlation between innovative performance and development at the sector level, after controlling for country-specific and sector – specific effects. More innovative sectors on average tend to have higher growth rates of labour productivity. (EIS 2005)

Despite of statistically weak relationship between innovation performance and economic growth, innovation definitely play crucial role in development of knowledge-based economy.

- The innovative “leading countries” are high economic developed<sup>259</sup>
- The “losing ground” countries are countries with lower GDP per capita than European average

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<sup>257</sup> This can create anomalies, such as a small region doing comparatively well on a indicator because a single innovative firm or public research institute is based there (RIS 2006)

<sup>258</sup> EIS, (2005); This can be explanation for the temporary high economic growth of Slovakia despite of really low country innovation performance – on the rank 22 of 27 European countries.

<sup>259</sup> In the EIS 2005 the all european countries are divided in several groups according their innovation activities: „Leading countries, Average performance, Catching up, Losing group“. Slovakia was in the last „Losing group“.

- In the structure of national economy of the mostly developed countries prevail sectors with high added value and high innovative performance
- There exist various drivers of economic growth, not only innovation – so not only countries with high innovation performance have high rate of economic growth
- The mostly developed countries are in general growing slowly

Actually we can say, that in particular in regions with low per capita income could the support of innovation became driver of regional development.

### 3. CAN POLICY INFLUENCE THE REGIONAL INNOVATION PERFORMANCE?

Innovations are related to the business activities. The national and regional governments dispose of the set of instruments targeted to the improvement of business environment. So there are possibilities to influence the input as the output side of the innovation process.<sup>260</sup>

In the part 1. European regional innovation performance we mentioned the most disseminated and methodologically accepted indicators of regional innovation performance. Only indicator about “Number of patents applied at the European patent office (EPO) included the output side of innovation process, all others are related to input side. From this view can national and regional policies point at enhancing of public and business R&D subsidize and human development in high-tech sectors. Political tools related to these indicators can be easy and clear evaluate. But it is not enough.

The European policy document Aho report 2006<sup>261</sup> summarizes the results of an Expert Group on how to reinforce European research and innovation performance. It requires policy actions on „regulation, standards, public procurement, intellectual property and fostering a culture which celebrates innovation“! The possible political instruments can be used broader and improve the innovation environment e. g. by encouragement of clustering and networking.

Several regional benchmarking studies showed that different types and implementation of Regional innovation strategy (RIS) led to differences in regional innovation potential.

Therefore the answer of the question is “yes”.

### 4. THE REGIONAL INNOVATION SYSTEM

The regional innovation systems (RIS) are strong influenced by the national innovation systems. The base for effective implementation of innovation policy creates its institutional framework. National or regional system of innovation is “that set of distinct institutions which jointly and individually contribute to the development and diffusion of new technologies and which provides the framework within which governments form and implement policies to influence the innovation process.”<sup>262</sup> The effectiveness of RIS depends not only on the structure and capability of its component institutions but also on the formal or informal connection between these institutions.

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<sup>260</sup> Innovation efficiency can be measured as the ability of firms to translate innovation inputs (education, investment in innovation, etc) into innovation outputs (firm turnover coming from new products, employment in high tech sectors, patents, etc).

<sup>261</sup> 2006 – Aho Group Report "Creating an Innovative Europe"

[http://ec.europa.eu/invest-in-research/pdf/download\\_en/aho\\_report.pdf](http://ec.europa.eu/invest-in-research/pdf/download_en/aho_report.pdf)

<sup>262</sup> Metcalfe, 1997 in Benchmarking regional innovation: A comparison of Baden-Wuttemberg, Bavaria, Northern Ireland and the Republic of Ireland, NIERC 2000.

Organisations in RIS fulfill three main functions:

- Knowledge applying organisations (private firms, etc.)
- Knowledge generating or sourcing organisations (universities, research institutes, etc.)
- Knowledge mediating or co-ordinating institutions (Business innovation centres, professional chambers, Regional development agencies etc.)

Innovation governance structure can be very diverse in European countries. For example in Slovakia the competence is divided in to responsible ministries (e.g. Ministry of Economy, Ministry of Education) and innovation support agencies (e.g. The Science and Technology assistance agency, The National agency for the development of SME).

The effectiveness and impact of the regional innovation system depends on regional autonomy in some areas o public spending, too. In Slovakia the regional governance called "VÚC" was established in 2002. Actually, Slovakia had no explicit national or regional innovation policies or councils. Issues related to innovation development were included in broader development plans. The central government played a far more important role in the design and implementation of regional innovation plans than regional governments, mainly because of better human and financial resources. Important feature of the Slovak regional innovation policies in 2004 and 2005 was the increasing reliance on EU funds.<sup>263</sup>

Several region's studies showed, that different types of implemented RIS could highlight core-periphery differences within the EU. For example the results of benchmarking study: "A comparison of Baden-Wurttemberg, Bavaria, Nothern Ireland and the Republic of Ireland, NIERC 2000" analysed important differences between study regions based on used RIS.

Study results confirmed the importance of beneficial external conditions for innovation activities in local firms. While the strength and co-ordination of firm's internal resource-base may be crucial in determining their innovation capability, external linkages or networks also play a potentially important role. Regional comparisons of innovation will therefore depend on the learning capabilities and adaptive behaviours of individual firms, the inter-connectedness of innovating organisations and the wider structure, which supports the innovative activity of firms.<sup>264</sup>

The main differences in the analysed regions were based on:

1. *Higher economic performance* - The core regions (Baden-Wurttemberg, Bavaria) have higher levels of GDP per capita, it could mean that firms in these regions face a local demand for higher quality, more sophisticated and more innovative products much better.
2. *Population densities* are higher in the core regions.
3. *Higher innovation performance* - Higher levels of R&D investment and patent applications per capita were the most significant differences. There were large

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<sup>263</sup> Trend Chart Methodology Report 2006 Searching the forest for the trees, European Commission [http://trendchart.cordis.lu/scoreboards/scoreboard2006/pdf/eis\\_2006\\_methodology\\_report\\_missing\\_indicators.pdf](http://trendchart.cordis.lu/scoreboards/scoreboard2006/pdf/eis_2006_methodology_report_missing_indicators.pdf)

<sup>264</sup> Benchmarking regional innovation: A comparison of Baden-Wuttemberg, Bavaria, Nothern Ireland and the Republic of Ireland, NIERC 2000

discrepancies in the share of the business and public R&D expenditures as in the rate R&D as percentage of GDP

4. *Differences between the structure and development of the RIS* – The core regions, especially Baden-Wurttemberg profits from the “specific technology- oriented state support and sophisticated technology transfer mechanism.”

The strength of the Baden – Wurttemberg, region with high innovation capacity, has been linked to the effective application of knowledge by large firms, with strong links to their locally based small and medium sized suppliers. It is argued that these local supply chains links have facilitated the rapid diffusion of new technologies in the regional economy.

Important role in encouraging of innovation played technology centers, supporting technology-oriented business start-ups, effective innovation governance system and different policy measure especially favouring SMEs in the innovation process.

Another example could be the Republic of Ireland, which has changed rapid its weak innovation and economic position in several years. Since 1995 were developed systematically research capabilities and innovation infrastructure (established research institutes, centers of excellence in biotechnology, opto-electronics etc.). Implementation of Technology Foresight Ireland (1998) and rapid growth of foreign direct investment in Ireland were the main drivers of economic growth.

## 5. THE CASE STUDY OF EASTERN SLOVAKIA

The region Eastern Slovakia is located in the east of the country. Its area extends approximately one third (32%) of the Slovak territory counting 29% of the total number of inhabitants, thus representing a market for nearly 1.6 millions of citizens. From the view of administration, the regional self-government of Eastern Slovakia is exercised by two self-governing regions: the Prešov Region and the Košice Region.

**Figure 2** The region of Eastern Slovakia and its position within the territory of the Slovak Republic



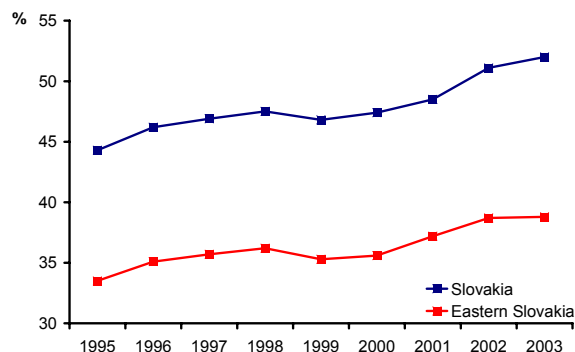
Source: Valentovič et al., 2006, p. 6

The significant lagging innovation performance of Eastern Slovakia in comparison with other Slovak regions as well as neighboring countries could be relating to low level of economic activity in this region.

According to the presented data, Eastern Slovakia shows the lowest level of

economic performance (only 39% of EU average and approximately 75% of Slovak average). If we take a look at the next chart showing the percentage of GDP EU average of Slovakia and Eastern Slovakia, we can see that the average annual growth of Slovakia is higher (about 2,04%) than growth of Eastern Slovakia (about 1,88%).

**Figure 3** Percentage of GDP EU average

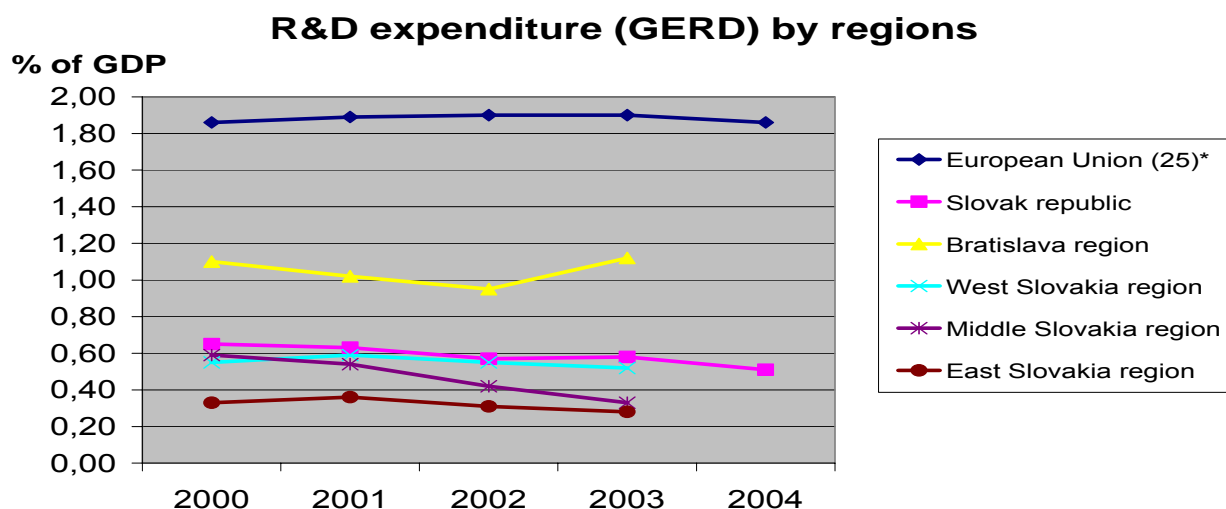


Source: Eurostat

The share of agriculture (including forestry and industry) is about 5,5%, industry and construction about 31,8% and services about 62,8%. It is remarkable, that the share of services in GDP, which is above the national average still doesn't reach the EU-25 average. The region showed the highest rate of unemployment among Slovak regions - about 23% in 2005, higher than average national unemployment - 16,2 %.

Regional innovation capability of Eastern Slovakia seems to be weak according to input indicators such the employment in high-tech sectors and R&D expenditures. Rate of researchers in Eastern Slovakia is about 17,12 % of the total researcher in Slovakia, there are only 2,5 researcher per 1000 inhabitants and their monthly salaries are lower than Slovak average. Although in the region are several educational institutions located (e.g. Technical University) serious problem is lack of tertiary educated human resources who move into regions with higher economic performance and higher salaries. The number of tertiary educated people is about 2,6 per 1000 inhabitants (Slovak average 5,4/1000 inhabitants).

**Figure 4** R&D expenditures in Eastern Slovakia



Source: Eurostat, graphic made by author

The region miss the direct regional Technology foresight and RIS, although there have been prepared several documents, which included the innovation policy objectives (Regional operation program, Regional development plan for Eastern Slovakia, Social and economic development plan for Košice-region etc.).

Since 2005 there was established cooperation between regional government and regional education institution (Technical University of Košice) targeted to develop RIS for Košice-Region.<sup>265</sup> Interesting is the situation, that there is preparing common RIS for Košice- region and Nothern Hungary and not for the whole Eastern Slovakia. The Prešov -region is preparing its own RIS. The common bilateral RIS is preparing with the support of the Sixth Framework Program NORRIS. Nowadays there is realizing qualitative and quantitative survey about present state innovation in region. Wide scale of stakeholders and foreign partners will be included into this RIS project. The RIS will be finished by the end of 2009.

Identification of RIS objectives and its implementation can be the basis for enhancement of innovation activities in the region. Important could be the document obligatory force for involved partners and regular evaluation of the implementation process.

We can define as the main problems of low regional innovation capacity in Eastern Slovakia following issues:

1. Insufficient financial resources for innovation (dependence on EU funds, lack of risk capital)
2. Missing innovation tradition (in public, private sector)
3. Brain drain of potential innovation holders
4. Missing innovation strategy (Technology foresight, RIS)

We can say that there are broad possibilities for regional governments to influence regional innovation capability. The main opportunities for innovation policy in Eastern Slovakia could be:

1. Using of EU funds:
  - RIS preparation based on regional partnership and coordination with RIS of Prešov region
2. Increasing of public R&D expenditures using EU funds
3. Development of Partnership public - private sector (example IT Valley in Košice region)
4. Improvement of regional innovation governance system
5. Attracting of FDI - investors in high-tech sector (Industry park Kechnec, international R&D park Prešov-Košice-Miskolc)
6. Human resources development (e.g. Support of study programs related to IT)
7. Improvement of innovation support infrastructure (including financing support mechanism, hard infrastructure etc.)

## CONCLUSIONS

There exists positive relation between innovative and economic performance, in particular in regions with low per capita income could the support of innovation became driver of regional development. The regional policy can influence innovation activities using several policy instruments. Crucial role play strategic documents (RIS,

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<sup>265</sup> R IS Košice region - working material, 17. May 2006, Košice - VÚC

Regional Technology Foresight) and effectiveness of governance structures related to innovation policy

Eastern Slovakia is lagging behind in innovation performance, but there exist several important opportunities, that could significant influence its innovation potential in the future.

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## Towards a Post-Secular Europe?

Is contemporary Europe (still) secular? Does religion have any real impact on the public life? Is it well-founded to speak of a religious revival which would indicate a passage towards the era of post-secularism? These are all tough questions that require an accurate and empirically supported analysis of the dynamics of secularization as it has displayed in Europe, regardless of our understanding or conviction about what religion actually is.

### RELIGION AS A PUBLIC MATTER

Let us start with an obvious statement, namely that on the worldwide stage, religion is today clearly a public matter. Undoubtedly, in most of the cases religion is widely debated in the mass media with regard to the Islamic fundamentalism and even terrorism, which could lead to the thesis that the modern enlightened and liberal values of the secular Western civilization have been attacked by the obscurantist religious fanaticism that has to be defeated if we do not want to sink into chaos. However, this genuinely secularist claim proves to be – to say the least – an oversimplification if one realizes that we have witnessed to other, more positive and (yet) largely reported religious events as well, such as the affluence of millions of pilgrims to the funeral of John Paul II. Hence, it would be more cautious to recognize that religions keep being important “global players”, unique sources of legitimacy for almost any sort of action, including the regrettable ones, but also undeniable holders of moral authority for many people.

Now, if we focus attention on Europe, it is likewise difficult to deny that European societies have undergone a long progressive process of religious decline, which is normally explained in terms of secularization, laicization, de-Christianization, disenchantment of the world (Marcel Gauchet), emergence of a post-Christian Europe, or “‘unchurching’ of the European population.”<sup>266</sup>

What does the “classical” secularization theory actually say? Briefly, it supposes that the factors linked to the process of modernization that took place in the Western civilization (such as economic development, urbanization, emergence of modern social institutions, pluralism of different worldviews, growing rates of literacy and education, advancements in science and technology, social mobility, etc.) non only lead to the separation of the State and the Church (which is of course the first step of the secularization process), but that they also push religion out of the public sphere and make eventually religion whatsoever an irrelevant force in the world. In other words, according to this theory there is direct proportionality between the progress of modernization and the erosion or even the fading of religion, so that the latter process can be even seen as a condition of the former one. Some scholars consider this “loss of power and authority of religion in society”<sup>267</sup> the most fundamental structural and

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<sup>266</sup> Casanova, José (2006) “Religion, European Secular Identities and European Integration,” in: K. Michalski (ed.), *Religion in the New Europe*. Budapest and New York: Central European University Press, p. 23.

<sup>267</sup> Moyser, George (1991) “Politics and religion in the modern world: an overview,” in: G. Moyser (ed.), *Politics and religion in the modern world*. London and New York: Routledge, p. 14.



ideological change in the development of European politics, as it affects not only the way in which concrete regulation of the society is achieved, but also the way and the terms in which basic values are presented to the people and accepted by them.

In order to understand properly this theory, it would be useful to recall at least two facts. First, the secularization hypothesis was born in the context of strong tensions between religion and liberal culture in Europe which were reflected in the work of thinkers like Marx, Nietzsche, Freud, Durkheim, and Weber; as a consequence, "the founding generations of sociologists were not disinterested analysts but were advocates for the science and reason which would crush what they saw as the ignorance and superstition caused by religion."<sup>268</sup> According to this thinking which might be arguably labelled as wishful, secularization is conceived as normal, progressive, linear, irreversible and "quasi-normative"<sup>269</sup> phenomenon necessarily accompanying the progress of the West.

Second, the secularization pattern is applicable (though not as unproblematically as its supporters would wish) only to the European continent, whilst it proves to be erroneous if compared with the religious situation in the United States, where the general level of religiosity is much higher than in Europe and where only insignificant share of population<sup>270</sup> adheres to atheism. Thus, we should bear in mind that the erosion of religion is unique and exceptionally feature of European culture and not an unavoidable effect of modernization.<sup>271</sup> If considered as a whole, Western civilization shows lower rates of religiosity in comparison with the rest of the world, but religion is still far from being irrelevant in the West, as 54% of the population within the Western civilization considers religion or religious issues "very important" to them<sup>272</sup> and the polls carried on in the last decades by the *World Values Survey* bring evidence of a considerable worldwide revival of religion, especially in terms of a resurgence of the religions' impact on the self-identification of the people.<sup>273</sup>

#### RELIGIOUS TRANSFORMATIONS IN EUROPE

Overall, the secularization model can be applied to Europe as far as we consider the decline of the conventional religiosity in Western Europe. Let us bring some empirical evidence. As Table 1 proves, the loss of belief in God in the main Western European countries was rather dramatic in the last quarter century.

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<sup>268</sup> Fox, Jonathan, and Sandler, Shmuel (2006) "The Question of Religion and World Politics," in: J. Fox and S. Sandler (eds.), *Religion in World Conflict*. London and New York: Routledge, p. 4.

<sup>269</sup> Casanova, (2006), p.24.

<sup>270</sup> The estimations vary from 1 % according to Hervieu-Léger who excluded from this category those who believe in a life after death, to 4 % according to *Financial Times/Harris Poll*. See Hervieu-Léger Danièle (2006) "The Role of Religion in Establishing Social Cohesion," in: K. Michalski (ed.), *Religion in the New Europe*. Budapest and New York: Central European University Press, p. 46.

<sup>271</sup> Ibid.

<sup>272</sup> Ellingsen, Tanja (2006) "Toward a Revival of Religion and Religious Clashes?," in: J. Fox and S. Sandler (eds.), *Religion in World Conflict*. London and New York: Routledge, p. 15. According to this study, Western civilization includes (in accordance with Huntington's theory of the clash of civilizations) Western Europe, the four "Visegrad" countries, the three Baltic republics, United States, Canada, and Australia, see Ibid., p.31, Appendix 2.

<sup>273</sup> See *ibid.*, p.24.

**Table 1** Percentage of believers in main Western European countries, 1981-2006

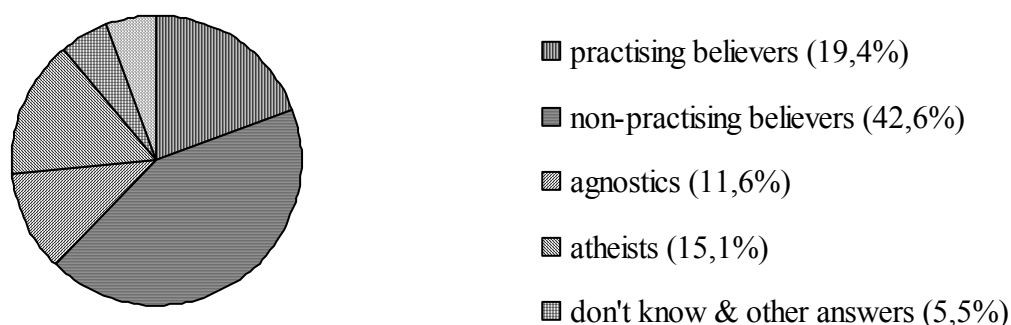
	1981	2006	2006/1981 (%)
Great Britain	76	35	46,1
France	62	27	43,6
Italy	84	62	73,8
Spain	87	48	55,2
Germany	72	41	56,9
Unweighted average	<b>76,2</b>	<b>42,6</b>	<b>56</b>

Source: McLeod<sup>274</sup> – based on the survey of European Values Systems Study Group (for data from 1981), and Financial Times/Harris Poll (for data from 2006).<sup>275</sup>

Note: Data from 1891: believers in God (base: adults aged 18 and over). Data from 2006: believers in God or any type of supreme being (base: adults aged 16 and over and in case of Italy 18 and over). Only West Germany is considered in the survey of 1981.

Moreover, the level of religious observance was pretty low already in 1981: the percentage of those who attended church at least once a month varied (if we consider the five countries included in Table 1) from 53 and 52% (Spain and Italy respectively) to mere 18% in France (which was 29% of all French believers). In all these five countries taken as a whole only a minority (the unweighted average is 47%) of believers also regularly practised their faith.

In order to identify the trend of religious observance and of the pattern of religious belief in general, let us consider the data emerging from *Eurobarometer 47.2*<sup>276</sup> that analyzed the attitudes of the young Europeans in 1997 throughout all the 15 countries which were then members of the European Union (EU-15). We summarize the findings of this survey regarding religious belief in Graph 1 that shows that in Western Europe a majority (62%) of young people believes in God, but only one person in four goes to church (including those who do so just out of tradition, without actually believing).

**Graph 1** Religious belief of young people in the EU, 1997

Source: Eurobarometer 47.2, *The Young Europeans* (base: young people aged between 15 and 24 in all the EU-15 countries).

Note: Percentages do not add up exactly to 100% due to rounding.

<sup>274</sup> McLeod, Hugh (1997) *Religion and the People of Western Europe 1789-1989*. Oxford and New York: Oxford University Press, p. 176-177

<sup>275</sup> *Financial Times/Harris Poll*, November-December 2006, available at: [http://www.harrisinteractive.com/news/datatables/FinancialTimes\\_12202006.pdf](http://www.harrisinteractive.com/news/datatables/FinancialTimes_12202006.pdf) (a summary available at: <http://www.harrisinteractive.com/news/allnewsbydate.asp?NewsID=1131>).

<sup>276</sup> *Eurobarometer 47.2, The Young Europeans*, April-June 1997, available at: [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_114\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_114_en.pdf).

If we look at the situation in the countries included in the Table 1, we can observe (see Table 2) that the level of religious observance of the young generation in 1997 was much lower than the corresponding level of the preceding generations. Whereas the most drastic fall in attendance of religious services took place in Spain, Italy maintained a much above average rate of observance. If we confront those who believed and those who were also attending religious services (excluding the practicing non-believers) in the five main countries taken into consideration, we find out that in 1997 only 28% (unweighted average) of young believers practiced their faith (with a minimum of 16,1% in Great Britain and a maximum of 47% in Italy).

