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THE INTEGRATION AFTER EASTERN ENLARGEMENT:
CONVERGENCE OR DIVERGENCE OF THE EU
ECONOMIES?
L’integrazione dopo l’allargamento ad est: convergenza o divergenza delle
economie europee?

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With the enlargement on May 1st, 2004, Europe included ten new countries: Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Malta and Cyprus. Incorporating these countries Europe has become the biggest market in the world: it accounts for more than 20% of the world’s trade and it is the producer of more than a quarter of the world’s GDP. The ten new countries before joining Europe were assessed through the Copenhagen criteria that indicate: at first the rule of law and democracy, human rights and respect of minorities; as second point, a functioning market economy and capacity to cope with the competitive pressure in the Single Market; as third point, the ability to respond to the membership obligations, exemplified in the way how the countries effectively apply the policies and rules of the EU expressed with the acquisition of the Acquis Communautaire. This enlargement is particularly significant because for the first time it includes countries of the central and eastern Europe that in the previous decade were still under the former Soviet bloc, having consolidated during almost half a century specific behaviours - in the economic, political and social environment - sometimes quite different of the western ones. The main challenge for the enlarged Europe is, therefore, to be able to integrate 25 members in a global governance in terms of trade policy and foreign and security policy, with the potential expansion of the economic and monetary union. Several of the economic effects already started during the pre-accession phase with the progression in the privatisation, the reduction of the state involvement in the economy, the dismantling of monopolies, the development of flexible labour markets and, most of all, removing step by step the trade barriers (tariff and non-
tariff charges). The “European Agreements” were the first legal instruments, already in the beginning of the ‘90s, promoting the free circulation of commodities, industrial and partially agricultural products with liberalising over 95% of the internal trade between the accession countries and the EU15. But the enormous potential is still to be exploited. Inflexible labour markets, social protection and the burden of some regulations related to the business environment in the old Europe, limit the possibility to shorten the productivity gap with the United States. There is no other solution than going on with economic reforms that in EU15 where over the table for decades. Utilising the words of Pascal Lamy, the Commissioner for trade «Europe has built a system around the assimilation of existing technologies, mass production generating economies of scale and the industrial structure dominated by large companies, with stable markets and long-term employment patterns. This system no longer delivers in today’s globalised world» (Lamy 2004: 1). The competition in the world economy is pressing the productions of the EU15 towards the newcomer countries in Europe that have lower wages and reformed labour markets. Looking at the internal market the introduction of a substantially larger labour market having a lower wage base in the new members has been in the past a matter of concern among the old members; but once the risk for a wave of large masses of low skilled labour seems to be avoided for the current decade - thanks to the postponing of the right for free movement of labour - on the other side in the new acceding countries it remains a risk for a brain drain and youth drain towards the more developed Europe. This could really endanger the potential for a GDP convergence in the long period of the newcomer states with the EU15. In the short period, the technological and productivity improvements and the resulting economic growth will follow the flows of the foreign direct investment (FDI) that is deeply increasing in the acceding countries. Foreign Direct Investment plays a key role in helping to achieve the objective of a fast growing economy, especially while the governments are able to foster its regulatory environment (OECD, New Horizons for Foreign Direct Investment, 2002).
In the new countries the dynamic efficiency gains from FDI affecting the investment level and the overall rate of innovation will result in the creation of new jobs, increasing income levels and consumer demand. We could expect that the process of economic integration improves consequently, even if there are major challenges ahead of the EU25. The issues related to the aging of population, rigidity of the labour markets, the difference in productivity between the two groups (EU15 and EU10) are becoming more and more evident, but the high level of unemployment and the growing income inequality in the old Europe will only be exacerbated by the incoming members that suffer from a very low pro capita GDP (60% lower than the EU15 average), higher price inflation and unemployment.

In Europe, suffering from weakness related to the stagnant economic situation and loss of confidence in the public governance, it is envisaged an ambitious reform plan dealing with labour markets and social security institutions in order to stimulate the economic growth. The focus is, once more, to raise employment and productivity in the enlarged Union and to strengthen the economic integration by making progress in external and internal trade. In this context monetary policies, fiscal policies and in general the instruments for an economic reform are strongly debated in all Europe, but mainly in the acceding countries privileged by a larger economic growth (around 4% or more of the GDP) in the current decade. These countries - with so short term an experience of public governance of the contemporary capitalism - face a double threat: the imperative for a rapid harmonisation of their legal framework to the free market and the consolidation of the practice and of the procedures. The open competition in the EU single market will, from the present time ahead, prove whether this challenge has been correctly prepared during almost the previous decade.

The actual process started already years ago with a “forced” integration that at the time of accession is confirmed to be the target of the economic policies of the governments in the central eastern Europe. The economic transition that originated in the beginning of 90s is actually at the latest stages having some residual duties to be performed, like some restructuring and privatisation into the
public sector, mainly into services and productive state owned companies, to complete the establishment of some important authorities (institutional building aspect), to complete the process of democratic management of the public sphere, etc. The process of harmonisation with the EU legislation is considered to be closed as regards the main initial catch-up with the substantial control of the EU Commission; the follow up in this area will continue like in the whole of the old Europe countries with the adoption of the directives transposed into the national legislation, and the implementation of the regulations and recommendations.

A useful documentation in order to prove the preparation of the accession countries for the single market and the readiness to compete respecting the economic rules of the market economy is reflected in the publication of the EU Commission called Regular Report and, for the year 2003, on the final Comprehensive Monitor Report (Commission of the European Communities, 2003c, 2003d, 2003e, 2003f). These documents represent the updated assessment annually performed by the EU Commission till the year 2003 and they reflect the state of the art in the accession countries as regards the implementation of the Acquis Communautaire in the subjects described in the 29 Chapters where the negotiations of the accession countries have been taking place in the recent period before accession. Besides some specific aspects whereas transition periods are considered after accession, ten accession countries were acknowledged ready to enter the Union on May 1st, 2004.

We come to the conclusion that this process had a too rapid preparatory phase, supported by the EU pre-accession Phare, ISPA and Sapard funds, that in fact led to some extent to benefit from assistance in order to harmonise the national legislation with the current EU legislation, but was only partially utilised and often not successfully, because of several reasons, at first the time constraints in experiencing the implementation of the Acquis Communautaire.

The path the accession countries go through and their successful economic growth can be seen on daily basis. The actual process of forced integration channelled through a quite rigorous normative framework concluded with the harmonisation of their legislation is leaving somewhere large uncontrolled,
discretionary areas of manoeuvre utilised by local governments for promoting competitive actions in a perspective that is far from being collaborative with the EU15 countries. We refer in particular to issues like the taxation policy, the industrial policy, the pro-regional policy and to the weak attempts at fighting the corruption. Such behaviour is impacting, looking in the near future, with the concept of solidarity of a typical political nature utilised in the EU regional development policy of the structural funds and cohesion fund. Our commitment is to describe the effects of such behaviours (diagnosis) without considering any attempt to prescribe the proper solutions (remedy). We move from the opinion that the approach that guides the economic policies applied in some of the newcomer countries is based, very frequently, in a competitive-based concept of economic development (extremely liberal) that on one side is enabling businessman to be more efficient and develop higher value added activities but on the other side is often conflicting with the model of the old Europe (socially oriented), in few words described as human capitalism, environmental friendly. How this contradiction will amalgamate in a unique balanced economic system spread from west to east in the Europe of the future decades is still to be seen.

In this time there is a very desynchronised conception of the economic development model to be applied in the old and new countries participating into the single EU market. It seems quite clear that the process of integration of the newcomers is not just a simple kind of how to cope with the most developed economies of the continent, but it implies a complex new equilibrium where strategic new industrial productive regions should dominate, new large masses of consumers enter in the game of the single market, new relations with external countries outside the EU borders will have to be negotiated, where the rules of the internal market should be reinforced, etc. This will result, according to the concept of the differentiated integration, to the “two or more speeds to the integration”. Thanks to the principle of the reinforced co-operation adopted by the Amsterdam Treaty, some countries have the possibility to profit from being in the “first line” of the integration process.
Focussing now on the perception of the citizens of the accession countries about the effects of joining the Single Market, published in a special number of *Eurobarometer*, we can observe that they are relatively negative. The motivation is mostly political rather than economic. The real justification for this pessimistic attitude should be researched on the interrelation among the preconditions that still affect the big enlargement. The previous southern enlargement (Spain, Portugal, Greece) from the macroeconomic point of view could be considered comparable to the actual one. In fact we have similar difference in the GDP pro capita, mostly similar number of population acceding the EU, a comparable economic standing and a status of the market economy that, after the dictators (Salazar, Franco, and the “Colonels” regime in Greece), can be considered “a strong state participation” in the economy. Surely the economic impact of the southern enlargement on the western developed countries was very limited and this parallelism will probably work also in the actual enlargement. The GDP of the three mentioned countries grew over 2% of the average of the western countries giving the opportunity to partially catch-up after some decades with the western countries, considering that the average GDP pro capita of the Southern countries was in the year 1980 around 66% of the EU9. The engine of such a recovery, for the countries of the previous enlargement, was in most cases the positive introduction of the EU funds, especially in agriculture and structural interventions. In comparison with the actual central and eastern countries (somebody calls the eastern enlargement: the big enlargement) these countries had in 1998 an average GDP pro capita only at 38% of the EU15; but in the last five years they are recovering very rapidly. The current enlargement cannot be compared as regards the productivity and yields, even if the outputs of the agricultural production (the typical products are the same as in the western countries) should be considered equivalent. The agricultural products of the southern countries were not impacting (olive oil, wine, citrus fruits, etc.) with the continental agriculture, the products of the current enlargement otherwise are just the same as they are in the EU15.
Coming back to the analysis of the status of the market economy in the newly acceding countries, we need to reflect on the precondition under which the recent economic development is based: just a decade of free open market; a legality that is fortunately broadening year by year, but still negatively affected by high level of corruption in the public sector; the national legislation has been harmonised with the EU15, but serious gaps are still persisting in the functioning of the institutional bodies established for implementing the principal rules of the free market. There is a question that still is underestimated and in general is not reflected adequately in the large amount of European studies: the point refers to the long term effects of the process of transformation from the centrally planned economy (socialist economy of the countries participating into the former pact of Warsaw) to the capitalist economy (liberal economy). We focus on the long term effects, mostly considering that privatisation is practically resolved, of the transitional process of the societies reflected in the changing behaviour of the old and, respectively, young population as regards the entrepreneurial activity, the economic risk, the role of the institutions, the ethics - not only in business -, the political participation, etc. All attributes that, in a common sense can be identified as sociological and political aspects, but having a decisive impact and influencing the speed and the direction taken by the economies in transition of the accession countries. Certainly this is not the only area biased by such a behaviour, it would be rational to expect a composite reaction from the participation of the members of the accession countries to the European Institutions, to the working places in the hosting industries, the qualified labour from the accession countries migrating in the "old" EU, the same economic structures that the technological advanced western companies will continue to build up in the accession countries. The process of economic integration, properly considering, has different effects as a result of the cohabitation under the same economic system. Studies developed on this subject, foresee a quite long period before the central eastern economies can converge towards the most advanced western economies.

