

WHERE DO WE GO FROM HERE?

.....
Economic trends, social trajectories and policies
of identities in post communist capitalism.
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Collection of Papers from the 4th Forum
of PhD Students International Seminar
Bratislava, Slovak Republic, October 1-2, 2010

FRIEDRICH
EBERT 
STIFTUNG


proforum

EDITORS: Jozef Kovalčík, Martin Muránsky, Alena Rochovská

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Friedrich Ebert Stiftung e. V., Slovakia and contributors of the Economic trends, social trajectories
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INTRODUCTION

Brigita Schmögnerová

The 4th international conference of PhD students "My PhD 2010" organized by Friedrich Ebert Stiftung, Bratislava and Proforum (Progressive Forum) and this year in partnership with the European Trade Institute (ETUI) and Otto Brenner Stiftung and EurActive as a media partner took place in Bratislava in October 1-2, 2010. The attraction of the "My PhD 2010" to PhD students was reinforced by a generous offer of the ETUI to provide a three month traineeship in the area of European labour in its headquarters in Brussels to the most successful applicant and the possibility to publish the best conference papers as a ETUI working paper in Journal for Labour and Social Affairs in Eastern Europe.

Students in the field of social sciences dealing with the transition in Central and Eastern Europe had an excellent opportunity to present and discuss their papers in eight panels under the supervision of distinguished senior academics. As in the previous PhD conferences the organisers aimed at promoting a multidisciplinary dialogue of social sciences, assisting PhD students from different European universities in comparing quality of their research results and in establishing a knowledge based network.

The "My PhD 2010" conference's focus was on future: on economic and social trends in post-communist capitalism asking the urgent question "Where do we go from here?" It is not a surprise that most of the attention was paid to the situation in the post-transition states of Central and Eastern Europe although some students mapped the situation in other post-communist countries like Albania as well. The focus on post-transition states in the CEE was significant in the studies irrespective they provided an analysis at national, regional or micro regional, sectoral or micro-economic levels. The publication is a selection of papers submitted to and discussed at the conference.

Few papers discuss application of different economic or political concepts in the CEE. Departing from the Varieties of Capitalism concept (Hall & Soskice 2001) Pavol Baboš applies quantitative methods to identify what type of capitalism has emerged in the central and eastern European countries. Antonio Andreoni in his paper „From transition to integration through institutional innovation” provides an analysis of what he identifies as a Schumpeterian “destructive construction” experienced by CEECs, in particular from 1989 to the enlargements of the European Union in 2004 and 2007.

It is encouraging that the indicator “GDP per capita” is increasingly not recognised as the only indicator of development in the post- communist countries. There are three studies included in the publication that try to better understand the complexity of the

measurement of development. The analysis of happiness gap between women and men, bottom income and upper income groups, different age and occupational groups with respect to pre and post transition based on empirical data from the World Values Survey and European Values Study from 1982 to 2008 is subject of the research by Hilal Galip. The analysis proves the increased differentiation of the life satisfaction depending on class, labour-market status, and income of men and women. Frank Neher in his article "Competition is the Remedy – Overly Optimistic Market Beliefs in Transition Economy" formulates a hypothesis that the decrease in happiness levels during transition could result from disappointment in the market and competition which did not match high expectations, i.e. positive competition beliefs. Contribution by M.Madzinová, S. Bystrická and J. Rusnák provides an analysis of the perception of poverty based on interviews of households and individuals in three Slovak regions and admits that to better understand the differences among the regions more in depth research is needed.

Labour market and partly labour policies represent another hot issue particularly as the situation in the labour market has deteriorated considerably due to the economic crisis and it is likely that the recovery will be jobless. Margita Hulmanová provides an analysis of a vulnerability of youth on the European labour market with respect to the financial and economic crisis as well as long-term consequences of youth unemployment on individuals and society. Lenka Klimplová provides interesting findings regarding different labour requirements in the IT and traditional industries. She suggests that it has a significant impact on the expectations which the employers have towards other actors and institutions like schools, universities and the formal education system in general; public employment services; private personnel agencies; municipalities; tax-system, etc. Katalin Lipták is posing three questions on Hungarian unemployment: Is there divergence or convergence between the Hungarian regions regarding the labour market situation? What are the differences between the major employment indicators since the transition period in Hungary? and What are the main types of the unemployment forms in Hungary?

Few studies deal with sectoral issues or focus on corporate level . Dominika Forgáčová discusses perspectives and challenges of using atomic energy in the European Union and particularly the Visegrad Group and presents the main challenges of safe and sustainable using of nuclear power. Tamás Nándor Tógyer analyzes the situation of Hungary's food industry with the focus on fruit and vegetable processing. Éva Fodor studies the effect of the financial and economic crisis on the Hungarian banking sector and examines the financial situation of the 6 biggest Hungarian banks. Using data of South-East European economies, Mico Apostolov examines the interrelationships between governance and enterprise restructuring, set of policies that influence the governance patterns, gross domestic product and foreign direct investments.) Timea Pal suggests that self-regulation of big corporations is not a satisfactory solution and cannot substitute the effective regulatory environment which is the government's responsibility. Based on the case of Turkish minority in Germany Demet Tuncer in his paper "Cross- fertilization of cultures through entrepreneurial action: The Berlin case" tries to outline the interchange between different cul-

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tures or different mentalities which could be mutually productive and beneficial in the market place.

A number of students of sociology presented their recent works. Klea Faniko, Fabio Lorenzi-Cioldi, and Fabrice Buschini from the University of Geneva, examine the role of education plays in promoting women in Albania based on a survey study and find some interesting results like the one that more educated people are less favourable than less educated people to accept affirmative action plans, and openly unfavourable toward strong preferential action plans. Another example of the sociological analysis is in the following two articles: Orsolya Gyöngyössi provides an analysis of a micro- community particularly a semi-virtual religious community in post- communist Hungary, while Radoslaw Kossakowski is focusing on a different social diagnosis: growing consumerism in Polish society which he compares to the American one.

The editors of this publication believe that the publication is a further encouragement to the PhD students to deepen their scientific interests, to improve a quality of their research, to find a new inspiration in the multidisciplinary dialogue and to strengthen knowledge based networking.

Gábor Dudás – Péter Pernyész using conventional and GIS based mapping and analysis techniques calculated the economic distance between world cities focusing on the three global cities London, New York and Tokyo. The measurement was based on a database of cost, distance, population and airport passenger numbers

Aneta Maria Dzik using more sophisticated quantitative techniques studies the price convergence in the European Union market based on a panel data for the years 1995-2008.

Martin Mašťal in his article compares participation in elections in the Slovak republic to that in the Czech republic as an indicator of the democracy in the two post-communist countries.

Matúš Mišík in his article Images of the New Member States of the European Union: Finnish Case which is based on semi-structured interviews with Finnish officials uses international relations image theory to analyse types of images that are ascribed to new member states.

FROM TRANSITION TO INTEGRATION THROUGH INSTITUTIONAL INNOVATION: THE CENTROPE AS A MODEL FOR CROSS-BORDER CAPABILITIES DEVELOPMENT

Antonio Andreoni¹

***Abstract :** The paper provides a historical and structural reading of the complex process of Schumpeterian “destructive construction” followed by Central Eastern European countries. Their transition to a capitalist market economy and subsequent integration in the European Union is described as a process of circular and cumulative de-cumulation of technological, consumer and social capabilities. The CENTROPE cross-border regional network is presented as an interesting and potentially strategic institutional innovation for technological capabilities building based on the activation of connections and the exploitation of complementarities.*

***Keywords:** CEECs, Cumulative Causation, Capabilities, CENTROPE, Complementarities, Connections*

Introduction

Two decades ago with the collapse of the “Soviet bloc”, Central Eastern European Countries (CEECs)² started a radical process of structural change through which their productive architecture, their institutional matrix and the whole fabric of society were profoundly reshaped. Different “transformational trajectories” were followed resulting in more or less fast and sustainable processes of catching up. According to the main macroeconomic reforms and innovation policies adopted in CEECs, it is possible to identify at least three main phases of transformation – i.e. transition, harmonization and integration³. A historical analysis of the main trends followed by CEECs as well as the impact of policies implement-

¹ The author is grateful to Ha-Joon Chang, Roberto Scazzieri and Katharina Bluhm for perceptive comments. The usual disclaimer applies.

² In the context of this essay, Central and Eastern European countries (CEECs) are the ten new member states of the European Union: Bulgaria, the Czech Republic, Hungary, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

³ Kattel, R., Reinert, E. and Suurna, M.: Industrial Restructuring and Innovation Policy in Central and Eastern Europe since 1990. *Working Paper in Technology Governance and Economic Dynamics*. Tallinn University, May 2009.

ed from 1989 to 2007, that is before the global “financial freefall”⁴, is an important step in order to imagine and design the future of post communist capitalism.

Starting from the identification of a set of historical “stylized facts”, the paper provides a structural reading of the complex process of Schumpeterian “destructive construction” experienced by CEECs, in particular from 1989 to the enlargements of the European Union in 2004 and 2007. The analysis will be conducted distinguishing two different levels of investigation: a fundamental (structural) and an institutional one. At the fundamental level, two main dimensions of structural change will be considered: the first refers to the transformation of innovation and production systems and the consequent dynamics of accumulation and de-cumulation of technological capabilities; the second relates to the emergence of consumer capabilities and the evolving structure of demand⁵. The identification of those structures allows us to analyze the specific mechanisms of circular and cumulative causation which may lead both to a virtuous process of catching up as well as to a vicious process of transformational recession. At a different level of analysis, the specific institutional problems faced by CEECs in managing those structural dynamics will be considered. Specifically, given a certain productive and consumption structure, it will be argued that the divergence between the potential and the actual catching up of a specific society depends on the capabilities of that society to design, construct and adjust those institutional arrangements on which the functioning of a dynamic market economy critically depends. As social capabilities⁶ determine the responsiveness of a specific society to structural change dynamics, they are among the main causes of the different historical trajectories followed by these countries.

The historical-structural analysis shows that in order to move from a phase of transition to a phase of virtuous and sustainable integration at the European and global level, CEECs are in need of innovative 'institutional technologies' and a new regional platform based on selective innovation policies. The CENTROPE cross-border partnership will be introduced as an interesting model of institutional innovation. The paper argues that the effectiveness of the CENTROPE model in solving problems of networking, clustering, coordination and technological capabilities upgrading critically depends on its capacity to exploit inter and intra-countries complementarities and promote an increasing level of connectivity. However, increasing connections and the different degrees of proximity at the horizontal level have to be coupled at the vertical level with a strategic integration of CEECs in the global production network. Thus, going beyond the Lisbon Agenda becomes a crucial step for activating in CEECs a process of structural change characterized by increasing returns and sustained accumulation and diffusion of technological capabilities.

⁴ Stiglitz, J.: *Freefall*. New York: Allen Lane, 2010.

⁵ Pasinetti, L.L.: *Keynes and the Cambridge Keynesians*. Cambridge: Cambridge university Press, 2007.

⁶ Abramovitz, M.: *Catching Up, Forging Ahead, and Falling Behind*. *Journal of Economic History*. 1986, vol. XLVI, pp. 385-406.

I. Transformational and catching up trajectories in Central Eastern European countries

The collapse of the Soviet central planning system derives from a long process of decline which goes back to the 1960s. The adoption for more than thirty years of an expansive growth strategy characterized by accumulation more than “intensive growth”, resulted in a qualitative deterioration of the productive economic structure as well as a generalized decline in living standards in all Eastern Europe⁷. From the 1980s onwards, CEECs’ industrial system started registering low productivity growth, emerging bottlenecks, increasing rigidities and reduced technological and organizational capabilities which, in turn, resulted in a steady/declining growth of industrial per capita value added⁸. With the emergence in the 1990s of a new techno-economic paradigm rooted in information and communication technology and biotechnology as well as the dominance of new organizational forms of production⁹, the dynamic efficiency and ability to innovate of the entire socialist system disintegrated¹⁰.

The great transformation started in the early 1990s when the vast majority of CEECs adopted the neoliberal “Shock Therapy policy package” promoted by Washington Consensus Institutions. Promising a sort of “European tigers miracle”, CEECs have been pushed towards focusing on macroeconomic and price stability as well as the adoption of free market institutions, massive privatization of state enterprises, dismantling of trade barriers, liberalization and government expenditure reduction (with no exception for public investment in R&D)¹¹. Thus, the phase of transition, from 1990 to 1998, was characterized by a generalized retreat of the state in favor of an emerging private sector. As a result, during the first three years, most CEECs (Hungary is an exception) experienced a drop of one-third in real terms of their GDP per capita. This profound recession took around ten years to be re-absorbed; in some cases (Russia and Ukraine) the GDP per capita attained in 1990 was regained only after fifteen years (Figure 1).

Throughout the 1990s, CEECs experienced a process of de-industrialization and technological capabilities de-cumulation. The share of industrial value added as a percentage of GDP strongly declined in favor of a sustained increase of the share of the service sector. This process of de-industrialization was reflected also in the employment structure which registered a relatively slow decline in the industrial sector and a constant increase in services¹². As for the de-cumulation of technological capabilities, the decline of the indus-

⁷ Tiits, M., Kattel, R., Kalvet, T. and Tamm, D.: Catching up, Forging Ahead or Falling Behind? Central and Eastern European Development in 1990-2005. *Innovation: The European Journal of Social Science Research*. 2008, vol. 21, no.1, pp. 65-85.

⁸ Although from 1967 to 1983, the GERD/GDP (gross expenditure on research and development to gross domestic product) was higher in the USSR than the OECD average (even the US), investment in R&D where mainly committed to military production. Centralized and bureaucratic control system impeded the exploitation of spin-offs arising from the military industry as well as the technology transfer within the Soviet system. See Freeman, C.: Catching up and Innovations Systems: Implications for Eastern Europe, in *The Knowledge-based economy in Central and Eastern Europe*, London: Palgrave MacMillan, 2006.

⁹ Landesmann, M. and Scazzieri, R.: *Production and economic dynamics*, Cambridge: Cambridge University Press, 1996.

¹⁰ Perez, C.: *Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages*. Cheltenham: Edward Elgar, 2002.

¹¹ Radosevic, S.: *International Technology Transfer and Catch-Up in Economic Development*, Cheltenham: Edward Elgar, 1999.

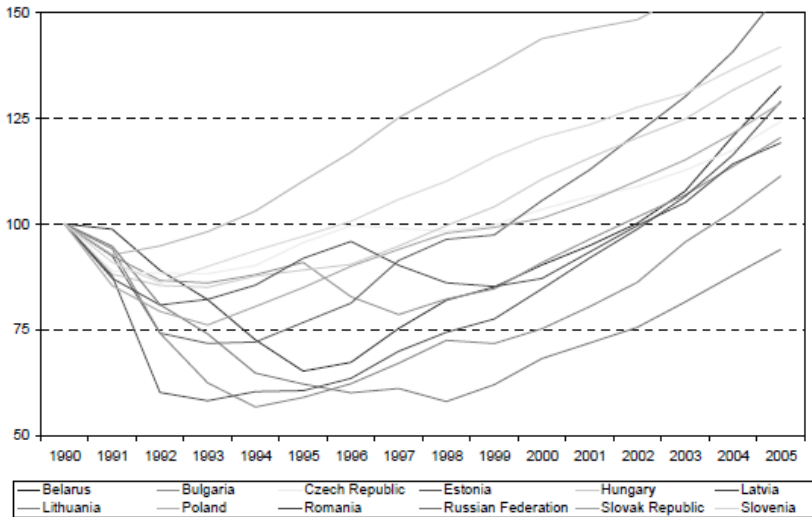
¹² Tiits, M., Kattel, R., Kalvet, T. and Tamm, D. 2008.

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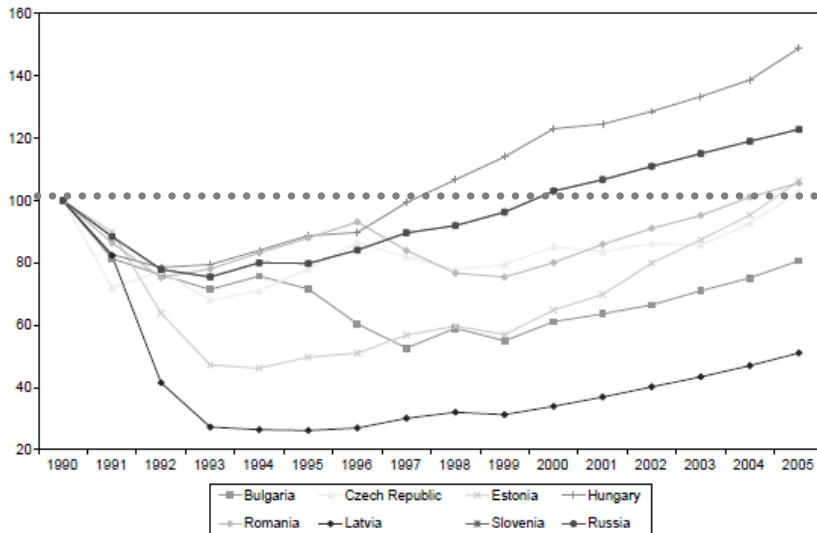
trial value added per capita (reflecting the quality of the industrial structure) dramatically accelerated during the first half of the 1990s (Figure 2)¹³.

Figure 1: GDP per capita in CEE and NIS countries (constant 2000 US\$), 1990 =100



Source: Tiits, M. et al, 2008 pp. 67

Figure 2: Industrial value added in selected CEE, NIS, European and Asian economies (constant 2000 US\$)



Source: Tiits, M. et al, 2008 pp. 70

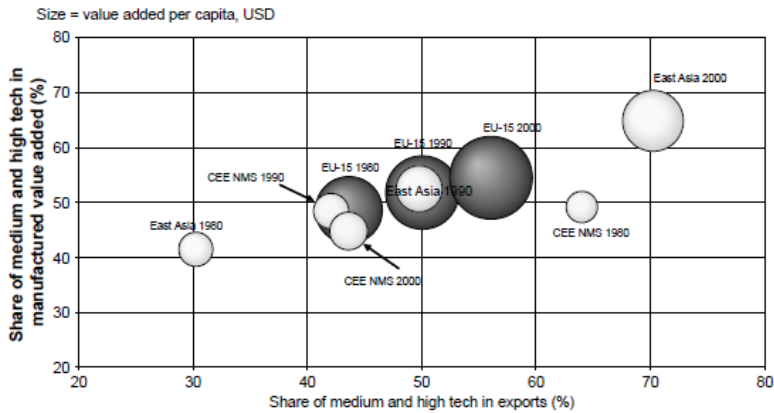
¹³ This process in CEECs was partially counterbalanced by a less strong decline in services value added per capita.

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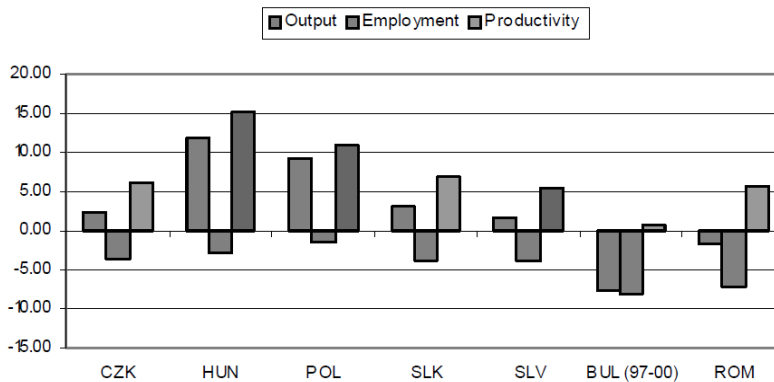
This process was exacerbated by the fact that GERD/GDP ratio was strongly insufficient and also that investments were mainly on production capabilities –i.e. capabilities needed to operate existing technical systems – and equipment acquisition instead of technological innovation¹⁴. As a result, embracing a comparative perspective, we can see how in 1995 the CEECs' share in world trade was 0.95% while in East Asian economies was around 11%¹⁵ thanks to strategic investments in science-based industries and technological capabilities building (Figure 3).

Figure 3: Quality of industrial change in selected world regions, 1980 - 2000.



Source: Tiits, M. et al, 2008 pp. 73

Figure 4: Growth rates of output, employment and productivity, 1993 - 2000



Source: Landesmann, M. and Stehrer, R., 2003 pp. 9

¹⁴ Piech, K. and Radosevic, S.: *The Knowledge-based economy in Central and Eastern Europe*, London: Palgrave MacMillan, 2006.

¹⁵ Paradoxically the debate in the 1990s will demonstrate that the East Asian miracle resulted from the active involvement of the developmental state in the process of structural change and global integration. See Chang, H-J.: *Kicking Away the Ladder*, London: Anthem Press, 2002. Chang H-J.: *Bad Samaritans: Rich Nations, Poor Policies and the Threat to the Developing World*, London: Random House, 2007.

If we restrict our analysis to the period 1993 – 2000, the trend (per annum) growth rates of output, employment and labour productivity in CEECs seem to suggest a less dramatic picture, in particular for countries like Hungary and Poland (Figure 4)¹⁶. The main explanation has to be found in an exogenous factor. Since the latter half of the 1990s, the output growth was led by massive foreign direct investment inflows (FDIs) and localization in CEECs of Western industries such as metal processing and automotive (especially in Czech Republic, Slovakia and Poland) or assembly of telecommunications equipment (in Hungary and Estonia)¹⁷. As for the structural characteristic of relocation, during this phase FDI were increasingly in medium tech and in lower end segments of high tech industries, while a decline of FDI inflows in low-tech labour intensive production was registered¹⁸. This external shock affected in different ways CEECs which consolidated in this period their specific transformational trajectories. As registered by a composite index of national innovation capacity, in 2000 Europe was not dominated by a simple East-West divide, rather CEECs contributed to the emergence of a multi-tier scenario. Czech Republic, Hungary, Slovenia and Estonia emerged among CEECs as economies with a higher potential in terms of diffusion of technology – i.e. effective linkages – and stronger demand for generation of innovations and utilization of technologies¹⁹.

From 1998 to 2004, with the adoption of the *EU acquis communautaire*, the process of trade integration and FDIs growth in CEECs knew a fundamental acceleration. The phase of harmonization with European standards and legal infrastructures had a strong modernizing impact on CEECs' manufacturing sector. In order to satisfy the Western external demand, industries were forced to achieve higher quality standards in products. Moreover, the outsourcing and relocation of production in CEECs required the restructuring and synchronization of production processes of all those enterprises involved at different levels in the European production network²⁰. During the harmonization phase the main instrument adopted by the European Union for supporting the accession process was a project-based financial assistance scheme called PHARE. The management and implementation of these funds were progressively decentralized with the constitution of regional and local independent state agencies linked to National Funds. These institutions have been the first attempt of CEECs' public actors to play an active role in the process of innovation and industrial restructuring after a decade in which structural change had been led by market forces. However, given the reduced administrative capacity and policy skills of these agencies, many of the existing problems of networking, clustering and coordination remained unsolved²¹.

¹⁶ Landesmann, M. and Stehrer, R.: Structural Patterns of East-West European Integration: strong and weak Gerschenkron effects, in *wiiv Structural Report 2003 on Central and Eastern Europe*. Vienna: wiiv, 2003.

¹⁷ Tiits, M.: Industrial and trade dynamics in the Baltic Sea Region since 1990s, in *Creative destruction management: meeting the challenges of the technoeconomic paradigm shift*. Tallinn: PRAXIS Center for Policy Studies, 2006.

¹⁸ Rojec, M. and Damijan, J.P.: Relocation via foreign direct investment from old to new EU member states. Scale and structural dimension of the process. *Structural Change and Economic Dynamics*. 2008, vol.19, pp. 53-65.

¹⁹ Radosevic, S.: A Two-Tier or Multi-Tier Europe?: Assessing the Innovation Capacities of Central and East European Countries in the Enlarged EU. *Journal of Common Market Studies*, 2004, vol. 42, no. 3, pp. 641-66.

²⁰ Havlik, P., Landesmann, M., Stehrer, R. and Romisch, R.: Competitiveness of industry in CEE candidate countries: composite paper. Vienna: wiiv, 2001.

²¹ Reinert, E.: European integration, Innovations and Uneven Economic Growth: Challenges and Problems of EU 25, in *The Future of the Information Society in Europe: Contributions to the debate*, Seville: IPTS.

Since 2004, with the enlargement of the European Union and the constitution of EU Structural Funds, CEECs' governments have been imitating and adopting a number of innovation policies. Starting from a linear understanding of the innovation process and assuming that CEECs were affected by the so called 'European paradox'²² – i.e. good research but low capacity in commercializing research results – CEECs' horizontal policy measures have been focusing mainly on commercializing university research and supporting high tech start-ups through technological parks. Recognizing the fundamental problems of these measures – i.e. lack of coordination and selectivity as well as lack of strength of the R&D system – since 2006 governments have started adopting more context-based policies in which more importance have been assigned to upgrading local low-mid tech industries as well as developing private-public partnerships²³.

In spite of ten years of significant efforts, the integration into the European economy is still far from being achieved. Throughout the 2000s, CEECs have been registering an increase in value added both in industry and transferable services; however the process of technological catching up is not robust and is undermined by the increasing financial fragility registered in CEECs both in terms of excessive dependence on foreign borrowing and countries' inability to accumulate domestic savings²⁴.

II. The circular and cumulative causation framework: structural dynamics in capabilities accumulation

The process of integration of CEECs has been profoundly affected by a “lost decade” of quantitative growth and, more importantly, qualitative transformation of the productive and innovation systems. The explanations provided by scholars and policy makers went from the *naïf* thesis of an ineffective application of the neoliberal shock therapy – i.e. imperfect capitalization – to more structural readings of the transition. In the latter case, a Keynesian recession caused by lack of effective demand or a sort of “trade implosion” generated by the collapse of the planned system of production and exchange²⁵. Seeing that CEECs' historical process of transformation is the result of multiple and multilayered causal dynamics, a two-steps analytical strategy is proposed. Firstly, the architectural complexity of the whole process is decomposed by adopting a separation theorem through which more fundamental structural dynamics are distinguished from more institutional

²² Dosi, G., Llerena, P. and Sylos Labini, M.: The relationships between science, technologies and their industrial exploitation: An illustration through the myths and realities of the so called 'European Paradox'. *Research Policy*, 2006, vol. 35, pp. 1450 – 1464.

²³ Radosevic, S. and Reid, A.: Innovation Policy for a Knowledge-based Economy in Central and Eastern Europe: Driver of Growth or New Layer of Bureaucracy?, in *The Knowledge-based economy in Central and Eastern Europe*, London: Palgrave MacMillan, 2006.

²⁴ EBRD: *Transition Report*. London, 2009.

²⁵ Aghion, P. and Blanchard, O.: On the speed of transition in Central Europe, in *NBER macroeconomics annual*, Cambridge, Press MA: MIT, 1994. Calvo, G. and Coricelli, F.: Output collapse in Eastern Europe: the role of credit. *IMF Staff Paper* no 92/64, 1992.

and policy causal factors²⁶. As a second step, by embracing the perspective of the circular and cumulative causation theory, the paper provides an explanation of the reinforcing structural dynamics in capabilities accumulation followed by CEECs.

The first fundamental dimension of structural change is related to the transformation of the innovation and production systems and the consequent dynamics of technological capabilities accumulation (or de-cumulation). Here, technological capabilities simply refer to those skills embodied in agents that firms require in order to make an investment, to implement the productive processes and to transmit/receive skills, knowledge and information²⁷. By reducing much of the inter-country and sectoral differences, the Science and Technology (S&T) system inherited by CEECs was based on a linear innovation model. R&D, design and engineering functions were performed by a grouping of R&D and industrial institutes, Academies of Science and Universities. Enterprises were “merely production units”, that is, places where interrelated tasks of material transformation were executed. In other words, knowledge and technological capabilities development processes were completely disconnected from production and consumption activities. As a result, at the firm level, feedback loops, adjustments and cumulative improvements were limited – i.e. learning by doing; also, products innovation was not driven by costumers and users – i.e. learning by using²⁸. At the same time, intersectoral flows of innovation and information were very weak²⁹ as well as intra-regional forward and backward linkages rare (unlike inter-regional linkages within branches). Consequently, exploitation and discovery of complementarities at the intersectoral and industry level were very modest. Since the 1970s CEECs (in particular Czechoslovakia, Poland and Hungary) had started integrating their innovation and production systems by introducing specific horizontal structures called *combinates*³⁰ or by interacting with Western markets, both with suppliers and users. Learning by exporting has been one of the main feature of the transition and integration process. Since the mid 1990s, foreign partners have substituted the old R&D&E institutes (which entered a process of market oriented reconversion given the public expenditure cut) in the provision of innovations as well as of technological and organizational capabilities. At the same time, the massive privatization and market liberalization brought about a structural transformation of the production system. Firstly, CEECs industrial companies were sold to foreign companies “bit by bit” without taking into consideration how the vertical disintegration of the various enterprises would have affected the productive system as a whole. Secondly, international competition swept away the relatively most advanced industries which lost domestic demand and had no time to gradually integrate in the global market (Vanek-Reinert effect).

²⁶ Simon, H.: The Architecture of Complexity. *Proceedings of the American Philosophical Society*. 1962, vol. 106, no. 6, pp. 467-82.; Baranzini, M. and Scazzieri, R.: *The Economic Theory of Structure and Change*. Cambridge: Cambridge University Press, 1990. Scazzieri, R.: Structural Economic Dynamics: Looking Back and Forging Ahead. *Economia Politica*. 2009, vol. XXVI, no.3, pp. 531-577.

²⁷ Lall, S.: Technological Capabilities and Industrialization. *World Development*. 1992, vol. 20, no. 2, pp. 165-186.

²⁸ Rosenberg, N.: *Inside the Black Box: Technology and Economics*. Cambridge: Cambridge University Press, 1982.

²⁹ Radosevic, S.: Transformation of S&T systems into systems of innovation in central and eastern Europe: the emerging patterns of recombination, path-dependency and change. *Structural Change and Economic Dynamics*. 1999, vol. 10, pp. 277-320. von Tunzelmann, N.: *Technology and industrial progress: the foundations of economic growth*. Aldershot: Edward Elgar, 1995.

³⁰ Chandler, A.D.: Organisation capabilities and industrial restructuring: a historical analysis. *Journal of Comparative Economics*. 1993, vol. 17, no. 2, pp. 309-337.

The second fundamental dimension of structural change relates to the emergence of consumer capabilities and the evolving structure of domestic demand. The concept of consumer capabilities requires a specification. In Luigi Pasinetti's model³¹ with vertically integrated sectors each ending up with final commodities for consumption, the uneven process of growth in demand reflects evolving changes in consumers' choices. In other words, producers' learning – i.e. evolution of technological capabilities – is associated with a process of consumers' learning – i.e. evolution of the size and structure of demand. In such a dynamic context, not only the evolving composition of demand is determined by rising incomes – i.e. through Engel's Law – but also is the result of a collective process through which needs and tastes emerge and evolve. This collective process may be both the response and the cause of technological innovation, historical changes and radical transformation in culture and social structure³². The social context in which individuals and groups are embedded, as well as their own specific cognitive and physical skills, also affect the benefits that they can obtain from consumption³³. Thus, at any given historical moment, consumer capabilities define the structural properties of demand, its composition and qualitative features. The application of this concept to the process of structural change experienced by CEECs aims to suggest that the low level of consumer capabilities negatively affected the process of technological capabilities development³⁴. Throughout the 1990s in CEECs consumers were exposed to Western consumption patterns and huge gaps in the quality of commodities. Notwithstanding, the relatively high levels of unemployment, the collapse of output during the transformational recession period as well as tensions on wages generated by industrial restructuring and liberalization, all have been constraining factors in the expansion of consumer capabilities³⁵. An endogenous process of expansion of consumer capabilities could have reinforced the process of restructuring of the production and technology systems via exploiting over time the existing and emerging complementarities between consumption and production.

The divergence between the potential and the actual catching up of a specific society critically depends on the specific institutional arrangements and political solutions that the same society succeeds in adopting. For this reason, the structural analysis above has to be complemented by highlighting the dynamics of institutional change and persistence. In respect of this, Moses Abramovitz famously introduced the concept of "social capabilities" to define those "tenacious societal characteristics" that influence the responses of people to economic opportunity. In the development of the catching up hypothesis Abramovitz equates social capabilities to managerial and technical competences, but more crucially to a

³¹ Pasinetti, L.L.: *Structural change and economic growth: a theoretical essay on the dynamics of the wealth of nations*, Cambridge: Cambridge University Press, 1981.

³² For a historical example of the qualitative transformation of demand which determine the emergence of the silk industry between the XIII and XIV century see Poni, C.: *La seta in italia*. Bologna: Il Mulino, 2009. See also McKendrick, N., Brewer, J. and Plumb, J. H.: *The Birth of a Consumer Society: The Commercialization of Eighteenth Century England*. Bloomington: Indiana University Press, 1982.

³³ Sen, A.: *Commodities and Capabilities*, Amsterdam: North Holland, 1985.

³⁴ Some possible quantitative proxies for consumer capabilities may be various living standards indicators, human development indexes, distribution of wealth in society. See Kornai, J.: The Great Transformation of Central Eastern Europe. *Economics of Transition*. 2006, vol. 14, no.2, pp. 207-224.

³⁵ Altzinger, W. and Landesmann, M.: Relocation of Production and jobs to Central and Eastern Europe – Who gain and who loses?. *Structural Change and Economic Dynamics*. 2008, vol. 19, pp.1-3. See also Singer, H.: the distribution of Gains between Investing and Borrowing Countries. *American Economic Review*. 1950, vol. 40, pp. 473-485. Who was the first to suggest that technological change may have distributional effects and do not necessarily increase real wages of producers.

set of political, commercial, industrial, and financial institutions. Although some institutions and informal networks showed a certain degree of resilience, the process of institutional re-construction and social capabilities development have been quite slow and fragile during the last two decades. In particular, the mass privatization programme determined a fiscal crisis of CEECs' states which, in turn, resulted in the erosion of their bureaucratic and administrative capabilities³⁶. Paradoxically, the development of a successful capitalist market economy in CEECs was affected by the weakness of a bureaucratic developmental state³⁷.

In order to recompose in a unifying framework the structural dynamics of capabilities accumulation, a Circular and Cumulative Causation Theory (CCCT) is proposed³⁸. This theory posits a circular and cumulative relation between the process of learning and capability expansion on the side of the demand (both of consumers of final commodities and consumers of intermediate goods) and the process of learning and capability accumulation on the side of production. At the micro and meso levels, consumers' capabilities and producers' capabilities interact in a continuous cumulative process of mutual reinforcement in which the introduction of new technologies leads to new productive activities and opportunities of consumption that, in turn, spurs on new technological innovations. The very circular and cumulative nature of these causal dynamics led Nicholas Kaldor to analyze the role played by effective demand (in particular the quality and the composition of external and domestic demand as well as the reciprocal demand at the inter-industry level) in activating an evolving structure of sectoral productions and the exploitation of increasing returns, external economies and productive/technological complementarities. Gunnar Myrdal, on the other side, focused on the role played by "non economic factors", namely institutional, cultural and ideological in leading a country towards a virtuous or vicious circle of cumulative development or underdevelopment. In other words, Myrdal suggested that different endowments of social capabilities can strongly affect the speed, depth and sustainability of a process of structural change.

The CCCT, integrated with the concepts of technological, consumer and social capabilities, introduces a new perspective from which to address the CEECs process of transition and integration. Instead of a Keynesian recession, a trade implosion or a political-institutional failure, CEECs seems to have experienced a process of circular and cumulative de-cumulation of capabilities followed by a progressive counter cycle mainly driven by exogenous factors³⁹. However, triggering endogenous processes of capabilities accumulation calls for the adoption of innovative 'institutional technologies' and a new regional platform based on selective innovation policies.

³⁶ King, L. and Hamm, P.: The Governance Grenade: Mass Privatization, State Capacity and Economic Development in Postcommunist and Reforming Communist Societies. *Working paper in Technology, Governance and Economic Dynamics*. Tallin university, October 2008.

³⁷ Evans, P.: *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton University Press, 1995. Chang, H-J.: State, Institutions and Structural Change. *Structural Change and Economic Dynamics*. 1994, vol.5, n.2, pp. 293 – 313.

³⁸ Myrdal, G.: *Economic Theory and Underdeveloped Regions*. London: Methuen, 1958. Kaldor, N.: *Causes of the Slow rate of Economic Growth of the United Kingdom*. Cambridge: Cambridge University Press, 1966. See Toner, P.: *Main Currents in Cumulative Causation Theory*. London: MacMillan Press, 1999.

³⁹ In a comparative perspective, it is possible to adopt the same framework for analyzing the main trends followed by East Asian countries from 1980s onwards.

III. Connections and complementarities: the CENTROPE “institutional innovation”

Cross-regional partnerships such as CENTROPE and development platforms such as the CENTRAL EUROPE Programme 2007 – 2013 represent for CEECs strategic opportunities in moving from a period of transition to a period of integration. Located at the intersection of four countries, CENTROPE was founded in 2004 by Austria, the Czech Republic, Hungary and the Slovak Republic as a new transnational economic area in the heart of Europe. Given its geographical location and its historical heritage, CENTROPE is a dis-homogenous cross-border region characterized by strong centres, in particular the so called “twin capitals” Vienna and Bratislava (Figure 5). Since its constitution, economic ties and cross-border activities within CENTROPE have increased significantly, also attracting important FDI from Western Europe. The comparative advantages of this region lie in a solid manufacturing base (in particular in ancillary industries such as automotive components), in a strong orientation on medium skills and niche products, low wage costs, geographical proximity to main western markets and, finally, in certain areas and sectors (biotechnology and pharmaceutical, ICT), in a rapid ongoing process of technological catching up (Figure 6). As for the structure of the labour force, although the vast majority of the workforce shows secondary and upper secondary education levels, the share of population with a tertiary education is below the European average⁴⁰. Finally, indicators of research & development activity and infrastructure quality are above the EU averages for the large agglomerations, but not for the more peripheral areas in the region (Figure 6)⁴¹.

On the basis of the historical reconstruction and structural reading of the transition process in CEECs proposed above, the paper claims that CENTROPE represents an interesting “laboratory at the border” through which experimenting innovative institutional tools and policies. The paper suggests that the “institutional innovation” of CENTROPE should pursue two main goals. Firstly, to increase the degree of connectivity among all the relevant actors – i.e. suppliers, producers, consumers - involved in the capability network at the horizontal level; secondly, to manage in a strategic way the vertical integration of CENTROPE enterprises in European and global production networks. At the end, the implementation of this two-layered strategy is aimed to fill the “technological capabilities gap” and to trigger endogenous processes of innovation and structural change in the CENTROPE cross-border region.

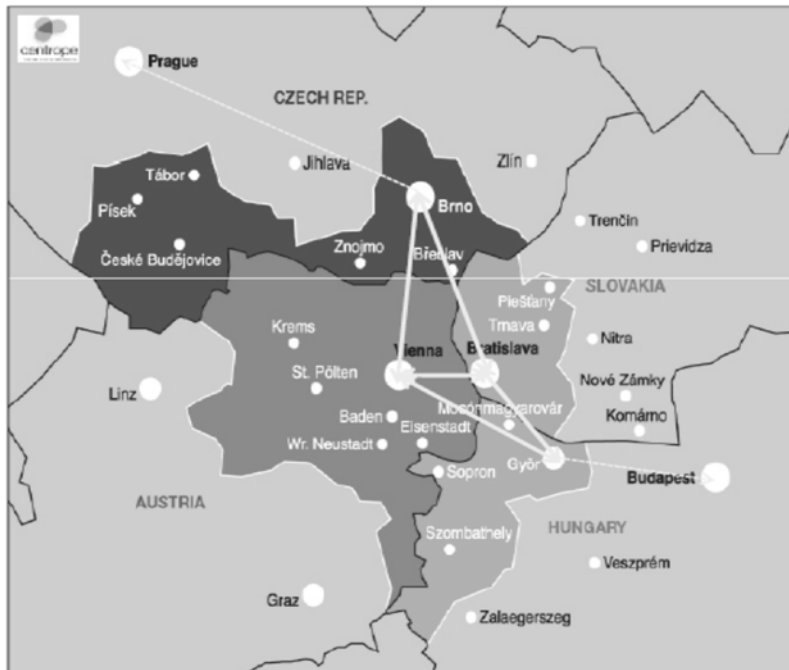
⁴⁰ The increasing lack of highly skilled labour exacerbated by a certain rigidity in the labour market – i.e. low workers flows - has represented a critical obstacle to the development of high value added activities and the integration of enterprises at higher levels of global value chains.

⁴¹ WIFO (Austrian Institute of Economic Research) and wiiw (Vienna Institute for International Economic Studies): *CENTROPE Business and Labour Report 2007*.

WHERE DO WE GO FROM HERE?

Economic trends, social trajectories and policies of identities in post communist capitalism.

Figure 5: The Centrope cross- border region



Source: www.centrope.com

Figure 6: The Centrope production system

CENTROPE	Share of Agriculture		Share of industry		Share of services		R&D
	GVA	Empl	GVA	Empl	GVA	Empl	%GDP
Slovak part	2.3	3.2	30.9	28.7	66.7	68.1	0.6
Czech part	4	4.7	35.6	37.5	60.3	57.8	1.3
Hung part	4.5	5.4	45	42.2	50.5	52.5	1
Austria part	1.7	2.6	23.7	25.3	74.6	72.1	2.2
EU 27	2.2	-	26.2	-	71.6	-	1.9

Source: extracted from WIFO and wiiw 2007

The literature on regional systems of production and innovation rooted in the classical thought of Alfred Marshall and Francois Perroux has found great inspiration in the successful experiences of regional networks in advanced areas such as the Silicon Valley in California, the industrial district in Emilia Romagna (the so called 'Third Italy'), the Baden-

Wurttemberg region in southern Germany, and the Cambridge high-tech pole in the UK⁴². Different works at the firm and regional level, have shown how transition economies are constrained by the pervasiveness of 'network failures'⁴³. These situations may occur for example when networks are not able to channel a particular capability, when different flows are mutually inconsistent or anti-developmental or finally when, although the linkages are strong enough, the nodes are weak, that is, a low level of capabilities is channeled into the network. To be more concrete, a regional production and innovation network may exclude some relevant actors in the process of technological capabilities building (missing connections with upstream suppliers, downstream users, R&D Institutes); otherwise, although connected among themselves the actors have not sufficiently invested in their own endogenous process of capabilities development and accumulation or, finally, actors are not able to coordinate their efforts as they lack network organizers and "search networks" strategies⁴⁴.

The implementation of policies aimed to increase the degree of connectivity at the horizontal level could trigger not simply static advantages (such as cost-savings given a higher availability of inputs or scale advantages due to access to larger demand) but also dynamic advantages (the accumulation of technological capabilities). However, as the "network alignment approach" has conclusively shown, the development of technological capabilities cannot simply derive from developing horizontal networks, but, more crucially, it requires integrating emerging regional networks – i.e. horizontal level – with global production networks – i.e. vertical level⁴⁵. This integration has to be done taking into consideration existing and potential inter and intra countries complementarities between consumption and production dynamics over time. Openness to global production networks can be realized on the basis of variety of institutional and organizational arrangements. For example through different kinds of gatekeepers such as: public institutes, the private association of firms or private-public partnerships promoted by the regional network⁴⁶. In this respect, public authorities should adopt a series of sector-specific measures and selective policies in order to trigger the systemic creation of comparative advantage in high tech industries. As a result of the application of connection policies, the relevant nodes in the CENTROPE region should start a process of "approximation", by synchronizing their organizational structures, assimilating the reciprocal social norms, legal forms and institutions⁴⁷. It is encouraging registering that, in 2007, around a quarter of the firms located in the CENTROPE region hold cross-border relationships (in the form of ownership, delivery relationships and/or other forms of cooperation).

Increasing number and density of connections trigger a cumulative process of increasing returns at the regional level. To achieve that, complementarities between production and

⁴² Best, M.: *The New Competition. Institutions of Industrial Restructuring*, Cambridge: Polity Press, 1990.

⁴³ Radosevic, S.: *European Integration and Complementarities Driven Network Alignment: The Case of ABB in Central and Eastern Europe. Working Papers ESRC One Europe or Several?*, SPRU, 2002.

⁴⁴ Wade, R.: *After the Crisis: Industrial Policy and the Developmental State in Low Income Countries. Global Policy*, 2010, vol. 1, no.2, pp.150-161.

⁴⁵ Iammarino, S., Padilla, R. and Von Tunzelman, N.: *Technological Capabilities and Global-local Interactions: The Electronics Industry in Two Mexican Regions. World Development*, 2008, vol. 36, pp. 1980-2003. Von Tunzelman, N.: *Regional Capabilities and Industrial Regeneration, in Technological Change and Mature Industrial Regions*, Cheltenham: Edward Elgar.

⁴⁶ Mazzoleni, R. and Nelson, R.R.: *Public research institutions and economic catch up. Research Policy*, 2007, vol. 36, pp. 1512–1528.

⁴⁷ Boschma, R.: *Proximity and Innovation: A Critical Assessment. Regional Studies*, 2005, vol.39, pp. 61-74.

consumption over time have to be exploited⁴⁸. Specifically, according to G.B. Richardson⁴⁹ “It is convenient to think of industry as carrying out an indefinitely large number of activities, activities related to the discovery and estimation of future wants, to research, development, and design, to the execution and co-ordination of processes of physical transformation, the marketing of goods, and so on. And we have to recognize that these activities have to be carried out by organizations with appropriate capabilities, or, in other words, with appropriate knowledge, experience, and skills”. As capabilities are distributed among different economic actors, and must remain so if they want to develop according to the principle of the division of labour, firms need not only to know how to do certain things - i.e. direct capabilities - , but also how to get other things done for them – i.e. indirect capabilities. As for the latter, firms may be able to get things done by gaining control of other capabilities (coordination by direction), by establishing continuous relationships with others (coordination by inter-firm cooperation), or finally by market transactions. Following the approach of Richardson, a coordination device will be chosen simultaneously according to the degree of similarity and complementarities of those activities that have to be performed. The need for coordinating closely complementary but dissimilar activities, that is those activities which require different capabilities and locate at different phases of the production process, is the main explanation of the emergence of dense inter-firms networks of cooperation. In sum, the increasing connectivity as well as the exploitation of inter-firm complementarities, and complementarities over time between consumer capabilities and technological capabilities (see above section II), emerge as the main potential drivers of the future structural dynamics in the CENTROPE region.

IV. Conclusions

After twenty years many lessons can be learned from the end of the socialist experiment in Eastern Europe, the survival of a not really idealistic socialism in Asia and the increasing tensions in capitalist economies. The paper has provided a historical-structural reading of the complex process of Schumpeterian “destructive construction” CEECs have been experiencing since the fall of the Berlin Wall. The analysis has highlighted how in 1989 CEECs entered a process of circular and cumulative de-cumulation of technological, consumer and social capabilities followed by a progressive counter cycle mainly driven by exogenous factors. The CENTROPE “institutional innovation” model is an interesting laboratory for developing policies of connections and complementarities. The CENTROPE cross border partnership has emerged as a valuable model of regional network for technological capabilities building.

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⁴⁸ Young, A.: Increasing Returns and Economic Progress. *Economic Journal*, 1928, vol. XXXVIII, pp. 527-542.

⁴⁹ Richardson, G. B.: The Organisation of Industry. *Economic Journal*, vol. 82, pp. 883-96.

GOVERNANCE AND ENTERPRISE RESTRUCTURING IN SOUTHEAST EUROPE – POLICIES; GROSS DOMESTIC PRODUCT AND FOREIGN DIRECT INVESTMENTS

Mico Apostolov,^{*}

***Abstract:** The research in this paper is to be focused on examining governance and enterprise restructuring in Southeast Europe (Western Balkans) transition economies. International organizations classify the following countries in Southeast Europe (Western Balkans): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.*

The European Bank for Reconstruction and Development (EBRD) has governance and enterprise restructuring as basic indicator of economic transition and defines it as effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. The corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors.

Using data of South-East European economies, will be examined the interrelationships between governance and enterprise restructuring, set of policies that influence the governance patterns, gross domestic product and foreign direct investments.

JEL Classifications: G30, G32, G38; L33; O11; P31

***Keywords:** governance, enterprise restructuring, corporate governance, transition, Southeast Europe*

Introduction

The research in this paper is to be focused on examining governance and enterprise restructuring in **Southeast Europe (Western Balkans)** transition economies. International organizations classify the following countries in Southeast Europe (Western Balkans): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.

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Using data of South-East European economies, will be examined the interrelationships between governance and enterprise restructuring, set of policies that influence the governance patterns, gross domestic product and foreign direct investments.

Two basic hypotheses to test governance and enterprise restructuring:

- 1st Hypothesis: governance and enterprise restructuring depends on set of policies : large-scale privatization, small-scale privatization, price liberalization, competition policy, trade and foreign exchange system, banking reform and interest rate liberalization, securities markets and non-bank financial institutions and overall infrastructure reform;
- 2nd Hypothesis: governance and enterprise restructuring is positively influenced by gross domestic product and foreign direct investments dynamics.

The academic significance of the topic is in determining the factors that influence governance and enterprise restructuring, as well as, its overall importance in the development of Western Balkans transition economies literature.

Theoretical and literature framework

1. Institutional changes and corporate governance mechanisms in national governance systems

There are many studies conducted on determining the way stakeholders can use corporate governance mechanisms in transition. Most often is used the agency theory to explain the changes in ownership structure in an environment of dominance of government and institutional owners⁵⁰, as well as, the differences of transition economies' ownership structure in comparison to developed countries⁵¹. Noteworthy contributions are the studies on firm performance and governance structure in political and regulatory environments that have a significant impact on corporate governance systems⁵². Also, there is significant literature that

⁵⁰ Chan, H. K., Lin, K. Z., & Zhang, F. (2007). On the association between changes in corporate ownership and changes in auditor quality in a transitional economy. *Journal of International Accounting Research*, 6, 19–36.

⁵¹ Young, M. N., Peng, M. W., Ahlstrom, D., & Bruton, G. D. (2002). Ownership structure and corporate governance: Can we generalize from US evidence? *Best Paper Proceedings, Academy of Management Annual Meeting*.

⁵² Firth, M., Fung, P., & Rui, O. M. (2006). Firm performance, governance structure, and top management turnover in a transitional economy. *Journal of Management Studies*, 43, 1289–1330.

analyzes corporate governance through the importance of strong in addition to good governance and minority shareholder protection to reduce agency problems⁵³.

The institutional aspect of the economic transformation towards free market economies is characterized by institutional transition, providing in the literature evidence on the firm behavior in such environmental set⁵⁴. Indeed, business strategies⁵⁵ introduced due transition are important for this study. These features of Central and Eastern European economies are extensively analyzed⁵⁶, which gives good foothold for further study of the similar transition aspects in Southeast Europe.

2. Corporate Governance Mechanisms in transition economies

There are number of corporate governance mechanisms which are used to resolve agency problems, thus are classified by the corporate governance literature, and the most prominent are: market-based corporate governance mechanisms, management-structure based corporate governance mechanisms, ownership structures, boards of directors, management compensation schemes, and financial structures⁵⁷.

a) Market-based corporate governance mechanisms

The market-based corporate governance mechanisms incorporate two basic values i.e. the managerial labor market and the market for corporate control⁵⁸. Further, the managerial labor market as corporate governance mechanism, verifies the managers' human capital hence determining the managers' career development path⁵⁹. On the other hand, the market for corporate control functions as corporate governance mechanism by introducing discipline on managers through the threat of takeover⁶⁰. In context of transition economies it is estimated that the market-based corporate governance mechanisms are likely to increase and improve along the progress of the transition⁶¹.

⁵³ Dharwadkar, R., George, G., & Brandes, P. (2000). Privatization in emerging economies: An agency theory perspective. *Academy of Management Review*, 25, 650–669.

⁵⁴ Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of Management Journal*, 43, 249–267.

⁵⁵ Peng, M. W. (2000). *Business strategies in transition economies*. Thousand Oaks, CA: Sage.

⁵⁶ King, L. P. (2001). The basic features of post communist capitalist, in *Eastern Europe: Firms in Hungary, the Czech Republic, and Slovakia*. Westport, CT: Praeger.

⁵⁷ Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26, 301–325. ; Prowse, S. (1995). *Corporate governance in an international perspective: A survey of corporate control mechanisms among large firms in the United States, the United Kingdom, Japan and Germany*. Cambridge, MA: Blackwell.

⁵⁸ Jensen, M. C., & Smith, C. W. (2000). *Stockholder, manager, and creditor interests: Application of agency theory. Theory of firm: Governance, residual claims and organizational forms*. Cambridge, MA: Harvard University Press.

⁵⁹ Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of Political Economy*, 88, 288–307.

⁶⁰ Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *Journal of Finance*, 52, 737–783.

⁶¹ Son A. Le, Mark J. Kroll & Bruce A. Walters (2010). The impact of institutional changes on corporate governance mechanisms in transition economies. *Journal of Management and Governance*, Volume 14, Number 2, p. 91-114

b) Management-structure based corporate governance mechanisms

The role of management-structure based corporate governance mechanisms in the governance of companies takes shape through internal managerial labor markets and constant mutual monitoring between managers by creating hierarchical controls⁶², due to the process of firm management⁶³. These hierarchical-bureaucratic structures used to regulate agency problems and manage the firm are characterized by layers of management bringing high degree of formalization of operating procedures and authority in firms' functioning and effectiveness⁶⁴. Hence, the effectiveness of the hierarchical-bureaucratic structures in transition economies declines during the restructuring process as market-supporting institutional framework and market based mechanisms take hold⁶⁵.

c) Ownership structure

The ownership structure can function as corporate governance mechanism in the sense where inside ownership reduces agency costs. Thus, managerial ownership is opposed to the divergence of interests between managers and shareholders which leads to maximization of shareholders' wealth in the case of owner-managers' decision making⁶⁶. On the other hand, the corporate governance literature points out that large owner-managers are likely to lessen agency problems, making at the same time principal-principal agency problems more severe⁶⁷. In the transition process as companies move towards free market functioning, the role of ownership structure is determined mostly by independent outside blockholders and foreign investors⁶⁸.

d) Boards of directors

In corporate governance literature the board of directors is usually defined as to represent the firms' shareholders. Thus, the boards have the authority over the work of the managers to control and monitor their decision making and results⁶⁹. Due to its characteristics the board of directors has the role of classic corporate governance mechanism i.e. central to the internal control system⁷⁰, even though in practice often these responsibilities are blurry and undetermined. As far as transition economies are concerned, the literature suggests that at the early stage of privatization the already set, state-appointed board members, are likely to be more effective, however later in the transition process when

⁶² Ocasio, W. (1999). Institutionalized action and corporate governance: The reliance on rules of CEO succession. *Administrative Science Quarterly*, 44, 384–416.

⁶³ Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York, NY: The Free Press.

⁶⁴ Jensen, M. C., & Smith, C. W. (2000). *Stockholder, manager, and creditor interests: Application of agency theory. Theory of firm: Governance, residual claims and organizational forms*. Cambridge, MA: Harvard University Press.

⁶⁵ Son A. Le, Mark J. Kroll & Bruce A. Walters (2010). The impact of institutional changes on corporate governance mechanisms in transition economies. *Journal of Management and Governance*, Volume 14, Number 2, p. 91-114

⁶⁶ Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26, 301–325.

⁶⁷ Young, M. N., Peng, M. W., Ahlstrom, D., & Bruton, G. D. (2002). Ownership structure and corporate governance: Can we generalize from US evidence? *Best Paper Proceedings, Academy of Management Annual Meeting*.

⁶⁸ Son A. Le, Mark J. Kroll & Bruce A. Walters (2010). The impact of institutional changes on corporate governance mechanisms in transition economies. *Journal of Management and Governance*, Volume 14, Number 2, p. 91-114

⁶⁹ Jensen, M. C., & Smith, C. W. (2000). *Stockholder, manager, and creditor interests: Application of agency theory. Theory of firm: Governance, residual claims and organizational forms*. Cambridge, MA: Harvard University Press.

⁷⁰ Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. *The Journal of Finance*

market mechanisms enter into force, outside board members that hold large stakes in the firm are ought to offer more⁷¹ .

e) Management compensations schemes i.e. management structures

Management compensations schemes and management structures can be used as corporate governance mechanism through aligning the interests of managers to those of shareholders⁷² . On one hand, there can be a scheme where the principal is monitoring the agent's behavior on prearranged compensation i.e. behavior-oriented contract, and on the other, outcome-based contract where the principal measures the agent's marginal output and compensation based on the marginal output⁷³ . The use of one contract over another would be determined based on industry, legal, and other characteristics important for the firm or the country. Thus, in transition environments most of the early stage countries have predominantly behavior-based compensation schemes as opposed to those in the latter stage that typify more with of outcome-based compensation structures⁷⁴ .

f) Financial structures

There is a positive relationship between free cash flow and incentives managers to peruse their goals and self-interests i.e. peruse investments that increase their personal compensation and influence⁷⁵ , clearly increasing agency costs. Further, debt financing is important to a firm and thus essential are the ties to banks and other financial institutions that allow access to financial resources⁷⁶ . In this case the corporate governance mechanism is in place through the notion that banks and other financial lenders and instruments monitor their borrowers helping to restrain managers' self-serving behaviors⁷⁷ . The debt as corporate governance mechanism in transition economies is operationalized through state owned banks at the beginning of the process; however this role further in the transition is taken by foreign creditors.

⁷¹ Son A. Le, Mark J. Kroll & Bruce A. Walters (2010). The impact of institutional changes on corporate governance mechanisms in transition economies. *Journal of Management and Governance*, Volume 14, Number 2, p. 91-114

⁷² Bloom, M., & Milkovich, G. T. (1998). Relationships among risk, incentive pay, and organizational performance. *Academy of Management Journal*, 41, 283–297.

⁷³ Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *Journal of Finance*, 52, 737–783.

⁷⁴ Son A. Le, Mark J. Kroll & Bruce A. Walters (2010). The impact of institutional changes on corporate governance mechanisms in transition economies. *Journal of Management and Governance*, Volume 14, Number 2, p. 91-114

⁷⁵ Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *Journal of Finance*, 52, 737–783.

⁷⁶ La Porta, R., Lopez de Silanes, F., & Shleifer, A. (1998). Corporate ownership around the world. *Journal of Finance*, 54, 471–517.

⁷⁷ Berglof, E. (1995). Corporate governance in transitional economies: The theory and its policy implications. In M. Aoki & H. K. Kim (Eds.)

Analytical Framework

1. Sample selection and Data

The European Bank for Reconstruction and Development (EBRD) Transition Report series have the latest information on the countries that are classified in transition. The data that this prominent organization offers are based on wide network of sources⁷⁸ that they obtain from national and international authorities⁷⁹. EBRD tracks reforms and assesses the overall process of transition using set of transition indicators, which are formed in comparison to the standards of industrialized market economies.

Further, the data sample is mainly drawn from the extended research and data bases of the European Bank for Reconstruction and Development (EBRD), the Transition Report publication series. Consequently, the data used in this research are taken from their index structure 'economic statistics and forecasts'⁸⁰. The scale used in shaping the transition indicators ranges from 1 to 4+, 'where 1 represents little or no change from a rigid centrally planned economy and 4+ represents the standards of an industrialized market economy'⁸¹. There are detailed numbers for the countries in transition analyzing the period of 1989 to 2009 in different areas. These indicators are sorted by sector and country and are analyzing nine areas: large scale privatization, small scale privatization, governance and enterprise restructuring, price liberalization, trade and foreign exchange system, competition policy, banking reform and interest rate liberalization, securities markets and non-bank financial institutions, and overall infrastructure reform⁸². Specifically, the indicator GOV is measuring governance and enterprise restructuring in terms of corporate governance and corporate governance mechanisms imposed through various phases of the transition process in the national economies⁸³.

The second estimation is based on data provided by the data bases of the European Bank for Reconstruction and Development (EBRD) Transition report series⁸⁴, the World Bank Database⁸⁵ and the National Banks' databases of the countries in Southeastern Europe⁸⁶. The indicator of GDP is measuring growth in real GDP (in per cent) for the time period of 1989 to 2009 (with exceptions for the years where data was not available, which is minor) and the indicator of FDI's is measuring foreign direct investment as net inflows recorded in the balance of payments.

⁷⁸ Zinnes, Clifford, Eilat, Yair, Sachs, Jeffrey, 2001. The gains from privatization in transition economies: Is change of ownership enough? IMF Staff Papers 48, 146–170.

⁷⁹ Bennett, John, Estrin, Saul, Maw, James, Urga, Giovanni, 2004a. Privatization methods and economic growth in transition economies. Fondazione Eni Enrico Mattei Nota di Lavoro 105.; Bennett, John, Estrin, Saul, Maw, James, Urga, Giovanni, 2004b. Privatization methods and economic growth in transition economies. CEPR 4291.

⁸⁰ European Bank for Reconstruction and Development (EBRD), 1994-2009. Transition report. EBRD, London.

⁸¹ European Bank for Reconstruction and Development (EBRD), 1994-2009. Transition report. EBRD, London.

⁸² Ibid.

⁸³ Gouret, Fabian (2007), Privatization and output behavior during the transition: Methods matter!, *Journal of Comparative Economics* 35 : p.3–34

⁸⁴ European Bank for Reconstruction and Development (EBRD), 1994-2009. Transition report. EBRD, London

⁸⁵ World Bank Database, Available at: <http://data.worldbank.org/>

⁸⁶ National Banks' databases of the countries in Southeastern Europe: Bank of Albania [<http://www.bankofalbania.org/>]; Central Bank of Bosnia and Herzegovina [<http://www.cbhb.ba/>]; Croatian National Bank [<http://www.hnb.hr/>]; National Bank of the Republic of Macedonia [<http://www.nbrm.gov.mk/>]; Central Bank of Montenegro [<http://www.cb-mn.org/>] and National Bank of Serbia [<http://www.nbs.rs/>]

2. Model and Econometrics

The econometric model⁸⁷ that is used in this study is a regression model where we have estimated the following equation:

$$\gamma_i = \beta_o + \beta_1 x_{1i} + \dots + \beta_p x_{pi} + \varepsilon_i \quad (1) \quad i = 1, \dots, n \quad (2)$$

Thus, applied to our research this model has the following shape:

$$GOV_{i,t} = \beta_o + \beta_1 LSP_{i,t} + \beta_2 SSP_{i,t} + \beta_3 PL_{i,t} + \beta_4 CP_{i,t} + \beta_5 TFS_{i,t} + \beta_6 BRIRL_{i,t} + \beta_7 SMNBFI_{i,t} + \beta_8 OIR_{i,t} + \varepsilon_{i,t} \quad (3)$$

- where the **dependent variable**, $GOV_{i,t}$, shows governance and enterprise restructuring;
- the **independent variables**, are as follows :
 1. $LSP_{i,t}$ large-scale privatization;
 2. $SSP_{i,t}$ small-scale privatization;
 3. $PL_{i,t}$ price liberalization;
 4. $CP_{i,t}$ competition policy;
 5. $TFS_{i,t}$ trade and foreign exchange system;
 6. $BRIRL_{i,t}$ banking reform and interest rate liberalization;
 7. $SMNBFI_{i,t}$ securities markets and non-bank financial institutions;
 8. $OIR_{i,t}$ overall infrastructure reform;
- β is a p -dimensional **parameter vector**;
- ε is the **error term** or *noise*.

The second estimation is:

$$GOV_{i,t} = \beta_o + \beta_1 GDP_{i,t} + \beta_2 FDI_{i,t} + \varepsilon_{i,t} \quad (4)$$

- where the **dependent variable**, $GOV_{i,t}$, shows governance and enterprise restructuring;
- the **independent variables**, are as follows :
 1. $GDP_{i,t}$ gross domestic product;
 2. $FDI_{i,t}$ foreign direct investments;
- β is a p -dimensional **parameter vector**;
- ε is the **error term** or *noise*.

⁸⁷ Freedman, David A., *Statistical Models: Theory and Practice*, Cambridge University Press (2005)

WHERE DO WE GO FROM HERE?

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Figure 1

OLS	Dependent Variable Governance and enterprise restructuring									
	Albania					Bosnia and Herzegovina				
	[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
isp	-0,2025152 [0.1869121]		-0,0091404 [0.196053]	-0,0995574 [0.1938835]	-0,1087974 [0.2215698]	0,1524874 [0.1927293]		0,5323872 [0.0934086]*	0,1518928 [0.2038962]	0,1427749 [0.1673499]
ssp	0,1697118 [0.1140906]	0,113114 [0.1021058]	0,0523193 [0.1198221]	0,1329074 [0.1221306]	0,2199953 [0.1358211]	-0,0249437 [0.0670438]	-0,0121364 [0.0641176]	-0,0790883 [0.0706895]	0,0331294 [0.0595877]	-0,0236488 [0.0635731]
pl	-0,5347679 [0.2250317]*	-0,4286216 [0.2039378]*		-0,1531503 [0.0938002]	-0,3067557 [0.2508544]	0,0047178 [0.030858]	0,0010322 [0.0300623]	0,023237 [0.033675]	-0,0199307 [0.0282685]	0,0038191 [0.0287377]
tfs	0,2659353 [0.1448371]*	0,2188654 [0.1390868]	-0,0519644 [0.0646881]		0,1287879 [0.163219]	0,0304187 [0.0421192]	0,0289083 [0.0414663]	0,0500963 [0.046701]	0,040704 [0.0440357]	0,0302822 [0.0404747]
cp	-0,9840253 [0.3731757]*	-0,9071432 [0.3688099]	-0,6432593 [0.4014111]	-0,737975 [0.3787193]*		-0,1425858 [0.0838911]	-0,0980406 [0.0612916]	-0,2358234 [0.081922]**	-0,1238071 [0.0878757]	-0,1384151 [0.0730635]*
brirl	1,314167 [0.2302564]	1,218124 [0.2139265]	1,014514 [0.2244712]	1,110516 [0.219414]**	0,909408 [0.2072327]***	0,343431 [0.1575498]	0,4561517 [0.066292]***		0,3475343 [0.1666564]*	0,3471329 [0.1483936]*
smnbf	1,213578 [0.4536104]*	0,961111 [0.3917815]	0,7779803 [0.483435]	0,9003803 [0.4570451]*	0,2111793 [0.2988371]	0,2410562 [0.1509508]	0,2408255 [0.1487633]	0,2464227 [0.1713305]		0,230991 [0.1194542]*
oir	-0,0590973 [0.2398549]	-0,2489107 [0.164919]	-0,3570052 [0.2382509]	-0,2381512 [0.2382847]	-0,2090029 [0.2813609]	-0,0125967 [0.1072611]	0,0238195 [0.0954801]	-0,0593761 [0.1192966]	0,0846555 [0.0934118]	
Constant	-0,2375678 [0.305147]	0,0375653 [0.1703371]	0,2045319 [0.2818152]	0,0674559 [0.2783297]	0,0841613 [0.3377157]	0,415223 [0.1236471]	0,3535272 [0.0945685]	0,5706266 [0.0814679]**	0,4295954 [0.1304645]	0,1128298 [0.1172391]**
Observations	189					189				
R-squared	0,9197	0,8858	0,9208	0,9084	0,8964	0,9132	0,9023	0,9165	0,8796	0,9031
Adj R-sqrd	0,8329	0,732	0,8089	0,8207	0,7022	0,7719	0,7727	0,7638	0,7686	0,7741
Time period	1989-2009					1989-2009				
Standard errors are in parentheses.										
Significance Level: *** p < 0.01 ** p < 0.05 * p < 0.1										

(Continuation)

OLS	Dependent Variable Governance and enterprise restructuring									
	Croatia					Macedonia				
	[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
isp	0,0867059 [0.1623809]	0,1722811 [0.1582185]	0,1101601 [0.161339]	0,1563948 [0.18769]	0,1060924 [0.1554621]	-0,0400841 [0.0844591]	-0,0718089 [0.1341494]	-0,0403039 [0.0802903]	-0,0307779 [0.0713962]	-0,0546197 [0.0730469]
ssp	0,4950602 [0.3365614]		0,2166759 [0.2057257]	0,1684129 [0.362504]	0,3327732 [0.2052517]	0,954126 [0.2081172]***		0,9522068 [0.1715753]**	0,9881459 [0.1410507]**	0,9583012 [0.2009124]**
pl	-0,2011024 [0.2102789]	-0,2331644 [0.218306]	-0,2224021 [0.2099915]	-0,3456276 [0.2369092]	-0,2169713 [0.2036779]	0,0632146 [0.1236557]	-0,0857734 [0.190142]	0,0617463 [0.0891231]	0,0625092 [0.1190298]	0,0386737 [0.1024566]
tfs	0,2000222 [0.1825499]	0,2545105 [0.1865807]	0,2015001 [0.1831606]*	0,3652061 [0.1990339]*	0,2019553 [0.178128]	-0,0019025 [0.1059441]	0,2475254 [0.1448785]		-0,0020039 [0.1020113]	0,0035742 [0.1014893]
cp	0,1432924 [0.2006051]	0,342051 [0.1547635]*	0,2940192 [0.1396094]*	0,4140078 [0.1961021]**	0,2362731 [0.1293934]*	0,3170152 [0.0978953]*	0,3173858 [0.1560151]**	0,3167068 [0.0925978]**	0,3163479 [0.0942207]**	0,2908476 [0.0681516]**
brirl	-0,3266856 [0.3132069]	0,0386626 [0.1991627]		0,1067575 [0.3026532]	-0,1579131 [0.149381]	0,0324758 [0.141122]	0,4920464 [0.158304]**	0,0324864 [0.1355862]		0,031418 [0.1363957]
smnbf	0,6654675 [0.2732843]**	0,5052497 [0.2616168]**	0,5034725 [0.2256206]**		0,6197397 [0.2567298]**	0,2358248 [0.101816]**	0,1866295 [0.16136]	0,235749 [0.0977389]**	0,2379681 [0.0976263]**	0,2128045 [0.0796935]**
oir	0,2254391 [0.3650046]	-0,1937215 [0.2380797]	-0,1067123 [0.1789828]	-0,0153547 [0.4126282]		-0,0878511 [0.2280277]	-0,1422885 [0.3629135]	-0,0873017 [0.2171038]	-0,0868301 [0.2195233]	
Constant	-1,183368 [1.22832]	0,3480587 [0.6803362]	-0,1845918 [0.771904]	0,0845048 [1.30652]	-0,5886388 [0.7442398]	-2,513445 [0.5982257]**	-0,0655663 [0.4299509]	-2,507403 [0.4752273]**	-2,592015 [0.4729974]**	-2,495099 [0.5764654]**
Observations	189					189				
R-squared	0,9138	0,9091	0,8714	0,9009	0,873	0,9085	0,9182	0,9385	0,8884	0,9283
Adj R-sqrd	0,8563	0,7524	0,756	0,8398	0,7584	0,7808	0,7511	0,7822	0,7822	0,782
Time period	1989-2009					1989-2009				
Standard errors are in parentheses.										
Significance Level: *** p < 0.01 ** p < 0.05 * p < 0.1										

(Continuation)

OLS	Dependent Variable									
	Governance and enterprise restructuring									
	Montenegro					Serbia				
Independent Variable	[1]	[2]	[3]	[4]	[5]	[1]	[2]	[3]	[4]	[5]
isp	0,025029 (0.1759028)		0,0148113 (0.1404694)	0,1000957 (0.1484071)	0,4965677 (0.1516168)***	0,8198633 (0.2032582)***		0,6901091 (0.1612398)*	1,215844 (0.1923572)*	0,4492792 (0.1323666)**
ssp	0,0523883 (0.0519841)	0,0504735 (0.0482828)	0,0498742 (0.0442783)	0,0356797 (0.0472367)	0,1493854 (0.0595531)*	-0,1517718 (0.1455706)	0,2077483 (0.1697228)		-0,3517117 (0.1624512)*	-0,0360644 (0.15511)
pl	-0,0169126 (0.0705467)	-0,0205609 (0.0629292)	-0,0221255 (0.0469451)	-0,0194509 (0.0695862)	0,0821115 (0.0876976)	0,0314483 (0.0363242)	0,0341681 (0.0535565)	0,034297 (0.0363423)	0,0076732 (0.0446733)	0,0232123 (0.0412353)
tfs	-0,0099158 (0.095012)	-0,0023913 (0.0759026)		0,0090979 (0.0909889)	-0,1932485 (0.1072942)*	-0,0313151 (0.0371104)	-0,0395058 (0.0546432)	-0,0341518 (0.0371342)	0,0052779 (0.044111)	-0,0260193 (0.0422617)
cp	0,0014707 (0.1386809)	-0,0116057 (0.0998683)	-0,0042167 (0.1225776)	0,0613188 (0.1165131)	0,1629844 (0.1775493)	-0,037234 (0.0757477)	-0,1289785 (0.1065472)	-0,100937 (0.0449211)*	0,0683665 (0.084176)	-0,0301026 (0.0863631)
brirl	0,1421806 (0.1730948)	0,1549766 (0.1422178)	0,1377794 (0.1613662)		0,1097489 (0.2349382)	0,325636 (0.1105069)*	0,6203257 (0.122265)***	0,3793379 (0.0980954)		0,3638281 (0.1245697)**
smbfl	0,9357051 (0.2699023)**	0,9654005 (0.1645741)**	0,9513829 (0.2155338)**	0,9237234 (0.2661146)***		-0,4687327 (0.2111187)*	0,2305621 (0.1776636)	-0,3899315 (0.1977843)*	-0,565573 (0.2630502)*	
oir	0,060445 (0.1446265)	0,0686007 (0.127682)	0,0684553 (0.1178239)	0,0967382 (0.135978)	-0,1477279 (0.1788415)	-0,0053487 (0.0329571)	-0,0255009 (0.0480387)	-0,0058332 (0.0330639)*	0,0193794 (0.0402005)	-0,0143822 (0.0373218)
Constant	-0,2729809 (0.2118772)	-0,2817912 (0.1948428)	-0,2698268 (0.201575)	-0,269522 (0.2091682)	0,0150051 (0.2649403)	0,7784118 (0.4012921)*	-0,3498587 (0.4243155)	0,3806653 (0.1249024)*	1,281046 (0.4581707)**	0,3166287 (0.391632)
Observations	189					189				
R-squared	0,9199	0,8999	0,9099	0,9188	0,8898	0,9077	0,9145	0,8974	0,906	0,8967
Adj R-sqrd	0,7665	0,7691	0,7691	0,7674	0,7382	0,7961	0,7915	0,7961	0,7938	0,7949
Time period	1989-2009					1989-2009				
Standard errors are in parentheses.										
Significance Level:	*** p < 0.01	** p < 0.05	* p < 0.1							

Results and Effects

1. Results on the first assumption

The *first* hypothesis is that governance and enterprise restructuring depends on set of policies: large-scale privatization, small-scale privatization, price liberalization, competition policy, trade and foreign exchange system, banking reform and interest rate liberalization, securities markets and non-bank financial institutions and overall infrastructure reform. The transition theory explains well the effects of privatization, restructuring, competition, budget constraints, policies of governance and management⁸⁸.

The country results of the OLS regression (Figure 1) show that there is important development of governance and enterprise restructuring during the period of transition. Yet, the effect of the variables that most influence governance and enterprise restructuring in this set of countries is mixed. When analyzed the large-scale privatization variable⁸⁹ and its impact on countries' governance and enterprise restructuring it was found significant Serbia ($p < 0.01$) and the small-scale privatization is significant in Macedonia ($p < 0.01$). Further, the policies influencing price liberalization and the trade and foreign exchange sys-

⁸⁸ Djankov, Simeon, Murrell, Peter, 2002. Enterprise restructuring in transition: A quantitative survey. *Journal of Economic Literature* 40, 739–792

⁸⁹ Filatovchev, Igor, Wright, Mike, Uhlenbruck, Klaus, Tihanyi, Laszlo, and Hoskisson, Robert E., 2003, Governance, organizational capabilities, and restructuring in transition economies, *Journal of World Business* 38, 331–347

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tem are being made compatible to the European Union's internal market as these countries approach the euro-integration processes⁹⁰.

The competition policy results are positive in Croatia; negative in Albania, B&H, and Serbia; significant in Macedonia ($p < 0.01$) and in the case of Montenegro there are mixed results depending on the model. The banking reform and interest rate liberalization show good results in all countries, as well as, the reform on securities' markets and non-bank financial institutions except Serbia in the latter case. Finally, the overall infrastructure reform gave negative outcome in almost all countries and it is most probably due to the fact that the disinvestment in infrastructure is constant lag in transition countries.

Figure 2

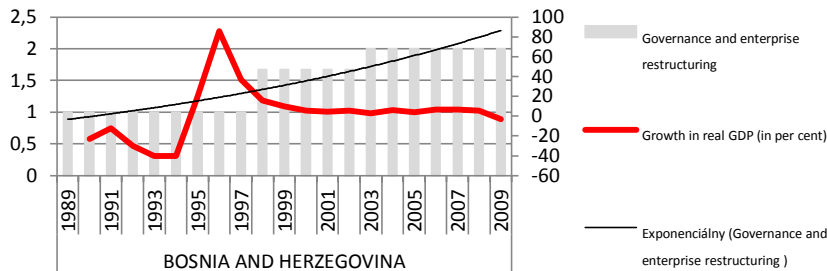
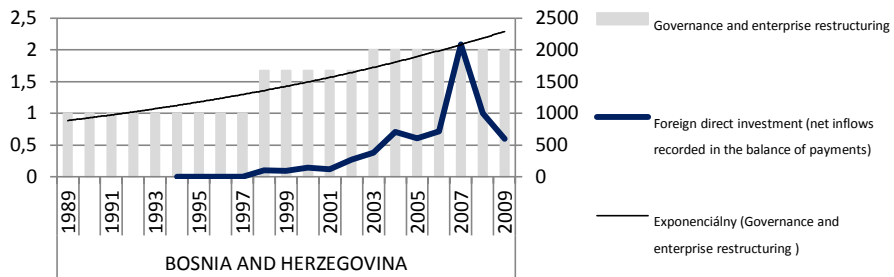
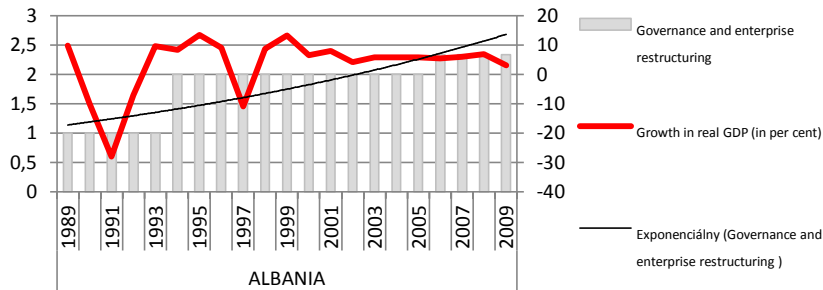
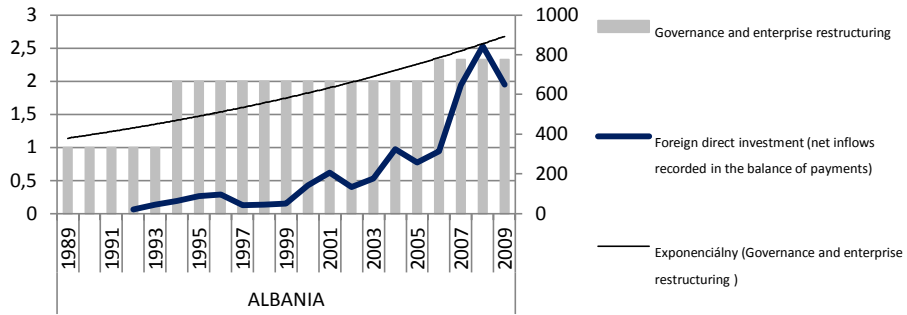
OLS	Dependent Variable					
	Governance and enterprise restructuring					
Variable	Albania	Herzegovina	Croatia	Macedonia	Montenegro	Serbia
GDP	0,0123485 [0.0128073]	-0,0040617 [0.0033471]	0,0652003 [0.0180422]***	0,0741883 [0.0140246]***	0,0077875 [0.0252081]	0,0029588 [0.0184404]
FDI	0,0008832 [0.0003161]**	0,0004519 [0.0001546]**	0,0002227 [0.0000655]***	0,0010187 [0.0003291]***	0,0006387 [0.0003446]	0,0003701 [0.0001059]***
Constant	1,68905 [0.1252254]***	1,498044 [0.1140025]***	2,057019 [0.1346605]***	1,859174 [0.0845265]***	1,540364 [0.1623643]***	1,26501 [0.1800817]***
Observations	60	57	62	63	43	47
R-squared	0,3738	0,4743	0,6528	0,8039	0,4427	0,5747
Adjusted R-squared	0,2903	0,3934	0,6065	0,7808	0,2569	0,4896
Time period	1989-2009					
Standard errors are in parentheses.						
Level:	*** p < 0.01	** p < 0.05	* p < 0.1			

⁹⁰ De Macedo, Jorge Braga and Oliveira Martins, Joaquim. 2008. Growth, reform indicators and policy complementarities, *Economics of Transition*, Volume 16(2) 2008, 141–164

Figure 3

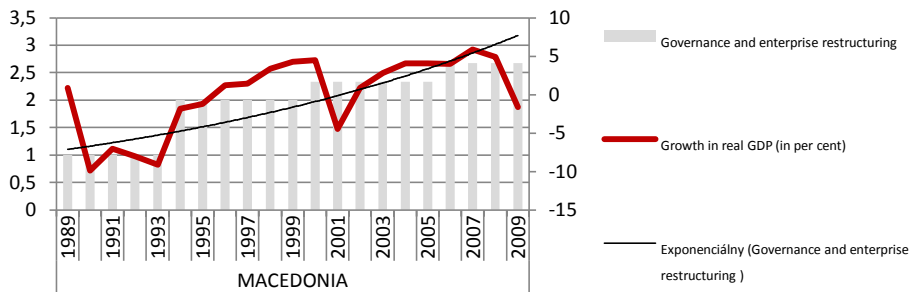
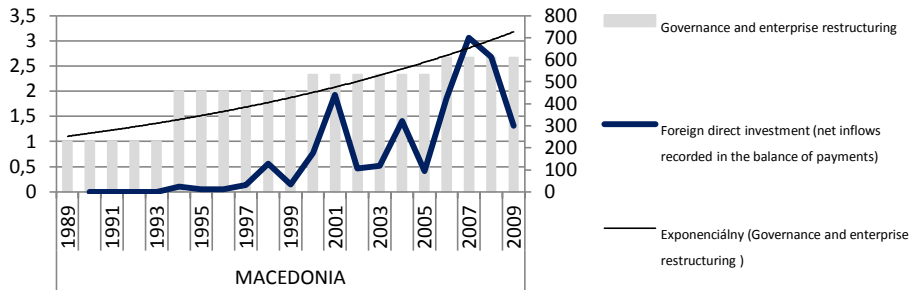
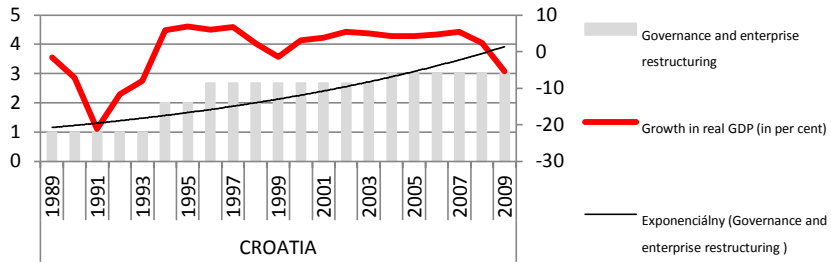
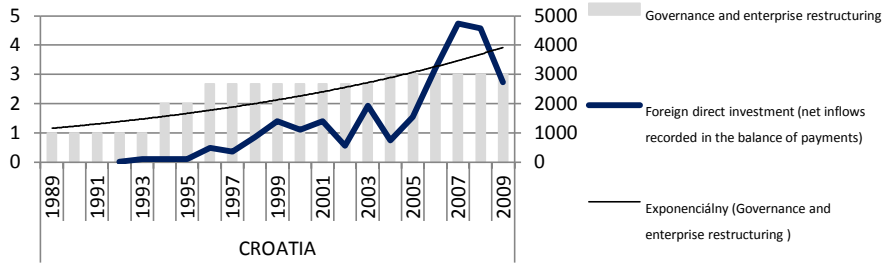
FDI dynamics within GOV indicators

GDP dynamics within GOV indicators



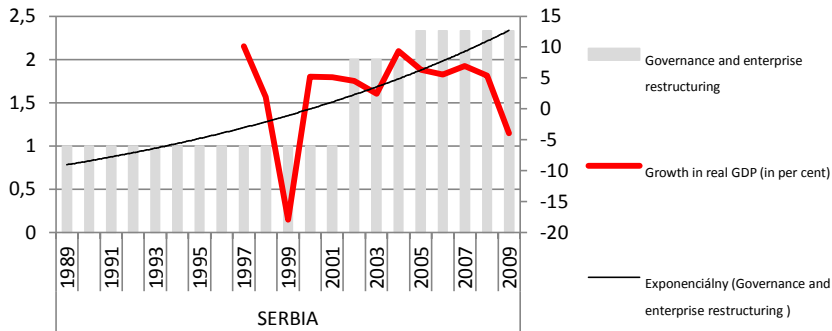
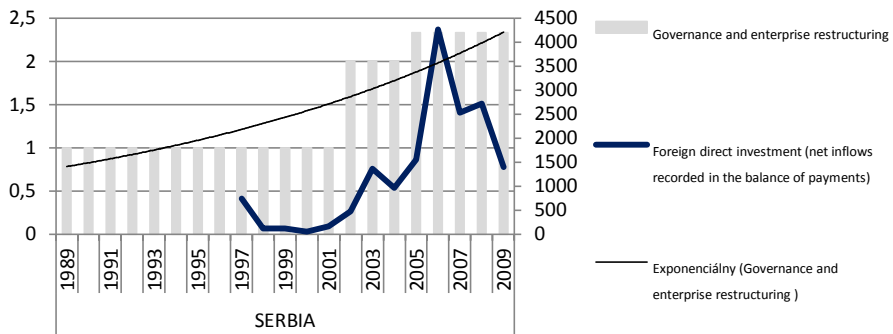
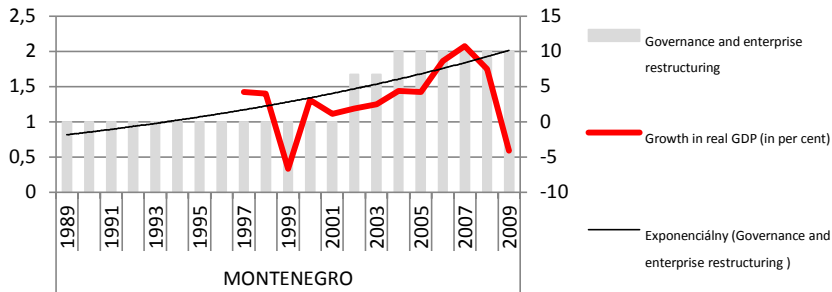
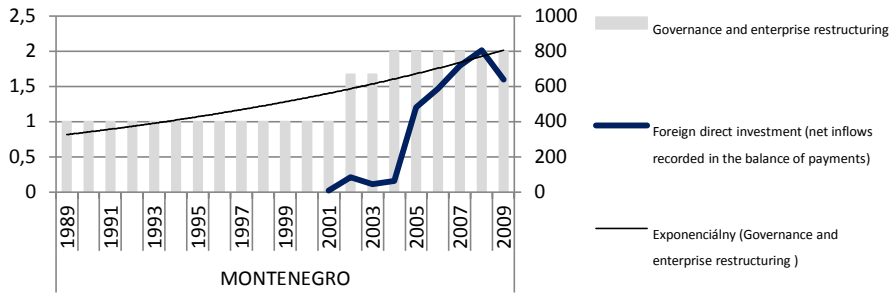
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2. Results on the second assumption

The *second* hypothesis is that the variable governance and enterprise restructuring is encouraged by movements in gross domestic product and foreign direct investments. The results of the OLS regression explaining the link between GOV and GDP, FDI are given in the Figure 2, whereas Figure 3 descriptively shows the relationships and movements between these variables.

The GDP results are significant only with Croatia and Macedonia ($p < 0.01$). On the other hand, the FDI variable results occur significant in Albania and Bosnia and Herzegovina ($p < 0.05$), as well as, Croatia, Macedonia and Serbia ($p < 0.01$).

It is clear from Figure 2 and Figure 3 that governance and enterprise restructuring is positively influenced by gross domestic product and especially foreign direct investments dynamics.

Discussion

Due to the analysis of the first assumption where a relation was made between governance and enterprise restructuring and imposed set of policies, the results have shown that there are mixed outcomes. Indeed, there are positive and negative pressures of introduced policies on governance and enterprise restructuring in the set of SEE countries, however it is evident that overall, there is satisfactory picture of governance and enterprise restructuring progress.

The second hypothesis shows that the governance and enterprise restructuring is positively influenced by gross domestic product and foreign direct investments dynamics. Indeed, positive results in almost all counties are found for foreign direct investments, but still mild evidence to its connection to gross domestic product.

Furthermore, it is apparent that governance and enterprise restructuring advance through time due to imposed policies, as well as, overall progress of the economies' gross domestic product and especially the influx of foreign direct investments.