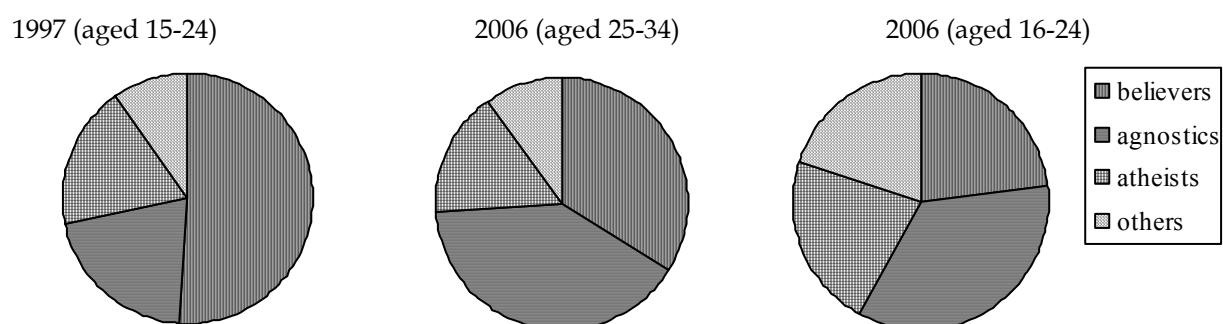
**Table 2** Belief and religious practise (%) of the young generation in main Western European countries, 1997

	believers	practising believers	practising non-believers
Great Britain	50,8	8,2	1,8
France	52,8	8,6	3,8
Italy	87,3	41,0	2,3
Spain	72,7	16,5	2,6
Germany	50,1	17,2	12,2
Unweighted average	<b>62,7</b>	<b>18,3</b>	<b>4,5</b>

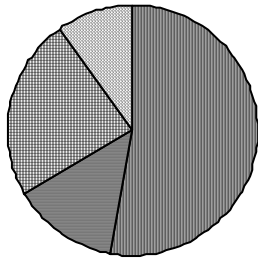
Source: Eurobarometer 47.2 (see Graph 1).

Now let us sort the data distinguishing believers, agnostics, atheists and others (the latter category includes also the practising non-believers). This permits us to show the trend of the religious attitude of the youth by confronting the figures emerging from *Eurobarometer 42.7* with those of *Financial Times/Harris Poll* from 2006. In order to have more diversified data, let us consider the development of religious belief separately in each of the main Western European countries comparing three groups: the generation aged 15-24 in 1997, the same generation in 2006 (aged 25-34) and the generation aged between 16 (or 18 in the case of Italy) and 24 in 2006. The results are showed in the Graph 2.

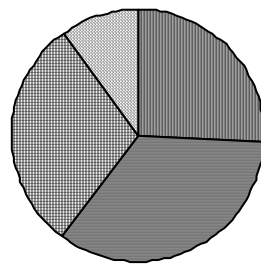
**Graph 2** Trend of the religious belief of young generations in main Western European countries, 1997-2006  
Great Britain



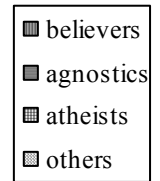
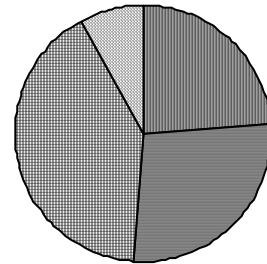
France  
1997 (aged 15-24)



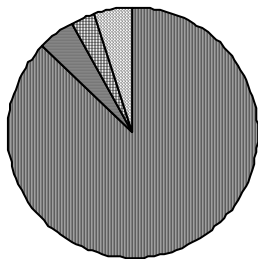
2006 (aged 25-34)



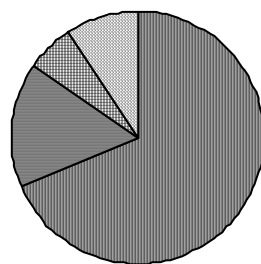
2006 (aged 16-24)



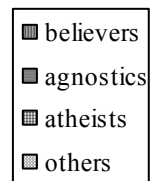
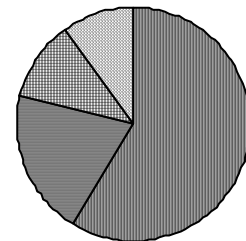
Italy  
1997 (aged 15-24)



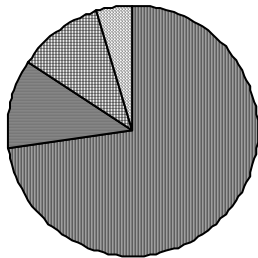
2006 (aged 25-34)



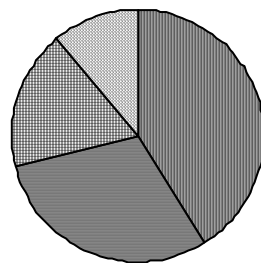
2006 (aged 18-24)



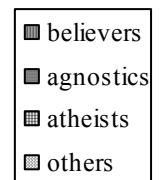
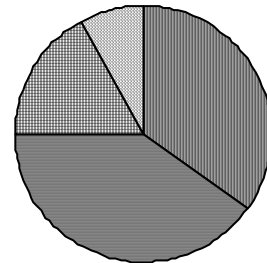
Spain  
1997 (aged 15-24)



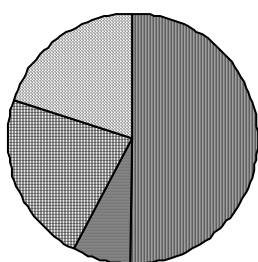
2006 (aged 25-34)



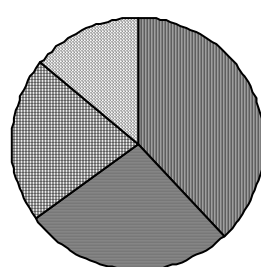
2006 (aged 16-24)



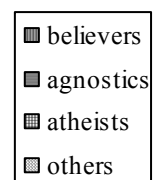
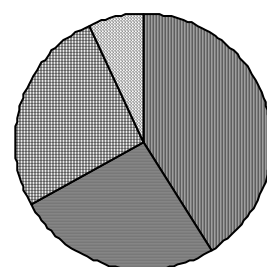
Germany  
1997 (aged 15-24)



2006 (aged 25-34)



2006 (aged 16-24)



Source: Eurobarometer 47.2 (see Graph 1) and Financial Times/Harris Poll (see Table 1).

Note: Percentages may not add up exactly to 100% due to rounding.

Apart from France where a clear turn to atheism is observable, in other countries the development could be characterized as a shift towards uncertainty as to the question of God. Whilst there is still a relatively small number of those who firmly deny God's existence, young people tend to doubt about their faith and only a minority of them (Italy apart, the five countries being taken into account) are convinced believers. Therefore, perhaps the most distinct phenomenon typical for the contemporary pattern of religiousness is the emergence of religious indifferentism and the weakening of faith.

Other quantitative and comparative studies, however, show different trend. According to the surveys of *European Values Study* from 1991 and 1999 there was a slight increase of the share of believers across a considerable number of countries, in both Western and Eastern Europe. In table 3 we summarize some of the findings.

**Table 3** The percentage of believers in God in selected countries, 1990-1999

		1990	1999	1999/1990 (%)
Western Europe	Italy	89,9	93,5	104,0
	Austria	86,7	87,4	100,8
	Denmark	64,3	68,9	107,2
	Belgium	71,2	71,9	101,0
	West Germany	77,6	76,7	98,8
	Netherlands	64,6	59,5	92,1
	Spain	85,4	86,7	101,5
	France	61,9	61,4	99,2
	Great Britain	79,3	72,5	91,4
	Sweden	45,2	53,3	117,9
	Total WE			<b>101</b>
Central and Eastern Europe	Poland	97,5	97,1	99,6
	Romania	96,8	96,3	99,5
	Lithuania	65,9	85,8	130,2
	Slovenia	62,7	65,2	104,0
	Latvia	58,3	79,5	136,4
	Hungary	65,4	67,2	102,8
	Bulgaria	67,2	65,6	97,6
	Czech Republic	35,4	40,3	113,8
	Estonia	51,8	50,7	97,9
	East Germany	36,3	31,8	87,6
	Total CEE			<b>107</b>

Source: European Values Study 1991 and 1999 and World Value Survey 1995-1997.<sup>1</sup>

Note: Numbers in italics (figures from Romania and Bulgaria) indicate that the entries are taken from the World Value Survey 1995-1997 (the percentages of the change are also based on these entries). The data from the Western and the Eastern parts of Germany are considered separately even after the reunification of both parts in 1990. Total percentages of the changes are unweighted and based only on the figures from the countries included in the table.

<sup>1</sup> Quoted in Tomka, Miklós (2001) "Religious Change in East-Central Europe," in: I. Borownik and M. Tomka (eds.), *Religion and Social Change in Post-Communist Europe*. Kraków: Nomos, p. 19, table 3.

Obviously, the period considered here precedes the religious decline that was pointed to in the previous series of graphs. Moreover, the whole adult population is included in the survey. In addition, other differences can result from the exact wording of the questions and possible answers of the surveys. Nevertheless, these data indicate at least that there are several countries, even in the Western Europe, where religiosity grows. The sole fact that in a context of general economic prosperity a religious revival occurs should relativize the naive assumption that welfare and secularization go hand in hand. In addition, there are notable differences among single countries across the continent, so that it seems to be rather hazardous to draw strong general conclusions for Western and Eastern parts of Europe considered as areas with different patterns of religiosity. What however is evident is the fact that the communist regime did not manage to destroy religion. Even in countries where ecclesiastical institutions were under heavy persecution, religious feeling of many people remained untouched or it even strengthened. As Ramet puts it, the communists “adopted policies designed to erode religion, believing, mistakenly, that secularization was a simple process and ignoring the fact that the chief result of secularization is not the disappearance of religion but the shattering of the religious monopoly, and hence, in consequence, the mushrooming of alternative faiths.”<sup>2</sup>

Furthermore, Tomka<sup>3</sup> has empirically demonstrated that overall, in the 90’s not only the increase of the belief in God took place in both Western and Eastern Europe, but also that in Central and Eastern Europe people were actively turning to faith (especially in young generation), as the number of converts is there generally higher than that of apostates, whereas in Western Europe the situation is inverse. Accordingly, the ratio of converts among all believers increases going East. Both indicators are showed in a summarized way in Table 4.

**Table 4** The difference of percentages of conversions and apostasies and the ratio of converts of all believers in selected countries

age	Difference: converts – apostates (%)			Converts of all believers (%)		
	18-30	31-60	61-	18-30	31-60	61-
WE	-12,3	-7,7	-5,9	13,8	12,8	6,3
CEE	+11,3	+6,6	-3,7	36,9	28,0	12,2

Source: International Social Survey Programme 1998, in Tomka (2001: 17, Table 2).

Note: WE = unweighted average of the figures from the following countries: Austria, West Germany, Great Britain, France, Italy, Netherlands, Spain, Sweden, and Switzerland; CEE = unweighted average of the figures from the following countries: Bulgaria, Czech Republic, East Germany, Hungary, Latvia, Russia, Slovakia, and Slovenia.

In the Western area, there is a very high rate of apostasies especially in the former West Germany, where, however, we can observe also a substantial share of converts (23,8% of all believers in the young generation). As to the percentage of converts among those who believe in Western Europe, we can find the highest figures in France (a surprising 27,3% in the middle generation), whereas we observe a sort of religious stagnation in Spain where the number of converts is minimal. Among Central and Eastern European countries, Slovenia is closer to the Western pattern with regard to the

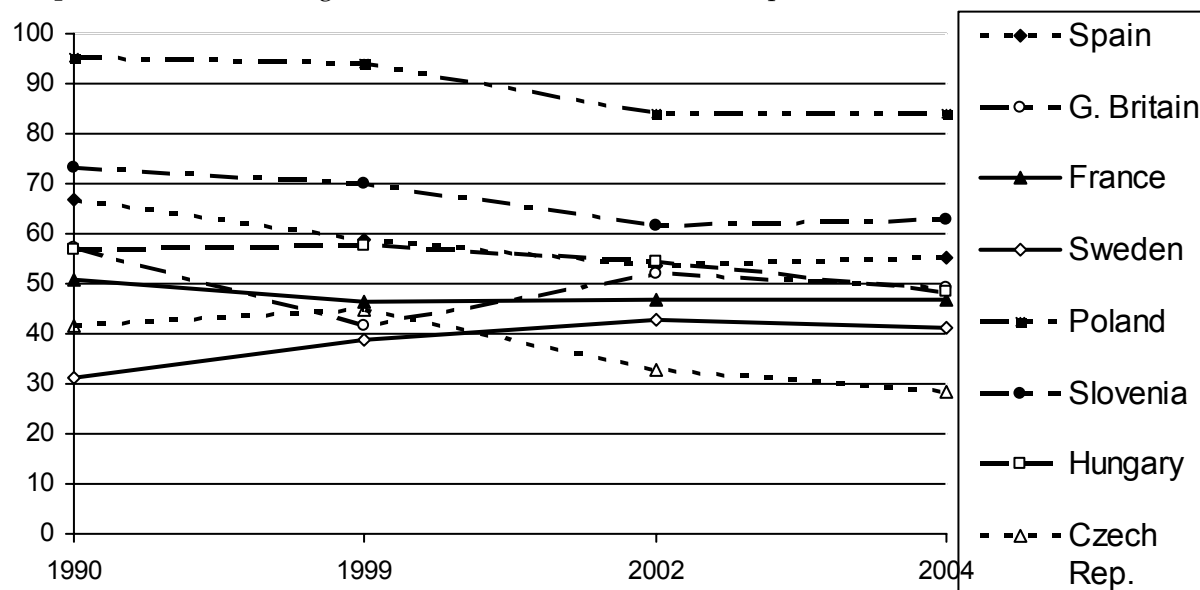
<sup>2</sup> Ramet, Sabrina (1991) “Politics and religion in Eastern Europe and the Soviet Union,” in: G. Moyser (ed.), *Politics and religion in the modern world*. London and New York: Routledge, p. 67.

<sup>3</sup> Tomka, (2001).

change of religious adherence. The highest percentage of converts can be found in Russia, with an astonishing ratio of 52% converts in the generation of believers aged 18-30 and 48,6% in that aged 31-60. Almost identical figures comes from Latvia, where converts form likewise the majority of young believers.

Now let us investigate no more on the belief, but on the general religiousness of the people, i.e. on the question how many Europeans consider themselves “religious”. If we combine the pertinent data from the *European Values Study* and those from the *European Social Survey* (ESS),<sup>4</sup> we can visualize the course of religious self-assessment of the Europeans (see Graph 3).

**Graph 3** The course of religious self-assessment in selected European countries, 1990-2004



Source: European Values Study (for years 1990 and 1999): the percentage of those who identified themselves as “religious” (two other possible identifications were “not religious” and “atheist”). ESS (for years 2002 and 2004): the percentage of those who answered to the question “how religious you are?” by indicating value 5 or higher in a scale “not at all religious - 1-9 - very religious” (the base of ESS: all population aged 15 and over).

In general, we can observe just a slight decline of this indicator of religiosity between 1990 and 2004 (except Sweden where religiosity grew up). The Czech Republic confirms its fame of being one of the most secularized countries in the world (together with Estonia), whereas Poland proves to be one of the strongest bastions of religion with an overwhelming majority of Catholics who are everything but ashamed to express their faith (similarly high religiosity could be observed also in Romania, Ireland, and Greece).

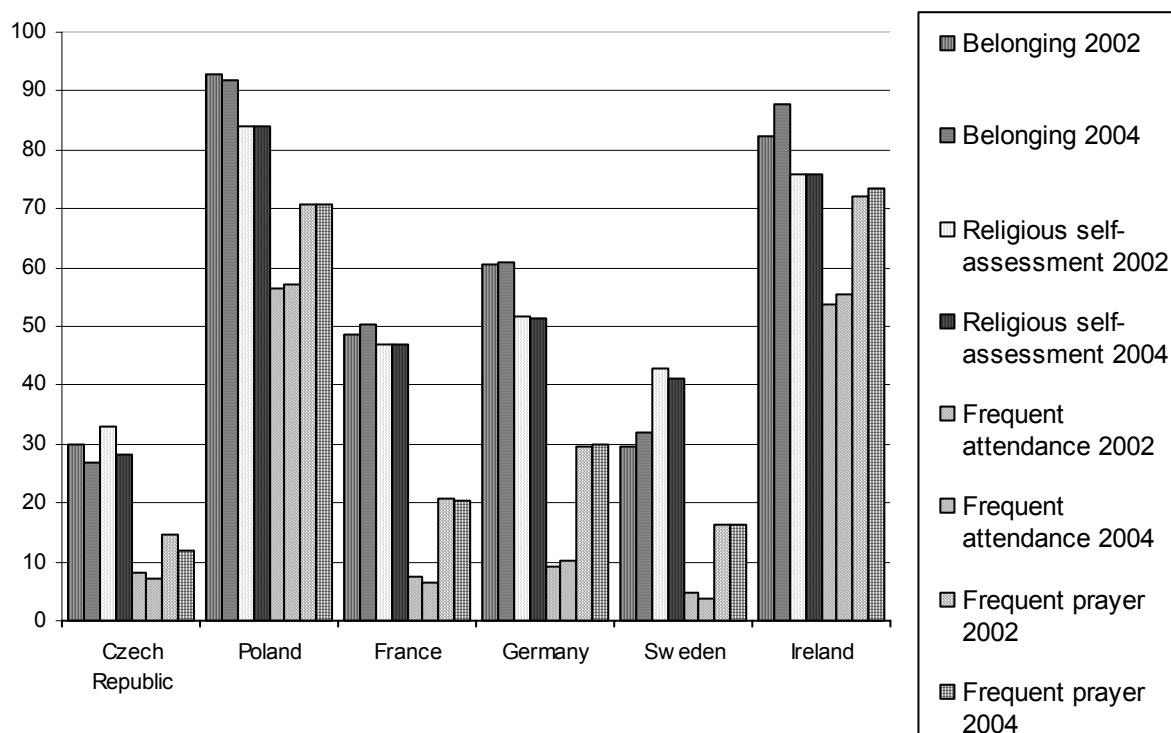
In order to get a deeper insight into the dynamics of the transformation of religiosity in recent times, it would be useful to focus on the difference between the percentage of those who belong to a Church, those who consider themselves as religious, those who practice their faith by attending regularly religious services (at least weekly, as Christians should do) and those who express their inner religious feeling by praying (apart from at religious services). By introducing these factors we can empirically verify the hypothesis that secularization led to the individualization and subjectivization of religion, bringing to the fore the phenomenon of “belief without belonging” (Grace Davie).

<sup>4</sup> *European Social Survey* 2002-2003 and 2004-2005, R. Jowell and the Central Co-ordinating Team, London: Centre for Comparative Social Surveys, City University (2003 and 2005), available at <http://www.europeansocialsurvey.org/> and <http://ess.nsd.uib.no/>.

<sup>5</sup> Tomka, (2001), p. 15, table 1.

If we look at the Graph 4 where we show the religious situation in the most representative European countries based on the data provided by the ESS, we can immediately realize that only in Sweden and less remarkably in the Czech Republic such metamorphosis of religiosity has occurred, whilst even in quite secularized countries like Germany and even France the belonging to a community prevails on the feeling of being religious (not to speak of Poland and Ireland where almost everybody gets baptized at birth). On the other hand, when it comes to religious practise, it seems that the thesis which says that today believers tend to prefer non-institutionalized forms of religious behaviour is correct, at least in the sense that everywhere there are more people who frequently pray outside traditional ecclesiastical services than those who regularly go to church. Hence, the phenomenon of practicing people who actually do not have inner faith was admittedly more diffused in the past than at present. However, leaving aside those consonant features, our analysis confirms that the religious situation varies substantially from country to country, so that it is practically impossible to theorize one universal pattern of religiosity that could be applied to Europe as a whole and to each of the European countries. It is therefore evident that the “classical” model of secularization certainly does not do justice to the complexity of the actual religious phenomena.

**Graph 4** An overview of religiosity in selected countries, 2002-2004



Source: ESS.

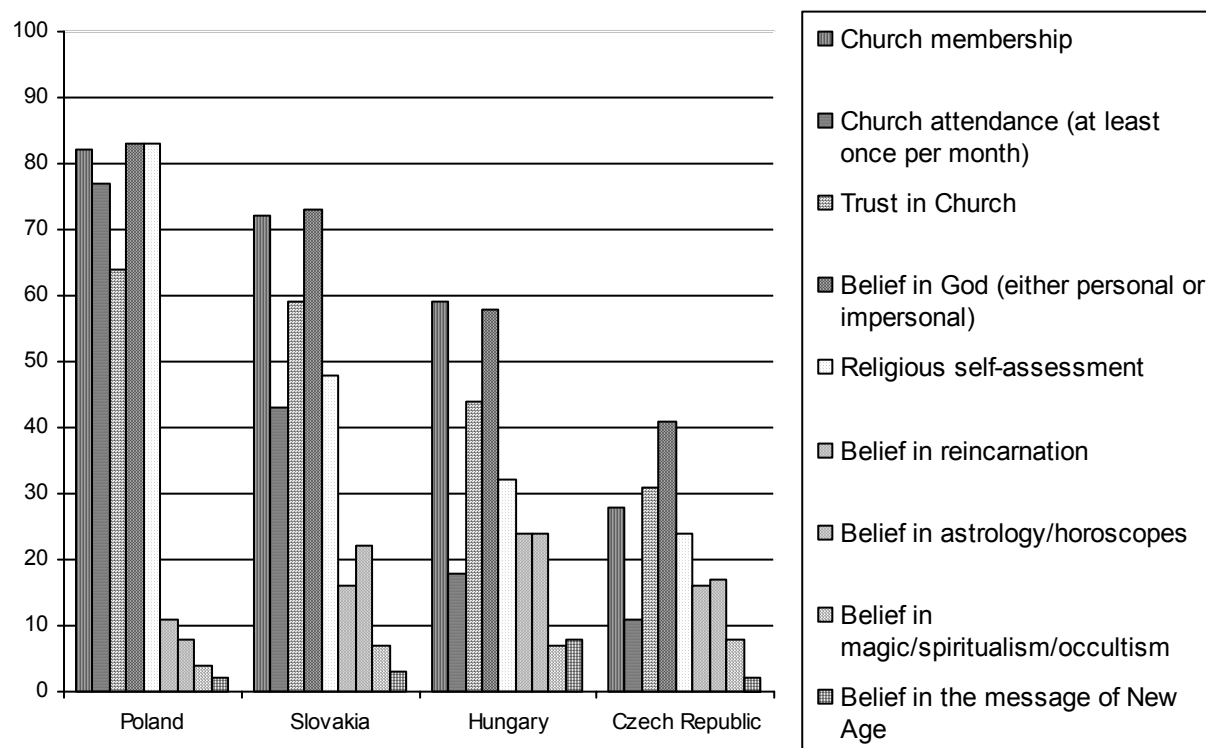
Note: Belonging: the fact of belonging to particular religion or denomination. Religious self-assessment: the percentage of those who answered to the question “how religious you are?” by indicating value 5 or higher in a scale “not at all religious - 1-9 - very religious”. Frequent attendance and prayer: the percentage of those who attend religious services or pray at least once a week.

Another usually claimed thesis to be verified is that there has been a shift from traditional and institutionalized forms of religion to the alternative and new forms of faith and religiosity, such as the belief in reincarnation, in the message of New Age or in astrology in general, or the adherence to various syncretist forms of occultism or gnosticism, not to speak of practices coming from the Far East like yoga and Zen. Some



authors see in this kind of “re-spiritualization” an important feature of the emergence of a new, “post-secular” pattern, for which would be typical the return of the sacred that was previously detached from church-related religiousness. According to this claim, the alternative or new form of religiosity would compensate for the losses traditional and conventional religiosity has undergone. This is a tempting thesis, but if we turn to the quantitative studies, it proves to be imprecise (at least as far as we consider the area of Central Europe, for which pertinent and reliable data are available: see Graph 5). It is true that in traditionally Catholic countries like Poland the new forms of religiosity do not find a fertile ground and we can also notice a substantial adherence to belief in reincarnation and astrology in Hungary and, to a lesser extent, in Slovakia and the Czech Republic, but overall the alternative religiosity is still too weak to simply replace the traditional one (or to be more precise, the new religiosity is able to substitute the old one only to a very low degree). In the light of these results which also show that the popularity of the ideas of the New Age is just very marginal, we could conclude that the thesis of a post-Christian Europe where alternative spirituality dominates (or will soon do so) is to be put forward only with extreme caution. Which would be to say that the fact that faith is today indeed largely understood as a free personal option (ideally detached from any social coercion) does not necessarily and everywhere imply either a “do-it-yourself approach to religious belief and practice”<sup>6</sup> or a turn to completely individualized and private religiousness.

**Graph 5** Traditional and “alternative” religiousness in Central Europe, 2000



Source: Political Culture in Central and Eastern Europe survey, 2000<sup>7</sup>

Note: Religious self-assessment: the percentage of those who declare themselves as “extremely”, “very”, or “fairly” religious. Belief in reincarnation and other forms or alternative or new religiosity: the percentage of those who express that they believe “very strongly” or “to a certain degree”.

<sup>6</sup> Hervieu-Léger, (2006) p. 47.

<sup>7</sup> Pollack, Detlef, and Müller, Olaf (2006) “Religiousness in Central and Eastern Europe: Towards Individualization?,” in: I. Borowik (ed.), *Religions Churches and Religiosity in Post-Communist Europe*. Kraków: Nomos, pp. 24 and 26, Tables 1 and 2.