Concepts like "responsibility" of the public officers, "collective solidarity and cohesion", "system of rules", etc. that are a relevant in the political integration of
these communities are subjects of analysis by the political scientists and sociologists. As we researched in Chapter III, new areas for a multi-disciplinary analysis are opened in these fields that at the present are not regularly developed by the economic science. All these areas deserve greater attention and require to be explored deeply in order to get responses to questions that mere economic instruments are not able to describe. A critical reconsideration still remains open in studies like the ones about human capital and social capital.

The “new” and the “old” Europe: two different economic state models challenge each other in the enlarged Europe. We need to consider the evidence of the historic development that these two parts of the world experienced during the half a century or more that separates both them after the second world war. Different economic models (capitalistic and socialist, free market and centrally planned economy) consolidated during some generations the behaviour of the citizens from the two different blocks. Can we now presume that just a decade, the last ten-fifteen years, was enough for harmonising the institutions, for promoting similar abilities in implementing the Acquis Communautaire, for giving the same capability to compete in the single market or, speaking more in general, for giving to the two blocks today the possibility to share a comparable economic model of development? Certainly not. The differences between the two economies are more visible in specific economic situations, for example when we compare the reaction of the state budget revenues to the lowering of tax rates (namely the probable increase of the tax evasion or the larger utilisation of the fiscal heavens), or in the trend of development of factor’s prices (cost of the labour). We imagine for long time ahead a large discrepancy between the “old” and the “new” Europe, represented the first one by the developed countries of the Western Europe (EU15) and the second block by the transition, acceding countries, mostly the Visegrad 4 countries. The imaginary line that separates the two Europes (we intend to simplify and we are fully aware that not all the acceding countries and the western developed country too, are at the same level of development) is mostly demarking artificially an older Europe characterised by:
• high developed economic environment with a large presence of non-fully
dynamic entrepreneurship;
• availability of large resources of capital, high labour cost, relatively low
unemployment of non-specialised labour;
• relatively stagnating economy (low GDP growth);
• relatively low level of new investments;
• high presence of SMEs and a large service sector;
• problems to keep the public debt under the stability pact;
• deep participation of the state through high taxation of the entrepreneurial
sector (in average, over 41% of the GDP in the EU15);
• restraint to accept immigrants from the transition countries.

The “new” Europe is mostly located at the opposite side, being still in transition, having more dynamic economic development, higher growth of GDP and in
general catching up positions in order to reach the developed countries of Europe.

The subject matter of the chapters: our initial aim in the First Section of this
study is the review, through the economic literature, of the different meanings
linked to the general concepts of economic integration and economic convergence.
In fact, these two concepts (integration and convergence) determine in some way
the problematic boundaries of our work: like the general questions mentioned in
the introduction, they find a “natural” classification in the thematic sphere of the
European integration; the concept of convergence, from the other side, helps us to
define the working tools for the comparison between the national economies.

In the First Section (Chapters 1-2) we focussed on the reconstruction of the
theoretical frame in order to build the first reference, even if almost abstract, on
the relevant dimensions of the integration process. In our work we refer to the
complex concept of the economic integration in the European Single Market. The
evolution of this concept is studied in a very interesting moment for the European
economy when, after May 1st, 2004, enlarged Europe is counting 25 countries.
The problematic aspects of this integration are the consequence of the economic
effects resulted from growing trade and growing internal productivity in the newcomer countries. It becomes a general question about the issue whether the described process is the consequence of the foreseen obligations linked to the adoption of the Acquis Communautaire and the real effectiveness of the regulations imposed by the Single Market in the process of integration between the countries of the old block (EU15) and the new accession (EU10). Among the last ones, the four countries of the Visegrad agreement are a particular study object in the present research.

While the objects of the present analysis are only a limited number of countries of the new enlargement, in the first section of the study we proceed to develop the relevant theoretical field taking in consideration that this process is strictly affected by the general process of globalisation that dictates and exacerbates tendencies already fixed; that this process is able to exalt - or on the contrary to mortify - trade and industrial policies, fiscal and social platforms of the different world areas. In order to appreciate the new economic developments, we extended our readings on globalisation: a very rich subject that embraces several disciplinary spheres and that could be considered sufficiently advanced on the theoretical approach.

The general theory of economic growth and market integration is described in detail and it foresees, as the main result, that the impact of the internal market liberalisation should produce, in the mid term, a growth of the internal trade and the capital formation, according to Solow' theory (2000, 2nd Edition). Thereafter, in the long period, the continuous creation of new technical knowledge will help to improve the productivity as measured by the GDP per worker. Several authors agree on the fact that European integration will alter (positively) the rate of technological progress (Baldwin and Wyplosz 2004; Hitiris 2003).

Only afterwards we concentrated on the more specific literature related to the problem of integration, looking at different aspects, in particular related to the circumstances of the enlargement. With reference to the process of economic unification under a single market, the most accredited definition distinguishes between several models of integration on the basis of the strengthening degree of
the created institutions in order to support and regulate the liberalisation inside the markets. As some authors maintain, economic integration is related to the attempts to reduce or eliminate discriminatory trade barriers exclusively among countries that adhere to a specific treaty. The degree of integration is increasing when we move from preferential trade agreements to free trade zones, or moreover to customs unions, to single markets and, at the top of the scale, to economic unions (Salvatore 2002). The free exchange area is characterised by the agreement to remove the trade barriers (customs duties and limitations on quantities of exchanged goods) within the countries, still maintaining the right to adopt different approaches towards the external ones (we can find examples of this agreement in CEFTA, NAFTA, etc.). A more advanced form of integration is carried by the customs union, where in addition to the effects of the free exchange area, the participants are bound to a common external tariff policy. The cooperation between the participants is set at an higher level in the context of the common market (single market) with the introduction of the free circulation, inside the market, of the productive factors (capital, labour forces, and services). Both the European Single Market and the MERCOSUR in Latin America have reached such a level of integration. The countries of EU are engaged to adopt a more sophisticated model that is aiming at a level of extreme integration, before joining in a single state or federation of states. This model - called “economic and monetary union” - is aiming at the harmonisation of the national norms concerning several economic sectors like: the indirect taxation, economic competition including state aid, environmental policy, labour market and, in the countries that would like to participate, the single currency. It should be considered that integration, according to the economic literature, is classified into negative and positive integration, reflecting the effects provoked by the integration process on the internal rules of the participant countries: we refer to negative integration when we have avoided every obstacle to trade (considering the case of free exchange zones, to the custom free trade area and to the single market) through the deletion of specific norms. It could be positive integration, like it happens in Europe, when an agreement is installed related to the trade and
monetary union. Several authors underline that the major benefits of the economic integration are depicted from a large range of aspects but one in particular: the market enlargement is helping the scale economies and strengthening the development potential of competitive structures. This is the result of economic integration that allows to share economic resources (always scarce per definition), necessary for the economic development, like capital, qualified labour, entrepreneurial capacities, etc. An additional aspect refers to the opportunity to avoid duplications that are unnecessary and anti-economic for capital investments, expenses for research and innovation and for the application of modern technologies (the process that creates greater efficiency and higher specialisation, according to Porter theory of competitive advantages). Economic integration produces static and dynamic effects. Static effects are evident in the short and medium run; they are connected with the liberalisation of trade and they develop without relevant modifications into the productive structures and the demand in the interested countries. In the short period we will have in fact the results of the "trade creation" - that is the creation of new trade flows that develop when the production of a good in one of the member countries is going to be substituted by goods produced in a different member country, evidently more competitive--; "trade diversion" is expected as the effect of the diversion of the trade flows produced by the first reaction to the dismantling of trade barriers and to the consequent exchanges increase; this phenomenon happens when a good imported from third countries is prevailing on and substituting the same commodity internally produced. While the creation of new commercial flows contributes to the economic development, the trade diversion contributes to the reduction of economic growth (we refer in particular to the studies of Viner 1950). In the mid period, the increase in internal competition can generate the so called "pro-competitive effects" - gains arising from higher internal competition, defined by Krugman (1991) as "non-comparative advantage gains" -, meaning by this concept, the growing effects of scale economies, of advantages produced by technological progress, of increase in the efficiency, all factors that can contribute to improve the economic development.
Looking to the dynamic effects, we see that they are generated by the results of changes over the long period. They are associated with the structural adjustment consequent to the trade liberalisation; this adjustment requires quite a long time and produces differentiated effects over the production factors, labour and capital. When the dynamic effects are produced by the goods export, the benefit can be expected when the exports are affected by the specialisation and when the scale economies are prevalent into the production of exported goods. Viceversa, as Viner (1950) is teaching, when the dynamic effects are generated by imported goods, a loss of advantages takes place that could even negatively affect the distribution of the productive factors.