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VARIETIES OF CAPITALISM IN CENTRAL AND EASTERN EUROPE: MEASURING THE SOCIETAL EMBEDMENT OF CAPITALISM

Pavol Baboř

***Abstract:** Varieties of Capitalism has become considerably known and quoted theory recently. This paper departs from the Hall & Soskice (2001) framework of the Varieties of Capitalism. Employing quantitative techniques this study attempts to identify what kind of capitalism has emerged in the central and eastern European countries. Research paper tries to define to what extent it is different in the individual countries and express this difference in a numerical way. The result of the study is to present an index of co-ordination, appropriate to be used in further research in the field of political economy.*

***Keywords:** Varieties of capitalism, Central and Eastern Europe, Coordination index*

Introduction

Capitalism as a social-economic system has been an object of scholarly discourse for centuries. Since the times of Adam Smith there have always been different authors and philosophical schools going deeper and deeper into discussion about the nature of capitalism. Scientific research of capitalism and its embedment in "the Western society" has intensified after World War II. The collapse of socialism and Soviet Union brought about the transition from planned to market economy and attracted many social scientists to focus on the problems of capitalism embedment in the countries where the transition to market economy was smooth and completed by 2004. One of the main debate in the field of political economy in the recent decades relates to the Varieties of Capitalism theory first conceptualized comprehensively by Hall & Soskice⁹¹.

⁹¹ Hall, P.A., Soskice, D.W. (2001): Varieties of Capitalism: The Institutional Foundation of Comparative Advantage. Oxford University Press, New York. 557pp.

This paper aims to investigate the societal embedment of capitalism in central and eastern European countries and develop a numerical index describing the state of capitalism in the region. Departing from the Varieties of Capitalism concept we apply quantitative methods to identify what type of capitalism is there in the CEE. In order to determine the position of CEE countries according to the VoC concept, we construct a composite Coordination Index which entails the character and strength of the actors' coordination.

In the next sections I will briefly review the Varieties of Capitalism (hereunder VoC) Theory and the current scientific debate on what is the position of the Central and Eastern European countries according to VoC literature. The following part of this study explains why it is important and how it could help to know the most about what kind of capitalism has developed in a given country. After this readers find a description of methods we have applied. Outcomes and their possible use in the field of public policy are stated in the part V. of the paper. The last section includes preliminary conclusions that we have come to and a few reflections for further research steps.

I. Varieties of Capitalism Theory

The major breakthrough in the research of social-economic systems in recent decades and a base ground for a current discussion has been the work of Peter Hall and David Soskice⁹². After studying several "western" national states and their economies, Soskice and Hall came with the actor-oriented relational theoretical concept called Varieties of Capitalism. Accordingly, the key actor in the national economy is a firm. Basic assumption here is that firms as agents of production are dependent on their relations with other agents in a given economy, either governments, financial and/or educational institutions, etc. Thus, in order to solve different kinds of everyday issues, firms are forced to co-ordinate effectively their activities with the other agents.

Hall and Soskice identified several areas where coordination helps to solve whole range of problems and thus contribute to more effective functioning of the whole economy. These areas are:

- Wage - Labor relations – wage or work conditions, bargaining influence, labor productivity, and in the end, also the unemployment and inflation
- Corporate Governance – concerns decision-making process inside the firms; management independence vs. consensual type of decision-making, which leads to different outcomes regarding lay-offs and consequently unemployment, corporate strategies influence investments, shareholder protection, etc.
- Industrial relations - relates to companies' cooperation and information sharing through networks and associations

⁹² Ibid.

- Education and Training – regarding the extent of institutional support a nation provides for the development of vocational skills in young workers, professional orientation of graduates, etc
- Transfer of Innovation – refers to the innovation process, incremental vs. rapid; migration of scientists among companies interdependent with the labor code and companies networking
- Financial system – important for raising funds for investments. Defines the company orientation either to short-term profits or allows long-term strategies

According to Hall⁹³ the first two sectors constitute the core of firms relations. Based on the way companies coordinate their relations in the given six spheres Hall and Soskice identified two ideal types of national economies. The “Liberal Market Economy” (hereunder LME) is the system where all the relations are co-ordinated by market mechanisms. A free market, perfect competition, formal contracts and arms-length price/principle are typical elements of such a system. In other words, the tools embedding capitalism in society are of a market character.

An ideal type on the opposite side of Hall’s and Soskice’s ideal continuum is called “Coordinated Market Economy” (hereunder CME). Relations in this social-economic system rely on non-market informal co-ordination secured by networking, cross-shareholding, mutual monitoring and associating in different kinds of professional and interest groups. To put it other way, capitalism in such a country is embedded by non-market tools. Hall and Soskice refer to USA as an example of a liberal market economy and classify Germany as CME.

II. Central and Eastern Europe in the VoC Literature

Enlargement of the European Union in 2004 is often perceived as a proof of the completion of the democratic and economic transition in eight post-communist states. Development in the first decade of 21st century inspired many political scientists and economists to fit these post-communist states in the VoC theoretical framework.

The biggest consensus among experts is on the position of Estonia and Slovenia being the opposite extremes, closest to the ideal type.⁹⁴ Using the VoC terminology Estonia along with other two Baltic States are considered to be close to Hall’s LME, while Slovenia is closely reminding the CME. The character of capitalism in states known as Visegrad group

⁹³ Hall, P. A., Gingerich, D. W. (2009): Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis. *British Journal of Political Science*, Vol. 39. Pp. 449 - 482

⁹⁴ Feldmann 2006, Bohle & Greskovits 2007, Vanhuyse 2007, Crowley & Stanojevic 2009, Török 2006, and others

countries is the least clear. Boehle and Greskovits⁹⁵ label the V4 countries as “embedded neoliberalism.” However, most of the work on VoC in CEE compares different indicators showing a visible distinction between Slovenia, V4 countries and the Baltic group. Feldmann⁹⁶ tries to explain the emergence of different VoC with historical legacies and strategic decisions in the field of privatization and monetary policy. Boehle and Greskovits claim that the international community has had a formative influence and caused the convergence of the VoC in CEE. According to Greskovits European integration has “cut the extremes.”

Using the logic of VoC concept Nölke a Vliegenthart⁹⁷ introduced a new categorization of VoC in CEE. They claim that the categories of CME and LME are not applicable to CEE countries and suggest a new one: “Dependent Market Economy (DME).” The argument is based on the fact that CEE countries are dependent on foreign capital and the transnational companies investing in the countries are then coordinating their relations through headquarters, mostly from abroad. However, Nölke a Vliegenthart admit that their DME is not the final type and might be changed in time. They put a key to the change in governments’ hands.

III. Why does the VoC matter?

Why does the variety of capitalism matters? The theory provides readers with two reasons. The first one is the comparative institutional advantage it gives the state. According to authors both kinds of capitalism are able to ensure its people high levels of well-being and an effective production leading to solid long-term growth. However, it is important for the societal institutions to be mutually complementary. Essentially, Hall and Soskice indicate that the state of higher efficiency of one institution increases the efficiency of other. Following this logic, a strong coordination in a given sector should have the spill-over effect, and put a pressure to the same coordination in all other sectors. The final result might be a higher rate of growth in the long-run. Hall and Gingerich⁹⁸ carried out one of the most comprehensive statistical test of the VoC theory. With a sample of 20 OECD member states⁹⁹ they measured and quantified the strength of coordination and constructed an index of coordination for every state. Using different statistical tools, the authors tested the effect of institutional complementarity in the core fields of economy focusing upon economic growth.

The second and equally important reason why the VoC is worth one's attention is the effect on public policy. According to Hall and Soskice, a certain variety of capitalism has significant influence on public policy in the field of labor policy, social protection, product markets regulation, etc. It is in the interest of a state to then create an environment with in-

⁹⁵ Bohle, D., Greskovits, B. (2007): Neoliberalism, Embedded Neoliberalism and Neocorporatism: Towards Transnational Capitalism in Central-Eastern Europe. *West European Politics*, Vol. 30, No. 3. pp. 443 – 466

⁹⁶ Feldmann, M. (2006): Emerging Varieties of Capitalism in Transition Countries: Industrial Relations and Wage Bargaining in Estonia and Slovenia. *Comparative Political Studies*, Volume 39 Number 7. Pp. 829-854

⁹⁷ Nölke, A., Vliegenthart, A.: Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe. *World Politics*, Vol. 61, Issue 4, October 2009, pp. 670 - 702

⁹⁸ Hall, P. A., Gingerich, D. W. (2009): Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis. *British Journal of Political Science*, Vol. 39. Pp. 449 - 482

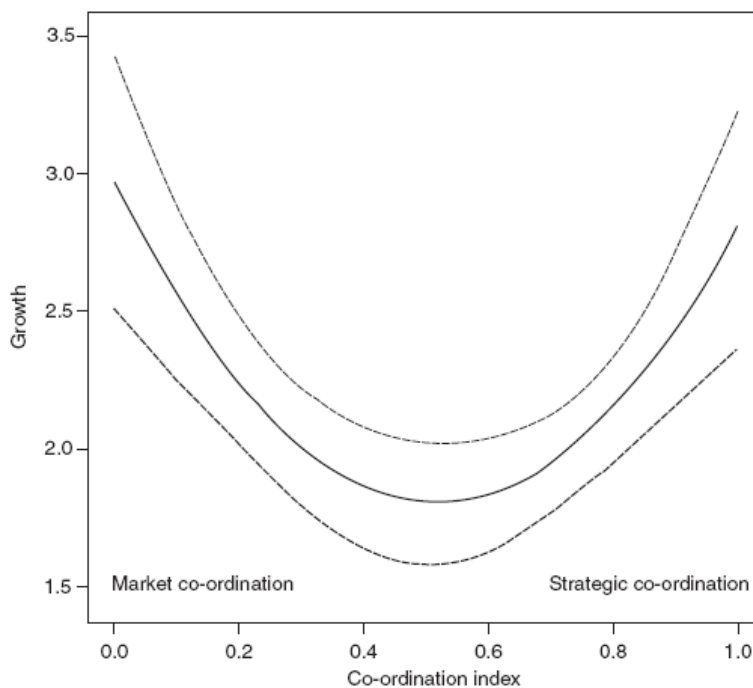
⁹⁹ Central and Eastern European states were not included in the test

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centives forcing actors to coordinate their relations to either way typical of the given national economy. Ensuring the compatibility of a legal environment with a type of societal embedment of capitalism should not only have an impact on the economy growth. Moreover the same policy measures might bring about different outcomes in the real world.

Graph 1:



Source: Hall & Gingerich (2009: 471)

Several studies have proven the point. As Thelen and Kume¹⁰⁰ highlighted, both Britain and Sweden underwent significant liberalization and deregulation of industrial relations. Although in Britain this was accompanied with the decline of unions, in Sweden it has brought about closer coordination within the export sectors of country's industry. Another set of studies¹⁰¹ has shown that impact of making central banks independent is different, hinging on the character of labor-wage relations.

The character of coordination within a national economy thus seems crucial in relation to public policy, its goals and outcomes. In order to measure the strength of coordination we have developed the indices that express the coordination of the firms and other agents in the central and eastern European economies.

¹⁰⁰ Kume, I., Thelen, K.: The Rise of Nonmarket Training Regimes: Germany and Japan Compared, *Journal of Japanese Studies*, Vol. 25, No. 1 (Winter, 1999), pp. 33-64

¹⁰¹ Iversen 1999; Hall & Franzese 1998

IV. Research Methods

National economies in Central and Eastern Europe has not been developing similarly in the past decades. In order to grasp the most possible differences among them we develop a numerical index that expresses the strength and type of coordination within national economies.

Departing from the VoC concept, measuring the co-ordination of firms and other actors directly is almost impossible. However, as Hall puts it “the nature of co-ordination depends on the type of institutions available to support it.”¹⁰² Therefore in the following analysis I focus on the observable and measurable evidence of institutional support expressed in the practice. The LME institutions provide incentives for different behavior than CME institutions. Thus measuring the observable behavior of actors within national economy should tell us more about both the institutional support and character of coordination itself.

Phase 1 of the actual research consisted of collecting data and creating a dataset to work with. Since the VoC concept does not specify what exact indicators are describing which coordination processes, I used the most known and reliable statistical databases and collected the indicators that fit the framework and are methodologically acceptable. Finally there are 18 variables included in the analysis, of which eight are referring to two core areas of VoC concept, and other ten variables refer to the remaining areas. A complete list of variables chosen, as well as the data source, definition and time of observation is available in appendix 1.

The collected data were coded to a scale from -1 to 1 according to the following logic. The closer a number moves to +1, the stronger is the indication for a non-market/strategic coordination, therefore an existence of CME model. This holds true vice versa: a move to -1 indicates capitalism embedded by market tools, thus LME. Values of every indicator were scaled separately the way that the value closest to the CME model was automatically assigned +1, the value closest to the LME model was assigned -1. The rest values were rescaled in order to preserve the distance between the observed variables.

This way of coding has several benefits. The fact that values of every indicator are coded separately into the same scale enables us to compare different units of measurement (e.g. per cents, dollars or grades). Another advantage is that this scaling system allows adding any country to the analysis in the future, or applying the same scaling system to completely different set of countries or regions. However, it is also important to have in mind a shortcoming of this technique. The analysis with a given dataset has a comparative character and relates only to the countries included. The analysis says nothing about relation to other countries or regions out of the dataset.

¹⁰² Hall, P. A., Gingerich, D. W. (2009): *Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis*. *British Journal of Political Science*, Vol. 39. Pp. 454

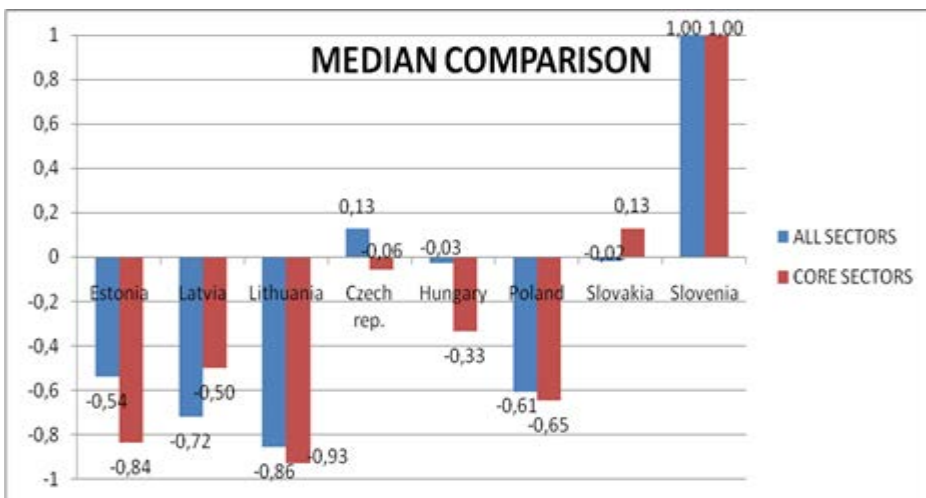
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Phase 2 of the actual research consisted of the statistical tests. Before testing the VoC concept with the dataset created it is important to define the character and type of social embedment of capitalism in the way that allows working with numbers. In compliance with the VoC concept liberal or coordinated model is represented by indicators grouping closer to -1 (LME) or to +1 (CME). Consequently, to determine the type of coordination mechanism I will apply an appropriate measurement of central tendency. In this case I have decided for an arithmetic average of median and mean. The reason for this is following. With a small dataset it is not appropriate to use only mean, because it might be considerably influenced by extreme value. On the other hand, using only median might belie the results as well. Countries with more than half of observed variables being the highest or the lowest would be automatically assigned ideal type. Therefore I consider an arithmetic average of mean and median being the most appropriate measure of central tendency for my set of data. Graph no.2 and graph no. 3 show the results of different central tendency measurement applied.

In order to test how strong the societal embedment of capitalism is I needed also to employ a measurement of variability of the data. The field of statistics provides us with considerable amount of tools to apply. For the purpose of this analysis I have chosen to work with two of them: Standard Variation and Interquartile Range. The latter one has two important advantages. While retaining the idea of variability it is not influenced by any extreme value (outlier). The Interquartile range not only measures the spread of the middle 50 % of an ordered set of value. Another very important feature of the interquartile range is that its easily visualized (if compared to variance, deviation, etc.) and thus enables understandable graphic comparison (via box plots).

Graph 2:

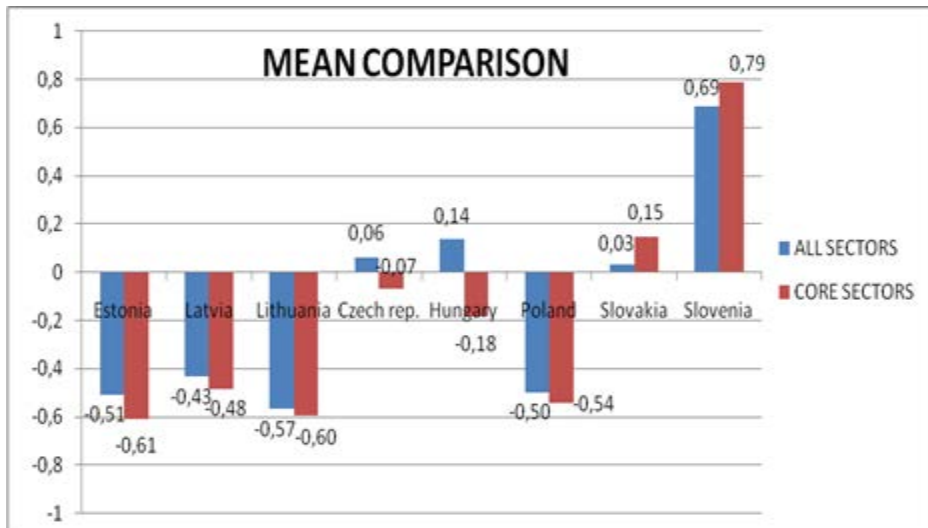


Source: author

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Graph 3:



Source: author

Another and very often used measure of spread is standard deviation. Standard deviation generally says how much are the values diverted from the sample mean and is widely used to measure the homogeneity of the data sample. According to the VoC concept, the more homogeneous the sample is, the stronger the coordination is no matter of its character. I am applying this measurement primarily as a control variable to check for the interquartile range.

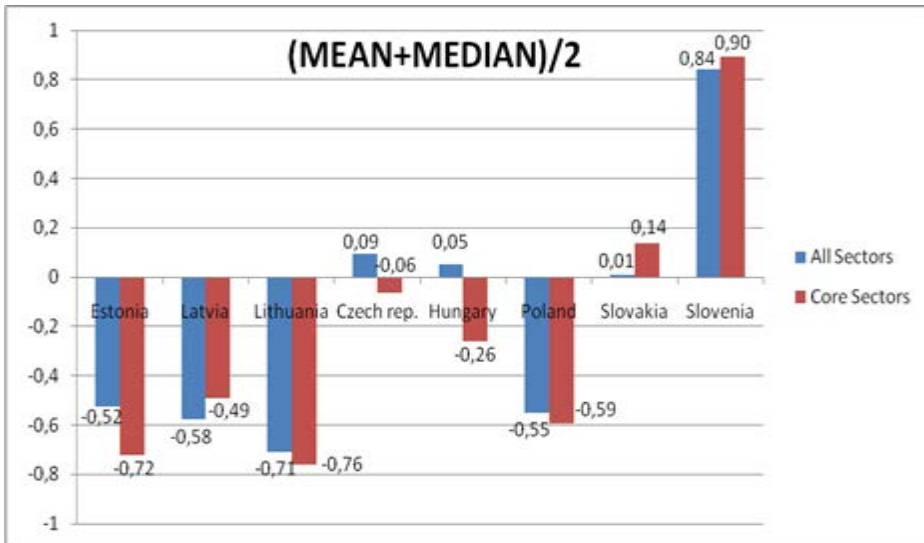
V. Research Outcomes

First comparison (graph 4) was designed to investigate character of co-ordination in Central and Eastern European countries. To make it more attractive, the graph below shows not only the indicators for all observed variables, but also separately the indicators observed in the “core sectors” of national economies.

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Graph 4:

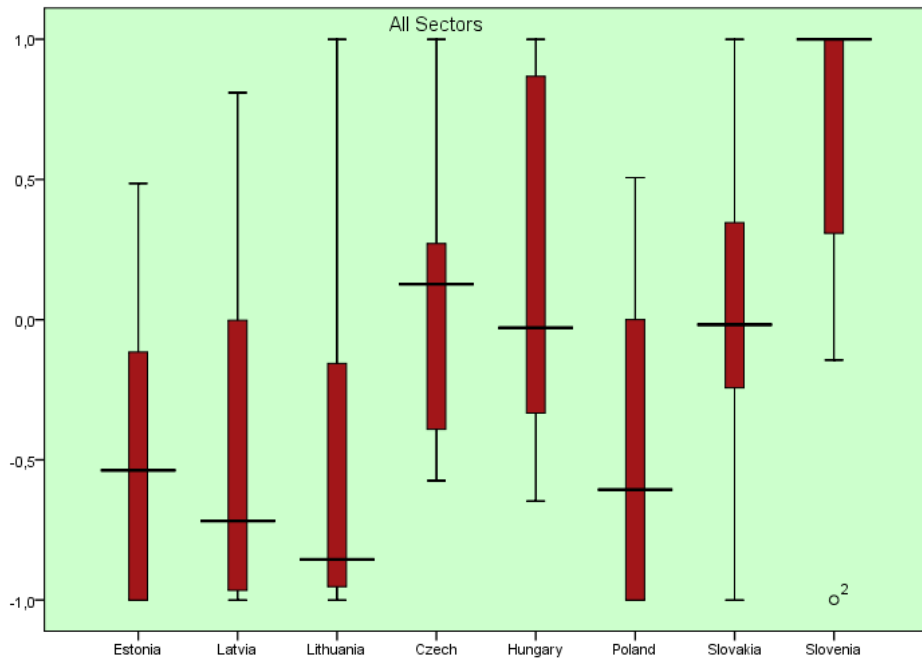


Source: author

The results of the tests confirm the hypothesis of Feldmann, Bohle & Greskovits and others who suggest that among the CEE states, Slovenia is actually the closest to the CME and the Baltic countries are the closest to the LME model. In order to investigate relations between different countries the datasets are visualized into box plots. To understand the graphs better, one can look at every box plot as a single national economy. The position of a box plot on the Y-axis shows the move to one of the capitalism embedment type (CME v. LME). The size of the "boxes" itself represents the interquartile range, thus enabling us to easily compare the strength of capitalism embedment.

Box plots in graph 5 confirm what is the most agreed on in the VoC literature on CEE countries: clear inclination of Estonia and other Baltic countries to LME and Slovenia to CME model. In order to make comparison more comprehensive and interesting, graph no. 6 shows the box plots using only the variables from the "core sectors" of national economies.

Graph 5:



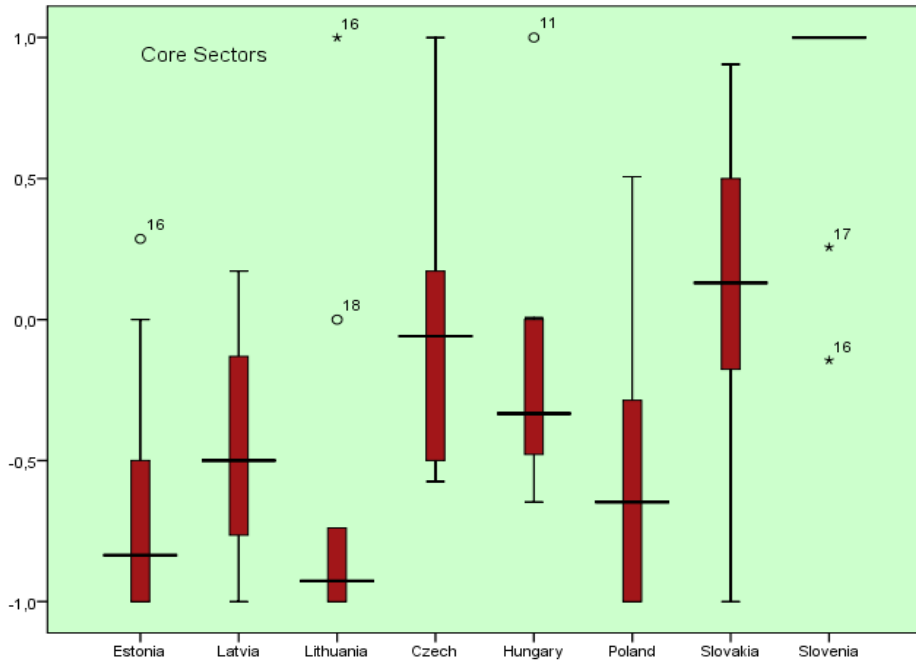
Source: author

The last step in my research was composing a single index that would combine the strength and character of co-ordination within a national economy. This was calculated the following way. A number expressing the character of co-ordination (measurement of central tendency) was divided by number representing the strength of co-ordination (measurement of variance). This way it is ensured that the stronger co-ordination we have, the higher index we get given a certain character of co-ordination.

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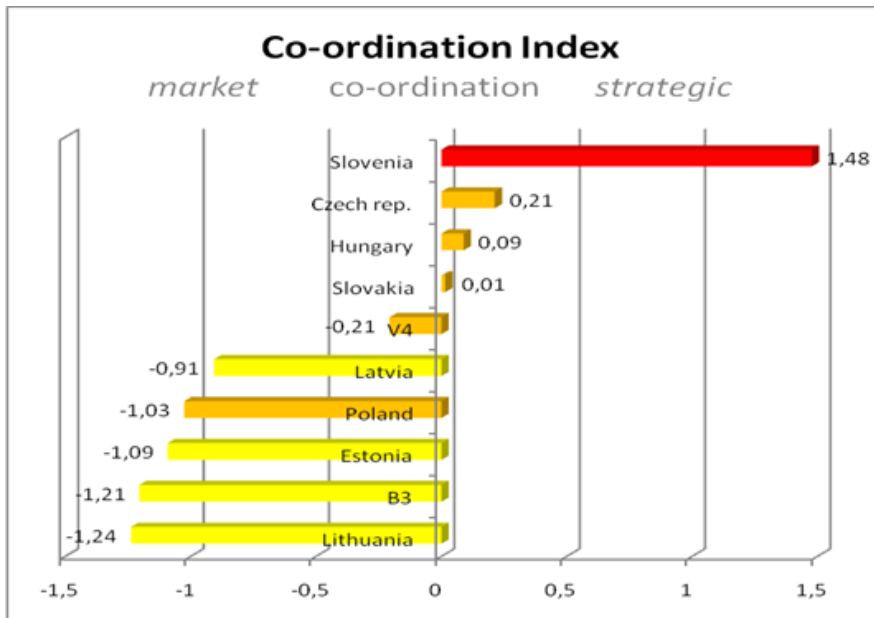
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Graph 6:



Source: author

Graph 7:



Source: author

VI. Conclusions

Several different statistical operations and tests showed that there are solid grounds for applying the VoC concept on the CEE region. Although a direct comparison to the Western and more developed countries such as Germany or USA is not feasible for more reasons, presented tests show that countries of Central and Eastern Europe have developed a variety of capitalism with the same functional logic and coordination mechanisms as the Western OECD countries. After applying VoC concept Slovenia shows many similar structural features with Germany. Mainly Estonia and Lithuania resemble USA model.

Although there is a minor shortcoming – the fact that the number of indicators collected is not definite, the benefit of universal applicability of this method could outweigh the shortcomings. Having in mind that there is still space to improve the research in many ways, I present the results of this study as a working version open to discussion. The future research might either enlarge the sample of countries or employ even more comprehensive statistical tools.

However, if we are assuming that we now know more about VoC in CEE, we might be able to investigate the relations between VoC and the public policies of the countries in question. Does the liberal market economy push for the liberal public policies in different areas? And does it have a stronger coordination impact on the economic performance of the countries? These are two key questions that are worth of further research. According to Hall and Gingerich¹⁰³ we could expect countries close to LME or CME model, e.g. Slovenia, Lithuania and Estonia to experience the fastest growth in the long run.

Operating with a single index that represents the co-ordination in CEE economies allows us doing more comprehensive tests using different outcomes of public policies or national economies itself.

One impulse for further research could be also looking back to 90s and find out how are the different capitalisms evolved and changed, if at all. Another interesting case to investigate is Poland and Latvia. Looking at the majority of indicators, the two countries are breaking the puzzle of regional fragmentation and are against the usual geographical categorization.

¹⁰³ Hall, P. A., Gingerich, D. W. (2009): *Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis*. *British Journal of Political Science*, Vol. 39.

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The research done, as well as the suggestions stated above has many limitations and imperfections. However, even if we forget about the terminology of CME and LME, it is more or less clear that the capitalism in eight countries of CEE have different structural features with considerable effect on public policy and economic performance. With index of co-ordination it will be easier to prove the links statistically in the future research.

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Appendix 1: List of variables used in statistical analysis

Indicator	Operationalization	Source	Year
Trade Union Density	Union members as percentage of all employees in dependent employment	EIRO / Eurofound	2006
Employer organisation density	Percentage of employees employed by companies who are members of an employer organisation	EIRO / Eurofound	2006
Collective bargaining coverage	(Percentage of employees covered by collective agreements	EIRO / Eurofound	2006
Workplace representation		EIRO / Eurofound	2006
Degree of bargaining centralization		EIRO / Eurofound	2006
Stock Market Capitalization	% of GDP	WB	2005
Dom. Credit provided by Banking Sector	% of GDP	WB	2005
High-Tech Exports	% of total EXP	Eurostat	2005
High-Tech Employ	share of total EMP	Eurostat	2005
Triadic Patents	00-03 avg per 10 million labor force	Eurostat	2000-03 avg
Gov expenditures on R&D	00-06 avg share of total	Eurostat	2000-06 avg
Social Protection Expend.	% of GDP, euro PPS	Eurostat	2000-04 avg
Shareholder rights protection index	reflects the shareholders' ability to mitigate managerial opportunistic behavior	ECGI	2005
Minority Shareholder protection index	regulatory provisions aimed at increasing the relative power of the minority shareholders in context of strong majority shareholder	ECGI	2005
Creditor Rights protection index	regulatory provisions that allow creditors to force repayment more easily, take possession of collateral, or gain control over firm in financial distress	ECGI	2005
Social Expenditures	(% of GDP)	Eurostat	2006
Youth unemployment*	less than 25 yrs; % of age group	Eurostat	2004
Per Capita Social Protection Expenditure		Eurostat	2000-03 avg

SHRINKING DISTANCES?

MAPPING THE ECONOMIC DISTANCE OF WORLD CITIES USING AIR TRAFFIC DATA

Gábor Dudás – Péter Pernyész

***Abstract:** The aim of this paper is to introduce a possible way to measure the economic distance between world cities focusing on the three global cities London, New York and Tokyo. We developed a database on a large number of leading world cities including measures of cost, distance, population and airport passenger numbers, and calculated the economic distance between them. Finally, these counted global airline data are mapped using conventional and GIS based mapping and analysis techniques.*

***Key words:** economic distance, global cities, air transport, GIS mapping*

Introduction

Movements of people, goods and information have always been elemental components of human society. Contemporary economic processes and developments in the transportation and communication infrastructures resulted in higher levels of accessibility in certain regions and contributed to a significant increase regarding people's mobility¹⁰⁴. As a consequence of this alteration, the notion of distance got into a new dimension. Due to the spreading of ever faster and cheaper means of transportation, the function of geographical distance is changing and losing on its role as the influential factor of economic and social life¹⁰⁵.

Therefore, the question may arise that as a consequence of space-shrinking technologies and the reassessment of the notion of distance, how far is it from A to B point actually. How long does it take to travel between these two points? What does it cost? The answers for these questions could be found in economic geography and regional economic studies since these fields often replace geographical distance with time distance (the time needed to cover distance) or with economic distance (the cost of transportation between two locations).

¹⁰⁴ Rodrigue, J.-P. – Comtois, D. – Slack, B.: *The geography of transport systems*. Routledge, London and New York, 2006

¹⁰⁵ Cséfalvay Z.: *Globalization 1.0*. Nemzeti Tankönyvkiadó, Budapest, 2004 (in Hungarian)

World cities located in the centre regions and the global networks they form and air traffic data on these regions offer one possible analytical framework to examine this spatial restructuring process. World cities - as the nodes of global transport networks and as the centers of world economy - control the flows of economic resources, people, capital, goods and information. For the operation of these global systems of flows, aviation can provide the only worldwide transportation network¹⁰⁶. Consequently, air traffic connections considerably influence the accessibility of a given region and its integration into world economy, as developed air transport connections make it possible to cover long distances quickly, contributing to people's mobility, facilitating short-term, long distance migration¹⁰⁷ and it is indispensable for increasingly growing tourism³. Nevertheless they have a determining role in operating the global economic and business connections.

The purpose of our research was to introduce a new method to measure the economic distance and accessibility between world cities using air traffic data. In our study the main question was what kind of spatial pattern stands out in the case of the three global cities (London, New York, Tokyo), if we take into consideration the economic distance instead of the geographical distance as a basis of a space forming factor. To represent these alterations we have compiled thematic- and isomaps which served as a base for our analysis.

In the first half of our study we summarize the usability of airline data in world city researches and the applied data gathering and processing methods together with our unique mapping techniques. In the second part of the paper we outline the economic distances of the three global cities (London, New York, Tokyo) and their accessibility to the other selected world cities.

I. Airline data in world city mapping

Recent developments in the world city research make it even more obvious that the cities' control function and their economic power can be correlated with their airport infrastructure and passenger numbers¹⁰⁸. This conception is confirmed by Keeling's (1995)¹⁰⁹ research, in which he emphasizes the usability and adaptability of air traffic statistics and identifies five fundamental reasons to draw on this statistics for analyzing world city networks:

1. global airline flows are one of the few indices available of transnational flows of inter-urban connectivity
2. air networks and their associated infrastructure are the most viable manifestation of interactions between world cities

¹⁰⁶ ATAG – Air Transport Action Group.: *The economic and social benefits of air transport 2008*. Geneva, Switzerland, 2008

¹⁰⁷ Button, K. – Vega, H.: The effects of air transportation on the movement of labor. *Geojourna.*, 2007, vol. 71, pp. 67-81

¹⁰⁸ Derudder, B – Witlox, F.: Mapping world city networks through airline flows: context, relevance, and problems. *Journal of Transport Geography*. 2008, vol. 16, pp. 305-312

¹⁰⁹ Keeling, D.J.: *Transport and the world city paradigm*. In Knox, P. and Taylor, P. (eds) *World cities in a world system*, 1995, pp. 115-131. Cambridge University Press, Cambridge

3. great demand still exists for face to face relationships, despite the global telecommunication revolution
4. air transport is the preferred mode of inter-city movement for the transnational capitalist class, migrants, tourists, and high-value goods
5. airline links are an important component of a city's aspirations to world city status

After Keeling (1995)¹¹⁰, several researchers started to examine the world city network using air traffic data. Smith and Timberlake (2001, 2002)^{111,112} analyzed world cities using the passenger numbers of the prime airports, while Matsumoto (2004, 2007)^{113,114}, besides passenger and freight traffic, took other factors (GDP, population, distance, dummy variables) into consideration and he created the schematic map of world cities and air traffic networks connection-system by the help of these indexes. Zook and Brunn (2006)¹¹⁵ applied a different approach and by using statistics of ticket price, distance, flight time, flight frequency, they determined alterations in the world city hierarchy.

The most important advantage using air traffic statistics compared to former studies is that we can base our research on exact connections, on exact flows between cities. However the use of this kind of data is criticized. Researchers identified three deficiencies due to the adaptation of these statistics.^{116,117} In the first case, the lack of origin/destination information can be observed, which may result in distorted results, as the role of cities functioning as airline hubs (for example Amsterdam, Frankfurt), meaning that the majority of air passenger traffic flows across these cities, is overestimated; see in Keeling (1995)¹¹⁸. The second problem is that most of the statistics contains data only about international connections (see in Rimmer 1998)¹¹⁹, accordingly important connections such as Los Angeles-New York or New York-Chicago were absent, so it resulted in the downgrading of US American cities in particular. The third obstacle in air traffic statistics is that most of them

¹¹⁰ See Keeling. op. cit., note 6.

¹¹¹ Smith, D.A. – Timberlake, M.F.: World City Network and Hierarchies, 1997-1997: An Empirical Analysis of Global Air Travel Links. *American Behavioral Scientist*. 2001, vol. 44, pp. 1656-1678

¹¹² Smith, D.A. – Timberlake, M.F.: Hierarchies of dominance among world cities: a network approach. In Sassen, S. (eds.) *Global Networks, Linked Cities*. 2002, pp. 117-141. Routledge, London

¹¹³ Matsumoto, H.: International urban systems and air passenger and cargo flows: some calculations. *Journal of Air Transport Management*, 2004, vol. 10, pp. 241-249

¹¹⁴ Matsumoto, H.: International air network structures and air traffic density of world cities. *Transportation Research Part E*, 2007, vol. 43, pp. 269-282

¹¹⁵ Zook, M. – Brunn, S.: From poles to antipodes: New dimensions in mapping global airline geographies. *Annals of the Association of American Geographers*. 2006, vol. 96, pp. 474-490

¹¹⁶ See Derudder – Witlox. op. cit., note 5.

¹¹⁷ Derudder, B. – Witlox, F. – Faulconbridge, J. – Beaverstock, J.: Airline data for global city network research: reviewing and refining existing approaches. *Geojournal*. 2008, vol. 7, pp. 5-18

¹¹⁸ See Keeling. op. cit., note 6.

¹¹⁹ Rimmer, P.J.: Transport and telecommunication among world cities. In Lo, F.-C. – Yeung, Y.M. (eds) *Globalization and the World Large Cities*. 1998, pp. 433-470. United Nations University Press, Tokyo

contain general flow data. Thus cities (see in Kunzmann 1998)¹²⁰ which have no world city function according to air passenger numbers but are important tourist destinations (like Palma de Mallorca), generating notable passenger traffic, became overrepresented.

Considering the academic literature, we decided to follow the approach and methods of Zook and Brunn (2006)¹²¹, which permitted us to eliminate the former mentioned critics about air traffic data. So our research was not based on air passenger flows, but on air traffic data (ticket price, number of transfers, flight time) queried from the internet. After the data gathering we compiled thematic and dynamic maps to visualize the new spatial patterns.

II. Methods and Data

We started our study with the selection of our analytical units (world cities), then the three hub cities (the cities which were the departure airports during the query) were appointed. First of all we compiled a primary database using academic literature^{122,123} and international statistics^{124,125} which contained 175 cities. In the next phase we selected the most important 100 world cities from the preliminary database. To be able to rank the cities, we worked out a complex indicator system, in which cities were represented by their population, their role in world economy and their passenger traffic. In each index, we used a standard descending scoring system, so in each category the most important city received 175 points while the less important 1 point was given. By the compilation of the first index we took into consideration the agglomeration population of the cities (www.citypopulation.de) reflecting the situation on 1 Jan 2010. The second index is representing the cities' role in the world economy, for this we adopted the world city ranking made by the Globalization and World Cities Research Group¹²⁶. The third index was counted using the passenger traffic of the cities' airports¹²⁷. In those cities where more than one airport is transacting notable scheduled air passenger traffic, we summed the passenger numbers of each airport. So for example the passenger traffic of London is calculated summing up the passenger numbers of Heathrow, Gatwick, Stansted and Luton airports. The aggregation of the three indicators resulted in a rank between the 175 cities and the best 100 were chosen into further research. The regional distributions of the selected cities were as follows: Europe (32), North America (23), Far East (22), Central- and South America (8), Africa (6), Middle East and Southwest Asia (5), Oceania (4).

¹²⁰ Kunzmann, K.R.: World city regions in Europe: structural change and future challenges. In Lo, F.-C. – Yeung, Y.M. (eds) *Globalization and the World Large Cities*. 1998, pp. 37-75. United Nations University Press, Tokyo

¹²¹ See Zook – Brunn. op. cit., note 12.

¹²² Beaverstock, J.V. – Taylor, P.J. – Smith, R.J.: A roster of world cities. *Cities*. 1999, vol. 16, pp. 445-458

¹²³ GAWC – Globalization and World Cities Study Group and Network: *The world according to GaWC 2008*. Loughborough University, 2008

¹²⁴ ACI – Airports Council International: *World Airport Traffic Report 2006*. ACI World Headquarters Geneva, 2006

¹²⁵ www.citypopulation.de

¹²⁶ See GaWC. op. cit., note 20.

¹²⁷ See ACI. op. cit., note 22.

During the determination of the hub cities, we represented all the three economic centers of North America, West Europe and Pacific Asia, therefore those cities were chosen, which had the best index in the given region from the list of the 100 cities. So our hub cities were Sassen's¹²⁸ three original global cities: London, New York and Tokyo.

In the next phase of our study we queried air traffic connection data of the hub cities. First of all the already existing ticket price databases¹²⁹ were examined, however, we realized that they were not freely available for researchers, do not contain sufficient information and are also incomplete. Thus we queried data from the internet, which is also accepted by academic literature^{26,130}. We investigated the available ticket search engines and our decision fell on www.orbitz.com – a global distribution system's (GDS) interface – because it displayed the most applicable information and has the most userfriendly interface for a manually made data query. The data survey was on 1 Feb 2010 - to minimize the manipulating effect of tourism - and the queries were constructed for round trip flights leaving on 1 Mar 2010 and returning on 8 Mar 2010. The data collection concerned traffic data between each of the three hub cities and the selected 100 city, which contained the lowest fares and flight time, the departure-, transfer- and arrival airports, as well as the fares of the shortest flights.

To visualize and handle the queried data we used a GIS system - in our case the ESRI ArcGIS 9.3 and their tools – to make batch processes on our data tables. Accordingly we called down the former selected 100 world cities geographical coordinates from Google Earth, transformed them into WGS84 projection system and depicted the cities on a vector based world map which was chosen to be the basic map in this research.

After depicting the cities on our basic map, we had to calculate the economic distance between them, so we also took the former research methods^{131,132} into consideration by the determination of our unique method. After adopting some methodological elements we defined the economic distance (e) between world cities using the collected and calculated data of ticket prices (p), geographical distance (d) and map base ratio (r). In the course of the data survey we have already collected the first parameter (ticket price). Nevertheless we had to create three further databases to determine the geographical distance, and by using the Geodesic Tools application we calculated the Euclidean distance between the hub cities (London, New York, Tokyo) and the destination cities. To define the next parameter the map base ratio, we had to determine the costs of 1km travel from "A" city to "B" city. By the determination of the map base ratio, after analyzing the queried data and the academic literature^{133,134,135,136} our choice fell on the three most important city-pair

¹²⁸ Sassen, S.: *The Global City*. Princeton, NJ: Princeton University Press, 1991

¹²⁹ Burghouwt, G. – van der Vlier, A. – de Wit, J.: *Solving the lack of price data availability in (European) aviation economics?*. ATRS World Conference, Berkeley, USA, 2007

¹³⁰ See Zook – Brunn. op. cit. note 12.

¹³¹ Csizmadia N. – Csuták M.: A légi közlekedés globális kontinensvándorlása. *Turizmus Bulletin*. 2004, vol. 8, no. 3, pp. 47-52. (in Hungarian)

¹³² Móricz Á. – Dudás G.: *Accessibility and global hierarchy of cities – air traffic connections between Budapest and other world cities*. Topical Issues in the Urban Geography, Savaria University Press, Szombathely, 2010, pp. 153-164. (in Hungarian with English summary)

¹³³ See Derudder et al. op. cit., note 14.

¹³⁴ See Keeling. op. cit., note 6.

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connections (NYC-LON, NYC-TYO, LON-TYO). Firstly (1) we defined the city-pair scales (s) in the three connections using the ticket prices and the geographical distances of the cities. Secondly, (2) we summed the three city-pair scales, took the average of summed value and we got the map base ratio. Finally (3) defined the economic distance in each city-pair using the map base ratio.

$$1, s_{(i)} = p_{(i)} / d_{(i)}$$

$$2, r = (s_{(NYC-LON)} + s_{(NYC-TYO)} + s_{(LON-TYO)}) / 3$$

$$3, e_{(i)} = p_{(i)} / r$$

Having used the calculated economic distance values we determined the new coordinates of the destination cities and depicted them on our world map. With the help of the Military Analyst Tools we interconnected the geographical location of hub cities with the calculated virtual location of the destination cities and marked the positive or negative shifts of the cities with a distinct signal code. In the consequence of the WGS84 projection system on our map the lines representing the shifts were not straight but curved, because in this case the projection of the globe is pictured on our even world map.

To depict the air accessibility of the world cities we used kriging, an advanced geostatistical procedure, but in our case ticket price was adapted to the given point instead of the altitude value of the selected points. This process resulted in a more detailed “pricesurface” than the usually used interpolation procedures.

III. Economic distance of the leading world cities to the other world cities

During our study by considering the cheapest flights and air accessibility we examined the economic distance of London, New York and Tokyo and our results were represented on thematic- and isomaps.

Economic distance

Having examined the economic distance of the hub cities we outlined different spatial patterns. In all three cases (North America, Europe, Far East) sharp regional characteristics can be observed. The most favorable picture shows London (Fig. 1). Analyzing the regional level we came to the conclusion that North American and Asian cities “are moving closer” to London, South American and African cities show a mixed picture, while European cities “are getting farther” from London. In North America this “getting closer” dominance

¹³⁵ See Matsumoto. op. cit., note 10.

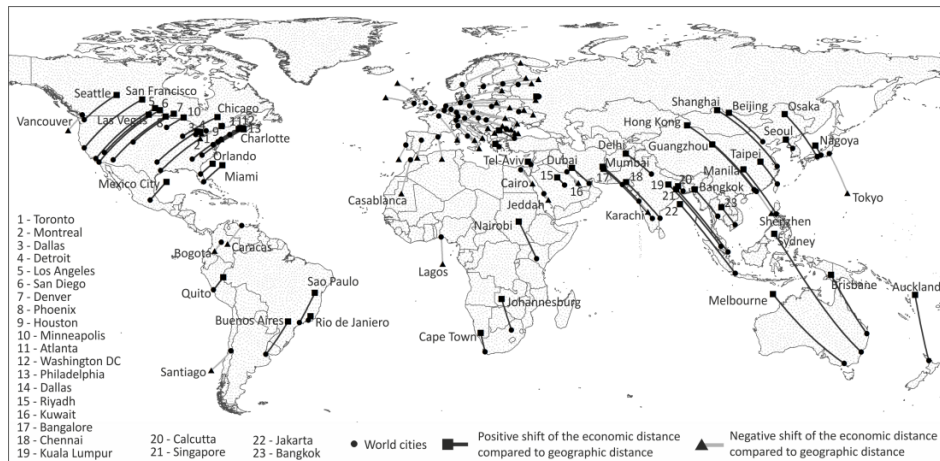
¹³⁶ See Matsumoto. op. cit., note 11.

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is the peculiarity of the US American cities, since the Canadian world cities (Montreal, Toronto, Vancouver) “are getting farther”. In Europe due to its conditions of transport geography and the increasing role of economies of scale in air transport industry - which is in short distance flights more dominant – an economy threshold line (ETL) is outlined (as in the case of Budapest see Móricz and Dudás 2010¹³⁷). This ETL circle can be drawn at a distance of 1900-2300 km around London (Fig. 2), so all of the cities inside this ETL show negative shift, and only the cities which are located outside this value limit show positive shift (like Athens or Moscow). In South America and Africa the cities indicate remarkable positive tendencies, which cities possess gateway functions for national and regional markets like Sao Paulo/Brazil, Buenos Aires/Argentina or Johannesburg/South Africa and as Taylor (2004)¹³⁸ has already established that they are highly connected non-command centres and are classic gateway cities of contemporary globalization.

Figure 1.: Economic distance of world cities considering the cheapest flights (London)



Source: edited by the authors

Examining the settlement level we can state that the two Australian cities Sydney and Melbourne “are getting closer” to London to the greatest extent. According to our calculation Sydney is one third closer (5618 km) while Melbourne is one fourth closer (3662 km) virtually to London than their geographical distance. These two cities are followed by five Asian cities (Jakarta, Hong Kong, Singapore, Kuala Lumpur, Shanghai) which “are getting closer” on the average of 3000 km to London. These tendencies depict the increasing economic role of this region and the strong relationship between the British and the Far East economies.

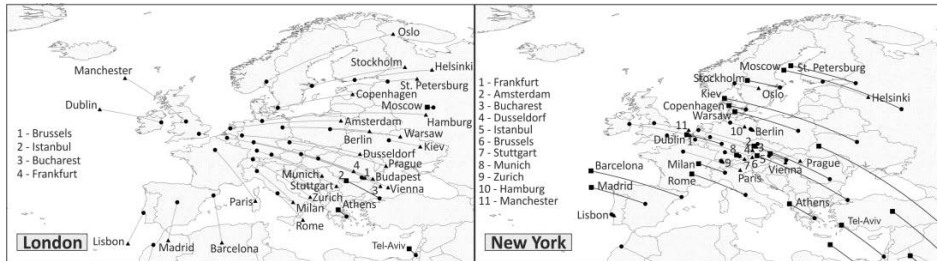
¹³⁷ See Móricz – Dudás. op. cit., note 29.

¹³⁸ Taylor, P.J.: *World City Network – A Global Urban Analysis*. Routledge, London, 2004

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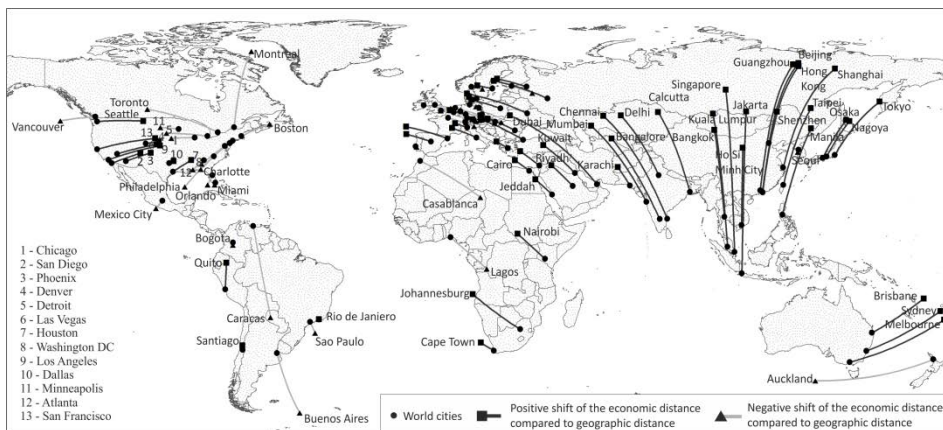
Figure 2.: Economic distance of world cities considering the cheapest flights in Europe (London, New York)



Source: edited by the authors

In the case of New York (Fig. 3) the picture is more complex: all of the cities of the Asian and Oceanian region “are getting closer” (except Auckland), while the other regions show a mixed picture. Similarly to London, on the North-American continent an ETL can be also outlined around New York and its distance from the American metropolis is around 1900-2200 km. In Europe unexpected mixed structures became distinct. In Western Europe’s core region, the cities show negative shift – except Frankfurt am Main, the financial center of the German economy – and “get farther” at a distance of approximately 6600 km from New York. On the contrary, Eastern European and Southern European cities show remarkable positive shifts.

Figure 3.: Economic distance of world cities considering the cheapest flights (New York)



Source: edited by the authors

If we investigate the local level, New York’s gateway function to the Far East region stands out strongly. From the 20 cities – showing the greatest positive shift – 18 are located in the Far East region. The remaining two cities are from Oceania, namely Sydney and Melbourne. From New York to the Asian region the most favorable ticket prices were to Singapore and to Jakarta. According to our calculation the economic distance of these two cities decreased with one third correlating to the geographical distance.

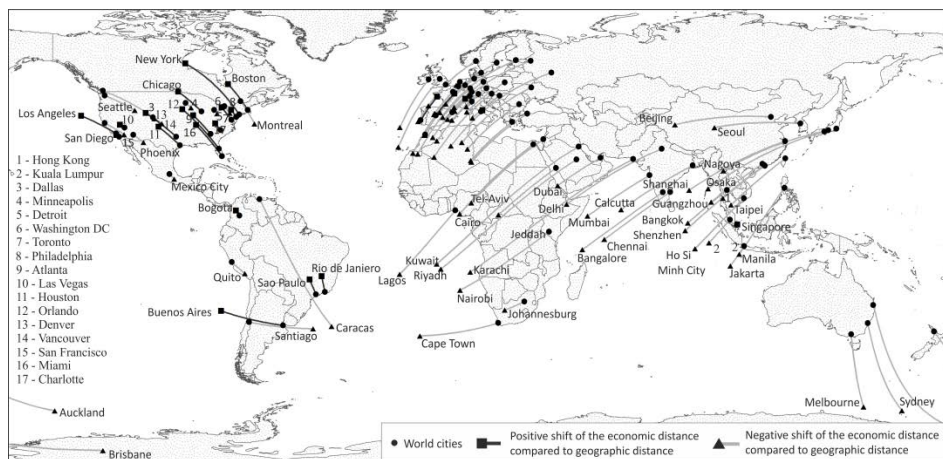
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Studying the cities accessible from Tokyo (Fig. 4) we can notice a “getting farther” dominance, excluding North America where a mixed picture can be found. In contrast with London and New York, in the case of Tokyo no ETL is outlined inside the Asian continent. This might be due to the fact that this region is not as homogenous as the other core regions, the differences in development are much greater, the effective demand and the density of flights is lesser than in the western countries.

Examining the local level, a “getting closer” dominance of the US American cities can be observed and as in the case of New York we marked a strong economic relationship between the American cities and the Asian region, too. During our research period, New York seemed to have the best cost/distance rate from Tokyo, and according to our calculation it got virtually closer to the Japanese capital with 2444 km. We can observe a “getting closer” phenomena in two further regions. In Europe three cities of the Iberian Peninsula (Lisbon, Madrid and Barcelona) “are getting closer” on the average of 1000 km. Similar processes happen at the eastern part of Latin America, where Buenos Aires shows a 2000 km positive shift, while Rio de Janeiro and Sao Paulo an average of 600 km.

Figure 4.: Economic distance of world cities considering the cheapest flights (Tokyo)



Source: edited by the authors

Examining the settlement levels of London, New York and Tokyo together, fundamental similarities appear in the formation of economic distance. All of these hub cities shows a strong relationship with Jakarta (gateway of the Indonesian economy) and, in the case of London and New York, this Indonesian city has the best “getting closer” index in the Asian region. Meanwhile Jakarta is “getting farther” from Tokyo, still the rate of this is the smallest among the world cities in Far East.

Considering the North American cities a negative shift of Canadian cities (Montreal, Toronto, Vancouver) can be seen in all three regions. Furthermore in the case of New York this distortion to negative direction can not be explained with the existence of ETL since

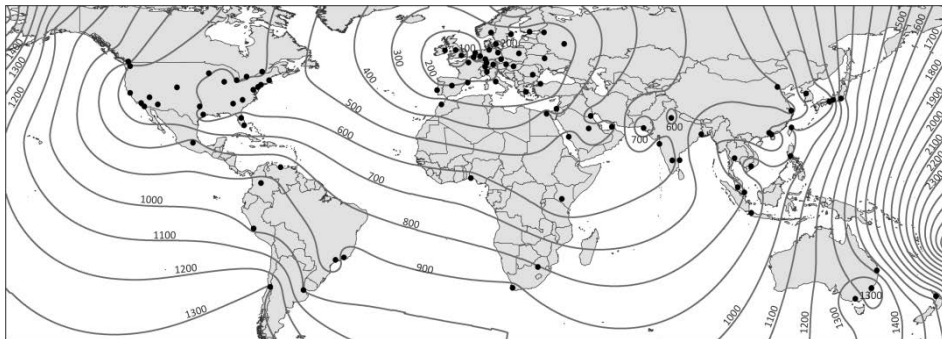
this virtual threshold value is exceeded by 1500 km in the case of Montreal and 500 km in the case of Toronto.

Accessibility

The geography of global network connectivity and accessibility is a well researched topic. The majority of these researches emphasize the North to South divide^{139,140}. The cities with higher level of connectivity are located in the three core regions like Northern America, Western Europe and parts of the Far East region, while the cities with lower connectivity are in the southern part of the globe. In our research we aimed to show a more detailed picture and were focusing on the connectivity of the three hub cities. We were investigating the accessibility of world cities from a special point of view: how far can we fly from a hub city spending a certain amount of money on plain tickets.

On the accessibility map of London (Fig. 5) it can be noticed that world cities of Europe are within the 300 US dollar isoline, which is not reflected in the accessibility index, even if a remarkable distortion was experienced at the economic distances within Europe (Fig. 2). The other two economic core regions (North America and Far East) are showing definitely good values, as the cities of the eastern coast of America are inside the 500 US dollar isoline, while the western coast cities are inside the 600 US dollar zone. The Far East region shows a more complex picture, but the most influential cities of this region are inside the 800 US dollar accessibility zone anyway.

Figure 5.: Accessibility of world cities from London (in US dollar)



Source: edited by the authors

In the case of New York (Fig. 6) the US American cities are located within the 300 US dollar zone, however this map does not show the strong connections between New York and the cities of the Far East noticed at the economic distance map (Fig. 3). Whilst Chinese cities Beijing and Shanghai together with Hong Kong are inside the 900 US dollar isoline,

¹³⁹ See Taylor. *op. cit.*, note 35.

¹⁴⁰ See Zook – Brunn. *Op. cit.*, note 12.

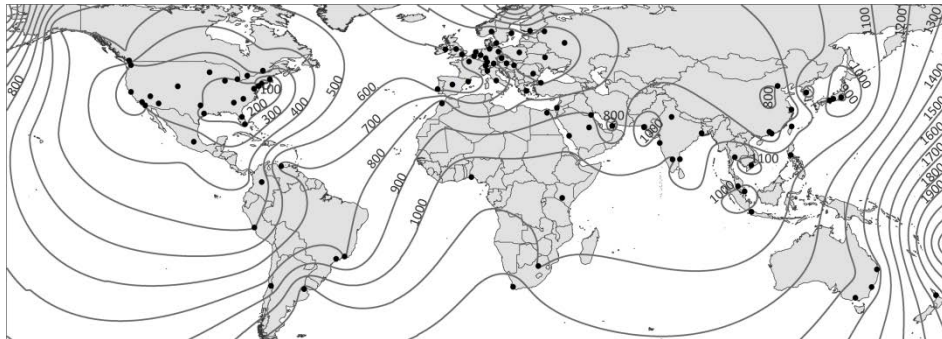
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Tokyo is forming lower priced island in a higher price category zone. However the other world cities are located outside the good accessible zones, moreover some Far East cities (e.g. Seoul) are outside the 1200 US dollar zone.

World cities are slightly different from the accessibility relation of London and the North American cities. While the farthest US American city is available from the British capital for 600 US dollar, starting from New York the European cities can be reached for a higher price, approximately 700 US dollars. This 700 US dollar zone, in an offshoot-shape, covers the whole European continent.

Figure 6.: Accessibility of world cities from New York (in US dollar)



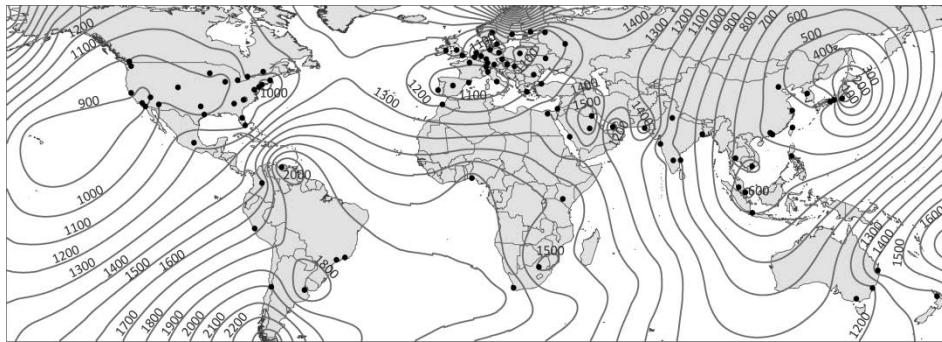
Source: edited by the authors

Tokyo's accessibility indexes (Fig. 7) are reflecting not such positive tendencies than it was noticed at the economic distance map (Fig. 4). As opposed to the former two hub cities, Tokyo possesses very low accessibility rate in his own region and most of this region's world cities are between the 300 US dollar and 800 US dollar zone.

The European continent appears like an island on the map bordered by a 1200 US dollar isoline while the American continent shows a mixed picture. The western coastal cities are in the 900 US dollar zone but the eastern coastal ones were only accessible outside the 1000 US dollar zone.

In the case of Tokyo, as in the case of London and New York, some extreme values stand out too. Only the Oceanian region had extremely high accessibility rate primarily because of Auckland. The whole South American continent and the western half of Africa belong to this zone.

Figure 7.: Accessibility of world cities from Tokyo (in US dollar)



Source: edited by the authors

IV. Conclusions

Contemporary globalization processes alter the notion of distance and by the developments in the field of transport- and communication infrastructures it contributes to the increasing role of the economic distance. During our study it was proven, that air traffic data can provide an appropriate framework for measuring economic distance and analyzing accessibility.

Thematic- and isomaps - representing the different spatial structures of world city formations in the aspect of economic distance - were the result of the research. On the basis of the study London possess the best connectivity rates from the three cities of the economic core regions, the second place goes to New York with also favorable positive shifts, while in the case of Tokyo negative tendencies turn up, as several world cities show significant negative shifts.

The global air accessibility of world cities was the focus of the investigation of the isomaps. The previously defined North to South divide and the better accessibility rates of cities at the core regions are confirmed by this study as well. The air accessibility maps of the three hub cities show intense similarity with the former conducted global network connectivity researches^{141,142,143} and enhance the establishment that London and New York are the most connected service nodes in the world³⁹. As a consequence of this, the North American and the European region forms - in the aspect of accessibility of London and New York to the other world cities - a standard, homogeneous zone. On the other hand Tokyo's accessibility rates show declining tendencies and both Hong Kong and Singapore has also overtaken Tokyo in terms of connectivity³⁹.

¹⁴¹ Derudder, B. - Taylor, P.J. - Ni, P. - De Vos, A. - Hoyler, M. - Hanssens, H. - Bassens, D. - Huang, J. - Witlox, F. - Shen, W. - Yang, X.: Pathways of Change: Shifting Connectivities in the World City Network, 2000-08. *Urban Studies*. 2010 vol. 47. pp. 1861-1877

¹⁴² Pain, K.: *London - The Pre-eminent Global City*. GaWC Research Bulletin 328, 2009

¹⁴³ Taylor, P.J.: *Competition and Cooperation Between Cities in Globalization*. GaWC Research Bulletin 351, 2010

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Answering the question raised in the introductory part of the study, the analysis of the economic distances of the three hub cities reveals the different characteristics of the regions. London has strong relationships with the other two economic core regions, so the cities in these regions show notable positive shift. Meanwhile in Europe a negative shift towards the ETL is dominating. Regarding all the regions New York shows a mixed structure but the cities of Far East make a positive shift. Similarly to London the ETL is to be found also in the American continent. Tokyo possesses the weakest connections as none of the core regions is “getting closer” but significant connections remained with the important North American world cities.

This investigation is the first phase of a greater research. In the next step we plan to supplement our findings with additional dataset, to look deeper into the global processes outlined in this study. Besides this, a second data survey is made to compare the economic distance of the world cities at two different times (winter, summer) and this will be supplemented with a time-distance analysis to get a more detailed picture.

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TOWARDS A COLLECTIVE MEMORY OF SOCIALISM?

GROUNDING THE DISCURSIVE PRODUCTION OF HUNGARIAN AND CZECH POST-COMMUNIST ANTI-COMMUNISM

Zoltán Dujisin

***Abstract:** In spite of the demise of communism, anti-Communism has become a key competitive political dimension in which current political debates are framed in Central-Eastern Europe, often under 'democracy-building' justifications. However, Post-communist anti-communism is better explained by actors' motivation to gain political and moral capital. A specific constellation of historical, institutional and transnational conditions have allowed the Czech right to impose a 'regime of truth', whereas in Hungary 'contested memory' prevails.*

***Keywords:** Memory, Anti-Communism, Intellectuals, Hungary, Czech, Transnational*

Introduction

In maintaining a discourse on the significance of the memory of socialism in public discourse, the Right-wing elite and its associated intelligentsia in Hungary and the Czech Republic found a competitive political dimension maintains the momentum of transition and brings dividends in terms of political and moral capital. As the Right-wing 'memory' intelligentsia frames key and contentious political issues according to attitudes towards the socialist past, it reminds the public of its own role in thwarting a return to 'rule by communists' and enhances its ability to de-legitimize those political rivals ideologically or institutionally associated with communism. Thus, a completely new form of anti-communism emerges in the post-communist context, one which differs from dissident anti-communism in its nature and objectives and is here defined by de-legitimizing tendencies against competing democratic alternatives.

The need for politics of memory has been justified as a safeguard to democracy. This has, in most of the region, been an exclusive prerogative of the Right, benefiting from a moral capital and historical legitimacy that the region's left lacks due to public perceptions of its promiscuity with the socialist regimes and its cadres. These developments often con-

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trast with the non-communist post-authoritarian experience of other European nations, such as Portugal. After a short post-revolutionary spell in which many radical demands were made, the Portuguese political elite, whether right or left, has not associated the quality of democracy to the intensity of politics of memory, alleged nostalgia for the past, or to public awareness of the previous regime's crimes. This begs the question as to the actual roots of memory politics, and whether in Central-Eastern Europe they represent an attempt at institutionalizing a collective memory of socialism under the guise of democracy-building¹⁴⁴.

The two primary cases chosen here, the Czech Republic and Hungary, and the secondary case, Portugal, subjectively follow the trajectory of this author who has studied and lived in these countries, and their similar size and population. But the primary comparison is also pertinent in view of the two countries' similar level of geopolitical integration in Western institutions, intellectual participation in their transitions and past attempts at reforming the socialist system. Both have been pointed as frontrunners in democratization and/or market reform.

I argue that in spite of similarities in the countries' Right-wing intelligentsias' efforts at institutionalizing socialist memory, a specific constellation of conditions has allowed Czech right-wing elites to politically maximize the symbolic capital of anti-communism, allowing its interpretative frames to attain a quasi-monopolization of the public sphere. This was achieved through the pursuit of a 'politics of truth', which has consisted of a dominant and persistent framing of contested political issues under the logic of a collective memory of socialism within a broader and coherent framework of identity and civilizational struggles. This quasi-monopoly is visible in both Czech printed media and think tanks, which overwhelmingly privilege access to specific intellectual resources aligned to the right. Such 'regime of truth'¹⁴⁵, which Foucault never equaled to a totalitarian domination of discourse but rather one which takes common-sensual contours in democratic states and is supported by an entire 'truth' apparatus, has not been observed in Hungary, where framing under the logic of a collective memory of socialism has been unable to produce an equally monopolistic and coherent anti-communist discourse, resulting in a social and political atmosphere of 'contested memory'.

At this point it should be noted these differences do not translate in claims that the Czech right has been or will be electorally more successful than the Hungarian right. Nor do I want to argue that ideas are the driving force of politics: Observing and describing these differences in discourse would constitute a merely descriptive exercise, thus discourses need to be accounted for in terms of the institutional and transnational mechanisms that maintain it.

¹⁴⁴ 'Collective Memory' is not understood as the collection of individual memories or a shared public memory which connects an imagined community, but rather as an ideal-typical concept to which the ambitions of specific political-intellectual elites are directed. Thus 'Collective Memory of Socialism' signals the goals behind a specific framing of contentious issues, and not an actual, tangible reality.

¹⁴⁵ Foucault, M.; *Power/Knowledge: selected interviews and other writings, 1972-1977*; New York, Pantheon, 1980

II. Research Question and Hypothesis

These considerations take me to my main research question, which asks: What are the historical, socio-institutional and transnational factors that created a regime of truth in the Czech Republic but not in Hungary? It is by explaining the influence of the following explanatory factors that I hope to provide a weighed answer:

- a) Historical 'raw materials' which provide an assortment of symbolic devices for the production of anti-communist discourse and for its setting in broader civilizational struggles.
- b) Socio-institutional legacies of socialist regimes and their successors, as well as the alliances and strategies of elite groups and the social cleavages they interacted with.
- c) Transnational factors which had a prominent influence in terms of intellectual affinity, financial backing and counseling. The relation between these links and broader geopolitical processes of the region's integration into the global market economy can also help elucidate the substantiation of anti-communist discursive production.

I hypothesize that the institutional structure of state socialist regimes and the interactions it engendered between cadres, technocrats and intellectuals created diverging incentives and constrains for post-communist alliances. Anti-communism was the ideology of the managerial-intellectual alliance in the Czech Republic, where the communist party bureaucracy was less accommodative towards the intelligentsia, whereas in Hungary a more accommodative regime and the existence of other relevant cleavages meant that the managerial class found it preferable to remain in the communist successor party, making anti-communist rhetoric undesirable. In both countries the managerial-intellectual alliance resulted from their mutual dependence: Managers could grant intellectuals the resources they require for intellectual production, whereas intellectuals were in possession of much sought-after moral and symbolic capital. Therefore the relative dominance of anti-communist discourse is linked to the resources its proponents could amass for discursive production by way of links with capital endowed actors at home and abroad. But the direct and indirect links of members of this alliance to international capital and networks did not result merely in strengthening a domestically engendered discourse; it also set limits and created opportunities for the precise nature of these discourses and socio-political perceptions of their legitimacy.

As a broader theoretical implication, I argue that ideologies may draw from specific historical experiences and intellectual contributions, but their propagation and substantiation into consistent and sustained discourses requires an infrastructure of social and financial capital, as well as institutions, which should be the focus of any inquiry of ideological processes.

III. Literature Review

Benoit and Laver¹⁴⁶ have shown that one of the key left/right predictors in the region spurs from attitudes towards former communists, meaning this competitive dimension has been deeply assimilated by post-communist political systems. Political actors have, among other elements, used anti-communism to shape collective identities that hold different societal segments together, but just as often regime divides have been said to emerge as a result of the nature of the pre-existing regime and Enyedi¹⁴⁷ goes as far as claiming such divides may be comparable to classic cleavages, positing relatively stable social segments and engendering mechanisms to socialize new generations into this divide.

The first seeds of the political divisions that would come to dominate the region are found in the institutional structure of state socialist regimes and the social interactions they engendered between cadres, technocrats and intellectuals. In what Gouldner¹⁴⁸ considered a cross-systemic phenomenon, both the capitalist and communist system were witnessing the rise of a New Class composed of intellectuals and a technical intelligentsia making increasingly substantiated claims to power, to the detriment of groups already in control of the economy, that is businessmen and party cadres respectively. In this internally differentiated class the technocracy assumed a preponderant role while intellectuals had to grapple with a subordinate position. Under state socialist regimes, the technocracy's domination and the ruling elite's more accommodative behavior towards it was explained by the specialized and autonomous knowledge it possessed in regards to the mode of production, that is, by its possession of a cultural capital which is crucial to the rule of party cadres. In contrast intellectuals, working in fields of activity with less consensually validated paradigms and less crucial or even hostile to the survival of these regimes, generally possessed weaker bargaining powers.

In the same year as Gouldner published his seminal work, Konrad and Szelényi confirmed many of his observations by viewing with optimism the Hungarian communist regime's increasing reliance on what they also called an emerging technocratic-intellectual New Class¹⁴⁹. This New Class was on the "road to Class power" and would transform state socialist regimes into knowledge-based market-socialist systems. With hindsight it can be now said, as Szelényi admitted himself¹⁵⁰, that this proximity between intellectuals and the bureaucracy was never going to materialize in Czechoslovakia and was at best a hesitant, contradictory process in Hungary, hampered by the communist bureaucracy's stubbornness and inflexibility. While in the Hungarian case communist cadres, in spite of the hesitant policy of 'one step forward, two steps back', never comprehensive alienated intellectuals, their hopes to influence power and their demands for greater state representation of neglected societal interests, in Czechoslovakia the divorce between the humanistic intellec-

¹⁴⁶ Benoit, K. & M. Laver: *Estimating party policy positions: Comparing expert surveys and hand-coded content analysis*, Electoral Studies 26, 2007

¹⁴⁷ Enyedi, Zs.: *The Social and Attitudinal Basis of Political Parties: Cleavage Politics Revisited*; European Review, Vol. 16, No. 3, 2008

¹⁴⁸ Gouldner, A.: *The Future of Intellectuals and the Rise of New Class*; New York, The Seabury Press, 1979

¹⁴⁹ Konrád, G. & I. Szelényi: *The Intellectuals on the Road to Class Power*, New York: Harcourt, Brace, Jovanovich, 1979

¹⁵⁰ Szelényi, I.: *The Prospects and Limits of the East European New Class Project: An Auto-Critical Reflection on The Intellectuals on the Road to Class Power*; Politics and Society, Vol. 15. No. 2, 1987

tuals and the regime reached dramatic proportions and pushed the majority of the former group towards a position of radical 'anti-politics'¹⁵¹.

Yet even under the socialist period of centralized power and institutional rigidity, the experiences and knowledge of sectors of the intelligentsia were already being occasionally molded in transnational settings. Bockman and Eyal¹⁵² claim Western and Eastern European economists aligned their interests and reinforced their transnational ties throughout the Cold War in order to be better equipped to fight professional and political battles at home. American libertarian economists were interested in the data obtained by their reformist Eastern European colleagues as a demonstration, under controlled conditions, of the failures of Keynesian state intervention in the economy, whereas East European economists were keen on innovative models which they could use in their domestic battles to promote market socialism. Post-communist economic reform became a crucial laboratory experiment to vindicate the economic theories that united two previously marginal groups, but whose joint thinking and intellectual exchange in various conferences resulted in what is now termed as "neoliberalism". The rapid adoption of neoliberal economic policies in the region was "simply another instance of this translation and alignment of interests. Western economists' diagnosis of East European economies as wastelands, for example, did not reflect the economic situation as they found it, but the assessments conveyed to them by East European reformers and economists."¹⁵³

Transnational influences have been given insufficient treatment also in post-communist research agendas. Epstein¹⁵⁴ defines the Central-Eastern European transition as anchored to the liberal worldview that dominated world politics at the time of the collapse of the socialist regimes, allowing for a great degree of transnational influence in these transformations: "In a social context defined by uncertainty, status, and credibility, international institutions can cultivate transnational coalitions that strengthen their domestic members – not by virtue of their authority in terms of popular support but by virtue of their internationally recognized status"¹⁵⁵. Epstein has also noted international institutions often worked with domestic interlocutors to overcome opposition to the loss of national (or domestic private) control by "shifting the terms of debate in favor of liberal economic principles" and that the power of transnational actors was contingent upon their ability to "mobilize politically positioned domestic reformers in favor of a shared set of policy prescriptions."¹⁵⁶ Verdery¹⁵⁷ concurs with this claim: Not only was democracy a powerful symbol through which both dissidents and post-1989 anticommunist political groups invoked the "West", but the implantation of democracy was monitored by an international

¹⁵¹ Renwick, A.: *Anti-Political or Just Anti-Communist? Varieties of Dissidence in East Central Europe and Their Implications for the Development of Political Society*; East European Politics and Societies, Vol. 20. No. 2, 2006

¹⁵² Bockman, J. and G. Eyal: *Eastern Europe as a Laboratory for Economic Knowledge: The Transnational Roots of Neoliberalism*, American Journal of Sociology, Vol. 108 No.2, 2002

¹⁵³ Bockman, J. and G. Eyal: *Eastern Europe as a Laboratory for Economic Knowledge*, p. 337

¹⁵⁴ Epstein, R.: *In Pursuit of Liberalism: International Institutions in Postcommunist Europe*, Johns Hopkins University Press, 2008.

¹⁵⁵ Epstein, R.: *In Pursuit of Liberalism*, p.9

¹⁵⁶ Epstein, R.: *Transnational Actors and Bank Privatization*, in Orenstein, M. S. Bloom and N. Lindstrom (eds.), *Transnational Actors in Central and East European Transitions*, University of Pittsburgh Press, 2008, p. 103

¹⁵⁷ Verdery, K.: *Transnationalism, Nationalism, Citizenship, and Property: Eastern Europe since 1989*, American Ethnologist Vol. 25, No. 2, 1998, p. 293

community that certified newly propitious climates for foreign capital investment, which meant that “power flowing across borders intersected with political pluralization inside them”.

Without neglecting the important impact of transnational factors for post-communist developments, without grasping the regimes’ level of engagement with the technocracy and the intellectuals it is impossible to fully comprehend the power configurations that surfaced and was absorbed by transnational networks. In the absence of a powerful local bourgeoisie, the intellectuals and the technocratic managerial elite emerged victoriously to define post-communist politics for much of the 1990s, “exercising power principally on the basis of knowledge, expertise and the capacity to manipulate symbols, in short, ‘cultural capital’¹⁵⁸. The new power configuration privileged a dominant, managerial elite and a dominated, albeit still privileged, intellectual elite who in the entire Central-Eastern European region reached an agreement of cohabitation with the managerial class. This relation of mutual dependence was predicted in previous theoretical contributions to the field of elite studies. Gouldner¹⁵⁹ noted that for those wielding political and economic power, intellectuals have the capacity to endow them with ideological legitimation, whereas these same elites have control over a set of resources allowing intellectuals to produce culture.

These observations do not however suffice in explaining why precisely managerial elites got a grip on economic power in post-communism. Eyal et al. argue the struggles over privatization in the 1990s were more about control and less about ownership of productive assets, given the substantial risks involved in large ownership in a situation of economic and political instability. It was these circumstances of diffuse ownership rights which managers found ideal to increase their power in the new polity – which the authors term *managerialism* – monopolizing the power to make investment decisions by virtue of their claim to technical knowledge. The most powerful figure of this period is thus the financial manager who, by working in banks, investment funds, Finance ministries or international financial organizations and agencies, controls much sought-after knowledge on the functioning of capitalism, and has benefited from its experience working in socialist universities, research institutes or government bureaucracies advocating reform communism. Thus, and contrary to popular myths, it is not ‘communists’ who have mostly benefited from the process of privatization, but communist-era low-level managers¹⁶⁰ better known for their weak loyalty and preferences for reform communism and for the introduction of market mechanisms under the previous regime.

Gouldner associated a culture of critical discourse to this emerging social formation, but claimed it was likely to bear the “seeds of a new domination” through which the New Class is aiming at a monopoly on truth and its guardianship, seeing itself as the embodi-

¹⁵⁸ Eyal, G., I. Szélnyi, E. Townsley; *The Theory of Post-Communist Managerialism*; New Left Review, No. 222, 1997

¹⁵⁹ Gouldner, A.: *The Future of Intellectuals and the Rise of New Class*

¹⁶⁰ Eyal, G., I. Szélnyi, E. Townsley; *The Theory of Post-Communist Managerialism*; p. 85

ment of non-partisan, legitimate rationality and justice¹⁶¹. Similarly, Eyal et al. detect a new dominant ideology produced by the technocratic-intellectual alliance – monetarism which, by no coincidence, was the hegemonic world-view at the time, giving “particular stability and breadth to managerial power in East Central Europe”¹⁶². As managers seek to co-opt the “intelligentsia, academics, social scientists, artists, and most importantly, the media, all those who form public opinion” the discourse of anti-politics begins to translate into an often monetarist “anti-ideological discourse which legitimates technocratic knowledge ‘by default’”¹⁶³. The process of intellectual co-optation has many facets, the direct incorporation of intellectuals in the political elite being only one of them, and while this alliance is often a source of discomfort for many of the intellectuals, it remains intentional and beneficial to both.

These observations seem to fit quite neatly the Czech context, where “an innovative, populist right-wing ideology linked to a hegemonic project of social transformation” emerged in the early-mid 1990s, enjoying “a position of unassailable intellectual and political dominance” that “reached well beyond their own electorates”¹⁶⁴. Hanley claims this ideology drew from the Anglo-American New Right and was initially developed in think tanks and academia but “later made it into popular common sense’ via the media and party politics”¹⁶⁵.

Eyal¹⁶⁶ argues the Czech transition saw three influential ideological groups emerge: Reform communists, dissidents and monetarists. There was no immediate reason for the Czech dissident intellectuals to seek an alliance with the internally exiled technocrats rather than with the reform communists: the reformists had shared with the dissidents the “platform of the opposition” during communism and had been more vociferous in criticizing the regime than the monetarist technocrats, who “for all intents and purposes could have been mistaken for loyal (albeit lowly) servants of the regime”¹⁶⁷. Yet the eventual alliance between dissidents and monetarists isolated the reform communists, giving dissidents wider support and endowing the monetarists with much needed symbolic capital, while simultaneously allowing them to beat the reform communists in the struggle to impose a new economic orthodoxy. The importance of keeping a symbolic control of the communist past was essential in defining the position and strategies of this alliance: Monetarists quickly dismissed “any attempt to add some adjectives to the market economy as synonymous with restoring communism”, whereas most dissidents concurred with the assertion that there was no difference “between a reform communist and a communist ‘with no adjectives’”¹⁶⁸. Those dissidents, termed ‘liberal’ by Eyal, who resisted such conceptualization of the past, were gradually marginalized by the conservative dissidents.

¹⁶¹ Gouldner, A.: *The Future of Intellectuals and the Rise of New Class*; p. 85-86

¹⁶² Eyal, G., I. Szelényi, E. Townsley; *The Theory of Post-Communist Managerialism*; p. 74

¹⁶³ Eyal, G., I. Szelényi, E. Townsley; *The Theory of Post-Communist Managerialism*; p. 79-80

¹⁶⁴ Hanley, S.: *The New Right in the New Europe? Unravelling the ideology of ‘Czech Thatcherism’*, Journal of Political Ideologies, Vol. 4, No. 2, 1999, p. 163-164

¹⁶⁵ Hanley, S.: *The New Right in the New Europe? Unravelling the ideology of ‘Czech Thatcherism’*, p. 166

¹⁶⁶ Eyal, G.: *The Origins of Postcommunist Elites*, University of Minnesota Press, 2003

¹⁶⁷ Eyal, G.: *The Origins of Postcommunist Elites*, p. XXIV

¹⁶⁸ Eyal, G.: *The Origins of Postcommunist Elites*, p. 153

In Czech lands the communist regime divide tended to coincide with a redistributive divide¹⁶⁹ and allowed the party of the former technocracy and new managers, the neoliberal ODS, to successfully produce a dominant discourse bringing anti-communism and monetarism together with the intellectual assistance of several former dissidents endowed with symbolic capital. However the situation in Hungary appears more complex, since the relevance of cross-cutting divides such as the urban-rural or cosmopolitan-nationalist divisions necessarily challenged the centrality of the regime divide. These structural characteristics of Hungarian society influenced political alliances in the country and concomitantly the discursive strategies that could be pursued. Hungarian anti-communism was not a rhetoric that helped push the agendas of radical market reform and privatization. Instead, these policies found decisive support among the powerful, managerial and transnationally well-connected elite strongly influential in the reformed Hungarian Socialist Party, the successor to the ruling party of the previous regime¹⁷⁰.

Crucially, when the party of the Hungarian dissident intellectuals, the liberal Alliance of Free Democrats, decided to form a government in alliance with the Socialists in 1994, this lent an enormous hand to the attempts by former communists to gain domestic and international legitimacy. The liberals' step also meant anti-communism had to be halted and thus the symbolic capital implied by it was suddenly up for grabs, a situation on which the then liberal and younger FIDESZ fully capitalized, successfully monopolizing mainstream anti-communism and later finding in it a formula to hold an initially diverse right-wing together¹⁷¹.

While, similarly to many Czech right-wing politicians, FIDESZ leader Viktor Orban often claimed voting for the left meant aligning oneself with the communist past, but identified neo-liberalism as inimical to the nation and claimed the socialist government served the interests of international capital. The market-critical attitude had its roots in the socialist government's policies of accelerated deregulation and privatization in the 1990s, made in the name of international competitiveness¹⁷², and FIDESZ began strengthening its support base by showing sensitivity to popular discontent and advocating a strong state – clearly at odds with international prescriptions. This discursive strategy provided FIDESZ with electoral success but it hardly gave it a coherent ideology that could promote strategic interest alignment of its intelligentsia vis-à-vis capital-endowed domestic and international actors.

While anti-communist rhetoric was strong in both countries, only in one did right-wing elites manage to amass sufficient resources to develop a hegemonic discourse. It was the managerial class that had the capacity to turn funds previously allocated for educational, scientific and cultural purposes under communism into endowments for the intelligent-

¹⁶⁹ Kitschelt, H., Z. Mansfeldova, R. Markowski and G. Tóka; *Post-Communist Party Systems: Competition, Representation, and Inter-Party Cooperation*; Cambridge, Cambridge University Press, 1999

¹⁷⁰ Eyal, G., I. Szelenyi, E. Townsley; *The Theory of Post-Communist Managerialism*

¹⁷¹ Egedy, G.: *Political Conservatism in Post-Communist Hungary*, Problems of Post-Communism, Vol. 56 No. 3, 2009

¹⁷² Bozoki, A.: *Consolidation or Second Revolution? The Politics of the New Right in Hungary*, Journal of Communist Studies and Transition Politics, vol. 24, no. 2, 2008

sia which were secure from the budget cuts that typify monetarist orthodoxy. Eyal et al.¹⁷³ consider the most evident and systematic aspect of this process to be the proliferation of foundations which, unlike in Western Europe, are firmly controlled by the intelligentsia and suffer from a deficit of autonomy and independence. Also unlike in the West, these funds originate not only from government agencies, but also from financial institutions, mainly banks.

Countless actors have been involved in the democratization of the region: Up to 60 North American and European private foundations became very active following 1989¹⁷⁴. Many US aid projects were carried out by quasi-private organizations, mainly the National Endowment for Democracy, which received grants from Washington. NED provided training and assistance to political parties such as the Czech Civic Forum or the Hungarian Alliance of Free Democrats, while it funded independent scholars and writers in Czechoslovakia. This support helped crystallize certain elites at the expense of others, who often enjoyed equivalent or greater indigenous support or expertise but lacked reputation and contacts in the West.

Predominantly, those aided were identified with programs of market reform: “economic agendas appear to have been the decisive factor in many aid decisions said to be about democracy, pluralism, or civil society”¹⁷⁵. Several projects provided funding and organizational support for sectors of the intelligentsia and political parties: Many donors’ understanding of “institution building” was to participate and provide support to those who had been recognized as heroes of the 1989 “revolutions”. Hoping to create civil society, western aid instead generally funded partisan groups which went on to further their own political goals. This meant a “handful of brokers made decisions and amassed resources on a large scale, by local standards, and Western funding tended to reinforce their success”¹⁷⁶. Many of these brokers were young and had a background in the intelligentsia, carving out “a triad of business, foundation, and scholarly activities”¹⁷⁷ and often becoming a monopolistic source of influence much greater than that of a mere faction or interest group.

IV. Methodological, Theoretical and Conceptual Considerations

When referring to an intelligentsia, I mean a set of different but inter-related actors:

- The intellectuals whose cultural, symbolic and moral capital was intentionally or unintentionally transformed into political capital benefiting dominant political parties.

¹⁷³ Eyal, G., I. Szelenyi, E. Townsley; *The Theory of Post-Communist Managerialism*

¹⁷⁴ Wedel, J.: *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989-1998*, St. Martin's Press, New York, 1998, p.85-100

¹⁷⁵ Wedel, J.: *Collision and Collusion*, p. 99

¹⁷⁶ Wedel, J.: *Collision and Collusion*, p. 87

¹⁷⁷ Wedel, J.: *Collision and Collusion*, p. 93

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- Professional politicians whose members engage in debates on contentious issues taking de-legitimizing anti-communist positions and who rely on a symbolic capital and intellectual production that does not necessarily result from their own creative intellectual activity or from any moral capital gained in resisting the previous regime.

- A Knowledge-production 'intellectual technocracy' incapable of creating new interpretative frames but skillful in adapting existing frames to contentious political issues and in using the social capital provided by its position in media, think tanks and academia. They would belong to the peripheral category of transmitters or distributors of culture in Karabel's¹⁷⁸ typology, who distinguishes them from creators of culture at the core.

I favor starting my case-oriented research with an interpretive, abductive approach. I plan to gather data using a triangulation of various qualitative methods:

Firstly, a qualitative and critical discourse analysis of debates on polarizing topics that received extensive attention from local intelligentsias and were interpreted in light of socialism. Findings will be contextualized by elite interviewing.

I would opt for a cyclical process consisting of a selection of a small but relevant body of texts from the printed media and political rhetoric. After these have been analyzed, my findings would provide me with more accurate selection criteria, which would guide subsequent data collection up to the point that no new insights are gained¹⁷⁹.

I chose debates which are recent, hold potential to re-emerge in different circumstances and have received extensive and contentious attention from media, the intelligentsia and public opinion. For the Hungarian case I will select two topics, the 2002 controversy involving former prime-minister Peter Medgyessy's counterespionage activities before 1989 and the protracted debate which began with the leaking of a speech by former prime-minister Ferenc Gyurcsány and culminated in a controversial austerity program. In the Czech Republic I will choose the (still on-going) debate on welfare reform, and the dispute which exploded after the U.S. began negotiations with the Czech Republic with a view on extending its missile defense system.