At this point it might be useful to add that perhaps the most striking feature emerging from the research on contemporary religiosity is the decline of the importance of religious institutions and the fact that ever wider share of European population does not feel that religious practice and arguably also the observance of religious principles of ethical or disciplinary nature are necessary (or even beneficial) for their subjective religiousness. Accordingly, religious leaders are seen critically by majority of the people, of course not in the sense that they are judged a priori as unreliable, but that their authority does not spring any more automatically and unconditionally just from their hierarchical position, but rather from the authenticity of their behaviour, from their personal charisma. Even in such a secularized country as France, religious people devoted to help the poor like Soeur Emmanuele and Abbé Pierre gained large popularity and admiration: the latter was granted many high national and international awards and he was voted the most beloved person in France for as many as seventeen times, until, in 2003, was beaten by Zinedine Zidane (after, Abbé Pierre asked to be removed from the survey). And inversely, even in such a Catholic country as Poland we could recently observe a powerful public pressure against the newly appointed archbishop of Warsaw Stanisław Wielgus who eventually resigned after having lied about his past collaboration with the communist secret service.

Moreover, it seems that doctrinal and ethical instructions released by religious institutions are critically examined and sometimes eventually unaccepted by the people, which is a behaviour that in the past was probably not so usual. This can also be showed empirically. To give just a couple of examples regarding the Pope Benedict XVI, we recall that according to an on-line (and thus worldwide) survey conducted among the readers of British Catholic weekly *The Tablet* just after the unfortunately famous Pope's Regensburg lecture in September 2006, a majority (though narrow: 53,6%) of the respondents said that Benedict XVI should not have quoted the fourteenth-century derogatory remark about the Prophet Muhammad that sparked violent protests by Muslims around the world. The same survey has indicated that as many as more than two-thirds of the readers of *The Tablet* think that Christians and Muslims should pray together, which practically means that they disagree on this issue with the Pope who (unlike his predecessor) disapproves the practice of common interfaith prayer.<sup>8</sup> In addition, another survey (*Financial Times/Harris Poll*, conducted at the end of 2006, i.e. in the period when the Pope had been still trying to iron out the troubles with Muslims) has showed that even in traditionally Catholic countries only a small percentage of people – 29% in Italy, 20% in Spain (figures from Great Britain and France are obviously even lower) – thinks that Benedict XVI has been successful in promoting a dialogue with other religious faiths. Therefore, as far as the authority of religious institutions and leaders is concerned, the secularization paradigm seems to be quite pertinent.

#### THE SECULARIZATION THEORY REVISITED

After having reported all these facts, it is not surprising to claim that the “classical” theory of secularization with its antithetical supposition that there is an unreconcilable antinomy between modernity and religion is true – to put it mildly – only partially, because it matches up only with some countries and it does so only to a very limited extent. Accordingly, there is no wonder if “the secularization approach

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<sup>8</sup> See Curti, Elena (2006) “Results of our Survey on Christian-Muslim Relations,” *The Tablet*, 30 September 2006, available at: <http://www.thetablet.co.uk/articles/8706/>.

is no longer the dominant paradigm in the sociology of religion".<sup>9</sup> Rather, there is a wide consensus that religion is far from being dead in Europe, which leads some scholars to speak of a certain persistence of religion or of religion as an anthropological constant. Others propose "a cyclical theory of secularization in which the process of removing the sense of the sacred from society contains the seeds whereby religion is eventually revived and revitalized".<sup>10</sup> This, in other words, is to recognize that we have been witnessing to both the processes of secularization and to the various countervailing movements of religious revival and reform (and, not least, of the emergence of different sorts of pseudo-religiosity, such as extreme and exaggerated adoration of sexuality, psychoanalysis, or of outstanding sportsmen, artists or politicians), or of "de-privatization" and "resurgence" of religion. Briefly, it seems that secularization and "de-secularization" are somehow complementary moments of a more general movement of multiform religious transformation. Or to put it in terms Ernst Troeltsch used, the secularization in reality means both "the secularization of the sacred and the sacralization of the secular."<sup>11</sup> What change are rather the patterns of religious behaviour, not so much the fact itself that there is religion and religiosity.

In this context of a re-consideration of the secularist model, what seems to me to be perhaps the most important intellectual achievement is the distinction, operated by Friedrich Gogarten, of *secularity*, seen as a legitimate autonomy of earthly affairs, and *secularism*, which risks to become an intolerant ideology unable to recognize any positive contribution of religion outside the realm of privacy. This distinction permits us to grasp the ambivalent character of secularization, which on the one hand was a reaction against a certain hegemony of the religion (and especially against the confusion of political and spiritual power of the Churches), whilst, on the other, was a consistent and legitimate fruit of the Judeo-Christian tradition. Indeed, as Delumeau sums up, "Christianity is the first religion in history to have detached religion from the political and from the national".<sup>12</sup> Therefore, authentic Christian faith should acknowledge the essential difference between divine and human authority, which is after all in perfect accordance with the Catholic doctrine after the II Vatican Council.<sup>13</sup> Of course, large majority of the Europeans thinks that Church and state should be kept separated, as it was recently confirmed by the *Financial Times/Harris Poll*. Moreover, the post-secularist Christian approach often welcomes the secularization because it sees in it the chance for the "*realization of Christianity on a non-religious, secular basis*".<sup>14</sup> The background of this idea is Karl Barth's and Dietrich Bonhoeffer's thesis that Christianity has not only separated the religious and the secular, but that it has even separated or at least distinguished the religion and the faith (having made, clearly, the option for the latter).

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<sup>9</sup> Pollack and Müller, (2006), p.22.

<sup>10</sup> Moyser, (1991), p.16.

<sup>11</sup> Quoted in Halík, Tomáš (2004) *Vzývání i nevzývání. Evropské přednášky k filozofii a sociologii dějin křesťanství*. Praha: Nakladatelství Lidové noviny, p. 125.

<sup>12</sup> Delumeau, Jean (2004) *Un christianisme pour demain*. Paris: Hachette, p. 196.

<sup>13</sup> In *Gaudium et spes* (nr 36) we read indeed: "If by the autonomy of earthly affairs we mean that created things and societies themselves enjoy their own laws and values which must be gradually deciphered, put to use, and regulated by men, then it is entirely right to demand that autonomy."

<sup>14</sup> Halík, (2004), p. 58.

Regardless of our exact conception of the complex relationships between faith, religion and the secular world, it is evident that they become conflicting when the recognition of the legitimate autonomy of the secular degenerates into strange laic fundamentalism that fails to tolerate any public reference to religion. As Casanova argues, the secularism in this form is unfair and it turns against itself, because the “self-serving secularist claims that only secular neutrality can guarantee individual freedoms and cultural pluralism” bring about “the exclusion from the public sphere of a central component of the personal identity of many Europeans.”<sup>15</sup> The secularist mentality is arguably extremely strong in France, where 72% of the population thinks that religion should not be taught in state schools and where even as much as 83% feels that children should not be allowed to wear a religious sign or article of clothing (such as crucifix or headscarve) at school (both figures come from the *Financial Times/Harris Poll*). In practice, the pluralism of worldviews and basic religious freedoms are attacked in the name of the enlightened tradition of *laïcité* which in fact becomes an intolerant ideology of *laïcisme*. The secularist fundamentalism unfortunately tends to dictate to the others how they should (or should not) dress, in which values they should believe and which is the “correct” model of their behaviour, especially if those “others” come from the Muslim (or Arabic) culture. It really seems that Muslims’ strong religious identity reveals the limits of the secularist toleration and the prejudices of the liberal worldview.

The advocates of post-secularism are generally sensitive to these shortcomings of the secularist mentality. And what they claim is that the return of religion to the public sphere is not merely a matter of fact, but also a desirable phenomenon which could positively affect social cohesion in Europe, even at a cross-national level. According to the post-secular paradigm indeed, the community-fostering power of conventional forms of religion is undeniable even in times of growing religious individualization and it would be mistaken and short-sighted to fail to take advantage of it. Of course, respect and tolerance has to be reciprocal, which means that religious people and leaders must not cherish any hope of reviving religious triumphalism, no matter if imagined as the return to the past glory of medieval *Christianitas* or as the restoration of Islamic civilization grounded on the *Sharia* law. The autonomies of the secular (or the political) order and of the sacred (or the religious) one require mutual relation and dialogue, i.e. co-operation or even interdependence, which in turn must by no means imply confusion or domination of any of the two orders on the other one. To conclude, the post-secularism with its acknowledgement of the specificity of both secular and religious identities seems to be the best way of assuring a harmonious development of Europe where religion is likely going to maintain its presence in the public realm, even if it might have become less visible in certain countries.

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<sup>15</sup> Casanova, (2006), p. 39.

## Post-transition form of state within the EU: creation and impact

### INTRODUCTION

The main aim of this article is to use a theoretical perspective, derived from thinking and insights of Italian communist and journalist Antonio Gramsci and that has so far been unjustly neglected, and apply it to problematic of the social policy in the European Union (EU) and functioning of the so-called European Social Model after the recent wave of EU enlargement with accession of former socialist countries. I claim that the transition process of post-socialist countries of the Central and Eastern Europe has led to a creation of a specific form of state-society complexes that I call a post-transition form of state. The article will elaborate on the theoretical framework and outline the empirical content of this term in order to examine its distinct logic of action and impact on its environment. I argue that accession of new member states with post-transition form of state, whose formation had been influenced by the EU itself, will complicate the operation of the EU institutions in the future, shifting the gravity of political struggle within the EU to the right and further endangers the possibility of future evolution of the European Social Model.

In the next section, the chosen theoretical perspective, its evolution and basic conceptual apparatus will be described. The aim is to present the theoretical-methodological framework within which the topic of the article will be situated. Attention will be given to terms as historical bloc, forms of state and hegemony. I will provide reasons that enable us to think of a post-transition form of state. In the third part, the empirical content of PTFS will be fleshed out and illustrated by concrete data, drawn from Eurostat, EBRD and OECD databases.

The next part will sketch the nature, evolution and functioning of the social policy within the EU. Discussion about the ESM will be put into perspective and contrasted with welfare state regimes.

Lastly, the implications of this medley of existing institutional forms and enrich the typology by way of introducing the post-transition form of state will be summarised in the conclusion.

### A NEO-GRAMSCIAN APPROACH TO EUROPEAN INTEGRATION

Neo-Gramscian perspectives form a subset of critical theory in the sense identified above and of historical materialism within it. They form a host of different approaches using different concept and insights that are loosely derived from thinking of an Italian communist, political activist and journalist Antonio Gramsci, working in the first half of the 20. century. Gramsci's ideas have found their way and application in various domains of social science, i. e. cultural studies, development studies, international political economy, international relations and European studies. It is necessary to point out and underline the fact that the various authors who are explicitly vowing to work in a way, inspired by Gramsci's thought, do not share a discipline, let alone a research agenda. They do not try to fix meanings from Gramsci's voluminous writings, therefore it is not suitable to consider them as forming a theoretical school. To use a common marker, a term "neo-Gramscian

perspectives” is conventionally used in order to highlight the diversity of approaches, inspired by Gramsci. The prefix neo- serves to cast light at the severed link between the historically specific time and context in which Gramsci himself was living and writing and the present.

Neo-Gramscian perspective has been brought in the IR by a Canadian scholar Robert Cox in the 1980s in a series of seminal articles and a book.<sup>16</sup> Debate about Kenneth Walz’s neo-realism provided the reference point for Cox’s intervention. Cox claimed that both neo-realism and structural Marxism of Immanuel Wallerstein represented variants of problem-solving theories. In the following years, Cox’s contribution has been elaborated on in IPE by Stephen Gill, Mark Rupert and Craig N. Murphy. Application of neo-Gramscian perspectives on European integration can be of more recent vintage and can be dated at the turn of the century. Authors such as Adam D. Morton, Andreas Bieler, Kees van der Pijl, Otto Holman and Bastiaan van Apeldoorn can be short-listed. Neo-Gramscian approach in the sense of a critical theory of European integration will be used throughout this article. It is necessary to add that each of the above-mentioned authors uses Gramsci’s insights in a unique way to elaborate specific points. Gramsci’s thinking is thus adapted, constructed and reconstructed to suit a changed historical context, but as the works of the authors above attest, it is fluid and flexible enough to be easily adapted to ever-changing historical context. In the following, I will use more space to elaborate on Cox’s elaboration of Gramscian thought because I deem it to be highly relevant for my purposes.

Cox starts with a conception of historical structures which he sees as providing a framework for action of collective human actors. The relationship between structures and actors is mutually constitutive; neither of them assumes ontological priority. Actors produce, reproduce and change structures and structures constitute classes of actors. There is an echo of Marx’s dictum that “men create history, but not in conditions of their own choosing”. Historical structures are not everlasting, but historically conditioned and, therefore, historically variable.

Only by specifying the attributes of a particular historical structure it is possible to identify its structural contradictions and weaknesses, that in turn serve the purpose to animate human action in such a direction that could possibly lead to overcoming the existing historical structure and its replacement by a new one. In order to be able to influence the future, it is vital to know how the past affects the present. People never start “from scratch” when they set out to change the conditions they are living in.

Cox applied the method of historical structures at three levels:

- Modes of social relations of production
- Forms of state
- Structures of world order

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<sup>16</sup> Cox, R. W.: *Gramsci, Hegemony and International Relations: An Essay in Method* (1983). In: Cox, R. W. - Sinclair, T. J.: *Approaches to World Order*. Cambridge University Press, Cambridge 1996; Cox, R. W.: *Production, Power and World Order: Social Forces in the Making of History*. Columbia University Press, New York 1987; Cox, R. W.: *Social Forces, States and World Orders: Beyond International Relations Theory* (1981). In: Cox, R. W. - Sinclair, T. J.: *Approaches to World Order*. Cambridge University Press, Cambridge 1996.

According to Cox, the world order can be identified as “duality of interstate system and world economy.”<sup>17</sup> In this respect, the definition resembles the conventional depiction of the current form of the world-system by theorist of the world-systems approach as a capitalist world-economy<sup>18</sup> whereby that term encompasses the nation-states system as well. We can, in conventional terms, identify the world order with the nexus of IR/IPE as the intersection of political and market power (usually embodied in a hegemonic state).

Cox took forms of state to be the crucial level, as it is the state that decides about the social relations of production within its borders. What Cox deems to be important is not the state in the conventional sense but the state that includes its social base and that manifests in various forms of state. “The principal distinguishing features of such forms are the characteristics of their historical blocs, i. e., the configurations of social forces upon which state power ultimately rests. A particular configuration of social forces defines in practice the limits or parameters of state purposes, and the *modus operandi* of state action, defines, in other words, the *raison d'état* for a particular state.”<sup>19</sup> He goes on to add:

*“Every form of state can be approached from two distinct perspectives. Firstly, it is possible to specify the attributes, structural features and traits of every form of state in a ideal-typical manner, i. e., in a logically coherent and consistent form that is cleaned of any discrepancies. From this point of view, component parts of any form of state fulfill a certain stabilizing or functional role with the aim of reproducing itself. It postulates roles that the state needs to fulfill in relation to both society and economy. This picture cannot tell us, however, how this form of state came into being in the first place.”*<sup>20</sup>

Secondly, one can see forms of state in a longer historical perspective and try to explain their evolution. In this perspective, state is “perceived as the product of political struggle” and the aim is to enlighten “the making of the historical bloc.”<sup>21</sup>

As far as the second perspective on forms of state is concerned, every manifestation of it is attributable to two sets of causal/constitutive forces: by configuration of social forces and permissiveness of the world order.<sup>22</sup> Or, to put it differently, the state autonomy is constrained by two sets of influences – internally by the historical bloc of the state and externally by military and economic pressures of the world system and the degree to which is the historical bloc penetrated by class forces that are located either elsewhere or are of transnational nature.<sup>23</sup>

A historical bloc constitutes the content of a particular form of state and is constituted by the collective actors or social forces. According to Gramsci: “Structures and superstructures form an “historical bloc”. That is to say the complex, contradictory and discordant ensemble of the superstructures is the reflection of the

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<sup>17</sup> Cox, (1987), p. 107.

<sup>18</sup> Wallerstein, I.: *The Politics of the World-Economy: The States, the Movements and the Civilizations*. Cambridge University Press: Cambridge 1984.

<sup>19</sup> Cox, (1987), p.105.

<sup>20</sup> Ibid., p. 129.

<sup>21</sup> Ibid., p. 129.

<sup>22</sup> Ibid., p. 148.

<sup>23</sup> Ibid., pp. 108, 400.

ensemble of the social relations of production.” Authors, working within a neo-Gramscian perspective, concur with Gramsci in proceeding on to identification of two levels of superstructure in addition to the material base or structure of any historical bloc. To analyze a historical bloc is to specify the content of all the structural elements at the following levels:

- economic structure
- civil society
- political society

It is precisely the conjunction of both civil and political society that forms the state in Gramscian thought, i. e. the state in a wider sense [or state-society complex]. Herein lies one of the main contributions of neo-Gramscian perspectives in comparison with the conventional IR theories that are dealing with the state as a “black box” and reduce the state to what Gramsci called political society. On the contrary, Gramsci held that “in actual reality civil society and the state are one and the same”. Civil society tends to be conceived equally with non-governmental entities and actors such as educational, religious and professional ones. Political parties belong, as Gramsci conceived it, to the civil society realm: „The political party, for all groups, is precisely the mechanism which carries out in civil society the same function as the State carries out, more synthetically and over a larger scale, in political society.“ The particular levels of historical bloc will be operationalized in the next part of the article.

Before we proceed on, I would like to point out that the term historical bloc is used by authors, thinking along Gramscian lines, used also beyond the national context where it had been originally developed. Hence, Cox discusses a regional historical bloc that is coterminous with the EU at the regional level. More common, though, is thinking in terms of historical blocs at the level of world economy. Globalization itself is grasped by the neo-Gramscians as a transition from an international historical bloc towards a transnational historical bloc.<sup>24</sup>

The last term of Gramscian vocabulary to be discussed here is his conception of hegemony. It is notable that also this term departs from the conventional notions from IR theory that reduce it to the materially strongest state. In Gramsci’s thinking, hegemony is a feature of social power relations. The position of neo-Gramscian authors regarding the link between the hegemony and historical bloc is ambiguous. On the one hand, there are authors like Cox and Morton, who think that there cannot be a historical bloc without an established hegemony,<sup>25</sup> on the other hand is for example Stephen Gill, who thinks that historical bloc „may at times have the potential to become hegemonic,”<sup>26</sup> because it is „not simply the creation of leaders.”<sup>27</sup> I assume the latter position, i. e., I think that it is perfectly possible to think about historical bloc without the necessary presence of hegemony. My reading of Cox leads me to think that there is an inconsistency in his discussion on that matter.<sup>28</sup>

However, a consensus point related to hegemony appears in that the term can

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<sup>24</sup> Cox, (1981); Gill, S. (ed.): *Gramsci, Historical Materialism and International Relations*. Cambridge University Press, Cambridge 1993, pp.13, 58-59, 86.

<sup>25</sup> Cox, (1983); and Morton, A. D.: *Unravelling Gramsci: Hegemony and Passive Revolution in the Global Economy*. Pluto Press: London 2007.

<sup>26</sup> Gill, (2003), p.34

<sup>27</sup> Ibid., p. 58.

<sup>28</sup> See Cox, (1981) and (1987).



be equally applied not only at the level of the forms of state (or, their historical blocs), but also at the level of social relations of production and world orders. With regard to social relations of production it is the state that can establish a dominance of specific social relations of production over others by its legal and institutional framework.

The same point applies at the level of the world orders which can be either hegemonic or nonhegemonic. Cox identifies liberal world order established by Great Britain and contrasts it with nonhegemonic era or „rival imperialisms“ leading to both world wars in the 20. century. After the second world war, there was another take on the world order, this time centred around the USA. According to Gill is is more complicated to try to establish hegemony on the international level because there is no corresponding civil nor political society as it exists within a national frame of reference. Gill also prefers to call the the current historical moment as „supremacy“ and considers it analogous to use of coercion by the dominant social force within the state when there is not an accepted hegemony.

#### **POST-TRANSITION FORM OF STATE IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES**

On the basis of the neo-Gramscian concepts of forms of state, historical blocs, world order and hegemony I will in the following try to flesh out the empirical content of a distinct form of state that has been created in Central and Eastern European countries (CEECs) during the 1990s. The empirical data I am using are taken from publicly accessible databases of various international institutions, e. g. EBRD, Eurostat and OECD. Due to space constraints, I will refer either to the group of CEECs en bloc or to the country I know most (in Eurospeak), namely the Slovak Republic. I take the Slovak Republic (SR) to be a case in point that can serve to illustrate the point that I argue.

Neo-Gramscians tend to discuss the formation of historical bloc in Europe with two pattern of historical development of historical blocs. One of them is neo-liberal historical bloc that is exemplified by the USA and Great Britain (Cox uses the term hyperliberal and reserves neoliberal for historical bloc molded by Keynesianism) and the other is state capitalism, represented in the European context by Germany or France (and denoting, for our purposes, a certain version of a social market economy). I very much doubt the viability of this dichotomic depiction for other than superficial demonstration of differences and I tend to lean more to a more precise specification of those two patterns of historical bloc on the basis of their developmental trajectories (see the next section for more).

I do not have the space to illuminate these two conceptions, therefore I will move on straight to clarification of the form of state I consider to be vital in explaining the process of transition of the CEECs and their accession to the EU.

Simply put, I think that the CEECs embody what I call a post-transition form of state (PTFS). The similarity of their starting conditions in the late 1980s and/or early 1990s and the form of the world order channelled their development possibilities along quite a narrow path that mounded to similarly constituted historical blocs in these countries. The CEECs can be considered, judging from their common characteristics of social forces as basic building material of their historical blocs, as forming state-society complexes that are animated by a similar social

purpose of the state, or – to put it differently – by common *raison d'état*.

In order to cast some light on the process of their formation, we need to shortly discuss the form and structure of the world order that formed the context in which the pressures and incentive to reform were played out. In general terms, the world order was capitalist world-economy, existing within and overlapping with the interstate system. In both the position of the USA was of primary importance as after the Cold War the USA remained the military and economic power number one in the system (thus constituting hegemony in a (neo-)realist sense of the term). To add a Gramscian flavour to it, the world order, centered around the USA, could be described as a hegemonic one – with the USA not only dominating the others materially, but also articulating an ideologic vision that was deemed to be legitimate by “significant others”. In addition to prevalence of material capabilities and provision of a common intersubjective framework, the power of the USA had been complemented and consolidated by international institutions of both formal and informal nature as the World Bank, International Monetary Fund, World Economic Forum, G7 and NATO. Sets of ideas, articulated and propagated by some of those institutions under the name of the “Washington consensus” reigned supreme in the early 1990s and were without considerable ideological support.

In order not to complicate analysis more than necessary I will use the most immediate institutional, ideological and material environment of the CEECs as approximated by the EU itself. The EU is based on a congruent set of economic forces, ideology that sustains it and institutional set-up that stabilizes it. The question that remains is, however, how exactly exerted the world order qua the European Union its influence on the CEECs and how it narrowed options of autonomous development of the countries on the periphery on the (regional) world order.

As has been said in the previous section, evolution of forms of state can by attributed to two sets of forces, one of them internal, the other being the permissiveness of the world order. Cox notes that the relative causal weight of these two sets of forces cannot be specified in advance.<sup>29</sup> I think that in the context of transition, the external set of forces was clearly prevailing and set the parameters within which the respective historical bloc have crystallized. Shortly, the structures of the world order channeled development in a certain direction and consequently narrowed the range of available possibilities. It was within this straitjacket imposed from without that the social forces as compotents of various historical blocs evolved within this form of state.

I call this form of state a post-transition one because I think that the transition process represents its distinguishing feature. Former socialist states of the satellite system, centred around the Soviet Union, embarked in the late 1980s and early 1990s on a process of parallel shift that run along two lines. Firstly, there was a transition from a centrally planned economy under the former (socialist) regimes to a market economy. Centrally planned economy was marked with suppressed, or practically non-existing, role of the private sector in the economy. The public sector was all-encompassing and marked by nationalisation of production factors. No competition worth mentioning existed, prices were regulated and unemployment as a

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<sup>29</sup> Cox, (1987), p.109.

widespread phenomenon did not exist. On the other hand, market economy is marked by widespread private possession of both land and capital, retreat of the state from overseeing the economy, competition is preferred to state monopolies and ensured by independent institutions. In addition, prices tend to be deregulated, market liberalised and labour market opened to competition which as a matter of fact leads to unemployment.

Secondly, there was a concurrent second parallel transition at the political level. This involved a shift from undemocratic socialist regimes to democratic ones. Whereas socialist forms of rule entailed closed political systems with elections but with no relevant political choice on the basis of free competition of political parties, suppression of human rights and a monopolistic position of a single (communist) party, democratic regimes are almost a total negation of those traits that characterize socialist regimes: periodically held free elections with competition among political parties, rule of law enforcing human rights and application of constitutions, provisions guaranteeing freedom of speech and assembly etc. These development provided the content of the double transition that was initiated by the break-up of the Soviet Union, letting the CEECs go their own way. The structures of the world order were instrumental in assisting the CEECs along the path they had chosen. The structures of the world order served for the CEECs elites and population as a handy frame of reference, because the “advanced Western countries” were both functioning market economies and open democratic societies that the CEECs were striving to become as well. The structured of the world order (the EU) has tried to transmit their constitutive ideas to their environment and make its neighbours more like them. The EU countries were acting for the CEECs as role models and provided them with rules of appropriate conduct that needed to be internalised – an implemented by the CEECs. Transition has been finalised by the accession of these countries to the EU in May 2004 and January 2007. Therefore, I use the term post-transition to denote the current state of affairs in the CEECs.