The opening of the Single Market in Europe is leading to the convergence towards a similar economic model in the European member states: through common norms and institutions in order to guarantee the effective competition of the participants in the market, the transparency in the sector of public procurement, free circulation of persons (workers) and capital besides, of course, goods and services. It is intended to guarantee, besides that, the common policy in the social security systems, vocational training and recognition of qualifications and, moreover, to reach the harmonisation of the taxation on profits. All of that in order to reduce the distortion regarding the free circulation of capital and of labour forces and, not least, to avoid in this context “dumping” from the side of too much aggressive national policies.

According to the neoclassical theory the economic convergence is reached by the opening of trade exchanges and free competition in all productive sectors: the availability of technologies in an open market promotes the alignment of the production costs, independently from the structures where it is operating, so that rates of growing productivity will converge in the long run. When we apply this definition to the European internal market, the convergence process should be proved by an increase of the GDP in the newcomer countries higher than in the more developed countries. We recognise that different theoretical approaches backed up by observations on recent economic experiences - we refer here to the “new trade theory” (Krugman 1991), the “neo-institutionalism”, the “theory of
endogenous growth" (Romer 1994) - started to "corrode" fundamentals of the neoclassical theory by weakening the certainty based on the automatism of the convergence process, as we have explained above. The most evident aspect is the tendency to the increase of the economies diversification between the developed and the less developed countries, with showing acute divergence in the process of economic development. According to Boyer (1998), the economic convergence is verified easily among the groups of countries that joint the same "club" - utilising the words of the same author - aggregating countries according to their degree of development. According to this approach, we can understand the effort made by the countries of EU15 in order to accept the accession of the newcomers and the constraints and pressures to force them to adopt to the European standards and to accept the common objectives of the Union (both desirables and not, necessary and not).

The willingness of the new acceding countries to share the European partnership has brought a series of radical consequences and transformations. These transformations have interested the agricultural, environmental, energetic and transport policies; moreover mainly the institutional sectors, as public finance, justice and home affairs. The entire process of adaptation has been strictly monitored by the European Commission, before and during the accession period. Some authors in fact underline that this adaptation process has been, sometimes, more formal than substantial (for instance, Zielonka 2003), because the mechanism of the "conditionality" has been adopted too much rigidly (that is "on the condition that") accepting the risk of a poor level a transformation in order to reach a priority goal, that is the European reunification.

The analysis work helped us to single out the logical phases of the integration into the Single market and to determine the process of convergence of the new countries towards the more developed countries in Europe. The distinct phases of this process are measured by events that, in their timely subsequence, evidence the maturing of political and socio-economic conditions peculiar for the enlargement related process.
Our analysis refers to the last fifteen years period, during which we can find evidence and mature decisions regarding the access to the Union of the former "communist" block of countries. We have divided this period in three principal stages that we call: the normative stage - exemplified by the absorption of the Acquis Communautaire, which affects principally the partaking of the participation to the European Union -; the incertitude stage - which is characterised by the evidence of the questions matured in a climate of difficult aggregation of areas characterised by a different degree of development -; the adaptive and reactive stage - earmarked by the economic and social equilibrium and re-equilibrium strictly linked with the enlargement process.

This scanning according to the longitudinal scale has guided us in planning the logical order of this study, for which, after having built up the theoretical-conceptual frame of reference (first part), we proceeded to operate a progressive reduction of the abstraction in order to plan simpler or, better, more "specific" concepts, highlighting the "indication relation" (using the words of Marradi 1987) with the general concepts described in the first part.

The comparative analysis is drawing parallels between the four countries of the Visegrad 4 (V4) with some countries of the EU15 selected according to the criteria illustrated in the methodological part described in the section II and III of this work. It could be not secondary to recall that the countries of the Central Eastern Europe - Poland, Czech Republic, Hungary, Slovakia together with Slovenia - represent more than 80% of the total value of all the 10 acceding countries in demographical terms and also in terms of economic dimension.

In the second section (Chapters 3-4) we have realised at first (in the Chapter 3) a descriptive analysis interpreting some documents produced by the EU Commission containing the results of the monitoring activity related to the stage of adoption of the Acquis Communautaire. Subsequently we proceed (in the Chapter 4) to undertake an empirical analysis over five studies realised between 1999 and 2002 by University Institutes of economic and social research, ordered by the European Commission, over the economic costs and benefits for the Union due to the Eastern Enlargement. In the paragraph 4.5 we have to single out, using
the basis offered by the analysis of the previous chapters, the components (we have called them "areas") where major difficulties are expected in order to integrate the new countries with the old Europe. This "aggregative challenge" is foreseen in the area of taxation, in the area related to the economic growth and social policies, labour migration and to the social capital in the V4. Besides the four mentioned areas, we highlighted two more areas, internal trade and agriculture sector, which we excluded from analysis in the economy of the present study.

In the third section of the work (Chapters 5 till 9) we finally analyse, after a short presentation of the actual economic achievements of the Visegrad 4 countries described in Chapter 5, the four problematic areas (taxation, social policies, migration and social capital) described above.

In relation to the dimension of the taxation (Chapter 6) we need first of all to clarify that the policies regarding this sector in EU are characterised by two contrasting positions, which we can synthesise in this way: the first position (A) generally shared by the most developed countries with the exception of Great Britain and Ireland, is based on the principle that the European states should harmonise the taxation base and put limits to the taxation rates applied to the enterprises profits and to the individuals, in order to avoid the tax competition that is promoting tax avoidance and forcing the de-location of resources. The relevance of the possible competition among the tax administrations of the member states could introduce un-useful competition that will result in decreasing of the revenues from taxation which could put in a serious difficulty national governments managing public budget. The second position (B), common in various new countries, is considering to engage the state into the fiscal competition interested in attracting foreign capitals, and therefore to give an élan to the economic development by means of attracting mostly productive investments via tax holidays. What is emerging from the analysis of statistical data and from various documents and studies (according to the following sources: World Bank, European Commission, Eurostat and Eurobarometer) is that harmonisation of the direct taxation in the countries participating in the European
Union is strictly conditioned by the clear aversion of the V4 countries, which do not intend to comply with position (A). Our analysis gives evidence of the fact that the real rates applied for the taxation of enterprises profits and of physical persons located in the V4 countries range between 10 and 20% of the tax base. In the EU15, with the exception of Ireland, the applied rates are more than double. The consequences of these lowest rates are disruptive for the equilibrate competition among countries in EU, looking only to attract firms in de-located productive sites: several authors speak of “tax dumping” underlining that it seems impossible for the developed countries in old Europe to compete with the V4 on the same conditions. In fact, the structure of the public budget in France, Germany and Italy, for instance, is unconditionally limited by reducing, most than in the V4 countries, public expenses. We would refer, for instance, to the reduction of expenses for the public health, for the pensions, that could provoke serious social tensions in the Western Europe countries, tensions at all absent in the new Europe of the recent accession. The cut in tax rates - as it has been recently concluded in Slovakia (19% flat rate over all earnings, without any progressivism) - accompanied by the restructuring process of the public finance is contributing to reduce and restrain the public expenses; this is unthinkable and impossible to be done in the more developed countries. We discuss aspects that in a certain way are related to the overall macroeconomic equilibrium of the public finances; these aspects have been highlighted even more markedly in Chapter 7, through an analysis of the effects, arising from the stability and growth pacts, over the EU countries and mostly over the new acceding countries, in consideration of the burden that these countries should foresee in the mid term due to the lack of stability in the internal social system.

The aspect related to the social and assistance policies - analysed by utilising statistical sources from Eurostat and structural data published by the European Commission in view of meeting the objectives drafted by the Lisbon Pact in the year 2000 - is evidencing the coexistence of conditions that are able to distort a harmonic economic development. Furthermore, having in mind the decisions
adopted by the European Governments (of the old EU) in Lisbon in the year 2000 - where they opted for a strategic approach of growth, indicating that the European economy before 2010 should be able to demonstrate its ability to compete at world level - our attention is addressed to the economic performances and to the important variables of the growth models of the new European states. In fact their autonomous ability to participate into this competition, the ability to grow rapidly without endangering the equilibrium in the public accounts, will be fundamental for achieving the goals of the Lisbon process. We have therefore described that in the V4 countries the productivity level and the level of prices is in some cases still below 50% of the average value of the EU15; the same trend is resulting from the expenses on research and development, the only positive data reflects the education level of the population between 20-24 years of age, that in V4 is higher than the EU15 average.

Making use of national statistical sources and Eurostat statistics, we have "operated" the migration question in Chapter 8 applying some indicators that show the significant high differential in the offer of the working labour force, distinguishing between the qualified and un-qualified labour. We started from the hypothesis that the labour migrations do not reflect only and principally structural aspects of the economy, but that these migrations could be reinforced because of the disequilibrium, even if temporary, in the labour market; part of the labour force is forced to migrate as an effect of the long term unemployment.