Secondly, I will turn to an assessment of broadly understood institutions and political dynamics in the two countries. Following sociological Institutionalism, my goal will be to detect instances of institutional change, institutional set ups, class and political alliances and social cleavages created legacies, incentives and constraints that have shaped the nature of 'memory' discourses. This includes paying close attention to attempts to institutionalize versions of the past, such as with the creation of institutions directly responsible for dealing with the heritage of socialism, and to institutional change in the field of knowledge production, namely in think tanks and media outlets. Through elite interviewing I hope to unearth the personal links that tie different knowledge-production institutions together, in

¹⁷⁸ Karabel, J.: *Towards a Theory of Intellectuals and Politics*; *Theory and Society*, Vol. 25 No. 2. 1996

¹⁷⁹ Mautner, G.: *Analyzing Newspapers, Magazines and Other Print Media* in Wodak, R. & M. Krzyzanowski (eds); *Qualitative Discourse Analysis in the Social Sciences*, Basingstoke: Palgrave MacMillan, 2008

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both the domestic and the transnational sense. Reports on the sources of information they privilege, funding, membership and affiliations may also provide valuable insights.

Finally, my research will focus on the anti-communism intelligentsia. At this stage I will rely on elite interviewing, using snowball sampling to map existing domestic and transnational networks in what constitutes an evolutionary and ethnographic network analysis.

Conclusion

I have observed that anti-communism remains a key competitive dimension of post-communist politics in Hungary and the Czech Republic and I have claimed that right-wing elites continue to frame contested issues in light of attitudes towards the past. By comparing to the contrasting example of Portuguese democratization and through a discourse analysis grounded in sociological institutionalism and the political economy of knowledge production, I hope to illuminate the peculiar logic of memory politics in Central Eastern Europe.

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FACTORS, SPECIFIC FOR OLD AND NEW EUROPEAN UNION MEMBERS, CAUSING THE PRICE CONVERGENCE.

Aneta Maria Dzik

***Abstract:** In this work, the price convergence on the European Union market is studied based on a panel data for the years 1995-2008. The aim of this paper is to verify the hypothesis, that integration makes the market more efficient, as it causes the decline of price dispersion. The decreasing in time price dispersion and negative relation between the rate of growth of prices and the initial level are found. The extended gravity equation is estimated to find relevant variables determining the process of price convergence. The groups of all, old and new members of European Union are investigated. The following variables are used: the value of trade, distance, language, currency, neighborhood, cooperating within the EU, GDP, VAT rates. The OLS, random effects, fixed effects, fixed effects vector decomposition models are estimated. The results present the specific factors for old and new members causing price convergence.*

***Keywords:** price convergence, law of one price, European Union, integration*

Introduction

The law of one price (LOOP) states that in competitive markets free of transportation costs and official barriers to trade (such as tariffs), identical goods sold in different countries must be sold for the same price when their prices are expressed in terms of the same currency.¹⁸⁰ Otherwise price differences would provide the opportunity for arbitrage. We can formulate the LOOP formally as follows:

$$P_A^i = E_{A/B} \times P_B^i \quad (1)$$

where P_A^i is a price of good i in country A , P_B^i a price of good i in country B , $E_{A/B}$ an exchange rate. Then the LOOP implies that the price of good i is the same in country A and B when expressed in the currency of country A . The purchasing power parity (PPP) generalizes the LOOP to aggregate price levels.

¹⁸⁰ P.R. Krugman, M. Obstfeld, *International Economics, theory and policy*, 2000.

The law is stated for tradable goods, but according to Balassa-Samuelson effect in the course of time the prices of non-tradable goods also converge to the law of one price as a result of deep economic integration.

In fact the law of one price is systematically violated by empirical data.¹⁸¹ Theoretical explanations appearing in the literature for LOOP not holding point tariffs, subsidies, discriminating monopolies. It is thus interesting to look what are the determinants of deviations from the law of one price on the EU market, where trade barriers mentioned above are removed. The EU is a free trade area, so arbitrage opportunities are not affected by trade barriers. The exchange rate volatility is also limited as exchange rate policy EU members lead to stabilization and together with a single currency increase price transparency and reduce potential arbitrage. Are the transportation costs the only reason for LOOP not holding? According to Nigel, Allington, Kattuman, and Florian this is not the only determinant explaining price dispersion across locations.¹⁸² Spatial price differences are the result of many simultaneous macro and micro factors such as costs of getting information, different fiscal regulations, marketing costs, transaction costs, cultural differences, local preferences, size of a market.

According to the literature there exists a link between integration and price convergence in the international markets.¹⁸³ The process of integration is connected with transformations such as the removal of trade barriers, harmonization of tax rates, the increase of transparency, price monitoring, the reduce of exchange rate risk (European Monetary Union).¹⁸⁴ Changes in mentioned factors have influence on the market and should, from the theoretical point of view, affect price convergence. Based on traditional definitions of a market (Marshall 1947, Stigler 1969, Cournot 1971), price dispersion means that the market is not efficient, and price convergence can be treated as a measure of market integration.¹⁸⁵ These historical definitions have much in common with the law of one price. Stigler defines a market as, the area within which the price of a commodity tends to uniformity, allowance being made for transportation costs.¹⁸⁶ Cournot formulates the definition of a market in the following way: it is evident that an article capable of transportation must flow from the market where its value is less to the market where its value is greater, until difference in value, from one market to the other, represents no more than the cost of transportation.¹⁸⁷ These statements show the importance of prices in defining markets.

¹⁸¹ P. Isard, *How Far Can We Push the "Law of One Price"?* *The American Economic Review*, Vol. 67, No. 5 (Dec., 1977).

¹⁸² N.F.B. Allington, P.A. Kattuman, and F.A. Waldmann, *One Market, One Money, One Price?* International Journal of Central Banking, 2005.

¹⁸³ The degrees of economic integration can be divided into six steps: preferential trading area (with reduced customs tariffs between certain countries) free trade area (with no internal tariffs on some or all goods between the participating countries), customs union (with the same external customs tariffs for third countries and a common trade policy), single market (with common product regulations and free movement of goods, capital, labour and services), economic and monetary union (a single market with a common currency and monetary policy), complete economic integration (all the above plus harmonized fiscal and other economic policies). http://ec.europa.eu/economy_finance/the_euro/the_euro6478_pl.htm].

¹⁸⁴ P. K. Goldberg, F. Verboven, *Market Integration and Convergence to the LDP: Evidence from the European Car Market* NBER Working Paper No. 8402, 2003.

¹⁸⁵ J. Wolszczak-Derlacz, *Wspólna Europa, różne ceny- analiza procesów konwergencji*, CeDeWu Warszawa 2007.

¹⁸⁶ G.J. Stigler, *The Theory of Price*. London: Macmillan 1969.

¹⁸⁷ A.A.Cournot, *Researches into the Mathematical Principles of the Theory of Wealth*. New York, 1971.

The remainder of the paper is organized as follows. Section 2 presents the investigated market. Section 3 describes the recent literature. Section 4 examines the sigma and beta convergence. Section 5 contains the main results, dealing with the factors affecting the process of price convergence. The groups of all, old and new members of European Union are investigated. The following variables are used: the value of trade, distance, common language, currency, neighborhood, common lasting in the EU, GDP, differences in taxes. The methodology for panel data is used. The OLS, random effects, fixed effects, fixed effects vector decomposition models are estimated. Conclusions are provided in section 6.

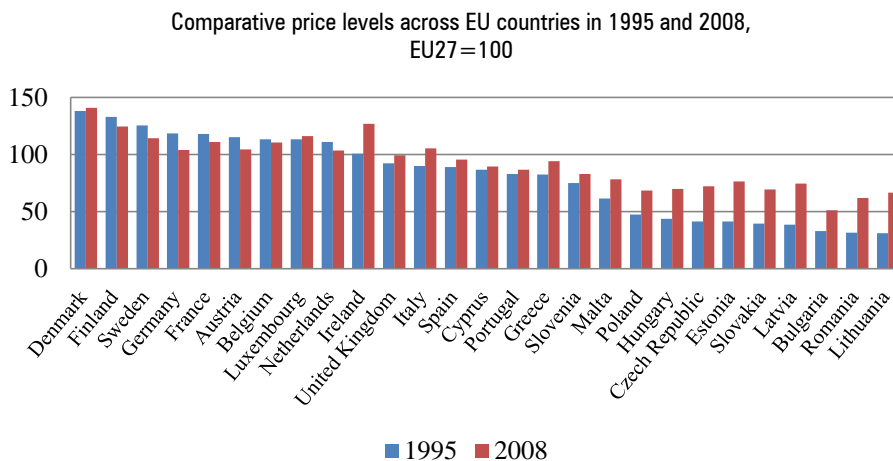
I. The investigated market

The European Union market is investigated between 1995 and 2008. The most important events for process of integration and price convergence have started in the middle nineties. It's worth to mention the Treaty of Paris (1951) establishing the European Coal and Steel Community (ECSC), Treaty of Rome (1957) establishing the European Economic Community and European Atomic Energy Community and Maastricht Treaty (1992) which transformed European Community into the European Union. Two events seem to be crucial in this context: the Single Market Project (1992) and the Economic and Monetary Union. Single Market Project removed physical, administrative and technical international barriers. The Economic and Monetary Union is connected with economic and fiscal policy coordination, common monetary policy, common currency, the area without interior borders. All members of EU are in economic union and some of them are on higher level of integration and have common currency, euro.

Proof for price dispersion on the EU market can be found when looking at the graph of the comparative price level index CPL¹⁸⁸ (figure 1). The mean value for EU27 is scaled to be equal 100. It is possible to see that there are both cheaper and more expensive countries. In 2008 index takes the highest value for Denmark (141.0) and the lowest for Bulgaria (51.0). For Poland it is equal to 68.6 which means that Poland is relatively cheaper country.

¹⁸⁸ Comparative price levels of final consumption by private households including indirect taxes (EU-27=100). Comparative price levels are the ratio between Purchasing power parities (PPPs) and market exchange rate for each country. PPPs are currency conversion rates that convert economic indicators expressed in national currencies to a common currency, called Purchasing Power Standard (PPS), which equalizes the purchasing power of different national currencies and thus allows meaningful comparison.

Figure 1. Price levels dispersion among European Union members in 1995 and 2008.



Source: own elaboration based on Eurostat data.

The changes in CPL are different for every EU member and reflect the specificity of a given country. Looking at graphs of CPLs for particular countries in years 1995-2008 we can see the general trend of converging to the common level of prices. But exceptions can be found. Prices in Denmark and Ireland don't converge to the law of one price. The general trend is visible in figure 3 and will be discussed later.

II. Previous results

Papers and researches on prices with the law of one price as a theoretical basis are very different and often incomparable. They investigate different countries, are based on huge amount of data for different product categories on aggregated or disaggregate levels. The authors use different methodology and the law of one price is just point of departure. The main directions of investigations can be divided into two groups. The first group contains examinations just looking at the speed of price convergence.

Goldberg and Verboven (2003)¹⁸⁹ analyze Belgium, France, Germany, Italy and the United Kingdom. Authors find half-life for cars' price convergence equal to 8.3 years. Crucini, and Shintani (2006)¹⁹⁰ investigate prices of 270 goods in 122 cities from 78 countries from 1990 to 2000. Authors point that the average non-traded good has a half-life of 1.9 years compared to 1.2 years for traded-goods, for the OECD countries. Sosvilla-Rivero, Gil-Pareja (2002)¹⁹¹ based on consumer price index analysis for twelve European Union members for years 1975-1995 founded half-life equal to 9.5 years. The EU15 members in

¹⁸⁹ Goldberg, Verboven, *Market Integration and Convergence to the Law of One Price: Evidence from the European Car Market*, December 2003

¹⁹⁰ Crucini, Shintani, *Persistence in Law-of-One-Price Deviations: Evidence from Micro Data*, Vanderbilt University 2006

¹⁹¹ Sosvilla-Rivero, Gil-Pareja, *Price Convergence in the European Union*, FEDEA and Universidad Complutense de Madrid, 2002

years 1991-2005 were analyzed by Wolszczak-Derlacz (2007)¹⁹². Author concluded with the lack of sigma-convergence and slow beta-convergence with half-life equal to 15.08 years for aggregated data.

The second group of papers focuses on searching for the determinants of price dispersion. Engel and Rogers (1996)¹⁹³, searched for border effect between USA and Canada. Authors used CPI data for 14 categories of consumer prices in years 1978-1994 and estimated modified gravity model. Deviations from the law of one price were founded to be higher between cities from two countries then between two equidistant cities from one country. Beck and Weber (2003)¹⁹⁴ on data for three continents Asia, North America and Europe proved that distance between cities explains a significant amount of the variation in the prices of similar goods in different locations. Haskell and Wolf (1999)¹⁹⁵ found that prices of goods sold in IKEA depend on the size of a country, income and language. Parsley, Wei (2001)¹⁹⁶ based on panel data of prices of 95 very disaggregated goods (such as light bulbs) in 83 cities around the world from 1990 to 2000 found that common currency decreases price dispersion. **ACNielsen' market research (2005)¹⁹⁷ confirmed that, for a basket of popular international branded products, the introduction of the Euro is contributing to a price convergence across Europe.** The results of integration on the EU market can be observed after some time. So it is reasonable to continue the researches using the latest data.

Empirical studies on LOOP and price convergence are based on both, the aggregated and disaggregated data. It is widely discussed in the literature which approach is better. Allington et. al.¹⁹⁸ point that aggregated data as more general are highly representative. Both approaches have some disadvantages. Aggregation can cause loss of part of information. In case of disaggregated data the problem of getting information about the prices of particular products can occur.

III. Sigma and beta convergence

The methodology of sigma and beta convergence was used to verify the hypothesis that prices on European Union market converge. When the dispersion of prices across a group of countries falls over time, there is sigma convergence. The coefficient of variation of price level indices (expenses on final consumption of households) can be used as a

¹⁹² Wolszczak-Derlacz, *Wspólna Europa, różne ceny - analiza procesów konwergencji*, CeDeWu Warszawa 2007

¹⁹³ Engel, Rogers, *How Wide Is the Border?*, *The American Economic Review*, 1996

¹⁹⁴ Beck, Weber, *How Wide Are European Borders? On the Integration Effects of Monetary Union*, CFS 2003

¹⁹⁵ Haskell, Wolf, *Why does the law of one price fail?*, London CEPR, 1999

¹⁹⁶ Parsley, Wei, *Limiting currency volatility to stimulate goods market integration: a price based approach*, NBoER Massachusetts, 2001

¹⁹⁷ *New ACNielsen survey points to price convergence in Europe since the introduction of the Euro*, 2005. www.acnielsen.com/news.

¹⁹⁸ N.F.B. Allington, P.A. Kattuman, and F.A. Waldmann, *One Market, One Money, One Price?* International Journal of Central Banking, 2005.

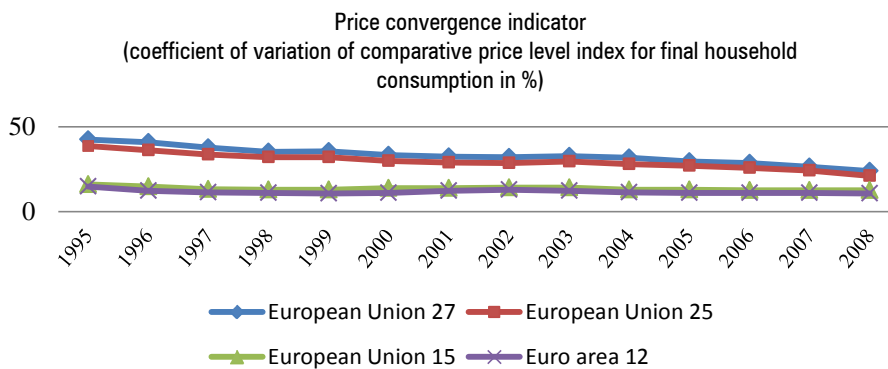
measure of price dispersion.¹⁹⁹ To verify the sigma convergence the following equation is estimated:

$$cv(y(t)) = \alpha_0 + \alpha_1 t + \varepsilon_t \quad (2)$$

where $cv(y(t))$ - coefficient of variation of PLI between countries at time t .

We deal with sigma convergence when the parameter α_1 is negative. It should be emphasized that the differences in prices can change in a nonlinear way. To have an idea about the shape of changes in price differences the graph of the coefficient of price level indices variation can be analyzed (figure 2). Four groups are examined: all EU members (EU27), 25 EU members (EU25), 15 EU members (EU15), 12 euro area members (EA12).²⁰¹ The price dispersion decreased for all investigated groups during 1995-2008. The highest decrease is observed for EU25 from 38.7 in 1995 to 21.2 in 2008, so by 45.2%. For EU27 the value of coefficient in 1995 was equal to 42.6 and 23.8 in 2008 (decrease by 44.2%), for EU15 15.9 in 1995 and 12.4 in 2008 (decrease by 22%), for EA12 14.7 in 1995 and 10.7 in 2008 (decrease by 27%). The coefficient takes the lowest values for the countries in the euro area. It means that the prices in this countries are the least differentiated. It is worth to emphasize that deviations from the law of one price are the smallest for the most integrated countries, members of economic and monetary union. Figure 2 confirms the remark that finding linear trend is not the best way of verifying sigma convergence, because the linear form function doesn't show the tendency of changes in particular years. The periods of decreasing and increasing price dispersion can be noticed.

Figure 2. Coefficient of variation of PLI for EU countries from 1995 to 2008.



Source: own elaboration based on Eurostat data.

¹⁹⁹ The price level index (PLI), expresses the price level of a given country relative to EU. If the PLI of a country is higher than 100, the country concerned is relatively expensive compared to EU, while if the price level index is lower than 100, then the country is relatively cheap compared to EU. The coefficient of variation of PLI is computed as a product of standard deviation and arithmetic mean of PLIs.

²⁰⁰ M. Próchniak, R. Rapacki, *Beta and Sigma Convergence in the Post-Socialist Countries in 1990–2005*, Bank i Kredyt 2007 [access 08.09.2007] http://www.nbp.pl/Publikacje/bank_i_kredyt/2007_08_09/prochniak.pdf.

²⁰¹ EU15: Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxemburg, the Netherlands, Austria, Portugal, Finland, Sweden, United Kingdom; EU25: EU15, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia; EA12: Belgium, Germany, Ireland, Greece, Spain, France, Italy, Luxemburg, the Netherlands, Austria, Portugal, Finland.

To check if the changes are statistically significant the equation (2) should be estimated for all considered groups EU27, EU25, EU15, EA12. The results are presented in table 1.

Table 1. Testing for sigma convergence.

model	dependent variable	α_1 estimation	t- statistic	p-value
model 1	coefficient of variation of PLI between EU27 countries	-1.203516***	-13.54	0.000
model 2	coefficient of variation of PLI between EU25 countries	-1.070989***	-13.02	0.000
model 3	coefficient of variation of PLI between EU15 countries	-.1589011***	-3.17	0.008
model 4	coefficient of variation of PLI between EA12 countries	-.1323077*	-2.02	0.067

***significance at 1%level, *significance at 0%level

Source: own calculations in STAT based on Eurostat data.

Sigma convergence is confirmed in all four cases. For EU27, EU25, EU15 α_1 is negative and significantly different from zero (at the 1% significance level). For EA12 the changes are significant at the 10% significance level. The same research for years 1995-2007 didn't confirm sigma convergence for EA12. It can be the case that stronger convergence had place in these countries before and now the process is slower.

Second general concept to measure convergence is beta convergence, when the relation between growth in prices over time and its initial level is negative.

$$\ln\left(\frac{P_{it}}{P_{i0}}\right)\frac{1}{T} = \alpha + \alpha_1 \ln(P_{i0}) + \xi_{ij} \quad 202 \quad (3)$$

where P_{it} price level in country i at time t , T length of estimated period.

On the left side of the equation there is the logarithm of mean price growth rate in time T , and on the right side there is the logarithm of the initial price level. The negative value of parameter α_1 confirms beta convergence. In terms of CPLs, the national price is compared to a numeraire price.²⁰³ The initial CPL level is used to explain changes in the CPL measure. Beta convergence would suggest that the smaller the value of CPL the higher the speed of price increase. So relatively cheap countries should expect relatively high inflation when joining European Union. Table 2 presents the results of equation 3 estimation.

²⁰² J. Wolszczak-Derlacz, *Wspólna Europa, różne ceny- analiza procesów konwergencji*, CeDeWu Warszawa 2007.

²⁰³ Ch. Dreger, K. Kholodilin, K. Lommatzsch, J. Slacalek, P. Wozniak, *Price convergence in the enlarged internal market* CASE Network Reports, Warsaw 2007.

Table 2. Testing for beta convergence.

model	model 1	model 2	model 3	model 4
dependent variable	changes in the CPL measure			
	EU27	EU25	EU15	EA12
α_1 estimation	-0.041006***	-0.043224***	-0.031998***	-0.038811**
t- statistic	-15.55	-15.82	-3.19	-3.15
p-value	0.000	0.000	0.007	0.010
speed of convergence	0.05859	0.06349	0.04137	0.05402
half life	11.83145	10.91760	16.75435	12.83070

***significance at 1%level, **significance at 5%level

Source: own calculations in STAT based on Eurostat data.

For each model α_1 is negative and is significantly different from zero at the level of significance equal to 5%. These results confirm beta convergence in EU27, EU25, EU15, EA12 in 1995-2008. Using the estimator of parameter α_1 from equation 3 the speed of convergence (β) and the half-life (t^*) can be calculated as:

$$\beta = -\frac{1}{T} \ln(1 + \alpha_1 T) \tag{4}$$

$$t^* = -\frac{\ln 0.5}{\beta} \tag{5}$$

For estimated models the time needed to reduce the half of a distance to the common price level t^* (calculated based on equation 5) is equal from 10.91 year for EU25 to 16.75 year for EU15 . It means that after some time in EU the speed of price convergence is the highest and then it is getting slower. Quite a big difference in the half-life for EU15 and EA12 can be puzzling. But EU15 contains Denmark which does not converge.

IV. Econometric model – specific factors for old and new European Union members causing the price convergence

Previous sections prove that prices on EU market are differentiated, that this differences are changing in time and are getting smaller, closer to hold the LOOP. The aim of this part of the paper is the empirical examination of the factors affecting the process of price convergence. The methodology of gravity model is used. Investigated factors were chosen based on the literature. A new variable measuring the time of cooperation within European Union was added. It is expected that counties with relatively long common history in European Union are getting more similar in terms of prices.

Variables

The contained data, unless stated otherwise, are collected from Eurostat.

- **Price dispersion (cpl_{ij}):** the measure of price dispersion is defined as the absolute value of natural log of price ratios: $cpl_{ij} = |\ln cplratio_{ij}|$. Price level for a location is measured by CPL index. $cplratio_{ij}$ is the CPL index in country i divided by CPL index in country j . The measure is an approximation of the percentage deviation of prices difference from its mean.

- **Economies size diversity (GDP_{ij}):** size of an economy is measured by GDP²⁰⁴. Economies size diversity is equal to the absolute difference of GDP in country i and country j : $GDP_{ij} = |GDP_i - GDP_j|$

- **Countries income diversity ($percapita_{ij}$):** income diversity is measured as the absolute difference between GDP *per capita* in PPS in country i and country j .

- **Trade connections ($trade_{ij}$):** the value of trade connections between country i and country j is calculated on the basis of trade flows expressed in euro according to the formula: $trade_{ij} = 0.5 * \left[\frac{I_{ij} + E_{ij}}{I_i + E_i} + \frac{I_{ji} + E_{ji}}{I_j + E_j} \right]$ ²⁰⁵ Statistics on trade flows²⁰⁶ concern goods entering the territory of a given EU member i from member j (I_{ij}) and goods leaving the territory of member i to member j (E_{ij}). In the denominator we have the total value of import and export for a given country.

- **Neighbour ($neighbour_{ij}$):** the dummy equals unity when a pair of countries has common land border.

- **Tax rate diversity (VAT_{ij}):** binary variable taking 0 if the absolute difference between the basic VAT rate in country i and country j is smaller than 4 percentage points and 1 in the remaining cases.

- **Common years in EU/EC (eu_{ij}):** dummy variable taking the value of $\min\{years_i, years_j\}$ ²⁰⁷

- **Labour cost ($labourcost_{ij}$):** labour cost diversity is measured as the absolute difference between the average hourly labour costs in country i and country j . Average hourly labour costs are defined as total labour costs divided by the corresponding number of hours worked. $labourcost_{ij} = |labourcost_i - labourcost_j|$

²⁰⁴ Data from European Central Bank, Gross domestic product at market prices, total economy.

²⁰⁵ Isgut A.E. Common Currencies and Market Integration across Cities: How Strong is the Link?

²⁰⁶ Data from COMTRADE.

²⁰⁷ years_i - years within UE/EWG.

- **Distance ($dist_{ij}$):** distance between the capital of country i and the capital of country j measured in thousands of kilometers.²⁰⁸
- **Euro ($euro_{ij}$):** dummy variable taking 1 if both countries introduced euro.
- **Language ($language_{ij}$):** binary variable taking 1 when two countries have the same official language.

The database contains variables for 4915 pairs of countries²⁰⁹ for years 1995-2008. All investigated countries are European Union members. Research is based on aggregated data, used indices are in line with EU standards.

Methodology

To find the determinants of price convergence on EU market the econometric model is estimated. The approach is based on a gravity equation which was originally used to the analysis of trade and then was adopted in other research areas. The gravity model was inspired initially by the law of physics (Newton). An attractive force is proportional to the body's mass and inversely proportional to the square of the distance from the center of the body. In the context of price dispersion "strong attraction" means similar prices.

The basic gravity model of trade assumes that trade flows depend on the size of economies, often measured by GDP, and distance between two economies.²¹⁰ In this research the extended gravity equation was estimated for price differences. The economic conditions and variables reflecting the process of integration are additionally taken into account.

$$cpl_{ij} = \beta_0 + \beta_1 \ln(GDP_{ij}) + \beta_2 \ln(GDP_per_capita_{ij}) + \beta_3 \ln(trade_{ij}) + \beta_4 border_{ij} + \beta_5 VAT_{ij} + \beta_6 years_{ij} + \beta_7 \ln(labour_{ij}) + \beta_8 \ln(dist_{ij}) + \beta_9 language_{ij} + \beta_{10} euro_{ij} + \varepsilon_{ij} \quad (6)$$

Above function form allows to capture the elasticity of price difference against used variables.

²⁰⁸ Geodesic distances are calculated following the great circle formula, which uses longitudes and latitudes of the capital cities. Based on CEPIL's distances measures.

²⁰⁹ 27*26/2=351

²¹⁰ P.R. Krugman, M. Obstfeld, *International Economics Theory and Policy*, 2006.

Ordinary Least Squares

The ordinary least squares procedure can be used to estimate a model:

$$y_{it} = \beta_k \sum_{k=1}^K x_{kit} + \alpha_l \sum_{l=1}^L z_{li} + \varepsilon_{it} \quad (7)$$

where x is a vector of regressors not including a constant term, z denotes individual effect and contains a constant term, individual observed and unobserved specific variables constant over time.

OLS does not allow to control the individual heterogeneity. The results may be biased because of the correlation between x and z . The Breusch-Pagan test is used to verify this correlation. If z contains only a constant term, then ordinary least squares provides consistent and efficient estimates of the α and β .²¹¹

Fixed effect and random effect estimator

The fixed-effects (FE) regression model looks as follows:²¹²

$$y_{it} = u_i + \beta_k \sum_{k=1}^K x_{kit} + \varepsilon_{it} \quad (8)$$

where x is a vector of strictly exogenous regressors, u_i denotes individual effects fixed²¹³ over time and ε_{it} is a random error term. If individual effect u_i is unobserved, but correlated with explanatory variables x the least squares estimator of β is biased and inconsistent in this case as a consequence of an omitted variables. The fixed effect transformation removes the individual effect u_i .

$$y_{it} - \bar{y}_i = (u_i - u_i) + \beta_k \sum_{k=1}^K (x_{kit} - \bar{x}_{ik}) + (\varepsilon_{it} - \bar{\varepsilon}_i) \quad (9)$$

FE estimator is consistent. The FE estimator does not allow to estimate the time invariant variables which are eliminated in fixed effect transformation.

If the unobserved individual heterogeneity can be assumed to be uncorrelated with the included variables, then the model can be written as²¹⁴:

$$y_{it} = \alpha + u_i + \beta_k \sum_{k=1}^K x_{kit} + \varepsilon_{it} \quad (10)$$

$$Cov(x_{kit}, u_i) = 0 \quad (11)$$

In this approach u_i is a group-specific random element, similar to ε_{it} except that for each group, there is but a single draw that enters the regression identically in each period.

²¹¹ W.H. Greene, *Econometric Analysis*, 6th edition, Upper Saddle River, New Jersey

²¹² J.H. Stock, M.W. Watson, *Heteroscedasticity-Robust Standard Errors for Fixed Effects Panel Data Regression*, *Econometrica*, Vol. 76, No.1, 2008.

²¹³ Term fixed does not mean that u_i is nonstochastic.

²¹⁴ W.H. Greene, *Econometric Analysis*, 6th edition, Upper Saddle River, New Jersey

The Hausman test is used to test for the lack of correlation between unobserved effect u_i and explanatory variables.

Fixed effect vector decomposition

Fixed effect vector decomposition proposed by Plumper and Troeger²¹⁵ allows for estimation of time-invariant variables in the presence of unit effects. In this method a three stage estimator is used. In the second stage the unobserved parts of the unit effects are identified. At stage three the unexplained part of the fixed effect vector is used to obtain unbiased OLS estimates of the time-varying and time-invariant variables.

We assume the following data generating process (DGP):

$$y_{it} = \alpha + \sum_{k=1}^K \beta_k x_{kit} + \sum_{m=1}^M \gamma_m z_{mi} + u_i + \varepsilon_{it} \quad (12)$$

where x is a time-variant variable vector, z is a time-invariant variable vector, u_i unit specific effects (FE) of DGP, ε_{it} independent and identically distributed error term.

In the first step a standard FE model is estimated. The fixed effects transformation is as follows. Equation (12) is averaged over T :

$$\bar{y}_{it} = \alpha + \sum_{k=1}^K \beta_k \bar{x}_{ki} + \sum_{m=1}^M \gamma_m z_{mi} + u_i + \bar{e}_i \quad (13)$$

where e are the residuals of the estimated model. Then equation (13) is subtracted from equation (12). After this transformation the individual effects u_i and time-invariant variables z are removed.

$$\begin{aligned} y_{it} - \bar{y}_{it} &= \beta_k \sum_{k=1}^K (x_{kit} - \bar{x}_{ki}) + \gamma_m \sum_{m=1}^M (z_{mi} - z_{mi}) + (u_i - u_i) + (e_{it} - \bar{e}_i) \\ &\equiv \tilde{y}_{it} = \beta_k \sum_{k=1}^K \tilde{x}_{kit} + \tilde{e}_{it} \end{aligned} \quad (14)$$

The aim of estimating this FE model is to obtain estimates of the unit effects \hat{u}_i .²¹⁶

$$\hat{u}_i = \bar{y}_i - \sum_{k=1}^K \hat{\beta}_k^{FE} \bar{x}_{ki} - \bar{e}_i \quad (15)$$

where $\hat{\beta}_k^{FE}$ estimates from equation (14).

In stage 2 the unit effects \hat{u}_i are regressed on the observed time-invariant variables z to obtain the unexplained part h_i . So estimated unit effects are decomposed into explained and unexplained parts.

²¹⁵ T. Plumper, V.E. Troeger, *Efficient Estimation of Time-Invariant and Rarely Changing Variables in Finite Sample Panel Analyses with Unit Fixed Effects*, *Political Analysis*, 15(2):124-139, 2007.

²¹⁶ "Estimated unit effect" \hat{u}_i do not equal to unit effects u_i in the DGP, but this is standard notation. "Estimated unit effect" \hat{u}_i includes the unobserved unit-specific effects, observed z , the unit means of the residuals \bar{e}_i , and \bar{x}_{ki} .

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$$\hat{u}_i = \sum_{m=1}^M \gamma_m z_{mi} + h_i \quad (16)$$

The unexplained part h_i is found by computing the residuals from the equation (16). In the stage three the full model including the unexplained part h_i of individual fixed effect is estimated.

$$y_{it} = \alpha + \sum_{k=1}^K \beta_k x_{kit} + \sum_{m=1}^M \gamma_m z_{mi} + \delta h_i + \varepsilon_{it} \quad (17)$$

By construction h_i is not correlated with the vector of z 's.

Estimation

Based in initial data analysis 440 observations form 4915 were removed from the data set because of the lack of data. No observation was concluded to be abnormal and significant.²¹⁷ Estimation results are given in table 3. Four, described in section 5.2 methods of estimation were used: OLS, RE, FE, FEVD. These four models were estimated for three groups of countries EU27, EU15, EU(27-15).²¹⁸ The aim was to find the price convergence determinants specific for old and new European Union members.

The expected signs for the estimated parameters are based on the traditional arguments. The positive effect on the price convergence of vat rates harmonization, long cooperation within European Union, common currency, similar level of GDP and *gdp per capita*, common border, small distance, common language, similar labour costs, high trade connection is expected.

The estimated coefficients have signs consistent with expectations. In all models the higher the vat rate difference the higher the price dispersion. So European Union policy of vat rate harmonization contribute to price convergence. Countries cooperating within the UE for a long time are characterized by smaller price dispersion than the others. Countries with a common currency have less differentiated prices, European Monetary Union has a positive effect on price convergence. The higher the difference in GDP *per capita* between two countries the higher price dispersion between them. GDP difference positively influence price difference.²¹⁹ The sign of the parameter in front of the variable neighbour can be puzzling. It suggests that neighbours have more dispersed prices than countries without a common land border. It can be connected with the small fraction of countries with common border in the whole sample. Besides variable neighbor is not significant in the RE model. The same is found for distance between two countries. The estimates suggest that the higher the distance the smaller the price dispersion. Distance is measured in thousands of kilometers, if it would be expressed in kilometer the coefficients would much more

²¹⁷ Based on standardized residuals, lever, Cook's distance.

²¹⁸ EU27 models: OLS, RE, FE, FEVD; EU15 models: OLS_{EU15}, RE_{EU15}, FE_{EU15}, FEVD_{EU15}; EU(27-15) models: OLS_{EU27-15}, RE_{EU27-15}, FE_{EU27-15}, FEVD_{EU27-15}.

²¹⁹ In two cases in OLS models the sign in front of the estimated parameter is negative which seems strange, but it is probably connected with the limitations of this model for panel data mentioned in the methodology section.

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smaller. Besides variable is not significant in OLS and RE models. Labour costs are not significant in all models. The higher the trade connections the less the price dispersion.

Comparing the results for two different groups of countries, old and new European Union members it can be concluded variables: eu, euro, percapita, pkb are significant for old EU members, and vat, eu, percapita, labourcost are significant for new EU members, based on RE models. FEVD models suggest that only labour costs are not significant for EU15 countries, and euro is not significant for new EU members.

Table 3. Gravity equation estimation results.

Variable	OLS	RE	FE	FEVD
vat	0.0965***	0.1224***	0.1327***	0.1327***
eu	-0.0310***	-0.0347***	(omitted)	-0.0334***
euro	-0.0917***	-0.1139***	-0.1135***	-0.1135***
percapita	0.4429***	0.1465***	0.0820***	0.0820***
pkb	-0.0034	0.1287***	0.1537***	0.1537***
neighbour	0.2177***	0.1528	(omitted)	0.1537***
dist	0.0101	-0.0224	(omitted)	-0.0720***
language	0.1652*	0.1100	(omitted)	0.1355**
labourcost	-0.0084	-0.0098	-0.0092	-0.0092
trade	0.0368***	-0.0833***	-0.1654***	-0.1654***
cons	-0.3517***	-1.2126***	-2.0998***	-1.6763***
Variable	OLSeu15	REeu15	FEeu15	FEVDeu15
vat	0.0379	0.0281	0.0458	0.0458***
eu	-0.0323***	-0.0406***	(omitted)	-0.0412***
euro	-0.1136***	-0.1110***	-0.1101***	-0.1101***
percapita	0.4343***	0.1348***	0.0323	0.0323***
pkb	-0.0150	0.1086***	0.1435***	0.1435***
neighbour	0.2405***	0.1429	(omitted)	0.1666***
dist	-0.0150	-0.0488	(omitted)	-0.0935***
language	0.1583	0.1616	(omitted)	0.1686***
labourcost	0.0043	0.0012	0.0025	0.0025
trade	0.0385***	-0.0475*	-0.1199***	-0.1199***
cons	-0.2015**	-0.8142***	-1.7872***	-1.2621***
Variable	OLSeuNEW	REeuNEW	FEeuNEW	FEVDeuNEW
vat	0.1610***	0.1143***	0.1041***	0.1041***
eu	-0.0252***	-0.0333***	(omitted)	-0.0345***
euro	-0.3538***	-0.0961	-0.0267	-0.0267
percapita	0.4365***	0.2780***	0.1708***	0.1708***
pkb	0.0142	0.0539	0.0802	0.0802***
neighbour	0.2163**	0.1747	(omitted)	0.1477***
dist	0.0744**	0.0123	(omitted)	-0.0426***
language	0.1411	0.1184	(omitted)	0.1456**
labourcost	-0.0135	-0.0329**	-0.0367***	-0.0367***
trade	0.0324	-0.0267	-0.1085*	-0.1085***
cons	-0.6173***	-0.9571***	-1.8526***	-1.4263***

*p<0.05; **p<0.01; ***p<0.001

Source: own calculations in STATA.

It can be concluded from the model that the transformations on EU market connected with the integration positively affect the process of price convergence and make them closes to the law of one price. It is also visible that the process is changing over time as for

the old European Union countries the estimated coefficients have different values and there are some specific factors for these two groups not significant for the others.

V. Conclusions

The aim of this research was to verify the law of one price on the EU market. Even initial data analysis, based on graphs, shows that we deal with price dispersion in EU. It was then reasonable to test for sigma and beta convergence. The decreasing in time price dispersion was confirmed for four groups of countries EU27, EU25, EU15 and EA12. For all these groups it was also possible to show that relation between growth in prices over time and its initial level is negative. In section 5 the significant factors which make prices converge to the law of one price were found. The specific determinants for old and new European Union members were discussed based on estimation results. The findings are in line with theoretical predictions, integration exerts a downward pressure on price dispersion.

To sum up the process of integration is conducive for the process of price convergence. The realization of four freedom: freedom of movement of goods, labor, capital and services makes prices closer to hold the law of one price. Thanks to mentioned freedom on integrated market two principal forces can act. On the one hand the rise in competition and on the other the catching up process of low income countries leads to a rise in the price levels and higher inflation over a transition period.

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THE ROLE OF EDUCATION ON OPINIONS TOWARD AFFIRMATIVE ACTION TARGETED AT WOMEN IN ALBANIA

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***Abstract:** This chapter examines the role of education on opinions toward affirmative action that help women in Albania. A survey study (N = 173) showed that participants respond more favourably to weak preferential treatment than to strong preferential treatment. They further revealed that highly educated people were less favourable than lesser educated people toward affirmative action plans, and openly unfavourable toward strong preferential action plans. Meritocratic beliefs mediated the education effect on support for strong preferential treatment, but not for weak preferential treatment. Theoretical implications of these findings are discussed.*

***Keywords:** Affirmative action programs, Level of education, Meritocratic beliefs.*

I. Situation of women in Albania

The political and socio-economic situation of Albanian women has been largely shaped by the demise of the communist system and the establishment of democracy. Even if the equality between women and men was one of the proclaimed goals of the communist government, the implemented strategies to achieve this goal did not encourage the promotion and development of feminine characteristics. Several researchers indicate that in order to achieve gender equality, women were forced to renounce their feminine identity to follow the masculine model²²⁰. Thus, portrayals of “strong” women became common.

As Baban indicated in 2003²²¹, women had high rates of productive employment during the communist period. However, despite the egalitarian rhetoric, the paternalist nature of communist rule reinforced patriarchal attitudes and practices. Women worked in difficult conditions; the prevalent abuse was in the agriculture sector, where women were often spending twelve hours per day working in harsh conditions. At the same time, they

²²⁰ Gal, S., & Kligman, G.: *Reproducing gender: Politics, publics and everyday life after socialism*. Princeton, Oxford: Princeton University Press, 2000.

²²¹ Baban, A. : *Domestic violence against women in Albania*. New York: UNICEF, 2003. Retrived September 5, 2010, from: http://www.unicef.org/albania/domviol_eng.pdf.

were expected to assume responsibility for all the household chores. After the fall of the communist system, the decline of egalitarian ideologies brought back the Kanun Code, primarily in northern Albania. Kanun is an ancient Code of customary laws proclaiming among other points that the woman is a man's object, and that, as such, she cannot be equally respected as the man²²².

The economic decline accompanying the fall of the communist system has had a great impact on women's participation to the labour market. In 1989, labour force participation rate of women was 77%, and in 1998 it declined to 43%, with further downward movement to 39% in 2003. These figures go hand in hand with the decline of women's role in political life. In the local elections in 2007, there were only 33 women among the 1,073 candidates nominated for mayoral posts, and of these, only 9 were elected²²³. In the current parliament, women hold 23 of the 140 parliamentary seats²²⁴, and at the national level, there is only one female Cabinet Ministers²²⁵.

Concern with the situation of women in Albania has recently increased among politicians and the civil society. For instance, in 2000, in line with other European countries, all major Albanian political parties introduced the program of Electoral Quota in order to increase women participation in politics. The most significant step in increasing women's presence in decision-making positions in the legislative, the executive and the judiciary systems is the adoption by the Albanian Parliament of the law "Gender Equality in Society" in July 2008. In particular, all political parties must ensure, at a minimum, a representation of 30% of women in both national and local elections²²⁶.

II. The framing of Affirmative action

Affirmative action is a controversial issue in the realm of social policies²²⁷. The fact that public opinion considers affirmative action as involving preferential selection of members of minorities without regard to their qualification may be an explanation of the negative reactions toward affirmative action programs (AAPs)^{228 229}. In fact, affirmative action comes in a variety of types, which differ one from another in the degree to which merit and

²²² Gjecov, Sh.: Kanuni i Lek Dukagjinit. [Kanun of Lek Dukagjini]. Tirana, Albania, Geer, 2001.

²²³ The Central Elections Commission (2010). *Distribution of mandates for councillors as per electoral subjects*. Retrieved September 5, 2010 <http://www.cec.org.al/2004/zgjedhvendorefiles/2007/Rezultatet/rezultate%20perfundimtare/kryetar.pdf>

²²⁴ Albanian Parliament (2010). *Statistics*. Retrieved September 5, 2010, from <http://www.parlament.al/>.

²²⁵ Council of Ministers (2010). *The cabinet*. Retrieved September 5, 2010, from <http://www.keshilliministrave.al/?fq=showcabzvm&gj=gj2>

²²⁶ Republic of Albania. (2009). *Kodi Zgjedhor i Republikës së Shqipërisë (Miratuar me ligjin nr. 10019, datë 29.12.2008)* [The Electoral Code of the Republic of Albania (Approved by Law no. 10 019, dated 29.12.2008)]. Tirana: Republic of Albania.

²²⁷ Crosby, F., Iyer, A., Clayton, S., & Downing, R.: Affirmative action: Psychological data and the policy debates. *American Psychologist*. 2003, vol. 58, pp. 93-115.

²²⁸ Kravitz, D. A., & Platania, J.: Attitudes and beliefs about affirmative action: Effects of target and respondent sex and ethnicity. *Journal of Applied Psychology*. 1993, vol. 78, pp. 928-938.

²²⁹ Northcraft, G. B., & Martin, J.: Double jeopardy: Resistance to affirmative action from potential beneficiaries. In B. Gutek (Ed.), *Sex role stereotyping and affirmative action policy* (pp. 81-130). Institute of Industrial Relations, University of California, Los Angeles, 1982.

group membership are weighted in the selection decisions²³⁰. Hence, affirmative action can be thought of as a continuum, ranging from an individual pole to a group pole²³¹²³². Toward the individual pole, *weak preferential treatments* (also called tiebreak programs) give preference to the minority member if the majority and the minority candidates are similarly qualified. Toward the group pole, *strong preferential treatments* make explicit the applicant's membership group, exclusively (for more specific programs, see Kravitz, 1995²³³).

III. Level of education and support to affirmative action

Baudelot, Leclercq, Chatard, Gobille, and Satchkova (2005)²³⁴ claimed that a high level of education may foster open-mindedness. One major implication of this "liberalizing effect" implies a decrease of prejudice and negative attitudes toward different social groups. The higher the people's level of education, the less they show prejudice and authoritarianism, and the more tolerant, liberal, and egalitarian they tend to be²³⁵²³⁶. Based on this education-tolerance thesis, one might conjecture that people with a high level of education will react more favourably toward affirmative action plans. However, the influence of level of education on support for affirmative action should vary as a function of type of program. On the one hand, Kravitz, & Klineberg (2000)²³⁷ have showed that the highly educated are more positive than the less educated toward affirmative action applied under conditions of equal qualification. On the other hand, research has shown that the highly educated are less supportive toward strong preferential treatment as for what concerns admission to University²³⁸, access to professorships positions, and political career²³⁹²⁴⁰).

²³⁰ Konrad, A. M., & Linnehan, F.: Formalized HRM structures: Coordinating equal employment opportunity or concealing organizational practices? *Academy of Management Journal*. 1995, vol. 38, pp. 787-820.

²³¹ Lorenzi-Cioldi, F.: Les représentations des groupes dominants et dominés. Collections et agrégats [Social representations of dominant and dominated groups. Collections and aggregates]. Grenoble, France: Presses Universitaires de Grenoble, 2002.

²³² Lorenzi-Cioldi, F., & Buschini, F.: When the glass ceiling collapses, walls are erected: Positive and negative consequences of psychological essentialism in affirmative action. In S. Badaloni, C. A. Drace, O. Gia, C. Levorato, & F. Vidotto (Eds.), *Under-representation of women in science and technology* (pp. 27-40). Padova, Italy: Cleup, 2008.

²³³ Kravitz, D. A.: Attitudes toward affirmative action plans directed at Blacks: Effects of plan and individual differences. *Journal of Applied Social Psychology*. 1995, vol. 25, pp. 2192-2220.

²³⁴ Baudelot, C., Leclercq, F., Chatard, A., Gobille, B., & Satchkova, E.: *Les effets de l'éducation [The effects of education]*. Paris: La Documentation Française, 2005.

²³⁵ Bobo, L., & Licari, F. C.: Education and political tolerance: Testing the effects of cognitive sophistication and target group affect. *Public Opinion Quarterly*. 1989, vol. 53, pp. 285-308.

²³⁶ Hyman, H. H., & Wright, C. R.: *Education's lasting influence on values*. Chicago: University of Chicago Press, 1979.

²³⁷ Kravitz, D. A., & Klineberg, S. L.: Reactions to two versions of affirmative action among Whites, Blacks and Hispanics. *Journal of Applied Psychology*. 2000, vol. 85, pp. 597-611.

²³⁸ Astin, A. W.: *Four critical years*. San Francisco: Josey-Bass, 1977.

²³⁹ Faniko, K., Lorenzi-Cioldi, F., Buschini, F., & Chatard, A.: Affirmative action plans that assist women's mobility in Albania : The paradox of education. In S. Fischer & H. Pleines (Eds.), *Crises and conflicts in post-socialist societies. The role of ethnic, political and social identities* (Vol. 4, pp. 209-220). Stuttgart: Ibidem-Publishers, 2008.

²⁴⁰ Faniko, K., Lorenzi-Cioldi, F., Buschini, F., & Chatard, A. (in press). The Influence of Education on Attitudes toward Affirmative Action: The Role of the Policy's Strength. *Journal of Applied Social Psychology*.

IV. Endorsement of meritocracy

Why do highly educated people show hostility toward AAPs, especially to those programs which put weight on the beneficiaries' group membership in the decision-making process? One might think that the people with a high level of education endorse meritocratic ideologies more than other people. Consistent with this suggestion, Bowles and Gintis (2002)²⁴¹ claim that "The educational system fosters and reinforces the belief that economic success depends essentially on the possession of technical and cognitive skills." (pp. 102-103). There is indeed evidence showing that the more people are educated, the more they endorse the merit principle²⁴², and that the more they endorse this principle, the more they oppose affirmative action²⁴³.

It has been shown that education promotes system-justifying tendencies²⁴⁴²⁴⁵. Highly educated people have greater motivation to maintain and to justify the current social hierarchy²⁴⁶. One way to achieve system-justification is to emphasize the role of the individual merit in the personal career²⁴⁷. Thus, education leads to meritocracy, and meritocracy leads to opposition to affirmative action policies, especially to strong preferential treatment insofar it don't provide any information on individuals characteristics.

V. The survey

The main purpose of this research was to examine the impact of type of affirmative action policy on favorability toward the policy. Consistent with literature review, we hypothesize that strong preferential treatment should receive less support than weak preferential treatment. Our second hypothesis deals with the role of participant education. We predict an interaction between level of education and type of affirmative action policy: Compared to the less educated, the highly educated should show more support for weak preferential treatment, and less support for strong preferential treatment. As we mentioned above, the endorsement of merit principles should account for this interaction. The third hypothesis expects that the highly educated will show high endorsement of the merit principle, and that this endorsement will account for the relationship between level of education and support for strong preferential treatment. Thus, type of AAP should moderate the strength of the mediated relationships between level of education and support for affirmative action via endorse-

²⁴¹ Bowles, S., & Gintis, H.: Schooling in capitalist America revisited. *Sociology of Education*, 75, 1-18. 2002, pp. 102-103.

²⁴² Kunovich, S., & Slomczynski, K. M.: Systems of distribution and a sense of equity: A multilevel analysis of meritocratic attitudes in post-industrial societies. *European Sociological Review*. 2007, vol. 23, pp. 649-663.

²⁴³ Augoustinos, M., Tuffin, K., & Every, D.: New racism, meritocracy and individualism: Constraining affirmative action in education. *Discourse and Society*. 2005, vol. 16, pp. 315-340.

²⁴⁴ Bear, D. & Lambert, R.: Education and support for dominant ideology. *Canadian Review of Sociology and Anthropology*. 1982, vol. 19, pp. 173-195.

²⁴⁵ Jost, J. T., Banaji, M. R., & Nosek, B. A. : A decade of system justification theory: Accumulated evidence of conscious and unconscious bolstering of the status quo. *Political Psychology*. 2004, vol. 25, pp. 881-919.

²⁴⁶ Bourdieu, P., & Passeron, J.-C.: *Reproduction in education, society and culture*. London: Sage, 1992.

²⁴⁷ Jost, J. T., & Banaji, M. R.: The role of stereotyping in system justification and the production of false consciousness. *British Journal of Social Psychology*. 1994, vol. 33, pp. 1-27.

ment of the merit principle. The mediated relationship should be more pronounced for strong preferential treatment, than for weak preferential treatment.

Method

Participants

Participants were 173 undergraduate students at the University of Tirana, Albania. The division of students into two educational level was done according to Sidanius, Pratto and Bobo's (1996)²⁴⁸ procedures. Seventy-eight women and 20 men were in first year of Bachelor (classified as having low level of education, mean age was 19.41 years old, $SD = 1.08$), and 51 women and 24 men were in first year of Master (classified as having high level of education, mean age was 22.61 years old, $SD = 1.28$).

Procedure

Endorsement of the merit principle. Participants completed a 10-items *Preference for the Merit Principle* (PMP) scale²⁴⁹. This scale measures individuals' preference for outcomes to be distributed on the basis of merit. Sample items are "*Sometimes it is appropriate to give a raise to the worker who most needs it, even if he or she is not the most hard working*" (reverse-scored), and "*Members of a work group ought to receive different pay depending on the amount each person contributed*". These 10 items were averaged for an overall score ($\alpha = .70$).

Scenario. Participants read the following bogus description: "*According to a recent census carried out in Albanian Universities, men hold 90% of professorship positions. Following the publication of this census, the Ministry of Education decided to apply a new hiring program aiming at increasing the presence of women among professors*". A specific affirmative action program²⁵⁰ was then introduced. In the *weak preferential treatment condition*, participants read: "*This program holds that when a woman and a man are in competition for a professorship position, the woman should be selected if her skills are equivalent to those of the male candidate.*" In the *strong preferential treatment condition*, participants read: "*This program holds that when a woman and a man are in competition for a professorship position, the woman should be selected because she is a woman.*"

²⁴⁸ Sidanius, J., Pratto, F., & Bobo, L. Racism, conservatism, affirmative action, and intellectual sophistication: A matter of principled conservatism or group dominance? *Journal of Personality and Social Psychology*. 1996. vol. 70, pp. 476-490.

²⁴⁹ Davey, L. M., Bobocel, D. R., Son Hing, L. S., & Zanna, M. P.: Preference for the merit principle scale: An individual difference measure of distributive justice preferences. *Social Justice Research*. 1999, vol. 12, pp. 223-240.

²⁵⁰ Kravitz, D. A., Harrison, D. A., Turner, M. E., Levine, E. L., Chaves, W., Brannick, M. T., Denning, D. L., Russell, C. J., & Conard, M. A.: *Affirmative action: A review of psychological and behavioral research*. Bowling Green, OH: Society for Industrial-Organizational Psychology, 1997.

Support for affirmative action. Support was assessed using 5 items derived from previous research²⁵¹. Sample items are “*I am in favor of applying this hiring policy,*” “*This program is a good program*” (1 = *strongly disagree*, 7 = *strongly agree*; $\alpha = .90$).

Background variables. Participants reported their age, gender, and year in school. After completing the questionnaire, participants were fully debriefed, and thanked for their participation.

Results

In agreement with previous research, participants were more favorable to weak preferential treatment ($M = 5.80$, $SD = 1.36$), than to strong preferential treatment ($M = 2.88$, $SD = 2.05$), $F(1,165) = 88.77$, $p < .001$, $\eta^2_p = .35$. Not surprisingly, women ($M = 4.61$, $SD = 2.19$) were overall more favourable than men ($M = 3.11$, $SD = 2.23$) toward affirmative action, $F(1,165) = 9.34$, $p < .005$, $\eta^2_p = .05$. More interestingly, a main effect of participant education, $F(1,165) = 8.22$, $p < .01$, $\eta^2_p = .05$, demonstrated that highly educated people ($M = 3.40$, $SD = 2.29$) were overall less supportive of affirmative action policies than low educated ones ($M = 4.86$, $SD = 2.09$). However, consistent with expectations, this effect was qualified by a Participant Education x Affirmative Action Program interaction, $F(1,165) = 4.22$, $p < .05$, $\eta^2_p = .03$. It is apparent from Figure 1 that the highly educated showed less support for strong preferential treatment than the lesser educated ($M_s = 2.02$ and 3.72 , $SD_s = 1.45$ and 2.22 , respectively, $p < .02$). Conversely, both groups granted similar levels of support to the weak preferential treatment ($M_s = 5.60$ and 5.91 , $SD_s = 1.54$ and 1.26 , respectively) ²⁵².

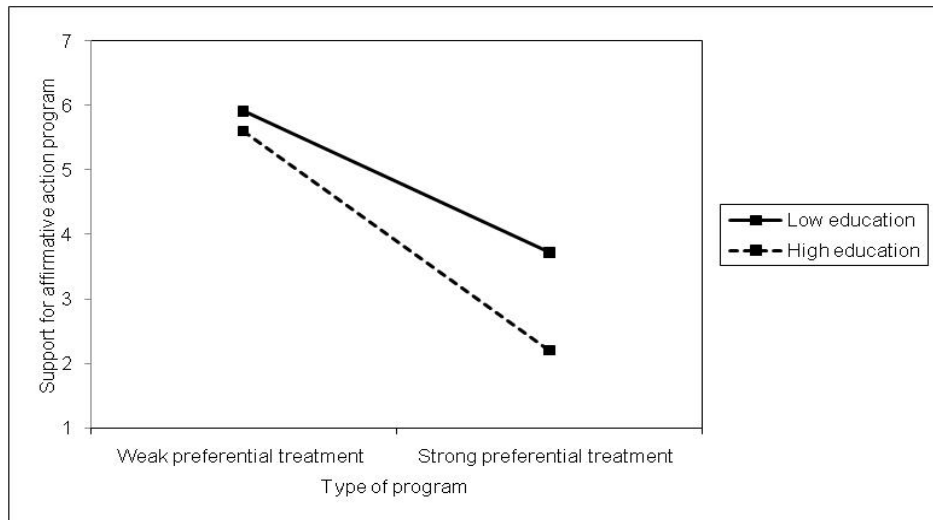


Figure 1. Means of support for the affirmative action as predicted by education and type of affirmative action program.

²⁵¹ Kravitz, D. A.: Attitudes toward affirmative action plans directed at Blacks: Effects of plan and individual differences. *Journal of Applied Social Psychology*. 1995, vol. 25, pp. 2192-2220.

²⁵² A second analysis using the same design, with the addition of participant age as a covariate, showed that the effect of education level, the effect of type of program and the interaction between these two variables on support for affirmative action remained unchanged.

Moderated mediation. To assess our main hypothesis - that the highly educated preference for meritocracy would mediate their support for strong preferential treatment, but not weak preferential treatment, we conducted a moderated mediation analysis using statistical methods outlined in Muller, Judd, and Yzerbyt, 2005²⁵³; Preacher, Rucker, and Hayes, 2007²⁵⁴. Such analysis checks for four relationships: (a) the effect of level of education on support for affirmative action programs; (b) the effect of level of education on preference for the merit principles; (c) the interaction Preference for the Merit Principles X Type of Program on support for affirmative action; (d) the conditional indirect effects of level of education on support for affirmative action programs, via preference for the merit principles, differs in strength across weak and strong preferential treatments. We expect that conditional indirect effects of level of education will be significant for strong preferential treatment but not for weak preferential treatment.

The findings supported our mediational hypothesis. There was an effect of level of education on support for affirmative action programs ($b = -1.01, p < .001$), and on preference for the merit principle ($b = .52, p < .005$). The Preference for the Merit Principle X Type of Program interaction ($b = -.79, p < .01$) indicated that the relationship between merit and support was moderated by the strength of the AAP (see Figure 2).

In a final step to validate this finding, we examined the last condition, using Preacher et al.'s (2007) procedures²⁵⁵. We thus assessed the magnitude of conditional indirect effect of the independent variable (level of education) on the dependent variable (support for affirmative action) via the mediator (preference for the merit principle) for different modalities of the moderator (weak preferential treatment vs. strong preferential treatment). Results showed that preference for the merit principle mediated the relationship between level of education and support for strong preferential treatment (coefficient = $-.35, \text{Boot } Z = -1.99, p < .05$), but not the relationship between level of education and support for weak preferential treatment (coefficient = $.06, \text{Boot } Z = .58, p = .56$).

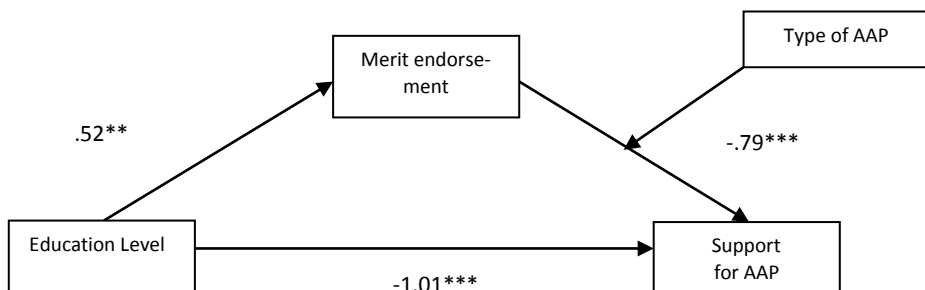


Figure 2. Mediating role of merit endorsement on the relationship between level of education and support for weak preferential treatment and strong preferential treatment. (Note : * $p < .05$; ** $p < .01$; * $p < .001$).**

²⁵³ Muller, D., Judd, C. M., & Yzerbyt, V. Y.: When moderation is mediated and mediation is moderated. *Journal of Personality and Social Psychology*. 2005, vol. 89, pp. 852-863.

²⁵⁴ Preacher, K. J., Rucker, D. D., & Hayes, A. F.: Assessing moderated mediation hypotheses: Theory, methods, and prescriptions. *Multivariate Behavioral Research*. 2007, vol. 42, pp. 185-227.

²⁵⁵ *Ibid.*, p.8.

Discussion

Kravitz and al. (1997)²⁵⁶ argue that support for affirmative action may be influenced by individual factors such as education level, participants' sex, and structural features of AAPs such as type of affirmative action. The present findings support their claims, but they further show a more complex picture, where individual and structural factors interact. We will first discuss the role of affirmative action program, than the influence of education, and finally the interaction of these two factors on opinions toward affirmative action.

Influence of type of program. In line with previous studies^{257 258}, our findings showed that participants respond more favourably to weak preferential treatment than to strong preferential treatment. Kravitz, Bludau and Klineberg (2008)²⁵⁹ explain this result by emphasizing the non-meritocratic nature of affirmative action plans. Weak preferential treatment takes into consideration the candidate's group membership, yet it does not disregard personal merits and qualifications. Strong preferential treatment violates merit principles, by favouring group membership to the detriment of personal characteristics. Thus, strong preferential treatment causes opposition.

Influence of education level. The findings from previous research dealing with role of education on support for affirmative action are inconsistent. Some research^{260 261 262} does not reveal any significant effect of education on support for affirmative action. Other research suggests that the influence of education on opinions toward affirmative action is strongly influenced by type of affirmative action. Still other research reveals a negative relationship between education and support for quota program²⁶³, and strong preferential treatment²⁶⁴.

The present study revealed that support for affirmative action is more pronounced among people with a low level of education than among those with a high level of education. This finding runs counter the education-tolerance thesis. Indeed, several criticisms of this thesis have been advanced. Sullivan, Pereson, and Marcus (1979)²⁶⁵ argued that the relationship between education and tolerance is largely artifactual. Bourdieu and Passeron

²⁵⁶ Kravitz, D. A., Harrison, D. A., Turner, M. E., Levine, E. L., Chaves, W., Brannick, M. T., Denning, D. L., Russell, C. J., & Conard, M. A.: *Affirmative action: A review of psychological and behavioral research*. Bowling Green, OH: Society for Industrial-Organizational Psychology, 1997.

²⁵⁷ Faniko, et al. (in press). The Influence of Education on Attitudes toward Affirmative Action: The Role of the Policy's Strength cit., p.4.

²⁵⁸ Singer, M. S.: 'Merit', 'preferential' or 'diversity-based' selection: Effect of information frame and informant gender on the public's views on preferential treatment in selection. *International Journal of Selection and Assessment*. 1996, vol. 4, pp. 1-11.

²⁵⁹ Kravitz, D. A., Bludau, T., & Klineberg, S. L.: The impact of anticipated consequences, respondent group, and strength of affirmative action plan on affirmative action attitudes. *Group and Organization Management*. 2008, vol. 33, pp. 361-391.

²⁶⁰ Davis, C. E., & West, J. P.: Implementing public programs: Equal employment opportunity, affirmative action, and administrative policy options. *Review of Public Personnel Administration*. 1984, vol. 4, pp. 16-30.

²⁶¹ Fine, T. S.: The impact of issue framing on public opinion: Toward affirmative action programs. *The Social Science Journal*. 1992, vol. 29, pp. 323-334.

²⁶² Konrad, A. M., & Hartman, L.: Gender differences in attitudes toward affirmative action programs in Australia: Effects of beliefs, interests, and attitudes toward women. *Sex Roles*. 2001, vol. 34, pp. 415-432.

²⁶³ Astin, A. W.: *Four critical years* cit., p.4.

²⁶⁴ Faniko, et al. (in press). The Influence of Education on Attitudes toward Affirmative Action: The Role of the Policy's Strength cit., p.4.

²⁶⁵ Sullivan, J., Pereson, J., & Marcus, G.: An alternative conceptualization of political tolerance: Illusory increases 1950s-1970s. *American Political Science Review*. 1979, vol. 78, pp. 781 – 794.

(1992)²⁶⁶ view schools as reproductive and conservative institutions rather than liberating institutions. These authors comment that the school reproduces the existing social structure in that it promotes students who have cultural privilege, and eliminates those whose cultural capital differs from that of the dominant group. Bourdieu and Passeron (1992)²⁶⁷ argue that “The educational system succeeds so perfectly in fulfilling its ideological function of legitimating the established order only because this masterpiece of social mechanics succeeds in hiding, as if by the interlocking of false-bottomed boxes, the relations which, in a class society, unite the function of inculcation, i.e. the work of intellectual and moral integration, with the function of conserving the structure of class relations characteristics of that society.” (pp. 199-200). An even stronger criticism was offered by Cohen and Lazerson (1977)²⁶⁸ who argued that students cannot learn democracy in the school because the school is not a democratic place. In a similar vein, Merelman (1980)²⁶⁹ concluded that the need for order in the schools leads to the creation of an environment that fosters the learning of constraint, hierarchy, and inequality rather than values of freedom, equality, and tolerance.

Our study further demonstrated that highly educated persons oppose more to strong preferential treatment than to weak preferential treatment, presumably because the former treatment violates merit principles. The highly educated emphasized meritocratic ideologies, compared to the less educated. Accordingly, they refused the implementation of strong preferential treatment more than the implementation of weak preferential treatment. Nonetheless, they could accept weak preferential treatment to some extent, insofar as this treatment does not conflict with meritocratic ideologies.

The results of this study substantiate our moderated mediation hypothesis that the preference for the merit principle mediates the relationship between level of education and support for strong preferential treatment, but not for weak preferential treatment. This suggests that education contributes to the belief that professional promotion should be strongly related to personal merit rather than membership group. These beliefs provoke the rejection of strong preferential treatment, insofar as it does not take into account personal qualifications, but not the rejection of weak preferential treatment, insofar as it favors the female applicant if her qualifications are equivalent of those of the male applicant.

Implementation of affirmative action programs. Despite the large diversity of affirmative action programs, only two, very different, forms of affirmative action plans have been examined in this study. We have decided to assess the support for these two forms because the results derived from the study can be useful for the implementation of affirmative action programs in several countries. Strong preferential treatment is similar to quota program. Both programs are based primarily, if not solely, on demographic status. As mentioned before, Albanian government is currently implementing quota programs target to

²⁶⁶ Bourdieu, P., & Passeron, J.-C.: *Reproduction in education, society and culture* cit., p. 5.

²⁶⁷ Bourdieu, P., & Passeron, J.-C.: *Reproduction in education, society and culture* cit., p. 5, pp. 199-200.

²⁶⁸ Cohen, D., & Lazerson, M.: Education and the corporate order. In J. Karabel & A.H. Hasley (eds.), *Power and ideology in education* (pp. 373-386). New York: Oxford University Press, 1977.

²⁶⁹ Merelman, R. M.: Democratic politics and the culture of American education. *American Political Science Review*. 1980, vol. 74, pp. 319-332.

WHERE DO WE GO FROM HERE?

Economic trends, social trajectories and policies of identities in post communist capitalism.

women's access in politics; France is considering introducing a quota of 40% women in decision-making positions in French Companies²⁷⁰. Swiss universities (e.g., Geneva University) have introduced a weak preferential treatment for women applying for professorship positions. Thus, our research has practical implications for decision-makers in Europe who aim to use affirmative action principles in minorities' empowerment strategies.

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²⁷⁰ Ministère du Travail, des Relations Sociales, de la Famille, de la Solidarité et de la Ville. (July 2009). *Remise du rapport préparatoire à la concertation avec les partenaires sociaux sur l'égalité professionnelle entre les femmes et les hommes* [Preliminary report for the consultation of social partners on professional equality of women and men]. Retrieved August 24, 2009, from <http://www.travail-solidarite.gouv.fr/documentation-publications-videotheque/rapports/rapports-concernant-champ-droits-femmes-egalite/rapport-preparatoire-concertation-avec-partenaires-sociaux-egalite-professionnelle-entre-femmes-hommes-brigitte-gresy.html>; and from http://www.travail-solidarite.gouv.fr/IMG/pdf/RAPPORT_DE_BRIGITTE_GRESY.pdf

THE EFFECT OF THE FINANCIAL CRISIS ON THE BANK REGULATION AND THE HUNGARIAN BANKING SYSTEM

Éva Fodor

Abstract: My paper is divided into 3 main chapters. In the first chapter I would like to introduce the Basel II Accord and the Basel III Accord which is under formation. In the second chapter I would like to summarize the effect of the crisis on the Hungarian economy with a few charts. In the third chapter I would like to disclose the effect of the crisis on the operation of the Hungarian banking sector and examine the financial situation of the 6 biggest Hungarian banks. This examination is based on my research.

Keywords: crisis, Basel II, regulation, bank, risk, capital

Introduction

The effect of the crisis was perceptible in several ways. Companies became bankrupt, families outran the constable. Numerous problems arose also in the financial sector. These problems had an effect on the operation of the economy. All of these factors generated the changing of the regulation of the banking sector. The purpose of my paper is to reflect that the credit institutions took excessive risk and these institutions did not get ready to the crisis and it's accompany. The existing regulation was not effective, stricter regulation was needed.

I. Basel II and Basel III Accord

What is Basel II?

„Basel II is a regulatory requirement for risk quantification for capital allocation purposes. It is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BCBS).

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It aims at: 1). Ensuring that capital allocation is more risk sensitive; 2). Separating operational risk from credit risk, and quantifying both; 3). Attempting to align economic and regulatory capital more closely to reduce the scope for regulatory arbitrage.

Basel II has profound implications for the financial industry as a whole, as well as for rating agencies and regulators. Basel II is implemented along its three pillars.”²⁷¹

The Accord in operation

Basel II contains three pillars. Its purpose is to promote greater stability in the financial system.

The first pillar deals with the minimum capital requirements (addressing risk). The second pillar deals with the supervisory review and regulatory response to the first pillar. The third pillar deals with the market discipline.

Basel III: Regulating the banking sector

The current financial crisis caused enormous economic and social costs. The financial sector lost its main purpose – allocating resources efficiently to productive investments. The financial system undertook extreme and mispriced risks with disastrous consequences for the economy.

As we can read in the press, a consensus was born on the need for stronger and more comprehensive regulation, which includes all relevant financial sectors, the so-called “shadow banking”. The most relevant questions will be how to design the right incentive structure to promote “good banking” (that means that it provides long term lending to vital sectors such as small and medium enterprises) and how to define the “right size” of the financial sector.

There is an agreement that the implementation of a counter-cyclical regulation is needed. The conference background paper *Building on the counter-cyclical consensus: A policy agenda* suggests, it would be essential to design counter-cyclical regulations that offset the natural tendency of the financial sector towards boom-bust patterns. Counter-cyclical capital requirements, loan provisioning, leverage ratios and/or loan-to-value ratios could be implemented. The key component is the international cooperation in the implementation of new framework to avoid regulatory arbitrage.

²⁷¹ Ozdemir, B. and Miu, P.: Basel II Implementation, A Guide to Developing and Validating a Compliant, Internal Risk Rating System, McGraw-Hill Professional, 2008, p.xi.

There is also a general agreement that “too big to fail” institutions are no longer acceptable. These institutions had extreme risk-taking, knowing that the government would help them. As Joseph Stiglitz²⁷² put it: “if too big to fail, then too big to be”.

The Basel III proposal

The Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced a substantial strengthening of existing capital requirements at its 12 September 2010 meeting and fully endorsed the agreements it reached on 26 July 2010.

The Committee's package of reforms will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand future periods of stress bringing the total common equity requirements to 7%. This reinforces the stronger definition of capital agreed by Governors and Heads of Supervision in July and the higher capital requirements for trading, derivative and securitisation activities to be introduced at the end of 2011.

II. The effect of the crisis on the Hungarian economy

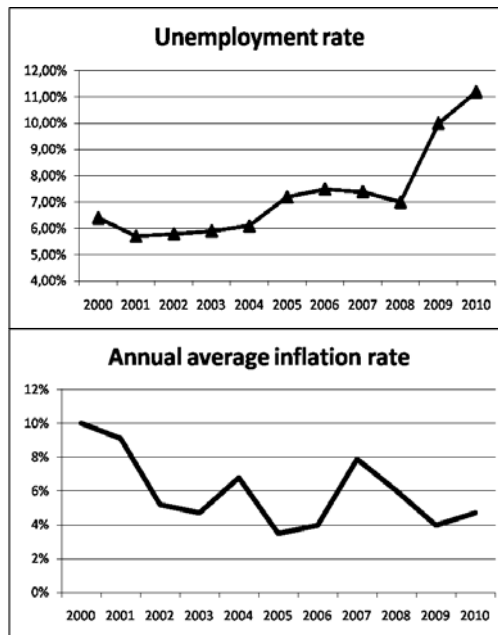
According to the analysis of the Institute for World Economics of the Hungarian Academy of Sciences, Hungary is extremely vulnerable because the economy has already been in bad situation for the past few years. Hungarian growth, real convergence and gross fixed capital formation was almost stagnant since accession to the European Union; unemployment and inflation as well as interest rates were rising, and public debts have been increasing (diverging from and not converging to the Maastricht limit of 60 percent of GDP) as we can see on the charts below.

²⁷² Nobel prize in Economics 2001

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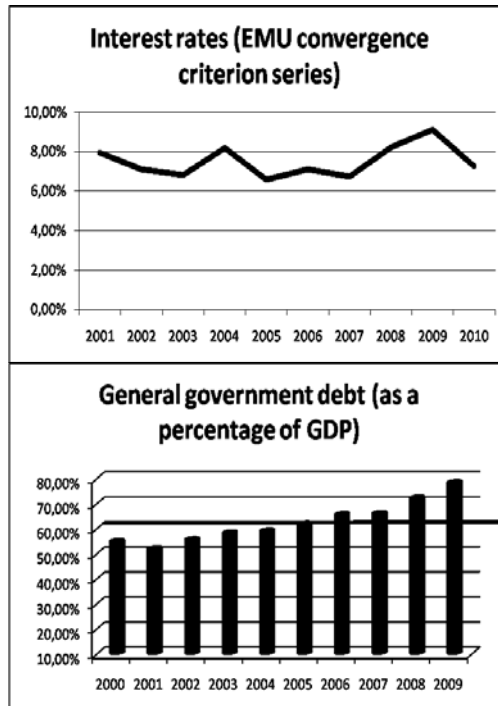
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Graph 1 The unemployment rate and annual average inflation rate of Hungary



Source: own editing from the collected data from Eurostat and KSH

Graph 2 The interest rates and general government debt of Hungary



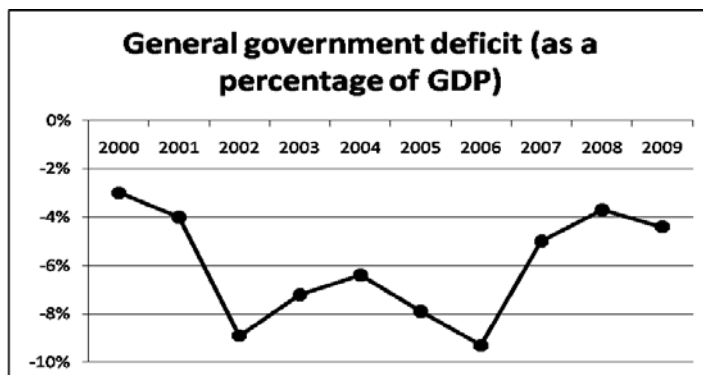
Source: own editing from the collected data from Eurostat and KSH

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In line with these facts, a huge government deficit was accumulated in 2006 (above 9 percent) which the government started to cut back via restrictions on the expenditure side but without any major reform on the revenue side.

Graph 3 The general government deficit of Hungary



Source: own editing from the collected data from Eurostat

The majority of the population felt the restrictions and the effects of the crisis seriously. Layoffs were reported every day during year 2009, and the great number of citizens who were indebted in foreign currencies found themselves in huge trouble, as the exchange rate of the Euro and Swiss Franc increased significantly.

III. The effect of the crisis on the operation of the Hungarian credit system

The capital problems arose from several ways. The parent banks of the banks on the Hungarian market are sometimes also in trouble, they need outside help and state capital injections. Because of the state help the owner proportions will change in the parent bank, the state ownership appearance may effect the business strategy, so the business policy of the Hungarian subsidiary.

At the same time the Hungarian subsidiaries can suffer from capital losing: for example by the devaluation of assets or credit loss. The reach of the capital adequacy ratio, which is booked in law, may require capital allocation by parent banks of several domestic banks.

The profitability problems of the banks can be also varied:

- 1.) Because of the recession and decreasing real earnings the flare rate of credit activity decreased strongly, especially in the case of populace credit. These

things can debase the profitability of the bank products under the effect of the competition among banks.

2.) The deteriorative credit rating of Hungary raises the cost of sources; aggregates further the cancellation of external sources. The renewal of expirations may cause several problems and it causes the raising of cost of sources. The devaluation of cost is not easy because of the competition among banks and the demand of conservation of credit quality, and it debases the efficiency of the banks. Because of the drop of Hungarian economy there is no way to devolve the costs of interest. Among these economical circumstances by the higher interest rates the interest margin may narrow.

3.) As long as the role and flare tempo of lending money in foreign currency subsists, the macroeconomic risk of the country rises for the parent banks that provide the foreign currency resources (shape of exchange rate and credit risk according to this), so the parent banks may decrease and make more expensive the lending activity for the Hungarian subsidiaries. That also can cause the deterioration of profitability.

4.) The provisioning, which is necessary because of the deterioration of credit quality, effects unfavourably and cuts down the earnings of banks. The banks have to calculate on the concrete increase on the paying problems of the customers. The followings increase the likelihood of that: the waking of the exchange rate of Hungarian forint and the deterioration of the market position of the debtor. The synchronic tumbling of many credits debases the covers, which causes further bank losses.

The banks flounder with growing problems. The large-sized recession of the Hungarian economy is the deep barrier of the growing of the banks. This recession causes the parallel taper of consumption, investments and export; naturally it decreases the demand for credit. The number and volume of potential profitable investment programs are smaller. In several sectors (building industry, car industry, deliver industry and commerce) the investments are decreasing, but the producing rate is also decreasing, which causes the taper of demand for credit. The credit-dynamic of populace is also moderating because of the more doubtful earning-existentialist picture of future. In essence the number of creditable debtors is smaller. The devaluation of assets and the losing of property and the taper/rise of bank sources moderate the credit expansion in several banks. Because of the deterioration of existing loans the banks need rising caution in case of new credits, especially they can't contract serious risk because of their depraved capital-position and aggravated opportunity for credit-supplement.

On the next chart we can see the cumulative data of the Hungarian credit institutions which operate in corporation form. The provision of the credit institutions increased

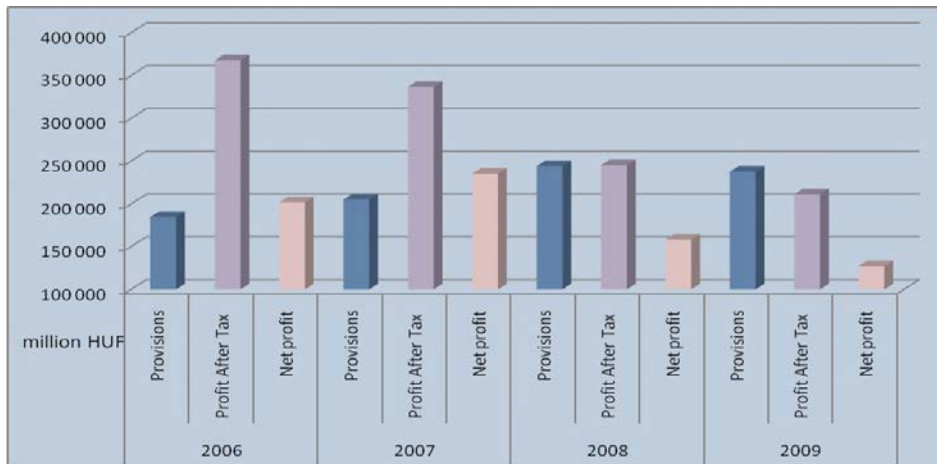
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significantly because of the deteriorative portfolio. In parallel, the profit of the banking sector decreased robustly, moreover a couple of the banks suffered loss. These effects can be noticed also in 2008, when the economy first faced the crisis, and in 2009 as well.

The bank tax which was introduced in 2010 by the new government cut back the profit of the banks as well. Under the new law, banks will be liable to pay a special annual tax of 0.15% or 0.5% on their balance sum. After the banks could recover themselves from the crisis and managed their portfolio and defined their new credit policies in order to make the operation profitable, they have to face with that tax which cuts back their profit or aggravates their loss.

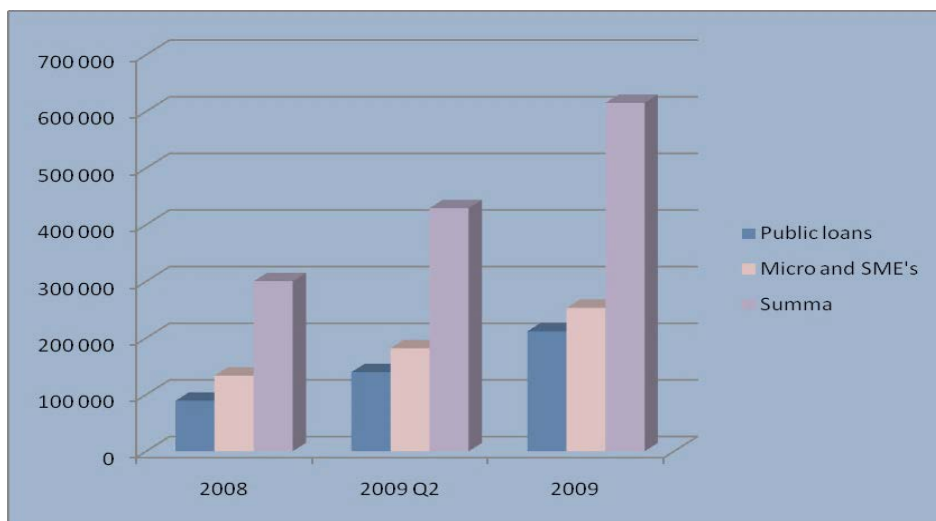
Graph 4 The provision, profit after tax and net profit data of the credit institutions which operate in corporation form



Source: own editing from the collected data from MNB

On the chart below we can see the 180+ default credit amount. The overdue credit liabilities increased significantly after the beginning of the crisis and this situation has not changed yet. The citizens and the companies found themselves in huge trouble; the redemption was difficult for them and it is also difficult in these days. These figures explain the increased provision and the decreased profit amount of the banking sector.

Graph 5 The 180+ credit amount in Hungary



Source: own editing from the collected data from MNB

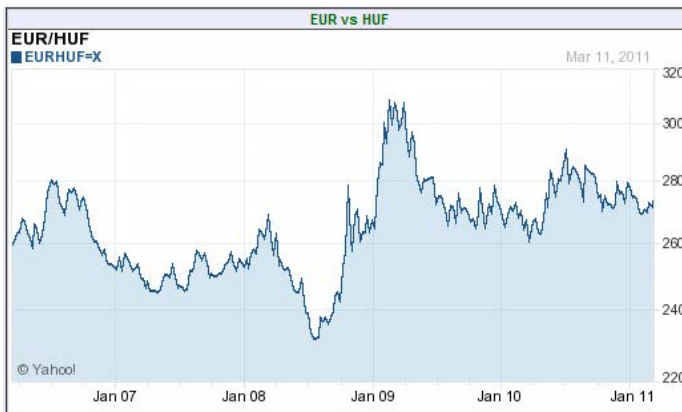
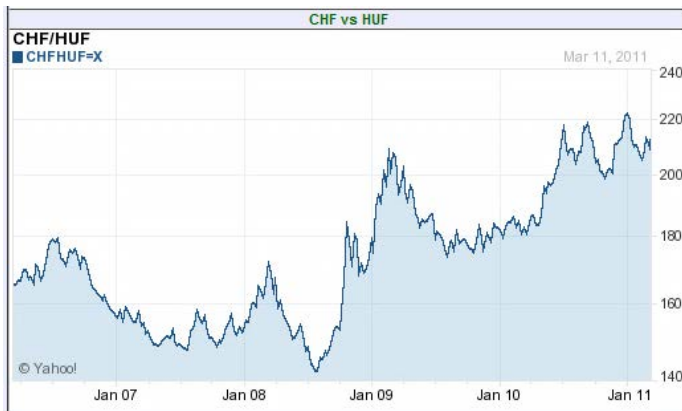
Most of the citizens and the companies were indebted in foreign currencies. After the crisis first hit the economy, the exchange rate of the Euro and Swiss Franc increased robustly. At the end of the year 2008 the exchange rates rose to an extraordinarily level and unfortunately this increasing did not stop. The historical summit of the exchange rate of the CHF was in the beginning of this year. This summit was in the beginning of the year 2009 in the case of the exchange rate of the EUR. There was a kind of credit-boom in 2007 in Hungary, both the public and the corporate credit amount were rose. Most of the increased portfolio was denominated in foreign currency, that's why the ascent of the exchange rates was pregnant with consequences.

On the next chart we can see the conformation of the exchange rates of CHF and EUR. In the time of credit-boom the exchange rate of the CHF was at about 150 HUF, nowadays it is at about 210 HUF. In case of EUR the exchange rate was at about 250 HUF, nowadays it is at about 270 HUF. So the exchange of the EUR converges to the level before the crisis, but the rate of the CHF is still much higher.

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Graph 6 The exchange rate of CHF and EUR from 2006 to 2011



Source: www.deviza.hu

Research

To examine the effects of the crisis in the practise I made a research.

I aggregated the financial data of the 6 biggest banks in Hungary. These data represent the financial situation before the crisis and after the crisis. So the figures appertain to 2008 semi final, 2008 final, 2009 semi final and 2009 final. The source of these figures is www.erste.hu, www.otp.hu, www.raiffeisen.hu, www.mkb.hu, www.k&h.hu and www.cib.hu, we find these data among the annual and semi annual reports on these websites.

On the first chart we can see the ROA, ROE and Equity ratio of the 6 biggest banks. Analyzing the ROA and ROA ratios we can draw interesting edifications about the profitability of the characters of the banking sector.

ROA: An indicator of how profitable a company is relative to its total assets.

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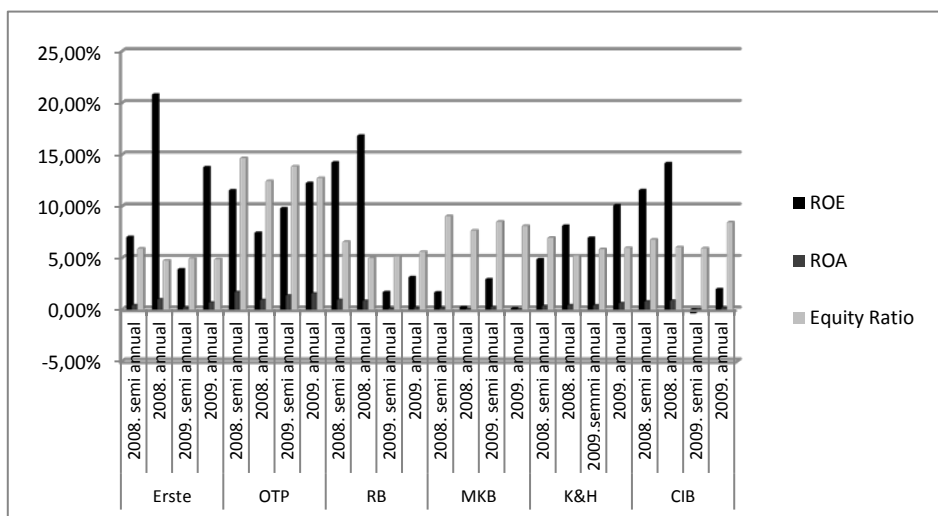
ROE: The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Equity ratio: The equity ratio is a financial ratio indicating the relative proportion of equity used to finance a company's assets. The two components are often taken from the firm's balance sheet or statement of financial position (so-called book value), but the ratio may also be calculated using market values for both, if the company's equities are publicly traded.

$$\text{Equity Ratio} = \text{Owners Equity} / \text{Total Assets}$$

These ratios decreased in 2009 in case of Erste and MKB, they increased in case of OTP and K&H, highly decreased in case of Raiffeisen and CIB. Even in case of CIB the semi annual ROA and ROE ratio are negative in 2009 because of the loss that this bank suffered.

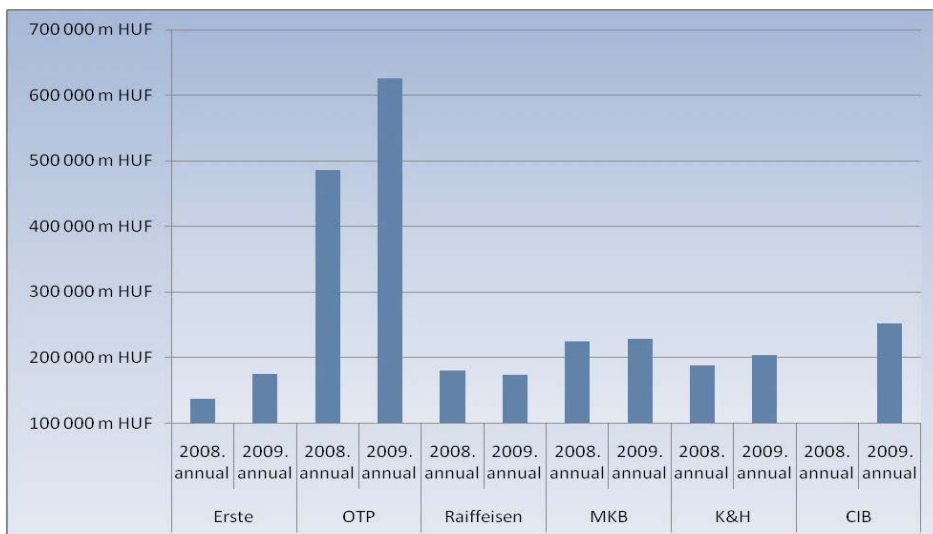
Graph 7 ROE, ROA and Equity Ratio of the banks



Source: own editing from the collected data

On the next chart we can see the guaranteed capital of the banks. This figure was naturally overriding in case of OTP and increased in case of every other bank. We can also see the differences in case of size between OTP and the other banks. In case of CIB this figure was not available in 2008.