Let me cut it short and elaborate on the effects of the transition process on the three levels of historical blocs of the post-transition states – economic, civil society and political society. The first level could be subsumed under the heading of economic transition, the latter two under the rubric of political transition.

In the economic transition process, the CEECs have become much more economically opened than was the case before the process started. Between 1995-2004, all of the CEECs, acceding to the EU in 2004, increased their trade openness (measured as exports plus imports as percentage of GDP) by more than 10% (except for Latvia and Slovenia). Slovakia was, together with Estonia, the leader – it increased its trade openness from 47% GDP in 1995 to 62% GDP in 2004. Another criterium that can illustrate the scope of reorientation of the CEECs economic base is trade integration in goods which show that except for Poland are all of those CEEC-8 open economies, occupying first ranks among the EU-25 member states (with Estonia, Slovakia and Czech Republic with trade integration well over 60% in relation to the EU-25 average of mere 10%). The situation is not so clear, however, with regard to trade integration in services or FDI intensity. The proportion of investment to GDP in these countries is close to 30% (except for Hungary and Poland) and foreign ownership in the bank sector is also quite high. Another possible

measure of changes at the economic level is degree of privatization, which was in 2005 highest (as percentage of GDP) in Czech Republic, Estonia, Hungary and Slovakia (80%) and the lowest in Slovenia at 65%. Private sector generated in 2005 (except for Romania, Slovenia and Lithuania) over 70% of the total employment. In terms of price liberalization, all of the countries (except for Slovenia) achieved in 2006 the highest mark under the EBRD methodology.

At the political level, all of the CEEC-10 (i. e., 8 CEECs countries, acceding to the EU in 2004 and 2 CEECs, acceding in January 2007) have introduced multiparty political systems with proportional representation and according to Freedom House figures from 2006 all of them (except for Romania) are classified as consolidated democracies, with the remaining one a semi-consolidated democracy. A comprehensive picture can be gained from Freedom House summary scores of the CEECs in 2006 that range from 1,75 in Slovenia to 3,39 in Romania (on a scale from 1 to 7). Slovakia is the second-best performer, together with Estonia, scoring 1,96. Regarding the strength of civil society, we can use data from Global Civil Society project of John Hopkins University from 2003, according to which the strength of civil society in transitional countries (sample included 5 CEECs: Czech Republic, Hungary, Poland, Romania and Slovakia) is only one-fourth of the average of 35 examined countries (1,1% to 4,4%). Also, civil society in the CEECs is rather of the expressive-dominant mode than of the service-mode common elsewhere. Both strength and orientation of civil society might be the legacy of half a century of political domination of the political society in the Gramscian sense over the civil society. The comparatively stronger orientation of civil society association on free expression of values, beliefs and aggregation of interest might be a result of a perceived deficit on the part of the society. More to the point, civil society relies on philanthropical contributions and less on regular feed or public support. This opens up an avenue for private interests in possession of capital to make themselves heard. Beyond the data, I would like to show that the process of crystallization of historical blocs of PTFS was by no means apolitical or politically neutral. Quite the contrary. The changes in the economic base have brought about a change of balance of power between the social forces of labour and capital in favour of the latter. This has happened not only in the national context, but has also been strengthened by the transnational opening of the economy and state-society complex to non-national or transnational social forces. In the transition process, the political state representatives had to, regardless of their ideologicas preferences, embark on a reform programme whose broad outlines had been outlined by the structures of the world order. Transition itself has opened the CEECs to penetration of social forces from abroad, especially social forces, representing capital. If there was an attempt to defend "national capital" against "foreign capital fractions", the struggle resembled an uphill climb and unvariably ended with a political alternation, getting the political society under the control of forces more conducive to interests of foreign capital. Those political parties and civil society associations associated ideologically with (neo)-liberalism have found it easier to adapt, whereas left-leaning and nationalistic segments of the wider state struggled to reproduce themselves in the political contest of democracy. One can perceive this way of aligning domestic social forces with powerful foreign ones as an example of what Gramsci called a "passive revolution"

when a set of political and economic choices is imposed on the society from the above by certain domestic forces in conjunction with their counterparts abroad. In the context of transition and post-transitionally, it was a game of how to consolidate capitalism in society as firmly as possible. Legitimacy of the material base is firmly entrenched in the civil society (for there is not seen a better option and market rule is taken as inevitable) with the top level of superstructure fighting an unequal fight to get the material structure under control (within the possible constraints).

#### **SOCIAL POLICY IN THE EUROPEAN UNION**

If one looks at the problematic of social policy in conventional sense of the term then they cannot but realise the striking difference between the embryonic social policy at the EU level and a fully-fledged version of the same policy in member states of the EU. Whereas the EU member states have in the course of their history establish a strong tradition of social policy, firmly anchored in the institutions of their welfare states, there is no analogue to the welfare state for the EU as such. As fittingly put by Abram de Swaan: "Welfare state are nation states."<sup>30</sup> This situation is rooted both in the nature of the EU as an political enterprise and a product of the historical path that had been taken in the past, when crucial decisions regarding the scope and means of integration were made.

Considering the division of competences between the EU and its member states, the current state of affairs still largely reflects the early integration compromise of the 1950s. At that time, the then six member states managed to agree to a watered-down version of the more ambitious ideas that had been put forward by France.<sup>31</sup> In failing to agree on the French proposal, member states only incorporated a couple of provisions on social policy into the text of the Treaty itself. Due to an insufficient legal base there was no big legislative activism of the Commission in this field, as the issue was beyond its mandate. Positive integration measures, i. e. establishing common policies, were ruled out. Therefore, in the first decades of integration the movement in the domain of social policy was driven by negative integration – by jurisprudence of the Court by giving an extensive interpretation of those treaty provisions. Integration gained a renewed momentum only in the late 1980s and then in the 1990s when the legal base was enlarged by encompassing employment policy. Even then, the basic distribution of competences between the European and national level remained unchanged, for the employment policy as conceived was to be coordinated rather than harmonised. Given the necessity of unanimous consensus for any Treaty change, the current form presents almost an insurmountable change and serves to conserve the status quo and it can be plausibly argued that there will always be at least one member state preferring the status quo to any proposed alternative. Hence, the distribution of competences is a relatively stable one. This was further proven by the changes, introduced by the (currently stalled) Constitutional Treaty. The EU integration has, it seems, reached a

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<sup>30</sup> Quoted in Leibfried, (2000), p.45.

<sup>31</sup> Scharpf, F.: *The Viability of Advanced Welfare States in the International Economy: Vulnerabilities and Options*. In: *Journal of European Public Policy*, Vol. 7, No. 2, 2000, pp. 190-228

rather stable state<sup>32</sup> or embodies a deep equilibrium.<sup>33</sup>

Getting beyond the issue of division of competences (though crucial), the EU is very unlike a typical welfare state also in the following respects. Firstly, there are no welfare institutions of the EU, no welfare bureaucracy worth mentioning, no legal welfare entitlements against the EU and, lastly, the EU does not run any welfare programmes of its own. This situation is caused by the fact that the institutional evolution of these traits had been hampered by previous evolution of the welfare states in the member states themselves. In this respect, national welfare states had preempted (and continue to do so) the development of their counterpart at the European level.

Secondly, both the division of competences and asymmetrical institutional set-up is supported by the control of financial means necessary to run redistributive welfare programmes. It is common for the EU member states to redistribute via budget some 40% of their GDP. The respective figure for tax revenue in the EU-25 was 40,9% GDP in 2005, with 52% in Sweden and 29% in Lithuania being the extremes of the scale. Regarding social protection expenditure in the EU, the 25 member states redistributed in 2002 27,7% of their combined GDP, with 32,5% in Sweden and Estonia and Latvia with 14,3% GDP in 2001. On the other hand, the member states have limited the amount of financial means to the EU by unanimous decision on own resources and capped them at mere 1,24% GNI.

The EU membership hides a considerable variety among the member states in terms of their tax structures and both share and height of expenditure on social policy. Nevertheless, it is commonplace to talk about the existence of a European Social Model (ESM) in the EU as if it were an established fact. The ESM denotes a certain unity, a shared way of doing things together or a shared aim to pursue an identical set of social purposes. Unfortunately, this is not the case in the EU – despite all the vain talk to the contrary. Given the incommensurability among the EU member states, it must be clear that all the hype, surrounding current debates on the ESM and its reform, amounts, in effect, to no more than “hot air”. It is only possible to identify a set of shared characteristics among the European states in contrast to third actors, such as China, Japan and the USA. In this respect it is true that the EU member states share some feature which distinguish between themselves en bloc and the third actors. In this manner, it is possible to perceive the distinctiveness of shared European values as a marker, forging their common identity vis-à-vis others. It is no coincidence that the debate on the (single) ESM appeared in the context of the Lisbon strategy from 2000, whose explicit aim is to provide a rationale for a catch-up process with the USA and to dethrone the USA as the “most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment” until 2010. The ESM definition was specified at European Council meeting in March 2000 in Barcelona as “based on good economic performance, a high level of social protection and education and social dialogue” and added that this

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<sup>32</sup> Moravcsik, A.: *The Choice for Europe: Social Purpose & State Power from Messina to Maastricht*. Routledge, London 1998.

<sup>33</sup> Pierson, P.: *Politics in Time: History, Institutions, and Social Analysis*. Princeton University Press: Oxford 2004.

conception of the ESM is built around an active welfare state that “should encourage people to work, as employment is the best guarantee against social exclusion”. It is important to note that the EU representatives, if given the chance, depart from this conventional depiction of the ESM and openly say that “there is no such thing as a single European Social Model”<sup>34</sup> and attempt to move the debate to shared values that underpin various models that are “reflecting history and collective choices”<sup>35</sup> and manifest themselves in acceptance of the fact that “economic and social policies are built on shared values” which reflect “a choiced in favour of a social market economy” and claim that “public sector tends to play a big role.”<sup>36</sup> Even if seen in this light, there is sufficient contrast between ,say, Japan and the USA and the EU. Commitment to a social market economy, as manifested in the share of public expenditure on social protection to GDP is much lower in both (15% in the USA, 17% in Japan) in contrast to the EU with 27% on the average.

It si, however, quite commonplace to identify various types of welfare states or welfare-state-regimes and group various welfare states on the basis of their structural similarities or common historical evolutionary path into a couple of groups. This typology dates back to the early 1990s and distinguishes among three groups or clusters of welfare-state-regimes<sup>37</sup> and has been supplemented by another one to a fourfold one:<sup>38</sup>

- Anglo-Saxon welfare states: Great Britain and Ireland
- Continental welfare states: Austria, Belgium, France, Germany and the Netherlands
- Scandinavian welfare states: Denmark, Finland and Sweden
- Mediterranean welfare states: Greece, Italy, Portugal and Spain

I will briefly identify features of the four models of welfare states as ideal types of social policy. Firstly, the Anglo-Saxon countries have a rather low level of public expenditure on social protection, benefit provision tends to be means-tested, social assistance is preferred to universal redistribution, state backs off from interfering and let more space to market forces in private welfare provision. Employment in the public sector is rather low.

Secondly, the continental group of welfare states have higher degree of social protection than the first group, welfare states of this kind are running extensive social insurance programmes that used to be occupationally or sectorally variable, level of social benefits is linked to employment record, revenue is generated mainly by social contributions, state interference in the economy is considerable, but the state is not a significant employer of its own kind. Hence, employment in the public sector is low, but also employment in the private sector tends to be lower than in the

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<sup>34</sup> Almunia, J.: *The Future of the European Model*. (speech given at Harvard University on September 26, 2005)

<sup>35</sup> Commission: *European values in the globalised world*. COM(2005) 525 final, October 20, 2005, p.4.

<sup>36</sup> Ibid.

<sup>37</sup> Esping-Andersen, G.: *The Three Worlds of Welfare Capitalism*. Polity Press: Cambridge 1990.

<sup>38</sup> Sapir, A.: *Globalisation and the European Social Models*. 2005. Retrieved from: [http://www.bruegel.org/Files/media/PDF/Publications/Papers/EN\\_SapirPaper080905.pdf](http://www.bruegel.org/Files/media/PDF/Publications/Papers/EN_SapirPaper080905.pdf); Boeri, T.: *Let Social Policy Models Compete and Europe Will Win*. 2002. Retrieved from: [http://www.ksg.harvard.edu/mrcbg/Conferences/useu\\_relations/boeri\\_us\\_european\\_trends.pdf](http://www.ksg.harvard.edu/mrcbg/Conferences/useu_relations/boeri_us_european_trends.pdf); Ferrera, M. – Hemerijck, A. – Rhodes, M.: *Recasting European Welfare States*. In: Hayward, J. – Menon, A. (eds): *Governing Europe*. Oxford University Press: Oxford 2003; Scharpf, (2000).

first group.

Thirdly, Scandinavian states (or, Nordics) have the most comprehensive social protection systems that are universally conceived and provided on the basis of social citizenship, not linked to employment performance as in the continental group. Welfare states of this group are financed primarily by taxes, state is heavily involved in generating employment in the public sector by providing services – education, health and day care services. As a result of this, the total employment in states of this kind is equal to that of the states of Anglo-Saxon group.

Lastly, Mediterranean group of welfare states is the most modest of the four in terms of both social protection and employment generation. They concentrate their social spending mostly on pensions that are, furthermore, segmented via occupation and status. Due to the relatively underdeveloped nature of their welfare states there is a residual function of welfare provision reserved to the family as the basic unit of society.

### CONCLUSION

Where does this locate the PTFS? What will its impact be? To put it simply, this situation does not augur well for those who would like to see a more coordinated (let alone harmonised) EU social policy. Coordination is the best option one can presently get. The challenge is to digest the recent two waves of enlargement with 12 new member states without triggering a process of harmful race to the bottom as far as competition of various tax and social systems is concerned. Among welfare states of the original EU-15 states there seems to be a trade-off between equity and efficiency of their social models. A set of shared external challenges (globalization) and internal ones (aging populations, changing family structures and a shift to service-producing economy) affect these various social models differently. Therefore, their responses must be specific, as well. It would not be right to impose a single set of solutions on all member states because they would not be deemed legitimate nor would they fulfill their purpose.

For now, it is necessary to get used to coexistence of different social models. The main task lying ahead is how to cope with the necessary reform. Out of the four above-mentioned models, the only the Anglo-Saxon and Scandinavian ones are efficient and only the Scandinavian one is both efficient and providing equality. The other two should reform themselves in order to become more sustainable over the long term. The question is which of the two available paths will they choose. It seems very likely (though not inevitable or predetermined) that equality could be sacrificed in the reform process. The PTFS combined, at least at present, the most unwelcome features of the available social models. They are starting from a considerably lower material base, have the least strongly developed welfare states and both higher rates of inequality and lower rates of employment. In terms of their future evolutionary options, their starting point resembles the situation of the Mediterranean cluster, with the basic difference that their social models are in constant state of flux and not yet sedimented for any length of time. Given that the CEECs undertook a drastic reform process over the last decade, they are more prepared to continue doing so. What is more important is the fact that their state-social relations are too fluid to enable great political compromises that led to the creation of the older welfare states. As things stand now, it is more likely to envisage the future evolution of PTFS's



historical bloc more in the direction of the Anglo-Saxon cluster, preferring efficiency and economic convergence to social cohesion that is often regarded as inaffordable. Also, in the wake of the post-transition process these states have swayed politically to the right and embraced the ideologically fashionable concepts of the 1990s, thereby shifting the internal balance of social forces not only to the right, but also in the direction more favourable to interests of forces supporting capital. Once these historical blocs consolidate, they might become practically impossible to be overturned. The only way of structural change is to work slowly with the aim of establishing counterhegemony in the terrain of conflicting ideas in the realm of civil society, which is a long-term process with an uncertain result. New social forces that could form the basis of counterhegemony will have to operate in an adverse context and will have to start thinking their strategies anew to have impact. However, there is no easier way if one wants to challenge the powers that be.

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## Varieties of Capitalism and Late Development: Lessons from Gerschenkron

Since the publication of *Varieties of Capitalism* in 2001,<sup>39</sup> the study of comparative political economy in Europe has been driven by the concept of economic-institutional models. This was partly in response to expectations by scholars of globalization, liberalization and welfare-state retrenchment that eventually all mature capitalist economies would converge on a single "best practice" arrangement of economic, welfare and political institutions (usually, but not always, thought of as a market-liberal model along Anglo-American lines<sup>40</sup>). Instead, proponents of the varieties of capitalism approach sought to demonstrate that different national capitalist economies did not represent simply better or worse variants of a single capitalist type economy, but rather that specific types could be detected, ones which were competitive with one another but featured different principles for the organization of economic life.<sup>41</sup>

Different scholars chose to focus on different parts of the national political economy. Soskice and Hall, in their seminal work, describe the source of variation among mature industrial economies as stemming from a fundamental difference in the principle of economic coordination in certain key aspects of the economy, stressing the dichotomy between the role of markets and the role of cooperative decision-making.<sup>42</sup> Other scholars, such as Gosta Esping-Andersen, have considered the economic role of welfare provision, pointing out systemic variation in welfare systems across Europe.<sup>43</sup> Zysman, though not explicitly using a varieties of capitalism framework, concentrates on the control of investment funds as a crucial element of national variation.<sup>44</sup> Finally, Robert Boyer has developed a highly theoretical approach to the problem of model building, demonstrating the difficulty of proving a connection of complementarity between the multifarious elements which are said to comprise a coherent model.<sup>45</sup> The upshot of these model-building exercises has been to divide European economies into a number of categories, based on their scores on a series of (often divergent) indicators. The two most robust, both

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<sup>39</sup> Hall, P. and D. Soskice, Eds. (2001). *Varieties of Capitalism*. Oxford, Oxford UP.

<sup>40</sup> See Rodrik, D. (1997). *Has globalization gone too far?* Washington DC, Institute for International Economics. For other arguments in this vein, see also Ben-David, D. and M. B. Lowey (1998). "Free Trade, Growth and Convergence." *Journal of Economic Growth* 3(2); Williamson, J. G. (1996). "Globalization, Convergence, and History." *Journal of Economic History* 56(2); and Regini, M. (2000). "Between Deregulation and Social Pacts: The Responses of European Economies to Globalization." *Politics & Society* 24(1).

<sup>41</sup> Streeck, W. (1995). German Capitalism: Does It Exist? Can It Survive? in *Modern Capitalism or Modern Capitalisms?* C. Crouch and W. Streeck. London, Francis Pinter.

<sup>42</sup> Hall and Soskice, (2001).

<sup>43</sup> Esping-Anderson, G. (1990). *The Three Worlds of Welfare Capitalism*. Princeton, Princeton UP.

<sup>44</sup> Zysman, J. (1994). "How Institutions Create Historically Rooted Trajectories of Growth." *Industrial and Corporate Change* 3(1).

<sup>45</sup> Boyer, R. (2005). Coherence, Diversity and Evolution of Capitalisms: The Institutional Complementarity Hypothesis, CEPREMAP-CNRS-EHSS.

in the analytic sense and in the general consensus surrounding them, categories developed have been the liberal/market variant, typified by Great Britain, and the coordinated/Continental model attributed most especially to Germany and the smaller mainland economies.<sup>46</sup> There has also been discussion of a Scandinavian model comprising Denmark and the Nordic countries, and a Mediterranean case to cover Italy, the Iberian states and Greece<sup>47</sup>, but these two models derive more from the interaction between welfare state and economy than from a rigorous analytic distinction with the two primary models.

However, while discussion of these multiple models – arguments about their strengths and weaknesses, their ability to resist globalization, the possibility of shifting from one to the other – have dominated both scholarly and policy debate in Western Europe, there has been significant difficulty in broadening the debate to include the newly admitted EU member states further east. This is likely, at least in part, a result of the remarkable transformation of the post-Socialist economies of Central Europe from transition basket cases with problems and characteristics in no way commensurable with the reality of the older EU member states – the problems of transition were so serious and specific as to render premature the sort of debate and analysis that was taking place further west. Partly, however, this also arises from a sociological legacy within the field of European studies – the study of the former Eastern Bloc states existed for so long as an adjunct field of Sovietology that European scholars were habituated to excluding those countries from consideration concerning “European” problems and research agendas. It is noteworthy that the attempts that have been so far made to reconcile the new member states with the existing frameworks in the field of European political economy have been made by either specialists of post-Socialism or nationals of the newly-admitted countries – there has been little interest on the part of conventional or career specialists in European political economy to integrate the study of these countries within their field<sup>48</sup>. As a result, Central European economies are generally left out of the discussion of European models, relegated to an indeterminate, post-Socialist status<sup>49</sup>. Some attempts have been made to bring the newly-admitted member states into a varieties of capitalism framework, but these studies have been preliminary and their conclusions halting at best. Scholars that stress the influence of orthodox liberal economics on the early stages of post-Socialist transition tend to emphasize similarities between these economies and the Anglo-American liberal model arising

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<sup>46</sup> This is based on the ideas put forward in *Varieties of Capitalism*, but it is an idea that has developed political, as well as scholarly resonance. Consider the prominence of rhetoric emphasizing the dichotomy between Anglo-American and “European” economic models in French politics, for instance.

<sup>47</sup> These more peripheral models have been discussed in Sapir, A. (2005). *Globalisation and the Reform of European Social Models*. ECOFIN Informal Meeting. Manchester. as well as Boyer, (2005).

<sup>48</sup> It should be noted that recently there has been much more interest and activity in this regard. Paisley University hosted a conference seeking to apply these models to post-Communist economies in 2005, culminating in the publication of *Varieties of Capitalism in Post-Communist Countries* in February of this year, Lane, D. and M. Myant, Eds. (2007). *Varieties of Capitalism in Post-Communist Countries*. Cambridge, Palgrave MacMillan. I eagerly await an opportunity to read this collection.

<sup>49</sup> It goes almost without saying that Hall and Soskice do not address the post-Communist economies. It is likewise notable that they are excluded from the frameworks of Esping-Andersen and Sapir.

from the drastic reforms of the transition period, and tend to consider these economies to be immature or impoverished liberal economies.<sup>50</sup> Other observers emphasize the role of emulation and learning from EU states, especially Germany, belonging to the coordinated/Continental tradition, and instead characterize these economies as being imperfect variants of that model.<sup>51</sup> This analytic confusion is quite understandable – depending on the country examined or the set of institutions observed, evidence can be gleaned for any of these conclusions. Property rights regulations, especially considering collateral for loans, have a decidedly liberal character in Slovakia<sup>52</sup>, while the Polish welfare system, to all appearances, bears a significant resemblance (both in terms of its generosity and its pathologies) with that of Germany.<sup>53</sup> Compounding this confusion have been the contrary political imperatives coming from established member states. In the newly-admitted countries, Great Britain found partners that shared its skepticism of the increasing power of the EU apparatus, its commitment to the Trans-Atlantic security relationship, and (perhaps) its market-emphasis in economic policy. Germany, quietly, and the EU establishment more assertively have sought to bring the newly-admitted states into line with existing European norms and priorities and, when occasionally failing to enlist the voluntary cooperation of the newly-admitted states, have resorted to employing EU policies as means of encouraging convergence towards what has been called the European economic model – capitalist economy but with high levels of redistribution and significant social protection.<sup>54</sup> The conditionality attached to the process of EU admission served partly to skew regional economic models in this direction, and the persistent influence of the EU exerts a significant pressure limiting the autonomy of newly-admitted governments.

However, this is all looking from the European perspective, and neglects to take into account the significant historical contribution of the socialist experience to the economic and social development of the newly-admitted states. Here it is instructive to point out that the model paradigm has not been limited to established European economies. In the wake of the economic collapse of the Soviet Union brought on by the end of the Communist system, Gaddy and Ickes developed an analytic description of what they anticipated the end-point equilibrium of the Russian transition to be. This model, the “virtual economy,” emphasized the disjuncture between the procedures and rules for economic life that comprised the official and legal institutional apparatus and actual, regular established practice.<sup>55</sup>

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<sup>50</sup> Cernat, L. (2002). "Institutions and Economic Growth: Which Model of Capitalism for Central and Eastern Europe?" Journal of Institutional Innovation, Development and Transition 6; Meardi, G. (2002). "The Trojan Horse for the Americanization of Europe? Polish Industrial Relations Towards the EU." European Journal of Industrial Relations 8(1).

<sup>51</sup> Buchen, C. (2005). East European Antipodes: Varieties of Capitalism in Estonia and Slovenia. Varieties of Capitalism in Post-Communist Countries. Paisley University.

<sup>52</sup> I'm relying here partly on characterizations made by the Western Press, especially the *Economist*. However, some scholarly work confirming these tendencies has also been done – see Schönfelder, B. (2005). "Courts, credit and debt collection in post-communist Slovakia." Ekonomski anali 50(167).

<sup>53</sup> Wagener, H.-J. (2004). "The Welfare State in Transition Economies and Accession to the EU." West European Politics 25(2).