The analysis, at the beginning, is concentrated on the migration flows in France, Germany, and Italy during the last 20 years evidencing the longitudinal trends according to the provenience area of the workers; this part of the study focuses on the recent researches over the migrations flows in old Europe proving, in the long run, a strict relation of the economic performance indicators, particularly with the unemployment rate and the annual variation of the labour earnings. Thereafter, in order to build up a scenario for a possible short term demand of manpower, we made use of a model where several variables are taken in consideration, such as the actual number of unemployed people, the employment rate in different economic sectors, the demographic classification of
the people in working age in the V4 countries, etc. These data have been applied to demonstrate the compatibility with the described scenario. Results are reinforcing the forecast, shared by recent studies in the sector, for about 250-300 thousands of migrants per year that, according to the study, will move from the countries of Central Eastern Europe principally towards Germany and Austria. From one side, the negative economic performance in the decentralised regions in the V4 will be a determinant to foment the migration pressure; but, on the other side, additional considerations should be also accounted for, like the one that the positive inclination to migrate is usually incompatible, considering the emotional behaviour, with the dislike to leave the customary residence, friendship and parental relations.

The complexity related to the social capital constitutes the focus of Chapter 9.

Objective of this chapter will be to analyse the resource social capital in the Visegrad four countries taking in consideration the different historic experiences matured during more than 50 years of communist systems of these societies.

In our study we do not intend to develop a deep interpretation of the concept of social capital, on the contrary we have in mind to give a short presentation of the discussion that characterised in a different point of view of this concept.

We relay of the main definitions more accredited in the literature of social capital that see the prevalence of two different school of thought: the largest accepted definition relates to James Coleman (1990) which proposes a definition of social capital in normative-cultural and relational terms and of Putnam (2004) that is defining the social capital as a property of the social system, not limiting the definition to the network of the individual relations but extended to the co-operative relations.

The application of the social capital consent to acquire the evidence that societies in term of norms and behavioural models have relevance in the economic aspects. In other words social capital confirms the permeation between the social sphere and the economic sphere (Trigilia 2001, Bagnasco, 2001).

The empirical study we have adopted is divided in four parts. Utilising a secondary analysis form database of the Transparency International (about the
Perception Corruption Index) and especially from the database of the European Social Survey (ESS) 2002-2003 we intend to utilise a model that could confirm the validity of the selected indicators for measuring the following dimensions of the social capital in the CEEC countries: generalised norms, civicness and moral values, volunteerism and participation to associations, relational interpersonal trust (normative and focalised) and informal networks. Having in mind that according to several authors, trust and the circulation of information help and improve the trade exchanges by lowering the cost of the economic transactions; finally, they play an important role in the economic development.

We elaborate in our study data of the ESS 2002-2003 survey regarding Hungary, Poland and Czech Republic (meanwhile Slovakia unfortunately is not included on the database), on the basis of some considerations, developed through the exploration of the prevalent literature on the social capital.

Adopting a comparison of data related to the mentioned dimensions of social capital, we evidenced significant differences between these “two areas” in Europe. More specifically, when we compare the values of the weighted averages of the “corruption perception index” (the tables have been published by Transparency International) with the degree of reciprocal trust and trust in the institutions, mainly in political parties, we come to the confirmation [proved by several authors over the formation of social capital in Europe, like in the studies mentioned in the Chapter 9 of Fidrmuc, Gërshani (2004), etc.] that there is a strong correlation between these two indexes (trust and corruption).

The conclusions are developed in the final Chapter.
SECTION I

THE IMPACT OF ENLARGEMENT ON ECONOMIC GROWTH AND INTEGRATION IN EUROPE: THEORETICAL ASPECTS
Theories that link to this paradigm are largely accepted by the scientific community, they are: the neoclassical theory and the endogenous growth theory. Both these theories consolidated during the last two decades; a great bulk of researches has been conducted in order to test the version of the prevalent thesis that relies on fixed criteria for producing growth towards the economic convergence of two or more economies. Convergence is foreseen between economies that suffer initially of a lower development in terms of GDP pro capite o GDP per worker; the theory explains that in the long run these countries could benefit from a more aggressive economic development. This last property follows the assumption regarding the decreasing profits of the invested capital: in fact, when the incidence of invested capital per worker is lower, profit on invested capital will be increasing. From this assumption we deduce that with a lower incidence of invested capital per worker, a rapidly growing capital accumulation is possible and subsequently a more rapidly growing index of the domestic product per worker could be verified. This implies, in the long run, the convergence of the domestic product per worker towards the levels of the higher developed countries. In this case the model of convergence is called "conventional" because in the long period it is foreseen that the incidence of the invested capital per worker employed and of the final product per employed people will depend on the three conditions: the savings rate, the growth rate of the population and the growing rate of the existing technology. It is very difficult that all these factors would be present at the same time and in the same measure in different countries. The convergence thesis is furthermore reinforced by the
assumption that all countries can acquire the same level of technological progress without paying an additional cost for that.

The literature explains that there is a flourishing of free trade zones at the regional level where the local governments try to liberalise the trade internally and put barriers and control the external trade among the blocks. It is not clear but it seems possible that the free exchange at world level is growing contemporaneously at the control over the same exchanges because the liberalisation of the internal trade/exchanges is growing much faster than the cuttings in the external trade, according to Thurow (1997). We assist in fact to a polarisation of the world’s trade between specific areas. One polarisation that is attracting a large part of this trade rotates around the principal actor, the US. It seems that a rule is prevailing: no country even small could easily survive without having the privilege to participate in one of the big trade areas. In this way the open the door to the fact that international trade is on the way of becoming a privilege and not an automatic right. But just an area of goods free exchange is not enough for guaranteeing a long life development. The story of the US for instance is clearly proving that without a strong political linkage such kind of areas could not survive very long in time. The Statute for Confederation was not sufficient a target for that and only twenty years after the approval of the Constitution of the United States the things were changing. Thurow (1997: 349) is explaining that: «in the free trade zones the balancing of the relevant economies is done by the fall of the salaries and prices. In the single markets this result is reached by manoeuvring social investments in order to obtain a higher level of balancing among the participant economies».

1. How globalisation is forcing the integration process

In this study, dealing with issues related to the economic growth, integration, European enlargement and economic convergence, we are bound first to introduce the concepts regarding the economic globalisation that characterises the actual evolution of the world economic life. Rather than enter fully into the real mess
over the meaning and all implications of globalisation, we would like to outline just some basic elements and the main points of dispute related to this concept so much attractive and discussed from different disciplines. In fact, globalisation is a complex and broad phenomenon that can be observed and confronted through different aspects of our daily life. It is marking all the steps of the development of the European life and mostly the economic growth of the Single Market. A basic definition which, among a large number of good proposals, we consider more appealing, is the following: «globalisation ... denotes the expanding scale, growing magnitude, speeding up and deepening the impact of transcontinental flows and patterns of social interactions» (Held and McGrew 2003: 1). Several authors maintain that this is not the first time when the economic world experiences similar developments. As Stiglitz (2002) underlines, we should point our attention to the success on the past and the threats of the present time. The United States in the 18th century, for instance, saw the cost for transport and communication to decrease rapidly with a favourable expansion of the inter-states trade and the Federal Government was pressed, in that time, to establish a strong legislation framework in order to regulate trade. Among other aspects, this brought favourable conditions: a new legislation protecting the minimum wage and working conditions was issued; the federal government supported some sectors like the agriculture and the communications guaranteeing not only the growth promotion but also the realisation of some programmes enabling advantages for all the citizens, which made policies of redistribution of the resources unnecessary.

A similar situation can be observed and is shared today in most of the countries of Europe, where, utilising the same example, costs for transport and telecommunications are diminishing and the ‘four freedoms’ are spread in the Single Market concerning the free movement of goods, capital, services and (partially) persons (1). This, according to the words of Stiglitz (2002: 20), is seen

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1. The economic geography theory explains that when internal transport and international transport costs are not too different, they affect positively the location of economic activities, the distribution factors, the geographical demand and the trade pattern and finally the welfare. In particular if these costs are backed by improvements in the transport infrastructure, the new
as «the process of globalisation similar to the global governance back in the time of the consolidation of the national economies» ... but in similar circumstances we have today a situation which could be described as of «global governance without a global government» where most of people that are subject to these decisions do not have anything to say in this matter.

In other terms by defining globalisation as the set of forces that «bringing the world together with lowering the cost of international trade, international investment, international migration, etc.» it could be perceived as the process of linking up where «the mentioned forces make the different economies of the world more alike in the sense that they render access to a common technology, having a similar capital-labour ratios, real wage levels, productivity levels and standards of living» (Dowrick and Bradford DeLong 2001: 3) (2).

Porter (1991: 868) has introduced a further point of view related to the growing importance of the nations in this process; asserting that the «globalisation increases, but not diminishes the importance of the nations» he considers, in fact, that the elimination of the protectionism and all other forms that are distorting the free international competition - due to globalisation - would encourage national character by growing it more pronounced and not repressing. (Gilpin 2003: 93 and following), is also stressing on the fundamental dilemma between national autonomy and international norms, considering essential the respect and the surviving of a balanced dialectical comparison for the future vitality of the market economy. The relation between economic globalisation and the modern states is well depicted in the following sentences: «Con la globalizzazione economica, che

CEECS countries of the Union could gain different positive effects in relation to their inter-regional integration and the relative distance from the old developed countries in Europe (in our case mainly Germany and Austria).

2. We have to distinguish, in fact the Comparative Institutional Approach theory (Guillen 2001) would never say that the convergence of different countries is realised «towards a homogeneous organisational pattern of best practices and optimal efficiency». Due to different way the organising logics vary substantially in different social environments, this theory, to which the mentioned author belongs, advise that matching logics and social organisation with the opportunities offered by the global economy should be considered the rule for a successful economic development. Elements of comparative institutional approach consider multi-viable paths to the development and insertion to the global economy, «a specific combination of organisational forms in a given country enables it to be successful in the global economy at certain activities but not others» (Guillen 2001: 1-16)
crea condizioni di una sempre maggior indipendenza dei mercati dagli stati, gli stati diventano soggetti sempre più freddi e razionanti, che parlano sempre più scopertamente quel linguaggio degli interessi che è relativamente svincolato dai loro confini e dalle ragioni della sovranità. Persino le regole interne agli stati ed all'amministrazione cambiano ed i modelli dell'amministrazione vengono reinventati, ispirandosi al modello imprenditoriale" (Ferrarese 2000: 55) (3).