Graph 8 The Guaranteed Capital of the banks



Source: own editing from the collected data

The Capital adequacy ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures.

An international standard which recommends minimum capital adequacy ratios has been developed to ensure banks can absorb a reasonable level of losses before becoming insolvent.

Applying minimum capital adequacy ratios serves to protect depositors and promote the stability and efficiency of the financial system.

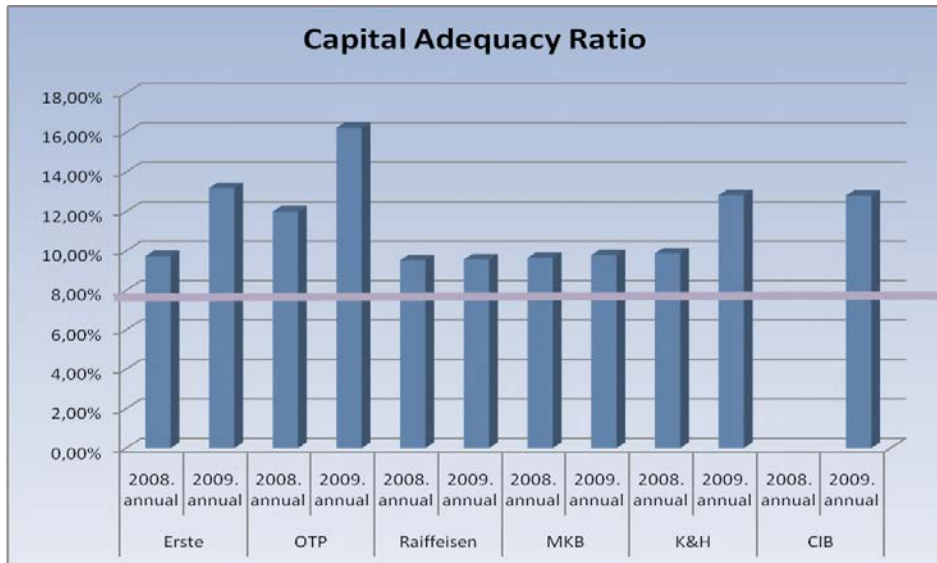
In Hungary we can calculate this ratio by divided the guaranteed capital with the risk weighted total assets.

The capital adequacy ratio was also higher in 2009 in case of every examined bank and this figure was over the required 8% in both years in case of these banks. In case of CIB this figure was not available in 2008.

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Graph 9 The Capital Adequacy Ratio of the banks

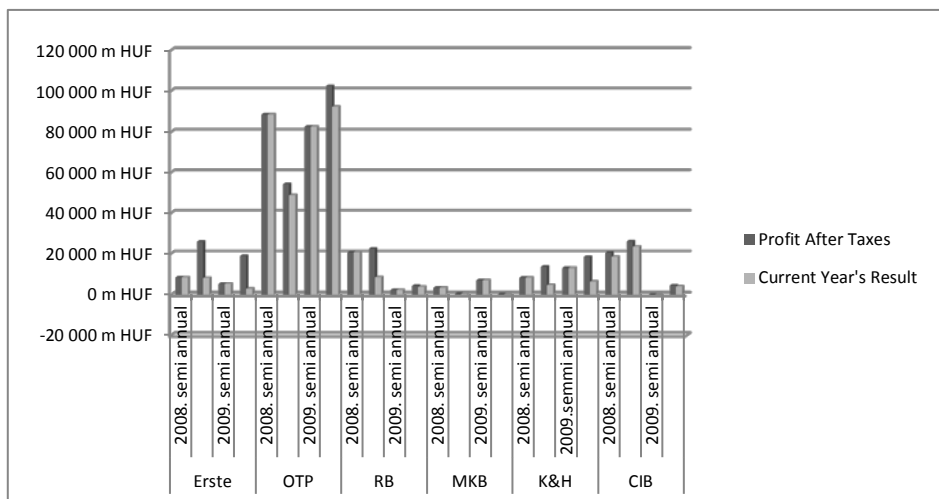


Source: own editing from the collected data

On the next chart we can see the profit after taxes and the profit or loss of the current year of the examined banks. These figures decreased in case of Erste, Raiffeisen and MKB, and even in case of CIB they were negative. In case of OTP and K&H we can see increasing figures.

In general we can declare that the financial crisis had a negative effect on the profit of the banks.

Graph 10 The Profit After Taxes and Current Year's Result data of the banks



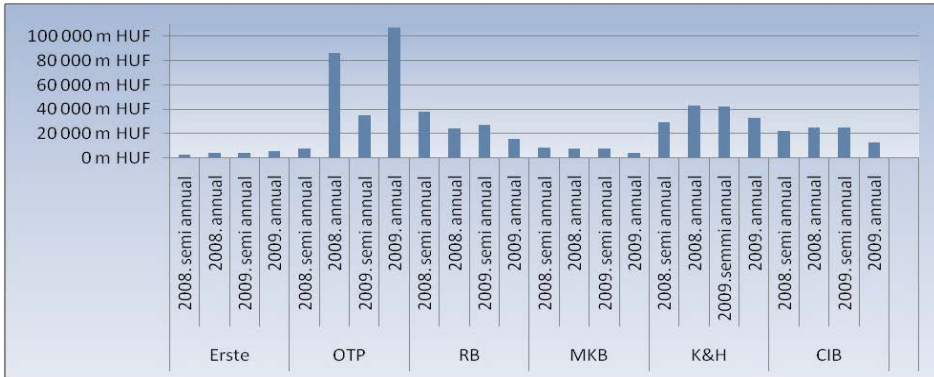
Source: own editing from the collected data

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The profit of the banks was smaller than before the crisis, because the provisioning effects unfavourably and cuts down the earnings of banks. After the crisis the banks have to create bigger provisions, because the portfolio is worse and there is much more bad loan, the ratio of the default over 90 days is much higher.

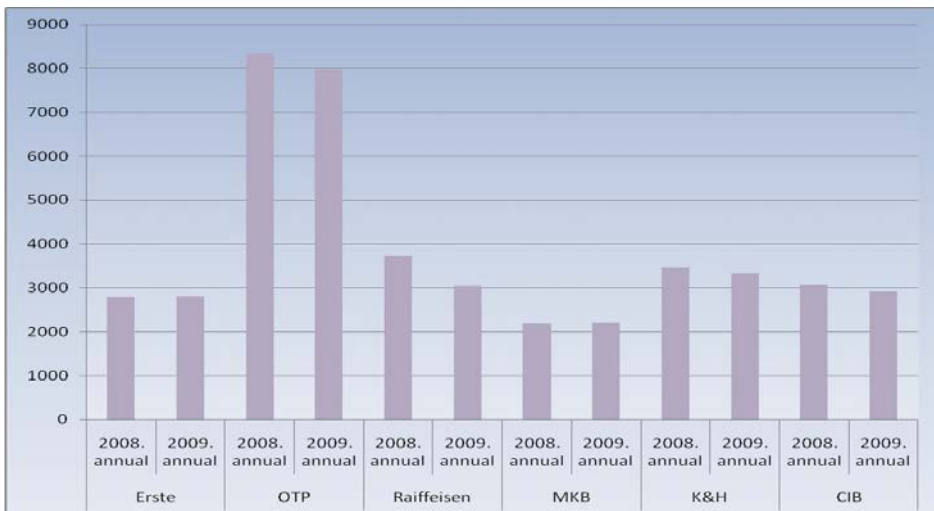
Graph 11 The Provision data of the banks



Source: own editing from the collected data

The average statistical headcount decreased in case of almost all banks, the highest decreasing was in Raiffeisen, this bank derogated this figure with 676. Moreover this bank had to cut back the number of its branch banks. It was a cost cutting arrangement to decrease the operational costs, but it was the painfulest as well.

Graph 12 The Average Statistical Headcount of the banks



Source: own editing from the collected data

The OTP is a determining character of the market because of many aspects. This bank fills a dominant part compared to the other credit institutions. The most important character-

istics are the followings: stabile market position, enormous, country-expansive branch-network, active attendance on the stock market and the sequence of the foreign expansion.

At the conformation of the two-tier banking system it started with enormous advantages thanks to the great national supporting and the established network. Accurately due to this fact this banks is that market character, which is pegged at and actively watched by every competitor in the last years. Added to which it is very difficult for this bank to escalate the existing huge customer basis and reach profit-enlargement. It seems that the market-leader credit institution can provide such a service, that it can keep its customers.

The effect of the crisis on the competition among banks

There is growing price-competition for customer-sources; the big financing gap became a disadvantage. And there is also growing competition for the good credit-worthiness customers, so the banks have to moderate the risk. The results are the decreasing credit-and the increasing deposit spread, and the narrowing margin and deteriorating profitability.

There were also several problems in the Hungarian economy before the subprime crisis: the low growing ratio, the high interest ratio, the high taxes and the large-sized bureaucracy. The spread of the crisis affected heavily the Hungarian economy: the liquidity decreased, the outer financing sources had to use, the exchange rate weakening had negative effect on the foreign currency debtors, and the high state deficit did not allow state incentive programs.

The banks reacted on the crisis in several different ways. In the short term strategy there are conservative reactions. The focus is on the short term profit, the customer-demand is secondary. The expansion is minimal, only the serve of the existing business and the match to the law are important. The banks aspire to provide short term financial stability and cut the costs. In the business activity the focus is on the deposits. These reactions are short term protection against the crisis.

On the other side there are divining solutions to handle the crisis with drawing profit from the opportunities. The focus is on the customers and the recovery of the confidence, and the innovative products are very important. The banks try to enter innovations which support the business activity and the customers, meantime match to the law. They would like to make the long term financial stability with optimal size, and the focus is on the consistent credit lending and increment on the side of deposit. In order to make the long term financial stability the banks change their credit policies. The role of risk management is much higher than before. Lending in foreign currency is admissible in case of natural hedge and with good qualification in case of companies. The ability to pay of the citizens is in focus.

Conclusions

We can say in generally, that the crises effected significantly the Hungarian banking sector and the financial situation of the Hungarian banks and naturally all the Hungarian economy. People outran the constable, the portfolio of the banks deterioriated, the growing of the economy was thrown back. The banks realised that they took too high risk in the last few years. They had to change their credit policies and make the lending activity more risk-sensitive. This situation was not discrete, it was typical all over the word.

Not only the operation of the banks should be changed, but also the bank regulation. It was very important to realise that a finacial reform was needed. That's way the Basel III Accord was created. The notion of the experts is that the new rules of the banking sector make the opeartion of the credit institutions safer and stabiler and arrest the excessive risk-taking. At the same time they draw our attention that the stricter regulation makes more strunger the operation of the banks and this can have an effect on the financing of the economy, namely it can show up in the volume and cost of credits. On the other hand, these aggravations protect the banks against the failure because of the banked credits and the chance that they can compromise the economies.

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PERSPECTIVES AND CHALLENGES OF USING NUCLEAR ENERGY WITHIN THE EUROPEAN UNION

Dominika Forgáčová

***Abstract:** The paper discusses perspectives and challenges of using atomic energy within the European Union and particularly the Visegrad Group. The main aim of the paper is to provide a clear overview of deployment of nuclear power in the EU member countries and present the main challenges of safe and sustainable using of nuclear power.*

***Keywords:** nuclear energy, the European Union (EU), the Visegrad Group (V4), challenges*

Introduction

Energy is a fundamental element of our lives. Europe has one of the world's largest energy consumptions that will further rise. Moreover, the days of secure and cheap energy are over and we have to face the consequences of climate change. In order to assure a sustainable, secure and competitive energy supply, the EU is working on a common energy policy framework. Although there is a common European energy policy, the member states decide independently whether to use nuclear power or not.

The first part of the paper analyses the atomic energy consumption and the main development trends within the EU and particularly V4. Currently 14 EU member states rely on atomic power in their energy strategies and further countries reconsider launching the atomic energy plants. The second part presents the conditions of safe and secure use of nuclear energy, namely safeguards, security and safety. Moreover lists the greatest challenges to the atomic industry, such challenges as cost, safety, waste management and the proliferation risks.

I. Nuclear energy policy within the European Union

European Commission has submitted the Strategic Energy Technology Plan (SET Plan) that defines a set of competitive low carbon energy technologies, one of which is nuclear fission.²⁷³ Presently nuclear power plants produce around a third of the electricity and 15% of the energy consumed in the EU. It is up to each Member State to decide whether to pursue the option of nuclear power.²⁷⁴ Table 1 shows the number of nuclear power reactors in the EU. There are 144 reactors in operation and 6 reactors under construction.

Table 1 Nuclear power reactors in the EU in 2010

Country	Reactors in operation (construction)	Nuclear electricity as % of total electricity generated
Belgium	7	51.7
Bulgaria	2 (2)	35.9
Czech Republic	6	33.8
Finland	4 (1)	32.9
France	58 (1)	75.2
Germany	17	26.1
Hungary	4	43
Lithuania	1 (reactor shut down on 31.12. 2009)	76.2
Netherlands	1	3.7
Romania	2	20.6
Slovakia	4 (2)	53.5
Slovenia	1	37.9
Spain	8	17.5
Sweden	10	34.7
United Kingdom	19	17.9
Total	144 (6)	

Source: IAEA

France is the world's largest net exporter of electricity, exporting important amounts to Belgium, the Netherlands, Italy, Britain and Germany. France derives over 75% of its electricity from nuclear energy and is very active in developing nuclear technologies so far. Driving force for this development is the French long-run energy policy based on the highest priority of energy security. "In mid 2010 a regular energy review of France made by the International Energy Agency (IEA) urged the country increasingly to take a strategic role as provider of low-cost, low-carbon base-load power for the whole of Europe rather than to concentrate on the energy independence which had been driven policy since 1973."²⁷⁵

²⁷³ European Commission: *SET – Plan: Towards a low carbon future*. Luxembourg: Publication Office of the European Union, 2010, p. 6.

²⁷⁴ Nuclear energy: What do we want to achieve? *European Commission*. 05.09.2010. Online: http://ec.europa.eu/energy/nuclear/index_en.htm

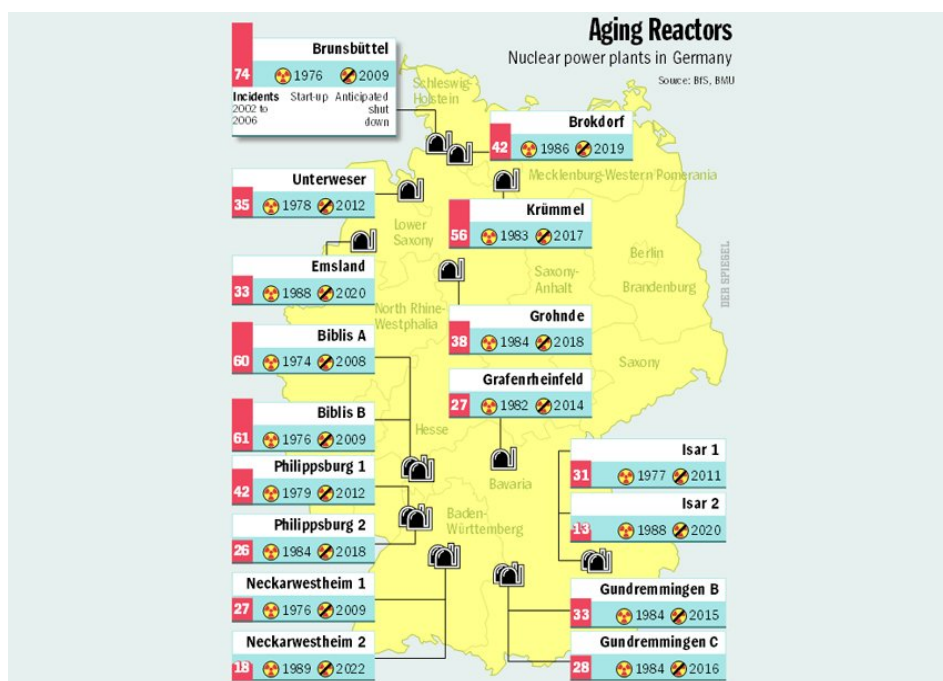
²⁷⁵ Nuclear power in France. *World Nuclear Association*. 30.08.2010. Online: <http://www.world-nuclear.org/info/inf40.html>

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Germany obtains over one quarter of its electricity from nuclear energy. German government has had the phasing out of nuclear energy as a feature of its policy since 1998. “The gradual shutdown of all Germany’s nuclear power plants was agreed upon in 2000.”²⁷⁶ In particular, the agreement put a cap of 2623 billion kWh on lifetime production by all 19 operating reactors, equivalent to an average lifetime of 32 years. That is even less than the 35 years sought by industry. It also prohibited the construction of new nuclear power plants for the next time being.”²⁷⁷ Two reactors closed in 2003 and 2005. As shown in Map 1, the anticipated phase-out of reactors is firmly set with the latest shut down of the Neckarwestheim 2 reactor in 2022.

Map 1: Aging nuclear power plants in Germany (Start-up and anticipated shut down of the reactors)



Source: Der Spiegel

According to the IEA report from 2007, “Regardless of how nuclear power is replaced, the early shut-down of these plants comes at a cost to energy security, economic efficiency and environmental sustainability. The loss of nuclear power will lead to reduced supply diversity, negatively affecting energy security. As a largely domestic resource, nuclear power reduces the need to rely on imports of other fuels, such as gas; increased dependence on fossil imports in future would likely raise Germany’s reliance on Russia’s Gazprom. In context of Germany’s ambitious targets to reduce the negative environmental impacts of energy production, the shutdown of nuclear power plants might have the biggest

²⁷⁶ Merkel Puts Germany’s Nuclear Phase-Out in Question. *Deutsche Welle*. 09.01.2007. Online: <http://www.dw-world.de/dw/article/0,,2304599,00.html>

²⁷⁷ Nuclear power in Germany. *World Nuclear Association*. 05.09.2010. Online: <http://www.world-nuclear.org/info/inf43.html>

effect on its environmental goals. For these reasons, we strongly encourage the government to reconsider the decision to phase out nuclear power.”²⁷⁸ In light of these circumstances, the government decided to re-evaluate national nuclear policy. With agreement to extend the working lives of its nuclear reactors by an average of 12 years, Germany made a turnaround in its energy policy.²⁷⁹ In fact, German government made an indeed unpopular decision. According to a recent poll, 56% of Germans are strongly against extending the lives of nuclear power plants.²⁸⁰ On the other hand, German chancellor named the undertaken step as a bridge to a hypothetical future powered 80% by renewables in 2050.²⁸¹

Nuclear power has just a limited role in the Dutch electricity supply. The Borselle reactor provides less than 4% of the whole generation. However, the situation will slightly change in coming years. Already in June 2009, the Dutch utility Delta announced the aim to construct two nuclear power plants with maximum 2500 MWe to extend the present Borssele plan. While Delta was waiting for the decision of the Cabinet, the Energy Resources Holding (EHR) doubled their application. “EHR has launched the application process for a new nuclear plant at the Netherlands’ Borssele site. The plan is completely separate from another plan for new build at the site launched last year by Delta. The company outlines its vision for up to a maximum capacity of 2500 MWe from third-generation nuclear units. According to the ERH planning outline, construction on the plant could start in 2015 with electricity supply from 2019.”²⁸² No matter which company will construct the new capacities, the outcome is clear. The Netherlands tends towards nuclear energy too.

Similar to Holland, Belgium considers implementing the growing trend of extension of operating life of the nuclear power plants, specifically three reactors - Doel 1, Doel 2 and Tihange 1. In order to avoid energy shortages their life expectancy will be prolonged by 10 years, until 2025. In contrast, the last light water reactor unit at Ignalina in Lithuania was shut down on 31. December 2009. Although Lithuania is no longer producing nuclear energy, the government considers construction of a new reactor by 2018.

The Bulgarian government struggles to solve the financial situation in order to build the Belene nuclear power plant. In fact, this project slowed down in autumn 2009, when the German utility RWE withdrew as a strategic investor in Belene.²⁸³ “Basically, if Bulgaria does not find a new major investor, the Government will focus on the construction of a new reactor at the existing Kozloduy nuclear power plant instead of the Belene. (Four Soviet-era reactors at the Kozloduy were closed on condition of joining the EU causing a general ener-

²⁷⁸ International Energy Agency: *Energy Policies of IEA Countries. GERMANY 2007 Review*. Paris: OECD/IEA Head of Publications Service, 2007, p. 8 – 9.

²⁷⁹ Connolly, K.: Germany agrees to extend life of nuclear power stations. *Guardian.co.uk*. 06.09.2010.
Online: <http://www.guardian.co.uk/world/2010/sep/06/germany-extend-nuclear-power-stations>

²⁸⁰ Connolly, K.: *Angela Merkel risks Germans’ ire with fresh commitment to nuclear energy*. *Guardian.co.uk*. 30.08.2010.
Online: <http://www.guardian.co.uk/world/2010/aug/30/angela-merkel-commits-nuclear-energy>

²⁸¹ Nuclear a cash cow for Germany’s plants. *World Nuclear News*. 06.09.2010.
Online: http://www.world-nuclear-news.org/NP_Nuclear_a_cash_cow_for_Germanys_plans_0609101.html

²⁸² Application doubles Dutch new-build plans: *World Nuclear News*. 07.09.2010.
Online: http://www.world-nuclear-news.org/NN-Application_launch_doubles_Dutch_new-build_plans-0709107.html

²⁸³ RWE pulls out of Belene. *World Nuclear News*. 28.10.2009.
Online: http://www.world-nuclear-news.org/C_RWE_pulls_out_of_Belene_2810092.html

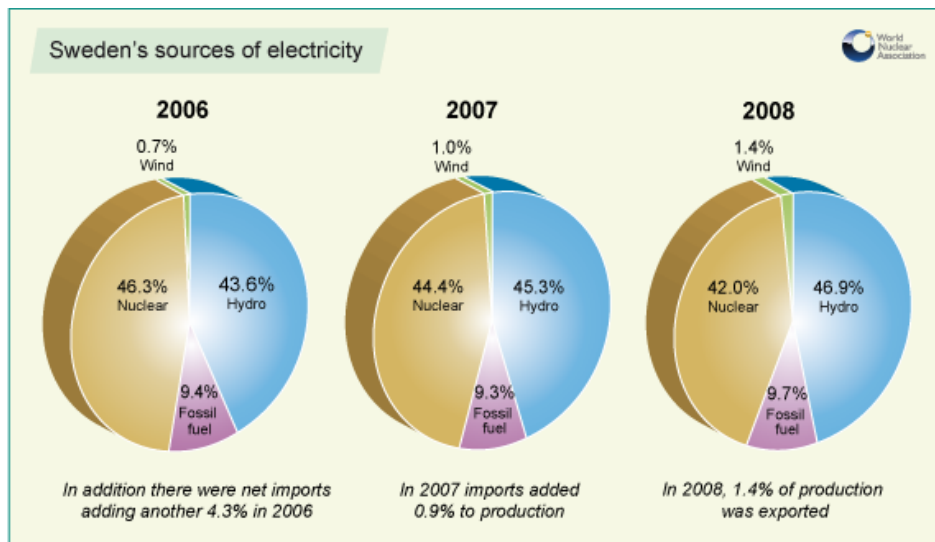
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gy deficit in the region.)”²⁸⁴ Additionally, the construction of the seventh reactor at the Kozloduy could be even cheaper alternative to the Belene. On top, quest to find new investors’ has brought Bulgarian government to offer to pay up to \$10 billion for two new reactors at the Kozloduy, according to WNN.²⁸⁵ At the same time, “in Slovenia the construction of a second reactor at the Krško site is seen as a major long-term energy policy objective. The State-owned energy company Gen Energija is waiting for approval to build its second nuclear power plant, to be completed by 2020 with an operating life of 60 years, while also trying to extend the operating life of the existing Nuklearna Elektrarna Krško plant by 20 years.”²⁸⁶

In addition, Italy launched similar orientation with the long-run aim to provide ¼ of Italy’s total electricity production with atomic energy. “Italy and Sweden have announced reversals of their prohibitions on new nuclear plant construction.”²⁸⁷ Such a turn creates conditions for broader recognition and acknowledgement of the growing importance of nuclear energy both in the EU and worldwide. As Table 1 shows, Sweden has 10 nuclear power reactors providing over 40% of its domestic electricity. In June 2010, thirty years after ban on the new nuclear reactors, Swedish parliament voted to repeal this policy. However, to make such an overturn is hard, mostly because of strict antinuclear law and a tax discrimination against nuclear power. As shown in Figure 1, up to the half of domestic electricity production is hydro and over 40% is nuclear. Electricity imports and exports vary according to season, mostly to Finland, Norway and Denmark.

Figure 1 Sweden’s sources of electricity



Source: World Nuclear Association

²⁸⁴ Bulgaria advances plans for new nuclear. *World Nuclear News*. 19.08.2010.
Online: http://www.world-nuclear-news.org/NN_Bulgaria_advances_plans_for_new_nuclear_1908101.html

²⁸⁵ Price named for new Kozloduy unit. *World Nuclear News*. 07.09.2010.
Online: http://www.world-nuclear-news.org/NN_Price_named_for_new_Kozloduy_units_0709108.html

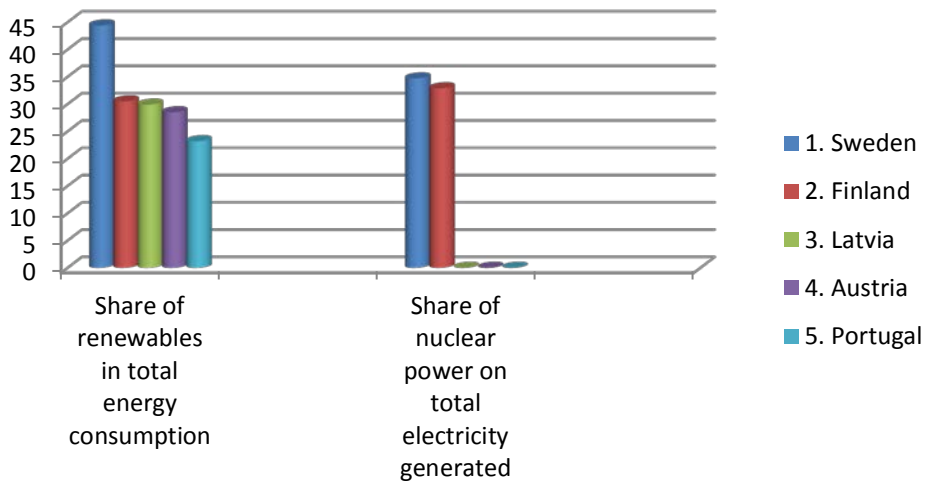
²⁸⁶ EURATOM Supply Agency: *Annual Report 2009*. Luxembourg: Publications Office of the European Union, 2010, p. 11.

²⁸⁷ Deutsch, J., Forsberg, C., Kadak, A., Kazimi, M., Moniz, E., Parsons, J.: *Update of the MIT 2003 Future of Nuclear Power*. Cambridge: Massachusetts Institute of Technology, 2009, p. 5.

In past Sweden was a forefront leader of the anti-nuclear movement. “In 1980, Swedes voted in a referendum to phase out existing reactors by 2010.”²⁸⁸ Presently, Swedish perception of nuclear energy has overcome a shift to recognition of importance of nuclear energy by covering the extremely huge domestic electricity consumption. “Surveys show nuclear power is now favored by the most Swedes. Atomic energy was ranked by Swedes the best energy source to protect the environment and create jobs in a March poll, with 26 percent of people surveyed ranking it top, ahead of wind power (21 percent) or hydro power (18 percent).”²⁸⁹

As shown in Figure 2, countries with the highest share of renewable energies diversify their energy sources also using atomic energy. In Sweden and Finland, nuclear energy plays essential role in their energy mix. That questions the anti-nuclear activists’ assumption that in countries where the financial sources are directed to the atomic energy development, renewable energy is undeveloped.

Figure 2 Share of renewable energy sources in total energy consumption and share of nuclear power on total electricity generated in relevant countries



Source: Eurostat, IAEA

To raise a further challenge to the nuclear power development, the UK intends to build the world’s first nuclear fusion power station, which could possibly be operating within 20 years. The Department of Energy and Climate Change sees this project in global scale, where the common funding is required.²⁹⁰ At the same time, Britain’s energy policy aims to move away from over-dependency on fossil fuels, particularly oil, mostly due to the

²⁸⁸ Nuclear power in Sweden. *World Nuclear Association*. 13.07.2010. Online: <http://www.world-nuclear.org/info/inf42.html>

²⁸⁹ Fouche, G., Pollard, N.: *Sweden eyes nuclear revival 30 years after ban*. REUTERS. 22.03.2010. Online: <http://www.reuters.com/article/idUSTRE62L35F20100322>

²⁹⁰ Leake, J.: *UK plans first nuclear fusion plant*. The Sunday Times. 21.02.2010. Online: <http://www.timesonline.co.uk/tol/news/science/article7034945.ece>

BP oil spill in the Gulf of Mexico sooner this year. However, “market will decide which low-carbon technologies will be used, according to the British Energy Secretary”.²⁹¹

II. Nuclear energy policy in the Visegrad Group

Lack of electricity will threaten the Central Europe in coming years. Czech experts predict electricity shortages in 2015.²⁹²

As shown in Table 1, Slovakia has four nuclear reactors generating above half of its national electricity consumption and two additional are under construction. The Energy Security Strategy of the Slovak Republic has outlined further development in nuclear field in Slovakia. The main aim is to achieve development of four nuclear power reactors - in the short term Mochovce 3 and Mochovce 4, midterm Bohunice V3 and long-term Kecerovce. Italian ENEL is the biggest foreign shareholder in the Slovak electricity industry that plans to invest 2.7 billion euro in Mochovce power plant in upcoming 5 years.²⁹³

One of the preconditions for the Slovak entry to the EU was to shut down two Soviet type nuclear reactors. Therefore, Slovakia had to phase out Bohunice V1 units 1 and 2, although these reactors met the high safety standards. Subsequently, Slovakia turned from a net electricity exporter into a net importer. In January 2009, Slovakia tried a very critical situation when a dispute between Russia and Ukraine caused a gas cut off to Europe. When a blackout threatened Slovakia, the Prime Minister R. Fico was considering resetting of Bohunice V1. In case of starting up the reactors, the EU could impose huge financial sanctions to Slovakia. However, in case of the blackout, Slovak economy would turn dozens of times backwards.

Energy strategy in the Czech Republic heads towards a significant increase in share of nuclear power in the domestic electricity consumption. ČEZ announced an intention to build two additional reactors at the Temelin site. Besides, it has raised speculations over construction additional (up to three) units later. “In Hungary, the government and parliament both voted in favour of doubling nuclear capacity by 2020-2025.”²⁹⁴ Poland is the only country of the V4, which does not use nuclear power by now. However, in order to meet the rising demand for electricity and achieve the EU’s climate protection requirements Poland tends to develop nuclear power generation within the country. “The investment plans of Polska Grupa Energetyczna (PGE) include the construction of two nuclear power plants,

²⁹¹ Minister says private sector will build nuclear plants. *BBC News*. 01.08.2010. Online: http://news.bbc.co.uk/2/hi/uk_news/8874933.stm

²⁹² *Renesancia jadrovej energetiky*. 22.2.2011. Energy Security Institute. Bratislava. 2008.

²⁹³ Enel preinvestuje na Slovensku v najbližších piatich rokoch 2,7 mld.eur. 15.03.2010. Online: <http://www.energoforum.sk/sk/r/909/enel-preinvestuje-na-slovensku-v-najblizsich-piatich-rokoch-2-7-mld-eur?p=8>

²⁹⁴ EURATOM Supply Agency: *Annual Report 2009*. Luxembourg: Publications Office of the European Union, 2010, p. 10.

each with a capacity of about 3000 MW.”²⁹⁵ The first of these units should be completed by 2020.

Czech Republic and Slovakia reacted quickly on the nuclear renaissance in Europe and proposed to establish the European Nuclear Energy Forum (ENEF) at the European Council summit in 2007. Taking into consideration that 14 EU member states use nuclear power, ENEF is of particular relevance and strongly supported by president of the European Commission J. M. Barroso. ENEF creates a place for discussion and serves as an advisory body for further development of nuclear capacities within the EU. ENEF holds a meeting twice a year, alternately in Bratislava and Prague. Moreover, ENEF has three working groups dealing with the risks, opportunities, information and transparency of nuclear energy. European Commission created a High Level Group on nuclear safety and waste management to cooperate closely with ENEF in order to harmonize security criteria for nuclear power plants within the EU.

The last Summit of the Prime Minister of V4 was held on 15. February 2011 in Bratislava where participated also German Chancellor A. Merkel, Chancellor of Austria W. Faymann and Prime Minister of Ukraine Mykola Azarov. One of the most important topics was energy security and cooperation within the region. Concerning the Hungarian presidency of the EU and Slovak V4 presidency, it is sure that Visegrad countries will try to set up in the European energy policy and support their own energy projects in 2011.

III. The greatest challenges to atomic industry

All states that joined the Nuclear Non-Proliferation Treaty (NPT) are entitled to share the benefits of nuclear energy. One of the three pillars of the NPT, together with disarmament and non-proliferation, is the peaceful use of nuclear energy. In Article IV, the Treaty recognizes “the inalienable right of all the Parties to the Treaty to develop research, production and use of nuclear energy for peaceful purposes without discrimination.”²⁹⁶

According to the report of the Commission on Nuclear Non-proliferation and Disarmament, for achievement of peaceful use of nuclear energy is a responsible nuclear energy management required. Responsible nuclear energy management is based on the “Three Ss”. The first indispensable dimension of the effective management is safeguards, the second is security, which is the most relevant in the context of counter-terrorism strategy and the third is safety. “Non-nuclear weapon states party to the NPT accept an obligation not to divert nuclear energy from peaceful uses to nuclear weapons or other nuclear explosive devices.”²⁹⁷ In order to prove that states fulfill this obligation, the International Atomic Energy Agency (IAEA) created a system of verification, based on an agreement between the

²⁹⁵ Polska Grupa Energetyczna. *Nuclear Power*. 08.09.2010.

Online: <http://www.pgesa.pl/en/PGE/BusinessAreas/Pages/NuclearPowerGeneration.aspx>

²⁹⁶ The Non-Proliferation Treaty (NPT): NPT Briefing Book. Southampton: The Mountbatten Centre for International Studies, 2010, p. 27.

²⁹⁷ Evans, G., Kawaguchi, Y.: *Eliminating Nuclear Threats: A practical Agenda for Global Policymakers*. Canberra/Tokyo: International Commission on Nuclear Non-proliferation and Disarmament, 2009, p. 83.

IAEA and a concrete state. Mostly states sign the standard comprehensive safeguard agreement, which serves to declare all nuclear materials and facilities to the IAEA. However this traditional agreement had not been sufficient enough, particularly because of the repeated failures in Iran, Libya and Syria. Since then, the IAEA has been constantly working on strengthening the safeguards system with a key effort to use acquired information efficiently. All-out effort resulted to a creation of a voluntary legal instrument, which is complementary to the safeguards agreement, namely the Additional Protocol. States with ratification of this document make available broader information for the IAEA and the IAEA inspectors are entitled with wider rights.

Table 2 Ratification of the Non-Proliferation Treaty and the Additional Protocol by some of the EU Member States

Country *Nuclear weapon state	The Non-Proliferation Treaty (year of ratification)	The Additional Protocol (year of ratification)
Belgium	1975	2004
Bulgaria	1969	2009
Czech Republic	1993	2009
Finland	1969	2004
France*	1992	2004
Germany	1985	2004
Hungary	1969	2007
Italy	1975	2004
Lithuania	1991	2008
Netherlands	1975	2004
Romania	1970	2000
Slovak Republic	1993	2005
Slovenia	1992	2006
Spain	1987	2004
Sweden	1970	2004
United Kingdom*	1968	2004

Source IAEA

The second dimension of responsible atomic energy management is security. If a bomb attack occurred on a nuclear power plant, the damage would be immense. Therefore a strong counter terrorism system involves “a complex mix of protection, policing, political, peacebuilding and psychological strategies, coordinated nationally and internationally.”²⁹⁸ Each of them has a special element and suitable implementation all together can provide a strong nuclear security system. For instance, the protection strategy involves homeland security measures, such border protection and airline travel. Policing detects a potential terrorist attack, mostly through intelligence services. Having a political strategy means paying serious attention to any international political grievances that could be possible motives for terrorist attacks. Peacebuilding helps states to develop capacities to prevent and

²⁹⁸ Evans, G., Kawaguchi, Y.: *Eliminating Nuclear Threats: A practical Agenda for Global Policymakers*. Canberra/Tokyo: International Commission on Nuclear Non-proliferation and Disarmament, 2009, p. 115.

deal with terrorism and the psychological strategy provides a background for establishment of a global perception of the nuclear terrorist attacks as indefensible in the 21st century. A good example of global cooperation is the Global Initiative to Combat Nuclear Terrorism, announced by President Bush and Putin in July 2006 during the G8 Summit in St Petersburg.

The third essential dimension of responsible nuclear energy management is safety. As the Chernobyl disaster showed in 1986, a nuclear accident anywhere is a nuclear accident everywhere. "As additional countries build nuclear power plants, it is essential that they establish strong safety measures, including competent, effective, and independent national regulators and the global safety regime."²⁹⁹

The explosion at the Fukushima nuclear power plant in March 2011 that caused spread of radiation will also influence the European nuclear development. Many European countries agreed to test safety in their nuclear power plants, although the responsibility and right to decide about the use of nuclear energy remains on states. The meltdown in Japan can negatively influence the public opinion, even though nuclear experts argue that Europe has completely different natural conditions and such earthquake as happened in Japan does not threaten us. The consequences of nuclear disaster at Fukushima are still not clear at this stage. What is clear is that the catastrophe will have far-reaching consequences for global nuclear industry, not only for Europe.

According to the MIT report on future of the nuclear power examines important challenges for atomic industry as follows:

1. cost
2. safety
3. waste management
4. proliferation risk³⁰⁰

First, there is a need to emphasize that the era of cheap energy is probably over. Second, when comparing nuclear energy to natural gas or coal, the nuclear costs are driven by high up-front capital costs. In contrast, the cost driver is price of fuel. Coal lies in between. Third, the additional value of nuclear lies in the low carbon levels and relatively stable costs in a long run. It means that nuclear has high reliability from the security of supply point of view and contributes to fighting the climate change.

The EU established a Community framework for nuclear safety in 2009. This unique Directive sets binding principles for enhancing nuclear safety and strengthens the role of national regulators, confirming licence-holders' prime responsibility for nuclear safety in

²⁹⁹ Evans, G., Kawaguchi, Y.: *Eliminating Nuclear Threats: A practical Agenda for Global Policymakers*. Canberra/Tokyo: International Commission on Nuclear Non-proliferation and Disarmament, 2009, p. 125.

³⁰⁰ Deutsch, J., Forsberg, C., Kadak, A., Kazimi, M., Moniz, E., Parsons, J.: *Update of the MIT 2003 Future of Nuclear Power*. Cambridge: Massachusetts Institute of Technology, 2009, p. 3.

order to bring certainty to legal responsibilities and improves transparency on safety issues.³⁰¹

Radioactive waste and spent fuel is a great challenge for nuclear industry. Considering that, atomic energy has a trans-border impact and all Member states produce nuclear waste. This seems to be one of the biggest problems of nuclear industry. The unsolved problem of spent fuel belongs to main reasons why people oppose to nuclear energy. A European Commission survey shows that 4 out of 10 people who are against using of atomic energy could possibly change their mind, if this delicate problem had a correct solution.³⁰² Proliferation risks go along reliance on nuclear power. The most high-profile cases are Iran and North Korea, which have brought the risks of proliferation of nuclear fuel cycle technology to the forefront of the international agenda.³⁰³

Conclusions

In today's global situation, when the energy security represents the top priority for countries that try hard to reduce their dependency on natural gas and oil, nuclear energy has many attractions for many states. The recognition of the need to suppress the greenhouse gas emissions substantially increases the attractiveness of nuclear energy as a low carbon electricity source with proven capability for a large-scale supply. States started to perceive nuclear energy as a tool for energy diversification together with assuring their domestic energy security and meeting the environmental commitments.

During researching given topic, in case of safeguards and security, author assumed that more important than providing additional legal bounds is progressive change in attitude and behavior. There is a need to emphasize cooperation among states, high transparency and information sharing. Overall, that means to achieve a cultural change. Very important is to keep improving nuclear safety, what requires additional finances to research, development and education in nuclear field.

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³⁰¹ EURATOM Supply Agency: *Annual Report 2009*. Luxembourg: Publications Office of the European Union, 2010, p. 7.

³⁰² Attitudes towards radioactive waste. *European Commission: Eurobarometer*. 01.09.2010.
Online: http://ec.europa.eu/public_opinion/archives/ebs/ebs_297_en.pdf

³⁰³ Acheson, R. (Ed.): *Beyond arms control: Challenges and choices for nuclear disarmament*. New York: Reaching Critical Will, 2010, p. 58.

HAPPINESS INEQUALITY: DISTRIBUTION OF HAPPINESS DURING TRANSFORMATION TO MARKET ECONOMY IN RUSSIA AND HUNGARY

Hilal Galip

***Abstract:** The aim of this research is to understand how certain macro level social changes come along with transition to market economy affected the life chances of individual citizens and, in turn, their sense of well-being by doing a comparative case study of Russia and Hungary. In other words, the main focus of the study is on how people's evaluation of their lives has been shaped according to social and distributional consequences of transformation to market economy. The objective of this paper is to look at the distribution of happiness among different social groups by describing their trajectories during post-socialist period by considering only objective factors of subjective well-being. Thus how the happiness gap between the women and men, bottom income and upper income groups, different age cohorts, and occupational groups will be described with respect to pre and post transition period which has been neglected in existing literature on happiness in transition. This research will use available empirical evidence from the World Values Survey and European Values Study from 1982 to 2008.*

***Keywords:** happiness, Russia, Hungary, post-socialist transformation, WVS, EVS.*

Introduction

Since the breakup of the Soviet Union, the former socialist countries have had to face the challenges of a new economic, political and social order. The transition process has been far from smooth for these societies that two decades later, they are still dealing with the challenges that such a transition brings. The frustration might have stem from the fact that the dominant sentiment in former socialist countries is that the new era of capitalism will usher in a better future. Many people believed that they had gained power over their future because capitalism and its promoted political order, 'democracy', in theory, promised people their own liberty, own identity, and the freedom to choose the direction of their lives. The doors of the world market were opened to these countries and the people of ex-

communist countries were introduced to the enchanting and aesthetically appealing goods and services that come with capitalist order. To a certain extent, there is indeed noticeable change on people's lives, as indicated by improved average scores of individual well-being in most post-transition countries, for example. However, it can also be argued that people's dissatisfaction with their lives might arise due to uncertainty, insecurity and incomplete transition. In a few words, all *trouble some making transitions*³⁰⁴ have influenced the people's evaluations of their daily life dramatically during post-socialist era.

The study will focus on the distributional consequences of transition to market economy which leads to specific outcome of changes in a given system of life-chances and social stratification in post-socialist countries and its impact on individual's well-being. It aims to investigate how happiness and its determinants have been structured in Russia and Hungary after the collapse of Soviet Union. This is framed within the realities of deepening social inequalities and the building process of new social stratification as accord to income, participation into the labor market, occupational status, age cohorts, type of residence and gender. Within this context the research questions of the paper might be listed as follows: (1) How has the level and distribution of subjective well-being evolved in Russia and Hungary across different socio-economic groups over transition period?; (2) Are there any cross-national differences in distribution of happiness across these groups? How can these differences be explained?; (3) How can the changes in happiness inequality be theoretically linked with the dynamics of post-socialist stratification in both countries?

While the existing studies look at the changes in the levels of subjective well-being in transition period only few of them considered the changes in the determinants of happiness in time. The main contribution of the study will be analysis of structuration of happiness with its determinants over all phases of post-socialist transformation beginning with socialist times and continuing the analysis with early, middle and consolidated phases of transition by relying on the empirical evidence from the World Values Survey and European Values Study from 1982 to 2008.

I. Theoretical background Subjective Well-being (SWB)

Subjective well-being might be defined as people's evaluation of all the spheres of their lives. It is their personal, psychological response to their quality of life, in contrast to objective indicators such as GNP, the amount of monthly income, the life expectancy, etc. It has two significant components: happiness and life satisfaction.³⁰⁵ These have been the usual measures used in assessing subjective well-being. While happiness refers to emotional component of subjective well-being, life satisfaction is driven by cognitive processes.

³⁰⁴ Veenhoven, R.: Are the Russians as Unhappy as they say they are? Comparability of Self-reports Across Nations. *Journal of Happiness Studies*. 2001, vol. 2, pp.111-136.

³⁰⁵ Although life satisfaction will be used as key indicator of subjective well-being in the study; I used subjective well-being, happiness and life satisfaction as referring to each other since it is very difficult to draw clear-cut boundaries between these two measures.

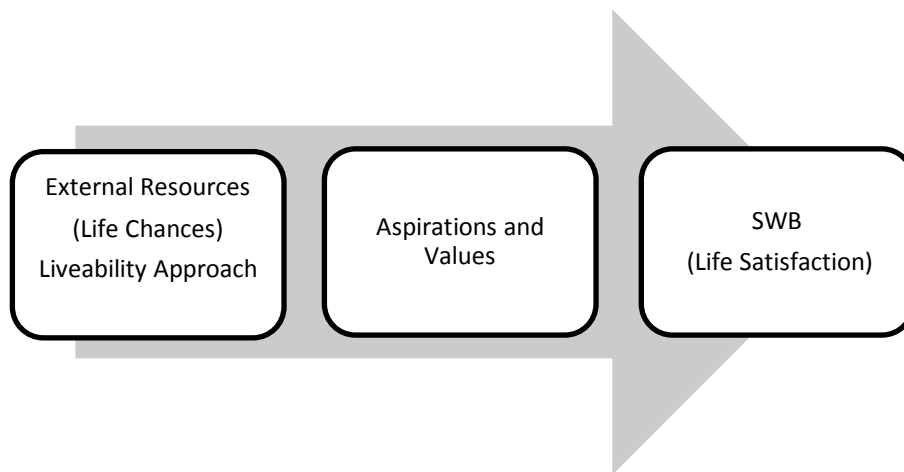
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Rather than emotions and effects, people's rational assessments of their way of life help to understand what it is. Within this context, the study assesses the living conditions of the respondents based on their own judgments. Previous studies on similar topic have attest to the strength of life satisfaction as an indicator in measuring quality of any given society.³⁰⁶ This approach has become well-known and well-recognized in recent studies of quality of life literature.

In this study, subjective well-being is conceptualized in terms of the relationship between people's external resources namely their objective living conditions and their evaluation of them and aspirations and values that play the mediation role in people's perception of their life chances. Figure 1 presents the conceptual model. To look closer to this relationship, the concept of 'life chances' will be used as synonym to external resources which basically refers to the opportunities each individual has to improve his or her quality of life. In other words, it could be argued that individual's well-being is directly linked with life chances i.e. opportunities that offered to him by his social environment. This Weberian approach has been reflected in Veenhoven's (2000) definition of subjective well-being which he conceptualized according to his integrative approach to quality of life.³⁰⁷ He introduced 'liveability approach' that explains the link between how the distribution of life chances in social environment influence the way people feel about their lives.

Figure 1: Conceptual Model for Subjective Well-being



According to liveability approach the characteristics of the environment where people live and the opportunities that are provided to them are most determinant factor influencing the well-being of individuals. In other words, liveability of the environment in

³⁰⁶ Sirgy, M. J., et al.: The Quality-of-Life (QOL) Research Movement: Past, Present and Future. *Social Indicators Research*. 2006, vol. 76, no.1, pp. 343-466.

³⁰⁷ Veenhoven, R.: The Four Qualities of Life- Ordering concepts and measures of the good life. *Journal of Happiness Studies*. 2000, vol. 1, pp. 1-39.

which one lives is seen to govern certain outcomes and is in turn improved with good material standards of living and good life opportunities. Veenhoven argues that people's well-being is dependent on the 'quality of society' which is seen to secure material well-being and social equality. Furthermore the way people evaluate their lives or the way they response to life chances they are offered framed as subjective well-being. Thus most of the time, people appreciate what they have what they are offered. They become happy or unhappy, satisfied or unsatisfied with their lives. Then it might be argued that more equal redistribution of resources leads to more egalitarian dispersion of satisfaction among the population. The heterogeneity of positive evaluations of life-as-a-whole within a nation indicates the 'happiness inequality' which is quite new approach to measure social inequalities.³⁰⁸ Given this conceptual framework this paper focuses on the distribution of happiness within and between social groups in case countries.

Post-socialist stratification

If transition from socialism to capitalism is discussed in economic terms it basically refers to shifting away from state redistribution to a market economy.³⁰⁹ On the other hand Rona-Tas (1998) argues that the sociological analysis of this transformation focuses on the changes in the social position of redistributors or so called 'communist cadres' which goes parallel with the emergence of income inequality.³¹⁰ Thus redistribution of property and material well-being is closely linked with the formation of new economic elite which might be seen as dynamic factor in transforming state socialism into capitalist economy. A paradigm of social class,³¹¹ thus, has to take into account the ways in which life chances were structured under state socialism and how it has been transformed during the institutionalization of market economy after the collapse of the old system.

Soviet socialist system grounded on the egalitarian ideology that general redistributive structure functioned for reproduction of social and economic relations that shaped the stratification system in two different ways. On the one hand it caused to more or less equal social positions for the majority of the people, on the other hand small group of people (nomenklatura) had control over material resources and privileges.³¹² There are two major standpoints in the conceptual history of post-socialist stratification: (1) market transition theory,³¹³ and (2) power conversion theory.³¹⁴ According to market transition approach while the legitimation of free market institutions support returns to human capital it affects

³⁰⁸ Kalmijn, V. and Veenhoven, R.: Measuring Inequality of Happiness in Nations in search for proper statistics. *Journal of Happiness Studies*. 2005, vol. 6, pp. 357-396.

³⁰⁹ Kornai, J.: What the Change of System from Socialism to Capitalism Does and Does not Mean. *Journal of Economic Perspectives*. 2000, vol. 14, no.1, pp.27-42.

³¹⁰ Rona-Tas, A.: Path-dependence and capital theory: Sociology of the post-communist economic transformation. *Eastern European Politics and Societies: EEPS*. 1998, vol.12, no.1, p.107.

³¹¹ Here social class is conceptualized as accord to Weberian approach i.e. group of people sharing the same life chances which are determined by their relationship to the market

³¹² Matějů, P., and Nelson, L.: Who Has Gotten Ahead after the Fall of Communism? The Case of the Czech Republic. *Czech Sociological Review*. 1995, vol. 3, no.2, pp.117-136.

³¹³ Nee, V.: A theory of market transition: From redistribution to markets in state socialism. *American Sociological Review*, 1989, vol. 54, no. 5, pp. 663-681.

³¹⁴ Nee, V., and Cao, Y.: Path dependent societal transformation: Stratification in hybrid mixed economies. *Theory and Society*, 1999, vol. 28, no.6, pp. 799-834.

negatively the decisive role of political power. "Entrepreneurs, managers and professionals in this market sector are likely to challenge the redistributor's monopoly on elite positions resulting in a relative decline in the advantage based on political power."³¹⁵ He stressed that these mechanisms of new stratification order will in turn decrease the inequality. On the other hand, counter thesis of this argument claims that "Communist party cadres use their superior positions within powerful networks to preserve, and even enhance, their material advantages after market transition."³¹⁶ Power conversion theory points out old nomenclature elite protected their highest position and became the privileged bourgeoisie in new economic system. In his studies of post-socialist stratification Gerber (2002) reconciled two approaches to some extent through analyzing the individual labor market status during the process of structural changes which refers to "macro-level changes in the size of a country's workforce and its distribution across sectors (private versus public), economic branches (manufacturing versus services), types of firms (large versus small), occupations (professional versus manual), and geographic locations (variation across regions and locality sizes)"³¹⁷ He basically argued that stratification in transition countries dependent on contextual determinants within and between nations such as political situation, the characteristics of early phases of transition and cultural and institutional heritages.

Winners and Losers

Since the building process of the free market is not developing evenly while some group of people such as ex members of nomenclature, entrepreneurs who transformed their land capital to industrial capital has become the winners of transition some other groups such as old age people and less educated people whose jobs were guaranteed during soviet times lose their social prestige in the newly built market economy. Thus, people's labor market status has become more salient factor to interpret subjective well-being of the people living in ex-communist countries. After the collapse, many people had to face with unemployment problem in a society where social security system has deteriorated. On the other hand, increasing economic freedom led to emergence of 'new bourgeoisie' which is composed of self-entrepreneurs and business people. Then self-entrepreneurs have been called as winners of transition process.

Many studies in the literature of (un)happiness in transition emphasized the gap between the average levels of well-being for so called winners and losers of this process. For instance, Lelkes (2002) looked at how freedom that capitalism promised affected the subjective well-being of people living in Eastern European countries. By taking a special focus on Hungary, she found out that ten years after, self-employed people are much more

³¹⁵ Szelenyi, I., and Martin, B.: The three waves of new class theories. *Theory and Society*, 1988, vol. 17, no. 5, pp. 645-667.

³¹⁶ *ibid.*

³¹⁷ Gerber, T. P.: Structural change and post-socialist stratification: Labor market transitions in contemporary russia. *American Sociological Review*, 2002, vol. 67, no. 5, pp. 629-659.

satisfied with their life in general.³¹⁸ This is due to the policies of free market economy which have been supportive of personal entrepreneurship. These increasing economic freedoms led to people have more control over their lives. Similarly, Sanfey and Teksoz (2005) observed also a noticeable discrepancy in the levels of happiness of self employed people who have the tendency to report higher degrees of satisfaction with their lives than the people do in traditional capitalist economies.³¹⁹ The results of their study showed that they are even happier than full-time employed people. On the contrary to self-entrepreneurs, and the elites of the society who protected their well-being, the main losers of transition process have become unemployed, women, old aged people and less educated people.³²⁰ They have difficulty in adapting to new market economy because of their skills and educational levels. The older people who completed their education just before the collapse of the Soviet Union are relatively dissatisfied with their lives than those who did their education after the collapse. Based on a more societal level of analysis, Easterlin (2008) stressed that rising unemployment led to relative deprivation among people. In addition to this lack of social safety nets worsen the situation especially for the low educated people and people who are 30 and over, defined as 'losers of transition'.³²¹

In brief it could be argued that new patterns of distribution of life chances of individuals controlling economic assets and individuals having personal skill assets have been shaped according to the new dynamics of free market economy. The individuals' position in new market economy has become a significant factor in the evaluation of people's perception about their lives including their opportunities in new society, living standards and their aspirations for life.

II. Data, methods and hypotheses

Quantitative comparative case study approach was chosen as main methodological approach for the study. Russia and Hungary were selected as case countries according to the principles of the most different systems design for comparison. The countries differ in terms of the way in which political and economic transformation has been experienced and their socio-cultural background. Using secondary data is preferred as a method for data collection and in order to analyze the data the techniques and tools of quantitative data analysis approach were used to describe the trajectories in distribution of happiness and explain the determinants of life satisfaction over time. This section provides detailed information on the research process and represents the main findings of the study.

³¹⁸ Lelkes, O.: Tasting freedom: Happiness, Religion and Economic Transition. *Journal of Economic Behavior & Organization*. 2002, vol. 59, no. 2, pp.173-194.

³¹⁹ Sanfey, P., and Teksoz, U.: Does transition make you happy?. *EBRD Working Papers Series*. 2005, no. 91, pp.1-31.

³²⁰ Guriev, S., and Zhuravskaya, E.: (Un)Happiness in Transition. *Centre for Economic Policy Research (CEPR) Working Paper Series*, 2008

³²¹ Easterlin, R. A.: Lost in Transition: Life Satisfaction on the Road to Capitalism. IZA DP 2008, no. 3409

2.1. Data

The data of the study is obtained from the World Values Survey (WVS) (from 1990 to 2007), and latest wave of European Values Study (EVS) for Hungary³²² and Russia³²³. EVS/WVS are longitudinal cross-sectional surveys which aim to monitor changes in people's attitudes and values concerning different domains of their lives in about 97 countries with national representative samples. The first wave of WVS was carried out before the collapse of Soviet Union and only Hungary and Russia are covered almost all five waves of the study between 1981-2007 which allows this study to get data on individual well-being during Soviet times and to trace the changes in subjective well-being over two decades of transition.

2.2. Sample

Almost in each wave of both WVS and EVS representative samples of people 18 years old and over in the countries were covered with multistage stratified random sampling designs (Please see Appendix V for detailed information for sampling)³²⁴. Only in first wave of WVS due to some restrictions the survey was conducted in Tambov oblast of Russian Federation which was not representative for all population in technical terms. Previous studies using this survey data showed that Tambov sample can stand for all Russian population since the socio-economic and cultural characteristics are quite similar to each other.³²⁵ Yet another survey was conducted in the oblast (region) with the subsample of 500 people in 1995 which contributed to this argument with empirical data. Based on the available information the response rates of the surveys vary between 70% and 90% for Russia and 50% and 90% for Hungary.

2.3. Variables

In this research life satisfaction is used as proxy indicator of subjective well-being. Thus, the dependent variable of the study is life satisfaction that measured by ten item scale (1 dissatisfied (...) 10 satisfied) in both WVS and EVS, with the question asked as: "All things considered, how satisfied are you with your life as a whole these days?" Since the study focus on the relationship between life satisfaction and life chances, the paper used individual labor market status as main indicator to measure life chances of individuals with

³²² EVS (2010): European Values Study 2008, 4th wave, Hungary. GESIS Data Archive, Cologne, Germany, ZA4772 Data File Version 1.1.0 (2010-11-30) doi:10.4232/1.10167 (<http://dx.doi.org/10.4232/1.10167>).

³²³ EVS (2010): European Values Study 2008, 4th wave, Russian Federation. GESIS Data Archive, Cologne, Germany, ZA4777 Data File Version 1.1.0 (2010-11-30) doi:10.4232/1.10170 (<http://dx.doi.org/10.4232/1.10170>).

³²⁴ More information about sampling procedures of countries is available at www.worldvaluessurvey.org, and www.europeanvaluesstudy.eu

³²⁵ An example of this is the study carried out by Inglehart, R., et al (2007) in which they indicated the changes in subjective well-being over same time period in quite number of countries in the world in: *Development, Freedom, and Rising Happiness: A Global Perspective (1981-2007)*. *Perspectives on Psychological Science*, 2008, vol. 3, no. 4, pp. 264-285.

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the measures concerning people's socio-demographic characteristics. Thus the explanatory variables classified under socio-demographic group can be listed as follows:

Gender: The dummy variable named 'female' was to indicate the gender of the respondent (0=male, 1=female).

Birth Cohorts: Instead of using age variable birth cohorts included to the analysis since it was considered that it would enrich the exploring the effects of societal change on peoples subjective evaluations with respect to generational influences. For the purpose of grasping magnitudes and changes in society, the cohorts are formed on the basis of the people at working age (at least 25 years old). Reflecting the phases of socialist system and its transformation four generational cohorts were defined for Hungary: "statesocialism"(1898-1935); "goulashsocialism"(1936-1958); "deterioration of socialism"(1959-1968); "post-socialist"(1969-1993) and five cohorts for Russia: "initialsoviet"(1903-1933); "warperiod"(1934-1952); "Kruschevs"(1953-1964); "systemcrisis"(1972-1980); "post-socialist"(1981-1990). Each category is introduced into analysis as dummy variable.

Income: Income is measured with subjective indicator that the respondents were asked: 'Here is a scale of incomes. We would like to know in what group your household is, counting all wages, salaries, pensions and other incomes that come in. Just give the letter of the group your household falls into, before taxes and other deductions.' Here the letters referred to 10 income categories. Rather than treating this ten point scale variable as 'continuous', four different groups were created based on the quartiles of the distribution: lowest income quartile, lower-middle income quartile, upper-middle income quartile and upper income quartile. This helped also to standardize income data for each year and country.

Having partner: Original question on marital status was recoded as: people who are married or living with a partner categorized under 1 having partner and rest who are single, separated, widowed, or divorced categorized under 0 not having partner.

The second group of explanatory variables measure labor market status of individuals. These are employment status and occupational status. Employment status variable directly measures people's active participation into labor market which is consisted of five dummy variables: (1) employed; (2) retired; (3) housewife; (4) students; and (5) unemployed. During the recoding phase self-employed category is collapsed under employed. For the purpose of occupational status measurement, respondents were asked to report the profession they have with an open question coded by the interviewer under 13 ordinal IS-CO categories from employer/managers to agricultural workers. However the original variable was recoded and seven main categories of occupational status was used which are (1) employers/managers; (2) professionals; (3) non-manual office workers; (4) skilled manual workers; (5) semi-skilled manual workers; (6) unskilled manual workers; and (7) no current occupation. One of the major limitation of the data is that there were too much missing information on the profession variable especially for the cases "retired"; "housewife"; and "unemployed". To handle with the missing data, the last category "never had a job" were removed from original variable and the new category was introduced, "no current oc-

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cupation”, to identify occupational status of the respondents who are currently not active in the labor market.

2.4. Hypotheses

Structuration of happiness:

H1: Happiness was only weakly structured during socialist times, but became increasingly structured during post-socialism.

H2: Happiness became increasingly structured along the lines of class, cohort, labour-market status, and income. Blue-collar workers in particular change from above-average happiness to below-average happiness.

Levels of happiness:

H3: All major social categories experienced an U-curved development of life satisfaction, but the U-curve is more pronounced for "loser segments" than for "winner segments".

Comparative hypothesis:

H4: I expect to find a more clear-cut structuration of happiness emerging in Hungary, due to the more consistent nature of the transformation process, compared to Russia's anomic development.

2.5. Analysis

There are two main strategies for data analysis adopted in this study. First descriptive analysis will serve (1) to observe differences in mean level of life satisfaction over time for Russia and Hungary; (2) to examine the average levels of life satisfaction within and between social groups in each country over time; (3) to present the figures of mean differences across the groups between countries.

III. Results

This section provides the summary of important findings of the study with a following outline. First descriptive results will be presented in order to interpret trajectory of life satisfaction scores at both country level and social group level. Here the distribution of life satisfaction scores across different social groups will be described with the results of ANOVA analysis. Then the results of the regression analysis will be discussed in detail.

3.1. Trajectory of overall well-being levels

As discussed in literature review part previous studies reported that there has been no full recovery of life satisfaction scores in post-communist societies yet. As it can be seen from Table 1, which presents the frequency distribution and mean levels of life satisfaction scores in Russia and Hungary from 1982 to 2008, that average level of happiness have not recovered yet in Hungary and Russia as well. In spite of people's appetite for free market and democracy, the chaos and uncertainty in initial years of transition marked by sharp deterioration of people sense of well being. In Hungary, while the mean level of life satisfaction is 6.9 in 1982 it fell dramatically to 6.0 after the country rejected communist regime. This decrease continued to until 1999 when Hungarian people rate their satisfaction with their lives as 5.8. Then there started slightly recovery in average scores of well-being that according to latest survey results mean level of life satisfaction has increased to 6.3 which is still below the level during socialist times. Although there has been very similar trajectory for average happiness scores for Russian population during this time period, we could argue that Russian people have more in difficulty coping with the results of all simultaneous transitions and quick reforms introduced. The negative consequences of system transition on individual well-being well reflected in mean levels. While Russian people reported their life satisfaction on average 7.13 during Soviet times, just before the official collapse of Soviet Union, the mean level declined sharply to 5.37. Then the mean scores continued steadily to decline in initial years where the lowest average was 4.45 in 1995; 4.65 in 1999 that are the years the country was under the negative influence of economic crises. The life satisfaction scores started to recover in recent years that the mean level has increased to 6.50 and the number of people who are content with their living standards has increased as in parallel to more stable economic and political system in the country.

Another important evidence for absence of full recovery argument is that the distribution of life satisfaction scores showed that after transition there has been significant difference between the percentages of people's statements about their personal satisfaction as 'completely satisfied' and 'completely dissatisfied'. First of all almost one fifth of the Hungarian (17 %) and Russian (19 %) respondents during state socialist times stated that they are 'completely satisfied' with their lives. After that the frequency of people who rate their life satisfaction as ten out of ten has never been above 10 %. Not surprisingly the percentage of people who are completely dissatisfied with their lives has increased in both societies. However, almost half of the Russian people between 1995 and 1999 have clearly stated that they are fully dissatisfied with their lives while this rate was reported by only one third of Hungarian population. Then second highest percentage of satisfaction score has been 5 for identifying lower middle level of wellbeing for both countries until 2008.

Table 1: Life Satisfaction of people living in Hungary and Russia (1982-2008)

	Dis-satisfied	Life Satisfaction				Completely satisfied		Mean
	1-4	5	6	7	8	9	10	
in %								
Hungary								
1982	14.1	14.2	8.7	14.3	19.6	10.5	17.1	6.93
1991	23.9	19.9	12.3	13.7	14.0	5.2	10.9	6.03
1998	26.6	21.2	13.8	10.8	14.4	5.9	7.3	5.86
1999	26.2	23.3	11.2	11.8	13.3	5.6	8.5	5.80
2008	20.6	15.2	9.7	17.1	22.2	9.5	5.7	6.31
Russia								
1982	11.6	12.2	11.3	15.3	19.2	11.5	18.9	7.13
1990	32.7	23.4	12.5	10.6	10.7	3.6	6.5	5.37
1995	51.0	20.9	6.5	6.7	7.8	2.9	4.3	4.45
1999	47.2	19.2	7.6	9.1	9.0	3.6	4.3	4.65
2006	22.2	18.0	10.8	16.2	17.0	7.2	8.8	6.15
2008	19.4	15.1	9.9	14.9	19.2	9.9	11.6	6.50

Source: World Values Survey and European Values Study

3.2. Distribution of happiness across social groups

Not only overall distribution of life satisfaction scores has changed but also distribution of happiness across social groups has showed different pattern. We argue that looking closer to these patterns of distribution provide empirical support for our main hypotheses regarding the ‘structuration of happiness’ thesis and ‘trajectory of happiness levels’ theses. There are three strategies of comparing mean levels adopted in the study: (1) mean differences within groups in same year; (2) mean differences within groups across transition years; (3) mean differences across groups across transition years. To begin with, based on what we have discussed so far we expected to have more egalitarian distribution of happiness scores in soviet socialist times across different social classes i.e occupational groups. In other words happiness gaps within occupational groups is not considerable as in the case after introduction to market economy which shaped social stratification according to more on individual labor market status and occupational background. The results of a one-way ANOVA proved this partially for Hungary, while there is no significant differences in the mean levels of life satisfaction of different employment groups in Hungary, $F(4, 1421) = 1.67, p = .153$, the mean happiness levels differed significantly across occupational groups. On the other hand, in Russia, we also observe that mean levels did not differ significantly both across employment and occupational groups, $F(6, 1822) = 1.394, p = .213$ in 1982. As it can be seen in Appendix III and IV, there is an overall trend of differentiation of life satisfaction within groups in years.

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Secondly, the changes in the mean satisfaction level of each social group between 1982 and 2008 were traced. To be sure whether the drops and increases in life satisfaction scores are statistically significant the confidence intervals of the means were checked with respect to (1) pre-transition level vs. post-transition lowest level (significant decline); (2) post-transition lowest level vs. current level (significant increase) and (3) pre-transition level vs. current level (full recovery). Since there are two survey data available before the official collapse of Soviet Union in Russia, there are two check points for Russia (See Appendix IV).

In line with the trajectories of the overall average wellbeing scores, one could expect to observe two trends: (1) sharp decrease in mean happiness levels of each social group; (2) no recovery of these mean levels. For Hungary as it was stated before there is no recovery of overall wellbeing scores which has been marked with significant decline following the transition. On the other hand, on the contrary to expectations not all social categories have experienced deterioration in wellbeing in Hungary. Surprisingly the mean level of wellbeing for most of age cohorts did not change dramatically. Only people who were socialized during goulash socialism period reported lower levels of wellbeing. Students, non-manual office workers, and professionals are the other groups where there is no significant decrease in mean levels of life satisfaction. However professionals are the only group which shows increasing trends in happiness scores. When the groups whose wellbeing declined significantly were examined, it was observed that first of all there has still no recovery of wellbeing scores for those groups. However there has been an increasing trend for most of the groups such as 'employed' and 'retired'. The so called losers of transition were clearly housewives and unemployed people since their wellbeing averages still show declining trends. For the occupational groups, there is also slight recovery of wellbeing scores of skilled manual workers and unskilled manual workers in opposition to the people who have semi-skilled occupations. When income groups examined, the mean happiness levels of all income groups' especially lower income groups are on the trend of increase as well (See Appendix III).

When the year 1990 was taken as base year, on the contrary to Hungary, we observed that the average wellbeing levels of most of the social groups have fully recovered. In other words, the current mean levels are either slightly higher than initial levels or they are approximately same. The groups who has shown still significant decline in happiness levels are unemployed, retired, socialized in older cohorts and lower income quartile. On the other hand, we could argue that housewives, students and people who are well-off such as upper income quartiles and professionals were not affected severely by transition.

Conclusions

This study aimed to discuss how certain macro level social changes come along with transition to market economy shaped the life chances of people living post-socialist societies and, in turn, their sense of well-being by doing a comparative case study of Russia and Hungary. The analysis is based on the empirical data from the World Values Survey and European Values Study from 1982 to 2008. To summarize the main findings it is necessary to underline the hypotheses of the study. First it is expected to find out that happiness was only weakly structured during socialist times, but became increasingly structured during post-socialism. Yes the analysis confirm that there is clear pattern of structuration of happiness all phases of market building process. Secondly, in line with the expectations of the study the analysis also proved second hypothesis that happiness became increasingly structured along the lines of class, cohort, labor-market status, and income. Lastly, due to prior differences in structural characteristic of transformation in both countries it is found out that there is more clear-cut structuration of happiness emerging in Hungary than Russia because the more successful nature of the transformation process. Further research might apply to longitudinal data on a single or multiple countries to uncover life course trajectories of individuals for better understanding of the implications of changes on the system of redistribution on personal well-being.

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Appendix I: Mean satisfaction levels of social groups over time in Hungary

Year of survey	1982	1991	1998	1999	2008
	Mean	Mean	Mean	Mean	Mean
having a partner	7.25	6.09	5.96	6.03	6.58
Female	6.93	6.09	6.03	5.78	6.40
male	6.91	5.96	5.66	5.82	6.22
<i>town size</i>					
small sized	-	6.02	5.79	5.92	6.25
medium sized	-	6.11	-	5.75	6.51
large size	-	6.02	5.77	5.76	6.29
Budapest	-	5.94	5.95	5.65	6.24
<i>cohort</i>					
"state socialist"(1898-1935)	-	5.79	5.64	5.52	5.78
"goulash socialism" (1936-1958)	-	5.99	5.43	5.47	5.96
"system crisis"(1959-1968)	-	6.52	6.20	6.18	6.22
"transition"(1969-1980)	-	6.42	6.45	6.34	6.71
"post-socialist"(1981-1993)	-	-	-	6.73	6.70
<i>Employment status</i>					
employed	7.01	6.19	5.94	6.10	6.64
retired	6.70	5.79	5.60	5.44	5.92
housewife	6.83	5.12	6.81	6.88	6.63
students	7.40	6.69	7.22	7.11	7.07
unemployed	6.97	4.47	4.45	4.55	4.89
<i>Occupational group</i>					
employer	7.23	6.75	6.28	6.06	6.84
professionals	6.67	6.23	6.55	6.82	7.05
non-manual office	6.34	6.25	6.13	6.03	6.47
skilled workers	7.34	6.33	5.77	6.15	6.42
semi-skilled workers	7.05	6.11	5.26	5.81	6.08
unskilled manual	7.00	5.95	5.55	4.12	5.94
no occupational status	6.84	5.68	5.78	5.55	5.97
<i>Income quartiles</i>					
upper	-	6.58	-	7.45	7.02
upper middle	-	6.31	-	6.74	6.75
lower middle	-	6.10	-	5.44	6.16
lowest	-	5.29	-	4.54	5.40
N. of cases	1464	999	650	1000	1513

Source: World Values Survey (1982-2006), European Values Study (2008)

Question: "All things considered, how satisfied are you with your life as a whole these days?" (1 dissatisfied (...) 10 satisfied)

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Appendix II: Mean satisfaction levels of social groups over time in Russia

	1982	1990	1995	1999	2006	2008
	Mean	Mean	Mean	Mean	Mean	Mean
having a partner	7.53	7.53	4.63	4.90	6.15	6.80
female	6.94	5.38	4.28	4.44	6.07	6.47
male	7.44	5.37	4.70	4.95	6.24	6.58
<i>Town size</i>						
small sized		5.52	4.13	4.37	-	6.25
medium sized		5.76	4.51	4.61	-	6.58
large size		5.00	4.56	4.79	-	6.55
Moscov	-	5.49	4.65	4.88	-	6.64
<i>Cohorts</i>						
"initial soviet"(1903-1933)	6.64	5.10	4.68	3.39	-	6.00
"war period" (1934-1952)	7.20	5.58	4.08	3.78	4.91	5.86
"Kruschev"(1953-1964)	7.16	5.24	4.18	4.35	5.68	6.62
"Perestroika"(1965-1971)	7.53	5.39	4.58	4.98	5.91	6.77
"system crisis"(1972-1980)	-	5.76	5.73	5.59	6.28	6.71
"post-socialist"	-	-	-	5.63	7.02	6.97
<i>Employment status</i>						
employed	7.40	5.35	4.59	5.11	6.12	6.79
retired	6.68	5.42	4.04	3.78	5.57	5.68
housewife	7.02	5.44	4.97	5.66	6.63	7.25
students	7.81	5.85	6.19	6.05	7.15	7.47
unemployed	6.61	5.07	3.89	4.30	5.29	6.31
<i>Occupational group</i>						
employer	-	5.24	4.97	5.75	6.59	6.96
professionals	-	5.21	5.07	5.45	6.14	6.97
non-manual office	-	5.42	4.78	5.18	6.31	6.91
skilled workers	-	5.38	4.73	5.23	6.25	6.50
semi-skilled workers	-	5.15	4.29	4.96	6.04	6.20
unskilled manual	-	5.67	3.98	4.14	5.07	6.82
no occupational status	-	5.48	4.22	4.30	6.05	6.13
<i>Income quartiles</i>						
upper	-	5.71	5.41	5.67	6.78	7.19
upper middle	-	5.51	4.75	4.85	6.44	6.65
lower middle	-	5.35	4.26	4.64	5.84	6.32
lower	-	5.27	3.50	3.83	5.44	5.43
N. of cases	869	903	981	973	955	1500

Source: World Values Survey (1982-2006), European Values Study (2008)

Question: "All things considered, how satisfied are you with your life as a whole these days?" (1 dissatisfied (...) 10 satisfied)

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Appendix III: Hungary (1982-2008)

Group	Pre-transition level v post-transition low <i>Significant decline?</i>	Post-transition low v current level – <i>Significant in- crease?</i>	Pre-transition level v current level – <i>Full recovery?</i>
Female	yes	yes*	no
state socialist (1898-1935)	no	no	no
goulash socialism (1936-1958)	yes	yes	no
system crisis (1959-1968)	no	no	no
transition (1969-1980)	no	no	no
post socialist (1981-1993)	n.a.	no	n.a.
Employed	yes	yes	no
Retired	yes	yes*	no
Housewife	yes	no	no
Students	no	no	no
Unemployed	yes	no	no
employer/manager	yes	no	no
Professionals	no	yes	no
non-manual office workers	no	no	no
Skilled workers	yes	yes*	no
semi-skilled workers	yes	no	no
unskilled manual workers	yes	yes	no
no occupational status	yes	yes	no
upper	n.a.	no	n.a.
upper middle	n.a.	yes*	n.a.
lower middle	n.a.	yes	no
Lowest	n.a.	yes	no

n.a. = not applicable (no pre-transition data).

*significant at 90% level

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Appendix IV: Russia (1982-2008)

Group	Pre-transition level 1982 v post-transition low <i>Significant decline?</i>	Pre-transition level 1990 v post-transition low <i>Significant decline?</i>	Post-transition low v current level – <i>Significant increase?</i>	Pre-transition level 1990 v current level – <i>Full recovery?</i>	Pre-transition level 1982 v current level – <i>Full recovery?</i>
Female	yes	yes	yes	yes happier now	no
initial soviet (1903-1933)	yes	yes	yes	no	no
war period (1934-1952)	yes	yes	yes	no	no
Kruschev (1953-1964)	yes	yes	yes	no	no
Perestroika (1965-1971)	yes	yes	yes	yes happier now	no
system crisis (1972-1980)	n.a.	no	yes	yes* happier now	n.a.
post-socialist (1981-1993)	n.a.	n.a.	yes happier now	n.a.	n.a.
Employed	yes	yes	yes	yes happier now	no
Retired	yes	yes	yes	no	no
Housewife	yes	no	yes	yes happier now	no
Students	yes	no	yes	yes happier now	no
Unemployed	yes	no	yes	no	no
employer/manager	n.a.	no	yes	yes happier now	n.a.
Professionals	n.a.	no	yes	yes happier now	n.a.
non-manual office workers	n.a.	yes	yes	yes happier now	n.a.
skilled workers	n.a.	no	yes	yes happier now	n.a.
semi-skilled workers	n.a.	yes	yes	yes happier now	n.a.
unskilled manual workers	n.a.	yes	yes	yes happier now	n.a.
no occupational status	n.a.	yes	yes	yes happier now	n.a.
upper	n.a.	no	yes	yes happier now	n.a.
upper middle	n.a.	yes	yes	yes happier now	n.a.
lower middle	n.a.	yes	yes	yes happier now	n.a.
Lowest	n.a.	yes	yes	no	n.a.

n.a. = not applicable (no pre-transition data).

*significant at 90% level

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Appendix V: Sampling

Country	Survey	Year	N	Sampling methodology
Hungary	WVS	1982	1464	sample covering both sexes aged 18 or older, face to face interviews
Hungary	WVS	1991	999	Random sample covering both sexes aged 18 or older, face to face interviews
Hungary	WVS	1998	650	sample covering both sexes aged 18 or older, face to face interviews
Hungary	EVS	1999	1000	twostage random probability sampling for the people aged 18 or over; face to face interviews; 87.5% response rate
Hungary	EVS	2008	1240	multistage Stratified Random Probability Sampling for the people who aged 18 or older Stratifying variables are: age, region and the type of settlement
Russia	WVS	1990	1961	sample covering both sexes aged 18 or older, face to face interviews
Russia	WVS	1982	1262	Tambov federation; information is not available
Russia	WVS	1995	2040	five stage area probability sample covering both sexes aged 18 or older, face to face interviews; 74.9% response rate
Russia	EVS	1999	2500	multistage Stratified Random Probability Sampling for the people who aged 18 or older Stratifying variables are: geographical settlement, size of central settlement in administrative district and size of town; face to face interviews; 72.9% response rate
Russia	WVS	2006	2033	multistage stratified cluster random sampling; selection of respondents in household according quota on age and gender; 10,2 % fullproductive interview
Russia	EVS	2008	1504	multistage stratified random sampling procedure involved the population of Russia aged 18 years and above

THE PROBLEM OF “SEMI-VIRTUAL RELIGIOUS COMMUNITIES”

Orsolya Gyöngyössi

***Abstract:** When people become old, it is getting harder to provide all those basic requirements which assure the undisturbed working of religious micro-communities. The lack of newcomers and the lasting low-leveled interest to join traditional religious confraternities create unique and mixed forms we can hardly call “communities” by definition. In my case study I attempt to analyze the self-identity of the volunteers of a Roman Catholic religious group (Confraternity of the Rosary) in Hungary, which is on its way to become “virtual”.*

***Keywords:** Roman Catholic, semi-virtual, religious communities, Rosary, elderly, self-identity, generation gap*

Introduction

The roots of the phenomena, which I call *semi-virtual religious community*³²⁶, are in the historical past and formed in the last 20 years among post-socialist societal circumstances. In the rapidly changing Hungarian society the old members (up to 65) of local parishes became the “keepers” of traditional forms of piety and moral universe. Until the young volunteers organize new religious youth-communities where they can discuss, play, pray and sing together, the older generation still pray the way their ancestors did. But the rules of nature (volunteers are getting old and die) make the future of these old-fashioned groups obscure. There are many divergent reasons of this process: these groups are usually unable to follow the new trends, realize and fulfill the claims of newcomers, be desirable for the young and produce supply. And, finally, they seem to lose their group-like outlook. This problem appears in particular in the case of those confraternities which have prescript number of members and have no chance to meet physically, share experiences and plan future tasks. These preconditions can easily sentence groups to become *virtual*.

In this study I will sketch the features of a *semi-virtual* Roman Catholic Rosary *bush*³²⁷ in a middle-sized town (ca 18.000 inhabitants) in the south part of Hungary.

³²⁶ The term *semi-virtual religious community* tries to render the process when a religious group seems to lose the physical aspects – so the typical features what makes a community “community-like”- and exist only as a part of self-identity of the “members”. The problem is quite interesting regarding the separation of the group and self forms of piety.

³²⁷ You can read about this form of piety detailed in the book of John Desmond Miller (The Rosary in History and Devotion. London: Burns and Oats, 2002) Nathan Mitchell (The Mystery of the Rosary: Marian Devotion and the Reinvention of Catholicism. New York University Press,

I. The field of research and historical circumstances. Return to the roots.

The initial question is how religious values work as intellectual lifeboats in the “morally insecure” world of our times, and how elderly people create their own *sacred canopy* in the ever-changing technicized world through selecting information (eg. religious newspapers, radio station etc). As Hervieu-Léger mentioned: “Modernity, for fully understandable reasons, undermines all the old certainties. Uncertainty is a condition that many people find very hard to bear.”³²⁸ I will observe further how new challenges (to be attractive, entertaining, meaningful and authentic at the same time) stress religious organizations to respond to the challenges of changing world in order to survive. Survival on the first level means to keep the young and touch the potential members. But what about those religious groups which have only old members, following the ways of ancestors in every detail, seems untouched by the claims of modern life, hiding in their collective *sacred canopy*?

The social background and biography of the members of the observed Rosary group is quite similar in the main lines. They were born around the 1920s and 1930s, had a strong religious upbringing and education in their early childhood, experienced the effects of the political change of 1945 and 1989. So they have inherited religious attitude from the pre-socialist times (they were basically socialized in inward religious family atmosphere, so their religious world view is complied with emotional insistence and nice memories from the “careless” childhood), spent their active life-period during the socialist era and retired mainly in the 1980’s. Most of my informants are woman (90%) who grew up in a farm and moved to the town usually after their marriage. Today they are all living in the same middle-sized agricultural town (called Csongrád, Csongrád County) with a Roman Catholic majority (96%) in the south part of the country. Although Csongrád has an inhabitance of 18 thousand, the mentality is more village-like than urbanized.

As the hey-day of the Rosary devotion in Hungary was in the end of the 19th and the beginning of the 20th century, the members of the observed rosary bush had been touched by the last vigorous winds of the sweeping movement. In their childhood they used to pray the Rosary every night together with their grandparents, parents and siblings, joined their mother on the regular meetings of the Confraternity of the Rosary. All of them have deep emotionally-based memories about how they beloved relatives were committed to this form of piety. They were taught that the Rosary is a weapon against disbelief and all the enemies of the Church.³²⁹ In fact they were socialized into a strong religious moral universe and coherent world view shaped by the doctrines of the Roman Catholic Church and the traditional folk piety mediated by the family.

2009.) etc. You can find several useful works about Rosary devotion and confraternities in Hungary written by Professor Gábor Barna (Az Élő Rózsafüzér kunszentmártoni társulata / The Living Rosary Confraternity in Kunszentmárton. Devotio Hungarorum 5. Szeged, 1999).

³²⁸ Peter L. Berger: The Desecularization of the World. The Global Overview. In: Peter L. Berger ed. The Desecularization of the World. Essay on the Resurgence of Religion in World Politics. Washington: Ethics and Public Policy Center, 1999. p 7.

³²⁹ We can easily identify this enemy with the modern world of moral uncertainty, which seems to be -as they often remark- under the control of the evil powers.

After 1945 the institutional forms which supported and strengthened the individual's religious identity was not accepted on the level of the political state anymore. In these years regular church-attendants tried to protect their inherited world view³³⁰ on a partially hidden way. By still visiting the casual holy services, carrying children to religious education in secret, reading the Bible and praying at home they created their own *micro-counter-culture* in order to level off the anti-religious atmosphere of the education system³³¹.

Directly after the political change (1989) the newly retired generation found themselves in a rather ambiguous situation. Elderly people had to find their role in the rapidly changing post-socialist Hungarian society³³² where the question of religious commitment turned to be a "private affair". While the traditional way of piety become only one possible choice among the others, elderly people seemed untouched by the desire of choosing. In fact they found that *pick'n'choose mentality* alien which suggests selecting ideas, religions or ethical rules as we select goods on the market.

Many sociologists set the fact that the role of religion increasing after the superannuation, the loose of the life partner and in times of permanent illness or restricted moving³³³. In case of my informants the time of intensifying religious needs (retirement) and the period of flourishing religious activity after 1989 took place in parallel. The way of protecting themselves from the frustrating pressure of choice is quite obvious: *return to the roots*.

On the level of the individual we can observe the turning back to the well-know traditional form of piety what left from those times, when Catholic Church was the only available scope of belief³³⁴. As Hervieu-Léger mentioned, the recalled patterns from the past gives meaning to the present and contains the future.³³⁵The recapitulated religious piety frames the individual's lifetime, ensures the continuity with the beloved ancestors and brings the "careless" times into the present. Religious world view is like a pillar, offering intellectual protection in the always-changing times of uncertainty. Persisting to traditions could easily be interpreted as a silent opposition against the ambivalences of modernity, at least the 'imperative of change'.³³⁶

³³⁰ Religious and ethical values are basically inseparable for them. In my paper I use the word: "world view" without making difference between the profane and sacred moral universe.

³³¹ We can find the basic argument in *ABC of Communism* (N.I. Bukharin – E. A. Preobrazhenskii 1919 p. 305.): "We must see that the school assumes the offensive against religious propaganda in the homes so that from the very outset the children's mind shall be rendered immune to all those religious fairy tales, which many grow-ups continue to regard as truth." See more: S.A. Smith: *The First Soviet Generation: Children and Religious Belief in Soviet Russia, 1917-41*. In: Stephen Lovell (ed.): *Generations in Twentieth-Century Europe*. Palgrave Macmillan 2007 pp. 79-81.

³³² This rapidly modernizing world became incomprehensible, *uncomfortable* and *alien* for the elderly in many aspects (technical inventions, running lifestyle of the younger etc-). The unclear attitude of society regarding the roles of the elderly, the question of getting old and dying in general makes this case even more complicated.

³³³ As a result of the collapse of multigenerational family-model people around the age of 65 mostly live alone as long as they can provide for themselves. Since the generations are not living in the same household anymore elderly people seem to lose their important role in the family as home helpers and child minders too.

³³⁴ This notion is valid correctly regarding the observed town, Csongrád (Csongrád County).

³³⁵ Hervieu-Léger, Danièle: *Religion as a Chain of Memory*. Cambridge: Polity Press 2000. p. 125.

³³⁶ The 'imperative of change' is a term of Maurice Gauchet. Hervieu-Léger, Danièle: *Religion as a Chain of Memory*. Cambridge: Polity Press 2000. p. 83.

One opportunity to follow the way of the ancestors among the changed circumstances of today is to join to that kind of religious Confraternity, which existed in the pre-socialist times too. In the observed town, Csongrád there are three kinds of religious group today:

1) Groups, which existed before 1945 and had been dissolved after the political change for good. Eg. "Guardians of Sacred Heart of Jesus".

2) Groups, which were formally dissolved in 1948, lived a so-called "shadow-life" during the state-socialism and resurgent after 1989. Eg. *Confraternity of the Rosary*.

3) "Newly acclimatized" religious groups which started their work after the political change of 1989. Eg. Agape Group, Confraternity for the Sacred Heart of Jesus

Further we are paying more attention to the second group.

II. The features of the Confraternity of the Rosary in Csongrád

The Confraternity of Rosary in Csongrád consists of low-organized independent groups (today there are 5 *bushes* connected to the Church of Our Lady, 4 *bushes* in the Church of Saint Joseph) each with one leader and 14 other members. The membership could be elected or inherited. It was common till the 1950's when the mother died the daughter occupied her place in the *bush*. The number of the members is prescript³³⁷ so the candidates have to wait till one of the member dies or clamp 14 other candidates to form a new bush.

Rosary as a pray is basically an individualistic form of piety. If you are a member of the bush you can pray your actual "*secret*" home alone without having to meet the others. So the prayer's chain is living virtually without physical contact or meeting occasions of the members. In fact these groups –even if they are working well- are physically invisible. It's not the lack of common spirit: it's a common spirit with the invisible 'others' who are 'somewhere over there', out of time and space. Most of the members have no idea who namely the others are. Generally they can enumerate 5-6 names in a row who are surely in the same *bush*.