<sup>54</sup> Ibid.

<sup>55</sup> Gaddy, C. and B. W. Ickes (1998). "Russia's Virtual Economy." Foreign Affairs 78; Gaddy, C. and B. W. Ickes (1999a). "An Accounting Model of the Virtual Economy in Russia." Post-Soviet Geography

While official rule-changes enacted through legal channels placated foreign governments and international institutions and produced the semblance of reform towards a liberal political and economic system, the systematic disregard for these promulgations at all points in Russian (as well as Ukrainian) society allowed for the perpetuation of certain practices from the Soviet period – the non-market provision of economic inputs to politically favored groups and individuals, the continuing influence of “personal capital” in allocation decisions and the routine flouting of the rule of law. Late developments have given some credence to the “virtual economy” model – the Russian state has become ensnared by its security services, whose members can use their political position for large-scale economic allocation; the “commanding heights” of the economy have been brought under state control and have been put to principally political, rather than economic ends; and much of Russian economic life is governed by personal connections, social norms and political pressures rather than a system of transparent rules and enforced laws<sup>56</sup>. Although, in light of the dramatic deterioration of Russian democracy, this model may seem much too extreme to apply to the states of Central Europe, it is too early to dismiss entirely the “virtual economy” from our consideration of these regional economies. As a result of the extremely close and strong links forged between Central European states and the West through any number of international organizations (primarily the EU, but also NATO, the OECD etc.) a Russia-style deterioration seems precluded, that does not foreclose the possibility that a much more limited and circumscribed form of this model may persist as the result of unexpurgated Socialist legacies. Further, the “virtual economy” formulation presents an additional challenge to the problem of sorting through our rapidly multiplying mound of models – while the models derived from the Western European experience had the virtue of a high degree of mutual exclusivity (the institutional arrangement of an economy could be market-oriented or cooperation-driven, but not both, and that question could be settled through a simple reading of its legal-institutional arrangements), the “virtual economy,” but dint of the fact that exists *beneath* official institutions and in spite of visible laws to the contrary, can exist in an environment which is officially typified by another model. Indeed, it may *coexist* as a parallel, sub rosa system cheek by jowl with an official economy operating on different principles. The high levels of corruption reported in even the most promising Central European economies as well as the dodging of regulation by firms and individuals in these countries suggest that there may indeed be some significant elements of the virtual economy at work.

The multiplicity of models that we have to choose from in examining Central European economies gives rise to a significant commensurability and evaluation problem. Given that each purports to exclusivity – that is, that each economy fits into the analytic mold of a single model, with essential features that distinguish it

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and *Economics* 40(2); Gaddy, C. and B. W. Ickes (1999b). "Stability and Disorder: An Evolutionary Analysis of Russia's Virtual Economy."

<sup>56</sup> Although it may be tempting to dismiss the influence exerted by political elites over economic life in this system as mere corruption, the extent of the political control over economic life is so great as to produce a qualitatively different economic mechanism – bureaucratic, as opposed to market, coordination. For a detailed analysis of the difference between the two mechanisms and the implications for economy and society, the best source is Kornai, J. (1992). *The Socialist System*. Princeton, Princeton UP.

from competing models – the scope for a synthetic explanation for the particular features of Central European economies is severely limited. Attempts have been made to account for the Central European political economy through a framework of hybridization, with the inconsistent institutional arrangements representing a temporary framework resulting from hasty and dramatic reform, with the eventual settling of Central European economies into one or other model given enough time and institutional rationalization.<sup>57</sup> There are problems with such an approach. As has been pointed out by some theorists, the strength of a given model rests not in a given single feature, but in the multiple complementarities that exist between the various parts of the overall model.<sup>58</sup> Ultimately, the proper functioning of, for instance, research and development functions in the private sector depends on the quality of the educational and training apparatus, and likewise the competitiveness and strategic agility of firms is partly contingent on the proper functioning of the labor market system.<sup>59</sup> Further, established works in the varieties of capitalism literature ultimately fail to account for the origins and development over time of these models, instead presenting them denuded of historical context. Presumably the ancestral Goths did not migrate into ancient Germania and proceed to immediately establish a Coordinated Market Economy in grain, food stuffs and crude Roman-killing weaponry, but rather German institutional innovation resulted from much more proximate developments in European economic history<sup>60</sup>. Similarly, if indeed the economies of Central Europe have, as a result of post-Socialist transition, landed in an institutional half-way house without settling on a coherent model for their capitalist political-economy, it would be crucial to understand the process of institutional development that underpinned the emergence of the Western European models.

One means of attempting to find a common framework for examining these varied institutional models is provided by a historical process-tracing approach, which attempts to situate the genesis of the particular features unique to each model in the historical trajectory of national development<sup>61</sup>. These models arose as different means of managing the industrial economy, and their origins can be traced through the different policies and instruments employed in the industrialization process. Using the typology developed by Alexander Gerschenkron, I attempt to sketch out a hypothesis as to the historical origins of these three European models – the Liberal Market Economy, the Coordinated Market Economy and the “virtual economy” –

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<sup>57</sup> Kolodko, G. W. (1999). "Transition to a market economy and sustained growth. Implications for the post-Washington consensus." Communist and Post-Communist Studies 32.

<sup>58</sup> Boyer, (2005).

<sup>59</sup> Herrigel, G. (2000). Industrial Constructions: The Sources of German Industrial Power. Cambridge, Cambridge UP; Boyer, R. (2006). Employment and Decent Work in the Era of Flexicurity. Development Forum on Productive Employment and Decent Work. New York.

<sup>60</sup> It would belabor the point to produce a lengthy list of economic histories of Germany, but a few of the most relevant ones include Herrigel, (2000), Shonfield, A. (1969). Modern Capitalism. Oxford, Oxford UP; Benaerts, P. (1933). Les Origines de la Grande Industrie Allemande. Paris, Éditions F. H. Turot. and, about whom much more will come later, Gerschenkron, A. (1966). Bread and Democracy in Germany. Ithaca NY, Cornell UP.

<sup>61</sup> In taking this view, I'm borrowing some of the conceptual insights in Pierson, P. (2004). Politics in Time: History, Institutions, and Social Analysis. Princeton, Princeton UP.



and thus find a rigorous means of drawing analytic distinctions between the three.<sup>62</sup> Once drawn, such distinctions can take on policy implications – the essential characteristics of the models become clear, and thus it becomes possible to identify the crucial differences in practices and behavior (not just in institutional configuration) that permit the models to function properly.

#### LIBERAL MARKET ECONOMIES/EARLY DEVELOPMENT

The precociousness of the Anglo-Saxon experience with both capitalism and industrialization has been well-established<sup>63</sup>. There have likewise been a great number of attempts to account for this early emergence of modern economic life in the specific conditions of early modern Britain. Perhaps the most persuasive of these is the argument made by Karl Polanyi, which identifies the crucial moment as not the technological emergence of steam power and industrial machines, but the institutional/legal transformation of economic relations in Great Britain.<sup>64</sup> He foregrounds the distinction between traditional economies, in which market allocation plays a marginal role compared with large-scale central redistribution, reciprocal exchange or autarky, and market societies in which the market mechanism governs the vast majority of economic interactions, especially in the principle factors of production – land, labor and money. In the British case, he traces the transformation of an economy in which the allocation of goods and factors of production had been regulated through feudal social and customary obligations, to one in which the fundamental factors of production underwent marketization. The first steps were taken through the enclosure movement, which simultaneously brought land under the direct control of private owners who employed it as a means of economic gain and released the enormous labor-power reserves of the peasantry from an autarkic life on the land into a situation where, after reforms of the various Poor Laws and relief regulations, they were forced to sell their labor on a competitive, national market. These developments, combined with the establishment of the Bank of England as a source for stable credit in the British economy, provided all the prerequisites for a mature and booming capitalist economy, some 100 years before the advent of industrial production.

This early marketization of the British economy had decisive consequences for the industrialization process, and likewise for the form of capitalism that emerged at the conclusion of that process.<sup>65</sup> From a very early stage, a functioning labor market existed in Great Britain, one broad and deep enough to provide relatively well-disciplined labor to all of the emerging industrial sectors (with a significant surplus left over for the Royal Navy, the Napoleonic Wars, Australia, South Africa and various other colonial ventures). More importantly, the fact that industrialization took place first in Great Britain meant that it occurred in an environment without

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<sup>62</sup> Gershenkron, A. (1962). *Economic Backwardness in Historical Perspective*, a book of essays. Cambridge, Harvard UP.

<sup>63</sup> For an orthodox, though somewhat triumphalist, view of English economic development, see Landes, D. S. (1969). *The unbound Prometheus: technological change and industrial development in Western Europe from 1750 to the present*. London, Cambridge U.P.

<sup>64</sup> Polanyi, K. (1944). *The great transformation: the political and economic origins of our time*. Boston, MA, Beacon Press.

<sup>65</sup> Gershenkron, (1962).

significant time pressure. This long time horizon, combined with the effective private investment system provided by private entrepreneurship; capital accumulation from colonial and commercial activities; and an effective banking system underpinned by the Bank of England, allowed the emerging industrial economy to be organically financed out of the existing capital markets.

The sufficiency and maturity of financial and labor markets in Great Britain had significant follow-on effects as well. In this particular case, financial capital reaches a modern stage prior to the industrialization process – modern banks, financial exchanges, and investors as a social and economic class emerge prior to large industrial concerns. Financial markets provide the main means of capitalizing on the growth and development of industrial sectors – rather than the capital of investors being locked-in to a particular firm, the dynamic banking sector and the strength of the stock exchange permitted investors a ready means of converting ownership into capital. The benefits of industrialization therefore accrued not to the management and employees of firms or to firms themselves as institutions, but instead to the owners and financiers of firms. To a certain extent, this contributed to the vibrancy of 19<sup>th</sup> century British business – firms faced the very real threat of exit by their financial partners, and so were placed under severe market discipline. However, this disjuncture between financial and industrial capital produced an unequal relationship between the two, tilted in favor of the financial arm of British capital. The early time order of the development of financial markets in Britain encouraged the emergence of an economic model based on a liberal/market method of capital allocation, but the regular functioning of that allocation mechanism also enriched that sector of the British economy which had most to gain from keeping capital markets liberalized in Britain. From the very beginnings of the British industrial economy, the City of London exerted its considerable and growing influence to resist the regulation of its activity through any set of sectoral institutions or direct state intervention.

The liberal market mechanism in labor is the natural counterpart to a liberalized capital provision scheme. As noted above, one virtue of the British model was to enshrine market discipline through the credible threat of the withdrawal of investment by creditors and shareholders. However, while the remarkable speed at which capital can be withdrawn from a company provides the credibility, it often also limits the means by which firms can improve their performance. Transformative strategies involving the deployment of new technologies and the systematic reorganization of the production process involve significant costs and lengthy time horizons – these strategies cannot easily be pursued under duress<sup>66</sup>. More immediate results in ameliorating returns can be generated by reducing labor costs, both by releasing employees and by reducing compensation (or increasing hours) for employees retained. These strategies, however, are only possible under conditions of a highly liberal labor market – if the dismissal of employees involves the disbursement of significant severance or pensions costs, this avenue of retrenchment is closed. Historically, in early developers liberal capital arrangements and liberal

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<sup>66</sup> With regard to the trade-offs between labor market flexibility and firm adjustment strategies, see Boyer, R. (2006). *Employment and Decent Work in the Era of Flexicurity*. Development Forum on Productive Employment and Decent Work. New York. and Sapir, (2005).

labor markets have tended to buttress one another, allowing for the transfer of market discipline downwards from financial capital to industrial capital and finally onto labor. The political strength of these economic groups has tended to mirror this progression, with financial capital often enjoying a favored position while attempts by labor groups to secure protection against naked market forces, let alone a movement away from liberalized labor markets, have met with significant resistance. We can thus account somewhat for the emergence of the LME model – marketization that precedes industrialization creates not only the economic conditions for market-derived growth, but also creates powerful interests seeking the perpetuation of liberalized economic conditions.

#### LATE DEVELOPMENT/COORDINATED MARKET ECONOMIES

The conditions of industrialization on the European Continent were, according to Gerschenkron, qualitatively different to those of Britain. Unlike the early developing Anglo-American economies, even the most developed states of Europe suffered from a degree of *backwardness*, the term Gerschenkron employs to describe the situation. Although the term remains somewhat slippery in his work, he certainly includes two concepts within it – the first being *strategic vulnerability* arising from the confrontation with industrialized rivals (in this case, Great Britain), and the second *capital scarcity*. Strategic vulnerability forces a much more rapid pace for industrialization – late developers face a severe risk from falling behind, as industrialization grants a significant, possibly overwhelming, military advantage to their rival. This consideration significantly compresses the time horizon permitted late developing powers.<sup>67</sup>

Capital scarcity, though it appears rather straightforward, is actually a somewhat more difficult concept to unpack. Gerschenkron notes that, empirically, in late developing countries the crucial inputs for industrial production – trained, disciplined labor; technological and managerial know-how; and liquid capital – are very difficult to come by, producing allocation problems and bottlenecks<sup>68</sup>. The reasons for this scarcity are somewhat opaque – elsewhere I contend that they emerge out of the relative immaturity and lateness of the marketization process in Germany.<sup>69</sup> While German agriculture had undergone significant commercialization prior to the 19<sup>th</sup> century, there were several barriers to the revolutionary transformation that Polanyi had described in Britain. The most obvious, of course, concerns the political fragmentation of Germany – it was not until the late 19<sup>th</sup> century that the country was unified, and the resulting economic fragmentation prevented the development of broad or deep capital markets. Similarly, although a substantial surplus agricultural population among the peasantry provided a ready source of labor, the persistence of large-scale manorial farming in the Prussian regions of Germany served as a check on the release of this surplus into the industrial

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<sup>67</sup> For accounts of the crucial influence of security considerations on political and economic outcomes, see Skocpol, T. (1979). *States and Social Revolutions*. Cambridge, Cambridge UP; and Tilly, C. (1985). *War Making and State Making as Organized Crime*. in *Bringing the State Back In*. P. B. Evans, D. Rueschemeyer and T. Skocpol. Cambridge, Cambridge UP.

<sup>68</sup> These issues are all raised by Gerschenkron.

<sup>69</sup> Wrzesniewski, J. (2006). A Gloss on Gerschenkron: Considerations on Capital Scarcity, Financial Markets and Late Development. *Berkeley-Stanford Comparative Politics Graduate Student Conference*. Berkeley, CA.

labor force.<sup>70</sup> The combination of these two factors – the quick-march of industrialization forced upon the country by the security threat of earlier industrializers, and the weakness of national markets in economic factor inputs – set the stage for extremely inventive institutional innovation in the German economy. At the onset of industrialization, bottlenecks formed for the crucial inputs – disciplined labor, technical skill and liquid capital. The market mechanism was not sufficiently developed to generate stable outcomes. Furthermore, the need for rapid industrialization in a condition of backwardness produced an emphasis on large scale and simultaneity across sectors, drastically increasing the time for a return on initial investments. Under these conditions, market allocation becomes increasingly difficult – risk and exposure for investors are high, while entrepreneurs have had few opportunities to develop prior experience.

The institutional innovation which allowed Germany to rapidly overcome these conditions was the universal bank.<sup>71</sup> Gerschenkron points out that such banks, which used commercial banking activities to finance industrial investment, behaved in a manner markedly different from their British counterparts. Rather than using the threat of exit as a means of exerting discipline on the firms the financed, they instead chose to exert their influence through a direct managerial role. By taking on an ownership stake in these enterprise, banks fundamentally transformed their relationship with industry – this was no longer an arms-length market relationship, but instead a marriage of personnel, expertise, and destiny. The long-term nature of the financing guarantee granted the industrial concern to considerable funds for investment, while permitting a long period of build-up to profitability. Such a partnership produced a much more level relationship between financial capital and industrial capital – without the threat of exit available, the first order concern of the suppliers of finance was the survival and health of the firm, rather than short term return on investment. Banks became dedicated to their attached industries, and the profits of industrialization, through the board of supervisors structure, tended to be reinvested into the industrial concern itself, through up-skilling labor, developing new technologies, and making acquisitions.<sup>72</sup> This tendency culminated in the consolidation through merger and purchase of German industry in the late 19<sup>th</sup> century into a small number of competing conglomerates. The stage was set for a potential crisis – a small number of competing firms in a limited national market could lead to a destructive spiral of competition. However, by the late 19<sup>th</sup> century and much more aggressively in the 20<sup>th</sup> century, the state began to play the role of demand adjuster, through the strategic use of trade policy, military procurement and the like.<sup>73</sup>

The institutional allocation of capital was echoed, to a certain extent, in the labor market. The movement away from pure market allocation began early, but through very modest means – out of a desire to de-politicize the labor movement, the

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<sup>70</sup> Gerschenkron, A. (1966). Bread and Democracy in Germany. Ithaca NY, Cornell UP.

<sup>71</sup> Gerschenkron, (1966);

<sup>72</sup> Gerschenkron, (1966); Barkin, K. (1970). The Controversy over German Industrialization 1890-1902. Chicago, University of Chicago Press; Forsyth, D. J. and D. Verdier, Eds. (2003). The Origins of Financial Systems: Alexander Gerschenkron reconsidered. New York, Routledge.

<sup>73</sup> Gerschenkron, (1966); Gourevitch, P. (1986). Politics in Hard Times. Ithaca, Cornell UP.

paternalism of the Bismarkian welfare state delivered German labor from the uncertainty and excess of early industrial labor conditions. Thus minimum standards were politically enforced, providing labor with a guaranteed floor of security and compensation. This tendency did not reach its logical zenith until the post-War period, however, when union federations were incorporated into the institutional framework that had previously mediated relations between industrial capital and financial capital, as well as capital and the state. Rather than the market determining the conditions under which labor would be bought and sold, such conditions were arranged through negotiations between the peak agencies on the side of management and labor, with the state acting as ultimate broker and guarantor.<sup>74</sup> Thus incorporated, labor also received representation within firms, with input from labor representatives at the highest levels, including in the boards of supervisors. This incorporation, however, also forced the alignment of interests between financial capital, industrial capital and labor – the economic success of all three ultimately rested on the survival and competitiveness of the firm.

Thus emerged the Coordinated Market Economy – the institutional innovations which led to the institutional resolution of allocation questions arose out of *backwardness*, specifically the imperative of rapid industrialization under conditions of market immaturity. Further, these conditions were not limited to German, our paradigm case – all of Continental Europe was backwards in comparison with Great Britain, and resorted to similar institutional solutions to spur on the industrialization process. France, with perhaps more emphasis on the state than on banks, as well as Austria-Hungary, Italy and the smaller nations of Western Europe resorted to variations of this model, and in the post-War period similarly tended to imitate the additions and reforms of Germany in its *wirtschaftswunder* phase. If any model can be called the “European model,” it is the Coordinated Market Economy thus understood – the competitive forces of the market are muted, emphasis is placed on negotiation between social actors that take into account the interests of each group, and the outcomes favor public goods and a more-equal distribution of wealth.<sup>75</sup>

#### LATE-LATE DEVELOPMENT/VIRTUAL ECONOMY

Gerschenkron identifies another category of industrializing country, the late-late developer. In this type of economy, typified by Czarist Russia/USSR, the condition of backwardness is so intense that the institutional innovations of late development are insufficient. For Gerschenkron the intensification of backwardness results from the increased threat from industrial rivals (which are now more numerous) and a greater scarcity of capital. It is worth adding to this the extremely weak functioning of the market mechanism in Czarist Russia. Despite its agricultural riches, Russian agriculture had never undergone systematic commercialization. Landlord/serf relations predominated throughout the country, regulated by custom

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<sup>74</sup> Shonfield, A. (1969). Modern Capitalism. Oxford, Oxford UP; Marks, G. (1986). "Neocorporatism and Incomes Policy in Western Europe and North America." Comparative Politics 18(3).

<sup>75</sup> Sapir, A. (2005). Globalisation and the Reform of European Social Models. ECOFIN Informal Meeting. Manchester.

and tradition rather than market rationality.<sup>76</sup> More severely, the main productive unit in Russian agriculture remained the peasant commune. In the intensely egalitarian conditions of the commune, productivity-enhancing innovations and investments were disincentivized. Further, as a result of tax obligations and (in the late 19<sup>th</sup> century) emancipation remissions, peasants remained bound to their commune by law, preventing the release of this labor force into the national economy.<sup>77</sup> Under these conditions, private capital accumulation sufficient to underwrite industrial ventures was impossible, let alone the private development of financial institutions capable of channeling such investment. All of these deleterious conditions were amplified by the decided preference of the Russian aristocracy for political or military entrepreneurship, leading to the prominence of pariah minorities in the capitalist class, further delegitimizing economic entrepreneurship for the Russian elite.

Into this developmental breach stepped the Russian state. As Gerschenkron describes, it was the state that provided the investment capital for the development of industry in the late 19<sup>th</sup> century. The capacity of the state to raise funds through non-market means – that is using its political muscle to raise funds through taxation and tariffs.<sup>78</sup> Furthermore, the Russian state did not limit itself to providing non-market capital investment for developmental purposes – in the great railroad projects undertaken by Czar Nikolas II, land and even labor were provided through political (that is to say coercive) mechanisms.<sup>79</sup> This resulted in considerable waste, of course, including the waste of human life, but the industrialization process was ushered forward at great speed under non-market conditions. Seen from this perspective, the absolute aversion to the market mechanism of the Bolshevik leaders represents not an absolute novelty in Russian history, but the logical endpoint of the techniques of Czarist development. Under the Soviet command economy, bureaucratic allocation of all the factors of production – land, labor, capital – continued the industrialization drive, producing genuine catch-up to industrial leaders by the 1950's. It must be noted that the proper functioning of the Soviet model required terror – in a system without market discipline of any kind, those responsible for bureaucratic allocation have tremendous opportunities for destructive corruption.<sup>80</sup> These were held in check during the Stalin period by the systematic terrorization of the Party and state apparatus by the security organs. Once this terror was lifted (with a lag effect due to the charisma of the true-believing Khrushchev), systematic corruption emerged, fatally degrading the economy.<sup>81</sup>

Moreover, the conditions of this method of industrialization meant that the market mechanism – dominant in the LME, muted but still crucial in the CME –

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<sup>76</sup> Gerschenkron, A. (1966). *Agrarian Policies and Industrialization in Russia*. in The Cambridge Economic History of Europe. M. a. H. Postan, H.J. Cambridge, Cambridge UP. 6.

<sup>77</sup> Portal, R. (1966). *The Industrialization of Russia*. in The Cambridge Economic History of Europe. H. J. Habakkuk and M. Postan. Cambridge, Cambridge UP.

<sup>78</sup> Gerschenkron, A. (1963). *The Early Phases of Industrialization in Russia*. in The Economics of Take-Off into Sustained Growth. W. W. Rostow. London, MacMillan & Co; Gerschenkron, (1966); Riasanovsky, N. (2000). A History of Russia. Oxford, Oxford UP.

<sup>79</sup> Stephan, J. J. (1996). The Russian Far East: a History. Palo Alto, CA, Stanford UP.

<sup>80</sup> Kornai, J. (1992). The Socialist System. Princeton, Princeton UP.

<sup>81</sup> Balcerowicz, L. (1995). Socialism, Capitalism, Transformation. Budapest, London, New York, Oxford UP/CEUP.

could never emerge as a signaling or allocating principle. This made transition away from the Command model singularly difficult – no gradual means of reasserting the mechanism could arise, as any piecemeal marketization would not be enough to provided the basis of a capitalist economy while simultaneously undermining the command model. The reliance on terror combined with the difficulty of introducing a market element made the Soviet Command economy fundamentally unstable – the logical conclusion of these mounting contradiction was the pan-Communist economic crisis of the mid-1980s, which culminated with the general collapse of Communism as a political and economic system.

The results of the collapse in the Slavic heartland of the former Soviet Union (Russia and Ukraine<sup>82</sup>) were the return of pre-Revolutionary conditions in terms of market development. From having the Soviet command economy serving as a nation-wide allocation agent for inputs, intermediate products and final goods, these countries went to having no nation-wide economic structure. The “shock therapy” of the early nineties exposed these national economies to the world market, and simultaneously introduced a genuine currency for internal exchange, but did not provide the institutional underpinnings necessary for the regular operation of a mature capitalist economy<sup>83</sup>. As Gaddy and Ickes point out, this vacuum provided the operatives of the old system – especially the security agencies – to assert control of economic assets, and to continue to operate the economy through political allocation, channeling the working of the industrial legacy of the old system towards personal ends.<sup>84</sup> As a result of foreign pressure, there exists, on paper, the institutional and legal profile of a mature capitalist economy. In practice, the institutions do not serve the function that they are nominally responsible for, and the regulations go unenforced. Instead the very worst tendencies of late Communism persist, often in the hands of late Communists, with now-private security agencies providing the necessary terror. If the CME represents the “European model,” the “virtual economy” is the nightmare scenario.