It will be useful to consider some lessons from the economic events that followed the phenomenon of mass production in Asia in the beginning of the '90s and the new boom in China and in India based on the exports growth (both of commodities and services). This spectacular economic success started a decade ago (obscured by the crash of the financial system in 1997) and brought a substantial improvements of the economic and social conditions of millions of people. Trade exchanges in the world increased enormously in the last decade thanks to the agreements to liberalize trade and also the classical trade barriers have been somewhere mitigated. Generalised protectionism has proved very often not to function in the countries that experimented this extreme solution, but also the opposite fast opening, the trade liberalisation, has produced several unsuccessful results. Coming back to the example of the Asian tigers, the large liberalisation of the capital market left unfortunately an open gate for the failure of the financial system.

Globalisation has proved not to be the "panacea" for all the bad and wrong that the economic development has brought in the world. In several cases even it has not even delivered the economic growth. In fact, we can say that the "net value" of the globalisation is not good and not bad. It has the power to induce miracles - in the case of Eastern Asian countries producing enormous advantages in their conditions - but in other case it could lead to complete disasters.

According to Stiglitz (2002), we can admit that the policies of the "Washington Consensus" where addressed, in the case of the Eastern Asian countries, towards the macro-stability, with a particular attention to the promotion of the exports

3. As Ferrarese is underlining mentioning the publication of Osborne D. and T. Gaebler (1995), Dirigere e governare. Una proposta per reinventare la pubblica amministrazione, Garzanti, Milano.
avoiding to help the elimination of the obstacles to imports. Only with successive steps the trade has been gradually liberalised and similar effects were foreseen but not applied for the liberalisation of the financial market, in spite of the pressure from the side of the FMI that was inducing local governments to accept a rapid liberalisation of the financial market. The market was not prepared to react to the external flow of huge financial investments with speculative capital that brought overnight enormous liquid assets available for the private and public sector; unfortunately, with the same rapidity, they flowed out as soon as the confidence on the local currency was starting to shake. It is now clear that if the authorities would have tighten the control and supervision over the capital movement, breaking the rapid outflow of capitals with harmonising their policies, the damages would not have occurred in such a magnitude.

Accession countries participating to the European project of an enlarged market should learn from the Asian tigers experience. In order to avoid this risk, from one side it seems natural to open as soon as possible the negotiation to enter the EMU. The market in the globalised era, we have seen, is moving very rapidly, shortening time and distances, giving and leaving opportunities that can be exploited or will be lost forever in a very short period of time, sometime just few years (4). How this phenomenon interferes with the EU integration, how EU integration is driven and pushed by the strong flowing forces supported by the stream of the economic globalisation, is still difficult to distinguish and to discern. What is clear is that the successful integration depends mostly on the consequences of events very often born outside the involved countries, events that in these years affect the entire world, like the attack to the Twin Towers or the War in Iraq.

4. The ways that the countries can reinforce the benign social effects of globalisation are discussed by Bhagwati (2004: 32-35) looking at the optimal, rather than maximal speed of globalisation. «The imprudent and hasty freeing of capital flows that surely helped to precipitate the Asian financial and economic crisis starting in 1997» is an example of mismanagement of globalisation. Another example brought by the author refers to the immigration: «It is clear that a rapid and substantial influx of immigrants can precipitate a reaction that may make it extremely difficult to keep the door open». There is need for adopting prudence and dealing with caution even if «international migration is an economically and socially benign form of globalisation». 32
2. Development of the concept of advantage of the nations

The international success of a nation can be defined as the ability to implement a competitive advantage in comparison with the best competitors in the world (Porter 1991). This success can be substantially measured by the dimensions and quality of exports and the significant direct investments outgoing from the country and based on its own assets and technological knowledge. The development of the theories of international trade starts from the concept of absolute advantage elaborated by Adam Smith in *The Wealth of Nations* (1776, 1995), stipulating that one country should specialise in the production of commodities for which its absolute production cost advantage is greatest in respect with other countries, thus meaning that this country can produce more efficiently and have the possibility to export these goods to the countries that do not possess such a cost advantage (5). This implies some direct consequences like that if a country possesses an absolute advantage in producing a certain product, in favour of this country it should exist the potential to accumulate profits from trading internationally the product; a second derived notion is that the more the country is able to specialise in the production of the commodity where it is most efficient, the higher would be the potential gain for the national welfare. But this theory leaves undecided the case where one country has an absolute advantage in several productions of goods especially where a partner country is less advantaged. In this case it seems that the first country will have no benefits from trading with that partner. The theory of comparative advantage raised by David Ricardo (1817, *Theory of the compared costs*, re-elaborated by Sraffa) answers properly to the above question; in fact it states: in a model of two countries, two commodities world a country should specialise in exporting the commodity in the production of which the costs are most advantageous relative to those of the other country, independently of the fact that these costs are higher or lower than those of the other country. It should be

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5. «The trade-off between the efficiency gains and coordination costs associated with production specialisation determines the efficient level of division of labour. In particular absolute advantage (in the division of labour) and relative labour supply plays a crucial role in determining the effect of an IT progress on a country's competitive margin in international trade» (Zhihao Yu 2003).
clear that some potential export exists for which the relative advantage of the
country in terms of costs of production is greatest or its disadvantage is at least
relatively smaller than that of the partner country. In this way the Ricardian theory
is based on the fact that international trade is based over differences in the
productivity of the factors employed by the nations (the opportunity cost linked to
the labour productivity) and recognises that the trade among countries is
promoting the productive specialisation (guaranteeing specialisation gains and
exchange gains), is enhancing the overall production at world level and is helping
the increase in the welfare of the populations. A small specialisation in a smaller
country combined with a partial specialisation in a bigger country increases the
total output in the world because of the increased trade and the benefits coming
from the higher consumption of the trading partners exporting goods where they
have comparative advantage and importing where they have comparative
disadvantage. It seems also clear that we could have the case in which the
expected increase in the welfare for all nations does not happen, for instance when
the gains from trade are not distributed when sectors without comparative
advantage could suffer from job losses and restrictions in the remunerations. The
commodities prices are an inverse function of the productivity ratios (higher
prices when the productivity ratio is lower and vice versa). To a large extent the
growing trade from the developing countries is accounted for, in the Ricardian
theory, by the differences in the wage rates and productivity; but is neither clear
whether exports will be responsible for the unemployment and the decline in the
wages rates of the unskilled in the developing countries nor to which extent the
trade policy could be used to solve distributive problems in the countries. In
conclusion, we should consider that the classical theory of trade is based on the
assumption that it is working under conditions of perfect competition, free
mobility of factors within countries but not outside, it is not taking into account
transport costs and it is built up assuming constant returns to scale in the
production function. These conditions do not allow to explain the trade pattern
when, as today, we have trade in differentiated products (so called intra-industry
trade). Hecksher-Ohlin theory of factors endowment (beginning of the '900) is
proving that a country exports the goods which use its abundant factor intensively; on the contrary, the country imports commodities that need for its production factors that are scarce in the country. The theory (6) starts from the presumption that all countries know equivalent technological development, the competing countries stand out because of the availability of production factors (land, labour, natural resources, capital); these factors are the elementary inputs necessary for the production. The different compared advantages are linked with the intensive utilisation of those factors they possess in abundance. Once more, the assumption that international trade is based on the difference of the compared costs gives the two economists the opportunity to qualify the international trade as the exchange of the overabundant factors against the scarce factors. In this sense this theory helps to explain how countries with large labour forces concentrate in the production of labour-intensive goods and countries with a large endowment of capital can afford to produce high technology and capital-intensive goods. It also makes a reasonable justification of the relative prices between the two factors of production, labour (wages) and capital (interest rates), in a labour abundant country and in the capital-abundant one, underlining the fact that the commodities prices mirror the relative factor prices. The economist Vernon has introduced a new theory on the International Product Life Cycle (IPLC) which gives evidence of the variables that influence the development of international trade (7). The IPLC theory helps to explain how it could happen that a product, that begins to be exported in a country, after some time is imported from that country. The basic assumptions of the theory are moving from the fact that technology is a critical factor in the creation and development of new products and that market size and

6. Krugman (1999) is commenting some of the relevant concepts of the theory of factors endowment and praises Ohlin as a founder of Economic Geography and expert in International Trade.

7. According to this theory - specific cases can be observed in Tavares and Young (2002) - the products have four phases: introductory phase (when the price is including a large part of the R&D costs, promotion, etc.), development phase (when the standardised production starts on large scale, with a competitive price and approaching foreign markets, in case of MNEs initiate also the production in foreign subsidiaries or parent firms), maturity phase (the product has a large availability in the markets and is completely standardised, the most competitive producer will prevail over the competitors for lower cost per product unit), the last phase is forecasting the decline (the product is technologically out-of-date and it is not marketable in the developed countries, therefore it is introduced in the underdeveloped countries).
pattern are important for the creation of the trade patterns. The international trade theories discussed above provide the basis for the development of the free trade but they do not give an adequate explanation for the competitive advantages of the nations.