The contact person who controls the change of "holy secrets" and keeps the praying chain alive is the Head of the Rosary bush. In fact only the Head knows who exactly the members are. He/she has a list of names and a list about the row of the secrets. There are two things what the Head of the bush has to control: first is *the method of changing secrets*. The occasion of refreshing the prayer chain is without any festivity. The Head can transact it on the first Sunday mass of the month, but some Heads are going to visit the members every third month individually, give the secrets personally in their hands or simple throwing it into the postbox. (It depends

³³⁷ One bush consists of 15 member altogether, in harmony the number of the holy *secrets*. The four basic types (joyful, luminous, sorrowful, glorious) of Rosary (each with 15 secrets) recall episodes from the life of Jesus and Mary.

of the age and physical condition of the Head.) So he/she meets with the members separately. The second task is *to assure the unbroken flow of the pray* and the fullness of the chain. If a member dies, the Head has to pray the secret of the deceased until a new "Rose" affiliates to fulfill the gap. The potentially easy-rope-in volunteers are those, who are newly retired, widow or moved to the town, woman, around of age of 60, 70. To find new volunteers for a Rosary group is not an easy task in these days. The main method is to ask the regular church-attendants after the Sunday Mess, whether they would like to join or have a calling. Voluntary members are quite rare today. These low-organized, old-fashioned religious groups are not attractive enough for younger generations. The young are likely to choose the newly established communities (see the third group!) where the level of concrete social interaction is quite high. There have always been a distinction between young and old in human societies, but the distance (in every meaning) was never as far as today.³³⁸

The low level of information-flowing is also observable between the different Rosary *bushes* in the town. The leaders (Heads) have no idea about how the other groups are working, or basically how many Rosary bushes/chains there are in the local parish. The information about the other chains is usually fragmented, often false (eg. who the Head exactly is etc.).

In case of Rosary bushes in Csongrád it is not common anymore to represent their belonging for the wider church-attendant society: the members are not sitting together on the Holy Mass, they are not moving together on the procession under their flag etc. The funeral of a member is the only occasion when we can find ambition to show the importance of belonging by carrying a white rosary on an embroidered pillow to step by the coffin. Sometimes the Head puts a large Rosary on the coffin too, and asks a few members to pray together half an hour long before the funeral.

III. Why is it good to be involved?

"We miss community because we miss security, a quality crucial to a happy life, but one which the world we inhabit is ever less able to offer and ever more reluctant to promise"³³⁹Bauman's words point out a basic need of human nature: to be with others, belong to a community, where the person can melt in the feeling of togetherness by sharing the similar way of thinking. Long-term belonging could frame self-identity and possibly release under the pressure of choice which is a kind of obligatory in the contemporary society³⁴⁰. Generally speaking, commitment reinforces identities, systems of meaning, or definitions of reality.³⁴¹ It is also well-known, that uncertainty (that flows from the dynamics of change) makes the need of 'believing' and belonging stronger.³⁴²

³³⁸ Stephen Lovell (ed.): *Generations in Twentieth-Century Europe*. Palgrave Macmillan 2007. p. 2.

³³⁹ Zygmunt Bauman: *Community. Seeking Safety in an Insecure World*. Cambridge, Polity Press. 2003. p. 144.

³⁴⁰ "The attraction of the community of communitarian dreams rests on the promise of simplification: brought to its logical limit, simplification means a lot of sameness and a bare minimum of variety." Zygmunt Bauman: *Community. Seeking Safety in an Insecure World*. Cambridge, Polity Press. 2003. p. 148.

³⁴¹ Hans Mol: *Identity and the Sacred. A Sketch for a New Sociological-Scientific Theory of Religion*. Oxford: Basil Blackwell, 1976. 218.

³⁴² Hervieu-Léger, Danièle: *Religion as a Chain of Memory*. Cambridge: Polity Press 2000. p. 93.

To be with others who have the same way of thinking, legitimize the rightness of the world-view of the individual. This is the phenomenon what we call (after Peter Berger) *plausibility structure*³⁴³. Berger argues that just because humans are basically social beings, the belief system could easily be reinforced by the members of the community by positive feedbacks of ‘social confirmation’.³⁴⁴

To be a member is not a question of rational choice, but more the result of religious socialization. “Human loyalties, offered and matter-of-factly expected inside the ‘warm circle’, are not derived from external social logic, or from any economic cost-benefit analysis’. This is exactly what makes that circle ‘warm’.”³⁴⁵ But the circle can be ‘warm’ only if there are place and time to meet and share ideas, change experiences, to ‘weave the social mash’.

Even if the frames are not appropriate to supply basic social claims (to be with others, sharing memories, ideas etc.) the members of the Rosary bushes love to be involved and feel that ‘there are others somewhere doing the same as I do’. The common source of group-identity³⁴⁶ is to be a *pearl on the chain of memory*, a lineage of belief³⁴⁷. Permanent (sometimes nearly life-long) commitment is also connected with the low level of mobility. The members of the observed *bush* only left their hometown for short period of time for pilgrimage, to visit family members, and rarely for inland holidays.

The members of the *bushes* are stressing that this world-view they keep and which is expressed through the Rosary devotion is truly in danger and will disappear after their death. They usually verbalize their fears just like “we are the last ones”, “there are no followers, and so I do not know what will happen after we die”. The guarantee of continuity, the group who will keep my memory and praying for my salvation is on the way to die out. To realization that the old ethical patterns are slowly melting away implies *distress* and *worry* for the seemingly misplaced life of the youngsters.

IV. ‘Hibernation’ as a possible faith

Once it was a tradition that the position of the Head of the Rosary bush was inherited from mother to daughter. This method seems to be disappearing these days. If the Head becomes unable to lead the group (mainly because of illness) he/she tries to find someone to deliver the status. I can assume that it is quite hard to find an appropriate candidate among the members of the bush because everyone is up the age of 60 and leadership roles are not attractive anymore. The selected ones are afraid of the new tasks, afraid of becom-

³⁴³ Peter L. Berger: *A Rumour of Angels*. London: Allen Lane/The Penguin Press 1969. p. 18-19, 31-32.

³⁴⁴ Linda Woodhead – Paul Heelas (ed.): *Religion in Modern Times. An Interpretive Anthology*. Oxford, Blackwell Publishers 2000. “Elective fraternity is a relationship that is both willed and ideal in the sense that it is presumed to bring into being what ties of blood are so often incapable of ensuring between members of family – real solidarity, transparency of thought and communication, and common values and memories.” Hervieu-Léger, Danièle: *Religion as a Chain of Memory*. Cambridge: Polity Press 2000. p. 150.

³⁴⁵ Zygmunt Bauman: *Community. Seeking Safety in an Insecure World*. Cambridge, Polity Press. 2003. p 10.

³⁴⁶ In this context it means only self-image of separated individuals.

³⁴⁷ Hervieu-Léger, Danièle: *Religion as a Chain of Memory*. Cambridge: Polity Press 2000.

ing suddenly ill and turn to be unfit to keep the prayer's chain alive by arranging the undisturbed flow of the secrets. Once it was a privilege: now it is a sweet burden, but burden.

If there is a new candidate for the position the Head usually do not ask the opinion of the members about the shift, just communicate the possible change as a fact. It is because of the originally *virtual profile* of the community: there are no information flow, no forum to change and share ideas, opinions and experiences. Even the priest knows nothing about the changes these days, what is happening on the micro-level of these small groups.

The question logically emerges: what if the Head of the bush dies without taking care of the reinforcement in time?

When the only contact person dies the members are forced to react somehow. Based on my fieldwork I can adjust three kind of possibility:

1. *Searching for solution*: The individual starts thinking how to join another bush / how to find a new leader / rarely decides to take the group's lead.

2. *Leaving*: The death of the Head is a good reason to leave the group – the member thinks that he/she is too old to continue it. (Leaving the group does not mean that the person gives up this form of individual piety).

3. *Hibernation*: The act of leaving did not happen in the individual's point of view: it was not a consequence of his/her own decision. While the group melts away invisibly, the individual continues to pray the always-changing "secrets" with the help of routine in the accustomed row.

What are the features of the *hibernated group*? To be *hibernated* means that the frames of the Rosary bush are basically untouched and there are no efforts for inner renewing. In the lack of the leader the members can not see any chance to know about who the others are. So the individuals still think of the others like 'they are "somewhere" in the unlocated space and time'. The flow of secrets seems to be undisturbed because of the routine of the individuals just because they know the technique how to do it. The main point is that the feeling of belonging is unbroken because *the act of leaving did not happen*. It is not a consequence of the individual's decision: this is the group which is slowly melting away.

When only a few member of the 'motherless' bush still pray the Rosary in the familiar row - without knowing whether the others are doing the same – implies the question: if the members still define themselves as members but do not fulfill the objective criteria of a community, is it a group or only an individual form of devotion? Is it correct to call these semi-virtual groups "group"? What if the feeling of belonging is still a part of their identity? Besides, the phenomenon shows a kind of fair optimism, a deep trust in the fact that the bush is complete somehow and the pray will not go into waste. The individuals who keep this hibernated, semi-virtual phenomenon alive say that "it is an interest of the sweet Jesus too, I believe that he helps".

The only thing what seems to be the most important is the close attachment to the ancestral values and the secret hope in self-salvation. As the members (the keepers) die the semi-virtual phenomenon, this grotesque but clearly possible memento, is sentenced to disappearance.

V. Conclusion

In this paper I tried to sketch the role of Rosary devotion as a heritage from pre-socialist times in the life of elderly people today. Just to make it clear: semi-virtual phenomenon actually is *not* group-like, only a malformed copy of the wished past, sad signs how traditional forms of devotion could reach the end. This practically invisible form which exist only as a part of the individual's religious identity offers no more social certainty and brings only the ambivalent feeling: "we (?) are waiting for something to happen". The individual sees itself as part of a chain (as a follower, or heritage-keeper descendant), but maybe the last pearl - because of the lack of active reproducing efforts. The commitment means only keeping, hibernating this non-viable form. I venture the assumption that similar social biography implies ideally similar religious needs and expectations, so the *collective religious memory* of the observed age group is the base of their understanding.

The stability of religious world view on the level of the individual is highly connected with the emotional need of continuity with the ancestors. This need is about to *stay in the same moral universe with parents and grandparents* and following their well-tried example. I should say that after the death of primary mediators of religious values – so the older family members - the role of the 'significant others' grow rapidly.³⁴⁸The members of the similar age group (closely the church-attendants) became important supporting agents they will legitimize and make the world view plausible. So the individual is searching for other solutions to fulfill the gap which appears after the disappearing –and never truly existed- community. The simplest way is to join to another, and also low-organized religious community, which provides the feeling of "working" more but still do not oppress the members with extra burdens and tasks. We can observe the growing role of the Radio-Rosary in the *Katolikus Rádió* (Catholic Radio) too. The religious person can pray with the Radio loudly together and can feel the communality through connecting to the virtual-emotional invisible group of the Radio-listeners. This is how they tries to support their world-view by creating selected circumstances: listening Catholic Radio, watching Catholic holy mass and religious programs in the television, reading religious newspapers and books, having friends from the church community etc. This is how the *sacred canopy* keeps the illusion of safety while the world in average seems bygoing. It means only that the members of the hibernated micro-community do not want to find new ways of religious experience because they can find conform and satisfaction by following the way of religious

³⁴⁸ „Significant others'who are share the construction and stabilization of 'private' universes of 'ultimate' significance". The reason of this phenomenon is that the family lost many functions which is traditionally performed in the social structure. Luckmann, Thomas: *The Invisible Religion. The Problem of Religion in Modern Society*. The Macmillan Company, New York. Collier – Macmillan Ltd. London. 1970. pp 106. p. 112.

WHERE DO WE GO FROM HERE?

Economic trends, social trajectories and policies of identities in post communist capitalism.

traditions rooted in pre-socialist times, verified by the history and exemplified by the grandparents.

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CITIZENS LIKE INVESTORS: ANALYSIS OF ESTABLISHING CITIZEN'S NEW ROLE IN THE CASE OF SLOVAKIA

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***Abstract:** The main goal of this paper is to analyze creation of friendly environment for mass investors in Slovakia and to bring closer some relevant social and cultural coherences which are interwoven into creation of collective investment i. I'm using data from several case studies, especially from analysis of public presentations, commercial and advertising documents and I'm also concentrating on discourse of citizens' responsibility which is important in stabilization of mass investors.*

***Keywords:** economic sociology, investment, institutionalism, institutionalization*

Introduction:

Financial turn and institutionalization of financial markets has many economical, social and organizational impacts. One of social impacts is growing role of mass investor - collective investment through the products of institutional investors - and conception, that responsible citizen is an active user of financial market's products. The investment in financial market is not accessible just for elite investors, gamblers, speculators and bored renters. The new groups of investors, especially in case of east and central Europe countries, are so called mass investors, ordinary people who are using products of collective investments such as pension's funds, mutual funds, real estate fund, fund of fund etc.

According to classical sociological assumption, most of individual activity is not accidental. Individual act and meaning of act is under continuous process of creation and institutionalization, which means stabilization, "normalization" and building of routine. Economic activity is also build as a part of this process. Individual as ideal rational economic actor independent from tradition, routine and habits is according to Francesco Guala³⁴⁹, product of friendly environment and this friendly environment must be carefully build and supported. Rational economic activity of individual is not "natural", but must be institutionalized and supported in society. My effort in this paper is to analyze creation of friendly en-

³⁴⁹ Guala, F.: How to Do Things with Experimental Economics. In: MacKenzie, D., Muniesa, F., Siu, L.: *Do Economists Make Markets? On the Performativity of Economic*. Princeton: Princeton University Press, 2008, p. 128 - 162

vironment for mass investors in Slovakia. I'm using data from several case studies, especially from analysis of public presentations, commercial and advertising documents and I'm also concentrate on discourse of citizens' responsibility which is important in case of creation of mass investors.

My effort in this article is to bring closer some relevant social and cultural coherences which are interwoven into creation of collective investment in case of Slovak republic and this effort also designates theoretical and methodological resources which grow up mostly from traditions of economical sociology and institutional economy. Financial market and collective investment is understood as part of scientific field of economy and finance, even though sociology take into consideration this important economic institution of postfordist society especially in last thirty years (Knorr Cetina³⁵⁰, MacKenzie³⁵¹, Fligstein³⁵²). Therefore I regard as useful to connect my study of stabilization of role of citizen as investor with introduction of sociological (institutional) approach to economic activities and financial markets; it is main goal in first part of article. The tendency in collective investment is presented in second part, and finally, the third chapter, is based on presentation of preliminary results from case study.

I. Theoretical framework: presentation of theories of economy and market in economic sociology.

Theoretical approach to collective investment and financial market is affected by theories from economic sociology and institutional economy (especially classical tradition of Veblen, Commons and Galbraith). Economical sociology together with institutional economy has different conceptual framing than mainstream economic analysis. Chorvat³⁵³ suggest that differences between core theories of economy and sociological analysis of economic activity lay in opposite paradigmatic anchoring. Economical analysis, especially in its neoclassical tradition emphasizes individual interests of economic actor. On the contrary, economic actor in economical sociology is embedded into existing cultural and social structures. From that reasons sociologist in their analysis of economic activity are careful to existence of social interaction, organization, institutions. We can summarize the core of differences between economical and sociological approach into two elementary questions: how to understand economic actor and how to understand market.

The answer of neoclassical core of economy to the first question create picture of someone who is fully isolated, independent and driven mostly through individual interest

³⁵⁰ Cetina, K., K.: *The Sociology of Financial Market*. Oxford: Oxford University Press, 2005

³⁵¹ MacKenzie, D.: Opening the black boxes of political economy. *Review of International Political Economy*. 2005, vol 12, no. 4, pp. 555-576

³⁵² Fligstein, N.: Markets as politics. A political-cultural approach to market institutions. *American Journal of Sociology*. 1996, vol. 61, no. 4, pp 656 - 673

³⁵³ Chorvát, I.: Ekonomická sociológia – tradícia a perspektívy. *Acta oeconomica*. 1999, vol. 5, pp. 121

and its satisfaction. Such actor is using practices which are fully rational and effective because are chosen thanks to principle of marginal utility. The goals of action, the values which are behind actor activity are conceptualized especially as state of actor's consciousness; they spring mostly from psychical grounds of man. Thorstein Veblen³⁵⁴ was one of the first who criticized marginal utility approach and its primal theoretical assumption. He identified the problem of neoclassical approach as insufficient explanation of human values, their history, evolution, changes, their recognition and internalization in actor's mind. Sociological critique of neoclassical presuppositions is based on similar grounds. Sociologists do not have any doubt about actor rationality, especially rationality in case of goal approaching. But they are aware to say that goals, values and rationality are results of isolated, intuitive psychic processes in actors mind. Instead of that, sociologist sees economic actor, his goals, and values, as results of his embeddedness into social structure. Mark Granovetter³⁵⁵ characterized economic embeddedness as impossibility to separate this action from the others institutions in society. Karl Polanyi³⁵⁶ used the conception of embeddedness forty years before Granovetter wrote his article, but Polanyi's conception presents a history of economical exclusion and its results. According to Polanyi the emancipation of market economy in 18th and 19th century meant separation of market from other institution in society. Market was embedded into institution of feudal society (religion, tradition) but modernization and industrialization of western societies led to emancipation and independence of market and economic activities from other social institutions. This separation led to countermovement which transformed institutions and created new mode of regulation (official and unofficial).

Granovetter also emphasizes that „actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing system of social relations. “

Conception of embeddedness is important source of inspiration for economic sociology. It focuses sociologists on social and cultural conditionality of economic activity and sociologists “therefore began to argue that their theories explaining patterns of political, religious and family behavior could explain economic behavior. Like families, politics and religions, markets are social structures with conventions and roles and conflicts (Frank Dobbin)”.³⁵⁷

I follow embeddedness assumption and I suppose that economic actor is not lonely calculative “machine” driven by egoistic interest, but is result of his\her embeddedness into social relations which shape forms of its economic activities.

³⁵⁴ Veblen, T.: Why is Economics Not an Evolutionary Science. *The Quarterly Journal of Economics*. 1898, vol 12

³⁵⁵ Granovetter, M.: Economic Action and Social Structure: The Problem of Embeddedness. *American Journal of Sociology*. 1985, vol. 91, no. 3, 481 - 510

³⁵⁶ Polanyi, K.: *Velká transformace*. Brno: CDK, 2006

³⁵⁷ Dobbin, F.: *The New Economic Sociology: A Reader*. Princeton: Princeton University Press, 2004, p. 1

We can use comparative analysis of Japanese, South Korean and Taiwan economical organizations as good example of theory of embeddedness. Gary Hamilton and Nicole Woosley Biggart³⁵⁸ show us how economical organizations are affected by inherited political and cultural mechanism (Japanese model *kygioshudan*, Korean model *zaibatsu*). Such mechanism creates features of economy – for example innovative character of Japanese industry is result of huge knits between banks and firms. Korean history of strong connection between state and industry created economy of big corporations focused on production of industrial commodity of mass consumption (cars, electronics). Weak state support together with importance of family crated economy of small businesses typical for Taiwan. Also Neil Fligstein³⁵⁹ emphasizes that economic activity and its shape is result of building of modern state. According to him, economy is connected with political institutions that make conditions for its successful existence. Michel Callon³⁶⁰ brings into sociological discussion conception which is for many readers controversial. He is critical to standard conception of embeddedness because this theory is fully focused on description of social factors (politics, culture, social relationships and nets, gender differences) and ignores one of the most powerful actors in age of finance - economical science. Callon's principal statement is that economics (science) do not describe economy (reality) but bring this reality (economy) into living - especially laws of this reality. He says that economy is embedded in economical science. MacKenzie and Millo³⁶¹ tested this statement in case study of Black Scholes model for market with options. To say, however, that economy (science) is main source of economical reality seems like "scientific" determinism. On the other side, contemporary situation in finance - using of complicated models from physic and hiring of quants together with development of behavioral economy - manifests that economics (science) supports economic reality and sometimes conveys this reality into existence.

This short analysis of economic sociology suggests that economic action can be understood as result of embeddedness of actor into social structures, culture and political institutions. On the other side we should see that economic actor is not fully subordinate to social structures, culture and policy. Economic actor through his action influences "objective" reality of institutions and modifies these institutions.

Second key difference between sociological - institutional approach and mainstream economic science is in the answer on question how to describe a market. Sociology and institutional theory sees market as social institution. Neoclassical economic approach reflects market as ahistorical and nonsocial reality. According to Lee mainstream economic theory just "assumes existence of market in neoclassical view of perfect competition in market underlying the supply demand curve".³⁶² Market is identified with existence of independent

³⁵⁸ Hamilton G., H., Biggart, N., W.: Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East. *The American Journal of Sociology*. 1988, vol. 94, Supplement: Organization and Institutions: Sociological and Economic Approach to the Analysis of Social Structure, pp S52-S94

³⁵⁹ Fligstein, N.: Markets as politics. A political-cultural approach to market institutions. *American Journal of Sociology*. 1996, vol. 61, no. 4, pp 656 - 673

³⁶⁰ Callon, M.; *The Laws of Market*. Oxford: Blackwell Publishers, 1998, p. 1- 58

³⁶¹ MacKenzie, D., Millo, Y.: Constructing a Market, Performing Theory: The Historical Sociology of a Financial Derivatives Exchange. *American Journal of Sociology*. 2003, vol. 109, pp. 107-145

³⁶² Nee, V.: The New Institutionalism in Economics and Sociology. 2003, CSES Working Paper Series, paper #4, p. 25

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market mechanism which is similar to natural law. Such market mechanism leads to spontaneous social order, rationality of action and effective distribution of goods and services. Situations where such order is not working are not defined as a failure of market, but as situations of blocked and controlled (mostly by state) market mechanisms.

Sociological and institutional analysis identifies market as complicated institution which existence is supported by action of many actors (individual, collective, social, human, non human). In this case we should use sociological definition of institutions where institutions are presented as "system of interrelated informal and formal elements – custom, shared beliefs, conventions, norms, and rules – governing social relationships within which actors pursue and fix the limits of legitimate interests"³⁶³. Market as institution of economic transaction depends on other social institutions (political, legal, cultural, and academic) and reality of market is shaped by this institutions. They define fields of goods, services which are controlled by market mechanism, institutions define legal or illegal action, define what is moral and amoral, appropriate or inappropriate and they also define routine of market and habits typical for concrete market. Market institutions have its history and this history depends on history and transformations of other social institutions that support existence of market (we shouldn't forget on importance of economic crisis and technological transformations in case of transformation of market and other social institutions). New institutionalism in economy and sociology regards social institutions as relevant condition for existence of economic organizations (industrial firms, stocks and banks for example). Organizations create conditions for action of individuals and groups and action of individuals and groups transform organizations, action of individuals causes prosperity or stagnation of organizations. Broad transformation of organizations creates pressure to redefine institutional framework (legal, cultural, social).

This short introduction into economic sociology enables to present simple version of theoretical framework used to study processes of establishing and stabilization of collective investment in Slovakia. On base of theoretical assumption which I mentioned before, I don't understand collective investment as mechanism for profit maximalization used by fully rational individuals. I suppose that majority of small investors in Slovakia do not decide for collective investment only with egoistic intention to become rich. Social and cultural context is also relevant in case of collective investment. Social and cultural context presents reasons why we should invest our money. According to Galbraith... "Far more important than rate of interest is the mood. For example speculation on large scale requires a pervasive sense of confidence and optimism and conviction that ordinary people were meant to be rich".³⁶⁴

My own analysis of collective investment is based on this Galbraith's assumption which I connect with sociological theories of economy. To create trust to invest, habits of invest, routine of invest or duty to invest is as important as existence of investment funds, life insurances, pension or as comparison of profits rates and ratings. Therefore I follow

³⁶³ Nee, V. p. 33

³⁶⁴ Galbraith, J., K.: *The Great Crash*. London: Penguin Books, 2009, p. 187

how trust, habit and duty to invest are created in case of Slovakia. To say shortly, I study creation of friendly environment for small investors' investment.

II. Collective investment in Slovakia

No one from economists or financial analytics will say that Slovakia has successful stock exchange or lively stock market comparable with other countries. On the other side we can see growing importance of collective – institutional – investors in Slovakia. According to Bank for International Settlements (BIS)³⁶⁵ the most important institutional investors are insurance companies and pension funds, which are the biggest receivers and administrators of households' deposits. BIS also suggest that progress of institutional investors is connected with ageing of population, decline of fertility and above all with confidence of governments that pension system is unsustainable and should be transformed. BIS expects that share of households' deposits in life insurances and private pension funds will be growing rapidly in next years.

It could be said that Slovakia copies this tendency of growing role of institutional investors. According to National Bank of Slovakia^{366 367} the share of life insurance is continuously growing. When we take all insurance contracts in Slovakia, life insurance has more than 40 percent; it is more than 12 billions in Slovak crowns. But more important than total share is general tendency in segment of life insurance. Comparison between life insurance and "property" insurance shows that life insurance has more dynamic growth than insurance in other segments (13 percent of annual growth in life insurance against 3.5 percent in property insurance in years 2005 and 2006). We can find similar tendency in case of shares funds which had growth more then 78 percent in year 2005 and accumulated 124 billion of Slovak crowns. But shares funds are relatively new products among other Slovak financial products. They became work after privatization of three biggest bank houses in Slovakia and after creation of new legislative framework in year 2003³⁶⁸.

The pension funds became last brick into portfolio of Slovak institutional investors after huge reform of pension system in Slovakia in year 2005. This reform was based on Chilean model, and main feature of new pension system is its privatization by private pension funds which are legislatively controlled by state. Pension funds administer more than 1,5 millions of personal pension accounts what presents 2, 899 billions of euro (investment strategies are conservative and regulated by strong legal regulations).

³⁶⁵ Bank for International Settlements, Annual Report 2007, p. 2

³⁶⁶ Národná Banka Slovenska: *Správa o výsledkoch analýzy finančného sektora v SR 2005*. Bratislava: NBS, 2006

³⁶⁷ Národná Banka Slovenska: *Správa o výsledkoch analýzy finančného sektora v SR 2006*. Bratislava: NBS, 2007

³⁶⁸ Zákon č. 594/2003 Z.z. o kolektívnom investovaní

III. Idea of universalism of financial services and ideology of weak state: preliminary results

The main goal in next chapter is to present of creation of friendly environment for individual investment (investment of small investors). I can study establishing of friendly environment on level of political decisions, on level of legal regulations and organizational analysis or on level of cultural changes and value modification. I decided for third level. I suppose that cultural changes are important factors of behind citizens' new role creation - the role of investor - and are as important as legal and political decisions. As Galbraith suggested, good mood and trust to investment is as important as interest rate and Aldridge completed that "personal services and products are quintessentially abstract and financial sector must be unashamedly self-celebrating promotional culture in which information and persuasion are inextricably linked. Within this culture the virtue of market as maximally efficient and equitable is taken as axiomatic."³⁶⁹

Banks, insurances and pension funds are using this form of communication - promotional culture - when they are selling their products, packages and services in broad population of consumers. Burton also suggests that there "has evidently been a shift from organizational cultures which were conservative, reactive and cautious, and were the main element of job was administration. Contemporary financial service personnel are required to be proactive, entrepreneurial and possess a high level of interpersonal skills and market expertise."³⁷⁰

Transformation of pension system in Slovakia is good example of using promotional culture of finance. It created polarization between state and private and private funds were presenting as responsible, effective and following universal rules of market. State as administrator of pension funds was presenting as ineffective, egalitarian and stricken by demographic crisis. Important part of communication of transformation emphasized individualistic statements. Such massive using of promotional culture based on presentation of financial market efficiency can be seen as one pillar of doubt about efficiency of welfare state. For that reason I anchored my research on analysis of media presentations in years 2004 - 2006 (news paper 40, economic magazines 42, TV programs in Czech and Slovak TV channels - 24), selling manuals (6), interviews with financial advisors and insurance agents (19), observation of trainings (4).

On the basis of data from materials, interviews, observations, and field notes I can present two cornerstones which support citizens' new role of investor in Slovak society. This new role is grounded in conception of universalism of financial services and weak role of state.

³⁶⁹ Aldridge, A.: Engaging with promotional culture. Organized consumerism and the personal financial service industry. *Sociology*. 1997, vol. 31, no. 3, pp. 390

³⁷⁰ Burton, D.: *Financial Services and the Consumer*. London: Routledge, 1994, p. 5

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The universalism of financial services is presented in statement that: *Everybody needs financial services. Lawyer needs financial services, teacher needs financial services, and everybody whom I meet needs financial services (From financial advisors training).* The idea of universalism of financial services creates portrait of world wherein financial market and its products are complicated, but ordinary people shouldn't hesitate to use them. Authorities from OECD are saying something similar but in other words, they point out that for young people having financial acumen, confidence and knowledge is going to be crucial as their lives develop. We can translate these words as presentation of world in which every part of our life is connected with concrete financial product and we have to understand them because it is our new role (competence) if we want to be responsible citizen. Financial services are presented as complicated but we can learn some mechanisms how to understand them. These mechanisms aren't very different from natural laws, so they are universal. Also general picture of investor has transformed from gambler to responsible citizen, watchdog of market economy and essence of economy. It creates nowadays' mainstream picture of financial market – it works like natural laws which we can understand but we shouldn't try to change them. Financial markets and their products are presented as effective and quick source of citizens' dreams supplement.

Stabilization of such picture of financial market is combined with accentuated weak and inadequate role of state in welfare services: *It is not responsible to rest upon the state. Just take disability pension. Man must go from one doctor to another, from one commission to other commission and the whole time doesn't have any sureness that the result will be positive. State commissions have strict criteria and hard disease doesn't mean full pension. In this case the best decision is life insurance. (INVESTOR, monthly journal for investors)*

This quotation from article presents general proposition that responsible citizens doesn't depend on state. Responsible citizens diversify sources of income and combine them. Only someone who is not responsible relies fully on state and its services and social system. To have private insurance and account in private pension funds is presented as something mandatory for responsible citizens.

Conception of universalism of financial market doesn't use discourse citizens' of responsibility as the only one source of legitimacy but also presents financial market as universal tool how to supply all personal goals of individual. Personal goals of individual must be separate from responsibility of individual. As we mentioned before, to be responsible citizen means to have insurance and account in private pension funds and it is presented as something what we have to have. Personal goals of individual are not mandatory instead of that they are rooted in our personal desires and the products of financial market are presented as the best way how to achieve our desires. We can have what we want if we are using the right products of financial market and the best way is to invest money. Such conclusions are presented in popular manuals for investors and in motivation literature how to become rich in two years. These publications say us that: *People who work hard will not be*

rich. If you want to be rich you have to be financially much clever than only working hard and saving money. People often think that investment is risky and therefore aren't rich. ³⁷¹

To present combination of these ideas – universalism of financial market (responsibility and personal goals) and weak state - I have chosen one example from journal Investor – article is named How to work with money³⁷². One sentence in this article tells us that: *If government tells you that education is for free it lies.* The article continues with enumeration what everything we have to pay if we want have a good education – travel costs, food, clothes, special classes and tutors, language courses and so on. For a purpose of analysis is important that article presents state as weak and insufficient in case of education support (it should be true) and presents education as important capital and we should realize that. But individuals and families shouldn't be afraid because they can find sufficient alternative in products of financial markets. The only complication is existence of numerous of product and individuals or families must chosen the best one.

The selection of proper product for education safety depends on the length of saving. If you will start at elementary school than the best alternative is share found. If you are more conservative you can decide for product based on scholarship insurance or you can decide for special saving program stated for kids and youth. Such products are available in any insurance company or bank house. Insurances are very flexible in case of construction of scholarships products. Majority of these products contain also injury insurance and exemption from monthly fees in case of your death and invalidity.

These examples show elementary form of conception of universalism of financial services. They tell us that state is weak institution and therefore we shouldn't be depending on it because it is not able help us in such ordinary thing as is education. However, we as responsible people and parents know importance of education, so as responsible individual we should be looking for meaningful alternative and collective investment and its products presents such meaningful alternative. Collective investment is presented as universal tool to achieve all goals of individual and his/her family.

Conclusion:

The primary purpose of this article was present establishing new citizen's role of investor in Slovakia. Together with that goals article followed aim to present theories of economic sociology and institutionalism in economy and sociology. Such theories presented theoretical and methodological framework of research. According to this theoretical approach economic actors don't act as independent, individual and fully rational persons. Instead of that their action is seen as embedded rational – embedded rationality means that institutions, moods, habits and beliefs support and co-create economical activities and de-

³⁷¹ Kiyosaki, R. T.: *Bohatý táta radí jak investovat*. Hodkovičky: Pragma, 2000, p. 127

³⁷² Baláž, V.: *S peniazmi to treba vedieť*. *Investor*. Máj 2008, pp. 41

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cisions of individual. I followed creation of friendly environment, habits and moods in case study of collective investment (institutional investment) and I used analysis of media presentation of collective investment, interviews with financial advisors and observations of their training. Friendly environment for collective investments (institutional investors) is based on creation of idea of universalism and rationality of financial services (and through them also financial markets) together with accentuation of weak and insufficient role of state welfare system. It creates climate of “what if” investment. People shouldn't be fully convinced of financial market efficiency but they don't fully trust to welfare services of state and they invest money “what if”. A “what if” investment is not complete statement or theory, it is still hypothesis grounded in qualitative data analysis and must be more tested.

The role of citizens like investors is just one brick in process of institutionalization of collective investment but it shows us that study the financial turn in economy only from economic standpoint couldn't be sufficient. The growth of institutional investors, supported by investment of responsible citizens has consequence on management of firms (shareholder value) and culture and values.

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YOUTH (UN)EMPLOYMENT IN SLOVAK REPUBLIC IN EUROPEAN CONTEXT - CHALLENGES AND POSSIBLE SOLUTIONS

Margita Hulmanová

***Abstract:** According to the August 2010 Eurostat release, the youth unemployment rate in the EU-27 reached 20,2%. Slovakia ranks 5th worst with more than 34% of young people unable to find suitable jobs. This article deals with the current situation and vulnerability of youth on the European labour market with respect to the financial and economic crisis, as well as long-term consequences of youth unemployment on individuals and society. The second part of the article discusses the effectiveness of selected existing measures to tackle youth unemployment in the Slovak republic and the new European strategy "Youth on the Move".*

***Keywords:** youth unemployment rate, vulnerable groups, active labour market programmes (ALMP), Youth on the Move*

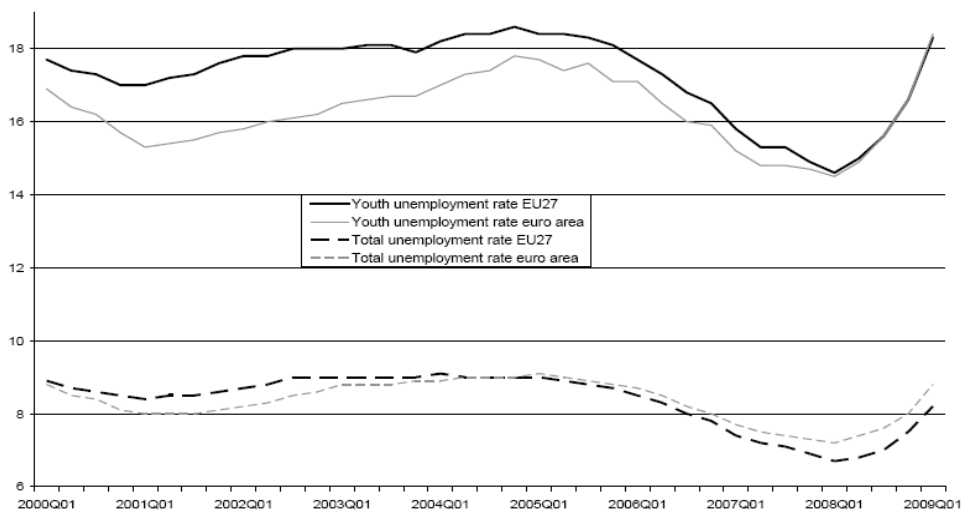
Introduction

The global economy is currently recovering from what is usually called the worst financial and economic crisis of the post-World War II era. With certain delay after the economic slowdown, the unemployment rates around the globe soared. The job crisis resulting from the economic downturn represents a challenge for the governments, in which labour market and social policies have a key role to play in reintegration of jobseekers into employment. Already disadvantaged groups in the labour market - youth, low-skilled, immigrants, ethnic minorities and, among them, those in temporary or atypical jobs - are the ones most vulnerable to the effects of economic downturn and job crisis. As a reaction to the current situation, the governments and the European institutions have taken steps to tackle the risk of high and persistent unemployment, some of which focus specifically on the vulnerable groups. This article tackles in particular the measures aimed at improving the situation of youth on the labour market and their effectiveness with a specific focus on the Slovak republic.

Situation of youth on the labour market in EU and Slovakia – pre-crisis and current comparison

Statistical comparison within the past two years suggest that youth (age group 15-24) were among the population segments hardest hit by the economic downturn. Youth unemployment rates traditionally copy the total unemployment rate development but are reaching in many states almost double values (as shown by Chart 1). Interestingly, the gap between youth and adult unemployment rates remains even after the economy has begun to recover. However, the peak in youth unemployment rates tends to be reached earlier or at the same time as the prime-age male population indicating the changes for young people are often more rapid³⁷³.

Chart 1 The level of youth unemployment rates compared to the level of total unemployment rates.



Source: Eurostat

The youth unemployment rate (under-25s) ranged in June 2010 from 8.1% in the Netherlands to 41.5% in Spain. Slovakia with the youth unemployment rate of 34.4% in July 2010 ranked fifth worst among EU-27 Member states with the youth unemployment rate far above the euro area and EU-27 average (19.6% and 20.2% respectively).³⁷⁴

When compared with pre-crisis levels, sharp increase in youth unemployment is observed. In February 2007, the unemployment rate for under-25s was 16.4% in the Euro-zone and 16.9% in the EU-27. The lowest rates for under-25s were observed in Denmark and the Netherlands (both 6.7%); the highest in Poland (25.5%), Greece (25.5% in the fo-

³⁷³ Verick, S.: *Who Is Hit Hardest during a Financial Crisis? The Vulnerability of Young Men and Women to Unemployment in an Economic Downturn*. Discussion Paper No. 4359. International Labour Organization (ILO) and IZA, august 2009, p. 15.

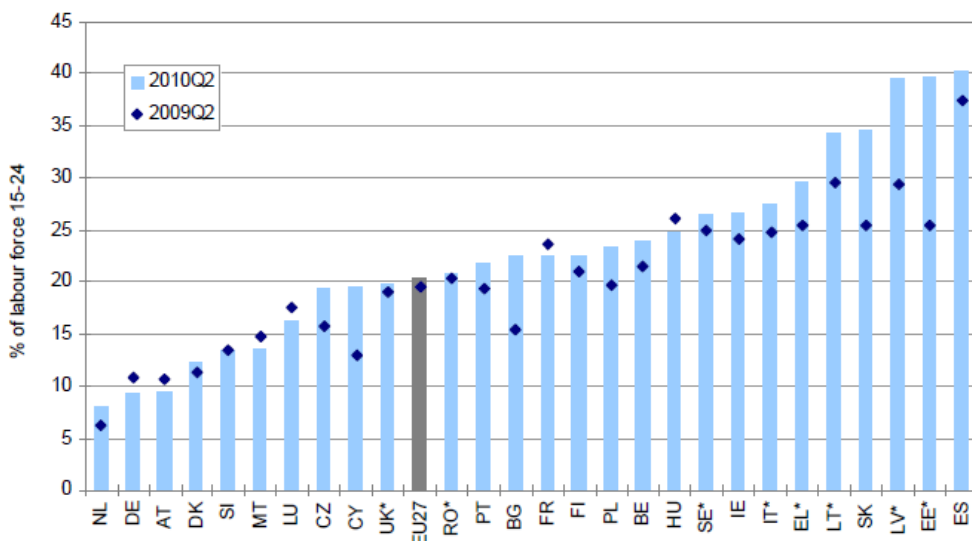
³⁷⁴ Eurostat Press Office: *Euro area unemployment rate stable at 10.0%, EU27 stable at 9.6%*. 125/2010. 31.8.2010. Available online at http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-31082010-BP/EN/3-31082010-BP-FN.PDF

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urth quarter 2006), and Romania (23.6%).³⁷⁵ It is important to notice that unemployment rates are expressed as a percentage of the labour force (employed plus unemployed), not of the population. Unemployment rates do not only change because of entry to or exit from unemployment, but also due to changes in labour force participation. Therefore, it is necessary to remember that a large share of persons between 15 and 24 are actually outside the labour market. If unemployed persons stop searching for a job because of discouragement, starting a family or enrolling in a course or training, it causes decrease in the size of labour force, as well as in the number of registered unemployed. The final effect shows in a statistical decrease in the unemployment rate, not reflecting the reality.

Chart 2 Youth (15-24) unemployment rate across EU Member States, changes May 2009 – May 2010



Source: Eurostat, Labour Force Survey. Data seasonally adjusted. *Data for EE, IT, LV, LT, RO, SE and UK 2009q1 and 2010q1. In: European Commission DG EMPL: Recent developments in the EU-27 labour market for young people aged 15-29.

Employment and skills

In Slovakia, total employment rate has reached 57,1% (66,8% for men and 48,4% for women) at the end of 2009.³⁷⁶ However, youth employment rate for those aged 15-24 reached only 26% in 2006³⁷⁷, whereas the European average is 37%. European comparison shows huge differences among member states ranging from 68% in the Netherlands and

³⁷⁵ Eurozone unemployment fell to 7.3% in February; Lowest rates were in Denmark and the Netherlands. 30.3.2007. Available online at http://www.finfacts.ie/irelandbusinessnews/publish/article_10009621.shtml

³⁷⁶ Inštitút zamestnanosti. Available online at <http://www.iz.sk/sk/projektv/regiony-eu/SK>

³⁷⁷ OECD: *Jobs for Youth – Slovak republic*, 2007, p. 21.

21% in Hungary,³⁷⁸ as well as across skill levels. The total employment rate for people with high skill levels across the EU as a whole is approximately 85 %, for medium skill levels 70 % and for low skill levels 50 %. Economic and demographic projections point out that 80 million job opportunities will arise in the EU in the next decade, the majority of which will require a high skilled workforce.³⁷⁹

The governmental subsidies introduced in Slovakia with the aim of supporting self-employment in the time of the economic crisis have not been met with a wide response from the jobseekers, especially young ones. This seems to be a missed opportunity, taking into consideration the fact that more than 50% of new jobs in Europe are created by SMEs,³⁸⁰ Conditions for such subsidies must be set realistically, in order to motivate young entrepreneurs to utilise them.

Unemployment and economic growth cycles

In the times of an economic downturn, it usually takes several months for the rise in unemployment to occur. Unemployment rate is therefore considered to be a lagging indicator. Once the economy starts picking up again, employers are usually cautious, hiring freezes often remain and it can take several months before the unemployment rate starts to fall again. The research of Reinhart and Rogoff³⁸¹ examining historical data from the previous financial crises has shown that while on average the cycle from peak to trough in GDP per capita is 1.9 years, unemployment rates peak 4.8 years from the previous trough in unemployment levels before the crisis started.

³⁷⁸ Contini, B.: *Youth Employment in Europe: Institutions and Social Capital Explain Better than Mainstream Economics*. IZA Discussion Paper No. 4718, January 2010. Available online at <http://ftp.iza.org/dp4718.pdf>, p.3.

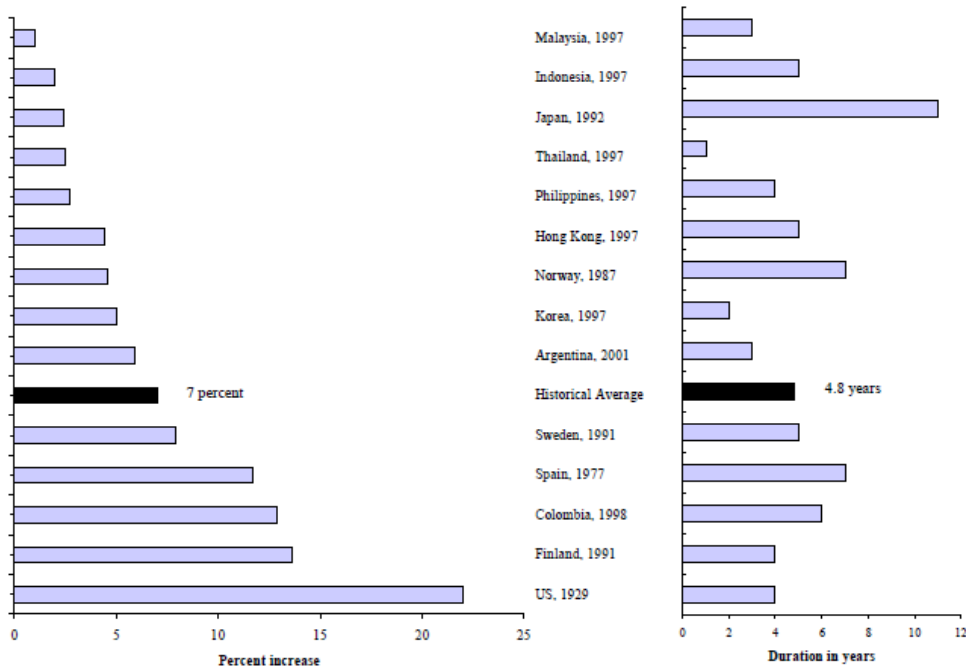
³⁷⁹ Turunen , E.: *Report on promoting youth access to the labour market, strengthening trainee, internship and apprenticeship status*. Committee on Employment and Social Affairs (2009/2221 (INI)), European Parliament, 14.6.2010. Available online at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2010-0197+0+DOC+PDF+V0/EN> p. 5

³⁸⁰ Turunen , E.: *Report on promoting youth access to the labour market, strengthening trainee, internship and apprenticeship status*. Committee on Employment and Social Affairs (2009/2221 (INI)), European Parliament, 14.6.2010. Available online at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2010-0197+0+DOC+PDF+V0/EN> p. 5

³⁸¹ In: Verick, S.: *Who Is Hit Hardest during a Financial Crisis? The Vulnerability of Young Men and Women to Unemployment in an Economic Downturn*. Discussion Paper No. 4359. International Labour Organization (ILO) and IZA, August 2009, p. 11.

Chart 3 Past Unemployment Cycles and Banking Crises: Trough to peak

Percent Increase in the Unemployment Rate (left panel) and Years Duration of Downturn (right panel)



Source: OECD, IMF, Historical Statistics of the United States (HSOUS), various country sources and authors' calculations. In: Reinhart, C.M. - Rogoff, K.S.: *The Aftermath of Financial Crises*. Anber Working Paper Series. Working Paper 14656. January 2009. Available online at: <http://www.nber.org/papers/w14656> , p.7.

The comparison of the effect mentioned banking crises had on the increase in unemployment rate in listed countries could lead us to the question why the emerging markets, in particular those in Asia, seem to do better in terms of unemployment than do the developed countries. Reinhart and Rogoff suggest the reason possibly is that the greater (downward) wage flexibility in emerging markets may help cushion employment during periods of severe economic distress. At the same time, inadequately developed social safety net in developing countries presumably also make workers more anxious to avoid becoming unemployed.³⁸²

Long-lasting effects of early unemployment

The experience has shown that youth are among the most vulnerable groups prone to unemployment during and after crisis. The rising unit labour costs have been a characteristic feature of Slovakia and most Central and Eastern European countries during at least

³⁸² Reinhart, C.M. - Rogoff, K.S.: *The Aftermath of Financial Crises*. Anber Working Paper Series. Working Paper 14656. January 2009. Available online at: <http://www.nber.org/papers/w14656> , pp. 7-8.

the previous decade. Implied deterioration of cost competitiveness also presumably negatively contributed to the situation on the labour market.

The economic crisis together with government policy has induced an unprecedented interest in continuing higher education among young people. This trend certainly is partly positive, as continuous education offers a suitable alternative to unemployment. However, on the other hand, over-enrollment in universities and institutions of higher education without further reforms ensuring quality education inevitably leads to its deterioration. In the times of fewer or worse jobs available, opportunity costs of remaining in educational process is lower and the educational institutions become perceived as a temporary safe haven from the risk of unemployment.

Graduating in a poor economy namely causes several direct and indirect disadvantages when entering the labour market. Since the job offer in times of higher unemployment is limited, the risk of underemployment or mismatch of completed education and acquired job rises. Longer period of unemployment and resulting lost work experience for young graduates reflects in the phenomena known as a wage penalty. According to Mroz and Savage, "a six month spell of unemployment at age 22 would result in an 8 per cent lower wage at 23 and even at ages 30 and 31 wages were 2-3 per cent lower than they otherwise would have been"³⁸³. The research of Kahn implies an initial wage loss of 6 to 7% for a 1 percentage point increase in the unemployment rate measure. This effect falls in magnitude by approximately a quarter of a percentage point each year after college graduation. However, even 15 years after college graduation, the wage loss is 2.5% and is still statistically significant.³⁸⁴ In early unemployment lies a danger of degradation of skills and knowledge gained in education, as well as not acquiring work habits that may lead to seriously decreased employability later in life.

Vulnerability of youth in the labour market

Objective reasons make youth vulnerable and disadvantaged in the labour market even in times of economic prosperity. They lack skills, practical and professional experience, have poorly developed job and information search abilities and inadequate financial resources. As a consequence, young people are more prone to unemployment or employment on more precarious and temporary contracts. Although these contracts offer more flexibility and reduced labour costs, and therefore serve as incentives for employers to create more job opportunities, they involve a risk of low social security for the employee and higher job turnover. The experience from the current economic crisis has shown that youth working on these contracts are likely to be one of the first ones to be laid off. Overall, youth

³⁸³ T.A. Mroz and T.H. Savage: 'The long-term effects of youth unemployment', *Journal of Human Resources*, Spring, 41(2), 2006, pp. 259-293. In: Bell, D.N.F and D.G. Blanchflower: *What should be done about rising unemployment in the OECD?* IZA Discussion Paper, No. 4455, 2009, p. 19.

³⁸⁴ Kahn, L.B.: *The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy*. Yale School of Management, 2009, p. 4-5.

unemployment rates are far more sensitive to the business cycle than witnessed for the adult population.³⁸⁵

The Consequences of Unemployment

Unemployment imposes heavy direct and indirect social and economic costs on society, causing a loss in potential output and opportunities for economic growth resulting from lower employment rates. Moreover, erosion of the tax base undermines investment in infrastructure and public services. The negative effects of unemployment aggravate with the duration of unemployment. Direct economic costs include financing unemployment benefits and active labour market policies and programmes such as retraining schemes, financial contributions to support labour mobility etc. Long period of unemployment causes a loss of skills, work habits and results in human capital deterioration, creating social exclusion and difficulties for future employment. Many studies have proven a negative effect of unemployment on well-being and life satisfaction of unemployed individuals, their families and society as a whole, as crime rates tend to rise together with unemployment rates.³⁸⁶ Indirect costs of unemployment include eliminating these negative effects related to unemployment.

Investments in human capital in the form of unpaid higher education – the case of Slovakia - result in a societal loss due to unemployment among graduates not being able to find work matching the acquired skills. Re-training a graduate directly after leaving school is no rarity and clearly highlights the necessity to adapt the curricula to the needs of the labour market. The long-term unemployed face a particular disadvantage trying to find work. In Slovakia, the share of long-term unemployment in total youth unemployment has never fallen below 31% since 1994, and has increased continuously since 1999 to reach 54% for women and 60% for men in 2006³⁸⁷.

Selected existing measures to tackle youth unemployment in the Slovak republic and their critics

Reforms of the recent years have raised the work incentives, facilitated the transition from education to work, as well as provided more incentives for job creation. A reform of personal income tax laws has provided further incentives to work by reducing the tax burden on low-paid jobs.

³⁸⁵ OECD 2008, In: Verick, S.: *Who Is Hit Hardest during a Financial Crisis? The Vulnerability of Young Men and Women to Unemployment in an Economic Downturn*. Discussion Paper No. 4359. International Labour Organization (ILO) and IZA, august 2009, p. 3.

³⁸⁶ See e.g.: L. Winkelmann and R. Winkelmann (1998), 'Why are the unemployed so unhappy? Evidence from panel data', *Economica*, 65(257), pp. 1-15. A.E. Clark and A.J. Oswald (1994), 'Unhappiness and unemployment', *Economic Journal*, 104(424), pp. 648-659. B.S. Frey and A. Stutzer (2002), *Happiness and Economics*, Princeton University Press. Ahn, N., J.R. Garcia and J.F. Jimeno (2004), 'The impact of unemployment on individual well-being in the EU', European Network of Economic Policy Institutes, Working Paper No 29.

³⁸⁷ OECD: *Jobs for Youth – Slovak republic*, 2007, p. 41.

Graduate Practice

Several new types of active labour market programmes have been introduced, some of them specifically targeted youth. One of these programmes – Graduate Practice – aims at all jobseekers under the age of 25 irrespective of their education attainment and previous working experience. Graduate practice offers the jobseeker a part-time internship in duration of maximum 6 months in a public sector institution or a firm. Participants receive a monthly allowance equivalent to the living wage which is paid by the government.³⁸⁸ Critics of this programme point out that firms offering graduate practise are not obliged to provide training to the interns and the quality standards of the practical experience are not set. We believe that adopting minimum standards for internships on the national level is necessary.

At the same time, despite positive results of graduate practice in terms of skills and experience acquired, it is questionable if the graduate practice helps youth find permanent employment. In 2004/2005, less than 20% of the participants found employment after completing the programme.³⁸⁹ As the firms are entitled to financial subsidy for the first 6 months of the graduate practice, after this period they often rather hire a new graduate in order to receive a new subsidy than offering a permanent employment. Other types of internships and practical experience in companies are inadequate in number, often unpaid and not providing the intern with any social security benefits. Trainee opportunities are limited and the trainee arrangements often do not include financial aid enabling the trainee to relocate and live close to the place where the traineeship is held. Business representatives claim that many firms could not offer internships any more at all if they had to pay their interns and an internship is a learning experience and therefore should not be paid. However, to guarantee that it truly is a learning experience, realistic European minimum standards for interships should be adopted.

Minimum wage

Although high minimum wage may act as a barrier to youth employment, we do not consider this to be a major problem in Slovakia, although situation varies across the regions according to the skill level of the jobseekers. Since January 2010, the monthly minimum wage in Slovakia has been risen to 307,70 EUR. The newly established government indicates possible further increase of the minimum wage by 3% to 317 EUR³⁹⁰, whereas average monthly wage in the Slovak republic was 741 EUR in the first quarter of 2010³⁹¹. Textile and clothing industry, already severely suffering from the recession in Slovakia, will be together with agriculture and food industry most affected by this increase. Increase in min-

³⁸⁸ http://www.upsvar.sk/sluzby-zamestnanosti/nastroje-aktivnych-opatreni-trhu-prace/absolventska-prax/51-prispevek-na-vykonavanie-absolventskej-praxe.html?page_id=12940

³⁸⁹ OECD: Jobs For Youth – Slovak republic. OECD, 2007, p. 11.

³⁹⁰ Pacherová, S.: *Minimálna mzda by sa mala zvýšiť*. Available online at http://spravy.pravda.sk/minimalna-mzda-by-sa-mala-zvysit-dag-/sk_domace.asp?c=A100803_083424_sk_domace_p58

³⁹¹ Statistical office of the Slovak republic. Available online at: <http://portal.statistics.sk/showdoc.do?docid=24135>

imum wage will possibly lead to further lay-offs and re-opening of the debate of the future of the minimum wage in Slovakia.

Experts point out examples of countries such as Denmark, Finland, Sweden, Norway or Italy which do not use the concept of minimum wage. In these countries, collective bargaining agreements are preferred. A debate arose around the issue of legislation in some Member States that introduces age discrimination through restrictions to young people's rights that are solely based on age. Some experts argue that the lower minimum wage levels for young people in the UK, limited access to the Revenu de solidarite active in France and reduced unemployment benefits for young people in Denmark, all of which, although intended to get young people into work, are unacceptable and can be counterproductive preventing young people from starting an economically independent life, especially in times of crisis with high youth unemployment.³⁹²

Flexible forms of contracts

The introduction of flexible forms of contracts in 2004 helped motivate employers to offer more job opportunities for students and workers for short-duration specific tasks. Unlike in case of usual employment contract, social contributions on these forms of employment (the so called "work performance agreements" and "temporary jobs for students") are very low. While on the one hand these flexible forms of employment provide more opportunities for youth to acquire professional experience, they do not provide sufficient social security in the long term and tend to raise job turnover. The concept of "flexicurity" as the overall strategy for the EU's labour markets aims at flexible and reliable contracts and therefore it cannot be narrowly interpreted just as 'flexibility', losing sight of the holistic approach and of employment security and social security,³⁹³ Due to the significant difference in the social security contributions payments in case of these temporary employment forms in comparison to the regular employment contract, employers may be reluctant to provide the latter to young workers. Besides insufficient social security, the risk of flexible temporary contracts is in the fact that employees working on this kind of contract are one of the first ones to be laid off in the times of an economic downturn. Unemployment – and youth unemployment in particular - in countries with a high share of these forms of contract is likely to rise more rapidly in the time of crisis. Spain in particular is a country where a large number of young people have been traditionally employed on temporary contracts: in 2007, 63 per cent of young Spanish men were temporarily employed.³⁹⁴ By the end of June 2010, more than 566 thousand people were employed on the-

³⁹² Turunen, E.: *Report on promoting youth access to the labour market, strengthening trainee, internship and apprenticeship status*. Committee on Employment and Social Affairs (2009/2221(INII)), European Parliament, 14.6.2010. Available online at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-://EP//NONSGML+REPORT+A7-2010-0197+0+DOC+PDF+VO/EN> p. 6.

³⁹³ Turunen, E.: *Report on promoting youth access to the labour market, strengthening trainee, internship and apprenticeship status*. Committee on Employment and Social Affairs (2009/2221(INII)), European Parliament, 14.6.2010. Available online at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-://EP//NONSGML+REPORT+A7-2010-0197+0+DOC+PDF+VO/EN> p. 6.

³⁹⁴ OECD 2008, In: Verick, S.: *Who Is Hit Hardest during a Financial Crisis? The Vulnerability of Young Men and Women to Unemployment in an Economic Downturn*. Discussion Paper No. 4359. International Labour Organization (ILO) and IZA, August 2009, pp. 23-25.

se flexible employment contracts³⁹⁵. In EU, 40% of under-25s who are employed work on a limited contract.³⁹⁶

Career guidance and curricula adaption

Mismatch of skills and knowledge provided in education and those required in the labour market persists. Solution can be seen in several aspects of the problem. First root of the mismatch is caused by the lack of career guidance and information on job prospects on the side of pupils and parents. This leads to selection of traditionally preferred occupational fields, adding even more to the existing competition for insufficient number of jobs available in the respective field on the labour market.

A different type of solution should focus on employers and firms. To achieve that the skills demanded in the labour market match those taught in education, there must be a closer cooperation between firms and educational authorities and institutions. Cooperation not only in the definition of curricula but also in funding and financing trainings and workshops and offering the possibility of apprenticeship or internship to youth. In the Slovak republic, several such programmes are already in place, nevertheless, the number of companies involved is insufficient. Quality information for both students and parents offered e.g. in a form of "job fairs" or "career days" at the level of highschools with the presence of representatives of local companies can contribute to the solution of the problem.

Youth on the Move - new European youth job strategy?

After the Lisbon Agenda, adopted in 2000, largely failed to turn the EU into "the world's most dynamic knowledge-based economy by 2010", it is being replaced by „EU 2020“ strategy. Among its targets is boosting employment to 75% and reducing the number of people living in poverty and social exclusion by at least 20 million.

One of the flagship initiatives of the new strategy, launched in September 2010 is called 'Youth on the Move' and aims at promoting the performance of higher education by supporting student and trainee mobility in order to improve the situation of young people on the labour market. The weak point of the new strategy is the financing and implementation. Critics say that the initiative offers no new funding instruments other than a micro-finance programme whereby 45,000 loans are expected to be issued over the next eight years to the value of €500 million, if backed by European Investment Bank funding.³⁹⁷ It also largely rely on member states and their public employment services for its implementation.

³⁹⁵ Holeš, M.: *Zmeny v odvodoch pocítia státisice ľudí*. Profesia.pravda.sk 8.8.2010. Available online at: http://profesia.pravda.sk/zmeny-v-odvodoch-pocitia-statisice-ludi-f06/-sk-przam.asp?c=A100808_084300_sk-przam_p01

³⁹⁶ EU youth job strategy under fire. 16.9.2010. Available online at <http://www.euractiv.com/en/enterprise-jobs/eu-youth-job-strategy-under-fire-news-497858>

³⁹⁷ EU youth job strategy under fire. 16.9.2010. Available online at <http://www.euractiv.com/en/enterprise-jobs/eu-youth-job-strategy-under-fire-news-497858>

WHERE DO WE GO FROM HERE?

Economic trends, social trajectories and policies of identities in post communist capitalism.

At the same time, intermediary bodies such as chambers, which are constantly liaising between the providers of training and employment opportunities and young people, are not even mentioned.

We fear that as the Lisbon Strategy together with the European Youth Pact have not undergone any transparent public evaluation, including benchmarks for youth, and the process of consultations with the social partners, civil society and youth organisations is usually not sufficient during the process of developing a new strategic document, the mistakes may likely be repeated in the future.

Conclusions

The issue of youth unemployment persists across Member states of European Union and certainly will not disappear within the next couple of years. Sharing of best practices between the states with high and low youth unemployment rate does not happen in a sufficient extent. The full potential of existing measures and active labour market programmes is not sufficiently utilised and critically evaluated. By extensive critical evaluation of the measures across EU, less effective programmes and policies should be avoided and financial resources transferred to the policies and programmes showing or indicating long-term sustainable success.

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EMPLOYERS AND WORKFORCE SKILLS: THE CASE OF IT AND MECHANICAL ENGINEERING FIRMS IN THE CZECH REPUBLIC³⁹⁸

Lenka Klimplová

***Abstract:** The paper presents different interpretations of a problem situation associated with ensuring of appropriately skilled workforce and different ways of problem solutions by the selected employers in mechanical engineering (representing the Fordist production regime) and IT (representing the post-Fordist production regime) sectors in the Czech Republic. The paper tries to explain these differences by use of functionalist and institutional approaches.*

***Keywords:** Workforce skills; human capital; private employers; production regimes; Czech Republic.*

Introduction

Human capital – defined as knowledge, skills, abilities and characteristics of individuals that facilitate the creation of personal, social and economic well-being,³⁹⁹ accumulated through the initial and continuing education and training as well as through work experience – is an important determinant of productivity and other economic outputs at the individual levels as well as at macroeconomics levels.⁴⁰⁰ Importance of human capital has been growing over time as a consequence of changing demands on workforce skills due to socio-economic and organizational changes, such as economic globalization, technological development, a shift from mass production to production of more specialized and individualized goods, a shift from manufacturing production to service economies, changes in organization of production, but even due to ageing of populations and in the Central and Eastern European countries also due to transition from centrally planned to market economies. A combination of these factors has brought about new specific requirements for workforce human capital and, at the same time, a *risk of human capital (skills) obsolescence and skills shortage*.

³⁹⁸ This study was written with the support given by the Ministry of Education of the Czech Republic – NPV II. Research project 2D06009: New social risks and the need to reform the labour market political regulation after accession of the Czech Republic to the EU. Monitoring and evaluation of needs.

³⁹⁹ OECD: *Analýza vzdělávací politiky 2001. [Analysis of education policy 2001]*. Praha: Ústav pro informace ve vzdělávání, 2002.

⁴⁰⁰ See e.g. De la Fuente, A., Ciccone, A.: *Human Capital in a Global Knowledge-Based Economy*. Luxembourg: European Communities, 2002, p. 3.

A lack of appropriate skills and knowledge may result in the inability of individuals to acquire or retain a sufficiently paid job and wage security in rapidly changing labour markets. As a consequence of interrupted working careers, there is also a risk of insufficient social security coverage during periods of unemployment, sickness or retirement. Therefore, it is obvious that appropriate skills and adequate investment in skill-updating and improvement may prevent several problems associated with so called “new social risks” emerging in European labour markets in last two, three decades.⁴⁰¹

However, human capital obsolescence is not a risk only for individual workers, but also for firms. Without adequately skilled workforce and further investments in its human capital, firms will not be able to respond flexibly to changing requirements of customers, to approach individually their needs, to offer new technological enhancements, as well as they will not be able to cope with a major production and organization restructuring that is necessary in order to remain competitive in global markets, as discussed below. Workforce knowledge and skills have become competitive advantage and lifelong learning (including continuing vocational training in enterprises) has become a necessity for employability of workforce as well as for maintenance of enterprises' competitiveness.

Based on the above mentioned facts, *employers* should be considered as one of the key actors in prevention of the skill obsolescence risk of their workforce. They have to solve the problem of how to ensure appropriately skilled workforce for their business. Ways of responding to such problem by employers are, however, determined by their subjective perception and interpretation of the problem situation. Indeed, people do not act depending on how the world really is, but depending on how they themselves see, understand and interpret it.⁴⁰²

Therefore, it is relevant to ask how employers themselves subjectively define problems associated with ensuring of appropriately skilled workforce, how they define causes of such problem situations, and what ways to solve the problems they see and how they assess these particular solutions. The goal of this paper is to provide answers on these questions based on analysis of 19 in-depth interviews with selected employers in mechanical engineering and information technology (IT) sectors in the Czech Republic and to explain possible differences which might occur between representatives of these two sectors.

In the first part of this paper, I will introduce theoretical explanation of possible differences in interpretations between various employers. The second part presents data sources and discusses limits of my survey. In the third part, I will present results of the analysis and point out and explain differences.

⁴⁰¹ Armingeon, K., Bonoli, G. (eds.): *The Politics of Post-Industrial Welfare States. Adapting post-war social policies to new social risks*. New York: Routledge, 2006.

- Bonoli, G.: „Time Matters. Postindustrialization, New Social Risks, and Welfare State Adaptation in Advanced Industrial Democracies.“ *Comparative Political Studies*, 2007, vol. 40, no. 5, p. 495-520.

- Esping-Andersen, G.: *Social Foundations of Postindustrial Economies*. Oxford: Oxford University Press, 1999.

- Taylor-Gooby, P. (ed.): *New Risks, New Welfare. The Transformation of the European Welfare State*. Oxford: Oxford University Press, 2004.

⁴⁰² Keller, J.: *Úvod do sociologie.[Introduction into Sociology.]* Praha: SLON, 1995.

I. Theoretical notes

There are various theoretical explanations of possible differences in interpretations of a problem situation associated with ensuring of appropriately skilled workforce between diverse employers. The most common one is the *functionalist explanation* which assumes that reasons for emergence of the skills obsolescence and skills shortage risk might be found in socio-economic and technological changes in production processes which impact on interpretation of the problem situation. The other theoretical explanation is *institutionalism* which supposes that individuals (and organizations as well) are not independent actors reacting fully rationally on economic and technological changes but their interpretation of the problem situation and their behaviour is shaped by various institutions. As Peters states, "institutions do possess some reality and some influence over the participants, if for no other reason that institutional and constitutional rules establish the parameters for individual behaviour."⁴⁰³

Firstly, I will elaborate on functionalist explanation and discuss different socio-economic and technological factors causing changes in demands for human capital. Subsequently, I will briefly introduce the institutional explanation.

Functionalist explanation

a) Economic globalization, international specialization, technological progress

Economic globalization can be defined as the growing interdependence of markets and production in different countries through goods and service trade, cross-border capital flow and technology exchange.⁴⁰⁴ An important aspect of globalization is far-reaching spatial separation of production and consumption. Goods as well as some kinds of services have not to be necessarily produced on the place where they are consumed, and companies can then decide where to place their production.⁴⁰⁵ This gradually leads to *international specialization*, which increases the human capital demands in the developed countries because of a shift of skilled-undemanding production to countries with lower labour costs.⁴⁰⁶

The option to move the production and services to countries with lower labour costs is also interrelated with the boom of *information and communication technologies (ICT)* which affect all sectors and professions. Human labour has, as a matter of fact, increasingly become mediated by these technologies.

⁴⁰³ Peters, B. G.: *Institutional Theory in Political Science. The "New Institutionalism"*. London: Continuum, 1999, p. 15.

⁴⁰⁴ Bonturi, M., Fukasaku, K.: "Globalisation and Intra-Firm Trade: An Empirical Note." *OECD Economic Studies*, 1993, no. 20, spring 1993, p. 145-159.

⁴⁰⁵ Dejonckheere, J., Van Hootegeem, G.: "Globalisation, division of labour and training needs from a company view". In Descy, P., Tessaring, M. (eds.). *Training in Europe. Second report on vocational training research in Europe 2000: background report*. Volume 2. Cedefop Reference series. Luxembourg: European Communities. 2001, p. 7-44.

⁴⁰⁶ Matoušková, Z.: "Představuje lidský kapitál konkurenční výhodu České republiky?" ["Does human capital represent competitive advantage of the Czech Republic?"]. *Politická ekonomie*, 2007, no. 3, p. 374-398.

Some research studies⁴⁰⁷ point out a correlation or interdependence between technological change and human capital. Human capital stimulates technological changes and technological changes stimulate the use of human capital. Individuals with high human capital play a crucial role not only in development of new technologies but also in their dissemination to different economic sectors.⁴⁰⁸ Use of new technologies creates new jobs which usually require a higher qualification (a higher level of knowledge and skills) of labour as a consequence of more complex production. New technologies (capital) serve as a *complement* to skilled labour (human capital) and as a *compensation* for low-skilled jobs.⁴⁰⁹

Although some authors question the argument of necessity of skill improvement and human capital investment caused by technological development (for discussions on so called *upskilling* versus *deskilling* see e.g. Gallie et al.⁴¹⁰ or Brandsma⁴¹¹), one can say that the importance of human capital in most sectors increases due to technological progress and the ICT growth which consequently requires higher investments in education and training.

b) A shift of production paradigm and organizational changes

There is a clear shift from industrial production economies characterized by massive, relatively homogeneous and semi-skilled workforce towards service economies with heterogeneous and fragmented workforce – a shift from Fordist to post-Fordist production regime.⁴¹² The decline of Fordist mass production regime has been caused by new requirements to adapt production on customers' individualized wishes and to produce specialized goods for smaller and more volatile markets (see Picture 1). To be successful on such markets requires particularly a high degree of *production flexibility*, and it ultimately calls for *more flexible and multi-skilled workforce* which is able to adapt instantly and constantly to changing working conditions.

⁴⁰⁷ Van Loo, J.; de Grip, A.; de Steur, M. „Skills Obsolescence: Causes and Cures.“ *International Journal of Manpower*, 2001. Vol. 22, No. 1/2, pp. 121-137.

- De Grip, A. „Evaluating Human Capital Obsolescence.“ [Online.] *Paper prepared for EC-OECD Seminar on Human Capital and Labour Market Performance in Brussels, December 2004*. Published in 2006. Maastricht: Maastricht University. [Approached on 28th May 2009.] Available at: <<http://arno.unimaas.nl/show.cgi?fid=4650>>

⁴⁰⁸ Matoušková, 2007.

⁴⁰⁹ Planas, J., et al.: “The skills market: dynamics and regulation”. In Descy, P., Tessaring, M. (eds.). *Training in Europe. Second report on vocational training research in Europe 2000: background report*. Volume 2. Cedefop Reference series. Luxembourg: European Communities, 2001, p. 313-382.

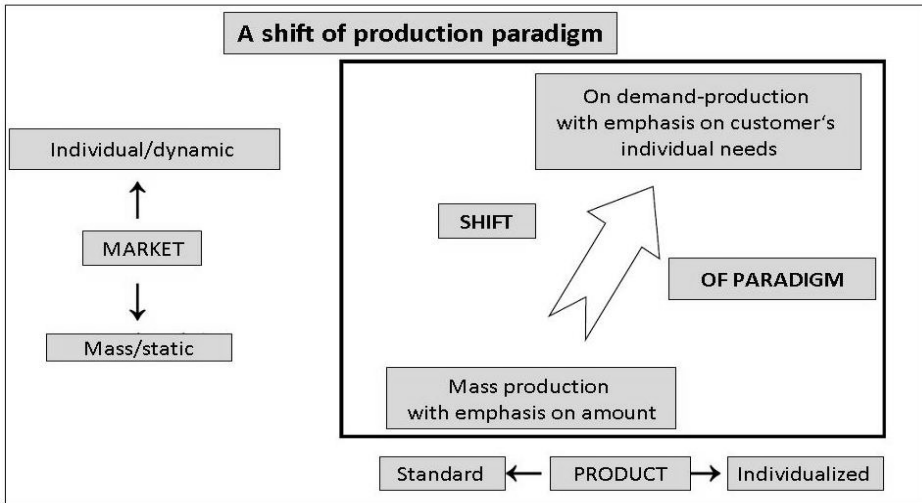
⁴¹⁰ Gallie, D. et Al.: *Restructuring the Employment Relationship*. Oxford: Clarendon Press, 1998, chapter 2.

⁴¹¹ Brandsma, J.: “Training and employment perspectives for lower qualified people”. In: Descy, P., Tessaring, M. (eds.). *Training in Europe. Second report on vocational training research in Europe 2000: background report*. Volume 3. Cedefop Reference series. Luxembourg: European Communities, 2001, p. 173-206.

⁴¹² Crompton, R., Gallie, D., Purcell, K.: *Changing Forms of Employment. Organisations, skills and gender*. London, New York: Routledge, 1996.

- Wren, A.: “The challenge of de-industrialization: Divergent ideological response to welfare state reform”. In: Ebbinghaus, B., Manow, P. (eds.), *Comparing Welfare Capitalism: Social policy and political economy in Europe, Japan and the USA*. London, New York: Routledge, 2001, p. 239-269.

Picture 1 A shift of production paradigm



Source: Kubátová, 2004, p. 13.

Fordist standardization has been, thus, replaced by *adaptation to customer's requirements, differentiation and individualization; innovations and creativity* have come in instead of production economy; simplicity and stability of a Fordist production regime have been replaced by *complexity and flexibility* of a post-Fordist production regime.⁴¹³ The key differences between Fordist and post-Fordist production regimes are summarized in Table 1.

Table 1 Fordism versus Post-Fordism

Fordism	Post-Fordism
Low technological innovation	Accelerated innovation
Fixed product lines, long runs	High variety of products, shorter runs
Mass marketing	Market diversification and niche markets
Steep hierarchy, vertical chains of command	Flat hierarchy, more lateral communication
Vertical and horizontal integration, central planning	Autonomous profit centres, network systems, internal markets within firms; outsourcing
Bureaucracy	Professionalism, entrepreneurialism
Mass unions, centralised wage-bargaining	Localised bargaining, core and periphery workforce divided, no corporation
Prescribed courses in education	Credit transfers, modularity, self guided instruction, 'independent' study
Standardised assessment	Teacher-based assessment or self assessment

Source: Schienstock et al., 1999, adapted by the author.

⁴¹³ Dejonckheere, Van Hootegem, 2001.

The above described shift in production paradigm is accompanied by new ways of work organization which some authors call “new organizational logic”.⁴¹⁴ The Fordist model of production and work organization is founded on *functional specialization* – workers specialize in a very narrowly defined task and due to it they can focus on development of only skills and knowledge for carrying out the given task.⁴¹⁵ Workers are used to spend their entire working career in one job which requires minimum qualifications. Work is divided into routine, undemanding and repetitive tasks. Given the low turnover rate and low labour skills required, employers do not have to invest in human capital development, and training in enterprises can be minimised; there is only a short initial on-job-training. Workforce is seen as an object of consumption; the specific characteristics and skills of employees and human capital development is not so important.⁴¹⁶ Fordist model of production is also associated with a specific flow of information which includes only the channels allowing *the vertical flow of information* to control *the hierarchically organized units*.

With globalization and changing market demands, a radical change has occurred. “In a globalising economy, where innovation competition dominates and customers no longer accept standardised mass products or services, but ask for individual solutions, markets become unstable, insecure and complex. Companies have to develop organisational structures and channels of information flow that can cope with uncertainty.”⁴¹⁷ Thus, production can no longer continue to be based on Fordist principles because of the need of far more *flexible forms of work organization*, which would enable the exchange of information and knowledge in order to *speed up and improve the innovation process* and thereby increase companies’ competitiveness in the global market. Therefore the organizational structure of enterprises has been gradually changing and reorganized towards teamwork, the teams are then connected directly to central management. This change reinforces the decision-making rights of the workforce⁴¹⁸ and increases demands on their human capital. Employees carry out no longer a routine, undemanding and repetitive task, on the contrary, the organizational change means a greater range of tasks within a single job. As a consequence, there are new requirements on professional and personal characteristics of workers, on their interpersonal skills and intuition, on their ability to use comprehensive knowledge. While recruiting, employers focus on highly-skilled workforce with a potential for personal development. Enterprises pay attention to intensive continuing training helping employees to adapt on changing market demands.⁴¹⁹

At this point, it is worth to mention that not all sectors and companies in a particular country have experienced the described shift from Fordism to post-Fordism and to its new organizational logic at the same time. Assuming, on the one hand, that Fordist produc-

⁴¹⁴ Schienstock, G., Bechmann, G., Frederichs, G.: “Information Society, Work and the Generation of New Forms of Social Exclusion (SOWING) – the Theoretical Approach.” [Online.] *TA-Datenbank-Nachrichten*, 1999. Nr. 1, 8. P. 3-49. Available at: <<http://www.itas.fzk.de/deu/tadn/tadn991/scua99a.htm>>.

- Dejonckheere, van Hootegem, 2001.

⁴¹⁵ Schienstock et al., 1999.

⁴¹⁶ Dejonckheere, van Hootegem, 2001; Planas, 2001.

⁴¹⁷ Schienstock et al., 1999.

⁴¹⁸ Planas, 2001.

⁴¹⁹ For details see Dejonckheere, J., Van Hootegem, G., 2001.

tion methods still prevail in mechanical engineering firms and, on the other hand, that signs of the post-Fordist production regime have emerged in the IT sector, one may expect different perception of the problem situation associated with ensuring of adequately skilled workforce, diverse explanations of its reasons as well as various solutions to this problem from representatives of these two sectors in the Czech Republic.

c) Demographic context

There is one more socio-economic factor which impacts on increasing demands on human capital in European countries – population ageing. In short-term perspective, population ageing may entail improvement of workforce qualities (job experiences are one of the determinants of growth in the quality of the workforce). On the other hand, a number of people in working age will gradually decrease, and therefore there will be a demand for growth of labour productivity or, in other words, for creation of at least the same product with fewer workers.⁴²⁰ Population ageing, thus, also causes a fundamental change in human capital requirements.

The rising retirement age combined with the rapid development of new technologies and other changes described above (changes in work organization, etc.) also implies the need to update knowledge and skills throughout the life cycle. Knowledge and skills gained by initial education are no longer sufficient for the whole working life as it was used to be before⁴²¹ and the employers have to respond by investments in skill-updating.

Institutional explanation

Nonetheless, there is also other than the functionalist explanation. Different interpretations of the problem situation and different ways of its solution may be also determined by various institutions:

a) *at the macro-level* – there is an institutional framework of a market economy that shapes interpretations, preferences, strategies, and hence decisions of employers to address the discussed problem,⁴²² and also an institutional framework of regional and local

⁴²⁰ Kubík, R.: *Produktivita práce a vzdělanost ve vybraných evropských zemích*. [Labour Productivity and Level of Education in Selected European Countries]. [online] Praha: KVF VŠE, 2009, p. 5. [Approached on 20th May, 2009.] Available at: <http://kvf.vse.cz/storage/1239725045_sb_kubik.pdf>

⁴²¹ Czesaná, V., Matoušková, Z., Havlíčková, V.: *Další vzdělávání v ČR*. [Online.] Working Paper NOZV-NVF č. 6/2006. Available at: <http://www.nvf.cz/publikace/pdf_publicace/observator/cz/working_paper1_2006.pdf>

- Czesaná, V.: *Problems of continuing education culture in the Czech Republic*. Discussion Paper. [online] Workshop on Common Culture of Labour, Sozialforschungsstelle, University of Dortmund, 2007. 31. 8. – 1. 9. 2007. Available at: <http://www.nvf.cz/observatory/cvks_dokumenty/continuing_edu.pdf>

- Matoušková, Z.: „Vzdělávání v podnicích“. In Blažek, L. (ed.): *Konkurenceschopnost podniků, část I*. Sborník příspěvků z mezinárodní konference konané ve dnech 5. a 6. února 2008 v Brně. Brno: MU, 2007, p. 429-442.

- Vychová, H.: *Vzdělávání dospělých ve vybraných zemích EU*. Praha: VÚPSV, 2008.

⁴²² See Hall, P., Soskice, D. (eds.): *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York: Oxford University Press, 2001.

labour market is significant for the topic under discussion; such institutional frameworks, however, are hard to objectively and comprehensively conceptualize,⁴²³ therefore employers' *subjective interpretation of the meanings of institutions* (institutional frameworks), which according to them determine their preferences and strategies, is important;

b) *at the meso-level* – institutions such as established organizational rules, routines, norms and stereotypes,⁴²⁴ but also general preferences and goals of the organization as a whole, shape interpretation and ways of possible solution of the problem situation;

c) *at the micro-level* – personal norms, stereotypes, preferences of the decision-maker as well as his current "stock of knowledge" and "typifications"⁴²⁵ play an important role in his interpretations and ways he sees to solve the problem situation.

Both above presented theoretical approaches will be used for explanation of differences in interpretations of the problem situation associated with ensuring of appropriately skilled workforce.

II. Methodological notes

As stated, I am interested in how employers subjectively interpret problem situations of ensuring adequately skilled workforce for their business and reasons as well as considered solutions of such problem situations and whether there are differences in these interpretations between representatives of different sectors.

The survey consisted of 19 in-depth semi-structured interviews with selected private employers (with the human resource managers, respectively with the owners of the visited enterprises) in mechanical engineering (8 interviews) and IT (11 interviews) sectors in selected regions of the Czech Republic (Brno, Ostrava, Pardubice, Zlín). The survey, conducted in the spring and summer of 2009, took place within a larger research investigation entitled "*Quality and work organization in different sectors of national economy of the Czech Republic*".

It is necessary to note that the results of this survey are limited since the sample was not representative. There was an intentional choice of interviewees, with the selection criteria based on the following:

a) differences in production regime as explained in the theoretical part – *IT* (mostly software engineering companies, but some of them also provide with a range of other services in the field of information technologies) and *mechanical engineering* (e.g. most often

⁴²³ Scharpf, F. W.: *Games Real Actors Play. Actor Centered Institutionalism in Policy Research*. Boulder: WestviewPress, 1997.

⁴²⁴ See e.g. March, J. G.; Olsen, J. P.: *Rediscovering Institutions. The Organizational Basis of Politics*. New York: The Free Press, 1989.

⁴²⁵ Schütz, A.: "Collected Papers. 1. The Problem of Social Reality." Ed. by M. Natanson. *Series: Phaenomenologica*, 11. The Hague: M. Nijhoff, 1962.

metal production and CNC sheet processing, but also production of racking components, production of lift components and reconstructions of lifts, a forging company, etc.);

b) enterprise size – medium-size and large firms;

c) different structural conditions of regional labour markets – regions with low, medium and relatively high level of unemployment rate.

In addition to these three selection criteria I should also mention the willingness of enterprises (employers) to participate in the research which also impacted the sampling. Therefore the results cannot be generalized for all employers in the Czech Republic. Nonetheless, the results might provide a valuable insight into the issues under discussion and facilitate understanding and interpretation of the employers' perspective. They might also serve as a helpful basis for further research and analyses.

As was said, it has been intended to analyse differences in perception and interpretation of the problem of how to ensure adequately skilled workforce as well as differences in considered solutions of this problem in between representatives of two different sectors (IT and mechanical engineering) representing two different production regimes. In this sense, we can talk about comparative research design intending to test the hypothesis⁴²⁶ about differences in interpretations of the problem situation and considered ways of its solutions (see part I. Theoretical notes).

For data analysis, the *thematic framework* approach⁴²⁷ has been used. Themes within data were identified using mainly techniques of repetitions, similarities and differences.⁴²⁸

III. Empirical notes

In this section, I will firstly discuss different definitions and interpretations of the problem situation of ensuring adequately skilled workforce (various interpretations of causes of the problem of skills shortage and skills obsolescence). Secondly, I will present considered options of problem solutions and their evaluation.

Definitions and interpretations of a problem situation

Interviewed employers interpret the problem situation in terms of: a) new technologies, b) shift towards on demand-production, c) population ageing, d) institutional shortcomings (es-

⁴²⁶ Bryman, A. *Social Research Methods*. Third Edition. Oxford: Oxford University Press, 2008. P. 373.

⁴²⁷ Ritchie, J.; Lewis, J. *Qualitative Research Practice*. London: Sage Publications, 2003. Pp. 219-262.

- Ritchie, J.; Spencer, L. „Qualitative data analysis for applied policy research.” In: Bryman, A.; Burgess, R. G.. (eds.): *Analyzing Qualitative Data*. London and New York: Routledge, 1994. Pp. 173-194.

⁴²⁸ Ryan, G. W., Bernard, H. R. „Techniques to Identify Themes”. *Field Methods*, Vol. 15, No. 1, February 2003. Pp. 85-109.

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pecially in formal education system), e) structural barriers at the macro-level, f) organizational barriers at the level of an enterprise, or g) personal shortcomings of workforce.

Regarding the problem situation described in terms of *new technologies*, specific new skills requirements have emerged due to technological development, as presented in the theoretical part. Interestingly, it does not concern only the firms in IT sector (as one can expect), but also some mechanical engineering enterprises with highly-specialized workforce which business has been influenced by technological progress (as an example can serve a firm which deals with a production, assembly and service of lifts). The technological change requires workforce's flexibility, creativity and ability to adapt on changing conditions and demands.

The same skills requirements have been brought about by changes in production paradigm and organizational logic. The shift from mass production towards on *demand-production with emphasis on customers' individual needs* has been, thus, recognized as another cause of the skills shortage / skills obsolescence problem. Adaptation of production on demands of an individual customer is expected and evident in IT firms, but it might be surprising that the shift towards custom-made production has been identified in some of mechanical engineering enterprises too. This has caused pressures on ensuring of new skills.

Nonetheless, the problem situation is also perceived as a consequence of a significant social change occurring in most of the EU countries – *the population ageing*. It is worth mentioning that this description of the problem situation occurs only in mechanical engineering enterprises where it is perceived as a risk in future of one or two decades when the generation of today's forty, fifty years old workers will retire and there will be a problem to replace them.

"I see the main problem that folk crafts have disappeared, and as we are the locksmith company, when the generation of people who are today between 40 and 50 will leave, we have a huge problem to replace the metalworkers, locksmiths, welders..."

(Mechanical engineering firm, large-size, Pardubice region)

This supports the theoretical assumption that production regime in mechanical engineering is Fordist, workers staying in one job and the replacement occurs in time when workers retire. The term of "a need of alternation of generation" has occurred in this context – one generation was trained about 15 – 20 years ago (after economic transformation), it has been working well and, thus, the employers in mechanical engineering perceive the risk of a lack of appropriately skilled workforce quite often as a *future* risk when this generation retires.

It is closely connected with employers' interpretation of the problem situation in terms of *institutional shortcomings*, especially shortcomings in formal education system of the Czech Republic:

- a non-existence of certain apprentice specialization at vocational training schools (in our sample, of blacksmiths, or of technical experts in a field of lifts);

- low usability of school knowledge in practise, low connectedness of schools and enterprises,
- low demands for admission to public secondary vocational schools, colleges and universities as well as many new private secondary and tertiary schools with questionable standards, and as a consequence, a general shortage of apprentices (students/graduates of vocational training schools) as many young people prefer study further when the possibility is (it is also associated with the population ageing since there are fewer children, schools have to compete for their interest and to attract them they lower demands for admission).

The most obvious *structural barrier* is the lack of people in certain professions (welders, metal workers, locksmiths, etc. in the field of mechanical engineering, and software developers in the IT sector) in the regional labour markets in all regions the interviews took place. In mechanical engineering, the reasons might be seen in the above presented institutional (formal educational system) shortcomings as well as in low motivation of people to work in this sector (employers often talk about a general lack of interest in “craft”). Employers of the medium-size firms also perceive an advantage of larger enterprises which might often offer better salaries or working conditions to skilled jobseekers and poach them.

In the IT sector, there is a huge competition between companies and the problem is perceived by employers as a lack of highly-skilled workers in the labour market. However, it does not necessarily mean the lack of people with university education, but rather the lack of people with certain demanded personal characteristics (creativity, activity, etc. – see also below) and with the potential for human capital development.