#### CENTRAL EUROPE: A RETURN TO LATE DEVELOPMENT?

Just as the collapse of the Communism in the Soviet Union resulted in the return of the successor states to a pre-Revolutionary condition, so too did the economies of Central Europe experience a reversion to what could be characterized as a pre-War condition<sup>85</sup>. In the case of these countries, however, this represented a much more promising movement in re-establishing a capitalist economy – unlike the Soviet successor states, which lurched back towards isolation and de-marketization,

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<sup>82</sup> Belarus avoided the fate of its neighbors by simply refusing to acknowledge the end of Soviet Communism, and instead maintaining the old political/economic system, albeit at much more modest and circumscribed level.

<sup>83</sup> An excellent account of the consequences of such reckless transition can be found in Volkov, V. (2002). Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism. Ithaca, Cornell UP.

<sup>84</sup> Gaddy and Ickes, (1999b); Darden, K. (2003). Graft and Governance: Corruption as an Informal Mechanism of State Control.

<sup>85</sup> Of course, this is mean primarily as a metaphorical observation – of course the Communist period left substantial legacies, and the amount of damage done by a half-century lost to Soviet dominance cannot be understated. But it is worth noting that in most countries, pre-War legal codes and institutions were revived, and some property returned to pre-War owners; Rothschild, J. and N. Meriwether Wingfield (1999). Return to Diversity. Oxford, Oxford UP.

in Central Europe this meant a “return to Europe,” both through the dusting-off of pre-War legal arrangements that mirrored the late development scenario described by Gerschenkron and the willingness of the European Union to extend aid and the prospect of eventual membership.<sup>86</sup> European intervention, to a great extent, catalyzed the development of institutional arrangements appropriate for mature capitalism while also forcing a certain discipline and clarity on the political elites of the immediate transition period.<sup>87</sup> This pre-empted the occurrence in Central Europe of the worst elements of the transition period in Soviet successor states – entry into the EU, indeed the more modest goal of compatibility with Western European economies, required that Central European states achieve a minimum of capitalist coherence and transparency, especially once the hectic and herky-jerky process of privatization was completed. Conditionality, and the policy of requiring the adoption of the *acquis communautaire*, produced, in effect, a forced march of institutional and structural reform along European lines.<sup>88</sup>

However, the legacy of the Communist period cannot be so easily put to rest. While the official transformations in Central Europe have been substantial, the danger of the “virtual economy” consists in the formation of parallel, unofficial means of economic allocation. In this respect, there are a number of developments that are quite troubling. The persistence of high levels of corruption throughout the region suggest that a significant portion of the economic activity therein is subject to political pressures, mirroring the state allocation of the Communist period and characteristic of the “virtual economy”.<sup>89</sup> Likewise, the alarming level of unemployment in certain states in the region, especially Poland, indicated a fundamental failure of state economic policy. It is unrealistic to suppose that the unemployed population is completely idle; likewise it is impossible that these individuals subsist entirely through a “grey economy” typified by unofficial market participation<sup>90</sup>. More likely, welfare functions have become politicized, resulting in the allocation of welfare benefits to individuals based on humanitarian, but extra-legal grounds. Finally, although many Central European states have institutions analogous to the representative bodies in CMEs, there is reason for concern that these bodies are not autonomous or strong enough to serve analogous functions, but instead operate primarily to simulate the institutional arrangements further west.<sup>91</sup>

There is a genuine concern about how much can be done to correct these tendencies. Now that paper reforms have been made to bring Central European economies into line, more or less, with the expectations of the EU, the crucial

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<sup>86</sup> Kolankiewicz, G. (1994). "Consensus and Competition in the Eastern Enlargement of the European Union." International Affairs (UK) 70(3); Kolarska-Bobińska, L. (2003). "The EU Accession and Strengthening of Institutions in East Central Europe: The Case of Poland." East European Politics and Societies 17(1).

<sup>87</sup> Kolarska-Bobińska, (2003).

<sup>88</sup> Schimmelfennig, F., S. Engert, et al. (2005). The Impact of EU Political Conditionality. in The Europeanization of Central and Eastern Europe. F. Schimmelfennig and U. Sedelmeier. Ithaca, Cornell UP.

<sup>89</sup> Schoenman, R. (2005). "Captains or Pirates? State-Business Relations in Post-Socialist Poland." East European Politics and Societies 19(1).

<sup>90</sup> According to the OECD, Polish unemployment runs at 17.7%

<sup>91</sup> Ost, D. (2000). "Illusory Corporatism." Politics & Society 28(4); Bluhm, K. (2001). "Exporting or Abandoning the 'German Model'? Labour Policies of German Manufacturing Firms in Central Europe." European Journal of Industrial Relations 7(2).



problems facing Central European political economies are no longer questions of institutional engineering, but rather have a sociological character. How can governments prevent the “virtual economy” traits of non-market economic allocation and the calculated disregard for official rules and practices? How can genuine convergence with the successful economic models of Europe – whether liberal or coordinated – be achieved?

The purpose of this essay has been primarily diagnostic, rather than prescriptive, but a few observations in this direction offer themselves. The “virtual economy” is based in the persistence of networks and systems of allocation left over from the Communist era. The principle operators of the Russian and Ukrainian “virtual economy” have been Communist era operators from the security branches, who maintained their influence and contacts intact through the transition period into the new, post-transition system. This is not necessarily a natural social group – if these networks were disrupted, especially under conditions of legitimate capitalist growth, the political institutional environment in Central Europe does not necessarily indicate that they would be recreated. In this spirit, lustration – the exposure and purging of Communist-era intelligence operatives and their networks – can serve an important political-economic function. Lustration has typically been considered a political reform; a step towards developing a genuinely democratic political society and culture; or a pragmatic political tool,<sup>92</sup> but from this perspective it can also have salutary economic effects – without such *sub rosa* networks undermining the official sanctioned economic order, economic activity can be channeled exclusively through legally established mechanisms, be they market-dominant or coordinated.

However, an exclusive emphasis on government behavior maybe misplaced. The proper functioning of a CME model requires cooperation with, and cooperation from, private industry and labor groups. Under current conditions, foreign firms making investments in these economies enjoy an asymmetrical relationship with regional governments.<sup>93</sup> The large number of post-Communist new member states ensures that there exists a competitive environment for foreign investment, while the fact that none of the principle firms of Central Europe are actually Central European in origin means that all state-firm relationships are relatively new.<sup>94</sup> Part of the smooth functioning of CMEs arises from the high degree of confidence and commitment that firms display towards their home countries. In the absence of a longstanding relationship, firms should grant the governments of new member states enough room for maneuver to begin to establish the tripartite relationship that exists

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<sup>92</sup> Szczerbiak, A. (2002). "Dealing with the Communist Past or the Politics of the Present? Lustration in Post-Communist Poland." Europe-Asia Studies 54(4); David, R. (2003). "Lustration Laws in Action: The Motives and Evaluation of Lustration Policy in the Czech Republic and Poland (1989-2001)." Law and Social Inquiry 28.

<sup>93</sup> Spaulding, R. M., Jr. (1991). "German Trade Policy in Eastern Europe, 1890-1990: Preconditions for Applying International Trade Leverage." International Organization 45(3); Sinn, H.-W., A. J. Weichenrieder, et al. (1997). "Foreign Direct Investment, Political Resentment and the Privatization Process in Eastern Europe." Economic Policy 12(24); Pavlínek, P. (2004). "Regional Development Implications of Foreign Direct Investment in Central Europe." European Urban and Regional Studies 11(1).

<sup>94</sup> Pavlínek, (2004).

further west. This also means bolstering the power of organized labor groups.<sup>95</sup> Such forbearance need not be an act of charity – it could be part of a very public *quid pro quo* with society as well as state to reduce corruption and honor the letter of the law.

#### CONCLUSION

The study of European political economy has been dominated by the paradigm of economic model, especially the LME/CME distinction introduced by Hall and Soskice. While this framework has proven robust in dealing with contemporary Western European questions, as it exists it exhibits a curiously ahistorical character and has so far failed to be persuasively extended to the new member states of Central Europe. A more generalized historical approach linking the emergence of these models with the late development scheme of Alexander Gerschenkron has some promise in addressing questions of model formation and convergence in Central Europe, partly by foregrounding the question of extent and nature of economic allocation (dominant market/muted market/purely political) and partly by introducing the “virtual economy” as a possible model resulting from post-Communist decay. In this framework, the most serious dangers to the convergence of new member economies with existing, proven economic models may begin to be addressed.

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<sup>95</sup> Cox, T. M. and B. Mason (2000). "Interest Groups and the Development of Tripartism in East Central Europe." European Journal of Industrial Relations 6(3).

## Idea of Citizenship: Problems of Construction and Interpretation

### INTRODUCTION

The problem of citizenship has been long studied in social sciences. However the wide use of the notion of European citizenship in contemporary political and academic discourse created a number of challenges that should be taken into account while analyzing the concept of citizenship in its broader meaning. These challenges, in my opinion, also require the revision of the theoretical approaches towards the interpretation of the idea of „citizenship“.

The notion of the European citizenship is frequently used in the major documents of the European Union. In the Preamble of the European Constitution (eventually, not adopted), the European citizenship is viewed as a tool of creating the union and guaranteeing the number of rights and privileges to the people. By referring to citizenship, the authors of the European Constitution at the same time put the individual at the very center of their attention.

One should also bear in mind that the idea of establishing common European citizenship does not eliminate the role and value of national citizenships; neither it replaces it. It is clearly stated in both the Maastricht Treaty (1992) and the Treaty of Amsterdam (1997). Citizenship of the EU is declared to be rather a mean of strengthening the protection of the rights and interests of the citizens of the EU member states.

If summarized, EU citizenship rests on the following rights (granted by the Maastricht Treaty):

- ✓ the right to mobility and residence within the European Community;
- ✓ the right to vote and to participate in the elections as a candidate for both European and municipal elections in the state in which the person resides;
- ✓ the right to protection by the diplomatic or consular authorities of any of the member states if the person finds himself in a third country where his state of origin is not represented;
- ✓ the right to write petition the European Parliament and to submit a complaint to the Ombudsman.

This understanding of citizenship as membership in a political community presupposing a certain number of rights, reflected in the EU documents, is tightly connected with the classical understanding of citizenship offered by T.H. Marshall in his famous essay of 1950. However, contemporary social sciences provide some broader concepts. They will be briefly discussed later on. But the main **goal** of this paper is to go beyond this formal understanding of citizenship as a set of rights. One has to take into account that “[t]he institutions of the nation-states move the epistemological – citizenship as a category – toward the emotional – citizenship as a felt identity.”<sup>96</sup> This paper attempts to analyze how European citizenship is

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<sup>96</sup> Berezin, M. (2002) “Secure States: Towards a Political Sociology of Emotion”, in J. Barbalet (ed.) *Emotions and Sociology*, pp. 33-52. Blackwell Publishing / *The Sociological Review*, p. 41.

constructed and perceived at the individual level among the representatives of the different European countries<sup>97</sup>.

In order to achieve that I will analyze the responses to several non-direct questions (in respect to the problem of citizenship and identity formation) asked in the European Social Survey 2004/5.<sup>98</sup>

#### THE CONCEPT OF CITIZENSHIP: SOME SOCIOLOGICAL INTERPRETATIONS

As has already been mentioned, T.H. Marshall's approach to citizenship is considered to be classical, and this is the one that has been adopted in the EU documents for defining the meaning of the European citizenship. Marshall identifies three part (or elements) of citizenship, namely 1) civil, 2) political, and 3) social. All three are composed of certain rights respectively.

Citizenship is defined as a "status bestowed on those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status is endowed."<sup>99</sup>

European citizenship is also given to those who initially possess the national citizenship of the member states of the EU. It can be supposed that the fact whether the individual has such a status can become an important factor of inequalities, namely of various forms of alienation and exclusion. This is also a crucial element in "we" – "others" relationships, which is especially important for contemporary Europe due to the growing number of immigrants representing various social, cultural, ethnic, etc., groups.

The discourse on citizenship as a factor of inequalities continued in social sciences with a number of theoretical works highlighting the problems of inclusion / exclusion with an emphasis on participation. In the most general terms, the problem can be stated as follows: contemporary society becomes so complex that many citizens cannot participate fully; this turns into the basis for the appearance of "new inequalities."<sup>100</sup>

Different social scientists use different terms (sometimes metaphors) to describe this situation. For instance, N. Luhman refers to the new type of social differentiation which can be called the "meta-code of inclusion / exclusion."<sup>101</sup> A. Giddens believes that the broadest meaning of the concept of citizenship is reflected

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<sup>97</sup> This frame of reference is somewhat broader than the concept of the EU citizenship for it takes into consideration the situation in the European countries irrespective of their membership in the EU.

<sup>98</sup> The Survey was conducted in 24 countries on the national random samples, N=45,681. The countries included: Austria, Belgium, Switzerland, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, United Kingdom, Greece, Hungary, Ireland, Iceland, Luxembourg, Netherlands, Norway, Poland, Portugal, Sweden, Slovenia, Slovakia, and Ukraine.

<sup>99</sup> Marshall, T.H., Bottomore, T. (1992) *Citizenship and Social Class*. Pluto Press, p. 18

<sup>100</sup> Куценко О.Д. Суспільство нерівних. Класовий аналіз нерівностей в сучасному суспільстві: Спроби західної соціології. – Х: Вид. центр ХНУ ім. В.Н. Каразіна, 2000. – 316 с. [Kutsenko, O. (2000) *Society of Unequal. Class Analysis of Inequalities in Contemporary Society: Attempts of Western Sociology*. Kharkiv: Printing Center of V.N. Karazin Kharkiv National University.]

<sup>101</sup> Луман Н. Глобализация мирового сообщества: как следует системно понимать современное общество // Социология на пороге XXI века: Основные направления исследований / Под ред. С.И. Григорьева, Ж.Козен-Хуттера. – М.: РУСАКИ, 1999. [Luhman, N. (1999) "Globalization of the World Community: How One Should Understand Contemporary Society", in S. Grigoriev and J. Konen-Hutter (eds) *Sociology at the Turn of the 21st century*. Moscow: Rusaki.]

in the term “inclusion”. For him, inclusion implies equality, while exclusion (which is obviously the opposite) is understood as inequality.<sup>102</sup>

In N. Elias’s terms (despite he did not elaborate so much on the concept of citizenship), in European realities those possessing EU citizenship turn out to be like the “established group” versus the group of the “outsiders.”<sup>103</sup> The application of these notions here is justified for it sheds some light on the consequence of possessing citizenship (or belonging to the “established” group) as a power resource, on which social superiority is founded.

The discussion on citizenship as inclusion and the factor of belonging to the “established” group is especially important if one wants to understand the configuration of social relationships within on the so called European space, namely between those who have already possessed EU citizenship and those who only strive for it (“outsiders”, be they immigrants from the “third world” countries or other EU member states).

#### EUROPEAN CITIZENSHIP IN THE CONTEXT OF THE EUROPEAN UNIFICATION: SOME EMPIRICAL FINDINGS

With those theoretical and methodological principles in mind, let us try to reveal some peculiarities of constructing the European citizenship. First of all, as mentioned above, it will be done in the indirect way, not by analyzing whether people perceive themselves as rather the citizens of the EU or their country of origin. Here I aim rather at studying the inclusiveness of the European citizenship understood in terms of attitudes towards „outsiders“. It will be done through the empirical analysis of two indicators:

- 1) attitude towards further European unification,
- 2) attitude towards „outsiders“ (i.e. people coming from other countries) and their impact on different aspects of life.

These two indicators, in my opinion, represent two important dimensions of citizenship as inclusiveness: external (or „outward“) and internal (or „inward“) ones.

European unification understood as further integration rather than further enlargement of the Union, is analyzed on the basis of the following item in the European Social Survey 2004/5: *“Now thinking about the European Union, some say European unification should go further. Others say it has already gone too far. What number on the scale best describes your position?”*. The respondents were offered an 11-point scale where 0 referred to *“unification has already gone too far”* and 10 – to *“unification should go further”*.

Attitudes towards immigrants were assessed on the basis of the analysis of the three following items all applying 11-point scales:

- 1) *“Would you say it is generally bad or good for [country]<sup>104</sup>’s economy that people come to live here from other countries?”* (0 stands for *“bad for the economy”* and 10 means *“good for the economy”*).

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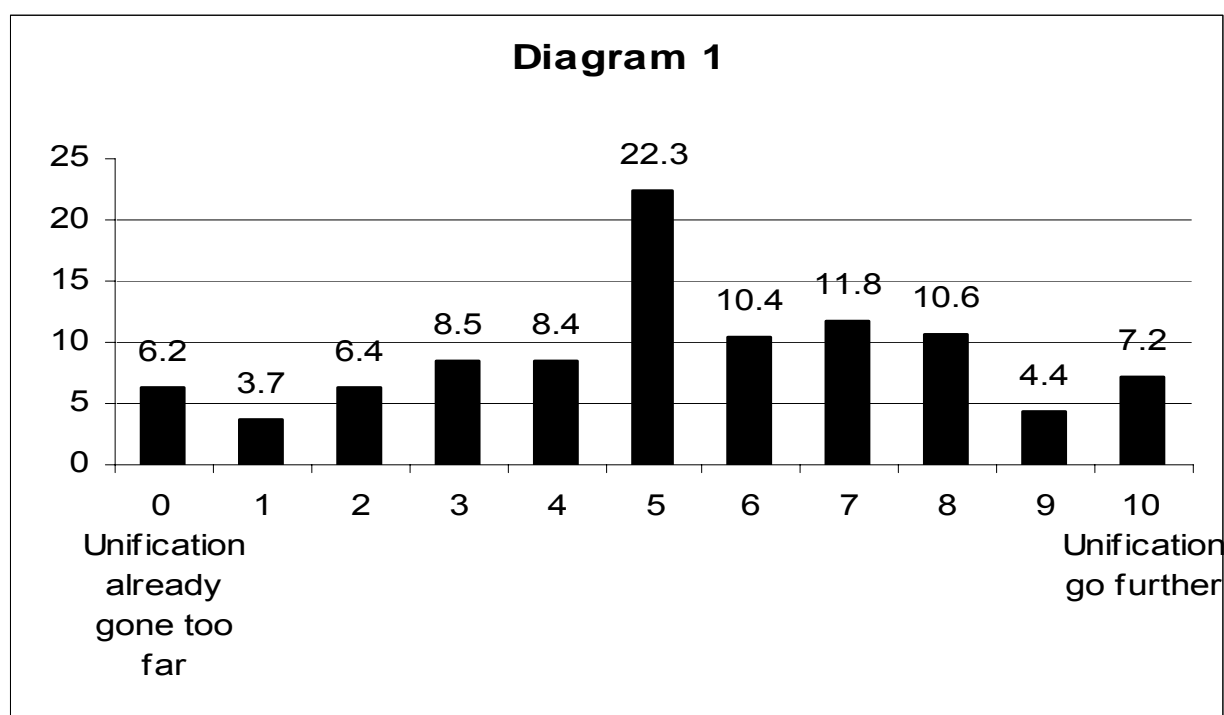
<sup>102</sup> Giddens, A. (1998) *The Third Way. The Renewal of Social Democracy*. Cambridge: Polity Press.

<sup>103</sup> Elias, N., Scotson, J.L. (1994) *The Established and the Outsiders. A Sociological Enquiry into Community Problems*. London, New Delhi, Thousand Oaks: Sage Publications.

<sup>104</sup> Here the interviewer named the country where the survey was conducted.

- 2) *"Would you say that [country]'s cultural life is generally undermined or enriched by people coming to live here from other countries?"* (0 stands for "cultural life undermined" and 10 means "cultural life enriched").
- 3) *"Is [country] made a worse or a better place to live by people coming to live here from other countries?"* (0 stands for "worse place to live" and 10 means "better place to live").

These two indicators touch upon not only the subjective dimension of the European identity formation, but first of all might reveal some "hidden" challenges of implementing the idea of European citizenship in practice, as well as show how inclusive the very concept of European citizenship is. They also emphasize that the notions of citizenship (as formal membership in a certain political community) and identity (as perceiving oneself as a member in this community), as well as the problem of "otherness" (or accepting the "other", being open towards "others") are closely related.

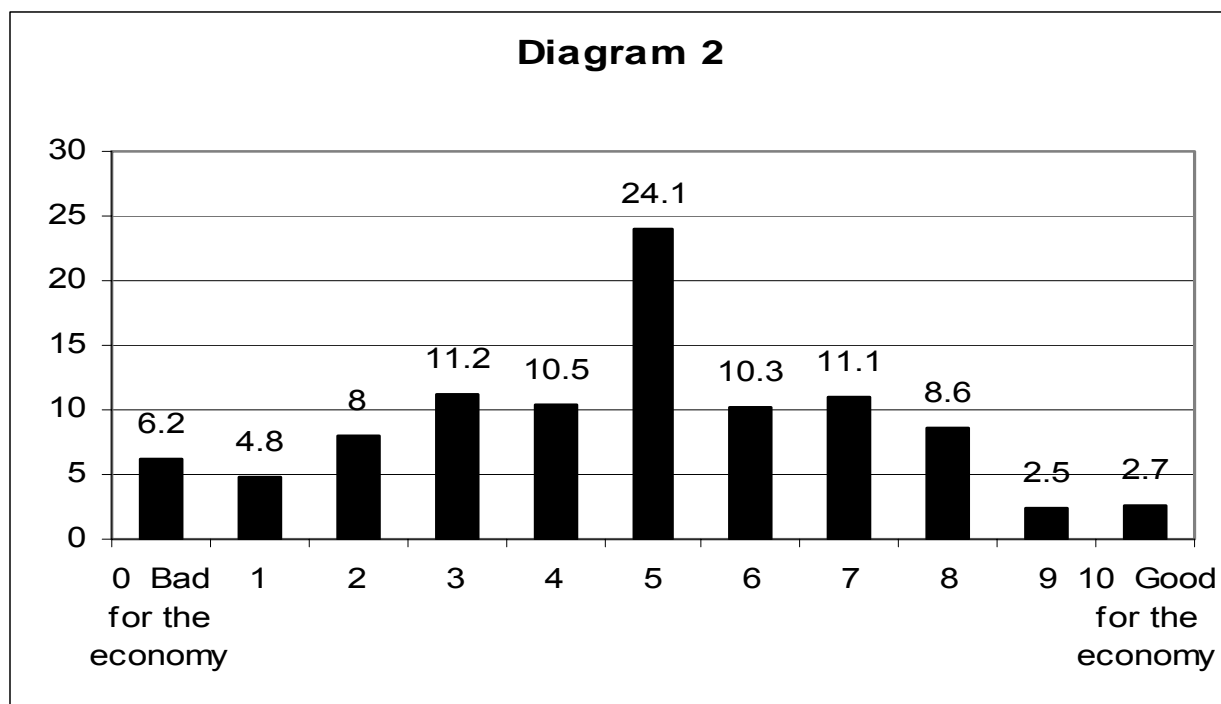


"Now thinking about the European Union, some say European unification should go further. Others say it has already gone too far. What number on the scale best describes your position?" (for all countries, in per cent; N=41,223)

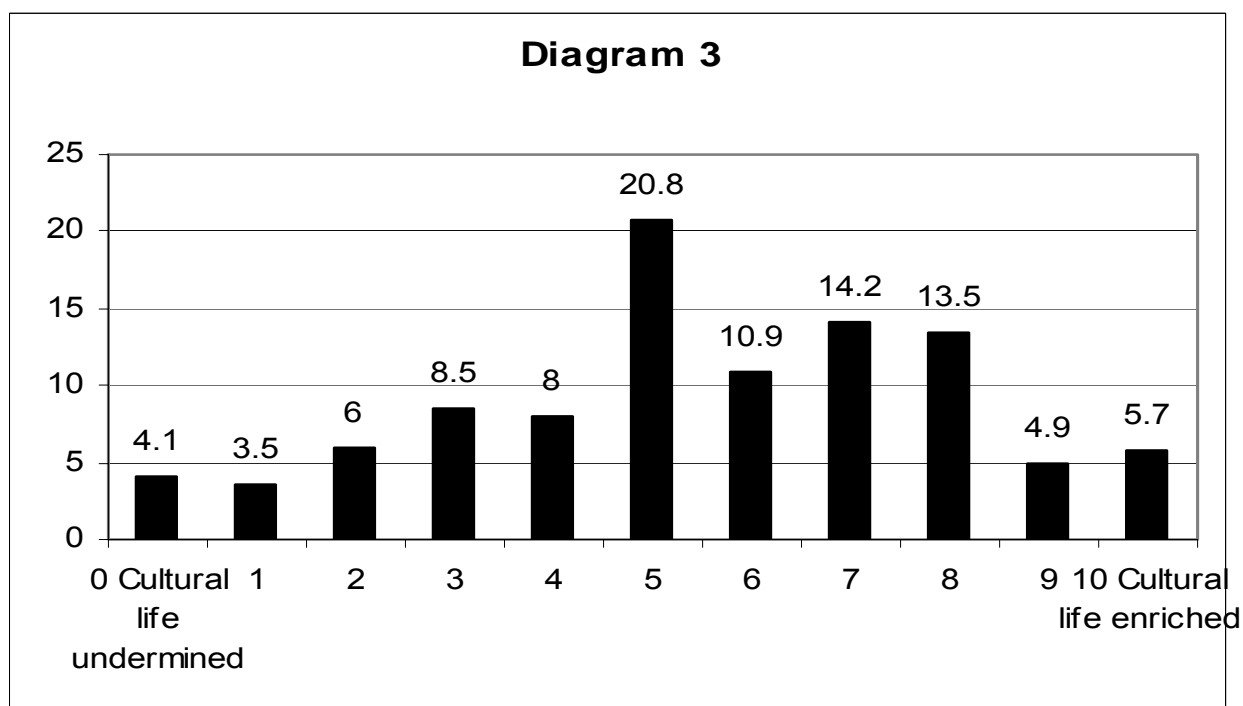
Among all the countries in the Survey<sup>105</sup> almost equal number of people believes that further unification should stop or continue (Diagram 1). Over 22 per cent have the position "in the middle" not indicating any exact preference, and at the same time being the potential supporters of any the "extreme" positions.