This short revision of the international trade theories guides us to introduce the most recent theory of the national competitive advantage developed by Michael Porter. The study that Porter (1996) started initially to develop was focussing on the economy of the industry, considering the way a variety of national environments play a significant role in the formation of competitive advantages. Starting from a micro-economic consideration we can assert that a firm’s relative position within its industry determines whether its profitability is above or below the industry average. The fundamental basis of the above average profitability in the long run is a sustainable competitive advantage. The basic forms of competitive advantage are distinguished as the predominance of the lower costs or the differentiation in comparison with the competitors. These two prevalent positions combined with the scope of activities place a specific firm in the position to achieve the upper position over the average performance in an industry. The indicators can be differentiated in cost leadership, differentiation, cost focus and differentiation focus. The cost leadership attempts to place the firm as the low cost producer in its industry, the differentiation means the firm being unique in its industry along some dimensions widely valued by buyers. The focus is a choice of a narrow competitive scope within an industry and whether its cost differentiation focus applies to the categories described above.

In the *Competitive Advantage of Nations* (1991), Porter describes the attributes of countries that conducted to produce sustainable competitive advantages in global industries. The studies conducted focus on elaborations based on statistical analysis of aggregate data regarding trade shares, export of goods, economic sectors by country, and clusters of different productions, oriented in 10 relatively affluent countries, the most important being USA, Germany, Sweden, Singapore, Japan, Great Britain, etc. In the first chapter Porter argues that a country can be said to have competitive advantage if it has substantial and lasting exports and
outgoing FDI in a particular industry. While he speaks of the competitive advantage of nations, Porter emphasizes that firms, rather than countries, compete. Governments, he says, have a role in influencing the four determinants of the country’s competitive advantage, but rarely a principal role. The four determinants of the national advantage (called by Porter the “diamond”) are interrelated: strategy together with structure and enterprise competitiveness, condition of the demand, correlated industrial sector of support, condition of factors. The first determinant: “strategy, structure and competitiveness of the company” includes the ways in which these enterprises are managed and compete, the goals that the companies seek to attain and the motivations of their employees and managers and finally the level of the domestic rivalry that influences the creation or persistence of the competitive advantage. The second determinant is “condition of the demand”, influenced by the specific conditions in the domestic market like market niches, buyer sophistication, size and growth rate of the home demand, the way how this demand is pulling internationally the nations products and services abroad, etc. The third determinant is the “correlated industrial sector of support”, which considers the competitive supply industries that create advantages in down streaming the production. This could be done through efficient, in-time and cost-effective inputs for the production; through the network of internationally related industries that share activities in the value chain, or utilising the network of the companies that involve complementary products. The last determinant of the diamond is the “condition of factors” of production, that involves the quantity and skills of the employed people, the national physical resources in terms of quality, accessibility, cost (land, water, raw materials, etc.), the type, quality and user cost of the national infrastructures, the nation stock of knowledge resources including technical, market, scientific and the cost of capital resources that are available for financing the industry. The above determinants of national competitiveness (reflected into the industry sector) can be influenced by external factors like the “role of chance” and the government policies.

The role of chance is something that is not controllable and can nullify competitors advantages and bring a shift in the overall competitive positions, like
new inventions, major not predictable events, decisions by foreign governments, etc. The government policy, in contrary, is the only issue that can influence the competitive advantage of a nation. What can be done by the government is principally to «help develop the nation resources (capital and labour) and to ensure high level and constantly growing productivities to these factors» (Porter 1991: 717). The way how, the open economy will increase the welfare of the country is when the less productive activities are transferred abroad in other countries by means of new FDI and buying from the foreign producers, but not the opposite when highest productive industries are leaving the country for reaching prominent position abroad. In the last case, in the long time we can expect only loosing welfare in the origin country. Several arguments are chosen as a corollary for demonstrating how the competitive advantage can really be helpful for one country: at first internal productive sectors ought to increase power, specialising, clustering, improving innovation, R&D activities but also is fundamental that the productive factors get more and more competitive through the deepening of labour qualifications, exchanging information (here the human capital and the “positive” social capital are considered focal points of the pro-competitive factors) and the lowering the cost and spreading the accessibility of the physical capital. Porter is clearly identifying the instability of the growth when the competitive advantage of the nations is built over the abundance of the national resources, lower cost of labour, the devaluation of the currency even the development of only one product that is accompanied by low levels of productivity (in general called advantages due to the prices). How the government of one country can help the improvement of the productive factors like: the qualified labour, basic scientific knowledge, economic information and infrastructures? The last ones, infrastructural investments, are the core activity of every government but the most important should remain transport facilities, logistics, telecommunication and all sectors that can help to introduce modern technologies.

Here Porter recalls that the governments of modern countries cannot underestimate the value of the quality of life, especially for the individuals with
good talent, through the support to the cultural and leisure activities - he mentions for example the successful story of the Baden-Württemberg land in Germany that has experienced a large investment in this sector. Information related to the markets, technologies, competition in the own and new sectors are considered to be the strategic tool for giving the right hand to the decision-makers in the enterprises. State aid is also considered as a tool for promoting the success of the local industries; but particularly avoiding to subsidise sectors because this will sooner or later lead to the chronic crisis of the companies that in this way are deprived from any incentives and falling in a dependent relation with subsidies. Also the currency devaluation policy has not contributed, according to the studies of Porter, to the long term benefits of a nation. Here he mentions some emblematic cases: Italy, Great Britain and Sweden, there are no evidences of benefits in the long term as far as innovation of the industrial sector is concerned.

We have to register some critiques on the Porter's model and we agree with the following: at first it seems clear that this model cannot apply without modifications to the countries that do not have economic power similar to those analysed; the government decisions are seen to have higher importance than the limited degree described by Porter, they are in fact of critical importance for influencing the national competitive advantage. There is also an additional factor that would influence the competitive advantage, not only the outflow but also the inflow FDI and, finally, the role played by the multinational enterprises (MNEs) is not included in the Porter model. According to the view of several authors, what we consider more important is that the Porter model, although in its title it is considered as the Competitive Advantage of Nations, seems more properly addressed to the company specific considerations than to the national sectors.

We intend now to argue about the consequences, according to the competitive advantages theory, of the most relevant factor of production and specifically about the effect of the increase in the workforce. Following the classical theory, the economic growth is supported by a rapid development of the labour offer, the workers are also consumers and the demand of products and services is strengthening together with the purchase power. But is also possible that the
surplus in the offer weakens the economic growth because of the poor incentives to the productivity: here the difference is once more between the large availability of the non qualified labour (for instance the case of labour immigration with large offer) and the availability of qualified labour (also sometimes the case of a generous offer of qualified immigrants). In the second case this could become a competitive advantage for the host country (Porter 1991: 750).

The time of the effective national control over the economy (financial institutions) is going to finish, in fact the financial activities move to where they find less controls. The new location is realised very often even without moving physically offices and productions; in other cases (see the de-location of the European productive activities) the enterprises transfer their activities in expansion in other countries where it is less costly to recruit or dismiss employees.

We can finally state that comparative advantage is an attribute of countries and competitive advantage is an attribute of companies (8). The first applies to trade and by itself is not clarifying anything about outward FDI; on the opposite, competitive advantage can be underlined by the presence of substantial FDI or exports.

The principle of comparative advantage tells countries what they can export (at the current time), the principle of competitive advantage will indicate substantial and lasting exports (long lasting supremacy). The definition of industrial sector by the strategic analysis is seen as the sector where the produced commodities have a similar competitive advantage.

One relevant question refers to the national character of the corporations that invest in several nations, multinational enterprises (MNEs), that in the usual form transfer their know-how from their original location to the different countries were they invest. Only in the case that the local conditions are prevalent, the competitive advantage is forcing them to adapt the know-how to the local context. In that case the industrial sector is considered no more multi-domestic and begins

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8. The statement that comparative advantage is an attribute of countries and competitive advantage is an attribute of companies is fully explained by the studies of Bellak (2003) and also by Hall and Sosice (2003).
to become global when it develops a certain degree of inter-dependence between the various competitive positions. The "International Chain of Value" described by Porter generates competitive advantages in the domain of costs and product differentiation.

The MNEs in any cases do not optimise their activities and strategic actions into the "inland" of the national boundaries, but better "through" national boundaries considering to proceed with a shared and coordinated optimisation (according to Karl Polanyi, Joseph Stiglitz and other authors).

3. International movements of capital

The mentioned international activities are mostly linked to the FDI. These investments are conditioned by the possibility to drive back profits from foreign investments concretely put into effect abroad.

FDI is one of the possibilities to the free movement of capital, another possibility is the international investment in portfolio (regulated as the international flow of portfolio). Green Investment is an investment in a new business, while an investment, for example into the privatisation of old factories, is a "grey" investment. International movement of capital is generated by large opportunities to speculate higher earnings in the international markets.

The current rule overall respected in these cases is the "diversification" of the investment. We wouldn't take care for the moment of the portfolio investment, that nowadays demonstrates how much this sector is really globalised. We address our attention to the foreign direct investments (FDI), which are mostly performed by the multinational enterprises (MNEs).

According to the Hecksher-Ohlin theory the capital earnings are higher where the capital-labour cost ratio is lower. Capital flow is in reality a bilateral flow; in fact, through analysis we can find out that the investor purchase is addressed not only to the security A but very probably also to the security B which is opposed to the first one in terms of risk. The same will happen when B is a foreign security, in that case it materialises in a security from a country different from A and of
course it represents a risk of a different quality. The same differentiation could be found in the case of a real investments in production premises into the country A to whom is opposed an investment into the country B. In our example, an automotive production that originates in a country (i.e. USA) with a compared advantaged is facilitated in terms of trade when exchanges goods with a country that has a compared advantage in a different commodity (like a production of computers, i.e. Japan).

Several authors, for instance Salvatore (2001), recognise some limits in the Heckscher-Ohlin theory of compared advantage, this theory distinguishes between the factorial resources in the different countries.

Another quite important consequence refers to the “industrial concentration” (Salvatore 2001) that can appear in a limited and closest area for the production of a similar commodity. Experience says that the “differentiation” among products of the same family is not cut down, on the opposite, the “scale economies” generated by the mass production will still be producing a consistent benefit in terms of spared money.