As another serious structural barrier should be mentioned a general lack of jobseekers in particular regional labour markets, not only in demanded professions as discussed above, but generally. That restrains employers’ efforts to hire unskilled people (or people of other professions than they require) and retrain them. As shown below, retraining is seen as an option to solve the problem situation of ensuring adequately skilled workforce especially in some mechanical engineering firms in which demands on workforce skills are not so high. However, such a solution is possible only in regions with higher rates of unemployment (in our sample, for instance, Zlín region with unemployment rate of 8,6 % in July 2009⁴²⁹). On the contrary, employers in Pardubice region with one of the lowest unemployment rate in the Czech Republic (in July 2009, the unemployment rate was 5,7 % in Pardubice region while the average in the Czech Republic was 8,4 %⁴³⁰) interpret the low unemployment rate in the regional labour market as a problem.⁴³¹

⁴²⁹ MPSV. “Statistiky nezaměstnanosti z územního hlediska” [“Unemployment Statistics from Spatial Perspective”]. [Online.] Praha: Ministry of Labour and Social Affairs of the Czech Republic, 2010. Available at: <<http://portal.mpsv.cz/sz/stat/nz/uzem>>

⁴³⁰ MPSV. “Statistiky nezaměstnanosti z územního hlediska” [“Unemployment Statistics from Spatial Perspective”]. [Online.] Praha: Ministry of Labour and Social Affairs of the Czech Republic, 2010. Available at: <<http://portal.mpsv.cz/sz/stat/nz/uzem>>

⁴³¹ There is a low horizontal mobility in the Czech Republic. People are not used to move for work to other regions due to strong social links (networks) they have in places of their origin and due to expenses connected with moving.

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It should be noted that economic recession has had a positive impact on presented structural problems. During the period of economic recession, employers may choose workers among more skilled jobseekers because of reduced production of some companies and consequent redundancies, and may, thus, increase their demands on the worker's human capital.⁴³²

"Before, we had been searching for suitable employees for four or five months. However, now it has changed. Now we are looking for other positions and really good people apply for job interviews."

(IT firm, medium-size, Brno region)

Although the situation seems to be getting better (the supply and quality of jobseekers has been increasing) for some employers, some others have no need to hire new employees, or even they have to lay off their workers at this time because of a lack of work (mainly in the mechanical engineering sector).

There is one more interpretation of the problem situation partly connected with the institutional framework. The interviewed employers reflected *frequent changes of Czech laws and regulations* as the problem because of a need for updating skills reacting on those changes. It concerns mainly administrative staff such accountants (e.g. changes in accounting and tax laws), or human resources officers (e.g. changes in the labour code), etc.

There are also certain professions in mechanical engineering demanded to update regularly their profession certificates (e.g. a need of welding re-examination after a certain period). Although it brings about expenses for enterprises, it has not been interpreted as a problem since this training and/or examination (skills updating and testing) is planned ahead.

Regarding *organizational barriers at the level of an enterprise*, the employers sometimes interpret the problem in terms of a lack of financial means or time for needed training.

Besides the mentioned perspectives, the interviewed employers especially in the IT firms define the problem situation as the *shortcomings in personal qualities of jobseekers or employees*, specifically:

- deficiencies in language skills (not only in the IT sector, but also in mechanical engineering firms in the case of administrative positions – the case of firms which either are owned by a foreign owner or export products abroad),

- a lack of creative capacities:

"There is a problem to find suitable employees. [...] If you want to do world-class products, it is not enough to have a university degree. One has to have something more in his head, some creative capacities, and so forth."

(IT firm, medium-size, Zlín region)

⁴³² Kubík, 2009.

- employees' lack of interest in further education and training (or even "a burnout syndrome").

These different interpretations of the problem are closely connected with the employers' definitions of their *key workforce*. Whereas in mechanical engineering the key workforce is often presented in terms of professions (welders, locksmiths, metal workers, etc.), in IT sector the key workforce is more often described in terms of its key personal characteristics – communicativeness, team cooperation (interestingly, team cooperation is key feature in mechanical engineering too), flexibility, the ability to solve problems, the art of dealing with people, the ability to manage people (for manager positions), activity (*"they have to be searching for what they need to learn"*, IT firm, medium-size, Pardubice region), and moral qualities (responsibility, reliability, loyalty to firm). Moreover, in firms with post-Fordist production regime (the IT sector and the mechanical engineering firms with custom-made production), employers perceive "bearers of know-how" as the key workforce.

Ways of problem solution and their evaluation

The ways of problem solution may be divided in two groups: a) strategies on recruiting new employees, b) strategies of human capital development of current employees (reacting especially on problems defined in terms of new technologies, on demand-production and of personal shortcomings of workforce).

Starting with *the recruitment strategies*, there are traditional channels how to search for new employees in the external labour market used in both surveyed sectors – advertising online, in newspapers, on posters; recruitment via informal networks (quite often via current employees, this is perceived as a "safe" channel how to get new *reliable* employees); cooperation with public employment offices;⁴³³ cooperation with secondary schools and universities (in employers' perspective, the last mentioned is seen as one of the best channels how to get good new employees).

The large-sized mechanical engineering firms think even about the option of establishing of their vocational training schools as the reaction on institutional shortcomings in formal educational system, however, considering possible advantages and disadvantages none of the interviewed firms had opened such school. The option of foreign workers recruitment was considered by employers in some mechanical engineering firms, but because of necessity of Czech language fluency for work in the concerned firms, the employers do not see this option as relevant.

⁴³³ See assessment of the cooperation between the interviewed employers and public employment services from the employers' perspective in: Klímplová, L.: "Opportunities for and Barriers to Cooperation between Employers and Employment Offices in the Czech Republic – from the Employers' Perspective". *Lex Localis – Journal of Local Self-Government*, 2011, vol. 9, no. 2 (in printing).

- See a comparison of recruiting strategies via informal networks and via cooperation with public employment services in: Larsen, Ch. A., Vesan, P.: "Why Public Employment Services always fail". *Paper presented during the 8th ESPAnet Conference 2010, "Social Policy and the Global Crisis: Consequences and Responses"*, Budapest, 2-4 September, 2010. Available at:

<http://www.espanet2010.net/en/40/Capital_and_Social_Policy.page>

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Regarding the IT firms, cooperation with private personnel agencies seems to be the efficient strategy to ensure the workforce complying with employers' requirements. The pre-selection of suitable candidates is the biggest advantage of this recruitment strategy according to the interviewed employers.

Another option how to recruit new skilled workers is to offer better working conditions and salaries, however, this way is seen as rather controversial. On one hand, it helps to attract the workforce, on the other hand, the employers point out the moral aspects of poaching, for instance disruption of partner relations with other companies in the branch.

As mentioned above, mechanical engineering firms in certain regions solve the lack of appropriately skilled workforce in labour markets via retraining of workforce on demanded positions. Nonetheless, as explained above, this solution is not suitable for all firms and positions.

The second large group of solutions how to ensure adequately skilled workforce concerns *training and human capital development* of current employees which is especially significant in the case of the IT firms with regards to their perception of the problem situation. In case of the mechanical engineering firms, it is mainly about on-job-trainings after an employment starts and about training courses demanded by law regulations or related to law changes (as discussed above).

I will not elaborate in-depth diverse training courses and seminars provided by different employers, but focus on related ways of problem solving. The employers in IT firms motivate employees by different means to get involved in training – e.g. special benefits for participation in training courses, a part of salary determined by an active approach including training, flexible working time giving possibilities for training. Those strategies are seen by employers as efficient ways to motivate employees to invest their time and effort in their skills updating.

A remarkable way to solve the discussed problem is the change of an organization structure to make employees "substitutable" (especially in the case of the IT firms), then the problem of how to ensure the adequately skilled workforce can be, in a short-term perspective, solved by own resources.

Comparing recruitment on internal and external labour markets, the employers perceive the advantages of the internal labour market (stability, knowledge of an employee, lower costs for recruitment and training, etc.),⁴³⁴ but they also reflect advantages of recruitment on the external labour market (a new employee may bring new perspectives, more efficient working methods, etc.). Nonetheless, the internal labour market seems to be preferred.

⁴³⁴ Doeringer, P., Piore, M. *Internal Labour Market and manpower analysis*. Boston: D.C. Heath, 1971.

IV. Conclusions

As my analysis has shown, there are different ways how the employers in different firms and sectors perceive the problem of ensuring of the appropriately skilled workforce (the problem of skills shortage / skills obsolescence). There are clear differences in problem situation interpretations between enterprises with different production regimes (represented in the survey by the firms in mechanical engineering as the case of the Fordist production regime and the firms in IT as the case of post-Fordist production regime⁴³⁵). Whereas, the employers in the IT sector interpret the problem mainly in terms of new technologies, focus on demand-production, and personal shortcomings of workforce, the employers in mechanical engineering chiefly define the problem as caused by institutional shortcomings (in formal education system), population ageing, and structural barriers at the regional labour markets. These different ways of interpretations reflect employers' definitions of their key workforce and impact on their considerations and evaluation of relevant solutions.⁴³⁶

Moreover, presented difference in perception and interpretation of causes of the problem have also a significant impact on the expectations which the employers have towards other actors and institutions – schools, universities and the formal education system in general; public employment services; private personnel agencies; municipalities; profession or sector organizations (such as regional IT clusters); but also tax-system (e.g. tax reduction for training in companies), etc. This has also important implications for public policy decision-making.

This paper could not cover all aspects of the discussed problem and go in-depth; however, it can serve as the basic insight into the topic of employers and workforce skills in the Czech Republic. It is the first step on the way to reveal how the employers construct their decisions about ensuring adequately skilled workforce for their business, what their preferences are and how they see their own role in the prevention of the risk of skills shortage and human capital obsolescence.

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⁴³⁵ Of course, there are some exceptions, as mentioned in the analysis. There were mechanical engineering firms with signs of the post-Fordist production regime.

⁴³⁶ There are exceptions, as presented above.

NEW BRAND POLAND – POLISH SOCIETY IN A CONSUMER ERA

Radoslaw Kossakowski

***Abstract:** In my paper I would like to approach a peculiarity of polish capitalism. My main assumption is that polish capitalism is similar to the american one in its consumer aspect. Polish people want to take part in consumer culture. Year by year they spent more money for products and services. I think that polish consumer culture assimilates some values from American society. Specially, life on credit (increasing number of credit cards in Poland), using brands as symbols of social status.*

***Key words:** polish society – consumer culture – capitalism – civil society*

Introduction

It is difficult for sociologists to avoid calling Max Weber when they think about capitalism⁴³⁷. As universally known, he is the author of one of the most famous theses in sociology. It claims that protestant ethics is the origin of capitalism. This thesis is so deeply grown in sociological theory that – in general – no one reflects it is wrong or not. There were a lot of critics who tried to refute Weberian thinking and assumptions. But more inquiring readers of author of „Economy and Society” know that for Max Weber, protestant ideas were very important for rising capitalism culture. But they weren't the only one.

Considering all above-mentioned limitations, one should be conscious that ethical pattern of Protestantism was very important. Thanks to idea of predestination people were convinced that God had opted for their destiny. They could not penetrate the mind of Creator and discern what was prepared for them. Thus, in theological meaning, situation of Puritans was dramatical because uncertainty and fear ruled human fate. The main question was: was God gracefull for me? But problem was solved. God had to give some premises which can push people to come around they get salvation after death. One of these premises was prosperity in mundane life. If someone was leading life full of material success, it meant that person had deserved for it. Good and welfare life indicated to chances of eternal redemption.

⁴³⁷ Weber, M.: *Etyka protestancka a duch kapitalizmu*. Lublin: TEST, 1994.

Commonly know that waiting for welfare and richness was a little dangerous because it pushed man in arms of quandary and fear – whether everything would be fine and after my heart? Waiting was not good manner of behaviour. It was better to do something, act and work. It was fortunately to „help” Creator. Thanks to one began to „reforge” own fate in happy ending and spiritual destination. In such way, the ethics of work – related to Protestantism – was born. It demanded very hard work and accumulate profits to invest further. It didn't concern to use benefits in hedonic way. It could cause a rage of God. Thanks to investments the capital developed, factories, companies and enterprises rising, middle-class creating. With richness the new economical model was created. It based on supply and demand, and we call it as a capitalism. Looking on its face today, it is very difficult to believe that forerunners of it were puritan – ascetics in lifestyle who treated their work as a religious vocation and life according to will of God.

Contemporary, old, ascetic capitalish turned in dust and ashes. Daniel Bell got to the point when he described what had happened with protestant spirit in capitalism⁴³⁸. In 1902 industrial production of a big window-glasses was starting. They got to the people houses but most of all to the shops. Varied and colourfull goods were available. With time little shops were replaced by bigger ones called supermarkets. In small ones the well-known seller could pack for us all shopping. In bigger one everything was in the same cardboard packing and cashies were anonymous. The products were branded and their quality was always the same – that was effect of factory production⁴³⁹.

But changing in mentality, attitudes was not only caused by the new technologies. We should add to it advertisement, marketing and credit. The last one made possibilities to purchase desired thing, even if someone didn't have sufficient amount of money. Most of all – it undermined puritan authority – the savings. Financial crises we experienced lastly showed very clearly that credit has become everyday way of life for millions of people. The goods and services on general release with credit easy to get, it caused that old protestant ethics was altered by new capitalist economy – based on hedonism, indulging and hyperconsumerism. „As a result , the morality of joyness takes up place of 'goodness morality' that restrained the urges”⁴⁴⁰. The capitalism, supporting up to here by strong moral authority, in Daniel Bell opinion, falls in cultural contradictions. „From one point, corporations expect for individual to work hard, make career, agreement on delayed gratuity – they want workers to become a member of organization. On the other hand – the products and entertainments proposed by corporations inducing people to use, instant pleasures, indulging themselves”⁴⁴¹.

The market „takes over” successive domains of human life, and due to this process they become more commercialised. Now then „the consumer culture is such culture in which relation between everyday social life and symbolic and material resources – on

⁴³⁸ Bell D.: *Kulturowe sprzeczności kapitalizmu*. Warszawa: PWN, 1994.

⁴³⁹ Markowski, G.: *Świątynia konsumpcji*. Warszawa: Trio, 2004.

⁴⁴⁰ Bell D.: *Kulturowe sprzeczności kapitalizmu*. Warszawa: PWN, 1994, p. 107.

⁴⁴¹ *Ibidem*.

which that life is based – is mediated by market and its mechanism”⁴⁴². Tomasz Szlendak mentions the features of contemporary consumer society connected with so-called the new capitalism. Those features are: „the predomination of service and information sector over production sector, shift from mass production and mass consumption to flexible and specialized consumption and production adapted to needs various groups of consumers, advanced fragmentarization of working class and radical extension form of leisure time and entertainment”⁴⁴³.

„The new capitalism” (people are most of all consumers not producers) has caused changes in consumer area and coming of „the new consumerism”, called also „hyperconsumerism”. The new consumerism is describing by Juliet Schor as mass „overspending”⁴⁴⁴. The consumerism at the end of XX century and beginning of XXI is hyperconsumerism where people spend more than they should, and even more than have. What is the reason of that? Schor is looking for answer in alternations of reference group. After the second world war the main reference group was neighbourhood. In 50-ies the Smith had to have the same like the Johnson: wash mashine, vacuum cleaner and – most of all – the newest Chevrolet parked in front of their house. In 70-ies come changes took places and they disturbed a previous idyll. In that time, house wives who had not been working before were going inside the labour market. The consequences were very important. The most one is that they began to see (and compare) people who lived differently, behaving differently, belonging to other (higher on the whole) social class. The hithero reference group was displaced by people from other social background: chiefs, managers, rich people, consuming in distinctly manner.

The other factors of bringing the new consumerism were: advertising (specially – commercial in TV), consumer loans (for masses) with credit card, and also permanent increasing to standard of living. To satisfying of wishes (produced by add’s) was more realistic when banks underrated requirements indispensable to get money. When the credit became common, living on credit and overspending also became common. The rest is well-known. The global financial crisis was in a way the consequence of excessive consumption nad living beyond one’s means. The crucial question is: what will be the next step in the history of capitalism?

I. The Polish capitalism

I introduced the history of capitalism (in short of course) to make a good position for analysis Polish situation. The passing from “Protestant” to “hyperconsumer” capitalism was signaling not accidentally. I think that **there was not era of “protestant” in young history of the Polish capitalism. The Polish capitalism, with all reservations, is the “consumer” one.** In

⁴⁴² Szlendak, T.: *Leniwe maskotki i rekiny na smyczy. W co kultura konsumpcyjna przemieniła mężczyzn i kobiety*. Warszawa: Santorski, 2005, p. 82.

⁴⁴³ Szlendak, T.: *Supermarketyzacja. Religia i obyczaje seksualne młodzieży w kulturze konsumpcyjnej*. Wrocław: UW, 2004, p. 68.

⁴⁴⁴ Schor, J.: *The Overspent American: Upscaling, Downshifting and the New Consumer*. New York, Basic Books, 1999, p. 20.

Poland, the ethics similar to puritan attitude has never appeared. The reasons are various and I mention some of them.

The communist era was ended in 1989 and it was replaced by market economy. There were a lot of problems and social conflicts during incorporation the liberal ideas in Poland. I write "liberal" because the main thinker of Polish economical transformation – Leszek Balcerowicz – is person with liberal system of values. "The neoliberal economical reform incorporated in the beginning of 90-ies in socialist countries brought to transforming recession demonstrating itself by distinct reduction in output and services. It was accompanying by other recessive phenomena like: reduction of gross national product, decreasing level of consumption, high level of inflation rate, rising of unemployment etc"⁴⁴⁵. The well-known "Balcerowicz plan" was gaining many adversaries also between the most known Polish economists⁴⁴⁶. This plan is calling "shock therapy", due to radical breaking the heritage of socialist economy. Nowadays, Polish economy is free market economy, but from 1989 the economical transformations evoked many protests and strikes, and in a effect some populist parties gained social calling. The standard of living was valued in the worst way at the beginning of the 90-ies. At the time negative opinions prevailed the positive three times.

In the time of putting into practice economical reforms there were the periods of uprising unemployment (also occurred "structural unemployment") and creating of underclass. It appeared that collapsing of public factories and works (restructured or didn't manage to win economical competition) left thousands people out of work and – what is perhaps the most important – without any creative ideas for following times. In many cases no alternatives for unemployed left behind. It also appeared that some people were capable to taking a risk, to retaining. They weren't accustomed to decide for themselves. Surely, their mentality wasn't enterprising, undoubtedly not "Protestant". Almost half questioned (47%) think that transformations in Poland after 1989 have brought more benefits than losses. Less than one sixth (16%) evaluate that losses exceed advantages, and less than third (30%) believe that output is balanced. The fact remains that 89% Poles think it is good that changes of economic system happened⁴⁴⁷.

Due to above data some thinkers are considering Polish capitalism as "unreal". Tomasz Szlendak and Krzysztof Pietrowicz argue that there aren't too many entrepreneurs in all population⁴⁴⁸. Poles would want to have permanent job position even that wordly tendency is completely different. Poles, according to mentioned sociologists, want their work to bring a lot of money and guarantee other kind of benefits like trade terms or social allowance. Examples of protests inspired by trade union show that occupational group can defend own interest regardless of it is causing negatively for their company or not. Many times, Polish government yielded to pressure of e.g. miners.

⁴⁴⁵ Karczmarczyk, K.: Determinizm a ryzyko transformacyjne. Przedsiębiorstwa w warunkach polskiego „wschodzącego rynku”. *Kultura i Społeczeństwo*. 2000, vol. XLIV, no.3, p. 84.

⁴⁴⁶ Kołodko, G.: *Wędrujący świat*. Warszawa: Prószyński, 2008.

⁴⁴⁷ http://www.cbos.pl/SPISKOM.POL/2010/K_094_10.PDF (23.08.2010)

⁴⁴⁸ Szlendak T., Pietrowicz K.: Konsumpcja i stratyfikacja w kapitalizmie bez kapitału, in *Na pokaz. O konsumeryzmie w kapitalizmie bez kapitału*, ed. Szlendak T., Pietrowicz K. Toruń: UMK, 2005, p. 13.

In last presidential election nearly 50% people voted for candidate who referred to slogan "Solidarity Poland". This slogan means that government and state are taking role in resources distribution and wielding guardianship. According to Edmund Mokrzycki: "Polish democracy recreates, in other institutional frame, the traditional structure of power, what is characterized by division for 'authority' and society – 'authority' in characteristic East-European meaning which one cannot translate into English or French. Society, in its basic foundation, entitles 'authority' (elected in democratic way) the attributes of authoritarian power and expects good 'ruling' in appropriate way"⁴⁴⁹.

The "passive mentality" is typical of majority of citizens. Andrzej Słaboń understands it, as "reliable carrying out of duties and waiting for rulers to solve all problems"⁴⁵⁰. People with mentality of that kind are leading "simply" life, achieve average material standard, like quiet and lack of trouble. Their existence is based on daily routine and certainty. Such persons do not take a risk, do not have innovative ideas, neither in own life nor in environment. "Passive-man" never becomes "self-made man" (he/she is rather "self-made by": family, social demands and so on) and no one should expect from him/her the "tipping points"⁴⁵¹ which revolutionize a management and provide the new instead of the old. "The new" can lead only people with expansionist mentality. This type is very difficult to reach for people bringing up in socialism. And as a result only minority people are "expansionist" in Poland.

Middle-class, concerning as complex of qualities not as social class in traditional meaning, has not been created in Poland. One of its qualities is making progress, a development, and not abidance. It means to be ready for that attitude to invest when thrift is mean to further investment. But yet, according to research done by Henryk Domański: on the side of self-discipline adherents were 87% farmers and landowners. Those attitude was found more infrequent between the intellectuals, managers and proprietors, among which theoretically the spirit of capitalism should dominate. (...) Average Pole preferred to consume even lowly surplus, what illustrates the face of Polish capitalism and moderate consumer possibilities our middle-class"⁴⁵². Polish people are not inclined to saving money for future. Only 13% persons in productive age are declaring that they save with retirement in mind and following 21% declare in that time do not save but have intention to do it. Over half of respondents in productive age say to not save for old age and do not intend⁴⁵³.

Jadwiga Staniszkis is calling Polish capitalism "state", "public sector" or "incomplete". What are feature of "incomplete" capitalism according to Staniszkis? They are: stoppage of investment processes, weakening domestic demand, downfall export competitiveness, waste of financial public sector (clientelism), downturn liquidity of the all economy due to blocked payments, mutual debts and decline of borrowing power. Domestic demand was

⁴⁴⁹ Mokrzycki, E.: *Bilans niesentymalny*. Warszawa: IFiS PAN, 2001, p. 148.

⁴⁵⁰ Słaboń, Andrzej.: *Problemy kształtowania mentalności ekonomicznej*, in *Kultura i gospodarka. Ku antropologii życia gospodarczego we współczesnej Polsce*, ed. Mucha J., Nawojczyk M., Woroniecka G. Tychy: WŚZiNS, 2007, p. 49-60

⁴⁵¹ Gladwell, M.: *Punkt przełomowy*. Kraków: Znak, 2009.

⁴⁵² Domański, H.: *Klasy średnie w Polsce a wybrane aspekty protestanckiego etosu*. *Kultura i Społeczeństwo*. 2001, vol. XLV, no.1, pp. 113-114.

⁴⁵³ http://www.cbos.pl/SPISKOM.POL/2010/K_077_10.PDF (23.08.2010).

fueled by individual debts of Poles and it has been working only to some extent. In the face of crisis it appeared that many Poles were not able to live beyond their means and as a result – a lot of people have problem with terminable payments⁴⁵⁴.

It is interesting that the strong role of the state is emphasised also by governing party in Poland (The Civic Platform) what is descended from the ring of people who have always described themselves as “liberal” (most of all in economical sense). “The party of economical liberals is creating the network corporations controled by government: from financial sector, throught power industry, to machine industry. The CP with breadth which Jarosław Kaczyński did not dream on (Jarosław Kaczyński – the principal of Law and Justice party what ruled in Poland 2005-2007 and proffesing slogans on solidarity and welfare state, now – it is main opposition in Polish parlament) develops the state capitalism – nationalises successive companies and clocks greedily the private retirement fund. It has nothing in common with liberal economy”⁴⁵⁵.

The features of middle-class have not been created on big scale in Poland. Also, the number of entrepreneurs who have built the immense fortune is still lowly. Among 125 the richest people on the world (in 2009) there was not any Polish entrepreneur. It is matter of fact that Polish capitalism has not have such time to develop considerably (comparing to the other countries in West Europe) however, after twenty one years, and due to various reason, the Protestant attitudes have not been coming into being general. Probably, except mentioned reasons (the socialist mentality, made responsible the state for all themes, reluctance to saving and investing) one can provide others. In Poland, the Protestan ideas had never been popular and under no circumstances they had not decided for economical approach. The main denomination and the strongest religion with the most popular worldview has been Roman Catholic Church. And the Catholic social teaching very clearly emphasises social aspect of economy and it is always critical of liberal assumptions (and it could be found e.g. in papal encyclical).

To the arrogated mentality, church teaching one should add very fast rate of change after 1989. The liberalisation of economical life was a shock for a lot of social groups. The ethos of hard work, asceticism was not possible in situation when – both mentally and legally – Polish society was not prepared for capitalistic way of live. Simultaneously, after opening of the world – mostly western – the Poles had chance to make up deficiencies of goods and commodities. The consumer culture was open for them with all benefits. But undeveloped sufficiently market economy has caused creating something called “the capitalism without capital”. The Poles do not have both financial capital to invest and social capital to build a civil society.

At the same time, lowly means which Polish people have at their disposal are very quickly spent for consuming – specially after promotion by advertisement. Debt of Poles is rising, but not the social capital. With lack of bourgeois class, ignored voice of intellectuals,

⁴⁵⁴ Staniszkis, J.: *Władza globalizacji*. Warszawa: SCHOLAR, 2003, p. 115.

⁴⁵⁵ Kowalik, F.: Czebole po polsku. *Forbes*, 2010, no.8, p. 20.

the Polish society identifies with american one. Without developed civil aspirations it turns towards hiperconsumerism what is becoming the main face of Polish people. In 2009, the Poles had overdue debts on 4,2 billions euro and it increased twice to 2008⁴⁵⁶. The Poles more optimistically estimated their financial opportunity and borrow money in 2007. In 2008 over quarter (28%) borrow money from bank (or in other financial institution). In comparision to above – the proportion people borrowed money was reduced about 5%⁴⁵⁷. Contemporary, almost half of respondents (46%) declare that they have to pay back some duties, rates, loans or credits. Seven procents admit that one's household is exceedingly indebted, that is it has problem with repayment. The majority of households (63%) have not gathered any savings. Not much above one-third of household (37%) is putting by money for rainy day⁴⁵⁸.

III. Consumer culture and civil society

In 2009 – like two years before – one-fifth adult Pole (20%) worked voluntarily and free for the sake of environment, the church, estates, cottages, city or people in need. Distinct majority (80%) did not take out actions like those⁴⁵⁹. Concerning social trust – the foundation of civil society – Poland comes the last but one in Europe. Further is only Greece. General assumption about being cautious in relations with other people (in supposition: people out of closest circle) is connected with everyday life of Poles. When asking for trust unknown person who – in various conditions - respondents are in contact with, affirmatively answered only one-third (34%, three point less that two years before), but most of them (30%) suggested limited trust (answers: "rather I trust"). Nearly half of population (46%) do not trust strangers, and one-fourteenth (7%) – in resolute way⁴⁶⁰.

Below it is presentation of table that shows which organizations – and to what degree – arranged protests and street performance during 1989 – 2004.

⁴⁵⁶ http://www.money.pl/gospodarka/wiadomosci/artykul/zadluzenie:polakow;drastycznie:wzroslo.73,0_595529.html (23.08.2010).

⁴⁵⁷ http://www.cbos.pl/SPISKOM.POL/2010/K_021_10.PDF (23.08.2010).

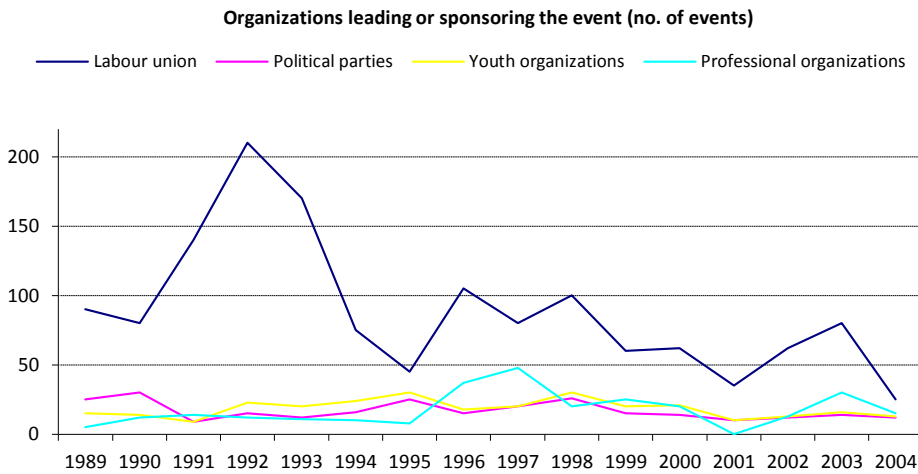
⁴⁵⁸ http://www.cbos.pl/SPISKOM.POL/2010/K_050_10.PDF (23.08.2010).

⁴⁵⁹ http://www.cbos.pl/SPISKOM.POL/2010/K_010_10.PDF (23.08.2010).

⁴⁶⁰ http://www.cbos.pl/SPISKOM.POL/2010/K_029_10.PDF (23.08.2010).

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Economic trends, social trajectories and policies of identities in post communist capitalism.



Source: Michał Wenzel and Jan Kubik. 2009. *Civil Society In Poland. Case study*. Paper presented on international conference “The Logic of Civil Society in New Democracies: East Asia and East Europe”, Taipei, June 5-7.

It is clearly seen that the main initiators of protests were trade unions. They are disposed in claimed way and take care most of all for their own profits, not for general social changes. Those unions protest only then, when the rulers try to enact a bill concerning the rights of trade unions – for example when bill makes plan to confine union benefits or to privatise factory. They usual do not protest due to badly general social problems (e.g. unemployment in other areas, violation of minority rights and so on). In comparison to them, other organizations (mainly NGO's) created social actions in considerably less degree.

Mentioned details shows taht Polish society – “running” into the face of “hyperconsumer” kind of capitalism – has very weak foundations of civil society. It is so interesting that other countries of Western Europe (with more developed consumer culture and attitudes towards it) distinguish themselves concerning the civil activity. Probably, they have stronger and longer tradition in that area. Polish society is explained by long duration of socialism. However, the development “consumer” capitalism is conducive to deepen individualisation, to weaken social ties and corrosion of citizenship. They are the dark side of consumerism and are exactly described by some thinkers. Some of them I would like to present.

Is the consumer culture the “enemy” of civil society? According to some thinkers, answer is “yes” (of course most of them are leftist in thinking what means in USA that they are liberal democrats). The consuming takes place most of all in individual dimension, and it is not a breeding ground for developing the community attitudes. To want to cope with the latest fashion trends, consumers need more and more amount of money in their pock-

ets. In the case of lack, they draw out the credit card – now then they subdue the future (delay of payment) in aid of joyness “here and now” (this phenomenon is connected with present-day transformation of time, as Manuel Castells argues⁴⁶¹). But it always demands more earnings. More earnings are connected with more working, more money equal with more hours in company. In consequence there is less time for family and social workshops. In first case it deals with “guilt money”⁴⁶² – too little time to spend with children is compensating by more money spent on toys, sweets, high-tech, mobile phones, computers or TV set – everything what child could need staying alone in his/her room (for instance, children in USA have most of all TV sets in their room). In second case, as Robert D. Putnam proves, the civil activities is corroding and the opportunities of building the social capital as well⁴⁶³.

As Benjamin R. Barber argues, the consumer culture infantilises the adult. Thanks to alternation adult into children it is much easier to manipulate them and make them centered upon the market and shopping. As every parent knows, children would purchase every good of only they can. The adults are buffer for them to protect the children from advertising influence and marketing programs. For companies resolving idea is to change parents into infantilised persons who can behave like kids. The stream of irrational purchases would be opened. Barber notices the menace to democracy in it. “The ethos of infantilization introduces the division between culture and capitalism. That ethos has become more effective thanks to alliance with ideology of privatization what is destructive for civilization in itself. We are encouraged to take back from our public selves and separate to gated-communities where for private funds we can buy goods and services which had formerly the public character like: waste disposal, police protection and children education – concerning all like private things”⁴⁶⁴.

But, could the individual choices built the civil attitudes? It is difficult to say. Surely, the manner of conscious choosing, a kind of dialogue with one’s self could be a promising begining. The existence of choice in definition assumes diversity and variety what is associated with democracy. Very often the social movements rise to resist against harsh living conditions (poverty, political repressions). It is more friendly when the civil activity is born due to unconstrained intention what is a result of person who decides clearly for oneself. Consumerism has – very weak I have to assume – some contiguous points with civil society. The consumption is integrally connected with competition of individual market. Consumer, with all reservations, is individual. Citizen is person who has rights and who can take advantage of it. Both consumer and citizen have right “to”: choosing or giving up. So, perhaps the dychotomy consumer – citizen is formulated improperly. These are two sides of this same coin. They are connected with different issues everyday (and – in general – they are), but they are inseparable in some way.

⁴⁶¹ Castells, M.: *Spoleczeństwo sieci*. Warszawa: PWN, 2007.

⁴⁶² Schor, J.: *Born to Buy: The Commercialized Child and the New Consumer Culture*. New York: Scribner, 2004, p. 25.

⁴⁶³ Putnam R.D.: *Samotna gra w kręgle*. Warszawa: WAIp, 2008.

⁴⁶⁴ Barber, B.: *Skonsumowani. Jak rynek psuje dzieci, infantylizuje dorosłych i połyka obywateli*. Warszawa: MUZA S.A., 2008, p. 200.

IV. Conclusions

As Rafał Drozdowski mentions: "It is said nowhere that the masses of consumers which do not feel responsible to respect old, traditional civil commitment, have to be deprived of consumer ethics (demanding e.g. to not buy false products, do not accept producers who produce cheaper but at breaking human and ecological rights expense)"⁴⁶⁵. Simultaneously however, in Polish society context, Drozdowski is trying to not have illusion: "Now however, wide-excited consumer aspirations of Polish society are connected with its still relative low purchasing power are effective to selfishness and deep antisocial disposition of consumer strategies, what is related to fact that in consumer's mind the thinking in categories of consumer benefits of categories is dominated instead of categories of civil benefits"⁴⁶⁶. If one is considering the passivity and apathy of citizens (connected with low turnout, youth unattached to any idea) one can say that "the side of consuming" prevails and impairs "the side of citizenship". The civil attitude needs reflection on more sophisticated issues and for many – more boring than walking to shopping centre. Therefore the matter of fact is not how change the consumer into the citizen, but rather, how to balance both side. It is also task for teachers, journalists, researchers and most of all parents. Particularly in Poland where the capitalism with distinct "self-centred" shade seems the only option we have.

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⁴⁶⁵ Drozdowski, R.: Spontaniczny demontaż idei dobra wspólnego, in *Co nas łączy, co nas dzieli?* Ed. Mucha J., Narkiewicz-Niedbałec E., Zielińska M. Zielona Góra: UZG, 2008, p. 109.

⁴⁶⁶ *Ibidem*.

EMPLOYMENT TRENDS BY THE HUNGARIAN REGIONS SINCE THE TRANSITION PERIOD

Katalin Lipták*

***Abstract:** My paper presents the employment situation by the Hungarian NUTS2 regions since the transition period (1989). Hungary's employment policy has transformed following the collapse of the state-socialism, however, although the economic policy was on the way of liberalization, the increased presence of the state was necessary in treating employment problems because of the severe consequences of the economic transformation. This paper focuses on the major employment data and examines their significance by the Hungarian counties (NUTS III. level) and regions (NUTS II. level). The three research questions the article attempts to answer are: (1) Is there divergence or convergence between the Hungarian regions on the strength of the labour market situation? (2) What are the differences between the major employment indicators since the transition period in Hungary? (3) What are the main types of the unemployment forms in Hungary?*

***Keywords:** situation of employment, Hungarian labour market, regional disparities*

Introduction

I have chosen the analysis of the employment policy, unemployment and the regional disparities because they have been more and more used in the economy and can be considered an actual question. My hypothesis states that the labour market position of the Hungarian regions is different in the European Union relation, its human resource position is weak, the level of employment is low, which is influenced by several factors. According to my hypothesis, the economic revitalizing effects of the employment policy cannot be experienced so strong in the underdeveloped regions and only temporary results can be achieved in the social area, because of the short-term focus.

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I. Countries of transitional economies

A transition economy is an economy in the 21. century which is changing from a centrally planned economy to a free market. Transition economies undergo economic liberalization, where market forces set prices rather than a central planning organization and trade barriers are removed, privatization of government-owned enterprises and resources, and the creation of a financial sector to facilitate the movement of private capital.⁴⁶⁷

The countries of the world can be classified according to various aspects, however the categories set up by the UN are the best known: landlocked developing countries, least developed countries, heavily indebted poor countries, newly industrialized economies, emerging economies, major petroleum exporters, major exporters of manufactured goods, developed economies, economies in transition, developing economies. However, the classification of the World Bank of 2004 is the most significant from the point of view of the current study.

Figure 1 Countries of transitional economies



Source: Own compilation on the basis of Economies in transition, Word Bank, 2004

The countries of transitional economies can be categorised into 4 sub-groups (Figure 1.):

- Russia,
- Baltic states (Latvia, Lithuania),
- CEE=Central-Eastern-Europe (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Hungary, Macedonia, Poland, Romania, Slovak Republic, Slovenia),

⁴⁶⁷ www.economies-dictionary.com

- CIS=Commonwealth of Independent State (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan)⁴⁶⁸

The current classification of Hungary is not evident: some refer to it as a country of transitional economy while the UN considers it to be a developed one.

II. Hungary's economic position after the change of regime

I refer to the work of Kornai in defining a transitional country. Kornai argues that the beginning of the transition (change of regime) is the change of the system of property rights and the change of attitude of the governing power against private property.⁴⁶⁹ At the same time Kornai points out that there was some sort of change towards this direction in each post-socialist country.⁴⁷⁰

Post-socialist countries have to achieve significant changes in the following areas:

- political era, democracy,
- establishment of a legal state,
- strengthening private sector,
- privatisation,
- transparency.

A rapid transformation of the political institutional system and the legal system took place in the transitional countries according to the Williamsonian hypothesis.⁴⁷¹ Both informal institutions and private institutions had to adapt to this new formal environment. In this respect, the transitional countries are different from the underdeveloped and developed countries in that the contractual institutions had to adapt to a much more drastic institutional shock, while changes in the formal institutional system take place continuously in the underdeveloped and developed countries.

Hungary got into an unfavourable economic/social situation after the change of regime (1989). The total economic policy changed similarly to other post-socialist countries;

⁴⁶⁸ Economies in transition – An OED evaluation of World Bank Assistance, The World Bank, Washington, 2004, p. 132.

⁴⁶⁹ Kornai J.: What the change of system from socialism to capitalism does and does not mean. *Journal of Economic Perspectives*, 2000, vol. 14, no. 1, pp. 27-42.

⁴⁷⁰ Kornai J.: Mit tanulhatnak a poszt-szocialista átalakulás útjára lépő országok az átmenet eddigi tapasztalataiból?, *Közgazdasági Szemle*, 2004, vol. 51, no. 10, pp. 899-923.

⁴⁷¹ Murrell P.: Institutions and firms in transition economies, In: *Handbook Of New Institutional Economics*, Springer, 2005

prices and the demand-supply relation changed. The market competition became more intense and complex with the changing economic institutional system and changing laws.

We could see not only that the intensity and complexity of the market competition grew parallel with the development of the institutional system, the mobility of the capital increased and fundamental changes took place compared to the centrally planned economy, but also that such a peculiar market environment of the free-enterprise economic system was formed in which the competition turns against itself.⁴⁷²

One of the working processes of the market economy is market competition; establishing its conditions was an important economic policy task in the transitional period after the centrally planned economy.

The researches analysing the comprehensive changes of the Hungarian labour market after 1989 represent two main directions. One of the two mainstream economic views is the approach that builds upon the neoclassical micro-economic models, while the other one is the comparative or political economy perspective. The mainstream researchers base their models on the paradigms of the neoclassical theory to which they use econometric methods. The publications of mainstream researchers first surveyed the employment and wages of the initial phase of the transformation. The modern methodology made it possible to explore the interrelating change of gender, age, schooling and wages of the workforce. The other perspective of research also rests on economic foundations, although, it does not apply econometric methods. Practice is characterised by verbal reasoning and logical demonstration.⁴⁷³ In my study I am using the econometric-statistical methods of the mainstream economics.

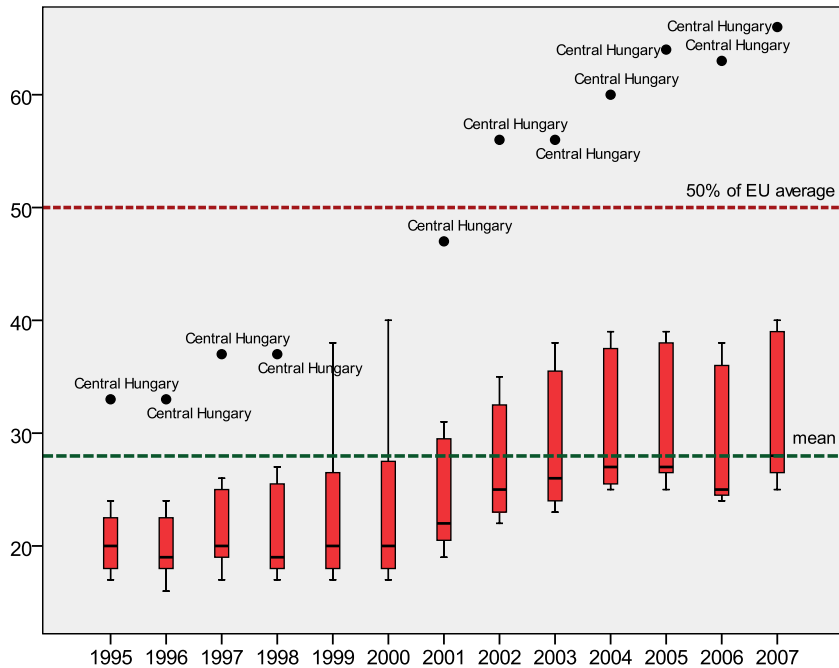
III. Analysis of the labour market situation in Hungary

Instead of an overall analysis of the labour market situation I wish to highlight the main segments and provide some necessary information to understand the situation. Before introducing the labour market situation I described the general economic conditions using the GDP per capita as a percentage of the EU-27 average of the Hungarian regions. Figure 2 shows the average value and the 50%. We can clearly see that the percentage value of the GDP per capita has been continuously and evenly growing since 1995

⁴⁷² Bara Z.: Bezáródó versenypiacok az átmeneti gazdasági rendszerekben. *Közgazdasági Szemle*, 1999, vol. 46, no.5, pp. 446.

⁴⁷³ Polónyi I. – Timár J.: Munkaerőpiac és oktatáspolitikai Magyarország a rendszerváltás után, *Közgazdasági Szemle*, 2004, vol. 51, no. 11, pp. 1065-1072.

Figure 2 GDP per capita of the Hungarian regions as a percentage of the EU-27 average



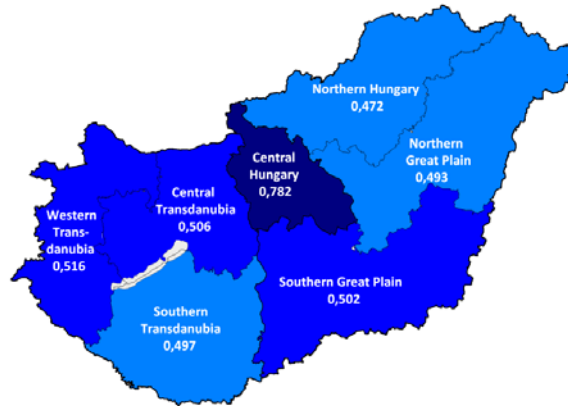
Source: Own compilation on the basis of Eurostat data

The Central Hungary region has an outlier value in each case. Only this region reaches and exceeds the 50% of the EU average from 2003. The figure below well demonstrates Hungary's low GDP in European relation.

A. Change of regional human development index

Figure 3 shows the values of the amended HDI indicator of Hungary's regions for the year 2007. The human development index well demonstrates the regions having weaker human potential. Northern Hungary, Northern Great Plain and Western Transdanubia possessed low values; these regions are expected to follow a similar tendency in terms of the labour market situation as well. It is because where the value of the human potential is low, the available workforce is also of lower level. The unemployment rate is higher and the employment potential is lower in these regions. I am going to prove my statement in the subsequent parts.

Figure 3 MHDI values of the Hungarian regions in 2007

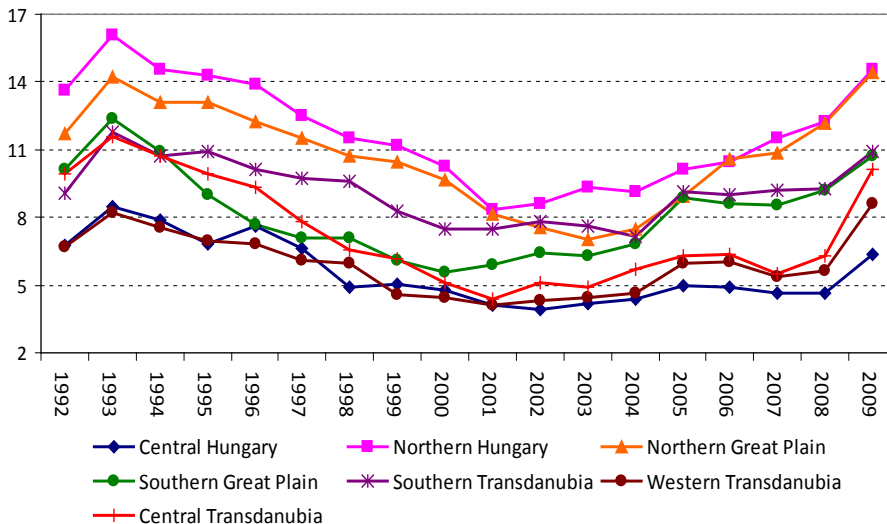


Source: Own compilation on the basis of Lipták (2010)⁴⁷⁴

B. Change of unemployment over longer period of time

Figure 4 shows the unemployment rate between 1992 and 2009 by regions. Unemployment grew suddenly high in the years after the change of regime, which was a completely understandable process because the change of regime forced enterprises to cut their (production and labour) expenditures during the transition to market economy.

Figure 4 Unemployment rate (%) between 1992 and 2009



Source: Own compilation on the basis of Public Employment Service data

⁴⁷⁴ Lipták K.: Representation of Modified Human Development Index in Romania's and Hungary's NUTS2 regions, 3rd International Management Conference, Cluj-Napoca, 2010

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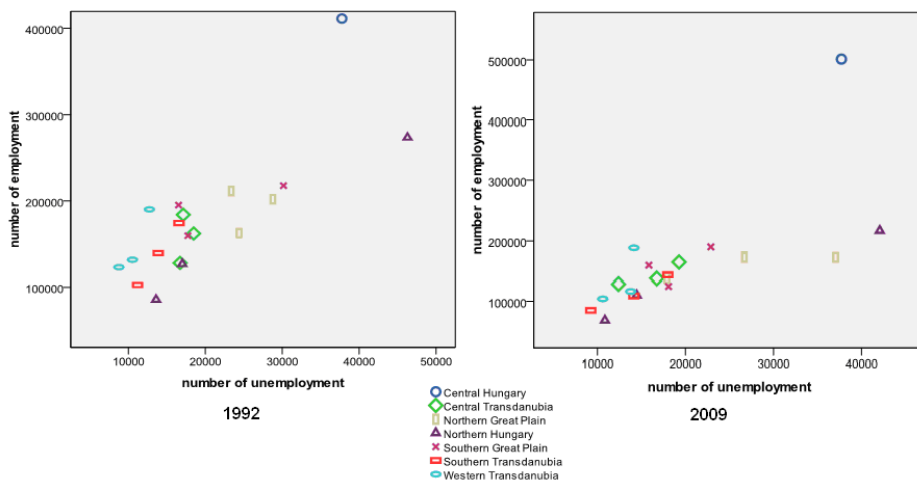
Economic trends, social trajectories and policies of identities in post communist capitalism.

Enterprises introduced time-limited work contracts, contracts governed by the civil code or informal employment without contract, apart from downsizings. The highest unemployment was in 1993 in Hungary, from then until 2001, a slow but steady decrease could be observed. By then, the new economic and employment policy objectives had partly developed and produced results. Atypical forms of employment gradually spread following the European model, which also contributed to the decrease of unemployment. The unemployment rate began to grow again in 2001 and in 2009 it reached its peak value observed after the change of regime.

C. Positioning the regions and counties within Hungary

Figure 5 shows the labour market position of the counties (in Hungary are 19 counties – NUTS III. level and 7 regions – NUTS II. level) in terms of the number of employed and unemployed in 1992 and 2009. The counties are illustrated on the basis of the NUTS II level regions. The pattern of intra- and interregional shifts are well demonstrated by the figure.

Figure 5 Labour market position of the Hungarian counties by regions in 1992 and 2009

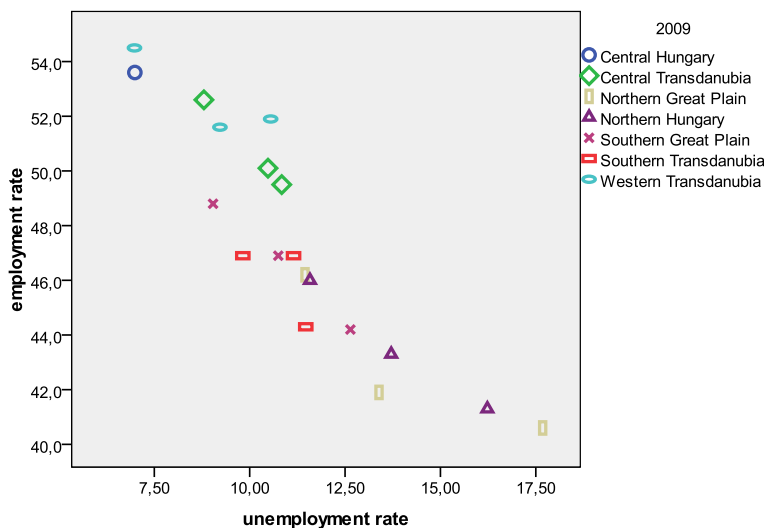


Source: Own compilation on the basis of Public Employment Service data

The situation of Northern Great Plain and Northern Hungary became relatively worse. The number of unemployed grew by 5,066 compared to the initial value (76,556 persons). The initial number of unemployed, 76,893, dropped to 67,378 in Northern Hungary by 2009; although the number of the employed also decreased from the initial 486,297 to 395,877. The conditions were the best in Western Transdanubia in both years in question: the relatively low unemployment coupled with a medium-high employment there.

It is worth positioning the counties on the basis of the unemployment and employment rates, since the standard deviation of the counties look better in this way (Figure 6).

Figure 6 Labour market position of the Hungarian counties by regions in 2009.



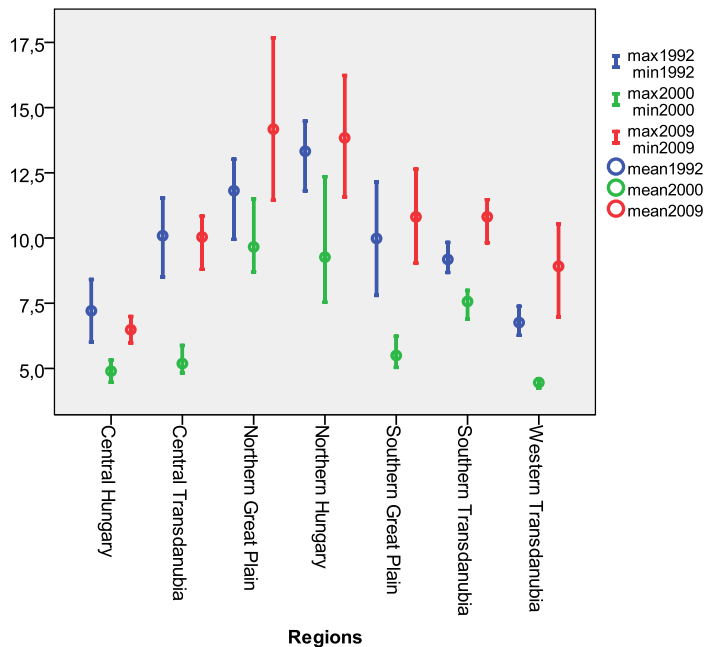
Source: Own compilation on the basis of Hungarian Statistical Office data

Borsod-Abaúj-Zemplén and Nógrád counties (Northern Hungary) were in the most unfavourable situation in 2009. In the case of the former one the unemployment rate was 16.23% and the employment rate was 42.3%, while in the case of the latter one these values were 13.71% and 43.3% respectively. The best position was reached by Pest county (Central Hungary), its unemployment rate was 6.99% while the employment rate was 53.6%.

D. Unemployment of the counties within the regions

I illustrated the range of unemployment in three periods (Figure 7). The county values have to be taken into consideration within a particular region for calculation; it will show the values of unemployment within the region and, after illustration, it allows for comparing the regions in this respect. Northern Hungary and Northern Great Plain had the highest unemployment in all three years. In year 2000 unemployment was not so high as in the years following the change of regime (1992) and in 2009.

Figure 7 Range of unemployment rate (%) in the case of the regions



Source: Own compilation on the basis of Public Employment Service data

Hungary had a relatively flexible labour market compared to other East Central countries at time of the change of regime. After the reforms of 1968 the state influenced the wages paid by companies and the employers could freely choose the level of employment. Changing jobs was not limited by administrative rules, which appeared in relatively high level of labour turnover. Further liberalisation took place before 1989, wage-regulation gradually eroded, banning mass dismissals decreased and a set of institutions were established that facilitated the life and foundation of enterprises. The inherited administrative barriers were rapidly demolished following the collapse of the socialist regime, however, the period of transition and accessing the European Union created new regulations.

According to Kézdi: „Hungary has been a front-runner in the transition to capitalism. It has also experienced exceptionally radical changes in employment and relative wages. One main feature of these changes is an enormous increase in the returns to skill.”⁴⁷⁵ This study does not aim to examine school qualifications, however, this segment may emerge as an area of future research.

⁴⁷⁵ Kézdi G.: Two phases of labor market transition in Hungary: Inter-sectoral reallocation and skill-biased technological change, Budapest Working Papers on the Labour Market, 2002, no. 3, pp. 1-43.

IV. Types of unemployment

Having looked at the unemployment trends in Hungary I think it is also worth reviewing the unemployment categories mentioned by the literature. There are two subsets of unemployment: voluntary and involuntary unemployment. Voluntary unemployment means that people are not willing to be employed at a given wage level, because, for example they inherited money. Further subset of voluntary unemployment is frictional unemployment. In the case of involuntary unemployment a person would like to work at a given real wage level but he or she either cannot find a job or cannot work for a compelling reason, that is, there is no demand for him or her in the labour market. Involuntary unemployment can further be cyclical, structural or technological.

There can be unemployment even in spite of favourable conditions when the labour demand of the corporate sector is equal to the labour supply of the household sector. People can remain unemployed for frictional and structural reasons. This form of unemployment is called natural unemployment. One talks about frictional unemployment if people lose their jobs for job problems, changing jobs or changing place of living. This kind of unemployment is temporary, it usually lasts for a short time. Insufficient demand causes unemployment the most often, which is called cyclical unemployment, if the insufficient demand occurs at national level because there is not enough demand for the country's products in the world market. Hungary lost 30% of its export markets due to the collapse of Comecon following the change of regime, as a result of which, among others, the artificially inflated heavy industry was actually eliminated. The number of cyclical unemployed people dramatically increased due to the drastic reduction of that industry. It also leads to unemployment if labour demand and supply structurally differs from one another: it is known as structural unemployment. New national industries and branches appear and old ones disappear as a result of the development and growth of the macro-economy.

A special form of structural unemployment is the, so called, women's unemployment. Many professions have "feminised", mainly those having lots unemployed in recent years. We speak of technological unemployment if it occurs due to technological development, mainly in the case of low-skilled or unskilled people. The deterioration of the social situation of Hungary makes the backward regions face more and more serious challenge nowadays.⁴⁷⁶

The theory of rational expectations and the theories assuming natural unemployment rate not influencing inflation (the so called NAIRU, non-accelerating inflation rate of unemployment) are capable of providing explanation to the phenomenon of stagflation.

⁴⁷⁶ Kovács L.: A munkanélküliség fajtái és megjelenési formái Magyarországon 2000 és 2009 között, *Hadtudományi Szemle*, 2010, vol. 3, no. 2

Conclusions

“The change of regime at the beginning of the 90ies upset the system of economic relations; Hungarian economy suddenly majority of its external markets. As a result of the declining living standard and the unthoughtful import liberalisation the internal market shrank extremely rapidly for the domestic manufacturers. It brought about the considerable decline of the agricultural and industrial production and unemployment.”⁴⁷⁷

Hungary, like other transition countries, had to adapt to the new social, economic and labour market conditions, following the collapse of the socialist regime. The suddenly occurring large number unemployment had to be treated, which was partially successful since the unemployment significantly decreased between 1999 and 2001. Afterwards, before the period of accession to the European Union, it increased again and it has not come to a new period of decline. It was naturally coupled with the decrease of the number of employed and the shrinking number of population.

Unemployment is an important and sensitive indicator of the economic growth and labour market situation in consolidated market economies. The decrease of unemployment is associated with the economic boom, growth of employment; the increase of unemployment is related to recession and the decline of employment. The change of unemployment hardly influences economic activity that is stable relative to the previous factors, it is growing according to a slowly changing trend. The statement above was not true for the transition countries, including Hungary, in any of the periods mentioned. Although the number of the unemployed decreased between 1992 and 1996, the number of the employed also decreased and the same can be observed in the past several years as well.

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⁴⁷⁷ Timár J.: A munkaerőpiac változásai 1997 és 2002 között, *Közgazdasági Szemle*, 1997, vol. 44, no. 11, pp. 987-999.

SOCIO-GEOGRAPHIC TRANSFORMATION AS A RESULT OF A SUBJECTIVE SENSE OF POVERTY IN THE SELECTED REGIONS OF SLOVAKIA

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***Abstract:** Poverty as a socio-pathological phenomenon is one of the most important issues in a wide-scale examined on regional, national and international level. Slovakia as a post-socialist country has survived a transformational changes connected to the decline of living, inflation, loss of jobs, economic crisis, formation of new wealth, etc., which have influenced all aspects of contemporary life. The examination of poverty on the regional level in terms of the transformational changes is the current problem, which is being deeply discussed and solved. With our contribution we would like to debate about the social transformation of society and the subjective poverty in three selected regions of Slovakia.*

***Key words:** socio-geographic transformation, poverty, life strategies*

Introduction

Poverty as a socio-pathological phenomenon in space is hardly definable, even though we all intuitively understand this term. There are many definitions and causes of poverty. Poverty exhibits itself in different forms in each geographic area and at all stages of development of the given society. It can be social exclusion or subjective absolute poverty resulting from deficiency of basic living needs or relative poverty which is related to inadequate income and higher consumption, or possibly from the feeling of the limitedness in participation on the life of society.

The article will deal with the feeling of subjective poverty on the smallest possible level, which is represented by households. Next, we will try to analyze poverty in Slovakia in the period before and after 1989. This year is an important milestone in the development of Slovakia, due to significant changes in political, economic, social and cultural development of our society that have deeply affected people's lives and have created significant regional disparities in Slovakia. We will take closer look at three wealthier regions of Slovakia for more detail at the lowest scale – households and there we will examine selected phenomena using qualitative methods, which will outline life in the region. The selection of the region was based on

the assumption of their non-depressive nature in terms of selected studies on poverty in Slovakia. The aim of this paper is to present Orava, Záhorie and Považie regions with the help of subjective perception of poverty by their inhabitants and brief description of the period before and after the economy transformation to a market economy.

I. The period of socialism

Socialist period tried to reduce the disparities between the Czech Republic and Slovakia, which was based on a strong urbanization and industrialization of Slovakia.⁴⁷⁸ However, the industrialization carried out in Slovakia was based on the Soviet model of the industrialization through heavy, engineering and chemical industries. This type of industrial activity did not arise from internal sources of selected regions at all; it was implemented in directive manner from headquarters and affected not only the socialist development of these regions, but especially their fumbling in the economic and social problems after 1989. In this period the economic and social development of regions in Slovakia was planned, but the land use documents compiled in the spirit of achieving the communist ideology often objectively facilitated the further deformations of the regional structure development and the deepening of existing distortions from the previous stages of historical development of Slovakia.⁴⁷⁹

By 1948 inadequate industrial development of Slovakia, poor material situation, lack of employment opportunities, emigration and migration for work abroad had been one of the few foreshadows of many poor areas in Slovakia. Poverty concerned large part of the population, not only the unemployed and the poor in rural areas; the low incomes generated a class of the working poor. Those who find themselves in acute financial necessity were considered poor.

At the turn of the 1940s and 1950s economy and social development experienced changes, this persisted until the 1980s.⁴⁸⁰ The central planning determined the development in all sectors and fields of economic, social and cultural life. The five-year plans meant a diversion from the actual development and withdrawal from the principles of market economy and the transition to the soviet system of governance based on centrally planned economy. Radical changes occurred in the form of ownership, system of management, economy, the structure of industry and foreign trade, in the orientation of internal economic relations, in social and regional policy and in the formation of the one-sector economy⁴⁸¹. One of the main objectives of this regime was to increase the living standard of the population (to keep the standard of living of the population and consolidate its social security)

⁴⁷⁸ Gajdoš, P.: *Človek Spoločnosť Prostredie. Priestorová sociológia*. Bratislava : Sociologický ústav SAV, 2002.

Korec, P., 2005: *Regionálny rozvoj Slovenska v rokoch 1989 – 2004*. Bratislava: Geografika, 227 s., ISBN 80 – 969338-0-9.

Džambazovič, R. (2007). *Chudoba na Slovensku: Diskurz, rozsah a profil chudoby*. Bratislava: Univerzita Komenského, 2007. 228 s., ISBN 978-80-223-2428-1.

⁴⁷⁹ Institute for Public Affairs (2002). *The vision of development of Slovak republic to 2020*.

⁴⁸⁰ Jírová, H. (2003). *Deformace na českém trhu práce – historický exkurs*. In Sirovátka, T.; Mareš, P.: *Trh práce, nezaměstnanost, sociální politika*. Brno: FSS MU, 2003, s.54-62

⁴⁸¹ Džambazovič, R. (2007). *Chudoba na Slovensku: Diskurz, rozsah a profil chudoby*. Bratislava: Univerzita Komenského, 2007. 228 s., ISBN 978-80-223-2428-1.

and provide full employment. Kalinová⁴⁸² claims that the share of economically active population in the former Czechoslovakia in the 1970s and 1980s was over 80%, which was 15% more than in the most European countries. At the beginning of building socialism, Slovakia was agricultural, low urbanized country^{483, 484}.

In 1960s and 1970s, Slovak society was changed to industrial society, but its rural nature still remained⁴⁸⁵. The centralization of people to the central villages and towns was strongly influenced and that caused that transformation to a predominantly urban society (in the 1980s the proportion of urban population got over 50%⁴⁸⁶ in Slovakia) happened about 20 years after the industrialization⁴⁸⁷. Rapidly growing industry brought about collectivization of agricultural production. Incomes in the labour market changed, wages were increased in the sectors where lower qualification was sufficient, and decreased in education, health, banking and social services. There was a mass movement of male workers from the traditional sectors of light industry and services to the mining, metallurgy and heavy engineering⁴⁸⁸. The whole process of employment restructuring meant "decrease in qualification" of Czechoslovak labour, unfavourable position of women in comparison with men, undervaluation of female work and lower wages^{489,490}. The labour market was heavily distorted by regulative interventions from planning centre, also by administration and centralized wage policy. The employment structure was obsolete with a high number of manual workers and this state had remained stable in the past 20 years of socialism, what indicated a general stagnation. Deformation of wages, egalitarianism, excessive effort to equalise the regional differences, paternalism, and many other phenomena was the consequence of the officially proclaimed solution to the problem of poverty –its official non-existence and tabooization in socialist Czechoslovakia. Related to this is the lack of information and data for determining the extent of poverty in this period. The first author who tried to identify the poverty in this period was Hiršl⁴⁹¹. He examined the poverty on the basis of subsistence minimum. According to the findings of the OECD in this period (1950s – 1970s) 9 to 11% of households (it was 21% of households in 1985 according to Korec) were under the social minimum (representing 56% of average income per person). At the end of 1980s, the number dropped to 7.7% (according to Korec⁴⁹² to 13% in 1980 and to 9,6% in 1989). The statistics are inconsistent in this case because of the unavailability of relevant information and data and concealing the real facts. In 1958; 5,5 % of households were below the subsistence threshold (per capita income of 42% of average income per capita in the national economy), but at the end of the

⁴⁸² Kalinová, L.(1998). Sociální vývoj Československa 1969-1989. Praha, Ústav pro soudobé dějiny AV ČR, 1998

⁴⁸³ Kusá, Z. (2003). Pokus o sociální stát. In: *História*, r.3, č.4, 2003, s. 29-32

⁴⁸⁴ Korec, P. (2005). Regionálny rozvoj Slovenska v rokoch 1989 – 2004. Geografika, Bratislava, pp.227, ISBN 80-969338-0-9

⁴⁸⁵ Falčan, I.; Pašiak, J. (2004). Regionálny rozvoj Slovenska, Východiská a súčasný stav. Sociologický ústav SAV, Bratislava, 2004

⁴⁸⁶ Szélenyi, I. et al. (1996). *Cities after Socialism. Urban and regional change and conflicts in postsocialist societies.* Oxford, Blackwell publishers, 1996

⁴⁸⁷ Džambazovič, R. (2007). *Chudoba na Slovensku: Diskurz, rozsah a profil chudoby.* Bratislava: Univerzita Komenského, 2007. 228 s., ISBN 978-80-223-2428-1.

⁴⁸⁸ Jírová, H. (2003). Deformace na českém trhu práce – historický exkurs. In Sirovátka, T.; Mareš, P.: *Trh práce, nezaměstnanost, sociální politika.* Brno: FSS MU, 2003, s.54-62

⁴⁸⁹ Londáková, E. (2004). Pochybné rovnostárstvo, *História*, r.4, č. 9-10, 2004, s. 33-36

⁴⁹⁰ Jírová, H. (2003). Deformace na českém trhu práce – historický exkurs. In Sirovátka, T.; Mareš, P.: *Trh práce, nezaměstnanost, sociální politika.* Brno: FSS MU, 2003, s.54-62

⁴⁹¹ Hiršl, M. (1992). *Analýza struktury chudého obyvatelstva v Československu v roce 1988.* VÚPaSV, Bratislava, 1992, pp. 168, ISBN 80-7138-060-1

⁴⁹² Korec, P. (2005). Regionálny rozvoj Slovenska v rokoch 1989 – 2004. Geografika, Bratislava, pp.227, ISBN 80-969338-0-9

1980s it was only 1%. This period was deeply embedded into people's lives and influenced the further development of the areas they lived in.

II. Development after 1989

The transformation changes after 1989 brought a new phase in the development of society. Capitalism disturbed stable socialist society, people were thrown into a spiral of change in which their standard of living fell dramatically, their saved money were destroyed by inflation, and many of them lost their jobs or were unpaid for a long time. Economic and social practices of household everyday life had been transformed in dramatic and unexpected ways, especially in the context of deep economic crisis provoked by the transition to a market economy⁴⁹³. These changes affected all areas of the social life. The transformation to a market economy caused profound changes in a socio-economic situation of large population, which mainly affected the standard of living and the way of life. New forms of business ownership and unknown business appeared on one hand, on the other hand appeared phenomena such as long-term unemployment and social exclusion. The decline in real incomes and purchasing power, the disclosure of previously hidden poverty, creation of a new system of stratification and social inequalities affected a large proportion of the population^{494, 495}. Former social structures began to split up; new wealth and previous prestige options appeared. Households were left to their own resources to survive or to improve for the sake of progress.^{496, 497} In order to keep their households, people combined work with domestic work and child care which have created new circumstances. People radically changed their jobs, they had to undertake more work, work under the counter, increase domestic production of goods and services and rely on social networks (family, relatives and friends).⁴⁹⁸ To silence their needs and secure household survival they showed unprecedented creativity in the use of all available resources and finding new ones. These fundamental changes in the everyday life of ordinary households are overlooked.

Post-Soviet transition to capitalism is characterized as a systemic change, which includes the transformation of central planning to market-based economy, democracy and totalitarianism in the empire to the nation state.^{499,500,501} Under these conditions, when circumstances change very quickly, in the study of post-socialist society of the households is

⁴⁹³ Pavlovskaya, M., 2004, Other transitions: multiple economies of Moscow households in the 1990s, *Annals of the Association of American Geographers*, 94/2, 329-351

⁴⁹⁴ Džambazovič, R. (2007). *Chudoba na Slovensku: Diskurz, rozsah a profil chudoby*. Bratislava: Univerzita Komenského, 2007. 228 s., ISBN 978-80-223-2428-1.

⁴⁹⁵ Sópoci, J. (2000). *Sociológia a spoločenská zmena*. Bratislava, Stimul, 2000, s. 93-108

⁴⁹⁶ Walker, M. (1998). *Survival strategies in an industrial town in east Ukraine*. S. Bridger, & F.

⁴⁹⁷ Pavlovskaya, M., 2004, Other transitions: multiple economies of Moscow households in the 1990s, *Annals of the Association of American Geographers*, 94/2, 329-351

⁴⁹⁸ Pavlovskaya, M., 2004, Other transitions: multiple economies of Moscow households in the 1990s, *Annals of the Association of American Geographers*, 94/2, 329-351

⁴⁹⁹ Offe, C. 1991. Capitalism by design? Democratic theory facing the triple transition in East Central Europe. *Social Research* 58 (4): 865–92.

⁵⁰⁰ Dallin, A. 1995. Where have all the flowers gone? In *The new Russia: Troubled transformation*, ed. G. W. Lapidus, 245–63. Boulder, CO: Westview Press.

⁵⁰¹ Bradshaw, M. J., ed. 1997. *Geography and transition in the post-Soviet republics*. Chichester, U.K.: John Wiley and Sons.

necessary to use a range of resources outside the formal sector to have enough.⁵⁰² Transformation of society after 1989 not only visualized the poverty, but significantly expanded it.

People dependent on state have become particularly vulnerable by poverty⁵⁰³. Due to the lack of data about households that relevantly revealed poverty, we have only a distorted view of this phenomenon in space. Majority of the approaches studying different social phenomena focuses on the macro level and national scale, and ignores the local scale approach and experience of ordinary people. The new system was meant to destroy the structural policy division, and let everyone start from scratch, when all members have the same chance on the impersonal, but a fair market. Soviet-era class and gender hierarchies are still playing an important role in shaping the new social and economic situation and in determining the nature of the everyday lives of ordinary households. Dominant discourse of transition, restructuring the industries and regions is not understood by many households either.⁵⁰⁴

In the various types of restructuring, whether post-socialism or fordism, until we do not understand the households we will not understand why poverty, life and some of the strategies appear and why others do not. Restructuring affected the household member and their interactions, as well as the role of households in the social structure⁵⁰⁵.

As the methods of analysis say, studies will only look to the general findings on macro level and will not reveal the deeper connections related to households forming regions until they can not fully understand the causes of the changes and strategies in the region. According to Beall, Kanji⁵⁰⁶ policy will be more effective and fairer if it starts with understanding the links between such smaller units as households and communities with larger economic, social and political processes operating at the place and with understanding the life strategies of these small units.

III. Brief description of the three selected regions⁵⁰⁷

Orava region consists of districts Tvrdošín, Námestovo and Dolný Kubín, located in the northern part of Slovakia in Žilina Region. Námestovo and Tvrdošín are also borders districts of Slovakia with Poland. Density of population in all districts is less than the national average. The population is steadily increasing, despite the fact that Tvrdošín has only the half of average district population in Slovakia. The largest population has the district

⁵⁰² Wallace C. 2002. Household Strategies: Their Conceptual Relevance and Analytical Scope in Social Research. *Sociology* 36(2), 275-292.

⁵⁰³ Korec, P. (2005). *Regionálny rozvoj Slovenska v rokoch 1989 – 2004*. Geografika, Bratislava, pp.227, ISBN 80-969338-0-9

⁵⁰⁴ Pavlovskaya, M., 2004, Other transitions: multiple economies of Moscow households in the 1990s, *Annals of the Association of American Geographers*, 94/2, 329-351

⁵⁰⁵ Wallace C. 2002. Household Strategies: Their Conceptual Relevance and Analytical Scope in Social Research. *Sociology* 36(2), 275-292.

⁵⁰⁶ Beall J., Kanji, N. (1999). Households, livelihoods and urban poverty. *Urban Governance, Partnership and Poverty*, DFID, 1999. http://www.idd.bham.ac.uk/research/Projects/urbangovernance/resource_papers/theme_papers/3_households_livelihoods.pdf

⁵⁰⁷ všetky štatistické údaje v tejto kapitole sú prevzaté z stránky Štatistického úradu. www.statistics.sk aj napriek tomu, že existujú novšie údaje, z dôvodu lepšej prehľadnosti a porovnateľnosti s mapou marginálnych území sme použili údaje z roku 2007.

Námestovo (58,549 inhabitants), followed by Dolný Kubín (39,435 inhabitants) and Tvrdošín (35,741 inhabitants in 2007). In terms of nationality, the highest share of citizens with Slovak nationality has Námestovo, (99.2%) it is also the highest share among all regions in Slovakia. Dolný Kubín and Tvrdošín have more than 98% inhabitants with Slovak nationality. In the past, Orava was one of the poorest regions in Slovakia, with poor conditions for agriculture, suffering from the lack of industry and its frontier location. Orava preserved its agricultural-forest nature until mid-twentieth century, when extensive industrialization and urbanization was happening as an effect of socialism. The region does not dispose of larger employers. The largest ones are located in the region surroundings along the arterial road Bratislava – Košice (Kia Motors Slovakia, s.r.o., ZTS Martin, ŽOS Vrútky...). Orava disposes only of smaller employers (such as OVP Orava, s.r.o., OTF Orava a.s....).

The part of Považie region, which is the object of our study consists of districts Považská Bystrica, Púchov and Ilava. It is located in the northwest of Slovakia and belongs to the Trenčiansky region. All districts border with the Czech Republic. Their population density is higher than the national average, the most densely populated district is Ilava (170.3 pop/km² in 2007). The population in these districts has decreased in the recent years, and in 2007 there were 64,232 inhabitants in Považská Bystrica, 61,048 in Ilava and 45,523 inhabitants in Púchov. The predominant nationality is Slovak nationality - district Ilava (96.7%), district Považská Bystrica (98%) and district Púchov (97.8%). Another relatively well represented nationality in the region is the Czech, Moravian and Silesian nationality, which is a consequence of the already mentioned frontier position of the region. Overall, studied region has a very good position, which influences its further development. Good access to the region arises from its location on the main transport routes. The largest employers in region are in the town of Púchov (Makyta, a.s., Continental Matador Rubber a.s.).

Region Záhorie is also a border region situated in the west of Slovakia. It consists of districts Skalica, Senica and Malacky. The district of Skalica and a small part of Senica district border with the Czech Republic, regions Senica and Malacky border with Austria. These regions belong to less populated regions according to the population density, only the district Skalica has population density above the Slovak average (132.9 pop./km² in 2007). The population of the region has not changed significantly in the recent years. In 2007 the district Malacky had 67,506, Senica 60,957 and Skalica 47,478 inhabitants. The ethnic structure of the districts is affected by its frontier location, this influence is apparent in the numerous Czech, Moravian and Silesian nationality. In case of Malacky, the share of Hungarian nationality is also increased. Slovak nationality is dominant - Malacky (96.7%), Senica (96.7%) and Skalica (95.14%). From all studied regions, region Záhorie has the greatest opportunities for further development. It is caused by its proximity to the Bratislava centre and to economically developed country Austria and also by its convenient traffic position since the region Záhorie is situated on the main route Bratislava - Prague. In the future, the industrial park Eurovalley Malacky can potentially become the largest employer in this re-

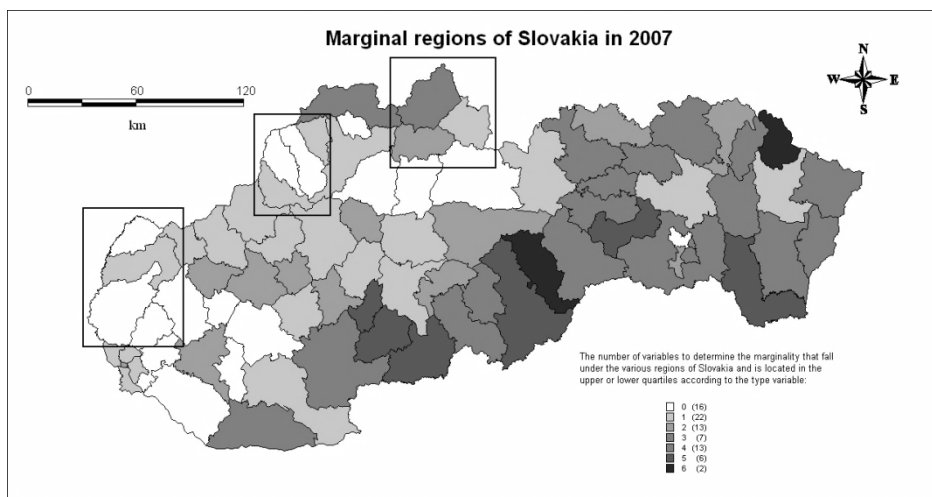
WHERE DO WE GO FROM HERE?

Economic trends, social trajectories and policies of identities in post communist capitalism.

gion, employing approximately 5000 people.⁵⁰⁸ Currently, the biggest employers are located outside the region, in the capital of Slovakia, Bratislava (Slovnaft, a.s., Volkswagen, a.s....).

In terms of average monthly wage, the lowest average monthly salary is in Orava region (566 Euros), followed by the Považie (666 Euros) and Záhorie (712 Euros in 2007)⁵⁰⁹. So the hypothesis those respondents of the Orava regions should be the least satisfied with their financial situation remains.

Analysis of spatial inequalities on a basis of broad spectrum of various indicators point to remaining and increasing regional disparities, which are observed on a different scales - regions, districts or municipalities (eg Džupinová a kol.⁵¹⁰, Džambazovič⁵¹¹, Korec⁵¹², Gajdoš⁵¹³, Michálek⁵¹⁴). Our selected regions are not among marginal regions. This fact is demonstrated by national indicators of poverty and social exclusion in Slovakia⁵¹⁵ (map # 1), which are calculated by using eight parameters defining marginality⁵¹⁶. Different shades of green identify marginal regions; yellow, orange and white colours identify non-depressive regions according to the number of marginal variables.



Map 1 Marginal regions of Slovakia 2007 according to the selected indicators and indicator I38⁵¹⁷ (Source: www.statistics.sk, www.upsvar.sk, www.nczi.sk, 2009, own calculation)

⁵⁰⁸ Hospodárske noviny, 20.8.2008

⁵⁰⁹ OKEC, 2007, own calculation

⁵¹⁰ Džupinová a kol. (2008). *Periférnosť a priestorová polarizácia na území Slovenska*. Bratislava: Geografica, 2008. 186 s., ISBN 978-80-89317-06-06.

⁵¹¹ Džambazovič, R. (2007). *Chudoba na Slovensku: Diskurz, rozsah a profil chudoby*. Bratislava: Univerzita Komenského, 2007. 228 s., ISBN 978-80-223-2428-1.

⁵¹² Korec, P. (2005). *Regionálny rozvoj Slovenska v rokoch 1989 – 2004*. Geografika, Bratislava, pp.227, ISBN 80-969338-0-9

⁵¹³ Gajdoš, P. (2002). *Človek, spoločnosť, prostredie*. Bratislava: Sociologický ústav SAV, 2002. 374 s. ISBN 80-855444-15-6.

⁵¹⁴ Michálek, A. (2005). *Koncentrácia a atribúty chudoby na lokálnej úrovni Slovenskej republiky*. Geografický časopis, 57, č.1, s. 1 – 16.

⁵¹⁵ Džambazovič, R., Horňák, M., Hrabovská, A., Michálek, A., Rochovská, A., Rusnáková, J. (2008). *Národné indikátory chudoby a sociálneho vylúčenia: referenčný manuál*. Bratislava: Euroformes, 2008. 43 s., ISBN 978-80-89266-22-7.

⁵¹⁶ Medzi indikátormi sa nachádzajú: index starnutia, očakávaná stredná dĺžka života u mužov aj žien, saldo stahovania, miera evidovanej nezamestnanosti, priemerná mesačná mzda zamestnancov, podiel osôb v hmotnej núdzi z počtu obyvateľov, počet hlásených ochorení na 100000 obyvateľov - tuberkulóza

⁵¹⁷ <http://px-web.statistics.sk/PXWebSlovak/index.htm>

http://www.upsvar.sk/rsi/rsi.nsf/vdb_SubSections?OpenView&id=5E9BC616563234F0C125728300479B68

http://www.nczisk.sk/buxus/generate_page.php?page_id=497

Also Michálek⁵¹⁸ analyzed geographic aspects of poverty in his work, while he examined poverty in the Slovak regions on the basis of seven selected indicators, which he quantified. Subsequently he identified 16 poorest districts of Slovakia (from that 10 in the East, 4 in the south and Zlaté Moravce and Žarnovica). From our selected regions, none was identified as poor. Korec⁵¹⁹, in his study of the less developed regions, used 11 indicators to determine the "appropriate" level of regional economic and social differentiation. On the basis of the results he certified that "rich north and poor south" had been specified. It is assumed that in the coming years the differentiation on the micro level can be expected while the internal sources of the regions will be especially important, human potential in particular.

IV. Research of subjective poverty in the selected regions

In terms of methodology, we chose three richer regions of Slovakia (Orava, Považie a Záhorie) for us and on the basis of the quality indicators we attempted to assess the current situation in these regions. West and north-western part of Slovakia, where these regions belong, is considered to be more developed in terms of foreign investments and supranational corporations, better transport accessibility and its position within developed western countries. They are regions of specific historical character, used in the context of natural, social and continuous conditions, within specific identity of the selected region. Despite the fact that the regions are socially differentiated and demographically structured, they are comparable to us, because of their geographical and historic specifics, they are located near the main traffic routes, they are bordering from the geographical point of view and in terms of previous studies they are not impacted with poverty.

We selected 100 households from each region, which were willing to cooperate according to the specific structure of the households so that all possible types of households were covered in the random range of selected villages in the region. The complete data set consists of 301 households in three regions, all together there are 972 members of households, who were investigated within the selected households and specifically separated too. Household was chosen as the lowest local level unit, which can reveal various irregularities in the local government policies, problems and possibilities of the region, ideas for more efficient use of resources, formal and informal provision of livelihood. In a different environment of countries, regions or districts, the household is the place where the strategies of the individuals are formed. In this study, we work with both household and individual as the unit, because even if we examine household, we look specifically at every individual who belongs to it.

The results are generalized and applied to the entire region, even though we worked only in selected municipalities that agreed to cooperate. We examined several vari-

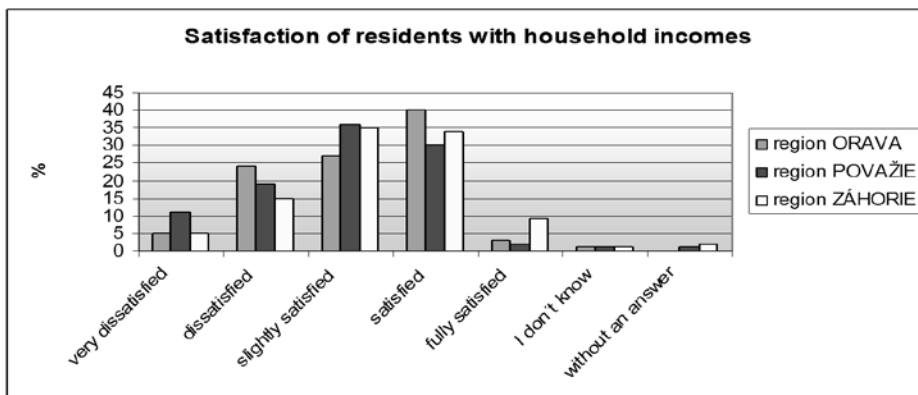
⁵¹⁸ Michálek, A. (2004). *Meranie chudoby v regiónoch (okresoch Slovenska)*. Sociológia, 36, č.1, s. 7 – 30.

⁵¹⁹ Korec, P. (2005). *Regionálny rozvoj Slovenska v rokoch 1989 – 2004*. Geografika, Bratislava, pp.227, ISBN 80-969338-0-9

ables and from the amount of information provided by the households, we will use particularly those relating to the financial situation of households and to the sense of subjective poverty for the purpose of the paper. The data were collected through the questionnaires in the households followed by the detailed interviews in the selected (interesting and specific) households. Besides that, the interviews were conducted with the representatives of municipalities to find out about their own views on the region and its possibilities, prosperity in the future and changes in the past. Questions are related to all aspects of household life, including records of individual household members, housing conditions, home care, social relationships and social networks, agricultural production, employment, state and social support, incomes, expenditures and household consumption, a perception of poverty and changes in the recent years. In the article we worked with indicators of satisfaction or dissatisfaction with the current household income, financial difficulties and financial security in the past, assumption for the future and the present feeling of poverty. We will try to compare these three regions and to draw conclusions on subjective poverty in the selected regions which do not belong among so called „poor regions“.

The household income is one of the important indicators of poverty (many authors used this indicator in their works for example Michálek⁵²⁰, Džambazovič⁵²¹, Korec⁵²²). By 1989 income inequalities did not exist in Slovakia or they were only minor. However, transformation processes have been bringing more and more evidences of emerging income inequalities.

Our research shows that the largest number of respondents dissatisfied with their incomes is in the regions Považie and Orava; on the other hand, more than 79% of households from Záhorie are satisfied with their current financial situation, slightly or fully.



Graph 1: Satisfaction of residents with household incomes 523

Households dealing with significant financial difficulties in the recent years were not dominant in any region, even though in connection with dissatisfaction with income situation,

⁵²⁰ Michálek, A. (2004). *Meranie chudoby v regiónoch (okresoch Slovenska)*. Sociológia, 36, č.1, s. 7 – 30.

⁵²¹ Džambazovič, R., Horiák, M., Hrabovská, A., Michálek, A., Rochovská, A., Rusnáková, J. (2008). *Národné indikátory chudoby a sociálneho vylúčenia: referenčný manuál*. Bratislava: Eurofomes, 2008. 43 s., ISBN 978-80-89266-22-7.

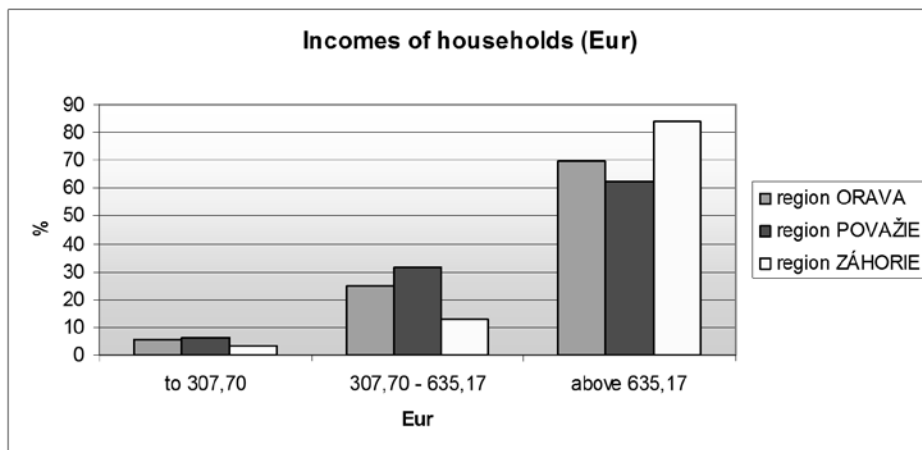
⁵²² Korec, P. (2005). *Regionálny rozvoj Slovenska v rokoch 1989 – 2004*. Geografika, Bratislava, pp.227, ISBN 80-969338-0-9

⁵²³ Source: own research

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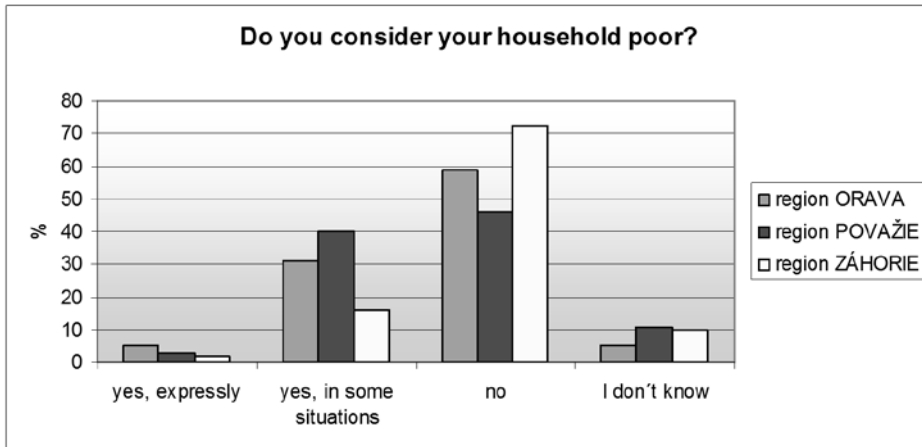
24% of selected households in Považie region experienced some financial difficulties. The actual household income was divided into three selected intervals. The first interval is bounded by the minimum monthly wage of an individual in Slovakia (307.70 euros), the second interval is bounded by the average net monthly wage in Slovakia (635.17 euros, the figures for 2007) and third interval represents income above the average.