Similar situation is observed as to the attitudes towards "outsiders". Diagrams 2-4 also demonstrate normal distributions:

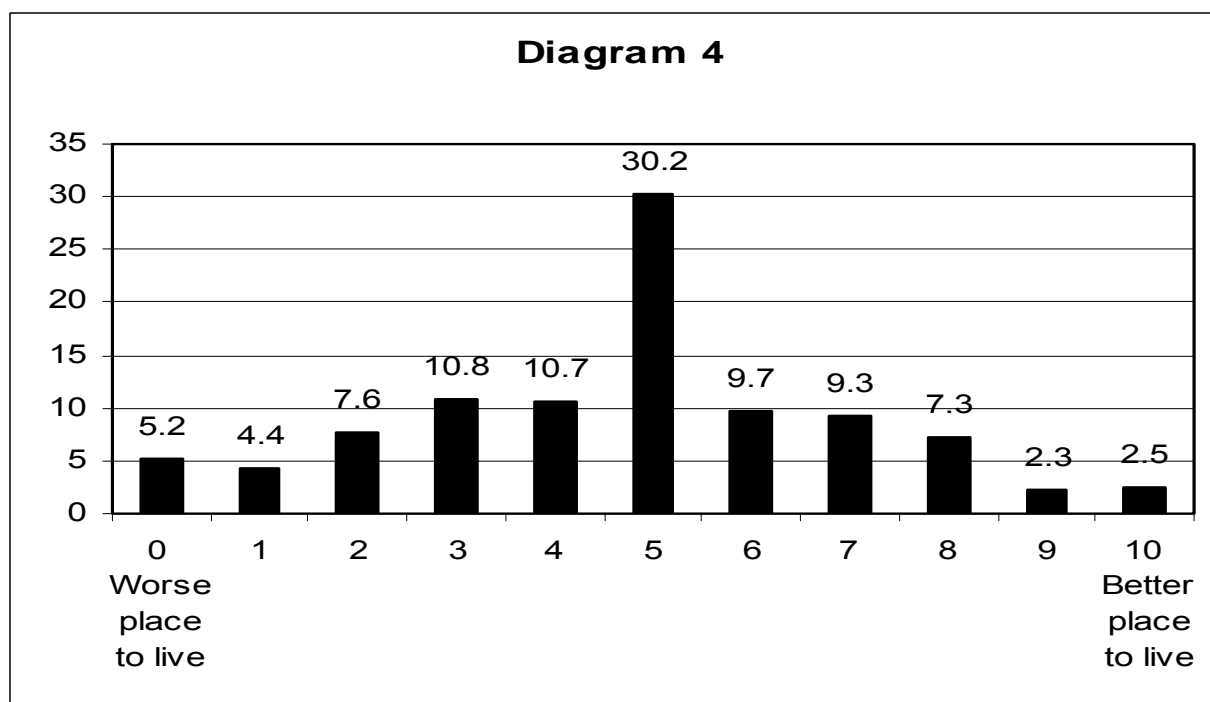
<sup>105</sup> All calculations were done by the author in SPSS+ program (version 12).



“Would you say it is generally bad or good for [country]’s economy that people come to live here from other countries?” (for all countries, in per cent; N=43,223)

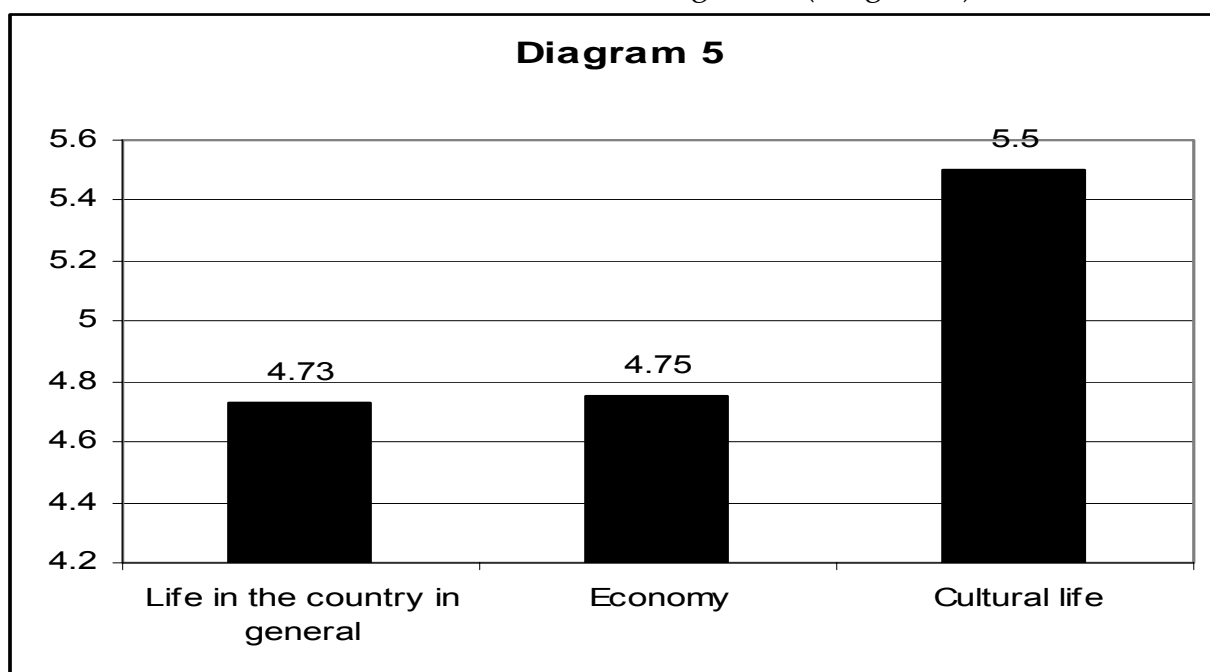


“Would you say that [country]’s cultural life is generally undermined or enriched by people coming to live here from other countries?” (for all countries, in per cent; N=43,313)



“Is [country] made a worse or a better place to live by people coming to live here from other countries?” (for all countries, in per cent; N=43062)

By calculating the mean values, it will be possible to compare the attitudes of Europeans towards people coming from other countries and their impact on economics, culture, and life in their countries in general (Diagram 5).



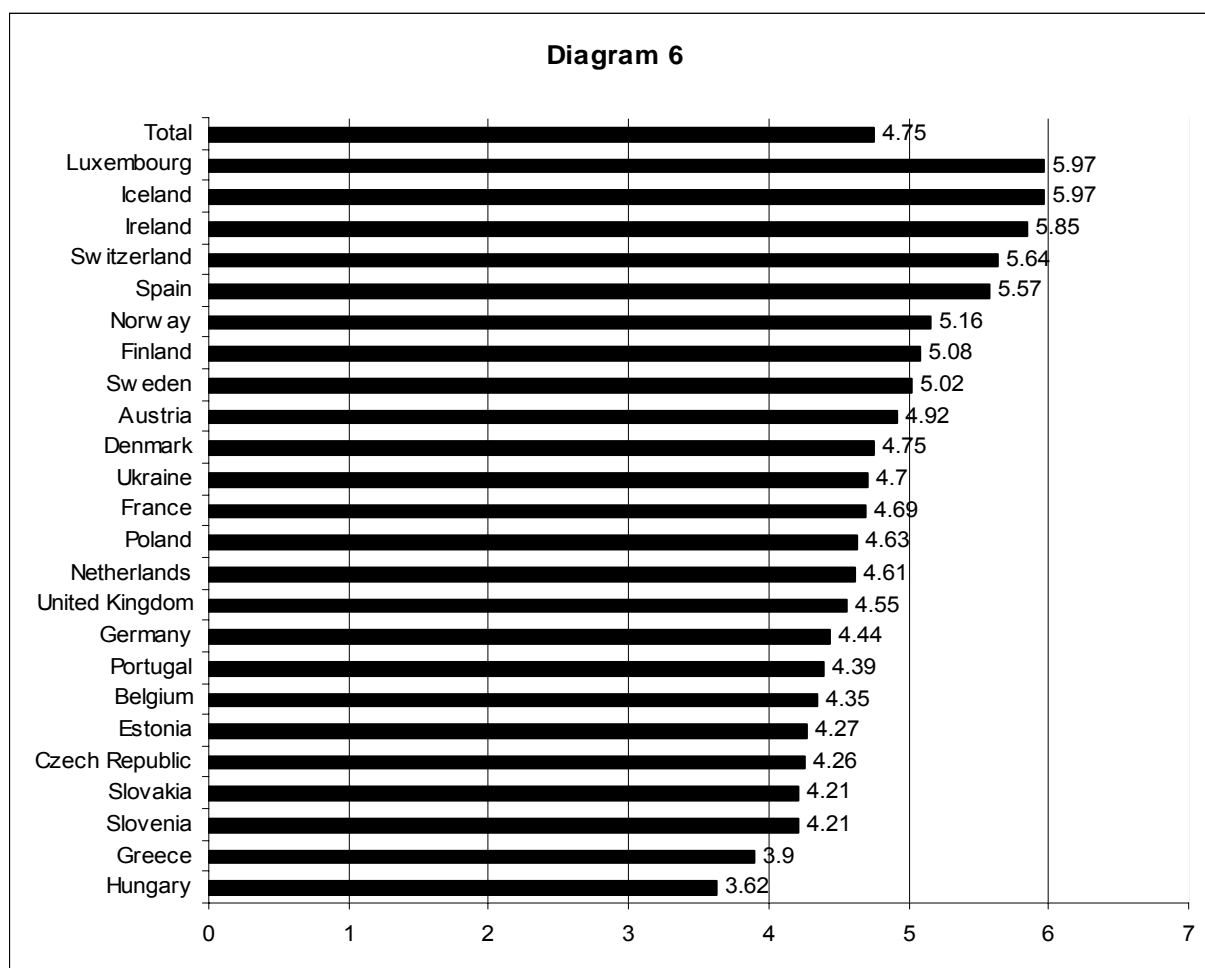
Estimating the role of „outsiders“ in different spheres of life: Comparison of the mean values (for all countries; scale 0-10)

Even though the mean values for all three items are rather close and do not demonstrate any extreme views on the role of the „outsiders“, it is clear that Europeans regard people coming from other places as those who have the most



influence on cultural life, and this impact is rather positive. This positive influence upon culture, however, does not imply as positive assessment of the role of „outsiders“ on economies of the European countries and life their in general.

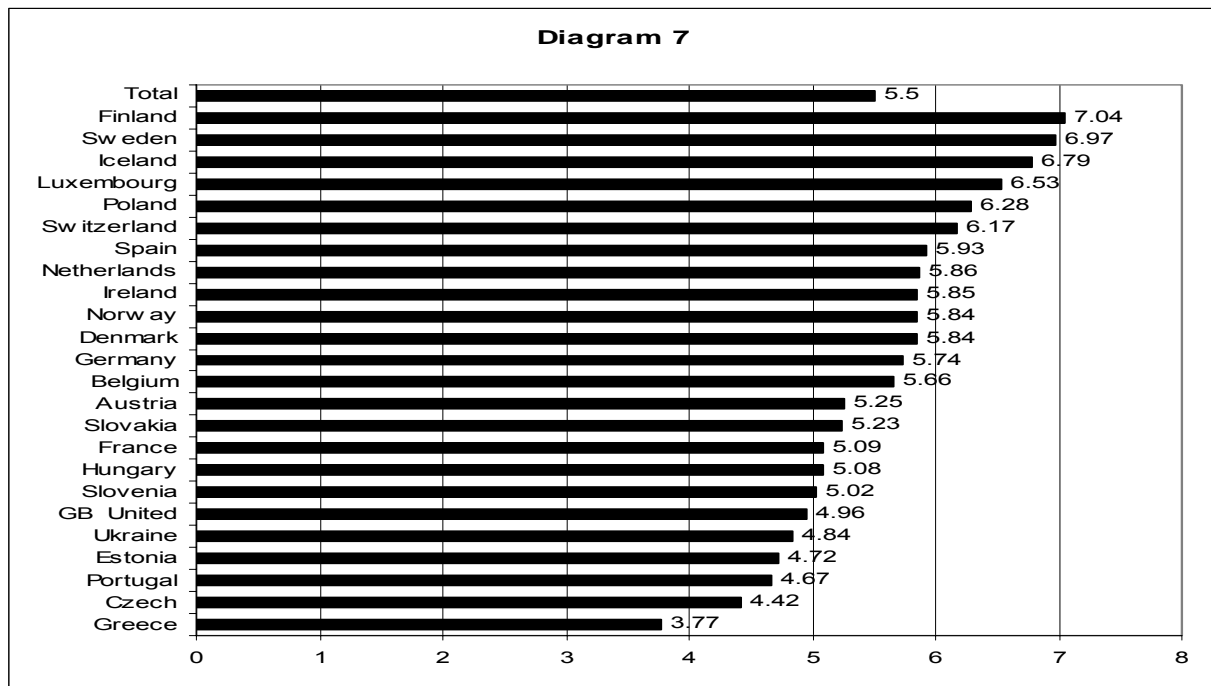
Some more interesting results, reflecting the degree of differentiation, however, can be observed if we analyze the attitude towards „outsiders“ across countries (see Diagrams 6-8).



“Would you say it is generally bad or good for [country]’s economy that people come to live here from other countries?” (mean values for all countries; 0 = “bad for the economy” and 10 = “good for the economy”)

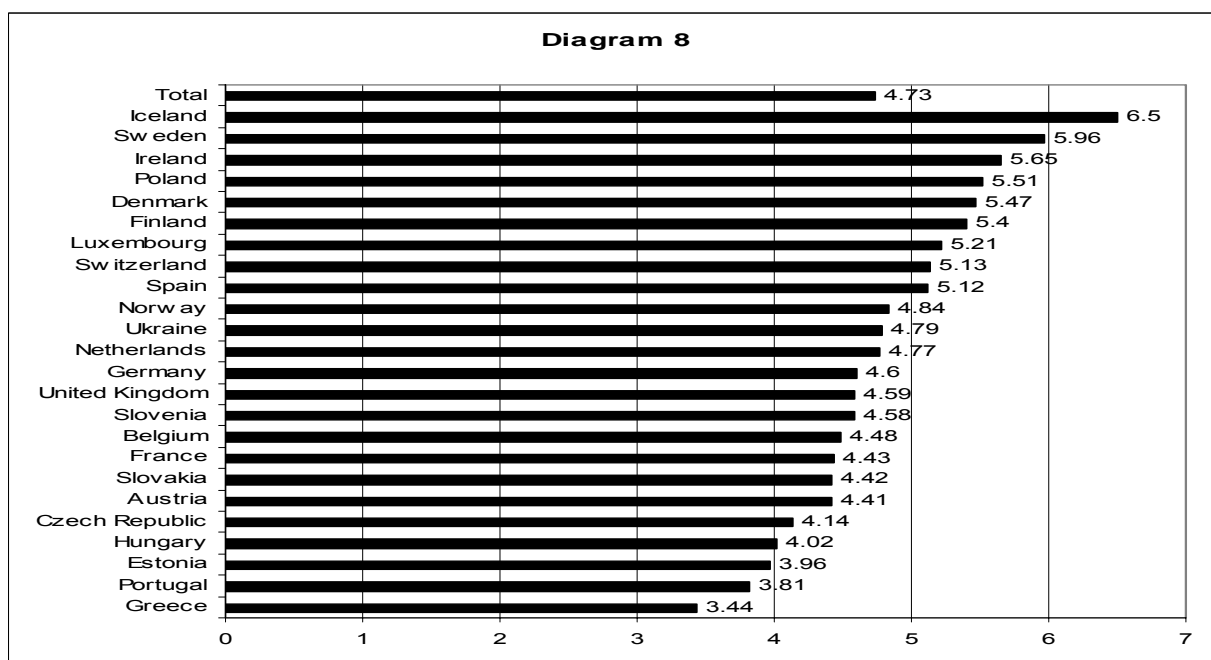
As for the impact of „outsiders“ on the economic situation (Diagram 6), the majority of the West and North European countries (or most of the welfare-state regimes) are more positive towards assessing their impact, while those of Eastern and Central Europe (most of them the “new members”) are more sceptical.

This tendency is even more obvious regarding the assessment of the impact of „outsiders“ on cultural life of the country (Diagram 7). Only with the exception of Poland, the so called “consolidated” democracies make up the top of the list saying that people coming from other countries rather enrich their countries’ cultural life.



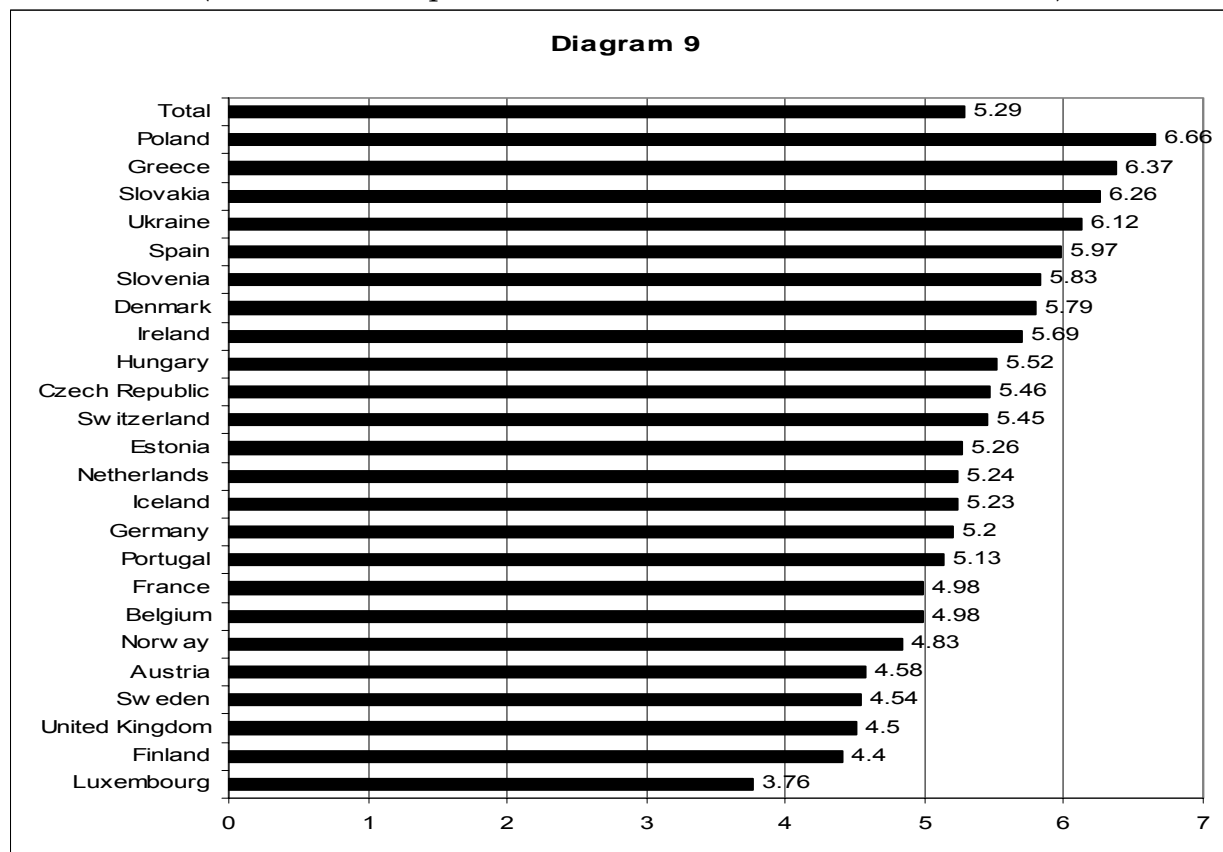
"Would you say that [country]'s cultural life is generally undermined or enriched by people coming to live here from other countries?" (mean values for all countries; 0 = "cultural life undermined" and 10 = "cultural life enriched")

Overall assessment of the life in the countries demonstrates the same tendency. Again, the Scandinavian countries are the most positive towards the immigrants while evaluating the life in their countries in general. All Eastern and Central European countries (with the exception of Poland) are located at the bottom of the list (Diagram 8). From this perspective, one might get an impression that the so called "consolidated democracies" are somewhat more inclusive than the (post)transformational ones. However, whether this statement is the final conclusion will be tested further on.



"Is [country] made a worse or a better place to live by people coming to live here from other countries?" (mean values for all countries; 0 = "worse place to live" and 10 = "better place to live")

Finally, one can notice that while speaking of the necessity of further European integration (Diagram 9), quite a different tendency becomes evident. The vast majority of people from the (post)transformational societies are much stronger “for” the continuing European integration then those from “consolidated” democracies (with a few exceptions of, for instance, Denmark and Ireland).



“Now thinking about the European Union, some say European unification should go further. Others say it has already gone too far. What number on the scale best describes your position?” (mean values for all countries; 0 = “unification has already gone too far” and 10 = “unification should go further”).

### CONCLUDING REMARKS

This paper was an attempt to introduce a non-traditional discussion on the issue of citizenship in general and European citizenship in particular. In order to do this, two indicators dealing with the perception of the necessity of further European unification and attitudes towards „others“ (or „outsiders“) in different European countries were chosen. They were analyzed taking into account contemporary discourse on citizenship, namely such its important aspect as “inclusiveness”.

Therefore, the concept of citizenship is considered here as a criterion of the openness of the socio-political system, understood beyond mere membership in a political community or identification with it. Bearing in mind that citizenship can be analyzed from different perspectives, this paper makes emphasis on such a decisive feature of this concept as “inclusiveness” operationalized for the purposes of the given research as the acceptance (in terms of positive attitude) of the people coming to live in a country from other places. In my point of view, such a perspective might allow to reveal the so called “hidden sides” of the idea of “common citizenship” in its widest meaning bringing about various manifestations of social and political

inequalities.

Two main conclusions can be drawn from the analysis presented above.

- 1) Evaluation of those people who come to live to some country from other states, is a reflection of the attitudes towards the group of outsiders in general. Respondents from what can be called Western Europe (or those representing “consolidated” democracies) in general demonstrated more positive attitude towards the role of “others” in their countries’ lives. Eastern and Central European societies in this respect are less inclusive. However, two exceptions appear here as well. First, Portugal and Greece – the examples of transition to democracy in Southern Europe<sup>106</sup> – differ from other “established democracies” both in perceiving “newcomers” and viewing further European integration. The second exception happened to be Poland, which stands apart from other (post)transformational democracies in the issue of accepting “outsiders” and simultaneously demonstrates extremely high aspirations for further EU unification (unlike Western democracies).
- 2) In general, people from the “welfare-state” regimes rather tend to accept those who are different (“outsiders”, immigrants) then those who officially make up the “established” group (other European countries). At the same time, those from Eastern and Central Europe strive for the closer unification within Europe. The very fact that the so called “consolidated” and “(post)transformational” democracies have opposite views on the issues of further unification and impact of „outsiders“, in my opinion, might become an obstacle to further implementing the common European citizenship and formation of the common European identity.

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<sup>106</sup> O'Donnell, G., Schmitter, P.C., Whitehead, L. (eds.) (1986) *Transitions from Authoritarian Rule. Southern Europe*. Baltimore and London: The John Hopkins University Press.

## Where do we want the people to stand? The Problem of the Lack of Support in Public Opinion for the EU-membership in Austria

### 1. INTRODUCTION

One of the major democratic problems faced at present by the European Union is the observable lack of support in public opinion for the European integration-process in some of its member states. Surveys carried out by Eurobarometer show that especially in Austria popular support for European integration is very low. At first sight, this skepticism in public opinion towards European integration in Austria is particularly remarkable as Austria generally is considered a country that has profited very much economically from its membership in the EU.

In my contribution I will in the first place discuss theoretical approaches to the relevance and role of political elites and of public opinion particularly in the context of European integration. Subsequently I will confront these theoretical assumptions with recent empirical findings on the subject. In a last step I will state the necessity for further research on public opinion to focus on the interaction between political elites' and citizens' attitudes. In addition to this paper I will discuss in my oral presentation shortly the special case of Austria.