Horizontal integration is considered when the production of a differentiated good in a foreign market is also produced in the country of origin (therefore a product from the same family of products but differentiated in order to satisfy a slightly different consumer need). Vertical integration of the production is considered when the enterprise is dedicated to the integration of the purchase of the raw materials in order to benefit from a constant supply at a price as cheaper as possible. Sometimes this vertical integration is replicated with additional benefits like the acquisition of the foreign networks to support the sales abroad (for instance the case of the large car producers).

We would now list, according to the current theories (from Baldwin to Krugman, Venables, etc.) (9), the reasons for the FDI Investments in a determined country:

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9. Concepts that are shared also by Gross and Ryan (2001) in their study on the intra- and inter-industrial linkages of the FDI, giving evidence of the investments from the Japanese companies in Europe.
• Taxation regimen (thanks to the bilateral agreements against double-taxation, the enterprises pay in the origin country only the difference between the re-imported profit less the amount of tax that was already paid in the third country where the production is placed). We can refer also to the transfer pricing. The reduction of the tax base and the reduction of the duties paid in the country of origin affects consistently the economic growth and the income redistribution; the public expenditure is also valuable.

• The consistent even if indirect benefit achieved by the foreign investor when the new productive investment is supported by the local trade unions in the beneficiary country; while it happens that the labour organisations in the origin country are quite often definitely against.

• The effects due to the technological supremacy: normally the new investment in the third country affects the development of the R&D sector in the country of origin. This is not always going in this way, in fact the R&D departments depend on the economic strategy of the single enterprise and on the conditions that the enterprise can meet in the country of origin.

• The subsidies that investors will earn when investing in the less developed regions.

• The investor, which comes the first to a region, gains a privileged position that usually the following investors will never reach, even investing more intensively.

• Close geographical vicinity with large markets.

• Commercial relations already consolidated.

• Competitive cost of the factors (raw materials and labour cost).

• Indirect effects on trade exchanges (in some cases we observed the substitution of some commodities that before were imported and now are exported), substitution of exports.

• Returns on investment never materialised before 5-10 years.

• Several problems into the balance of payments of the countries beneficiaries of higher FDI.
Larger multinational enterprises investing abroad can cause important problems both in the origin country and in the beneficiary country. According to the relevant literature the main problems caused by the MNEs in the country of origin, when investing abroad could be listed according to importance in this way:

1. Losses of the not qualified working places; the trade unions are strongly opposing foreign investments by the local MNEs. All this affects negatively the country of origin (compared disadvantage).
2. Sometimes positive but limited effects are born for qualified staff, technicians, managers and others as result of the investment abroad.
3. Foreign investment could damage the technological primacy as consequence of the transfer abroad of technology, which is needed for the production, but it depends on the permanence in the country or opening abroad of the R&D branches.
4. Transfer pricing is generally not favourable to the origin country, which determine the erosion of the tax base.

Problems could also be reflected by the MNEs’ huge investments in the hosting country:

1. The hosting country could suffer from the dominant power of the MNE, like to be excluded from exporting to the countries considered as enemies of the country of origin.
2. Large indebtedness outside the country in the case the interest rates are not attractive in the guest country, or even vice versa when the interests in the hosting country are affordable, lending money outside the country with favourable interest rates.
3. The social or political feedbacks from an advertising campaign that hurts the behaviours of the local population or the local government (for example Coca-cola or Bier).
4. Location of the funds for R&D in the country of origin, thus creating a position of technical and moral dependence.
5. Fiscal elusion.
6. Lack of training for the local labour forces.
7. Excessive utilisation of the local resources with damage to the environment.

The hosting countries have the possibility to defend oneself through a protective normative against these negative outputs on its territory, but also to reinforce the attraction of FDI with subsidies and incentives.
In the field of international relations, economic integration is better defined as: «the effects expected by two or more states that sign a cooperation agreement in order to reach objectives of an economic relevance». The economic integration (10) can be achieved according to different configurations, that we will describe in the following, like: free exchange area, customs union, common market, economic union. The direct advantages that the enterprises involved in the mentioned areas could achieve are related to: scale economies (through larger markets), higher efficiency (stronger competition in fact will force the efficiency), widening of the volumes of trade (as a consequence of the abolition of the custom duties among the member countries). The theory is considering also the main negative effect that normally arises from integration: the trade diversion (as a consequence of the protectionism).

1. Regional integration. The evidence of the transaction costs lowering the efficiency

The literature on the theories of Regional Integration is well developed and it is ranging from different technical agreements. Several authors (the most largely mentioned being Jovanovich) have introduced the main distinctions that help us to understand the process, from a first sectorial integration towards the global

10. Regional integration is approached by the economists prevalently according to the theories of neo institutionalism and to the new political economy, according to Gilpin (2003); but the economic theories «non forniscono una spiegazione sufficiente dell'integrazione economica, la ragione è che gli analisti economici generalmente assumono che sia stata presa una decisione politica per la creazione di una più vasta entità economica e che il loro compito consista soltanto nell'analizzare le conseguenze in termini di benessere di quella decisione» (Gilpin 2003: 356).
integration: the first level refers to a limited number of economic sectors, the last one includes all sectors in the process of unification.

- **Free trade area:** the participant countries agree to liberalise trade among themselves but to maintain their own tariffs and other commercial policies in front of the rest of the world.

- **Customs union:** partners agree not only to liberalise their mutual trade but also to adopt a common set of tariffs on imports from third countries.

- **Common markets** are extended beyond the integration of product markets, also to the one of factor markets. Policy harmonisation for fiscal and monitoring matters also becomes an important prerequisite for a properly functioning common market.

- **Economic union:** in this type of integration there is a high harmonisation of the economic policies.

- **Complete economic and monetary union:** this is the final phase where fiscal harmonisation, economic policies and a single currency are shared among the partner states.

The following table can be usefully used to compare the different stages of trade liberalisation and economic integration which has been developed in European Union:

<table>
<thead>
<tr>
<th>Stages of the European Integration</th>
<th>Visible barriers</th>
<th>External trade policy</th>
<th>Invisible barriers (11)</th>
<th>Mobility of production factors</th>
<th>Common currency</th>
<th>Common economic policy</th>
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</thead>
<tbody>
<tr>
<td>Free trade area</td>
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<td>Customs union</td>
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<td>Internal market</td>
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<td>Economic union</td>
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**Source:** Our own elaboration based on concepts elaborated by Hansen J., et al. (1991)

11. Non-tariff barriers are meant as various market-entry barriers in the provision of services, public procurement. Generally speaking, the non-tariff barriers are often effective methods of market fragmentation, even more than tariffs or quotas. The experience of the EC has demonstrated that in Mark 1 integration, the abolition of tariffs on the intra-area trade has led to the intensification of such non-tariff barriers. Only the introduction of the Mark 2 in EC brought more integration and the partial elimination of the non-tariff barriers. The non-tariff barriers proved to produce qualitatively different effects than the tariffs.
Europe achieved till now two main phases in the construction of the internal market. The first step of the EC integration began on January 1st, 1958, and the second phase on January 1st, 1993, with the formal opening of the Single Market. These two phases, called Mark I and Mark II, are not so clearly separable because the process developed gradually and quite often with overlapping achievements (Dunning 1993). Trade theory regarding the effects of trade creation, maintains that within the same block of countries the common market gives rise to the resource reallocation in different products and different regions; meanwhile the trade diversion results from the relative trade discrimination affecting exports from third countries with the final effect of redirecting the resources supply from more efficient third countries to the less efficient producers in the country or the region of origin. A common external tariff set out at the level below the pre-union tariffs will result in external trade creation. On the contrary, if the common external tariff is fixed at a level higher than the previous tariffs average, the effect of trade destruction should be expected.

In this sense the classical theory is suggesting to avoid the risk, in a newly created customs union, of a raise in the external customs tariffs that could result in a trade destruction effect. The effect of trade diversion for the exported goods will probably occur in the cases when the tariff re-alignment is growing the profitability inside the union relatively to the effect in the outside market.

It is important not to neglect the dynamic effects of the customs unions that ultimately produce opportunities for growing efficiencies due to the scale economies and to the cost-reduction effects and trade suppression as a consequence of the higher competitiveness of its products in the national market. Nevertheless the growing competition is enhancing the productive efficiency of the producers facilitating the circle of benefits in favour of the longer existence of the national productions, combining multiplier and accelerator effects.

The circular process that involves growing efficiencies could be represented by the following figure 1, where the core result of the acceleration produced by the
dynamic effects here represented is effecting positively the productive efficiency of the overall system.

**Figure 1 - Dynamic Effects of the Custom Unions**

It is also important to distinguish between the first basic effect of the process of integration and the following one. The first effect after joining a customs union is proving (Dunning 1993) that a producer exporting into the union is increasing the competitiveness of its products in comparison with the domestic producer that is selling only to the national market. This preference to locate abroad the market for one’s own products is affecting different firms, sectors and even countries where this export activity is located in a different way. The so called “trade diversion effect” is known to affect, according to different situations, the different size of producers: for instance the introduction in the common market of technical standards is assuring benefits to the MNEs that are able to adapt their production to the higher standards requested in the common market. Local SMEs will be able to spread their products and to sell their services outside the country when the
border controls are left and the non-discriminatory public procurement rules in the
governmental investments are clearly putting aside local non competitive firms
that where previously successful just due to the protection of the local
government. The secondary effects and the “dynamic” effects described above
come with the improving competition in the mid-long term, spreading innovation
and investments, reducing production costs and realising scale economies. Harry
Flam (2000), analysing the Ohlin’s theories, is stressing the definitive break with
the Ricardian and the early neoclassical theory of international trade. Ohlin has
emphasised the distinction among international, interregional and inter-local trade
while at the same time he allowed large interchange between these terms. In fact
the distinction had to do mostly with factor mobility and transportation costs
which were the most important for the author, attracted by the locational
significance of the trade theory. A decisive assumption is related to the opening of
the public tenders in the telecommunication sector, for long time a monopolistic
market in the EU old member countries. The suppliers in this sector are
prevalently nationals, the prices that the monopolistic state-owned companies are
paying for equipments and services are evidently over the average of the closest
countries (Krugman and Obstfeld 1995).