Graph 2: Incomes of households (Eur) ⁵²⁴

The average income of the households usually moved in the range above 635.17 euros. Majority of households (84%) with this income was in the region Záhorie. According to the majority of respondents, their financial situation has not changed in the last years. Up to 42% of respondents in Považie admitted moderate or considerable deterioration of their financial situation, Orava region showed a similar trend - 28% of respondents experienced the deterioration and 29% experienced the improvement of their financial situation. The complete opposite was the region Záhorie, where up to 41% of respondents expressed satisfaction with the improved financial situation. We could see significant differences in the various regions and the feelings of respondents after the transformation differed. While the region Záhorie spoke about gradual improvement, all respondents from Orava had different opinions, but the opinions about improving or worsening of the financial situation were balanced. The respondents in region Považie felt a significant worsening of the financial situation. In the future, most of the households in all regions expect no change of their financial situation or they expect a slight deterioration. Among the reasons for this were mainly political situation, retirement pensions, economic crisis and others.

⁵²⁴ Source: Own research



Graph 3: Do you consider your household poor? ⁵²⁵

According to the graph 3 we can conclude that the subjective feeling of poverty is expressed the most in the region Považie; most households expressed dissatisfaction with their financial situation and income and expect no change or worsening of the situation in the future. The residents of Záhorie considered themselves to be the least poor, their incomes exceeded the incomes in other two regions. This survey only confirmed the assumption that the financial situation of households predicts their further behaviour in the future under the terms of their position.

V. Conclusion

The aim of this contribution was to provide synoptic view on the subjective poverty in the selected regions. Our aim was to exclude some important indicators of poverty and examine them using qualitative research on micro-regional level, in our case households. Our research is a long-term research of regions on various socio-geographical levels, but for the purposes of this article, we used only a few selected indicators. Despite this, we came to conclusion that although the individual regions are not among marginal regions, they differ in the perception of subjective poverty.

Region Považie is more distinct than other two regions in terms of financial situation of inhabitants and satisfaction of inhabitants with incomes that are the important indicators of poverty and social exclusion. It is also more distinct in terms of financial difficulties in the recent years, worsening of the financial situation and the assumption for the further deterioration in the future and feelings of subjective poverty. In the region, most of the households are discontented with income. Advantageous location of Záhorie; given by its proximity to Bratislava as the economic centre, to Austria, as the developed country of Europe and by its position on the main traffic road Bratislava – Prague; provides better aver-

⁵²⁵ Source: Own research

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age monthly wages for inhabitants and better changes for employment. Orava region has the lowest average monthly salary compared to the other regions and also fewer opportunities for employment both due to the small number of large-scale enterprises, and also in terms of poorer transport accessibility. Our hypothesis that people in Orava region would be the least satisfied was not vindicated. The perception of the respondents is most likely related to other important factors, such as agricultural production, housing conditions, social relationships, history of the region and others.

Overall, we can conclude that we can not draw adequate conclusions regarding poverty while taking into consideration only the indicators about the average monthly wage, financial difficulties and changes in financial security. What we can state is that despite the present income status of the selected regions we have to reach deeper to the household problems to fully understand the context of poverty.

„ELECTORAL PARTICIPATION AS AN INDICATOR OF THE DEMOCRACY IN POST-COMMUNIST COUNTRIES“

Martin Mašťalír

***Abstract:** Slovak Republic since 1989 is in being constant transformation that is happening on several levels. In addition to economic, social and cultural processes there is also one of the most important processes - democratization. Citizens of Slovakia and in general citizens from all post-communist countries have brought new life experience, which is the democratization of society and especially their personal contribution to its creation. The subject of the paper is to analyze the process of democratization through measurable and immeasurable variables of citizens and their approach to democracy.*

One of the key measurable indicators of democratization and in particular, individual approach and interest of the population in the state administration is participation in elections. Trends in the Slovak Republic in the last 20 years considering election participation have been negative, and one of the paper objectives will be comparison to the nearest neighbor - the Czech Republic and searching for reasons why this is so only 20 years after the fall of the totalitarian regime. In the second part of the paper, we compare the theoretical definition of democracy, with its real form.

***Keywords:** democracy, electoral participation, civil society, legitimacy of the elections*

Introduction

Today, we take democracy for granted and take our society as a democratic. Democracy allows individuals to participate in governance directly through either a referendum or plebiscite, where a citizen comments on issues and problems directly. Indirect form of democracy is characterized by giving a voice to a representative who will represent his views, whether in parliament, Municipal Corporation or other institution. Democratic establishment in western society today is considered as perfect, because given all the space to express their own opinions and believes while respecting voice of the majority. Post-

communist countries, focused mainly on the Slovak and Czech Republic have received relatively recent processes of democratization and we can confidently say that the democratization process is still ongoing. Objective of the work is to highlight the current trend, which is declining citizens votes participation and find the answer why and also to compare the theoretical definition and meaning of democracy in its real form.

I. Democracy

Democracy is a form of political constitution, which was accepted by western society as a natural evolution of the administration of government and to replace the monarchy in modern history in terms of citizens' participation in the management of state affairs. The beginnings of democracy can be dated from the earliest time, which was represented by the "old board" and bear the first signs of democratic decision-making. Democracy as a political system was only first used in ancient times, in ancient Greek city states approximately in the fourth and fifth century BC.

First, we define the concept of democracy. Democracy in its simplest definition described by JJ Rousseau⁵²⁶ as the government people involved in the executive - the government. At the same time denies democracy as follows: "If we take literally the term democracy, true democracy had never existed and never will be, because it is against natural order that a large number will govern and at the same time a small group will be controlled " On the one hand, democracy is considered the most advanced system but on the other hand there are some doubts about its excellence in all periods of history since its inception. Even Plato saw democracy in the risk of mediocrity, because democracy is inherently respected voice of the majority and the risks that the elite get people without the required "skills", but which have a legitimate mandate, as emerge from a regular electoral process. The core of his criticism is also a belief that elected officials will tend to pursue their personal interests above the public. Plato⁵²⁷ saw the solution in the superiority of the ruling group of citizens over other citizens who would give only governance, which is contrary to the essence of a democratic polity. In a well-functioning democratic society requires citizens of democratic activity, while elections replace the revolution and violent change in the governing structure.

Democracy is also characterized by the following:

- Equal opportunities of citizens
- The right of all to participate in the electoral process
- Interest in public affairs

⁵²⁶ *Jean-Jacques Rousseau Rozpravy, Svoboda, Praha 1989*

⁵²⁷ *Platón, Ústava, Oikoymenh, Praha 2005, ISBN 80-7298-142-0*

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- Respect for the choice of most
- Public consultation
- Equality of citizens on the status of an independent in race, gender, religion and sexuality

The practice of democracy gives citizens the power to participate in governance, but is it really so? We could state yes, because citizens have the right to participate in the electoral process, but there are two important facts emerge:

- Trend of declining electoral participation and the legitimacy of elected representatives
- Democracy relegated to cast their votes during elections

The facts above will be discussed based on measurable indicators in the next part of the paper point to eligibility concerns of Plato, Rousseau and in the general of other critics of democracy, that democracy tends to decline. This occurs if it inadequately used its potential. The objectives of contribution are to refer to this problem and to highlight the risk of a democratic constitution, which will have de-facto elements of the oligarchy.

II. Decline in electoral turnout (Slovakia, Czech republic, Romania, Hungary after 1989)

Voter participation is among the most accurate indicator of the level of civil society and democracy as such in any democratic country. It refers to the interest of citizens to use and benefit status of democratic order, which is to participate in the electoral process. Slovak and Czech Republic appear in that post as representatives of post-communist countries. In those countries, the democratization process has been a relatively short period since 1989, when there was a change of political system to democratic from socialism. Citizens saw the amendment as a very strong hope of new life chances and, of course, in anticipation of improving quality of life after a long period of totalitarianism. The proof is nearly 96% turnout in the first parliamentary elections in 1990. However, voter participation in the last parliamentary elections in 2010 in the Slovak Republic was at 58.83%. Before one considers the reason for the decline of electoral participation, we will present the results of parliamentary elections since the early "democratic" history of Slovakia and the Czech Republic.

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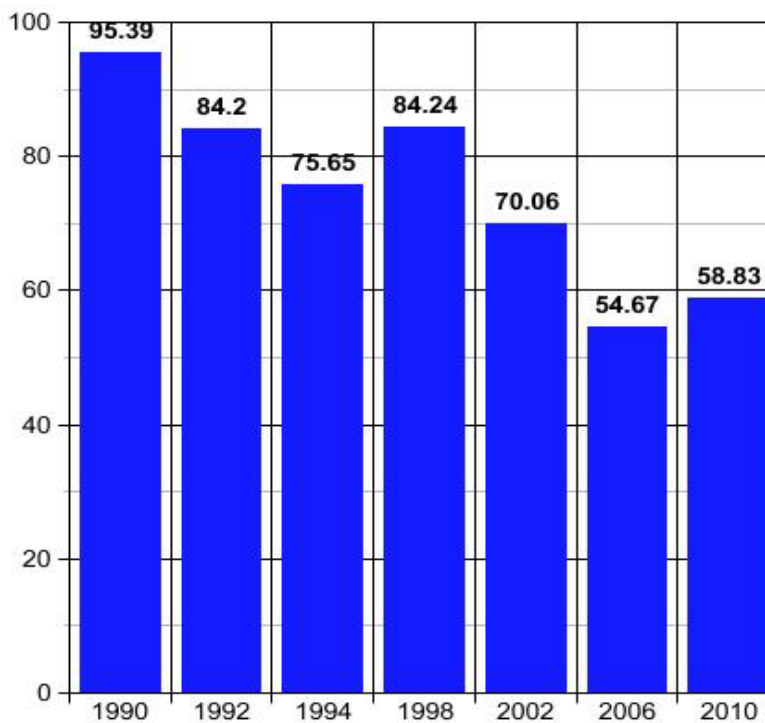
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Table 1 Vote participation – Slovak republic 1990 – 2010

Year	1990	1992	1994	1998	2002	2006	2010
Electoral participation	95,39%	84,20%	75,65%	84,24%	70,06%	54,67%	58,83%

Source: Štatistický úrad SR

Chart 1 Vote participation – Slovak republic 1990 – 2010



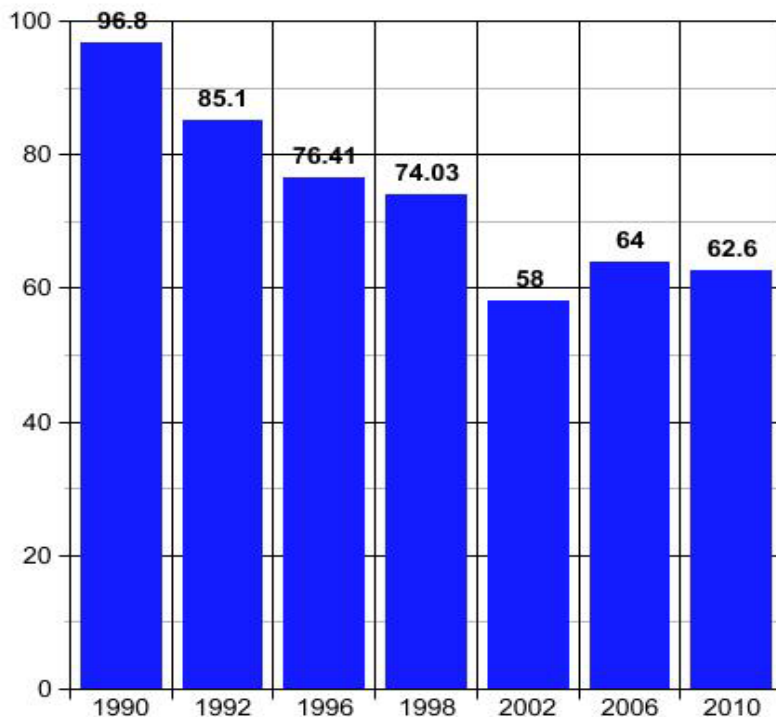
Source: Štatistický úrad SR

Table 2 Vote participation – Czech republic 1990 – 2010

Year	1990	1992	1996	1998	2002	2006	2010
Electoral participation	96,80%	85,10%	76,41%	74,03%	58%	64%	62,60%

Source: www.volby.cz

Chart 2 Vote participation - Czech republic 1990 - 2010



Source: www.volby.cz

Table 3 Vote participation - Romania, Hungary 1990 - 2010

Country	Election type	Turnout
Hungary	Parliamentary election 2010	64,36%
Hungary	Parliamentary election 2006	67,83%
Hungary	Parliamentary election 2002	73,51%
Hungary	Parliamentary election 1998	56,26%
Hungary	Parliamentary election 1994 1st round	68,90%
Hungary	Parliamentary election 1990 1st round	65%
Romania	Legislative election 2009	39,20%
Romania	Chamber of deputies 2004	56,50%
Romania	Chamber of deputies 1992	72%
Romania	General election 1990	86%

Source: Hungary - Országos Választási Iroda, Romania - Biroul Electoral Central, Romania since 1989: politics, economics, and society, Henry F. Carey

III. Analyse

From the results above it is clear that voter participation is significantly decreasing. The recent failure was analyzed for a number of institutions and as an example we provide earlier analyze of the Czech Centre for Public Affairs, the result can be considered still current.

The main reasons for non-participation:

- Disinclination to politics
- Low credit of political parties
- Participation in elections is useless, nothing will change anyway
- Politicians do what they want

The above results can be considered as "normal" reasons for non-participation of citizens in the electoral process. The aim of this contribution is to analyze but not already addressed, but rather to look at the reasons for non-participation from another perspective. The above reasons for non-participation do not consider the cause but the consequence of changes in terms of democracy. Democracy as a government establishment in Western culture (the Slovak and Czech Republic is the evidence) tends to afflict the transfer of the electoral vote.

Is the democracy only about voting? Certainly not, vote in elections should be only the final phase of the democratic process, to express the voice of citizens and give the mandate for elite whose citizens are convinced that their ideas. Already De Tocqueville describes in detail the processes of democratization in the United States after the French Revolution, which he cites as an example of democracy at work from which you can take an example of post-revolutionary Europe. Country, laws, social and economic outcomes were shaped by the active participation of citizens who were interested in what is happening in their community and country. And here we see the core problem of electoral non-participation. Citizens are not interested in a continuous state of society, gaffe elites have taken for granted in terms "and so nothing happens to them" the elite and the majority of the vote options are selected based on sympathy. One of the reasons we consider the "upper class welfare" Western man who does not feel the left or right influence is a fundamental difference, and therefore he is really one. I would argue that the above argument is the real justification which we substantiate the evidence of two periods of history. First example is participation in the end of totalitarianism in the post-communist countries, almost 100%, when the change touched people intimately and had fatal effects on their living standards and second example, again while De Tocqueville described the same trend after the French Revolution: "It was found that the man threatened rarely remain at its normal level, either significantly raise or fall. It is also the nation. The extreme danger it is not al-

ways raise, sometimes betrayed him to the ground, stir up the passions, but not steered them, stimulate their intelligence, but far from it enlightenment"⁵²⁸

We see changing of other citizens as well as the ruling elite. Forcing us to question whether the "State" has interest in increasing of participation in elections. No, definitely not. State in today's terms, representing close elite, seeking to capitalize on the success of the election and most of their goal over the last century radically changed. The aim is no longer represent the voices of citizens and work for the company, but to their own interests and to elections in the next election. Therefore, the low participation not only facilitates the choice of selected population groups (often in the Slovak Republic decided dozens of votes on the mandate of a representative) but in addition reduces the legitimacy of the elections. For example, this last election to the National Council of 2010. Voter participation was 58.83%. In reality, this means that out of 4,362,369 eligible voters, 2,529,385 voters cast valid ones, and the Slovak Republic has to date 06/30/2010 5,429,763 inhabitants⁵²⁹. The coalition, which formed the government received a total of 44.2%. As a result, the total number of people deciding on the direction of the country was 20.5% of the population. Is it a lot or little? The answer to that question is not the conclusive one, it is important that the democracy and the fundamental nature of democracy according to the following may be carried out. And here we see the greatest risk of decline of democracy, where the mandate of the elite prefers its own interests before the interests of the public and can easily consolidate its own mandate. The statement referred to has even calculated the economic literature, such as when Stephen J. Baily gives an example of public service: "opportunism and rational self-interest means that users and providers of public services will always pursue their personal interests against the collective interest."⁵³⁰

Conclusions

This report aimed to highlight the risks of the direction of democracy in Western society – especially in post-communist countries, where they lost the participation of citizens in public affairs and democratic processes used by elites to consolidate their positions. Democracy, the political establishment that started the economic processes in Western countries and brought the world domination is now likely to turn against us because we are becoming passive, which is incompatible with other social, political but also economic progress. We see a possible way how to improve status mentioned above to focus on two important things: EDUCATON and PERSONAL RESPONSIBILITY.

⁵²⁸ Alexis De Tocqueville, *O demokracii v Amerike*, Kaligram 2006, ISBN 80-7149-765-7

⁵²⁹ Štatistický úrad Slovenskej republiky, <http://portal.statistics.sk/>

⁵³⁰ Stephen J. Bailey, *Veřejný sektor*, Eurolex Bohemia, Praha 2004, ISBN 80-86432-61-0

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Education focused on basic democracy principles:

- From the very beginning of education process driven by government
- Independent from the current ruling party
- Democracy – opportunity for everybody
- Ethics
- Civil society
- Justice

Personal responsibility in everyday life:

- As an approach to society in general
- As a responsibility for values given to administration (state clerks, government members, member of parliament) = financial, criminal, ethical responsibility for public domain
- Responsibility for public the same as for private

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IMAGES OF THE NEW MEMBER STATES OF THE EUROPEAN UNION: FINNISH CASE*

Matúš Mišík

***Abstract:** This paper studies how representatives of an old member state percept ten post-communist new member states of the European Union that joined in 2004 and 2007. The research is based on 14 semi-structured interviews with Finnish officials. I am using international relations image theory to analyse types of images that are ascribed to new member states. Findings suggests that while ally image is prevailing in the old member states views towards the new ones, we need more detailed range of images to fully describe their perception.*

***Keywords:** new member states, European Union, Finland, image theory*

Introduction

The 2004 and 2007 enlargements of the European Union (here referred to as Eastern enlargement) brought twelve new member states to the European Union and thus almost doubled the number of members. Consequences of such huge enlargement for the overall functioning of the European Union are studied only recently⁵³¹ and we still do not know much about the performance of new member states (NMS) in the EU although there is growing amount of literature dealing with them⁵³². This paper want to contribute to the literature on NMS by examining how the old members states of the EU (OMS) percept the NMS, what do they think about them and what are their experience with them so far. The paper is a case study of Finnish representatives' perception towards ten post-communist NMS (Malta and Cyprus excluded) and is based on 14 expert interviews conducted in November 2009 in Helsinki.

* I would like to thank Finnish Centre for International Mobility that granted me Finnish Government Scholarship Pool for its generosity and support during my stay in Finland.

⁵³¹ Mattila, M.: Roll call analysis of voting in the European Union Council of Ministers after the 2004 enlargement. *European Journal of Political Research*. 2009, vol. 48, pp.840- 57; Naurin, D. and Lindhal R.: East-North-South: Coalition-Building in the Council before and after Enlargement. In: Naurin, D. and Wallace, H. (Eds.) *Unveiling the Council of the European Union*. New York and London: Palgrave Macmillan, 2008.

⁵³² Copsey, N. and Haughton, T.: The Choices for Europe: National Preferences in Old and New Member States. *JCMS*. 2009, vol. 47, pp.263-86.; Haughton, T.: For Business, for Pleasure or for Necessity? The Czech Republic's Choices for Europe. *Europe- Asia Studies*. 2009, vol. 61, no.8, pp. 1371- 92; Láštík, E.: Pět rokov po vstupe: Nové členské štáty a ich pôsobenie v EÚ. *Sociológia*. 2010, vol.42, no.1, pp. 33-53; Malová, D. et al.: *From listening to action: New member states in the European Union*. Bratislava: Devín Press, 2010.

During the negotiation process that was basically one-way process of adopting *acquis communautaire* by candidate countries⁵³³, member states and applicants had not many opportunities to get to know each other. NMS are members of the European Union for six years and they are only slowly starting to persuade their own agenda. The assumption of this paper is that the old member states' representatives do not have enough information about the NMS, their objectives, preferences and interests in the Union and therefore they substitute these with images. Even if member states' decision-makers do not have exact knowledge about other states intentions, they perceive them in some way. I argue in this paper that when OMS need to anticipate the reaction of NMS (preference, position, affirmative or negative reaction) and they do not have enough information, they substitute it with "images", beliefs about the nature of the NMS.

This article has two aims. First aim is to describe how OMS percept changes in the EU after the eastern enlargement in general, second is to explore applicability of image theory on studying perception of NMS by old members. The first part of the paper introduces used methods and data, second chapter deals with theoretical framework for studying images in the European Union. It draws on image theory introduced by Boulding⁵³⁴ and further developed by students of political psychology. Third and fourth parts are analysing empirical findings, showing the way in which representatives of old member state percept new members and changed nature of enlarged Union. In the fourth chapter paper applies image theory and tries to find support for its use for describing mutual attitudes of member states of the EU. Conclusion summarises main findings of the paper and bring suggestions of further research.

I. Method and data

The data used in this study are result of expert semi-structured face-to-face interviews conducted in Helsinki in November 2009. Interviews with 12 officials from several ministries and office of the prime minister together with 2 members of Eduskunta, Finnish parliament, were conducted (coded HEL-09-01 to 12). The interviews took between 30 to 75 minutes and officials were heads or senior experts from units dealing with EU affairs from following ministries: Ministry of Foreign Affairs, Ministry of Justice, Ministry of Interior, Ministry of Defence, Ministry of Finance, Ministry of Transport and Communication and Ministry of Employment and the Economy. All the interviews were recorded. The following analysis of the interviews is based on word-to-word transcripts of the recordings.

Senior officials, who are attending working groups meetings in Brussels, were chosen for the purpose of the research because they are in contact with officials from NMS, cooperate with them on weekly basis and often consult with them also on telephone or via e-mail, once they established formal or informal contacts. Most of the officials have been at-

⁵³³ Láštík, E.: Pět roků po vstupu: Nové členské státy a ich pôsobenie v EÚ. *Sociológia*. 2010, vol.42, no.1, pp. 33-53.

⁵³⁴ Boulding, K.E.: National images and international systems. *Journal of Conflict Resolution*. 1959, vol. 3, no.2, pp.120-131.

tending working groups meetings even before the enlargement, so they could compare the situation before and after the enlargement. Respondent were asked to describe their own point of view and their personal experience with NMS. I have chosen Council working groups and national officials level because at this level most decisions are made⁵³⁵ and the upper levels of the Council (COREPER, ministerial level) are dealing only with those issues that have not been solved on working group level or require political decision. Coreper meetings are attended by diplomats from permanent representation, but I was interested in domestic point of view and the perspective of diplomats can be biased by socialization in Brussels. Also the minister level can be biased similarly, also due to the presence of media during the meetings of the Council where representatives of every country want to speak. I have also expected to get the more open and honest opinion from the officials than from the political representatives or diplomats.

II. Image theory in the international relations

Image theory introduced by Boulding suppose, that „[w]e act according to the way the world appears to us, not necessarily according to the way it ‘is’ “⁵³⁶. We have certain perception of the world and the reality is only real to the degree we perceive it as a real. Our action is influenced by “images“ which we have about the world, it means subjective beliefs, not “objective“ information. Images are defined as “patterns or configurations of coherent beliefs about the character, intentions, motives, and emotions attributed to or associated with the out-group as a whole“⁵³⁷. We use images mostly if there is not sufficient information about the world, which we are trying to understand. According to Boulding, there are three important dimensions in international relations that shape images of states: a, territory, due to its exclusiveness, b, hostility or friendliness and b, strength or weakness. Territory is based on “reality“, but other two dimensions depend largely on the image of the reality. Hostility and friendship is usually, but not always, mutual- if one nation hold an image of other as hostile, the Other will also percept the first one as hostile and vice versa. But this relationship is not necessarily neither consistent nor reciprocal⁵³⁸.

Images are not created only towards the Others but also towards the Self. „The images which are important in international systems are those which a nation has of itself and of those other bodies in the system which constitute its international environment“⁵³⁹. These images are according to Boulding historical images, they are based on great shared events, experience and mythological past. Images about other can play crucial role in international system since „...people whose decisions determine policies and actions on nations do not respond to the “objective“ facts of the situation, whatever that may mean, but to

⁵³⁵ Häge, F.M.: Who Decides in the Council of the European Union? *JCMS*. 2008, vol. 46, no.3, pp. 533-558.

⁵³⁶ Boulding, K.E.: National images and international systems. *Journal of Conflict Resolution*. 1959, vol. 3, no.2, p.120.

⁵³⁷ Alexander, M.G., Brewer, M.B. and Livingston, R.W.: Putting Stereotype Content in Context: Image Theory and Interethnic Stereotypes. *Personality and Social Psychology Bulletin*. 2005, vol. 31, p.782.

⁵³⁸ Boulding, K.E.: National images....

⁵³⁹ Boulding, K.E.: National images...., pp.120-1.

their “image” of the situation⁵⁴⁰. So in global system not only images of Others can shape relations between states, also perception of Ones own state can play a role. Own image can influence perception of own capabilities and possibilities and create respective reaction towards Others.

Several terms are used to describe images of one state towards another- perception, cognition, belief or attitude. Literature on mutual perceptions, or images, has been originally influenced by psychological literature on prejudice and literature on the role of cognition. Images can influence our perception and evaluation of members of other groups in society, but also of other nations and states⁵⁴¹. After its establishment in the international relations and further development, this theory was applied also on a study of intergroup relations in psychology. For example Alexander, Brewer and Livingston⁵⁴² studied with the help of image theory interethnic stereotypes in America. Other example of similar approach in sociology is study by Capozza, Trifiletti, Vezzali and Andrighetto⁵⁴³. These studies deal with both kinds of images- of Self and towards Others. In international relations image theory is used mostly for describing perception of Others, not of Self. Main concern of theorists who built on Boulding's ideas is how different images of Other influence the opinion about and relations towards them and effect of different biases on this process.

Mutual images between United States and Soviet Union were subject of extensive study during the cold war, since they „[might] play[ed] a large role in perpetuating the nuclear arms race“⁵⁴⁴. Both sides had insufficient information about the Other intentions and therefore they developed sets of images, which afterwards influenced their action towards the Other. During this period a big body of literature on image theory was written which I am not going to review here⁵⁴⁵. The most studied image of this period was “enemy” image. This was the image held by American leaders and Americans towards the Soviet Union since this theory was developed mostly by American scholars. There are three types of studies dealing with this image: motivation studies, which are looking for explaining of enemy image in individual (conscious and unconscious) motivations and values, cognitive studies, which „situate enemy images in distortion of the means by which individuals process information about nations labelled as enemies“ and social mediation studies, which explain enemy image as a perception of information and images held by other, as social construct⁵⁴⁶.

Biases can play significant role in the process of image creation. Studies have shown, that if people percept a group or an individual as a threat, i.e. as an enemy, interpretation of his behaviour is marked by biases. During the cold war, American media were

⁵⁴⁰ Boulding, K.E.: National images...., pp.120.

⁵⁴¹ Silverstein, B. and Flamenbaum, C.: Biases in the Perception and Cognition of the Action of Enemies. *Journal of Social Issues*. 1989, vol. 45, no.2, pp. 51-72.

⁵⁴² Alexander, M.G., Brewer, M.B. and Livingston, R.W.: Putting Stereotype...

⁵⁴³ Capozza, D., Trifiletti, E., Vezzali, L. and Andrighetto, L.: Americans are Barbarians or Allies? Images of Americans in the Italian Social Context. *Basic and applied social psychology*. 2009, vol. 31, no.1, pp.60-68.

⁵⁴⁴ Silverstein, B.: Enemy Images. The Psychology of U.S. Attitudes and Cognitions Regarding the Soviet Union. *American Psychologist*. 1989, vol. 44, no. 6, p. 903.

⁵⁴⁵ for detailed review of this literature see Silverstein, B. and Flamenbaum, C.: Biases in the Perception...

⁵⁴⁶ Silverstein, B.: Enemy Images..., p.905-8.

source of such a bias. Image of Soviet Union was often negative and biased, a lot of media coverage was granted to people who criticised Soviet Union⁵⁴⁷. Images in international relations influence expectations about behaviour of Others and interpretation of their action. Effect of this images can be influenced by entativity, i.e. the extend to which Other is perceived as a real entity⁵⁴⁸. Societal groups can have different level of entativity, it means that they can be perceived as a real to different degree. This can be applied also on international relations, states can be perceived to be more or less real. The more is a country perceived as a real one (high entativity) and also as an enemy, the more is its behaviour and action interpreted in hostile terms and vice versa.

After the collapse of bipolar world and end of the cold war, image theory was applied to explain wide range of issues like war against terrorism⁵⁴⁹, national security policy⁵⁵⁰ or recently some studies look at how Others percept European Union and its role in world politics⁵⁵¹. New types of images were added in order to explain changed world order. Enemy image forced scholars to examine relationships between states in international system as security dilemmas⁵⁵². But the image theory has much more to offer than to describe relations based on threat and hostility. The main dilemma was already solved (the end of cold war) and new ones needed the theory to be modified. To original enemy image “popular“ during the cold war other images were added in order to explain new situation: ally, barbarian, imperialist and dependent (colonial) images⁵⁵³. This array of images enables us to describe not only hostility between states but also other types of relationships. And still new images are currently added to this array⁵⁵⁴.

Three types of perceptions are important for explaining state behaviour and creation of certain image: a, perception of relative power, b, perception of other states' intentions (goal compatibility) and c, perceptions of the degree of cultural distance between one's own state and other⁵⁵⁵. Relative power and cultural status can be lower, equal or higher. Goal compatibility, or perceptions of other states intention can have three forms: other actor can be threatening, cooperation can be mutual beneficial or other can be exploited. Both the first and last possibility means goal incapability, mutual beneficial cooperation means goal compatibility. As a result of combinations of these three factors, different images of others are created. Image theory specifies conditions under which these images are expected to emerge. If there is goal compatibility between states that have equal power

⁵⁴⁷ Silverstein, B. and Flamenbaum, C.: Biases in the Perception...

⁵⁴⁸ Castano, E., Sacchi, S. and Gries, P.H.: The Perception of the Other in International Relations: Evidence for the Polarizing Effect of Entativity. *Political Psychology*. 2003, vol. 24, no. 3, pp. 449- 68.

⁵⁴⁹ Alexander, M.G., Levin, S. And Henry, P.J.: Image Theory, Social Identity and Social Dominance: Structural Characteristics and Individual Motives Underlying International Images. *Political Psychology*. 2005, vol. 26, no.1, pp. 27-45.

⁵⁵⁰ Herrmann, R.K. and Keller, J.W.: Beliefs, Values, and Strategic Choice: U.S. Leaders' Decisions to Engage, Contain, and Use Force in an Era of Globalization. *The Journal of Politics*. 2004, vol. 66, no.2, pp.557-580.

⁵⁵¹ Castano, E., Sacchi, S. and Gries, P.H.: The Perception of the Other...; Holland, M., Chaban, N. Bain, J., Stats, K. and Sutthisripok, P.: EU in the Views of Asia-Pacific Elites: Australia, New Zealand and Thailand. *NCRE Research Series No. 5*, 2005; Holland, M. and Chaban, N. (Eds.): *European Union and the Asia-Pacific. Media, public and elite perceptions of the EU*. London and New York: Routledge, 2008.

⁵⁵² Herrmann, R.K. and FisherKeller, M.P.: Beyond the Enemy Image and Spiral Model: Cognitive-Strategic Research after the Cold War. *International Organization*. 1995, vol.49, no.3 (Summer), pp.415-450.

⁵⁵³ Herrmann, R.K. and FisherKeller, M.P.: Beyond the Enemy Image...

⁵⁵⁴ for example „father“ image in Capozza, D., Trifiletti, E., Vezzali, L. and Andrighetto, L.: *Americans are Barbarians or Allies?...*

⁵⁵⁵ Herrmann, R.K. and Keller, J.W.: Beliefs, Values, and Strategic Choice...

and cultural status than these states perceive themselves mutually in ally images. Out-group or other state is perceived in a positive way, as cooperative, trustworthy and democratic. This is the only type of image, which is positive, other four are negative and stem from incompatible goals of actors⁵⁵⁶.

Enemy image is a mirror image of the ally and the only difference is that states with comparable strength and cultural status have incompatible goals. According to this image, others are direct competitors in international system and are perceived as a threat and portrayed as hostile, untrustworthy and undemocratic. Both ally and enemy image are based on the assumption that both states have the same status and strength. Other three images differ in more aspect, but in all three cases there is goal incompatibility, therefore all these images are negative one. When a state perceives the other culture as weaker, but its power dimension as stronger, it has a barbarian image of the other state. In this case the other state is perceived as violent and destructive. If state has dependent image of other it means, that it sees itself as having higher cultural status and more power than the other state. So the natural thing to do would be to exploit the other state for its own advantage. But exploitation of others is not morally justifiable for a state with high cultural status so to excuse exploitation, the others are seen as lazy, lacking discipline or incompetent. So it can help the other and protect them from themselves. Others are perceived in terms of imperialist image, when the state perceived itself as weaker and lower in cultural status than the others. Since the direct resistance is not reasonable taking into account higher relative power, the resistance of the state is indirect and contains sabotage, revolt and rebellion⁵⁵⁷.

Studying images of American elite towards Russia, China, Japan and Iran, Herrmann and Keller⁵⁵⁸ come to conclusion, that ideas about global commerce and trade play a decisive role in shaping national security policy. After the end of cold war there is no single image which influences American elite and new values and ideas influence strategic choices in the foreign policy of U.S. These ideational factors, which have implications for strategic choices are twofold: perceptions about other countries and general foreign policy dispositions. Authors have chosen these countries because they supposed that they represent many types of images- from enemy to ally. Strategic choices are nowadays mostly influenced by values "concerning trade and world economy"⁵⁵⁹. Images of others are influenced not only by structural characteristics, but also by individual motives- individual needs for positive social identity and social dominance. Such approach "offers a more complex picture of the factors driving international images than would exist if we merely examined structural perceptions of international relations alone"⁵⁶⁰.

Currently the EU becomes a subject in studying perception of Other in international

⁵⁵⁶ Herrmann, R.K. and FisherKeller, M.P.: *Beyond the Enemy Image...*

⁵⁵⁷ Herrmann, R.K. and FisherKeller, M.P.: *Beyond the Enemy Image...*, p.425-7; Alexander, M.G., Brewer, M.B. and Livingston, R.W.: *Putting Stereotype...* p.782-3.

⁵⁵⁸ Herrmann, R.K. and Keller, J.W.: *Beliefs, Values, and Strategic Choice...*

⁵⁵⁹ Herrmann, R.K. and Keller, J.W.: *Beliefs, Values, and Strategic Choice...*, p.572.

⁵⁶⁰ Alexander, M.G., Levin, S. And Henry, P.J.: *Image Theory, Social Identity...* p.44.

relations. Studies by Holland et al. and Holland and Chaban⁵⁶¹ explore how Australian, New Zealand and Thailand elite, media and public percept European Union. One of the most important results is that an absence of ‘unified EU voice’ can result in different role ascribed to the EU by international actors and that in spite of EU effort for unity, “the EU is still viewed from the outside as a collection of nation-states rather than a cohesive entity”⁵⁶². Study by Castano et al.⁵⁶³ deals with the question how unique nature of the EU influences its image in the eyes of other international actors. If the EU is seen as united actor, its action is perceived as more influencing mutual relations than in case the EU is seen as a bunch of member states.

III. How Finnish officials percept new member states of the European Union.

This section focuses on evaluation of eastern enlargement and new member states of the EU in general by Finnish respondents. It also deals with perceived differences between NMS and OMS, changes that the enlargement brought to day-to-day functioning of the European Union and performance of NMS during their presidencies as viewed by interviewees.

Positively evaluated enlargement

All respondent expressed their view that Finland is very supportive in enlargement issues and there is wide consensus on its benefits. According to one official “[e]nlargement has been the most successful policy we have had and it spreads prosperity and security to the whole continent” (Hel-09-03). Especially the security perspective was emphasized: „[t]he EU can be regarded as perhaps the most successful peace project in world history...enlargement has constantly increased the area of peace and stability in Europe” (Hel-09-09). Such pro-enlargement enthusiasms stem also from the fact that Finland was in the last group of newcomers before the Eastern enlargement. „From the very start we recognised that having joined the EU in the previous enlargement we had no reason to close the doors behind us” (Hel-09-09). Finland also supports further enlargement of the EU towards Turkey⁵⁶⁴. As one civil servant noted in this regards “one should never ever start to discuss any borders to EU because the history has showed so many times that it is better to not to try to prejudge” (Hel-09-05).

⁵⁶¹ Holland, M., Chaban, N. Bain, J., Stats, K. and Sutthisripok, P.: EU in the Views of Asia-Pacific Elites...; Holland, M. and Chaban, N. (Eds.): European Union and the Asia-Pacific...

⁵⁶² Bain, J., Stats, K., Park S. and Kim H.: The Asia-Pacific power elite and the soft superpower: Elite perceptions of the EU in the Asia-Pacific. In: Holland, M. and Chaban, N. (Eds.) *European Union and the Asia-Pacific. Media, public and elite perceptions of the EU*. London and New York: Routledge, 2008.

⁵⁶³ Castano, E., Sacchi, S. and Gries, P.H.: *The Perception of the Other...*

⁵⁶⁴ Prime minister's office (2009) *Government Report on EU Policy*. Prime Minister's Office Publications, No.20/2009.

Finnish respondents evaluated both enlargements in rather positive terms. Eastern enlargement was „successful and it was necessary“ (HEL-09-02A). They described it as a logical consequence of political changes in the Central and Eastern Europe (Hel-09-07). „I think it was very natural. It was clear that this is where these countries belong“ (Hel-09-10). Interviewees also noted that such big enlargement brought one big advantage. Bigger European Union means more states involved in solving Europe wide issues that cannot be dealt with at the member state level. Thanks to “bigger Union, it is easier to tackle climate challenge“ (Hel-09-03). Some respondents even speculated what would happen if these enlargements would not take place (Hel-09-05, Hel-09-02A). They claimed that the situation in former socialist countries would be unstable what would cause difficulties for the whole Europe.

For Finland the most important issue concerning the enlargement is fulfilling of Copenhagen criteria. If candidate countries fulfil the criteria, they have full support of Finland (Hel-09-05). If not, they have to finish their preparations first. This is also approach that Finland assumed towards Turkey. Although both enlargements were evaluated mostly positively, respondents noted that the 2004 enlargement was much more successful and Bulgaria and Romania were not fulfilling all the criteria when joined the EU in 2007 (Hel-09-03). “Bulgaria and Romania were not ready for enlargement... enlargement should be always made on real fact about the applicant’s capacity to fulfil the criteria“ (Hel-09-12). Most of the respondent expressed their opinion that they did not “made their homework“ well before membership and corruption and organized crime is still an issue for 2007 newcomers (Hel-09-01, Hel-09-04). “...we are very much emphasizing the Copenhagen criteria that they should be fulfilled and maybe this was a mistake that one was a bit sloppy about the criteria when Bulgaria and Romania joined“ (Hel-09-06A). One of the respondents even went so far to claim “it was a mistake to take Bulgaria and Romania in at this stage. Because evidently they have been making good progress, but once they got inside of the Union, the incentive to move forward was removed“ (Hel-09-09). Few respondents expressed their worries that the bad experience with Bulgaria and Romania can slow down further enlargements (Hel-09-03). “[n]ow I see that the 2007 enlargement was not a positive example in that sense that some of the member states that are more reluctant to further enlargement used the 2007 as an example that we took in states that were not ready“ (Hel- 09-01).

Also European Commission (EC) is aware of shortcomings in judiciary and fight against organised crime and corruption by these two countries. Just few days before entrance to the EU, the EC established „Mechanism for Cooperation and Verification for Bulgaria and Romania“ which set rules for completing reforms in these areas⁵⁶⁵. In its last report on the progress published in July 2010 the EC points “to a strong reform momentum which has been established in Bulgaria since the Commission’s last annual report in July

⁵⁶⁵ European Commission: *COMMISSION DECISION of 13 December 2006 establishing a mechanism for cooperation and verification of progress in Romania to address specific benchmarks in the areas of judicial reform and the fight against corruption.* (2006/928/EC); European Commission: *COMMISSION DECISION of 13 December 2006 establishing a mechanism for cooperation and verification of progress in Bulgaria to address specific benchmarks in the areas of judicial reform and the fight against corruption and organised crime.* (2006/929/EC)

2009⁵⁶⁶ and “to important shortcomings in Romania's efforts to achieve progress under the CVM⁵⁶⁷”.

New member states are not one group

New member states had been perceived as one group in the beginning of their membership (Hel-09-05, Hel-09-08). With increased cooperation and more contacts OMS started to differentiate between individual new member states which have divergent interests and therefore do not form any static groups (Hel-09-04, Hel-09-10, Hel-09-11). According to one respondent, “you cannot talk about the new members as about a block. Each is in a specific situation” (Hel-09-12).

However, they share few common features and at some occasions they act united. Respondent noted especially two types of situations when NMS join forces and act as one. Not surprisingly, due to differences in economic performance between NMS and OMS, money is often reason for common stance of NMS. As one respondent recalled, “when we talked about resources or dividing money, financial perspective, there were some position where old and new differed” (Hel-09-08). Another interview was more concrete: “I cannot perceive that the 12 new countries form a block except when we come to financial issues” (Hel-09-09).

One of the interviewee observed much more interesting situation in which NMS are united. During preparation of a new legislation, EC provided a draft where wording differentiated between EU 15 and EU 12. This caused huge criticism by NMS that stopped only when EC corrected the draft (Hel-09-10). NMS do not “want to see any sort of hind division between old and new member states in the actual texts or articles”. Finnish official further explained, “in that kind of situation I have seen new member states who grouped together, they ticked together and they were very firm, everybody says very firmly this must be changed. ... Normally, they do not stick together except in situations where they feel that there is some old language being used” (Hel- 09-10). During the first years of their membership NMS were also grouped around issues dealing with Russia. They used to be united by „iron curtain history“ (Hel-09-12), but this has changed and they have now much more diverse attitudes in this area.

Baltic states have special position in relations with Finland. Especially Estonia was very often mentioned during the interviews (Hel-09-06B). “Estonia is for linguistic and historical reasons very close to our hearts obviously” (Hel-09-12). Therefore there is very close cooperation, not only during informal meetings of Nordic and Baltic States, but also during day-top-day cooperation. There is very little linguistic barrier what ease mutual coopera-

⁵⁶⁶ European Commission: *REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL On Progress in Bulgaria under the Co-operation and Verification Mechanism*. COM (2010) 400 final.

⁵⁶⁷ European Commission: *REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL On Progress in Romania under the Co-operation and Verification Mechanism*. COM (2010) 401 final

tion. "Estonian officers have been trained for a long, long time because they can speak, or fairly easily they can enter our schools" (Hel-09-11). "...if we send them some of our stuff there....they can read it, they can comment and we can cooperate more easily" (Hel-09-06A). Many respondents also mentioned Hungary as a country that has been cooperating intensively with since it started accession process. "[W]e have traditional contacts which are based more on this funny idea that being related somehow" (Hel-09-06A). Some of the official explained this in terms of linguistic proximity (Finnish, Hungarian and Estonian are in the same language group, Finno-Ugrian sub-family of Uralic languages), other explained that there exist connections between non-state actors and civil servants know each other (Hel-09-05).

Respondents were aware of regional groupings like Baltic states or Visegrad Four, but most of them expressed their opinion that these countries do not always cooperate in formulating their preferences, they do not form any stable groups and sometimes have even opposite attitudes (Hel-09-02A, Hel-09-05). „Baltic States are often thought as a group and actually they are quite different in many political opinion" (Hel-09-01).

There does not exist division between OMS and NMS

When asked about division between old and new members of the EU some of the respondents doubted usefulness of these terms because the "new" member states are no more that new anymore since they have been members for several years already. Moreover, there is not that significant difference in duration of membership between states of Eastern enlargement and 1995 enlargement when Finland joined. According to respondents, there is no significant difference between old and new member states (Hel-09-04). Before the Eastern enlargement there were certain worries about divergent nature of newcomers that at the end did not materialise. This was noticed by an official who claimed that "there are always differences...but they do not follow general division of the lines that were expected or feared" (Hel-09-09). Most of the respondents noted that it is much more easier to find differences between Nord and South than between old and new members (Hel-09-06B, Hel-09-08).

Member states are instrumental in finding like-minded allies and therefore do not differentiate between old and new members. „We try to find friends on base of what we want to achieve, it does not matter if you are new or old" (Hel-09-01). On the other hand especially during the first years of NMS membership, it was easier to cooperate with old member states because „they ha[d] more of an idea of how the EU is actually functioning. But I think it is now changing" (Hel-09-01).

One of the issues where there exist line between OMS and NMS is economy. NMS are „not that developed and of course it has changed to some extend the whole EU because the differences in the level of development has increased" (Hel-09-02B). As mentioned earlier, NMS act often as a united group if there are economic questions at stake and this is also ar-

ea where differences between old and new member countries are salient. As noted by an interviewee, “if there is any sort of relation to EU funding, then they are of course asking for money. ... That is where this old and new member states line can be seen” (Hel-09-10). All NMS are nowadays net recipients from EU budget.

Another issue where respondents observed rather clean line between new and old member states is their relations to the US. Governments in NMS are more pro-American when compared to old members (Hel-09-09, Hel-09-12).

Changes in functioning of the EU after the enlargement

Most respondents mentioned expectations before the enlargement that the working groups meetings would be unmanageable, if there would be 27 people round the table and everybody wants to speak „Fears were that the changes after big, especially the first big enlargement of 10 countries, would be big and might slow down substantially the work of the EU. And that was not the case” (Hel-09-03).

All respondent anyhow observed changes to the EU functioning after the enlargement, but they evaluated it as rather quantitative, not negative qualitative change. „It was from dynamics point of view a change, but not a negative change” (HEL-09-01). Member states have to put more effort into building coalitions or like-minded groups due to bigger number of countries involved, there has to be much more preparations before the meetings as was the case before the enlargement. “There is more cooperation...because in the meeting in Brussels with 27 there is very limited time to discuss and strike a deal. So you better find your friends beforehand” (Hel-09-08). Another interviewees observed that “the focus is now more and more on sort of pre-discussions and some member states, be them old or new, try to find like-minded groups” (Hel-09-04) and that “the importance of building ad hoc coalitions has grown” (Hel-09-01).

After the enlargement, it is more demanding just to stay in touch with every member state and discuss proposals. “It is a challenge from that perspective that one should work harder and more in a way to have everybody informed and etc.” (Hel-09-11). You have to have people at the meetings, it is more demanding to cooperate with more partners in enlarged EU since “...you need to keep contact also with new member states” (Hel-09-09).

According to one respondent decision-making process underwent substantial changes after the enlargement and it is „totally different with 27 members as it was with 15” (Hel-09-10). She illustrated this on the change of consensus-based decisions in transport policy. Before the enlargement the policy in EU 15 was consensus based and there were concerns that this would not be possible after the enlargement. Although these expectations have materialised, it is not that often as was supposed. It happens more often after the enlargement that not everybody’s interests are accommodated, but on the other

hand, “there is still mentality in the Council that everybody will be listened to and efforts will be made in order to get [everybody] on board” (Hel-09-10).

Another difference between functioning of the EU before and after the enlargement noted by Finnish officials is of technical nature. With the increased number of member states grew also number of official languages in the EU. There were 12 official EU languages before the eastern enlargement, nowadays there are 23 of them⁵⁶⁸ (European Commission 2009). “One problem which is...the amount of languages and the amount of paperwork and the difficulty of doing legislation which you have to draft in another language and then you have to see that it is correct and make sense in all these languages” (Hel-09-05).

Somewhat unexpectedly several respondent evaluated changes that took part in the meeting rooms after the enlargement as a big surplus (Hel-09-02B, Hel-09-09). From one official point of view, “number of countries has increased, but members...are quite disciplined. So they do not speak lengthy and they do not speak just to keep noise” (Hel-09-02B). Bigger number of present members “has removed the incentive of thinking that every country has to say something about every item on the agenda” and “there is more concentration on real issue and nobody feel competent to take floor just to put your point of view if it doesn’t contribute to the general discussion or doesn’t include proposal or solution” (Hel-09-09).

Presidencies of NMS

Until today, only two NMS have had the presidency of the Council of the EU, namely Slovenia and the Czech republic. In the very near future, two other NMS are going to lead the EU- Hungary and Poland. Respondent were asked to express their opinion on these presidencies since it is a good occasion for NMS to show how they have adopted EU working methods and how well they learned the rules of the ‘EU game’. Moreover, presiding country is in the spotlight and its activities are observed very closely.

Respondents agreed that presidency is a good way how to learn to work effectively in the EU (Hel-09-06B, Hel-09-07). Also presidency trios support transfer of experience from old to new member states (Hel-09-11). „I think it was very good idea that presidency trios...were build, that you have an old and a new and a big and a small. And that is the best way of learning from each other” (Hel-09-03).

Few respondents were very critical towards Czech presidency that had to cope with domestic turbulences. One interviewee went so far to say “there were some people that were expecting the end of it” (Hel-09-01). Another officials were similarly critical. „The Czech presidency was a real flop” (Hel-09-02A). „It was if not disaster, it was still badly

⁵⁶⁸ European Commission: *Geschichte des Übersetzungsdienstes der Europäischen Kommission*. Luxemburg: Amt für Veröffentlichungen der Europäischen Union, 2009.

managed" (Hel-09-09). From Finnish point of view, the problem was with coordination with the capital. "Too many strings were pulled from Prague and not from Brussels...[they] have to wait for Prague opinion, they couldn't say in Brussels what they think" (Hel-09-01). „The instruction from Prague, that was the problem" (Hel-09-07). „It was domestic politics that really blur it" (Hel-09-05). Because of the domestic situation „they had nobody to set priorities which is very important when you are doing your presidency" (Hel-09-06A).

Respondent we much more positive when commented Slovenian presidency. According to one official, „they prepared themselves very well and they did quite nicely" (Hel-09-03). They showed that they learned the rules of the game when "they put their own national interests aside, they tried to be presidency more impartial" (Hel-09-07). One issue that Finnish respondents noted about this presidency was significant influence of France (Hel-09-09, Hel-09-10).

Although Czech presidency was evaluated rather critical, respondents noted that the administrative part done by Brussels officials was done very well in both cases. Meetings went very well and Slovene and Czechs did very good job. "The people working for the presidency from Czech republic and Slovenia were very nice, there were one of the nicest presidencies for years" (Hel-09-10). The reason for such positive evaluation can be found on different approach when compared to previous presidencies of big members. According to one official, "we had the presidencies of Germany and France, that is always more difficult, because they are trying to dictate what happens" (Hel-09-10).

In spite of uncertainty about future presidencies due to Lisbon treaty new provisions (Hel-09-01, Hel-09-04, Hel-09-09), expectations towards next presidencies of NMS were mostly favourable (Hel-09-08). According the respondents, these counties are very busy preparing for presidency and they are quite succeeding. Hungary "should have a good opportunity to make a good presidency" (Hel-09-03) because "they have been preparing very well" (Hel-09-05). The same is true also for Poland even that there are some doubts about the role of internal politics in the presidency. "Poland now with the new government is much more pro-European and co-operative and wants to make a good presidency" (Hel-09-08). „I understand that the internal politics of Poland will have more influence on the EU policy" (Hel-10-10).

IV. Images of the new member states

This section explores images of the new member states of the European Union by studying perceptions of old member states along three dimensions- relative power, goal compatibility (mutual intentions) and degree of cultural distance. According to image theory combination of these three dimensions create different images. A country can percept another as having bigger, smaller or equal relative power and cultural status. Country's goals towards other country can be threatening, mutually beneficial or exploiting. Combi-

nations of these characteristics create five ideal types of images- enemy, ally, barbarian, dependent and imperialist as described below.

Relative power

Most respondents agreed that although there are some limitations, NMS are in general quite active members of the EU and they do not differ from OMS in this respect (Hel-09-01, Hel-09-04, Hel-09-12). „They are like the old member states“ (Hel-09-08). Respondents also noted that the picture is much less clear when compared to biggest EU members, for example Germany (Hel-09-05, Hel-09-07). One exception is Poland that according to respondents regards itself as one of the core EU members. „They have adopted this role of a big country in the EU“ (Hel-09-12). It shows during negotiations when Poland is not very cooperative. According to one respondent, Poland perceives itself as big member „and it also behaves in this way, it is not ‘coalition-building type’“ (Hel-09-06B). Another big state among NMS, Rumania, „doesn’t have that kind of profile“ (Hel-09-09).

From the beginning NMS were rather observers and did not take active part in discussions. „Several new member states were quite quiet first months. I remember that they were more observing than taking active part in the work“ (Hel-09-10). But as one of the Finnish respondents noted this was the same when they joined the EU (Hel-09-04).

NMS are selecting issues that are most important for them and are not that active in other areas (Hel-09-06A). This is quite natural given the fact that most of NMS belong among small member states and they „have to prioritize more and in Brussels, in working groups you can see that some are more active in areas that are more important for them“ (Hel-09-01). Area, where Finnish officials noted increased activity of NMS is EU financial issue. „NMS have been very active in defending their financial interest regarding EU budget. In this area, some NMS have been very active“ (Hel-09-01). Climate change issue that also concerned financial questions is a good example how „new member states showed how to find coalition and how to use them to benefit their ideas“ (Hel-09-03).

Respondent noted two limitations that from their point of view influence NMS activity in the EU. The first is connected to shorter EU membership. „[NMS] do not have the same kind of experience, how to use the EU machine (Hel-09-02A). Most of the processes started many years ago and it is difficult to know the background, it takes time (Hel-09-05). „Being able to play game means that you have to know the institutions, have to know the processes and how they are actually working in practice“ (Hel-09-06B). According to one official, „the longer the country is a member, the more familiar it gets with how the EU is functioning and more easily it can influence its policies“ (Hel-09-02A).

One of the respondents noted that the only difference between old and new member states concerning their ability to influence what is going on in the EU „is the experience, how it works and knowing the history of different items, issues in the EU“ (Hel-09-

03). Many topics that are on the table today have been discussed in the past and knowing this background makes it much easier to negotiate for OMS. „We would usually know who were our partners the previous time and we would know about the [OMS], where their positions were. But with the new ones we wouldn't know necessary (Hel-09-06B).

Another limitation that prevents NMS from more active participation in the EU is administrative capacity. „[NMS] do not have their own people in EU administration as much as the old ones” (Hel-09-02A). This is a serious shortcoming since „if you have good personal skills, language skills, outspoken type of politicians that...there is every the room also for small member states to be heard and to be successful” (Hel-09-01). Few respondents also noted problems with NMS representatives language skills (Hel-09-06B), but in general, they have very positive experience with them (Hel-09-07, Hel-09-08). In spite of very young age that surprised many Finnish officials, they evaluated most of NMS representatives are very well prepared and easy to approach (Hel-09-04, Hel-09-06B).

In spite of these limitations, NMS are learning fast (Hel-09-04). „Actually all the new member states quite quickly learnt the game” (Hel-09-06A). Another respondent noted that compared to OMS “some of them are even more skilled in [persuasion on own interests] once they have learned the rules of the game” (Hel-09-05). Another official added „I think that the new member countries have more and more realised how ... to be more and more successful, what you do in order to get your thinking through” (Hel-09-01).

Goal compatibility

Interviewees generally noted no differences in intentions of NMS when compared to old ones. NMS have very similar goals in the European union to OMS (Hel-09-08). They are following their own interests and priorities in the EU as the old members. According to one respondent, „I guess all countries are selfish to some extent and have to be. So no one hear your voice if you don't speak loud” (Hel-09-11). Other interviewee observed that this is normal in the EU and everybody takes care in the first place about his own problems. „Of course, everybody is selfish” (Hel-09-01). In this regard the NMS are no exemption.

Although, according to the respondents there is nothing wrong in following ones own interests in the EU, it is still important to show to other members that preferences that one pursue are beneficial for the whole EU. Some of the respondents observed that NMS are missing European perspective, they do not support their proposals by pointing to advantages that such solution will bring the whole EU but stress only their own point of view. “New countries look at the package very much from their own national perspective, not even from as a group, but from national perspective and do not quite perceive the big picture” (Hel-09-03). When negotiating at the EU level, „you have to have this European context. And I think [NMS] are still learning how to find that” (Hel-09-10). Another respondent observed that to be successful in EU negotiations, „you have to persuade others and show that your ideas have common sense from European viewpoint” (Hel-09-02A).

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Respondents recalled few occasions when NMS “haven’t figured out what certain things mean for the Union as a whole but then it goes back to the domestic politics” (Hel-09-05). Domestic politics is what NMS are sometimes bringing on the EU level and OMS do not like to see this. „The politicians either expected that the EU solves all the problems or that the EU is to blame for all the problems“ (Hel-09-05).

Second issue where representatives of Finland observed differences in intentions between NMS and OMS are situations when NMS use EU as an arena for settling bilateral issues. „The irritating part is not when they are trying to do on their own, the irritating part is when they are trying to bring the bilateral [problems]“ (Hel-09-01). Other officials expressed this view also: “when [NMS] have bilateral problem, or when [NMS] have big problem with something, then [NMS] tend to bring it up all the time“ (Hel-09-08). “More now than earlier bilateral issues come on surface, even unexpectedly here and there and that we see as something negative“ (Hel-09-03). According to Finnish officials, EU is not suitable arena for settling these issues and countries have to solve them bilaterally.

Interviewees noted that during working group meetings NMS sometimes do not follow the rules of the game and raise their objections at the very end of the meeting when others think the issue is solved. “One wakes up for question at a very late stage when everyone else is considering the deal done and then you. That everyone thinks that ok, now it is finished and suddenly it is not“ (Hel-09-06A). They call such practice “evening milking“ and this has long-term negative effect on perception of member state. As one respondent noted, such practice has negative impact on country perception and they still remember when Spaniards did this in the 90s. They do not recall what was the substance, but they still remember the way Spanish behave (Hel-09-06A). Official recalled that Czechs did this during the Lisbon treaty, Polish during the last intergovernmental conference.

Degree of cultural distance

According to our respondents, there are in general no cultural differences between new and old member states at all (Hel-09-06A, Hel-09-07, Hel-09-08, Hel-09-09). Of course, there is cultural variation among members of the EU, but these do not follow OMS and NMS line (Hel-09-05). As one interviewee observed, “there are cultural differences but I do not see the division coming from these enlargements...there are natural cultural differences“ (Hel-09-01).

Communist experience did not left permanent marks on NMS that could be observed by respondents. According to one official, “there is no sort of this Soviet Union legacy to be seen“ (Hel-09-10). Time elapsed since the end of cold war helped to diminish any marks. „It is such a long time ago...I wouldn’t say that we have East and West, we have Central Europe“ (Hel-09-01). Another respondent noted that she is wondering, “what could be more Central Europe that lets say former Czechoslovakia, that is real Europe“ (Hel-09-10). Respondents’ colleagues from NMS that they meet at the meetings are young and they lived

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only few years of their childhood in the communist system. As one interviewee noted, “these people have actually not lived in the communist time” (Hel-09-04).

Although new member states have shorter experience with democracy, this do not mirror in old members perception. The only area where respondents noted that there are some differences is related to functioning of administration (Hel-09-02A, Hel-09-03). Respondents also noted higher fluctuation of officials from new member states and also what they called “instability of governments”, often changes in governments of NMS (Hel-09-06A). According to one interviewee, there is “perhaps some kind of instability of government. If we want to introduce to out minister Estonian minister, the new week there is new person” (Hel-09-07).

Conclusions

The findings revealed that there is a process of mutual learning between OMS and NMS and member countries have much more information about the others than at the beginning of NMS membership. Old member states are getting to know the new ones more and more, the NMS are quite successfully learning the rules of the ‘EU game’. OMS are nowadays much more differentiating between individual NMS, they no more regard them as a one group what was the case at the beginning of their membership. But they do not still know them as good as other OMS because they have much shorter EU membership experience and knowledge of other members is a matter not only of formal, but also informal links between member states and their officials.

The short answer to the question, which image is the most suitable for describing Finnish perception of NMS is the ally image. Finnish officials perceive NMS as being comparable in activity at the EU level, i.e. having equal power, they have similar intentions and there is no cultural difference between them.

The more accurate answer to the question is that to describe perceptions in the EU we need more detailed range of images. Five types of images were created to explain perceptions in international relations where there is a variation of relationships from cooperation to hostility. But in the EU that is based on very close and intensive interaction between the member states we can expect, and the results also point to the conclusion, that prevailing image is ally. On the other hand this image is quite distant from ideal type ally image but not so distant to ascribe results to other ideal type image. The results showed that Finnish respondents are well aware of shortcomings that prevent NMS from bigger influence in the EU. Therefore they believe that that they can help NMS to increase their abilities by teaching them EU rules, both formal and informal. The best example is respondents’ positive evaluation of trio presidency that should help NMS by combining them and OMS in three consecutive presidencies. Such image can be called student or pupil image.

Research design used in the paper brings three main limitations and therefore offers suggestions for further research. First, this paper is a case study, so although there is possibility to generalise about all OMS, the results apply mostly to Finland. Finnish perspective might be different from other OMS point of view since it is often described as 'model pupil'⁵⁶⁹. According to Finnish Government, "EU membership has firmly anchored Finland in the European community to which it naturally belongs"⁵⁷⁰. On the other hand, public do not share this euro optimistic attitude (54 per cent think that Finland benefited from EU membership, while 38 per cent think the opposite⁵⁷¹). Also issues like environment, fight against crime or corruption is more typical for Finland than for some other member states. Second, due to selected respondents, only working group level is covered. Finnish parliamentarians do significantly influence position on ministerial level, but they are not directly involved in day-to-day work. Third, domestic point of view will probably differ from the Brussels perspective since officials stationed in the permanent representations are subject to socialisation. So future research on this topic should focus on comparative approach at domestic as well European level.

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THE SITUATION OF VEGETABLES AND FRUIT PROCESSING IN HUNGARY

(GROWTH INHIBITING AND SUPPORTING FACTORS,
PROMISING OPPORTUNITIES)

Tamás Nándor Tógyer

***Abstract:** In my paper I analyze the situation of Hungary's food industry with the focus placed on fruit and vegetable processing. I also present the causes of the sector's current state while offering to foster development. Food industry plays an important role in Hungary's economy, because it helps ensure that agricultural products of a higher added value reach the markets. The share of vegetables and fruit processing in the domestic food and beverage gross production value is about 8-9 percent. Unfortunately, the domestic fruit and vegetable processing industry is struggling because of the margin squeeze that is pressing from two sides, the under-capitalization and the inconsistencies arising from the opposing interests of shareholders, suppliers and customers. Perhaps, it is currently the most vulnerable area of the industry. In our fruit and vegetables processing plants (including canning and blast freezing plants), all the classic errors occurred in course of privatization. In some places, they bought a market but the factory was closed. In other places, the capital had not been raised under the given conditions, and the factory went bankrupt due to lack of capital. Today, the fewer and fewer active enterprises are fighting to stay alive. Food manufacturing industry has been facing difficulties for several years now, due to mistakes made in the past and because apart from a few exceptions, technology in our factories has become out of date by now. In addition to this, the area of fruit and vegetable production is also reported to have difficulties. As a result of this, processors cannot be provided with raw materials at a competitive price. In my present paper, I have the opportunity to show you some perspectives, by which the sector's competitiveness and income-generating ability could be strengthened. One of them is the creation of so-called 'producer-owned plants', by the help of which the volatile and uncertain supply of raw materials could be eliminated. These types of establishments are not unknown in Europe, and fortunately, our country has also started a process of creating similar plants in order to develop. The other possibility can be a market-oriented expansion of the extremely*

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narrow range of products. It means the development of products with special quality, or goods and technologies serving individual markets. They of course cannot reach up to the same volume as the so-called mass production, but in the long run it is worth producing them. To promote these issues in the future, we need some fundamental changes. They are mainly the following. We need to:

- *increase the production level of raw materials for marketable products,*
- *make both investors in processing plants and producer-owners be interested*

After all, these will rebuild the so-called 'integrator system', which is based on common risk taking and a transparent accounting system.

Keywords: *food manufacturing industry, producer-owned plants, manufacturing improvements, product range diversification*

I. INTRODUCTION

Food industry plays an important role in Hungary's economy. It helps ensure that agricultural products of higher processing and of higher added-value reach the markets. The vegetable and fruit processing⁵⁷² branch has an 8-9% share of the gross production value of the domestic food and beverage industry. In 2007, within the branch, there were 371 active firms leading a double-entry bookkeeping, most of them working as small and medium-sized enterprises. Corporate concentration is relatively low within the branch. In 2007 for instance, the first ten processing firms had 51% share from the net revenues of fruit and vegetables. However, the pre-tax profit even amid the difficulties of the period showed a positive result under review. Unfortunately, the domestic measurements like environmental penalties, the increase in retail costs but the global trends as well (E. g.: rising costs of energy, labour, packaging materials and other inputs, inflation etc) will cause a continual decrease to the income of processors.

Table No.1

General data from main organizations of vegetable and fruit processing

Description	2003	2004	2005	2006	2007	2007/2003 (%)
Number of firms leading a double-entry bookkeeping	370	380	378	376	371	100.3
Number of foreign firms interested (included by the	40	45	41	40	34	85.0

⁵⁷² Erdész Ferencné, Jankuné Kürthy Gyöngyi, Anita Kozák, Radóczné Kocsis Teréz: "The status of the fruit and vegetables branch", Agricultural Studies 2009 No 7, Agricultural Economics Research Institute, Budapest

number above)						
Number of employees (persons)	11 308	10 593	9 223	9 078	8 454	74.8
Production volume index (Previous year = 100%)	107.5	87.1	81.9	116.6	93.8	
Gross production value (million HUF)	173 426	151 049	148 377	184 341	187 958	108.4
Proportion of the food industry	8.3	7.4	7.5	9.0	8.8	
Net sales (million HUF)	202 132	181 140	180 075	208 493	223 188	110.4
Export Sales Revenue (million HUF)	76 575	62 117	66 299	84 562	91 616	119,6
Profit before tax (million HUF)	12 161	8 528	8 879	10 859	7 926	65,2

Source: Erdész Ferencné, Jankuné Kürthy Gyöngyi, Anita Kozak, Radócné Kocsis Teréz: "Status of the fruit and vegetables branch" Agricultural Studies 2009 No 7 Economics Research Institute, Budapest

II. MANUFACTURING IMPROVEMENTS

Processed products have an estimated 50 % share from the vegetable and fruit production. It is quite a large proportion regarding that our domestic manufacturing industry is perhaps the most vulnerable area. Its current struggle is induced partly by inconsistencies within the shareholder-supplier-customer relation, partly by under-capitalization and also by the margin squeeze pressing on both sides. On the one hand tension increases because of the rising prices of energy, raw materials and other input. On the other hand a kind of vulnerability has appeared resulting from the dominant position of supermarket chains that often increase their refund rate over 30 % to hold manufacturing suppliers to ransom. Regrettably, in course of the privatization of vegetables and fruit processing firms such as canning and blast freezing plants, all the classic errors have occurred. In certain places they bought a market and the factory was closed. In other places the capital had not been raised despite the conditions described, and the factory went bankrupt because of lack of capital. Today, the fewer and fewer active enterprises are fighting to stay alive. The lack of consolidated market conditions is enhancing manufacturers towards the purchase of cheap semi-finished import products. Anyway, the proportion of processed vegetables seems to be growing within the vegetables and fruit structure, because partners there can work at a price agreed in advance of the season. However, with fruit this is not in practice. As for the structure of the refrigeration industry, eight companies provide a more than 20 thousand tonne annual production, 10 provide 10-15 thousand tons, while the rest run at an even smaller capacity. The refrigeration industry is owned almost entirely by domestic shareholders. The export of vegetables and fruit is carried out almost exclusively by big enterprises, while the smaller ones are competing in the domestic market. The canning industry is steadily shrinking. The number of enterprises is decreasing, while the extent of produc-

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tion is getting smaller and smaller. The turnover of canning industry is about 100 billion HUF and only 20% of this comes from domestic sales. Now, there are 18 canning company in operation in Hungary, whose number is less than 10% of the number in the previous years. The foreign interest is over 50% in the branch. In recent years, the production has been highly fluctuating between 400-600 thousand tons and unfortunately it has shown a marked decline by now. This process is accompanied by a reduced product range, which practically means that apart from the sweet corn, peas, pickles, canned sour cherry and apple concentrates, there is hardly a significant amount of products. Both the domestic market and the export markets of the East (although in a small extent) are stagnant; however, the western exports have been slightly increased. All in all, the foreign trade of the manufacturing industry in Hungary can be regarded very stable, with its 430 thousand tons of export and its 160 thousand tons of import.⁵⁷³

The canning industry is dominated by three large corporations. As a result of the great buying up of firms in recent years the Globus-group, (the Univer and Bonduelle together) have got nearly the two-third of the shares, which can be considered a significant concentration. Besides them there are only a few companies who have a turnover of 1-2 billion HUF.

Table No.2

Main vegetable and fruit processing enterprises in Hungary

Name of business	Turnover (million HUF)		
	2005	2006	2007
Globus Canning Co.	31 056	27 432	26 907
Bonduelle Vgetables Ltd.	19 376	21 785	25 912
Univer Product Plc.	9 458	10 431	11 363
Pentafrost Food Ltd.	5 311	7 470	9 157
Daucy Canning Co.	8 850	9 152	8 003
Schenk and Co. Ltd.	4 321	6 363	7 738
Kecskemet Canning Ltd.	1 930	5 130	7 509
Hipp Manufacturing and Trading Ltd.	4 897	6 826	6 797
Dunakiliti Canning Ltd.	3 275	5 493	5 085
EKO Ltd.	1 320	3 119	4 560
Fruit juice producers			
Rauch Hungary Ltd.	16 100	21 300	20 600
Sió Eckes Ltd.	10 252	15 738	17 707
Agrana-Juice-Hungary Ltd.	3 408	6 051	7 953

Source: HVG Today's Market Yearbook (2009), HVG Press Ltd.

The manufacturing industry has been facing difficulties for years. One of the reasons for this is that after the change of regime, those factories bought by foreign investors (and

⁵⁷³ Anikó Juhász, János Kartlai, Gábor König, Orbánné Nagy Mária, Márta Stauder: "The structural transformation of food industry (1997-2005)", Agricultural Studies 2006 No 3, Agricultural Economics Research Institute, Budapest

this actually happened to a significant extent), apart from a few exceptions have become out of date by now. The new owners missed rising capital, although they had undertaken it among other written conditions in course of the privatization process. Over the years, the necessary technical improvements were skipped, there were frequent changes in the ownership and apart from a few exceptions, because of absence of appropriate marketing, products were sold without a strategy. At the same time, these problems of the processing industry appeared in the area of fruit and vegetable manufacturing as well. As a result of this, today industrial fruit and vegetable production is unable to provide raw material for processors at a competitive price. In this way a part of the ready-made and semi-finished goods manufactured at a high cost, has lost market. The main danger is that for the industry the most advantageous solution would be to obtain raw material from abroad. In fact, this has already been the practice for some time in case of certain products, unfortunately, even in case of the traditional Hungarian fruit and vegetables like onions, root vegetables, cucumbers, tomatoes, cherries, apples etc. This tendency will have an obvious repercussion for horticultural production, causing such a decrease in the volume of production that cannot be compensated by the projected boom of some marginal products.

All possible means must therefore be used to increase the outcome and efficiency of production and to decrease production costs in case of those products, which represent a dominant-sized volume and/or are significant for the profession. This strategy should also be applied (of course only after a satisfactory modernization) by other producers of competitive goods, such as refrigeration and drying industries.

It is important to see that the globalization processes going on in the retail trade, who is the commercial partner of the manufacturing industry, have been completed or currently are being in process in the field of manufacturing as well. The proliferation of retail chains has meant a great challenge for the companies argued, often by forcing even worse conditions upon them than those of the fresh product suppliers'. This trend can easily be traced in Hungary, where most of the aforementioned canning firms are owned by multinational companies. In this situation, national governments will lose the direct interest in supporting such companies, since there is no guarantee that the global sourcing of raw materials, similarly to that of supermarket chains, will serve the domestic production rather than the purpose of a neighbouring state to open up new markets for his producers. Since it is particularly the raw material production that is competing, the Member States' primary responsibility is to support the competitiveness of raw material production both by macro-economic measures and by technological innovation.

Another possibility is to expand the range of products that has become very narrow by now, and to make it market-oriented. This means the development of goods of special quality, or the development of products and technologies serving individual markets. Although the volume of these products can not reach up to the level of 'mass production' but it will be worth it in the long run. To solve the problems, some fundamental changes will have to be carried out in the future. One of them should be to increase the quality of raw material production in order to create marketable products. Another one is to establish a producer-owner interest besides that of the investor's in processing plants, by which the so-called 'in-

egrator system' will be rebuilt, based on common risk taking and a transparent accounting system.⁵⁷⁴

III. PRODUCER-OWNED PLANTS

The preserving industry has been playing the role of an integrator for a long time. Among its functions there have been for instance: organizing raw-material production, consultancy; organizing harvest or advance financing of raw material production. Today however, this integrator task is not or only to a much smaller extent is carried out. As a result of this and also because of the weakness of other alternative structures, there are difficulties in raw material procurement.

As for the future, it is essential to be thinking together and to increase organization. Linking of production and processing could provide benefits for both parties, while running of producer-owned plants may reduce the vulnerability of many opposing parties being currently in operation. In addition to this a new structure will result in a more efficient production.

Producer-owned manufacturing plants are not unknown in Europe. They can be found in all countries with a major horticultural production. Fortunately, our country has also started a market process in order to establish similar plants which initiation should be promoted by all means.⁵⁷⁵

Depending on the product-profile of processors, there are three levels of cooperation between producers and processors:

Loose cooperation with suppliers

Those processors, who are flexible in changing their product range, mostly buy from major suppliers, but they never become fully committed. For those processors, who have a changing scope of suppliers, the processing of seasonal raw material remained from the fresh-market and purchased at a low price, means extra earnings.

⁵⁷⁴ Erdész Ferencné, Radóczné Kocsis Terézia: "Increasing efficiency in vegetables-fruit and grapes-wine industries and further development of their EU regulation-compliance", Agricultural Studies 2000 No 14, Agricultural Economics Research Institute, Budapest

⁵⁷⁵ FRUITVEB Hungarian Fruit and Vegetables Inter-professional Organisation (2006): "A strategic feasibility study of the Hungarian fruit and vegetables branch", <http://www.fruitveb.hu>

Central coordination for specified key suppliers

Most of the processors give high priority to the scope of contracted suppliers. They usually take on even the coordination of growers in order to ensure a continuing supply of raw materials and a maximum use of capacity. Processors impose certain conditions on growers, for example that some vegetables (E.g.: peas, corn) can be cultivated only in irrigated areas. In return, growers receive a variety of services (for example, in some cases inputs are centrally procured or they work with a joint harvesting machine, and in most cases consultancy is provided). In this way the average yield can be increased and the safety of harvest can be improved as well. Suppliers are mainly bonded to buyers evidently by application of a higher-than-average price level. This is the routine process at one of the largest Hungarian refrigerating company, where they guarantee an above the average pre-specified price for an amount equal with the average yield of the previous three years.

Contractual procurement from growers in close cooperation

Plants, that are the closest forms of cooperation between growers and processors, may only procure the raw material from those contracted growers, who are specialized to serve them. The most relevant example of this closed system is the practice run by the greatest Hungarian salad-packing plant, where a long-term relationship has developed with the scope of suppliers over the years. Being sure that their goods are going to be bought, and for the sake of the long-term profitability, producers acknowledge and accept that depending on quality and demand for their fresh product they may not always sell it at the same rate of profit. To ensure that the growers are able to meet the increasingly stringent quality and product-sanitation expectations, the purchasing plant provides technical and professional assistance to farms for their own quality-system development. On the basis of the framework agreements the plant makes a record of the conditions of planned purchasing in case of each supplier individually, a year in advance. This record contains the quantity of goods to be delivered broken down to weeks and also the actual purchase price of that particular time. If the demand for certain products or raw materials changes during a year, the management of the plant seeks after a personal agreement and a compromise solution with all contracted growers. (E.g.: smaller quantities of goods are received for the fixed price, or the total amount is taken over and sold through actions.)

IV. PRODUCT RANGE DIVERSIFICATION

As opposed to large traditional canning plants, our narrow and one-sided product range has been an exceptional problem for decades. The reason for this may be, that world market prices are moving nearly as a sine line and the 'valleys' do not provide funds for the costs of farming. No wonder that our farmers respond to it with a decreasing production. Hungary produces small quantities of fresh and processed goods and unfortunately, our preserved and dried fruit production is also too minimal to compete with the mass-production of the world. However, many of our customers buy a large pack of our products because they are of good quality and taste. In my view, a fruit producer-ownership would help producers and processors be thinking and working together, or establish, develop and operate a construction of common interest.

Another problem is that food retail chains apply a profit margin of 200-400% in case of processed food products (E.g.: frozen cherries, dried fruit), which is substantially in excess compared to that of fresh fruit products.⁵⁷⁶ A new marketing policy, a new product development and production should be built on the new users (confectionery, bakery, etc.) who have just appeared on the market.

There is an increasing demand for such new products as real-jellies, ready-made, semi-finished and transition-to-cook products. These are looked for not only by housewives but also by more and more other users.

As a conclusion, I must say that the processed fruit and vegetables market of Hungary should be reconsidered and rebuilt, because if products there are authentic and differ from those anywhere in the world in flavour, aroma and fragrance, producers perhaps will be capable of selling them at a better profit rate.

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⁵⁷⁶ Sándor Magda, Sándor Gergely: "Present and future sales of domestic fruit and vegetable producer-organizations", Husbandry LIV/ No 1

COMPETITION IS THE REMEDY – OVERLY OPTIMISTIC MARKET BELIEFS IN TRANSITION ECONOMIES

Frank Neher

Abstract: In the present paper individual beliefs about the effects of competition and their evolution over time in transition economies and experienced market economies is analyzed and compared. At the onset of transition, competition beliefs in transition countries were far more positive than in market economies and converged later on. Overly optimistic competition beliefs in transition countries contributed to the possibility of implementing far reaching pro-market reform since they underlay support for economic reform.

Keywords: convergence, beliefs, public support, reform, bias

Introduction

In the present paper individual beliefs on the effect of market competition and their evolution over time in transition economies and experienced market economies are analysed and compared. We argue that overly positive beliefs about the performance of markets prevailed at the time when transition began, allowing the implementation of far reaching reform policies. Hence, they played an important role at a crucial juncture in the history of those countries, contributing to extend the role of the market in the economy and reduce the role of the government.⁵⁷⁷

In fact, public support for market reforms was widespread in most post-communist countries when strong reform policies were introduced. While policy measures and resulting outcomes varied greatly, all transition countries experienced a reduction in output, rising inequality, inflation and unemployment.⁵⁷⁸ Economists and most politicians have been aware, that adaption processes are likely to lead to a temporary economic downturn, resulting in a J-shaped evolution of output and employment over the course of transition.

⁵⁷⁷ The degree of private or public provision for health care, schooling, retirement income and the like are contested and change over time in transition as well as old market economies.

⁵⁷⁸ Svejnar, J.: Transition Economies: Performance and Challenges. *Journal of Economic Perspectives*. 2002, vol. 16 (1), pp. 3-28. Milanovic, B.: Explaining the Increase in Inequality during Transition. *Economics of Transition*. 1999, vol. 7, pp. 299–341.

World Bank: *The First Ten Years of Transition*. 2002, Washington: World Bank.

EBRD: *Transition Report 1999, Ten Years of Transition*. 1999, London: European Bank for Reconstruction and Development.

Still, a lot of relevant actors were taken by surprise when public support rapidly diminished, reforms stalled, and parties opposing market reforms were voted into power in some countries.⁵⁷⁹

There is a growing body of economic literature which seeks to understand the interaction between reform policies, policy outcomes and the reform path. Using a political economy approach, a number of theoretical contributions establish that adverse reform outcomes might lead to policy reversals or abolition of ongoing reforms. Roland provides an extensive overview over this literature.⁵⁸⁰ Analysing survey and election data, empirical contributions complement theoretical approaches to understand the determinants of public support for market reforms. Warner finds that in Russia in 1995 election outcomes are more pro-reform in areas already experiencing strong reform policies.⁵⁸¹ Jackson et al. show that in Poland the growth of new enterprises resulted in a pro-reform constituency.⁵⁸² For Bulgaria, Valev argues that the majority of the population is aware of the necessary short term cost of reforms and expects future benefits.⁵⁸³ Doyle and Fidrmuc document changing political preferences for the Czech Republic from 1991 to 1998 and claim that economic outcomes became more influential at the ballots.⁵⁸⁴ Analysing voting in the Czech Republic in 1990, Doyle and Walsh find that voting was forward-looking and associated expectations largely correct.⁵⁸⁵

Also groups of transition countries have been studied: analyses of election data for the Czech Republic, Hungary, Poland and Slovakia reveals that private entrepreneurs, white collar workers and university educated voters are pro-reform, while the unemployed, retirees, blue collar and agricultural workers oppose reform.⁵⁸⁶ Hayo finds that higher education and younger age increase, individual unemployment decreases reform support. On the same sample of 21 Eastern European countries Kim and Pirttilä show that support for reforms depends on past macroeconomic conditions and the perception of individual consequences of future reforms.⁵⁸⁷

The present study uses a difference-in-difference estimation approach to add to the understanding of public support for reform. However, instead of directly analysing survey

⁵⁷⁹ Wyplosz, C.: After the honeymoon: On the economics and the politics of economic transformation. *European Economic Review*. 1993, vol. 37 (2-3), pp. 379-386.

Fidrmuc, J.: Political Support for Reforms: Economics of Voting in Transition Countries. *European Economic Review*. 2000, vol. 44, pp. 1491-1513.

⁵⁸⁰ Roland, G.: *Transition and Economics. Politics, Markets, and Firms*. Cambridge: MIT Press, 2000.

Roland, G.: The Political Economy of Transition, *Journal of Economic Perspectives*, 2002, 16 (1), pp. 29-51.

⁵⁸¹ Warner, A.M.: Is Economic Reform Popular at the Polls? Russia 1995. *Journal of Comparative Economics*. 2001, vol. 29 (3), pp. 448-465.

⁵⁸² Jackson, J.E., J. Klich and K. Poznanska: Economic Transition and Elections in Poland. *Economics of Transition*. 2003, vol. 11, pp. 41-66.

⁵⁸³ Valev, N.: No Pain, no Gain: Market Reform, Unemployment, and Politics in Bulgaria. *Journal of Comparative Economics*. 2004, vol. 32, pp. 409-425.

⁵⁸⁴ Doyle, O. and J. Fidrmuc: Anatomy of Voting Behavior and Attitudes during Post-Communist Transition: Czech Republic 1990-98. pp. 139-164, in: Campos, N. and J. Fidrmuc (Eds.): *Political Economy of Transition and Development: Institutions, Politics and Policies*. New York: Springer, 2003.

⁵⁸⁵ Doyle, O. and P.R. Walsh: Did Political Constraints bind during Transition? Evidence from Czech Elections 1990-2002. *Economics of Transition*. 2007, vol. 15, pp. 575-601.

⁵⁸⁶ Fidrmuc, J.: Political Support for Reforms: Economics of Voting in Transition Countries. *European Economic Review*. 2000, vol. 44, pp. 1491-1513.

⁵⁸⁷ Hayo, B.: Public Support for Creating a Market Economy in Eastern Europe. *Journal of Comparative Economics*. 2004, vol. 32, pp. 720-744.
Kim, B. and J. Pirttilä: Political Constraints and Economic Reform: Empirical Evidence from the Post-communist Transition in the 1990s. *Journal of Comparative Economics*. 2006, vol. 34, pp. 446-466.

questions on reform or election results, competition beliefs are analysed. It is argued that beliefs about the desirability or non-desirability of competition are fundamental to individual attitudes towards a market economy and accordingly shape attitudes toward systemic reform. We find that at the onset of transition, beliefs in competition were far more optimistic in transition countries than in established market economies, contributing to the acceptance of wide ranging economic reforms. Overshooting and convergence of competition beliefs can be rationalized with a learning model: a rational agent can not learn from directly observing an event –observed by other agents- but instead has to rely on possibly biased experts transmitting the signal over media.

The next section will introduce the data and sample used for empirical analysis. In Section II descriptive and estimated results on the overshooting and convergence hypothesis are presented. The linkage between competition beliefs and support for economic reforms will be considered in Section III. In Section IV some possible explanations for competition belief overshooting will be shortly considered. Section V finally concludes.

I. Data and Sample

The analysis is based on data from the World Value Survey and the European Value Survey, a multinational survey conducted in four waves since 1980 in a host of countries⁵⁸⁸. The central item we focus on is a question on individual beliefs about the effects of competition:

Competition is good (10). It stimulates people to work hard and develop new ideas vs. Competition is harmful. It brings the worst in people (1).”

The emphasis on hard work and the development of new ideas clearly indicates that the question refers to the incentives that people expect from a system of *market* competition. The dependent variable *competition* is coded so that it takes higher values for more positive beliefs about competition (from '1 Competition is harmful' to '10 Competition is good'). To minimize the influence of noise, a binary dependent variable, *competition_bin1*, with a cut-off at 1 is coded.⁵⁸⁹ Robustness checks with dependent variables with cut-off points 2, 3, 4 and 5 (*competition_bin2-competition_bin5*) and the original ordinal variable are performed.⁵⁹⁰ There are OECD- and transition countries in the sample. Due to data availability, the actual sample consists of 115123 individual observations from 34 countries.⁵⁹¹

⁵⁸⁸ WVS, European and World Values Surveys four-wave integrated data file, 1981-2004, v.20060423. Madrid and Tilburg, 2006. Data and documentation can be found at <http://www.worldvaluessurvey.org/>.

⁵⁸⁹ Using a binary dependent variable as opposed to an ordinal variable has some advantages for the choice and use of the appropriate econometric method. For a discussion see:

Winkelmann, L and R. Winkelmann: Why are the Unemployed so Unhappy? Evidence from Panel Data. *Economica*. 1998, vol. 65, pp. 1-15.

⁵⁹⁰ Descriptive statistics for the dependent variable can be obtained from the author upon request.

⁵⁹¹ Sample countries: Austria, Belarus, Belgium, Bulgaria, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany-East, Germany-West, Hungary, Iceland, Ireland, Italy, Japan, Korea, Rep., Latvia, Lithuania, Mexico, Netherlands, Norway, Poland, Portugal, Romania, Russian Fed., Slovak Republic, Slovenia, Spain, Sweden, Turkey, United Kingdom, United States

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To explain the difference between transition countries and established market economies with respect to competition beliefs, we control for individual socioeconomic factors and macroeconomic conditions at the country level. Macro variables considered are unemployment, per-capita GDP, the GDP- and per-capita GDP-growth rate and the inflation rate and are taken from the World Bank Development Indicator database.⁵⁹² Descriptive statistics of the independent variables are shown in Table 1.

Table 1 Descriptive Statistics of independent variables

Variable	Description	Obs	Mean	Std. Dev.	Min	Max	Reference Category
transition	Transition Dummy	115123	0.404	0.491	0	1	
wave_2	surveyed in 1989-1993	115123	0.404	0.491	0	1	X
wave_3	surveyed in 1994-1999	115123	0.242	0.428	0	1	
wave_4	surveyed in 1999-2004	115123	0.355	0.478	0	1	
wave2_trans	interaction term	115123	0.146	0.354	0	1	X
wave3_trans	interaction term	115123	0.129	0.335	0	1	
wave4_trans	interaction term	115123	0.129	0.336	0	1	
age	age	115123	43.322	16.548	15	101	
age_sqr	age squared	115123	2150.6 24	1567.1 75	225	1020 1	
female	female	115123	0.521	0.500	0	1	
income	income	98010	4.870	2.471	1	10	
stat_single	single	114812	0.211	0.408	0	1	X
stat_married	married	114812	0.648	0.478	0	1	
stat_divorced	divorced or separated	114812	0.068	0.252	0	1	
stat_widowed	widowed	114812	0.073	0.261	0	1	
jobstat_full	full-time employed	111983	0.455	0.498	0	1	X
jobstat_part	part-time employment	111983	0.068	0.252	0	1	
jobstat_self	self employed	111983	0.063	0.244	0	1	
jobstat_retired	retired	111983	0.181	0.385	0	1	
jobstat_wife	housewife	111983	0.102	0.303	0	1	
jobstat_student	student	111983	0.054	0.225	0	1	

⁵⁹² World Bank, World Development Indicators Database. Washington: 2009.