It is important to note that in this contribution I am not presenting the final results of my study on this topic, as the empirical part of this study is still a **'work in progress'**. In the first place, this contribution aims to put for discussion some theoretical considerations regarding the role of political elites and of public opinion in the context of European integration. These theoretical considerations are the point of origin for my research-questions regarding the special case of Austria.

### 2. THEORETICAL ASSUMPTIONS ON THE ROLE OF PUBLIC OPINION FOR EUROPEAN INTEGRATION

What exactly do we understand by the term of 'public opinion' in the political sciences? Public opinion is a central and crucial category within the political sciences. Nevertheless, we are far away from being capable to assert a sufficiently clear meaning of the term 'public opinion'. Actually, despite the fact that the term 'public opinion' is a central category within political sciences, there are few concepts that are as ambiguous as the term 'public opinion'. As Jürgen Habermas already argued, the term 'public opinion' may be used to define a critical or receptive instance.<sup>107</sup> Therefore, in a democratic and emancipative view public opinion may be seen as a critical and needed instance of counter-power to political power. In another perspective, public opinion may also be considered a receptive instance that can easily be manipulated to the needs of political power.

What perceptions of the role of public opinion can we find within research on European integration and EU politics? Theoretical approaches within research on European integration in general distinguish between another on their assumptions

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<sup>107</sup> Habermas, Jürgen (1990) [1962]. *Strukturwandel der Öffentlichkeit. Untersuchungen zu einer Kategorie der bürgerlichen Gesellschaft*, Frankfurt am Main, p. 343.

regarding

- the objective and aim of European integration
- the factors and actors that drive European integration.

On the assumptions regarding the actors driving integration the **neo-functional approach** has had a great success, as its assumptions have not only been well accepted within political science. Neo-functional assumptions on the actors driving integration are often reflected in public discourses on European integration.

Neo-functionalism is a theory of regional integration developed in the 1950s and 1960s notably by Ernst B. Haas, Leon N. Lindberg, J.S. Nye, Donald Puchala and Philippe C. Schmitter. It is based on the critical review of the functionalist approach on regional integration developed by David Mitrany in the 1930s. Neo-functionalism seeks to explain **the process of European integration**. With the revival of the integration process in the 1980s and 1990s there came also a renewed interest in neo-functionalism. This led to a "(...) wave of further research, which used certain elements of the neo-functionalists' conceptual tool-kit."<sup>108</sup>

### *2a The role of political elites within the neo-functional approach*

One of the central concepts of neo-functionalism refers to **the role of political elites** for European integration. The thesis is, that "(...) over time, people involved on a regular basis in the supranational policy process will tend to develop European loyalties and preferences (...). For example, Commission officials are expected to hold a European perspective on problem solving so that their loyalty may no longer be to any one national polity, but rather to the supranational level of governance."<sup>109</sup>

Neo-functionalism ascribes political elites a clearly positive, pro-active role regarding European integration. Political elites are considered the driving motor of integration:

"(...) neo-functionalism is often characterized as a rather elitist approach to European integration. (...) Though not apolitical, it sees little role for democratic and accountable governance at the level of the region. Rather, the 'benign elitism' of neo-functionalists tends to assume the tacit support of the European peoples – a 'permissive consensus' – upon which experts and executives rely when pushing for further integration (...)."<sup>110</sup>

### *2b The neo-functional thesis of the 'permissive consensus'*

Neo-functionalists not only developed assumptions regarding the role of political elites but also regarding the role of public opinion. The thesis of the 'permissive consensus' was introduced into the debates about European integration by Leon N. Lindberg and Stuart A. Scheingold in the 1970s<sup>111</sup>. Its core idea is that

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<sup>108</sup> Strøby Jensen, Carsten (2007). Neo-functionalism, in: Michelle Cini (Hrsg.). European Union Politics, New York, p. 89.

<sup>109</sup> Ibid., p.91.

<sup>110</sup> Ibid., p.87.

<sup>111</sup> Lindberg, Leon N./ Stuart A. Scheingold (1970). Europe's Would-be Polity. Patterns of Change in the European Community, Englewood Cliffs, N.J: Prentice-Hall.

citizens support European integration as long as two conditions are given: 1) that integration fulfills citizens' economic expectations and 2) that integration doesn't affect important aspects of national sovereignty.<sup>112</sup> Under these conditions political elites could assume a tacit and passive public support for European integration which would allow them to push forward integration without having to pay much attention on public opinion.

### *2c First conclusions*

In effect survey data on public support for European integration for a long time seemed to confirm the thesis of the 'permissive consensus'. It was not before the 1990's that on a general European level a decline in public support for integration could be observed.<sup>113</sup> The fact that the observable decline in public opinion overlapped with the implementation of the Maastricht-treaty – therefore with the creation of the supranational European Union – has led to the assumption that in effect there is an important difference between the attitudes of political elites and citizens towards European integration. This overlapping seemed to show that citizens are not as willing as political elites to shift national competences to the supranational institutions of the European Union. In contrast to the political elites that had wanted and pushed forward political cooperation on a European level citizens would fear the effects of the deepening of European integration.

This assumption has been and still is well established among researchers on European integration. It is assumed that political elites motivated by a certain 'belief' in the political idea of European integration are more willing than others to shift national competences to the supranational institutions of the European Union. Not only within research but above all in public debates on European integration it is often stated that in contrast to political elites citizens would not 'understand' properly the political idea of European integration and that this would explain their reluctance to support European integration to the same extent as political elites do.

### **3. LOOKING CLOSER AT THE DIFFERENCES BETWEEN POLITICAL ELITES' AND CITIZENS' ATTITUDES TOWARDS EUROPEAN INTEGRATION**

A study conducted by the political scientist Liesbet Hooghe took these assumptions as the point of origin: "The conventional wisdom is that elites are more in favor of European integration than public opinion. The standard measures of support for European integration substantiate that view."<sup>114</sup>

Hooghe tested this assumption using data on European elite preferences coming from a survey among top Commission officials (face to face interviews), data on national elites from a special elite survey and public opinion data from Eurobarometer (all between 2000 and 2002). Her findings **do not confirm** this assumption: "Once one disaggregates European integration into its component policies, the conventional view that elites lead citizens in support for integration dissolves."<sup>115</sup>

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<sup>112</sup> Kohler-Koch, Beate/Thomas Conzelmann/Michèle Knodt (2004). Europäische Integration – Europäisches Regieren, Wiesbaden, p. 207.

<sup>113</sup> Ibid., p.207.

<sup>114</sup> Hooghe, Liesbet (2003). Europe Divided? Elites vs. Public Opinion on European Integration, Political Science Series 88, Institute for Advanced Studies, Vienna, p.2

<sup>115</sup> Ibid., p. 3.

Hooghe shows that political elites and citizens **support different aspects** of European integration. Regarding certain policy-areas citizens seem to be even more supportive for political cooperation than political elites are: „(...) the public wants to Europeanize market-flanking policies, and elites do not. This is where elites and public part ways. As the single market intensifies labor market volatility, the public seems intent to contain this other distributional risk through selectively Europeanizing policies that flank market integration: employment, social policy, cohesion policy, environment, and industrial policy.“<sup>116</sup>

Regarding the attitudes of political elites towards European integration Hooghe states: „(...) their views are consistent with functional rationale, which conceives European integration as an optimal solution for internalizing externalities beyond the national state and for reaping economies of scale. The policies elites want to Europeanize most are the ones predicted by functionalism: currency, foreign policy, third world aid, immigration, environment, and defense. This logic of functionality does not explain citizens' preferences.“<sup>117</sup>

#### **4. ON THE INTERACTION BETWEEN POLITICAL ELITES' AND CITIZENS' ATTITUDES**

First, experience related to different national referenda about EU treaties and the new European Constitution indicate that there is a need in research to understand attitudes in public opinion towards European integration. In effect at present a lot of research focuses on the explanation of citizens' attitudes towards European integration. In my observation the great part of this research concentrates on the **individual level** to explain citizens' attitudes. Potential correlations between citizens' political values, socioeconomic situations, cognitive skills, emotional attachment to group and above all national identity and their attitudes towards European integration are examined.

Interestingly few research focuses on the interaction between political elites' and citizens' attitudes. As the political scientist Matthew Gabel shows, this interaction is very much worth to look at. Gabel had conducted a study that showed that “(...) citizens' support for integration is positively related to their welfare gains from integrative policy.”<sup>118</sup> In Gabel's observation even prointegration elites seem to ignore this point. On the example of the Economic and Monetary Union he argues, that in order to meet and maintain the fiscal standards of the Economic and Monetary Union, member-states governments had privatised national industries and had reduced social spending. Therefore, according to Gabel's findings, there would have been a need for political elites to develop policies that accommodate the “economic losers” of the Economic and Monetary Union. Gabel states, that surprisingly this point had been ignored and the Economic and Monetary Union had been generally promoted “(...) on its macroeconomic merits – EU-wide GDP growth and price stability – with little attention to the adverse microeconomic consequences.”<sup>119</sup>

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<sup>116</sup> Hooghe, (2003), p. 15.

<sup>117</sup> Ibid., pp. 17-18.

<sup>118</sup> Gabel, Matthew (1998). Public Support for European Integration: An Empirical Test of Five Theories, in: The Journal of Politics, Vol. 60, No. 2, May 1998, p. 336.

<sup>119</sup> Ibid., p. 353.



Another form of interaction is given when political elites promote a negative view of the European Union in public opinion in order to obtain a certain goal at national level. Particularly in the case of Austria different national political actors have profited in the past in diverse occasions from promoting a negative view of the European Union.<sup>120</sup> Therefore in order to understand public opinion in Austria towards European integration the eventually negative influence of political elites has to be examined.

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<sup>120</sup> This point will be deepened shortly in the oral presentation of this paper

## Democracy and its defects from the standpoints of pragmatism

*"Societies of men are just like individuals,  
in that both at any given moment offer  
ambiguous potentialities of development."*

William James

In this contribution, it is the intention of the author to approach the phenomenon of democracy and its defects from the standpoints of pragmatism. Instead of bringing forward certain theory of democracy, it is rather the effort to show how we may perceive it. The supposition is that there is still a lot of dualism in current intellectual and social awareness, which should be not only located and registered by appropriate institutional or cultural cognitive aptitude, but also disposed by appropriate means. One of the problems in the center of our attention would be the intellectual dualism between institutional notion of democracy as something that is given extrinsically in form of norms, laws, and constitutions on one hand, and self-reliant individual on the other. Let's suppose that the notion of democracy is not something given. It depends on will, the will to communicate, the will to demonstrate democratic spirit of human interaction and communication. However, many theories of democracy tend to construe it as institutional system of procedural quality. Many problems connected with the overall course of democracy appear in such theories as systematic or procedural defects. In this article, the phenomenon of globalization, the culture of revolt and protest, and many other problems will be, however, approached as manifestations of intellectual and mental dichotomy in historic and individual awareness. The dichotomy between one and the many, between individual and collective (social), between private and public, between innate and altering (variable) produces multitude of consequences, whose character and origin is generally unknown. In the context of these suppositions, the author's intention is to conceive the legitimacy of democracy as the problem of its faculty to promote, (I) reflection, (II) interpretation, (II) participation, (III) interaction and (IV) reconstruction. Those aspects will be examined throughout the progress of this article with regard to dualistic origin of their potential absence in socio-cultural context.

Western culture in the process of globalization stands in front of challenge to refine the competency of acute, status quo cultural cognition. In the world of globalization, it is however still much harder to reflect and penetrate through all the processes and relations. To find a certain unity in pluralistic and manifold, even diverse societies is even harder due to the baneful tendencies to impose the schema of conformity, universality and uniformity upon the notion of complexity and homogeneity. To perceive democracy as a cultural phenomenon, rather than institutional organization requires philosophical methodology capable to piece together differences seemingly incongruous. The conception of *John Dewey's* philosophy of pragmatism occurs to be a sufficient tool for, as *Dewey* would say,

bringing cooperative unity to those spheres of education and philosophy, which were kept in mutual isolation. Pragmatism of John Dewey emphasizes the need to overcome dualisms on every level and platform of our intellectual, public, cultural, and political cognition. In accordance with his project of reconstruction of liberalism, there is one crucial problem for the social philosophy of J. Dewey: how a certain symbiosis in human societies could be established, while the individuality not being suppressed? How should individuality be fully itself, an elaborate, complex personality and not being absorbed or lost in social nexus? The deepest problem of our times is thus, the creation of new individuality responding to contemporary conditions, and as such, we assume, it is hand in hand with the problem of bifurcation and dualism present in our norms, objectives, and methods. With the awareness that every solution must be concrete and pragmatic, *Dewey* allocates this task to philosophers, whose responsibility lies in clarifying the internal affinity of democracy with those methods of rectifying and change which revolutionized science. For Dewey, the current state of science and democratic society lies in the fall of the barrier between spiritual and practical (material). This dualism was functional in societies of ancient Greeks and during middle-ages period. But with the occurrence of science, it is still much less effective to glorify the distinction between spiritual and practical as the distinction between inner life and given norms of the environment. The two aspects of society and individual life, spiritual and practical, tend to cooperate rather than eliminate each other. Although many solutions will not come from philosophy, through philosophy the intellectual and mental habits, we could say dogmas, may be approached. Philosophy of pragmatism stimulates the challenge to comprehend democracy as creative democracy – as something that each individual in the act of creative interpretation should find within, not outside in form of imposed rules.

What this article further wants to express, is that the process of mutual self-affirmation, mutual self-creation in the transaction of individuality within the environment molds the interactive set of operative intercourse, whose character is, due to our hypothesis, either dualistic and monistic on one hand, or pluralistic on the other. The latter, in accordance with the methods and suppositions of pragmatism, characterizes democracy in its various aspects of occurrence.

In order to describe the processes of democratic operation with the emphasis on the subject in its complex socio-cultural transactional relations, it is necessary to take into account advice, proposed by *John Dewey*<sup>121</sup> not to fall into vague and unsubstantiated discourse about moral and spiritual individuality. Such a discourse would grab individuality out of contemporary socio-cultural context. The fundamental intellectual task to detect what these adjectives moral and spiritual mean in radically changed conditions of modern contemporary world would be otherwise repressed. Taking into the focus of reflection the dualism of permanent or innate on one hand, and altering, temporary on the other, discourse about moral and spiritual individuality would likely favour the former constituent of the given dualism. In its indefatigability the ideal of moral and spiritual individuality, according to such a supposition, vanquishes the changes of social and cultural

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<sup>121</sup> Dewey, J. : *Rekonštrukcia Liberalizmu*. Kalligram, Bratislava 2001, p. 649

conditions, transcends the complexity of contemporary and variable now. But according to methods and suppositions of pragmatism, there is no given and fixed ideal of moral or spiritual individuality, no fixed notion of citizenship, democratic state, or democratic institution. Although it may seem daringly relativistic, pragmatism challenges this in principle monistic theorem and its faith in individuality, state, and democracy as archetypal entities. Such an angle of vision, or rather functional mental construction that has its origin in dualistic and monistic notions bears the danger of identifying consequences and particular interactions with causes, facilities with aims.

Out of the dualism between innate and altering emerges monistic confidence about pre-set ideal of certain pre-determined individuality, and certain pre-determined society. Pragmatism, on the other hand, wants to see possibilities opened and challenges dualism and monism with the notion of pluralistic universe, whose interactive, transactional character stimulates individuality towards melioristic perspective. By saying that there is some pre-determined ideal of democratic society and its conformable individuality, that there is a certain model of participation on democracy that is the only right and functional model, monistic notion triumphs above pluralistic. But why are we defending the notion of pluralism? Why should pluralism be the criteria in our quest to highlight and recover the need for reflection, interpretation, and participation? Dewey writes:

“Is there any one factor or phase of culture which is dominant, or which tends to produce and regulate others, or are economics, morals, art, science, and so on only so many aspects of the interaction of a number of factors, each of which acts upon and is acted upon by the others? In the professional language of philosophy: shall our point of view be monistic or pluralistic?”<sup>122</sup>

When Dewey raises this rhetoric question, he wants to show that our mental cognitive abilities, if they perceive democracy through the optics of pluralism, are capable to penetrate the obscurity of causes on one hand, and consequences on the other by reflecting many aspects of particular interactions. The act of cultural and historical reflection leads to following interpretation: There is no such a factor regulating all other factors and aspects of democratic structure, as there is no given mode of ideal democracy, to which we should necessarily come. This notion is crucial as to the reconstruction of intellectual dualistic anachronism. Pluralistic perspective respects, as Dewey used to say, the variety of cultures that exist and the variety of constituents of human nature. It is then up to individuals, citizens and community members which one of the versatile variety of performing democracy would last. Once this would become common consciousness of democratic mind, the defects of democracy, due to our hypothesis, would narrow their menace. In this light, the notion of participation on democratic processes becomes crucial moment for democratic societies. Individuality, as it affects the environment, performs democracy by making decisions, realizing values and reflecting conditions through the optics of very particular vista.

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<sup>122</sup> Dewey, John. *Freedom and Culture*. New York: G. P. Putnam's Sons, 1939. Questia. 31 Mar. 2007 <http://www.questia.com/PM.qst?a=o&d=1076407>, p. 16.

But does individuality choose the environment? Does individuality choose its angle of vision and its value orientation? Or, is all this somehow predetermined by naturalistic powers of genes, socialization, and unconscious agency? Following these questions, *William James* – another classic among pragmatists – in his essay titled *Great Men, Great Thoughts, and the Environment* states the idea that not only the individuality chooses environment even environment chooses individuality. Individuality has possibility to choose environment in the act of will. It is the will to accept a certain reduced vision of the world and the environment, as to find sense and purpose in the mixture of indefinite set of causes and consequences. It is the will to believe. James writes: “It is, then, a necessity laid upon us as human beings to limit our view.”<sup>123</sup> This is because some causes operate in incommensurable cycles, and are connected only if we take the whole universe into account. By limiting our view, we reflect certain set of conditions and interactions. The act of specific reflection is thus one of the fundamental aspects of participative democracy. Individuality comes to experience what democracy is in the very specific context of each particular vision. Self-reflection resulting into act of participation would, however, not be enough. Reflection made by historic consciousness has to take into account the whole historical, social, cultural and individual context. Then, it is possible to talk about interpretation. *Dewey*, specifying the field of reflection and interpretation, stressing their necessity in *Freedom an Culture* writes:

“...ways of interaction between human nature and cultural conditions are the first and the fundamental thing to be examined, and the problem is to ascertain the effects of interactions between different components of different human beings and different customs, rules, traditions, institutions--the things called "social."”<sup>124</sup>

But for social philosopher or sociologist this issue of reflection and interpretation may as well be confused with the fundamental task to find the essence of relationship of individual and social. *Dewey* finds this task completely useless. For him, individuals are like signs, and society is like an alphabet. To ask, in what connection there is a sign to alphabet is not the right type of question. We should approach the problem of individuality and society from other perspective. According to *Dewey*, there are many societies within a culture, and that is also the reason why it is hard to talk about relationship of individuality to society in general. Individuality, in the context of its abilities, is to obtain particular share in affecting the direction and value orientation of societies, respectively groups. But individuality, however, is not just one society oriented group. Individuality is a part of more groups and societies, whose active and flexible interaction participates on the performance of democracy. *Dewey* than doubts “that the problem can be stated as one of the relation of the individual and the social, as if these names stood for any actual existences.”<sup>125</sup>

If it is not the difference between private and public, or between individual and social, what should be examined? What should we reflect and interpret to

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<sup>123</sup> James, William. *Great Men, Great Thoughts, and the Environment*. 1880, *Atlantic Monthly*, 46(276), 441-459. <http://cdl.library.cornell.edu/cgi-bin/moa/moa-cgi?notisid=ABK2934-0046-64>, p.443.

<sup>124</sup> Dewey, (1939), p. 33

<sup>125</sup> Ibid.

enhance the participatory character of democracy? The answer to our question is as follows:

“The business of inquiry is with the ways in which specified constituents of human nature, native or already modified, interact with specified definite constituents of a given culture; conflicts and agreements between human nature on one side and social customs and rules on the other being products of specifiable modes of interaction.”<sup>126</sup>

The abstract dualism between what we call social and what we call individual is according to philosophy of pragmatism like an anachronism in the mental and cognitive structures, methodologies, and goals. The most vivid aspect of this bifurcation is dichotomy between private and public. Dewey finds the core of this contradistinction in wrong interpretation of occurrence of two types of consequences. There are (I) consequences affecting persons directly involved on certain action, and (II) consequences that affect the others, not directly involved. The function of the state is then to control and regulate deferent consequences.

However, appropriate institutions reflect not all of the consequences. It is not in their faculty to do so. There, participative democracy reveals its inevitability once again. The fundament of participation lies predominantly in the ability of citizen, in the reflective and cognitive faculty of individuality, whose specifically limited view in very particular socio-cultural and historical context gives fundamentally original mode of interaction. It should be the task of education to enable individuality consciously share its reflective existence and stimulate institutions to adapt to their needs and problems. Most of the time the problem of revolt and cultural decadence exists as a reaction of certain public or community, whose needs and demands are institutionally not yet stated. Many newly formed or emerging publics are not integrated, as there is lack of creative intelligence, whose reflective faculty would outline a certain set of people as existing community or public. According to *Raymond D. Boisvert*,<sup>127</sup> and his analysis of work of *John Dewey*, problems connected with public are real due to its character. As inapt, we can perceive “(a) The public that is too narrow, (b) the public that is too diffuse, and (c) the public that is too distracted.” We shall not talk about all of those forms of public decadence. Instead, our attention in this matter moves to work of *Robert D. Putnam*. *Putnam*,<sup>128</sup> analyzed democracy in operation in Italy and found horizontal networks (those that bring together agents of equivalent status and power) of civic engagement more useful than vertical, because the latter links “unequal agents in asymmetric relations of hierarchy and dependence.” Moreover, *Putnam* writes about *generalized reciprocity*, which is crucial for the participatory character of democracy. Local horizontal structure in form of communities presents, according to *Putnam’s* study, greater

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<sup>126</sup> Dewey, (1939), p. 32.

<sup>127</sup> Boisvert, Raymond D. *John Dewey : Rethinking Our Time* /. Albany, NY: State University of New York Press, 1998. Questia. 31 Mar. 2007 <http://www.questia.com/PM.qst?a=o&d=102513220>, p.79.

<sup>128</sup> Putnam, Robert D., Robert Leonardi, and Raffaella Y. Nonetti. *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton, NJ: Princeton University Press, 1993. Questia. 31 Mar. 2007 <http://www.questia.com/PM.qst?a=o&d=108713931>, p.75.

variety, and realization of participatory agency. Consciousness of *generalized reciprocity* stimulates individuality to join with the operating aspects of democracy. Local public and communal life is crucial also according to Dewey. Putnam's study upholds Dewey's claim that: "Unless local communal life can be restored, the public cannot adequately resolve its most urgent problem: to find and identify itself."<sup>129</sup>

However, before a certain generalized reciprocity or notion of particular community can be established, there is individuality, which by means of reflection and interpretation finds its concept of community in itself. The power of each community, public, society, and democracy lies in the ability to participate according to the degree of cultural, social and historical reflection and interpretation.

In this matter, William James in his essay *Great Men, Great Thoughts, and the Environment* writes:

"The mutation of societies, then, from generation to generation, are in the main due directly or indirectly to the acts or the examples of individuals whose genius was so adapted to the receptivities of the moment, or whose accidental position of authority was so critical that they became ferments, initiators of movements, setters of precedent or fashion..."<sup>130</sup>

James advocates melioristic perspective and its consequences for democratic society. Although he writes about geniuses and his fermentative influence that must be admitted as a factor of social evolution, the unpredictable influence of every single individuality bears the potentiality to affect social evolution, structure of community and the overall character of democracy. Historical contingency then, we assume, may be reflected as an after-product of consequences initiated by individual, which could not be reflected and interpreted by any faculty of (I) individuals participating on certain event, nor (II) by any of institutional competences. However, we may still suppose, that it is possible to penetrate the phenomenological veil of hidden consequences, once human nature adheres to right type of methods. If what really affect us are consequences - known or unknown, reflected or not reflected - not some unknown causal powers, the method of their reflection and interpretation is crucial for participative character of democratic society. On the other hand, some causes of consequences could never be reflected. Such causes are, according to James "The causes of production of great men", which "lie in a sphere wholly inaccessible to the social philosopher".

To sum it up, Dewey and James upheld the idea, that when we overcome dualism and monism in our norms and mental schemas we can get one-step closer to the day, when most of the people would outgrow the habit to perceive democracy as something institutional and get accustomed to embrace democracy as a way of personal life. This is one of the aspects of melioristic pragmatic tradition, as we find it in the work of classical pragmatists. Especially with Dewey, to understand the depth of his concern, "we must keep two things in mind. First, empirical naturalism pays as much attention to conditions and consequences as it does to the articulation and comprehension of guiding ideals. Second, Dewey understands democracy to be an

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<sup>129</sup> Dewey J., *The Public and Its Problems*, New York, Henry Holt, 1927, p.147-148.

<sup>130</sup> James, (1880), p. 446.



experiment-in-the making, not an already finished product in any of its contemporary incarnations."<sup>131</sup>

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<sup>131</sup> Boisvert, (1998), p. 78.