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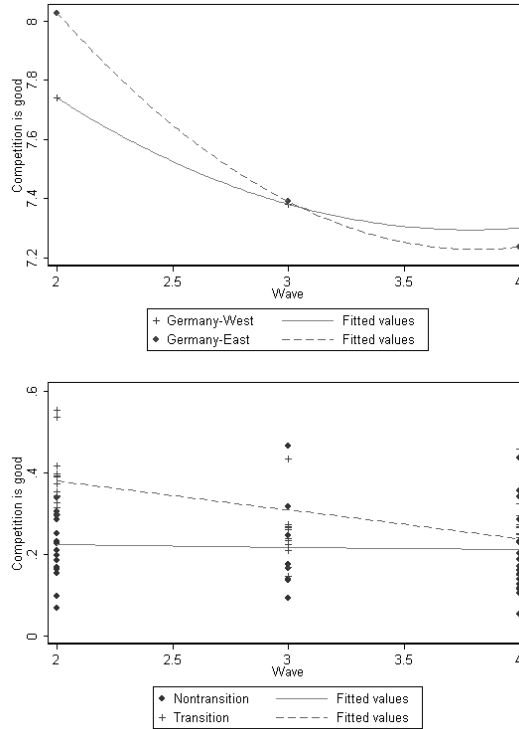
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jobstat_unemp	unemployed	111983	0.058	0.234	0	1	
jobstat_other	other job status	111983	0.018	0.133	0	1	
job_manual	blue collar job	98035	0.405	0.491	0	1	X
job_manager	leading position	98035	0.083	0.276	0	1	
job_office	white collar job	98035	0.369	0.483	0	1	
job_farmer	farming	98035	0.054	0.227	0	1	
job_military	military	98035	0.009	0.096	0	1	
job_never	never had a job	98035	0.078	0.268	0	1	
job_other	other	98035	0.001	0.025	0	1	
townsize_1	2000 and less inhabitants	96097	0.170	0.376	0	1	X
townsize_2	2000-5000 inhabitants	96097	0.099	0.299	0	1	
townsize_3	5000-10000 inhabitants	96097	0.082	0.274	0	1	
townsize_4	10000-20000 inhabitants	96097	0.093	0.290	0	1	
townsize_5	20000-50000 inhabitants	96097	0.123	0.329	0	1	
townsize_6	50000-100000 inhabitants	96097	0.094	0.292	0	1	
townsize_7	100000-500000 inhabitants	96097	0.173	0.378	0	1	
townsize_8	500000 and more inhabitants	96097	0.166	0.372	0	1	
inflation	inflation rate	82	41.078	136.90	-0.71	1058	
gdp_pc	per-capita GDP	90	15253	7732.28	3604	33028	
ln_pcgdp	log per-capita GDP	90	9.484	0.57	8.19	10.40	
pc_gdp_growth	per-capita GDP-growth	89	1.796	4.43	-14.5	9.480	
unemployment	unemployment rate	74	8.384	4.56	0.6	22.7	
Source: World Value Survey, European Value Survey and World Bank Development Indicators							

II. Overshooting and Convergence in Competition Beliefs

More optimistic competition beliefs and subsequent convergence in transition countries can be observed for a variety of comparison groups. Figure 1 depicts unconditional means of competition beliefs for exemplary comparison groups: in the left panel for East- and West-Germany, in the right panel for all transition and all OECD non-transition countries.

Figure 1 Average levels of competition with quadratic fit (left) and competition_bin1 with linear fit (right).



Source: World Value Survey and European Value Survey

Using the Wilcoxon rank-sum test, we test the hypothesis that respective samples are drawn from the same population or a population with the same distribution. For East- and West-Germany the hypothesis that the respondents to the question on competition come from a similar population is rejected for the year of unification, but cannot be rejected in 1997 and 1999, suggesting convergence in competition beliefs. Using the same approach on the sample of all OECD countries does not provide clear cut indications for convergence.

The overshooting and convergence we observe in the descriptive data might result from unobserved factors like cultural differences, structural differences, economic performance, and others. To control for these possibly conflating factors, multivariate regressions are employed. Using a difference-in-difference estimation approach, the basic specification of the probit model takes the form

$$(1) \quad B_{ict}^* = \alpha + \beta T_c + \gamma_t W_t + \delta_i (T_c * W_t) + \lambda' X_i + \varepsilon_{ict}$$

$$(2) \quad \Pr(B_{ict} = 1) = \Pr(B_{ict}^* > 0).$$

Competition belief B of individual i , living in country c , being surveyed at time t , is explained by individual characteristics X_i , a transition-country dummy T_c , wave dummies W_t and the interactions of wave and transition dummies. The transition dummy captures the effect of living in a transition economy. The interaction variables tell us weather and how the effect of living in a transition economy changes over time. Following the overshooting and convergence hypothesis we expect a positive but over time diminishing effect of T_c on the probability of optimistic competition beliefs (i.e. $\beta > 0, \delta_t < 0$).

The limited dependent variable is constructed from the *competition* variable with cut-off 1, i.e. only individuals who unambiguously state that competition is good, will be coded 1, all others zero. The estimation is first performed on the sample of OECD countries, in a second step the exercise is repeated using the full sample. On each sample three models are estimated. Model 1 only includes time dummies, transition dummies and interactions thereof. Model 2 extends the model for the whole set of individual controls. Finally, model 3 additionally includes country dummies to control for unobservable country specific characteristics. The results are presented in Table 2. All six estimations convey the same message. Living in a transition country significantly increases the probability of believing that market competition is good. The coefficients for the interaction dummies are negative and significant for both waves; the positive effect of living in a transition country on the probability for positive competition beliefs diminishes over time. With respect to competition beliefs, transition countries and experienced market economies get more similar over time.⁵⁹³ As shown by Moulton, the inclusion of country dummies and other group or country specific variables is likely to bias estimated standard errors downward. Accordingly, the results are derived using a robust estimator of variance, taking account of within country clustering.⁵⁹⁴

⁵⁹³ Estimations on the sample of East- and West-Germany alone also confirm overshooting and convergence in competition beliefs. These and all following results that are not reported in full detail can be obtained from the author upon request.

⁵⁹⁴ Moulton, B.: An Illustration of a Pitfall in Estimating the Effects of Aggregate Variables on Micro Unit. *Review of Economics and Statistics*. 1990, vol. 72, pp. 334–338.

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Table 2 Main Results

	OECD	OECD	OECD	full sample	full sample	<i>full sample</i>
	m1	m4	m4	m3	m4	m4
	b/se	b/se	b/se	b/se	b/se	b/se
wave_3	0.041	0.041	-0.146	0.041	0.035	-0.146
	(0.127)	(0.082)	(0.091)	-0.126	(0.084)	(0.092)
wave_4	-0.079	-0.062	-0.079	-0.079	-0.058	-0.077
	(0.056)	(0.055)	(0.057)	-0.056	(0.055)	(0.058)
transition	0.549***	0.618***	1.156***	0.518***	0.593***	0.314***
	(0.144)	(0.154)	(0.059)	-0.094	(0.118)	(0.039)
wave3_trans	-0.639***	-0.685***	-0.379**	-0.442**	-0.389*	-0.181
	(0.192)	(0.188)	(0.130)	-0.159	(0.166)	(0.146)
wave4_trans	-0.399**	-0.425**	-0.382*	-0.300**	-0.322**	-0.279*
	(0.133)	(0.141)	(0.149)	-0.104	(0.121)	(0.121)
age		-0.004	0.000		-0.004	-0.000
		(0.003)	(0.003)		(0.003)	(0.003)
age_sqr		0.000	0.000		0.000	0.000
		(0.000)	(0.000)		(0.000)	(0.000)
female		-0.130***	-0.139***		-0.134***	-0.138***
		(0.017)	(0.019)		(0.017)	(0.017)
income		0.018	0.011		-0.018	-0.013
		(0.019)	(0.015)		(0.027)	(0.019)
income_sqr		-0.000	0.001		0.003	0.003
		(0.002)	(0.001)		(0.002)	(0.001)
stat_married		0.045	0.019		0.049*	0.027
		(0.025)	(0.024)		(0.021)	(0.020)
stat_divorced		0.065	0.013		0.044	0.018
		(0.034)	(0.028)		(0.036)	(0.027)
stat_widowed		0.070*	0.038		0.038	0.021
		(0.034)	(0.032)		(0.033)	(0.028)
jobstat_part		-0.108***	-0.109***		-0.116***	-0.118***
		(0.027)	(0.023)		(0.024)	(0.020)
jobstat_self		0.114*	0.097*		0.108*	0.076*
		(0.053)	(0.039)		(0.047)	(0.039)
jobstat_retired		-0.001	0.015		-0.011	0.000
		(0.032)	(0.021)		(0.033)	(0.025)
jobstat_wife		0.069	0.066*		0.076	0.070*
		(0.043)	(0.029)		(0.044)	(0.033)
jobstat_student		0.059	0.027		0.028	-0.000
		(0.093)	(0.084)		(0.085)	(0.077)
jobstat_unemp		0.006	0.022		-0.009	0.003
		(0.034)	(0.027)		(0.035)	(0.030)
jobstat_other		-0.066	-0.031		-0.043	-0.034
		(0.067)	(0.076)		(0.065)	(0.071)
job_manager		0.248***	0.251***		0.267***	0.270***

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		(0.041)	(0.037)		(0.040)	(0.037)
job_office		0.035	0.032		0.067	0.062*
		(0.036)	(0.029)		(0.034)	(0.028)
job_farmer		-0.050	-0.062		-0.062	-0.093**
		(0.066)	(0.040)		(0.051)	(0.034)
job_military		0.162*	0.161*		0.141**	0.148**
		(0.074)	(0.073)		(0.051)	(0.050)
job_never		-0.055	-0.047		-0.027	-0.032
		(0.045)	(0.030)		(0.044)	(0.029)
townsize_2		-0.041	-0.054		-0.010	-0.039
		(0.027)	(0.040)		(0.024)	(0.032)
townsize_3		0.009	0.029		0.070	0.076*
		(0.038)	(0.031)		(0.040)	(0.035)
townsize_4		-0.070	-0.005		-0.024	0.025
		(0.059)	(0.040)		(0.053)	(0.038)
townsize_5		-0.114*	-0.061*		-0.051	-0.015
		(0.055)	(0.029)		(0.053)	(0.033)
townsize_6		0.050	0.060		0.105*	0.095**
		(0.048)	(0.035)		(0.044)	(0.032)
townsize_7		-0.061	-0.041		0.007	0.006
		(0.054)	(0.029)		(0.055)	(0.037)
townsize_8		-0.011	-0.057		0.038	-0.005
		(0.050)	(0.037)		(0.050)	(0.043)
Country dum- mies			included			included
_cons	-0.775***	-0.813***	-1.664***	-0.775***	-0.749***	-0.811***
	(0.056)	(0.073)	(0.094)	-0.055	(0.091)	(0.088)
r2_p	0.016	0.033	0.056	0.018	0.032	0.053
N	87864.000	48942.000	48942.000	115000	59788.000	59788.000
Notes: 1) Presented are coefficients of probit regression with <i>competition_bin1</i> as dependent variable. 2) Standard errors in parenthesis are robust to within country clustering. 3) Significance levels of 5 percent are denoted by (*), of 1 percent by (**) and of 0.1 percent by (***).						

Robustness of these results is confirmed with a wide array of different estimation methods and specifications. The inclusion of the inflation rate, per-capita GDP, GDP growth rate or unemployment does not alter results. Also, when using differently coded alternative dependent variables *competition_bin2*, *-bin3* or *-bin4* the overshooting and convergence hypothesis is confirmed for all specification- and sample variations. To further assure robustness, all specifications are estimated using logit, ordered probit and ordered logit and even OLS on the original competition variable.

Results on some socioeconomic variables are interesting in their own right, since they relate to other stances of literature. Gender is often found to be a strong predictor of

economic behaviour. In line with findings that women are less competitive than men, women also hold less positive competition beliefs.⁵⁹⁵ The self-employed have higher, part time workers lower probability to be pro-market compared to fully employed workers. Managers and army members have more faith in the market system than blue collar workers.

There is ample evidence that preferences for redistribution differ between people from post communist countries and those from long time market economies.⁵⁹⁶ In order to analyse weather determinants of competition beliefs also differ between market economies and transition countries, a constrained probit model is estimated where all independent variables are interacted with the transition dummy. The constrained model is recommended by the likelihood ratio test and the Bayesian Information Criterion. The overshooting and convergence hypothesis once more is confirmed. But there are some more interesting results: While the effect of gender is independent of cultural influences, a negative effect of age only arises in transition economies. This age effect is consistent with the effect of ideology which is more deeply engrained in older individuals and the devaluation of system specific human capital of which older persons have accumulated more of.⁵⁹⁷ A higher probability of white collar workers and managers for positive competition beliefs, and a positive effect of townsizes can also only be observed in transition countries.

III. Competition Beliefs and Support for Economic Reform

The prevalence of competition in market economies as compared to other forms of social organisation allows for the presupposition that competition beliefs are indicative for individuals' attitudes and beliefs toward free competitive markets. These in turn affect the support for economic reforms during transition. This claim is now empirically substantiated.

Simple correlations between individual competition beliefs and questions regarding markets and market reforms provide first indicative evidence. Correlation coefficients of individual answers are calculated for each country and time point separately. If people think, that success results from hard work rather than luck or connections, this expresses a belief in the functioning of markets and the fairness of market.⁵⁹⁸ In all countries in the

⁵⁹⁵ Gneezy, U., M. Niederle and A. Rustichini: Performance in Competitive Environments: Gender Differences. *Quarterly Journal of Economics*. 2003, vol. 118, no. 3, pp. 1049-1074.

Datta Gupta, N., A. Poulsen and M. Villeval: Male and Female Competitive Behavior: Experimental Evidence. *IZA Discussion Papers* 1833. 2005.

⁵⁹⁶ Corneo, G. and P.H. Grüner: Individual Preferences for Political Redistribution. *Journal of Public Economics*. 2002, vol. 83, pp. 83-107.

Alesina, A. and N. Fuchs-Schuendeln: Good Bye Lenin (or not?). The Effect of Communism on People's Preferences. *American Economic Review*. 2007, vol. 97, pp. 1507-1528.

⁵⁹⁷ Alesina, A. and N. Fuchs-Schuendeln, 2007, *ibid*.

Eble, S. and P. Koeva: What Determines Individual Preferences over Reform? Microeconomic evidence from Russia. *IMF Staff Papers*. 2002, vol. 49, pp. 87-110.

Doyle, O. and J. Fidrmuc, 2003, *ibid*.

Guriev, S and E. Zhuravskaya: (Un)Happiness in Transition. *Journal of Economic Perspectives*. 2009, vol. 23, no. 2, pp. 143-168.

⁵⁹⁸ Corneo, G.: Inequality and the State: Comparing U.S. and German Preferences. *Annales d'Economie et de Statistique*. 2001, vol. 63-64, pp. 283-296.

Corneo, G. and P.H. Grüner: Individual Preferences for Political Redistribution. *Journal of Public Economics*. 2002, vol. 83, pp. 83-107.

Benabou, R. and J. Tirole: Belief in A Just World and Redistributive Politics. *Quarterly Journal of Economics*. 2006, vol. 121, pp. 699-746.

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sample there is a tendency that people with more positive competition beliefs also hold that hard work brings success. On average the correlation coefficient is .26 (.16 to .34) in transition countries and .33 (.12 to .54) in established market economies.

In wave 2 (1989-1993) there is an item asking: "This country's economic system needs fundamental changes", with five possible answers ranging from "Agree completely" to "Disagree completely". Stronger agreement is coded with values. In transition countries individuals who feel positive about competition tend to see a need for fundamental changes with correlation coefficients ranging from .02 to .21. On the contrary, in long time market economies the correlation is largely negative ranging from -0.27 to .07. However, since correlations only offer weak evidence for our claim that competition beliefs are intimately connected to political support for economic reforms, the effect of competition beliefs on the attitudes toward the need for fundamental systemic change is analysed using multivariate regressions.

A binary dependent variable *need_change_bin1* is coded, taking the value one whenever respondents agree completely that "This country's economic system needs fundamental changes". All other responses are coded zero. In a first step we treat competition beliefs as exogenous: employing probit estimation for different specifications, individual reform attitudes are explained with individual competition beliefs and a whole set of socioeconomic variables. Using the binary variable *competition_bin1* as explanatory variable, we find that competition beliefs have a positive and significant effect on the probability for holding strong reform attitudes. If instead competition belief dummies from the original ten-scale variable with the lowest competition beliefs as base category are employed, there is no significant effect unless competition dummies are interacted with the transition dummy. Accordingly, in transition countries the probability of a strong attitude for economic reform increases with positive competition beliefs, while the opposite is true for non-transition countries. These results are robust to variations of the estimation method (Ordered probit, logit and OLS).

Since competition beliefs have been explained using the same set of controls for socioeconomic characteristics, as now used to explain reform attitudes, there is most certainly endogeneity bias present in these estimations. To correct for endogeneity, an IV-probit estimation is employed. The model can be formally written as

$$(3) \quad R_{ic}^* = \alpha + \gamma B_{ic} + \beta T_c + \lambda' X_{li} + \delta_c + \varepsilon_{ic}$$

$$(4) \quad B_{ic} = \mu_1' X_{li} + \mu_2' X_{2i} + v_{ic}$$

$$(5) \quad \Pr(R_{ic} = 1) = \Pr(R_{ic}^* > 0).$$

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were R_{ic}^* is the reform attitude of individual i in country c . B_{ic} is the individual's competition belief, T_c is the transition dummy, X_{li} the set of socioeconomic controls and δ_c indicates country dummies. Competition beliefs, now included as the original ten point ordinal variable, are instrumented with gender and age variables X_{2i} , which are not used as regressors of reform attitudes. The IV-probit estimation results are shown in Table 3.

Table 3 Results for instrument variable probit regression

	m1	m2	m3	m4	m5
	b/se	b/se	b/se	b/se	b/se
competition	0.239** (0.076)	0.211* (0.083)	0.112 (0.101)	0.154 (0.113)	0.149 (0.112)
transition	2.234*** (0.304)	2.341*** (0.278)	2.549*** (0.168)	2.484*** (0.252)	2.499*** (0.247)
income				-0.026** (0.008)	-0.024** (0.008)
Country dummies	included	included	included	included	included
Legal status dummies		included	included	included	included
Job dummies			included	included	included
Job-status dummies				included	included
Town-size dummies					included
_cons	-3.193*** (0.430)	-3.057*** (0.484)	-2.331*** (0.693)	-2.547*** (0.729)	-2.573*** (0.730)
competition					
transition	0.279*** (0.003)	0.274*** (0.003)	0.363*** (0.011)	0.351*** (0.017)	0.369*** (0.023)
female	-0.248*** (0.044)	-0.247*** (0.042)	-0.282*** (0.043)	-0.270*** (0.041)	-0.277*** (0.042)
age	0.012* (0.006)	0.005 (0.007)	0.001 (0.007)	0.000 (0.009)	0.003 (0.010)
age_sqr	-0.000* (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
income				0.060*** (0.010)	0.060*** (0.012)
Country dummies	included	included	included	included	included
Legal status		included	included	included	included

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dummies					
Job dummies			included	included	included
Job-status dummies				included	included
Town size dummies					included
_cons	7.668***	7.772***	7.610***	7.398***	7.300***
	(0.143)	(0.153)	(0.151)	(0.197)	(0.204)
athrho					
_cons	-0.577*	-0.491*	-0.237	-0.331	-0.328
	(0.237)	(0.236)	(0.234)	(0.277)	(0.271)
N	41032.000	40997.000	35295.000	29669.000	27047.000
Notes: 1) Shown are coefficients of a IV-probit regression with <i>need_reform_bin1</i> as dependent variable. 2) <i>competition</i> is instrumented with <i>age</i>, <i>age_sqr</i> and <i>female</i> 3) Only wave 2 observations are considered. 4) Standard errors in parenthesis are robust to within country clustering. 4) Significance levels of 5 percent are denoted by (*), of 1 percent by (**) and of 0.1 percent by (***).					

Competition beliefs are found to have a positive effect on reform attitudes. For basic specifications only including competition beliefs, the transition dummy and country dummies (and legal status dummies), the Wald test of exogeneity is rejected. Including a richer set of socioeconomic variables, the effect of competition beliefs on reform attitudes is still positive but statistically not significant. However, the Wald test of exogeneity can not be rejected, so that the problem of endogeneity of competition beliefs does seem not so serious. Employing instead a two-step probit estimation, the positive effect of competition is significant for all specification. Inspired by the findings from the restricted model in Section II, which showed that determinants of competition beliefs were different in transition – and old market economies, the IV-Probit and Two-step estimation was repeated for the sample of transition countries and non-transition countries separately. Competition beliefs in non-transition countries have no or even a negative effect; in contrast in transition countries a significant positive effect on strong reform attitudes is observed.

We conclude that at the onset of transition optimistic beliefs on the effect of market competition were conducive to strong reform attitudes in transition countries. Those strong reform attitudes very likely contributed to the implementation of rapid and far-reaching pro-market policies.

IV. Why did Competition Beliefs Overshoot?

There are a number of possible accounts why competition beliefs overshoot. Very optimistic beliefs in the merits of competition in transition countries at the onset of transition could simply result from wrong expectations. People in transition countries knew about the relative material wealth in long time market economies and mistakenly believed

that once market competition is introduced, their living standard will rise to similar levels. In fact, there is empirical evidence of the public holding biased beliefs on economic issues.⁵⁹⁹ There are also a number of theoretical approaches that elaborate upon standard economic theory to account for systematic biases. Caplan reviews these concepts and augments Downs's argument of rational ignorance to rational irrationality.⁶⁰⁰ However, there is no need to resort to explanations of systematic ignorance. With a simple learning model in the spirit of Corneo from 2006, it can be shown that overshooting and convergence of competition beliefs can result from the need to rely on expert information when first hand experience of markets is not available.⁶⁰¹ While some agents directly observe the benefits associated with markets, those living in transition countries do not experience a market economy before transition and accordingly base the belief about the desirability of markets on a signal supplied by an expert. They are aware, that the expert might transmit a biased signal about the benefits associated with markets and accordingly discount the information. Once markets are implemented, all agents receive the same signal from markets, resulting beliefs converge. The logic of the model implies that if anti-market experts are very unlikely, as seems to be a good assumption for the period after the dissolution of the Soviet Union, overly optimistic competition beliefs as found in the data, can only result if the expert was biased in favour of markets.

V. Conclusion

The introduction of market institutions in former centrally planned economies is expected to foster development and bring about convergence toward the living conditions of older market economies. Transition countries are expected to converge to and in fact do converge to older market economies with respect to a large number of measures of economic activity.⁶⁰² The current paper shows that not only living conditions but also beliefs converge. While belief convergence seems natural given the general convergence tendency, it is in fact surprising that initial levels of positive competition beliefs are much higher in transition countries than in experienced market economies.

At the onset of transition there was basically no experience with market competition in these countries. Expert advice was crucial for individual perceptions on the desirability of markets and influenced support for market oriented reforms. It is argued that overly positive beliefs in competition contributed to the possibility of introducing widespread and rapid economic reforms in transition countries. It is shown that in transition countries more positive competition beliefs increased the demand for fundamental changes in the economic system. Once the basic market institutions were installed, individuals made

⁵⁹⁹ Caplan, B.: Systematically Biased Beliefs about Economics: Robust Evidence of Judgemental Anomalies from the Survey of Americans and Economists on the Economy. *The Economic Journal*. 2002, vol. 112, pp. 433–458.

⁶⁰⁰ His argument basically boils down to the familiar argument that no rational agent will choose full rationality if its marginal benefit is smaller than marginal cost of information collection and processing.

Caplan, B.: The Logic of Collective Belief. *Rationality and Society*. 2003, vol. 15, no. 2, pp. 218–242.

⁶⁰¹ Corneo, G.: Media Capture in a Democracy: The Role of Wealth Concentration. *Journal of Public Economics*. 2006, vol. 90, pp. 37–58.

⁶⁰² World Bank, 2002, *ibid*.

actual experiences in a competitive market and accordingly updated their beliefs. Average beliefs in transition and established market economies converge. A learning model can show, that such belief dynamics can result from rational belief formation if an outside expert supplies biased information about the desirability of markets to people in transition countries.

Guriev and Zhuravskaya identify a happiness gap in transition countries.⁶⁰³ They explain a large part of this gap with decreasing supply of public goods, economic instability and the deterioration of human capital. However, decreasing happiness levels might also arise from disappointed expectations with respect to the results of transition. Köszegi and Rabin introduce a model where expectations serve as a reference point for reference dependent utility.⁶⁰⁴ If outcomes are less positive than expected, utility levels are low. In this sense it is conceivable, that a part of the decrease in happiness levels during transition could result from disappointment in the market and competition which did not match high expectations, i.e. positive competition beliefs. This interpretation so far remains hypothetical and it is up to future research to substantiate this claim.

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⁶⁰³ Guriev and Zhuravskaya, 2009, *ibid.*

⁶⁰⁴ Köszegi, B. and M. Rabin: A Model of Reference-Dependent Preferences. *Quarterly Journal of Economics*. 2006, vol. 121, no. 4, pp. 1133-1165.

THE PROMISE OF REGULATORY COMPLEMENTARITIES IN THE GLOBAL ECONOMY: STATE AND PRIVATE REGULATION IN THE ELECTRONICS INDUSTRY

Timea Pal

***Abstract:** The ongoing debates regarding the governance of labor and environmental practices in global production networks resulted in two, apparently contradictory, approaches: private, transnational regulation through labor standards adopted by large lead firms and public, domestic regulation through state legislation and enforcement. In practice, we often see interactions across these two regulatory approaches, with mixed results on regulatory effectiveness. This paper sets some guidelines to explore the conditions under which complementarities across public and private regulations arise and the processes through which they translate into sustainable labor and environmental practices.*

***Keywords:** regulation, governance, global production networks, corporate social (and environmental) responsibility, labor, environment*

Introduction

The organizational fragmentation and geographical dispersion of manufacturing activities represents one of the hallmarks of the current wave of globalization. The emergence of global production networks poses a new set of opportunities and challenges for firms, workers and communities from developing and transition economies⁶⁰⁵. Recent empirical studies suggest that precarious working conditions and environmentally damaging practices are quite prevalent throughout production networks and continue to persist over time⁶⁰⁶. Debates on how to effectively safeguard labor and environment within this context

⁶⁰⁵ Barrientos, Stephanie; Gary Gereffi and Arianna Rossi. 2008. *What Are the Challenges and Opportunities for Economic and Social Upgrading?*. Conference Paper at Manchester, University of Manchester, December 2008: Capturing the Gains

⁶⁰⁶ Barrientos, Stephanie and Sally Smith. 2007. *Do Workers Benefit from Ethical Trade? Assessing codes of labour practice in global production systems*. *Third World Quarterly* Vol (28) 4, p. 213-729.; Locke, Richard; Fei Qin; Alberto Brause. 2007. *Does Monitoring Improve*

of economic integration led to two apparently contradictory approaches: private regulation through labor standards of large lead firms and public regulation through state legislation and enforcement. In practice, we often see interactions across these two regulatory approaches, with mixed results on regulatory effectiveness. Sometimes state and corporate regulations crowd each other out. Other times they conflict with each other and become ineffective when combined. In some cases, however, private and public regulation act in a complementary manner and bring about effective improvements. This paper sets out guidelines to investigate the conditions under which complementarities across public and private regulations arise and the processes through which they translate into sustainable labor and environmental practices. This paper sets out some guidelines to investigate these interactions in a more systematic manner, explore the conditions under which complementarities across public and private regulations arise and the processes through which they translate into improved labor and environmental outcomes. The global electronics industry represents a relevant empirical case due to the prevalence of public and private approaches to address labor and environmental concerns throughout the value chain.

The structure of the paper sets out with a discussion of recent trends in globalization and regulation of industrial manufacturing that are relevant for employment and environment practices in developing and transition economies. After presenting some of the main approaches to address these concerns, I propose an actor centered institutional framework that considers the embedding of corporations within national and international, public and private institutions. I conclude with a brief presentation of the research methodology to further test and develop the hypothesis set in the previous section.

I. Recent Trends in Economic Integration and Regulation of Labor and Environment

Some of the most notable transformation at the global level since the early 1990s include the emergence of transnational production networks, the increasing power of lead multinational companies, and the decline of (national) public authorities⁶⁰⁷. These alterations have important implications for labor and environmental practices, particularly in developing and transition economies where most manufacturing is taking place today⁶⁰⁸.

Labor Standards: Lessons from Nike. Industrial and Labor Relations Review Vol 61(1); Knorringa, Peter and Lee Pegler. 2006. *Globalisation, Firm Upgrading and Impacts on Labour*. Tijdschrift voor Economische en Sociale Geografie 2006, Vol. 97, No. 5, pp. 470–479; Nadvi, K. 2004. *Globalisation and Poverty: How can Global Value Chain Research Inform the Policy Debate?* IDS Bulletin 35, pp. 20–30; Millberg, William. 2004. *Labor and Globalization of Production*. Edited by William Millberg. 2004 Palgrave MacMillan; Kaplinsky, R. & M. Morris & J. Readman. 2002. *The Globalization of Product Markets and Immiserizing Growth: Lessons from the South African Furniture Industry*. World Development 30, pp. 1159–1172.

⁶⁰⁷ Scherer, A.G; Guido Palazzo. 2008. *Globalization and Corporate Social Responsibility*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press; Gibbon, Peter and Stefano Ponte. 2005. *Trading Down: Africa, Value Chains, and the Global Economy*. Temple University Press.

⁶⁰⁸ United Nations Industrial Development Organization (UNIDO). 2009. *Breaking In and Moving Up: New Industrial Challenges for the Bottom Billion and the Middle-Income Countries*. United Nations Industrial Development Organization (UNIDO) Reports.

a) Emergence of Global Production Networks (GPNs)

Recent technological developments and liberalization of trade policies enabled lead firms in various industries to outsource a significant portion of their manufacturing activities and benefit from increasing specialization in a set of core activities and external scale economies. Lead firms still maintain power and control over product definition, design, marketing and coordinate the production process. Production of manufactures, however, takes place increasingly on a network or chain basis with the overwhelming most production sites located in developing and transition countries where labor costs are low. GPNs therefore refer to the nexus of interconnected functions and operations of firms and non-firm institutions organized and coordinated by lead corporations, through which goods and services are produced and distributed⁶⁰⁹. In the electronics/IT industry for example, considered the most obvious example for the rise of global contract manufacturing⁶¹⁰, HP purchases products and materials, manufacturing, transport and other services from approximately 700 direct suppliers from more than 1,200 locations around the world⁶¹¹.

Empirical evidence from several industries suggest that integration in GPNs is not necessarily welfare improving for labor, certainly not all labor, and is often times associated with damaging environmental practices⁶¹². Poor working conditions are of particular concern in the industries that are more low-skill labor intensive such as textile, footwear, assembly of electronics⁶¹³. By 2009, the electronics industry, for example, came to be portrayed as the poster child of the 21st century sweatshops and despoiler of the environment⁶¹⁴ due to the “long hours, low pay, impossibly high production quotas, often unsafe machinery and unhealthy workplace exposures and sometimes abusive treatment by supervisors and managers”, as well as banned unions, wage deductions, mandatory overtime, etc.

b) The rise of corporations

Not entirely unrelated to these shifts in industrial organization and business strategies, large corporations in global markets acquired significant economic and political power in recent years. A recent effort to rank the economic power of countries and corporations revealed that from the top one hundred largest economies the majority were corporations⁶¹⁵. In fact, the top two hundred corporations' combined sales are bigger than the

⁶⁰⁹ Henderson, Jeffrey; Peter Dickens, Martin Hess, Neil Coe, Henry Yeung. 2002. *Global Production Networks and the Analysis of Economic Development*. Review of International Political Economy Vol 9 (3), pp. 434-464.

⁶¹⁰ Gibbon, Peter and Stefano Ponte. 2005. *Trading Down: Africa, Value Chains, and the Global Economy*. Temple University Press.

⁶¹¹ GoodElectronics Newsletter. 8th Edition December 2009. www.gooelectronics.org

⁶¹² Barrientos, Stephanie. 2008. *Contract Labour: The "Achilles Heel" of Corporate Codes in Commercial Value Chains*. Development and Change Vol 39 (6). pp. 977-990; Millberg, William. 2004. *Labor and Globalization of Production*. Edited by William Millberg. 2004 Palgrave MacMillan; GoodElectronics Newsletter. 8th Edition December 2009. www.gooelectronics.org

⁶¹³ Meyer, Klaus. 2004. *Perspectives on Multinational Enterprises in Emerging Economies*. Journal of International Business Studies. Vol. 35, No. 4, Jul 2004, pp. 259-276

⁶¹⁴ <http://ehstoday.com/safety/news/global-electronics-industry-sweatshops-environment-1063/>

⁶¹⁵ <http://www.corporations.org/system/top100.html>

combined economies of all countries, except the largest ten. While these estimations are perhaps not perfectly accurate, they indicate that we are increasingly living in a world economy where large multinational corporations represent important poles of economic and political power⁶¹⁶. Some are concerned that the unrestrained and unaccountable power of corporations will amplify the negative externalities of economic globalization⁶¹⁷.

c) Declining authority of states

Contrary to the growing power of corporations, several scholars pointed out the declining authority of states over society and the economy⁶¹⁸. Scholars disagree on the extent, causes and precise character of this decline, but most agree that the role of state is changing significantly in the era of global capitalism⁶¹⁹. This has manifested itself in national governments shifting their responsibilities and functions up towards the international and/or downward towards the regional/local level⁶²⁰; departing their scope from rights to social insurance and welfare towards more supply side, workforce approaches⁶²¹; transferring its duties outside of the formal state structure to NGOs and the private sector⁶²².

Weak state authority and capacity is of particular concern in developing and transition countries, where governments have been competing with each other to attract foreign direct investment and orders from lead firms, considered essential for economic development⁶²³. Lead corporations can coordinate their supply chains and source from locations that have optimum contribution to profit maximization. Their ability to arbitrate undermines the capabilities of governments to set and enforce rules within their jurisdictions⁶²⁴.

Efforts to govern labor and environmental issues through international labor and environmental standards such as the UN Convention on Human Rights, the International Labor Organization Convention on the Fundamental Rights of Workers, the United Nations Environment Programme (UNEP), the new environmental responsibilities of the World

⁶¹⁶ Stiglitz, Joseph. 2002. *Globalization and Its Discontents*. New York: W. W. Norton & Co; Korten. 2001. *When Corporations Rule the World*. San Francisco. Barrett-Koehler 2001.

⁶¹⁷ Korten. 2001. *When Corporations Rule the World*. San Francisco. Barrett-Koehler 2001; Mokhiber, R and Weissman R. 1999. *Corporate Predators The Hunt for Mega-Profits and the Attack on Democracy*. Common Courage Press.

⁶¹⁸ Habermas, J. 2001. *The postnational Constellation*. Cambridge, Mass. MIT Press; Rodrik, Dani. 1997. *Has Globalization Gone Too Far?* Institute for International Economics 1997; Strange, Susan. 1996. *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge. Cambridge University Press.

⁶¹⁹ Bartley, Tim. 2005. *Over Codes of Conduct in the Apparel Industry*. Research in Political Sociology Vol 14 pp. 211-244; Purcell, Mark. 2002. *The State, Regulation, and Global Restructuring: Reasserting the Political in Political Economy*. Review of International Political Economy Vol 9(2) pp. 284-318.

⁶²⁰ Brenner, Neil. 1998. *Global cities, glocal states: global city formation and state territorial restructuring in contemporary Europe*. Review of International Political Economy 5:1 Spring 1998: 1-37

⁶²¹ Jessop, Bob. 2002. *Globalization and the National State*. in *Paradigm Lost: State Theory Reconsidered*. Stanley Aronowitz and Peter Bratis, Editors. University of Minnesota Press.

⁶²² Bartley, Tim. 2005. *Over Codes of Conduct in the Apparel Industry*. Research in Political Sociology Vol 14 pp. 211-244; Kobrin, S. J. 2001. *Sovereignty at Bay: Globalization, Multinational Enterprise, and the International Political System*. In A.M. Rugman and T.L. Brewer (eds), the Oxford Handbook of International Business. New York. Oxford University Press, 181-2005.

⁶²³ Brown, Dana and Richard Locke. Forthcoming. *Standards versus Sovereignty: Toward Achieving Effective Labor Regulation in the Developing World*; Estache, A. and L. Wren-Lewis. 2008. *Towards a Theory of Regulation for Developing Countries: Following Laffont's Last Book*, ECARES Working Paper 2008_018, Brussels.

⁶²⁴ Kobrin, S. J. 2001. *Sovereignty at Bay: Globalization, Multinational Enterprise, and the International Political System*. In A.M. Rugman and T.L. Brewer (eds), the Oxford Handbook of International Business. New York. Oxford University Press, 181-205.

Bank, etc lacked proper enforcement⁶²⁵. The withering away of institutions that had traditionally been responsible for regulating the negative externalities of markets and the lack of enforcement of international labor and environmental standards resulted in a regulatory deficit at the global level.

II. Governance of Global Production Networks: Alternative Approaches

It is in this context of expanding global production networks, increasing power of large corporations and regulatory deficit that the social and environmental responsibility of large corporations has been reconsidered. The 1990s have seen a proliferation of codes of conducts as a manifestation of public demands by NGOs and unions for large corporations from the West to become more responsible for the social and environmental practices throughout their supply chains⁶²⁶. Since major brand companies control many of the aspects of production carried out by producers located throughout the globe, it was but a short step to argue that these corporations should also take responsibility for the conditions under which subcontractors operate with respect to labor and environment. Today, corporate social responsibility became a significant feature of not only major multinationals from the US and Western European countries, but have also been manifested in Asian, African and Latin American corporations⁶²⁷. Many corporations use internal or external monitors to assess compliance in factories around the world⁶²⁸.

The emergence of this new form of regulation resulted in two, apparently contradictory, approaches to the governance of global production networks. One approach emphasizes the importance of transnational, private regulation through the labor and environmental standards of lead corporations. The other approach underlines the need to encourage national governments to regulate businesses operating in their jurisdictions more effectively.

Advocates of the corporate regulation approach includes of a wide range of scholars, policy makers and development practitioners with very different views on state-society relations and political orientations. This camp comprises scholars who understand corporate responsibility as a legitimate response to the pressures from civil society organizations

⁶²⁵ Scherer, A.G; Guido Palazzo. 2008. *Globalization and Corporate Social Responsibility*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press; Haas, Peter M. 2004. *Addressing the Global Governance Deficit*. Global Environmental Politics, Vol 4, Number, 4, November 2004; Reinicke, W. H. and Deng, F. with Witte, J.M., Benner, T; Whitaker, B. and Gershman, J. 2000. *Critical Choices: The United Nations Network and the Future of Global Governance*. Ottawa: International Development Centre.

⁶²⁶ Scherer, A.G; Guido Palazzo. 2008. *Globalization and Corporate Social Responsibility*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press; Jenkins, R. 2005. *Globalization, Production and Poverty*. United Nations University. World Institute for Development Economics Research. Research Paper No. 2005/40.

⁶²⁷ Crane, Andrew; Abagail McWilliams, Dirk Matten, Jeremy Moon, Donald Siegel. 2008. *The Corporate Responsibility Agenda*. In The Oxford Handbook of Corporate

⁶²⁸ Bartley, Tim. 2005. *Over Codes of Conduct in the Apparel Industry*. Research in Political Sociology Vol 14 pp. 211-244.

and unions⁶²⁹; adepts of the power-responsibility equation which implies the assumption of a greater responsibility for labor and environment along with the increasing concentration of economic and political power⁶³⁰; those who view corporations as social organizations where members have values and preferences that shape corporate goals and strategies⁶³¹; scholars who see corporations as integral parts of society, as citizens of society, and for this reason argue for the contribution of corporations to the common good. Last but not least, it also includes the adepts of the so-called “New Right”⁶³² who generally regard states as inefficient, partisan, based on producer interests, etc whereas markets and corporations are seen as efficient, neutral and consumer oriented.

Others however claim that the main responsibility of business is to generate profits for their shareholders and safeguarding labor and environment should remain the responsibility of the state⁶³³. The adepts of this approach are generally referred to as the Friedmanites due to the famous statement of Milton Friedman on the same note⁶³⁴. The adepts of state regulation also include scholars who are increasingly alarmed by the growing power and authority of private actors in the governance of labor and environment and are concerned that they will crowd out state regulation⁶³⁵. A large number of studies point out the significant limitations of governance through the corporate social and environmental responsibility programs of lead corporations⁶³⁶ and emphasize the importance of state regulation in developing countries⁶³⁷.

More recent scholarship suggests that neither states nor private corporations can by themselves redress labor and environmental issues in the global economy. In fact, a mix of state and private efforts might be necessary⁶³⁸. What mix of domestic and international,

⁶²⁹ Carroll, Archie. 2008. *A History of Corporate Social Responsibility: Concepts and Practices*. In The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press; Millington, Andrew. 2008. *Responsibility in the Supply Chain*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press; Matten, D. and Crane A. 2005. *Corporate Citizenship: Towards an Extended Theoretical Conceptualization*. *Academy of Management Review*, 30: 166-79.

⁶³⁰ Mele, D. 2008. *Corporate Social Responsibility Theories*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press.

⁶³¹ Kurtz, Lloyd. 2008. *Socially Responsible Investment and Shareholder Activism*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press 2008; Reich, Robert. 2007. *Supercapitalism: The Transformation of Business, Democracy and Everyday Life*. Reed Business Information, a division of Reed Elsevier Inc 2007

⁶³² Hanlon, G. 2008. *Rethinking Corporate Social Responsibility and the Role of the Firm - on the Denial of Politics*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press; Stiglitz, Joseph. 2002. *Globalization and Its Discontents*. New York: W. W. Norton & Co.

⁶³³ Mele, D. 2008. *Corporate Social Responsibility Theories*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press.

⁶³⁴ Salazar, Jose; Bryan Husted. 2008. *Principals and Agents: Further Thoughts on the Friedmanite Critique of Corporate Social Responsibility*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press.

⁶³⁵ Strange, Susan. 1996. *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge. Cambridge University Press.

⁶³⁶ Locke, Richard; Akshay Mangla and Matthew Amangual. 2009. *Virtue out of Necessity? Compliance, Commitment and the Improvement of Labor Conditions in Global Supply Chains*. *Politics & Society* September 2009 vol. 37 no. 3 319-351; Vogel, David. 2005. *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*. Washington: The Brookings Institution; Esbenshade, J. 2004. *Monitoring Sweatshops: Workers, Consumers and the Global Apparel Industry*. Philadelphia: Temple Univ Press.

⁶³⁷ Pires, Roberto. 2009. *Flexible Bureaucracies: Discretion, Creativity, and Accountability in Labor Market Regulation and Public Sector Management*. PhD Dissertation Thesis. Department of Urban Studies, International Development. MIT; Piore and Schrank, 2007; Piore, Michael and Andrew Schrank. 2008. *Toward Managed Flexibility: The Revival of Labour Inspection in the Latin World*. *International Labour Review* vol 147 (1); Haas, Peter M. 2004. *Addressing the Global Governance Deficit*. *Global Environmental Politics*, Vol 4, Number, 4, November 2004.

⁶³⁸ Brown, Dana and Richard Locke. Forthcoming. *Standards versus Sovereignty: Toward Achieving Effective Labor Regulation in the Developing World* ; Vogel, 2008; Haas, Peter M. 2004. *Addressing the Global Governance Deficit*. *Global Environmental Politics*, Vol 4, Number, 4, November 2004.

private and public, would enable global firms and markets to be better governed have not been examined in a systematic manner.

IV. Towards an Integrated Analytical Framework

The framework I propose to examine the social and environmental practices of firms integrated in global production networks sets out with the recognition that these firms are embedded in both national, public and transnational, private systems of governance. The behavior of firms should therefore be viewed in terms of the interactions across these two systems. In this section, I attempt to combine macro and micro level research to explore the effects that the intersections of these two regimes of governance have on reasoning and decisions at the micro level.

The social and environmental practices of firms are explained in terms of the overlaps, conflicts and complementarities that arise between the scope and implementation of global standards and domestic state regulation of different character. Rather than assuming that the new configurations of rules influence firm behavior in a straightforward and deterministic manner, I intend to illustrate how their influence on firm practices is mediated through the institutional and political context they are embedded in. I present a set of propositions to describe how (1) the type of coordination predominant in national business system, (2) government's policies towards corporate self regulation, (3) a country's industrial relations system with particular emphasis on unions representation rights and effectiveness to influence outcomes, and (4) a country's management ideology regarding corporate regulation might affect the ways and extent to which complementarities between private, transnational and public, national regulation is more likely to arise.

This multi-level and multi-institutional perspective can help us understand labor and environmental practices across borders within GPNs. I use global production network governance and comparative institutionalist approaches as building blocks for the integrated framework. Since I consider the interplay between institutions and actors within a setting, I adopt an actor-centered approach towards institutions⁶³⁹.

The initial focus of the emerging literature of global production networks was almost exclusively on the organization of production in supply chains and the type of inter-firm relationships emerging between lead and affiliated firms⁶⁴⁰. This literature made two important contributions. It introduced an analytical framework that corresponded with

⁶³⁹ Aguilera, Ruth and Gregory Jackson. 2003. *The Cross-National Diversity of Corporate Governance: Dimensions and Determinants*. The Academy of Management Review Vol 28(3), pp. 447-465

⁶⁴⁰ Sturgeon, Timothy. 2007. *From Commodity Chains to Value Chains: Interdisciplinary Theory Building in an Age of Globalization*. Sloan Industry Studies Working Papers. WP-2007-41; Knorringer, Peter and Lee Pegler. 2006. *Globalisation, Firm Upgrading and Impacts on Labour*. Tijdschrift voor Economische en Sociale Geografie 2006, Vol. 97, No. 5, pp. 470-479; Gereffi, Gary; John Humphrey and Sturgeon, Timothy. 2005. *The Governance of Global Value Chains*. Review of International Political Economy. 12(1): 78-104; Humphrey, J. & H. S. Chmitz. 2002. *How does Insertion in Global Value Chains Affect Upgrading in Industrial Clusters?* Regional Studies 36.

new arrangements emerging in the global economy. And it reintroduced the concept of power in global markets and production regimes, by acknowledging the power asymmetries that exist between lead firms and their suppliers. Different styles of network governance due to the structure of the industrial chain or the genetic codes of lead firms results in different types of influences of lead firms on their suppliers from developing and transition countries⁶⁴¹.

Labor issues were initially completely neglected in this body of literature but that started to change recently by examining the impact of GPN integration on labor outcomes with most studies pointing out the precarious working conditions that persist in global value chains⁶⁴². The drive towards corporate social responsibility (CSR), ethical sourcing, fair trade, and related initiatives came to be seen as potentially carrying great benefits for labor and environmental outcomes⁶⁴³. Efforts to integrate CSR practices in GPN analysis are, however, really rare. The exceptions include a study conducted recently by Hughes et al in 2008 which suggests that codes adopted by lead buyers do influence the governance of these networks in important ways. Significant differences, however, exist in the extent to which the responsibility programs of lead firms emphasis auditing, invest in efforts to build capabilities among suppliers, the compatibility and integration of these standards with the purchasing practices of lead firms, emphasis on legal or standard compliance⁶⁴⁴. This echoes previous findings of implementation of CSR practices in textile, sugar and electronics firms, that improvements are more likely to emerge where lead firms audit their suppliers, adopt a cooperative approach to address violations and invest in capability building programs⁶⁴⁵.

Hypothesis 1: The implementation of labor and environmental codes of conduct by lead firms in global production chains is complementary with state regulations when they (a) emphasize audits, (b) adopt a cooperative approach to address non-compliances, (c) invest in the capabilities of their suppliers to comply, and (d) integrate to at least some extent their social and environmental responsibility program in their purchasing practices. When all or at least most of these conditions apply, improvements in social and environmental practices at the firm level are more likely to emerge. As far as the relative importance of these, my initial assumption is that the extent to which social and environmental standards are integrated into purchasing practices carries the most weight, although it is also probably the least likely to encounter.

⁶⁴¹ Haas, Peter M. 2004. *Addressing the Global Governance Deficit*. Global Environmental Politics, Vol 4, Number, 4, November 2004.

⁶⁴² Barrientos, Stephanie; Gary Gereffi and Arianna Rossi. 2008. *What Are the Challenges and Opportunities for Economic and Social Upgrading?*. Conference Paper at Manchester, University of Manchester, December 2008: Capturing the Gains; Knorringa, Peter and Lee Pegler. 2006. *Globalisation, Firm Upgrading and Impacts on Labour*. Tijdschrift voor Economische en Sociale Geografie 2006, Vol. 97, No. 5, pp. 470–479; Nadvi, K. 2004. *Globalisation and Poverty: How can Global Value Chain Research Inform the Policy Debate?* IDS Bulletin 35, pp. 20–30.

⁶⁴³ Shaw, D., T. Newholm & R. Dickinson. 2005. *Consumption as Voting: An Exploration of Consumer Empowerment*. Mimeograph. Glasgow Caledonian University; Pollin, R., J. Burns & J. Heintz. 2004. *Global Apparel Production and Sweatshop Labour: Can Raising Retail Prices Finance Living Wages?* Cambridge Journal of Economics 28, pp. 153–171; Frenkel, S.J. 2001. *Globalization, Athletic Footwear Commodity Chains and Employment Relations in China*. Organization Studies 22, pp. 531–562.

⁶⁴⁴ Hughes, Alex, Neil Wrigles and Martin Buttle. 2008. *Global Production Networks, ethical campaigning and the embeddedness of responsible governance*. Journal of Economic Geography 8 (2008), pp. 345-367.

⁶⁴⁵ Locke, Richard; Akshay Mangla and Matthew Amangual. 2009. *Virtue out of Necessity? Compliance, Commitment and the Improvement of Labor Conditions in Global Supply Chains*. Politics & Society September 2009 vol. 37 no. 3 319-351.

The rise of complementarities between private and state regulation however can be hindered or enhanced by the broader institutional and political context in which suppliers are embedded. This is consistent with recent efforts in the global value chain literature to expand the analytical framework to consider the role of local institutions in facilitating industrial upgrading⁶⁴⁶. The comparative institutionalism tradition addresses the way differences in the institutional foundations of systems of political economy influences firm strategies and performance.

A recent advance in the area of comparative political economy pioneered by Hall and Soskice (2001) suggests that the type of institutions at the very foundation of a capitalist economy influence to a significant degree the path of development within that nation. The adepts of this approach claim that the constellation of institutions governing corporate governance, internal structures of firms, industrial relations system, the educational and training system, inter-firm relations, and state intervention in the economy and society are not haphazard but governed through functional complementarities⁶⁴⁷. These complementary constellations of national institutions fit into two different types of constellations: liberal market economies (LMEs) and coordinated market economies (CMEs), corresponding to the two mechanisms that firms can rely on to coordinate their interactions. The market mechanism, predominant in LMEs, governs firm behavior through prices and contracts. Strategic coordination, typical for CMEs, on other hand, is ensured through a set of institutions that enable effective information sharing, monitoring, sanctioning and deliberation.

The logic and relevance of this typology developed by Hall and Soskice has been widely criticized over time, and it does not seem to fit transition and developing economies perfectly⁶⁴⁸. There is however a growing literature on Central and Eastern European transition economies that suggests that while most countries from the region fall somewhere on the continuum of coordination, some countries resemble more the idealized CME, LME typologies⁶⁴⁹. Building on this distinction of coordination mechanisms that are most prominent within a system of political economy, I propose that:

Hypothesis 2: The complementarities between corporate regulation and state regulation will be enhanced in a liberal market economy type of setting relative to other types of national systems of political economies due to the cognitive overlaps, more accepting attitudes of involved actors and better fit with other institutions.

Given the focus of this paper on corporate social and environmental practices the emphasis of a subset of specific institutions of national economies, more relevant for these issues such as the regulatory context and industrial relations, seems in order. This is also in

⁶⁴⁶ Sturgeon, Timothy. 2007. *From Commodity Chains to Value Chains: Interdisciplinary Theory Building in an Age of Globalization*. Sloan Industry Studies Working Papers. WP-2007-41.

⁶⁴⁷ Hall, Peter and David Soskice, 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford University Press 2001.

⁶⁴⁸ Bandelj, Nina. 2003. *Varieties of Capitalism in Central and Eastern Europe*. Presentation at the Society of Comparative Research Graduate Retreat, May 9-10, 2003.

⁶⁴⁹ Cernat, Lucian. 2006. *Europeanization, Varieties of Capitalism and Economic Performance in Central and Eastern Europe*. in *Studies in Economic Transition* edited by Jens Holscher and Horst Tonmann. Palgrave MacMillan 2006; Knell, Mark and Martin Shrolek. 2005. *Emerging Varieties of Capitalism in Central and Eastern Europe*. Presentation for the Varieties of Capitalism Conference. Paisley University, 23-24 September 2005; Feldmann, Magnus. 2006.

line with most analyses of VOC as they focus primarily on one dimension, as covering several patterns of relations may go beyond the scope of a single article⁶⁵⁰.

With the increasing popularity of corporate self-regulation, there is a growing policy and academic literature on this topic. Comparative examinations of CSR practices are however rare⁶⁵¹. The few studies that do adopt a comparative legal and institutional approach to CSR focus primarily on advanced societies. Some of the exceptions include a recent and comprehensive comparison of regulations and government policies across the European Union by Gonzalez and Martinez (2004). This analysis illustrates some differences across nations, but a general tendency of not addressing company responsibilities for suppliers' actions and an almost exclusive reliance on very soft market incentives to promote corporate regulation. This is also consistent with findings from recent research as part of a broad EU level study that most governments from Eastern Europe equate CSR programs of corporations with sponsorship with community projects.

Hypothesis 3: Complementarities between private, transnational and state, domestic regulation of global production networks are more likely to arise in contexts where corporate regulation has been promoted explicitly by governments in ways that go beyond tax incentives provided for community sponsorships by shaping the views on the legitimacy of these private practices by foreign multinationals.

Building on an extensive literature in the realm of management studies that indicates that the relevance of the attitudes of individual and teams of managers, the comparative literature from CSR also address the role of social norms and cultures and individual beliefs and values in forming attitudes of top management teams towards CSR⁶⁵². Building on these studies, I suggest that:

Hypothesis 4: Complementarities between corporate and state regulation are more likely to arise in a context where the attitudes and strategies of managers are more favorable towards corporate social responsibility due to the cognitive overlap and favorable views on the legitimacy of this form of private governance.

Last, but not least, I will consider the attitudes of labor and environmental organizations institutions as well as their effectiveness to influence macro and micro level decisions within the context of the industrial relations and environmental policy system of a particular country. This builds on previous studies that compare the differences and similarities in the attitudes and strategies NGOs to use CSR to promote their agenda⁶⁵³ with a focus primarily on advanced societies. Understanding how labor unions and civic society advocacy

⁶⁵⁰ Feldmann, Magnus. 2006. *Emerging Varieties of Capitalism in Transition Countries: Industrial Relations and Wage Bargaining in Estonia and Slovenia*. *Comparative Political Studies*, Vol. 39 (7), pp. 829-854.

⁶⁵¹ Williams, Cynthia and Ruth Aguilera. 2008. *Corporate Social Responsibility in Comparative Perspective*, in *The Oxford Handbook of Corporate Social Responsibility*. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press.

⁶⁵² Williams, Cynthia and Ruth Aguilera. 2008. *Corporate Social Responsibility in Comparative Perspective*, in *The Oxford Handbook of Corporate Social Responsibility*. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press.

⁶⁵³ Doh, Jonathan and Terrence R Guay. 2006. *Corporate Social Responsibility, Public Policy and NGO Activism in Europe and the United States: An Institutional-Stakeholder Perspective*. *Journal of Management Studies* 43:1 January 2006

groups view the increasing popularity of these programs is largely missing⁶⁵⁴. By simply looking at the attitudes and strategies of these actors is, however, not sufficient as their effectiveness in influencing political and economic decisions affecting labor and environment vary significantly across national contexts. The institutions of collective bargaining at national, industry and firm level of worker organizations are therefore considered in evaluating the role of labor and environmental organizations in enabling synergistic complementarities between the two systems of regulation.

Hypothesis 5_1: Complementarities between private systems of governance and state regulation are more likely to emerge in contexts where unions see private labor standards as an opportunity to promote their interests, have a higher membership density and participate in collective bargaining.

The industrial system particular to Eastern European transition economies is a hybrid type of industrial relations system, with national tripartite systems at one end and decentralized workplace representations and relations at the other⁶⁵⁵. The intermediate level representation is very weak and collective bargaining at the intermediate level is almost nonexistent. Recent studies that examined the prominence and strength of company level bargaining, however, claim that collective bargaining in the region does not really produce tangible results⁶⁵⁶. Within this context of weak local bargaining and intermediary representation, the substantive and procedural aspects of labor regulation at the central level are particularly relevant⁶⁵⁷.

While labor organizations are generally more organized and institutionalized in a particular nation's industrial relations system, environmental politics tend to be dominated by relatively unstructured pluralist interest groups. By contrasting these two types of political and institutional constellations, important lessons can be drawn for the broader problems of governance. Studies of NGO participation in environmental governance in Central and Eastern European region suggest that while formal institutions of civic society group inclusion have been established in the region, these are often times simply symbolic⁶⁵⁸. It is therefore particularly important to investigate how these public, domestic as well as the private, international institutions are utilized by environmental groups in the region.

Hypothesis 5_2: Complementarities between private, market driven and state regulation are more likely to come about in contexts where domestic environmental organizations regard environmental codes of conduct to promote their interests.

⁶⁵⁴ Scherer, A.G; Guido Palazzo. 2008. *Globalization and Corporate Social Responsibility*. The Oxford Handbook of Corporate Social Responsibility. A. A. M. Crane, Dirk Matten and Jeremy Moon. Oxford, Oxford University Press.

⁶⁵⁵ Pollert, Anna. 2000. *Ten Years of Post-Communist Central Eastern Europe: Labour's Tenuous Foothold in the Regulation of the Employment Relationship*. Economic and Industrial Democracy 2000; 21; 183

⁶⁵⁶ Neumann, Laszlo. 2002. — Does Decentralized Collective Bargaining Have an Impact on the Labour Market in Hungary - European Journal of Industrial Relations, 2002, 8, 11

⁶⁵⁷ Falkner, Gerda; Emmanuelle Causse, Clemens Wiederman. 2006. Post-Accession Compliance in Central and Eastern Europe: Transposition and Application after the Age of Carrots and Sticks - Paper for the eps-net Plenary Conference, 16 to 17 June 2006, Budapest; Czubak, Bozena. 2002. *Labour Law developments in Hungary*. South-East Europe Review (SEER) for Labour and Social Affairs, issue: 03 special / 2002, pages: 12-22.

⁶⁵⁸ Hallstrom, Lars K. 2006. *Eucrotising Enlargement? EU Elites and NGO Participation in European Environmental Policy*. Environmental Politics, 13: 1, 175 — 193

VI. Research Methodology

The analysis of labor and environmental practices of electronics firms located in Central and Eastern Europe (CEE) provides the empirical window through which I test and further develop these hypotheses. Central and Eastern Europe is a prominent manufacturing region in the global electronics industry with mixed performance in complying with labor and environmental standards⁶⁵⁹. Through a set of within and cross-country contextualized case comparisons, I explore the conditions under which complementarities across state and private regulations arise and the processes through which they drive positive change. The independent variable is different combinations of state-private regulatory approaches, evaluated in terms of the content of the scope and implementation of standards and national legislations. The dependent variable is regulatory effectiveness, for which I will use labor conditions and environmental practices themselves as indicators. The particular practices I examine include: reliance on and employment conditions provided for temporary agency workers and skill investments for labor, and disposal of industrial waste for environment. These issues are of particular concern in the global electronics industry and require different types of competencies for their effective regulation.

The field research proceeds in two stages. In the first stage, I conduct a series of within country comparisons (in Hungary) across companies that operate in the same national regulatory context but are exposed to transnational, private governance of different character. In the second stage of the analysis, I continue case comparisons with cases from two other CEE countries: Slovenia and Romania. Due to variations in the national institutions and predominant mechanisms of coordination, these three countries have been identified as coordinated (Slovenia), liberal (Hungary), and hierarchical (Romania) forms of capitalisms. The cross-country variation is especially apparent in their industrial relations systems and regulatory environments. Slovenia relies on more corporatist form of regulation, Hungary resembles a pluralist model, with the state relying less on actors from the private sphere in Romania. These countries also have different types of industrial relations systems in place and prominence of corporate self-regulation initiatives.

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⁶⁵⁹ makeITfair. 2009. *On the Move: Electronics Industry in Central and Eastern Europe*; Locke, Richard, Timea Pal, Ben Rissing. Forthcoming. *Institutional Interactions and Divergent Ways to Improvement in Global Supply Chains*.

CROSS-FERTILIZATION OF CULTURES THROUGH ENTREPRENEURIAL ACTION: THE BERLIN CASE

Demet Tuncer

Many of them will build a new life in Germany, will take root and visit their country of origin just as guests.

Theodor Marquand, 1966

Manager of German Communication Bureau , Istanbul

Abstract: *This paper is searching for the meeting points of cultural understandings with diverse dimensions in the markets. The context of this paper is basically transnational entrepreneurship, but it is also strengthened by literatures on globalization and cosmopolitanism. In the paper, Cosmopolitanism is used as a meta-theory where individuals define themselves through a new identity ready to embrace the other – different but same.*

Keywords: *Cross fertilization, transnational entrepreneurship, cosmopolitanism, case study, Berlin*

INTRODUCTION

We have experienced a decade, in which the nation-state constructed life of the citizen left its imprint on the individual socialization process as the walls fell down and the borders disappeared from the maps. Reflections of this individual socialization have important place in the phenomenon of entrepreneurship. Entrepreneurs, surfing on the waves of an environment characterized by continuous and discontinuous change, try to make best of it through recognizing opportunities, enhancing and implementing change in the markets by means of innovation. They also try to influence the change coming afterwards. Entrepreneurship takes a special meaning if we talk about “immigrants”. For the immigrants, entrepreneurship is a way of gaining economic independency, a manifestation of a certain identity with its customs since it targets specific groups sometimes and a natural way of integration which occurs in the market, through commercial exchange processes between the owners, employees, customers, suppliers, the state and the umbrella corporations. It is these exchange processes which create value in an economy and they are the main foci of this paper, which will try to analyze these processes by using the data obtained from German

entrepreneurs and the entrepreneurs of the largest immigrant group in Germany: three generations of Turkish immigrants.

I. TURKISH IMMIGRANTS IN GERMANY

Began as a labor migration, based on a 2 years limited contract, which was signed in 1961 between Turkey and Germany⁶⁶⁰; transfer of Turkish migrants as guest workers lasted until 1973. Turkish migrants were of great importance in the economic boom that the German economy had experienced in those years.⁶⁶¹ In this period 865.000 Turkish guest workers had been invited to Germany, approximately 200.000 of them had received extra invitations prepared in their names by the German employers, who had already visited technical vocational schools in Turkey⁶⁶². Federal German Employers Corporation (BDA – *Bundesvereinigung der Deutschen Arbeitgeberverbände*) published a special report on December 12, 1962 drawing the attention of government to the work permit extension of Turkish guest workers.⁶⁶³ From a very restricted work relation, a more serious contract could be signed in 1964, again with the pressure of the German producers. With this extended agreement the Turkish guest workers could also receive the rights for work permit, residency permit and special conditions for their families, which had already been given to the other workers from Spain, Italy, Portugal and Greece. Guest workers who had first left their families, mostly their children behind, began to take their family members, esp. the young ones. They were scared of losing their children in a political street battle due to the terror environment in Turkey in the 1970s. Just before the military intervention in 1980, thousands of children and adolescents (between the ages 7-17) who had been living with a relative; grandmothers, in most cases; were brought to Germany⁶⁶⁴. In addition to these family reunifications, after the military intervention in Turkey, asylum seekers, mostly of Kurdish origin began to look for a new *Heimat* in Germany⁶⁶⁵

Although the guest workers from the other countries like Italy, Portugal and Greece left Germany after observing an economic betterment in their countries of origin in the 1980s as a result of the support received from the European Economic Community after their countries' accession to *common market*, Turkish guest workers remained in Germany. Turkey had taken a very different socio-economic course other than the way of living they knew years ago. Some of them, who had caught very good economic and social levels, left Germany in the period between 1983 and 1985 by signing an agreement with the govern-

⁶⁶⁰ German firms had already begun to sign private contracts before 1960 searching for work force on their own in Turkish rural areas. The first 1000 immigrant female workers between the ages 19-25, selected from weaving ateliers in inner Aegean, West Anatolia, due to their small/flexible hands, had been invited with a one-year-limited contract. They had brought a legendary performance in the production line of a German producer in Berlin, opening the gate for more interest in Turkish labor force (Expert Interview, July 2009, Berlin, Germany).

⁶⁶¹ Verbal Nota Agreement

⁶⁶² Eryilmaz, A., *Almanya'da 40 yıl, yaban sila olur. Konferenzbeitrag (DOMID -Dokumentationszentrum und Museum über die Migration in Deutschland. Istanbul. 2002.*

⁶⁶³ BDA claimed two reasons for this extension: the negative influence of a possible rotation and the extraordinary performance of the Turkish labour force, found in *ibid.*

⁶⁶⁴ Expert Interview, April 2008, Essen, Germany.

⁶⁶⁵ (between 1974-1983 1.150.000 people with Turkish citizenship arrived Germany), while the number of returnees were 986.000.⁶⁶⁵

ment stating that they gave up all their rights and received their cumulated social savings in return for leaving Germany permanently.⁶⁶⁶

Today, the immigrants from Turkey and their children make up the largest immigrant community in Germany. The economic course in Germany has also changed a lot since the second half of the 1980s. German unification and the transfer of production to the Eastern European countries – also to Turkey - had negative consequences for the German society. Due to these developments, a dramatic unemployment arose in Germany. Turkish immigrants were also unemployed. In some cases, they resigned themselves in passive way⁶⁶⁷ in order not to feel the embarrassment of taking unemployment benefits from the state.⁶⁶⁸ They did not have any clues about their futures in Germany and/or in Turkey.

They began to live in small communities and tried to create an *emotionally secure* space where they collectively *regenerated* the rules and boundaries -based mostly on traditional way of living in small villages they brought from their country of origin⁶⁶⁹. In the following years, immigration through *arranged marriages* strengthened both the community ties and the *reproduced rituals* other than the mainstream societies of Germany and Turkey. Immigrant women became more and more the subjects of these rituals with sharp boundaries who had to serve as the warriors, nurturers and sustainers of these parallel worlds.⁶⁷⁰

Today, in Germany around 3 million people with *migration background* have their roots in Turkey. Some examples of immigrant entrepreneurship based on the opportunities occurred in the structural holes between two countries⁶⁷¹ have proved to be successful; for creating new markets like ÖGER. However, in reality it was the trauma of unemployment that pushed Turkish immigrants for self-employment and opened them the way to entrepreneurship. Today many Turkish immigrants are self-employed in service-dominant sectors like gastronomy, cleaning, in the ethnic economy, based on the resources and the needs of the community and manifesting an independency from the state transfer services.

Similarly, the children of the guest workers have moved to the open markets in a silent way, with non-recognizable entrepreneurial identities. Most of these second or third generation immigrants have German citizenship therefore they do not appear in the statistics done by the German government on the Turkish immigrants.

Furthermore, cross-community entrepreneurship have also taken place, entrepreneurs with Turkish descent have come from Netherlands and France to Germany to found firms.⁶⁷²

⁶⁶⁶ This phenomenon is known as *putting the rights on fire* among the returnee guest workers in Turkey. (Expert Interview, April 2008, Marxloh/Duisburg, Germany)

⁶⁶⁷ Jahoda, M., Paul Felix Lazarsfeld and Hans Zeisel. *Die Arbeitslosen von Marienthal. Ein soziologischer Versuch über die Wirkungen langandauernder Arbeitslosigkeit.* Suhrkamp Verlag, Auflage 22. 1975.

⁶⁶⁸ This was a totally new situation, as they had very limited relations with the state which was mostly based on *distance and fear* and were quite autonomous formerly in Turkey (Expert Interview, November 2007, Kreuzberg/Berlin, Germany)

⁶⁶⁹ Bourdieu, P.: *Outline of a Theory of Practice.* New York: Cambridge University Press, 1997.

⁶⁷⁰ Moller Okin, S. *Is multiculturalism bad for women?* Princeton University Press. 1999.

⁶⁷¹ Burt, R. *Brokerage and Closure: An Introduction to Social Capital.* Oxford University Press. 2005.

⁶⁷² Expert Interview, November 2007, Kreuzberg/Berlin, Germany.

Germany prepares to welcome new intellectual capital from diverse countries and the experience gained through “living together” for about 50 years is surely relevant: children of the Turkish guest workers –having reached the 4th generation already- are not guests anymore but the hosts who are expected to take care of the new comers and play an important role in the internationalization policy of Germany. Searching for the clues of mutual influences we defined as *cross fertilization* in the entrepreneurial experience this paper aims to work on our imaginary borders built up as a result of our socialization processes in different social contexts: can entrepreneurial action in the markets, where diverse cultures, generations, mentalities survive, exist together and interact with each other, help opening up the borders and encourage us for a better “living together”?

II. CROSS-FERTILIZATION IN THE MARKET

Transnational Entrepreneurship

It makes sense to first draw the boundaries of the context in which we will work before proceeding with our study, namely, Transnational Entrepreneurship (TE). As the meaning of immigration has changed and the 3% of the world population has an immigration experience, 10% of whom live in the developed countries⁶⁷³, the entrepreneurship scholars have worked on the ethnic entrepreneurship, immigrant entrepreneurship and international entrepreneurship/business to develop a more convergent and up-to-date approach to phenomenon. They considered also the critical sociological and anthropological perspectives. According to the new institutional framework⁶⁷⁴, TE is considered to include entrepreneurial activities carried out in a cross-national context, realized by actors who are the members of at least two different social and economic arenas that allow them to be active in critical global relations, which enhance their ability to creatively, dynamically, and logistically maximize their resource base. They are in a unique position to identify and exploit opportunities which are also strongly supported by the “structural holes” perspective of social capital previously introduced.⁶⁷⁵ It wouldn't be inappropriate to propose that changing understanding of international migration and diasporas have paved the path for the increasing relevance of transnationalism and TE. Global communication and travel facilities, existence of heterogeneous populations in many formerly mono-cultural cities and countries' welcoming of entrepreneurship and support have also been relevant. All of these factors have significantly influenced the development of social networks on different levels, information sharing, and creation of new markets.

⁶⁷³ Riddle, L. Diasporas: Exploring their development potential. ESR Review. 2008, vol. 10, nr. 2, pp. 28-36.

⁶⁷⁴ *ibid.*

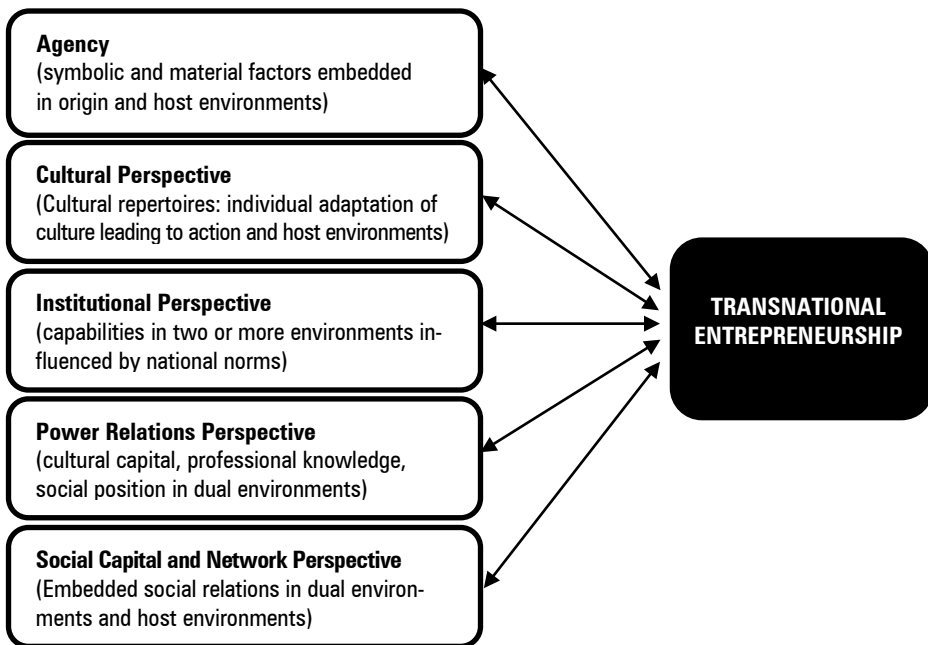
⁶⁷⁵ Burt, R., *ibid.*

WHERE DO WE GO FROM HERE?

Economic trends, social trajectories and policies of identities in post communist capitalism.

According to the sociologists⁶⁷⁶, TE can be viewed in the frame of integration and socio-economic adaptation of immigrants on the individual level, or in terms of social structure and network relations of immigrant communities on the collective level⁶⁷⁷. Influence on certain industries, and integration into mainstream institutional frameworks,⁶⁷⁸ motivation to move to the open market and the tendency to become a transnational entrepreneur⁶⁷⁹ have also been points of attention. All these aspects have been analyzed with qualitative vs. quantitative methods as if they were distinct causal variables of the entrepreneurial phenomenon on the multicultural level in a fragmented way. According to this convergent institutional framework (see Figure I), “TE consists of individual entrepreneurs who *leverage* opportunities that arise from their dual fields and networks, optimizing resources where they may be most effective”.⁶⁸⁰ TE differs from ethnic entrepreneurship as it occurs on the international level. As a result, entrepreneur’s *cosmopolitan* way of life delivers the needed context for recognizing the opportunities and offers distinct advantages for the transnational enterprise.

Figure 1: Factors influencing Transnational Entrepreneurship and Their Outcomes



Source: Drori, Israel., Beson Honig and Mike Wright: Transnational Entrepreneurship. Entrepreneurship Theory & Practice. 2009, vol. 28, no.3, pp. 1013.

⁶⁷⁶ Light & Gold, 2000; Morawska, 2005; Portes & Jensen, 1989. found in Drori, I., Beson Honig and Mike Wright: Transnational Entrepreneurship. Entrepreneurship Theory & Practice. 2009, vol. 33, no.5, pp. 1001-1022.

⁶⁷⁷ Light & Gold, 2000, found in *ibid.*

⁶⁷⁸ Light & Bonacich, 1988, found in *ibid.*

⁶⁷⁹ Portes 1995, found in *ibid.*

⁶⁸⁰ *ibid.*

Cosmopolitanism

*“It is vital to perceive others as different and as the same
– something that is ruled out by both hierarchical ordering and universal equality.
Whatever is strange should be regarded and evaluated not as a threat,
as something that brings disintegration and fragmentation in its train,
but as **enriching** in the first place.”⁶⁸¹*

Global interactions between diverse populations paved the path for economic integration, political cooperation, amalgamations of arts, music and taste, media coverage, mass tourism and communication technologies.⁶⁸² Consisting of the words, **cosmos** (universe) and **polis** (city), cosmopolitanism is the ideology that all kinds of human ethnic groups belong to a one community, based on a shared overall understanding of moral mentality. Diogenes of Sinope in c. 412 B.C., the forerunner of cosmopolitanism defined himself as “a citizen of the world”.⁶⁸³ Stoics conceptualized his ideal of a world citizenship among whom Hierocles delivered a remarkable model of identity, stating that a person should regard himself as a concentric circle, the first circle is the human mind, next comes the immediate family, followed by the extended family, and then the local community; then comes the community of neighboring towns, followed by his country, and finally the entire human race.⁶⁸⁴ The task of world citizens is then defined as drawing the circles in towards the centre, making all human beings part of their concern.⁶⁸⁵

With contributions from scholars like Kant, Derrida, Levinas different perspectives of cosmopolitanism have emerged.⁶⁸⁶ Merton distinguished cosmopolitans from people exclusively embedded in their local surroundings with a certain feeling of being an integral part of the world.⁶⁸⁷ Scholars have also made many attempts to theorize the implications of globalization for the organization and reconstruction of social and cultural life; Beck argues that ‘cosmopolitanism is no longer a dream but has become a social reality, however distorted, which has to be explored’.⁶⁸⁸ Weenink brings the critic that cosmopolitanism is also seen as a form of cultural and social capital, rather than feelings of global connectedness or curiosity in the other.⁶⁸⁹

TE delivers the basis for different cultures not only to exist together but also to interact with each other, through various amalgamations in the business concepts and members of the market. Turkish migrants have not only brought a national culture with them, but they have also brought many ethnicities and various forms of collective action existent

⁶⁸¹ Beck and Grande, 2007, pp. 44, found in Pichler, F. How Real is Cosmopolitanism in Europe? *Sociology*. 2008. vol. 42, pp. 3.

⁶⁸² *ibid.*

⁶⁸³ Diogenes Laertius, *The Lives of Eminent Philosophers*, Vol. II. Loeb Classical Library, 1925.

⁶⁸⁴ Beck, U. *The Cosmopolitan Vision*, Cambridge: Polity Press, 2006. p. 45.

⁶⁸⁵ Nussbaum, M. C. Kant and Stoic Cosmopolitanism. *The Journal of Political Philosophy*. 1997. vol. 5, Nr 1, pp. 1-25.

⁶⁸⁶ Pichler, F. How Real is Cosmopolitanism in Europe? *Sociology*. 2008. vol. 42, pp. 1107 -1126.

⁶⁸⁷ Merton 1964[1949], found in *ibid.*

⁶⁸⁸ Beck, U., *ibid.*, pp.44.

⁶⁸⁹ Weenink, D. Cosmopolitanism as a Form of Capital : Parents Preparing their Children for a Globalizing World. *Sociology*. 2008, vol. 42, pp. 1089-1106.

in the Asia Minor that on one hand make them more flexible and collective, on the other allowed the emergence of sub-communities within the community with strong kinship ties.⁶⁹⁰ A certain tourism effect, -with other words, *Antalya effect*- should also be mentioned in this cross-fertilization, for instance, German natives who spent their holidays in Turkey and who then began to look for the taste of Turkish food in Berlin, supported the emergence of Turkish restaurants/kiosks also in the open market of Berlin.⁶⁹¹

The concern of this paper is to observe, present and model the examples of mutual influence in the market practice and in the all over phenomenon of the entrepreneurs of Berlin with a migration experience –both direct and inherited.⁶⁹²

III. EMPIRICAL STUDY

Based on the data collected in 2008/2009 in 7 different cities of Germany through interviews with native and immigrant entrepreneurs and experts reflecting self-views and the view of the other, this paper tries to outline the interchange between different cultures or different mentalities that can be mutually productive and beneficial in the market place. We have taken 2 information rich cases among this data to work on the entrepreneurial stories as narratives in detail, firstly through a within case analysis and secondly through juxtaposition of the two cases –*also considering the international business case within Case 1*⁶⁹³- and lastly, we will be modeling the cross-case findings⁶⁹⁴ to show the more convergent view, as proposed by Drori, Honig and Wright.

Case I: „We brought dynamism to the market“

Entrepreneur 1 has come to Berlin in the age of 11 after his first socialization process with his grandparents and after attending the primary school in Turkey. He recalls his first day as if *he was born again* –with no clue how to move in the new social context. His parents were guest workers and he attended a vocational school in Berlin. While he was still a student –in the age of 17, an international building company from Turkey, that received huge assignments including reconstruction after the reunification of Germany, decided to bring its own workers who were specialists from Turkey and they needed someone who would arrange the catering in the Turkish style. Though, there was no self-employed person in his family, he has seen some successful ethnic entrepreneurs in the Turkish community “*No, my father was not an entrepreneur, neither were any relatives here or in Turkey. My parents did not want me to delve into such an adventure, yes, I tell you, for them it was an adventure...they tried to convince me to go on with my education at a voca-*

⁶⁹⁰ A great majority of the entrepreneurs mentioned these ethnic or regional identities without having been asked during the interviews.

⁶⁹¹ TDU Expert Discussions, May 2006, Charlottenburg/Berlin, Germany.

⁶⁹² The term has been developed with an inspiration from *Kiran Desai's* last book: *The Inheritance of Loss*.

⁶⁹³ Yin, R.K. Case study research: Design and methods (4th ed). Beverly Hills, CA: Sage, 2009.

⁶⁹⁴ Eisenhardt, K.M. Building Theories From Case Study Research. *Academy of Management Review*. 1989, vol. 14, nr. 4, pp. 532-541.

tional/technical college in Berlin, but we didn't listen to them, I was working in my spare time and my father was keeping my savings for me. I said, I want my savings, I am doing this job!" He gave up his plans to go to technical college and founded a small catering firm with his co-ethnic partner who was studying business administration at the university at that time – just to serve to this international building company from Turkey. To be able to maintain his one and only client in Berlin, he also voluntarily worked as a sales person to receive new construction projects. He experienced self-employment and after the firm has left Germany, he decided to go back to ethnic business with a community brother in a wholesaling ethnic firm, marketing meat for the small Turkish restaurants and kiosks in Germany. The way of commercial exchange predominantly transferred from the community habitus did not appeal to him at all and after some other attempts in diverse sectors including art; he decided to move back to the open market with his first gastronomy business take-over: an Italian restaurant at a well known shopping quarter in Berlin, then the German Pub next to his restaurant. Taking also the advantage of tourism effect in the central position, he opened a Mexican restaurant again next to the other two. The restaurants do not manifest a certain Turkish identity, although the restaurants do in accordance with the culture of the corresponding countries. Reflections of Turkish customs can be experienced in the service dominant logic of personnel– although diverse nations/communities are represented in the personnel team. Also the names of the restaurants are globally designed according to his cosmopolitan understanding und cross-fertilization can also be observed in these names. Lately he opened an Italian ice-café, and a Japanese Restaurant again at the same square. He does not rely on the community resources but he gathered his experience firstly on the cross-national level and secondly on the ethnic level with his co-ethnic partner. He sees himself *integrated* and has initiated two foundations, one of them for more recognition of gastronomy –awarding the best gastronome of Berlin every year with a prize ceremony at the Berliner Rathaus, the other for the education problems of the community youth in Berlin.

Case II: I say “hardware Turkish, software German“, everybody laughs!

Entrepreneur 2 was born in Germany and he enjoyed a good education attending Gymnasium and having been accepted by the Technical University of Berlin as a student. Nevertheless, he was interested in the very act of entrepreneurship and began to work with a co-ethnic entrepreneur/accountant –a community brother from whom he learned the essence of entrepreneurship, as not a single member of his family had worked self-employed formerly. But the ethnic clientele was not interesting for him due to the norms he internalized through his education/human capital: seen as someone from the community, the customers were not able to recognize the commercial value of the offered service. He moved to the open market receiving a good offer of strategic alliance with a telecommunication giant, opening their sales shops, partnering with his friends of Turkish descent from university – today they have 9 shops all over Berlin. He believes neither in ethnic market, nor in ethnic marketing instruments, claiming, the era is over. *„It was our parents who needed an ethnic*

market in the 70s and 80s, who could not speak the language, not us, we do not need it". Ethnic market is for him a demand-based market, where ordinary people can act as entrepreneurs without creating extra demand, without defining a competitive advantage or having to show entrepreneurial skills. Having enjoyed the act of entrepreneurship he became a serial entrepreneur and partners with different entrepreneurs and he plays important roles in umbrella corporations. His employees are of diverse cultural backgrounds, but mainly natives. His customers are also predominantly natives and firms of native descent on B2B level. During the privatization process he has taken over a telecommunication firm from the German Telecom Services which was financially on the edge of insolvency. After the monopoly of the state firms has gone to an end, they were there to take over and enhance through entrepreneurial skills, new customer portfolio and new markets. He founded another telecommunication firm from the state acting on the B2B level, hiring out the employees working in the service department who would otherwise face a dismissal process. A 60 year old firm, specialized in transportation of handicapped people which was also an insolvency case could survive with their management. He sees himself as a problem solver and his understanding of entrepreneurship is finding solutions to the problems of the customers, no matter when and how. All of his employees and customers have his mobile phone number and may call him immediately if anything goes wrong. Manifestation of Turkish flexibility can be observed on this solution orientation and limitless flexibility. Recently, he has been again active in B2B level, has taken over an industrial laundry firm. Furthermore, he initiates social responsibility projects like "Yardim heißt Hilfe" – "Yardim means Help" which played a pioneering role in Berlin after the disastrous earthquake occurred in Turkey in 1999, when more than 17.000 people tragically lost their lives.

IV. Findings and Discussion

These new transnational ethnic entrepreneurs who have migration backgrounds may either come from the already existing populations in a country -people who came to a country firstly as immigrants "from below" or they may be already entrepreneurs looking for a lucrative market opportunity in the host country "from above" in the entrepreneurial hierarchy⁶⁹⁵ In our cases we have tried to analyze the ones from the community, one of them born in Germany, the other has been brought to Germany as a child of guest workers.

In both cases, constructed through the interviews done in Turkish language, we can observe the same patterns, although they exist in totally different markets: one in gastronomy, one in high-technology. Both of them had ethnic market experiences and neither of them could agree with diverse dimensions of the community habitus⁶⁹⁶ with a deliberating character and staying in the ethnic market serving primarily to the needs of the ethnic community⁶⁹⁷ which is carried out by the import-export firms between the two countries.

⁶⁹⁵ Drori, I., Benson Honig and Mike Wright, *ibid.*

⁶⁹⁶ Bourdieu, P., *ibid.*

⁶⁹⁷ Bonacich, E. A theory of middleman minorities. *American Sociology Review*. 1972, vol. 38, pp. 583-594. 1972.

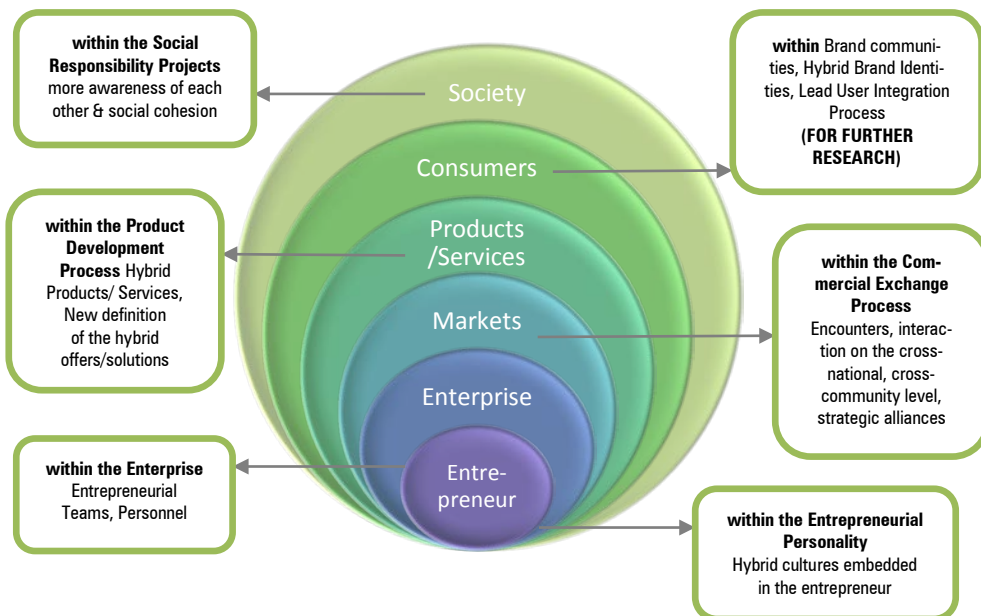
WHERE DO WE GO FROM HERE?

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Due to their traditional experience with entrepreneurial habitus in the community, they were not *foreigners* to the commercial world. Having fallen in love with the entrepreneurial act itself, they could not stop the act of entrepreneurship in new areas of expertise. They have taken over firms which were in bankruptcy showing an extraordinary risk taking behavior. *"We always got on the sinking ships, we did that really, in my opinion, firms do not fail, I mean....cannot fail; it is the management who fails"* says the Entrepreneur 2. Their personnel consist of diverse cultures and they are ready to work in entrepreneurial teams. They display a service dominant logic and bring extra services to the products/services they offer, which merge into a new meaning/understanding of these offers -by both existing and new customers recognized as such. They are both solution-oriented and take initiative for the members of the society who are in need, esp. for the populations they know well. Both their families do not show entrepreneurial initiative but they could find role models in the social context they were rooted in. They both used the transnational environment after the fall of the Berlin Wall to recognize the opportunities, to mobilize resources and to establish their entrepreneurial existence, in two clear paths: privatization processes, cosmopolitan way of life with heterogeneous cultures which became popular by means of globalization. Although they did not cut their ties with the community, they became curious about the "other" and open to "be influenced and to influence" the market through interactions.

Common patterns can be summarized in the following model:

Figure II: Model of the study - where to look for cross-fertilization?



Source: Developed and proposed after the analysis

CONCLUSIONS

With our preliminary findings based on the two cases reflecting various forms of cross-fertilization in the market, we tried to bring firstly a silent contribution of transnational entrepreneurs to the cosmopolitan environment of Berlin into light, where 180 cultures live together and we wanted to shed light not only to cross-national but also to cross-community fertilizations which again altogether represent the diversity in Berlin with its unique position and history. As proposed in the model, further research should concentrate on the dimensions: hybrid products & services and consumer cohesion which in the long term also serve to the social cohesion in the society. The proposed multi-layered model has a very preliminary character and delivers researchers and practitioners the basic dimensions of market activities where cross-fertilization can be observed in the markets. This study should deliver the facts on a better living together, not side-by-side, transferring the market interaction to the social life and secondly should be considered as a first step to build different models for cross fertilization using grounded theory.

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