The effect of the new theory of location of the productive activities is therefore,
for one side, a new aspect of the combined geography and trade theory (studied by
Helpman and Krugman 1985) and, from another side, is the influence that drives
attention to the condition of the “nationality” of the ownership of the economic
activity. This last condition is part of the general possibility that such activity
might be part of a diversified or multinational firm.

Determining the location for the economic activities is more and more
dependent on two factors: concentration of the economic activities and
international factor mobility. In other words this means specialisation of the
productions in certain regions of Europe and labour force mobility, being the
movement of capital, goods and services quite achieved in the enlarged Union.
The process conducing specific productive sectors to choose highly concentrated
locations is partially new in Europe in comparison with the United States, the
European nations are less specialised than the US regions. In any case the usual assumption: it is highly likely that low wage regions in Europe, as soon as they have improved access to the common market, will attract the core manufacturing. The intra-industry trade will grow as well as the FDI will grow even faster in the regions of the central Europe.

According to Dunning (1997) the particular interest in defining the FDI is not focussed, as in the trade theory, on the foreign or domestic owned production, but mostly on the consequences in the regional integration when FDI is flowing either into or out-off the member states. The factors that affect the interest of a specific firm to invest in the production outside the country are related to three group of advantages:

- the combination of the specific advantages that are perceived by the ownership of the firm;
- the opportunities linked to the factor internationalisation;
- the advantages due to the specific localisation.

When some of the mentioned advantages is not yet, or not at all, available the firm will choose a different solution to the foreign value added networks, typically the solution of licensing or technical service agreements instead of the direct investment in the production.

The quality of cross border production is also affected by the “value chain” concept by which a firm combines its own assets with material and labour inputs in three different steps: the research and development, the function of production and the function of marketing and distribution.

In order to reinforce their competitive advantage, the MNEs are organising the three functions (direct investments, licensing and technical service agreements) in a complex integration that at some stage is normally dislocating the productions but, in order to reinforce their international presence, the model can be more sophisticated with location of the various functional activities wherever they can be performed. One indicator of this internationalisation is the transfer of the R&D activities outside the original MNEs home country.
We have also to consider the differentiated customers’ habits into the very segmented market choices of the inhabitants of the 15 countries in Europe. The real integrated market will have to wait for a long way before coming to the common sharing of the goods produced in the united EU (12).

The process of enlargement can be seen as the expansion in the number of countries participating to the economic integrated area. In general the theory of the International Political Economy (Triulzi, 1999), highlights that it seems possible to confirm the following rule: the larger the enlargement (larger in terms of number of subjects participating to the common decisions, increasing the heterogeneity of the participating countries), the smaller is the result in terms of number of agreements achievable through a common decision. There is basically a common driver for the different solutions studied in the EU in order to mitigate the problem arising from the heterogeneity of participants: concepts like “variable geometry”, “concentric circles”, “double speed” have been introduced during the process of building the integration and facilitating the particular structural conditions of various countries and its preferences in selecting the degree of intensity of integration.

It should be well known that, according to Polanyi, the economic relations are characterised by three main variables: the exchanges/trade, the redistribution and the reciprocity. The first variable is promising large expansions on trade between the EU25 also after the enlargement, these effects being in any case already in large part increasingly achieved in the last decade. The redistribution effect is not yet fully visible, in fact we are at the beginning of the process that should contribute to the transfer of resources to the less developed regions in the new EU, helping the industrialisation and providing new jobs. The third factor, the reciprocity, is not yet balanced and not clear enough if, for instance, considering the large amount of FDI in the central eastern Europe transferred from the old EU

12. Krugman and Obstfeld (1995) list several cases of this differentiation. We like to recall where they mention the different habits of the southern populations (the Italians being at first identified) who have a small wardrobe where to close high quality and expensive vestments and the Germans that prefer to have large wardrobes for a large quantity of cheaper vestments. Affecting, by consequence, the different washing machines produced and sold in the different countries.
we notice that long time will pass before some reciprocity will sustain the compensation flows. Economic events are forcing political reactions and, as Hirst and Thompson (1997) have described years ago, the economic poor performance in Europe could reinforce a risk for the political equilibrium in the Union, increased by factors linked to the poor growth in the world’s economy. If the developed countries in Europe will suffer from low GDP growth and therefore stagnate due to structural causes, they foresee a negative reaction against the immigrants so strong as to build up a “new” wall against external countries with the motivation to protect local jobs, to avoid welfare share with them and increases in social expenditures. The risk to loose the economic prosperity and the growth (that is to be considered a fundamental element of the unification and peace) will reinforce the defensive reaction of the European citizens that will be tempted to reintroduce protective measures in favour of national economies, like forcing for competitive devaluations of the currency, inverting the policy on competition, asking for public aid to the private industry, asking for autonomy in the field of the fiscal policy (13). In the case of this negative scenario, the risk for the economic and political integration is very high. Instead of the expected convergence towards the more developed regions in Europe, it could be that the countries of the developed block and the newcomer countries will diverge leaving a dangerous design in the map of Europe, where the centre is prosperous and united and the periphery just poor and marginalised. The way to avoid such a negative scenario is, according to Hirst and Thompson (1997), to agree in Europe about common standards regarding the environmental protection and the social benefits. In Europe the compatibility of such standards is set at the “minimum level” and in some cases it is even not possible to reach a common agreement. In order to do so, which means to “redistribute the incomes”, the acceptance of national governments is requested; when they intend to participate, it is always in

13. According to M. Rhodes in Coleman and Underhill (1998: 109-118), the highest competition between goods and services in the Single Market as effect of lowering the trade barriers could bring a «growing degree of competition among regimes due to their variable costs». The competition between regimes in order to gain a competitive deregulation is foreseen by Rhodes as the main risk in the unified Europe that could conduct the member states' governments to situations of “social dumping” or “regimen shopping".

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a very limited measure. There is no region in Europe that will be in a position to compete with the Eastern Countries, called by the two authors the "third level" in Europe, which have so low salaries. There is no way to avoid the urgency to build up a fully integrated economic zone in Europe; we have to consider that the step performed with the enlargement is only a first part of the process. The proposal shall be for a political decision, not just a conviction (as Galbraith is telling, between the shared economic opinions and the reality or better between the "conventional knowledge" in economy and the reality very often there is a large discrepancy) to operate with a policy of "continental Keynesianism" where the developed countries in the "old" Europe should accept to support the Eastern Europe with large scale investments in infrastructure and commercial long term loans in order to pop-up a rapid development in these countries (14).

When speaking of the enlargement in the EU market, we are forced to point out the effects of such a typology of costs that, being more evident only now, with the free circulation of goods in the internal market, could create barriers to the transparent competition in the Europe of 25. We refer here to the transaction costs and we would, first of all, introduce some basic concepts about them.

As we have seen in the beginning of this chapter, we intend to point now our attention over these specific costs that affect the efficiency of the integration and could harm indirectly also the proper achievement of the process of convergence of the newcomers in Europe.

The importance of the transaction costs is being consolidated only by recent in the neo-institutional economic theory that, avvalendosi di strumenti consolidati nelle indagini usuali della microeconomia, pur effettuando alcune modifiche a questi strumenti, ne estende l'applicazione al campo economico di problemi che fino a prima erano tipici di altre discipline (Barrotta and Raffaelli 1998: 209).

14. Todd (1998: 159-169), in the chapter related to the utopia of the free-trade/exchange, is suggesting that the internal and the international demand of goods, measured at the level of nations, are going to mix together in the global demand, which is contributing to the disappearance of the "external" demand. The societies called by the economists "society of consumers" are disappearing, leaving the room for the "societies of exporters". This in the long term will cause, in relation to increasing productivity, the separation of the salaries from the strict relation with the consumption, and therefore lead to economic stagnation.
Or, transaction costs (TC) can be defined as «the costs other than the money price that are incurred in trading goods or services. Before a particularly mutually beneficial trade can take place, at least one party must figure out that there may be someone with which such a trade is potentially possible, search out one or more possible trade partners, inform him/them of the opportunity and negotiate the terms of exchange» (Johnson 1994: 127). All these activities include costs/opportunities that can be measured in terms of time, energy and money. When we consider that a transaction can be agreed not only against payment by cash but with payment in instalments or with anticipating the payment and future delivery of the goods or services, if we consider also that in several occasions the warranty is requested for guaranteeing the quality of the product exchanged (today in Europe the warranty is even compulsory), that the obligation to provide maintenance for a certain period of time should be requested, future deliveries at the fixed prices, etc., we can thus understand how expensive such contracts could be. These expenses are often to be calculated for the time involved, for the travel expenses, for the legal consultations, etc. Other possible transaction costs could be foreseen in case of the obligation to monitor or release information after the transaction is performed. The list of the above described TC cannot be considered exhaustive of all possible costs that the entrepreneurs could face for their business.

The transaction costs could be recomputed according to the following groups:

• research and information costs;
• costs related to the negotiation and sustained for assuming the decisions;
• costs related to the control and execution.

Not all these costs are decisive for predestining the transaction and it is in any case necessary to remind that they cannot be considered comprised in the price of the goods or services to be exchanged. Benefits of both participants to the trade should be, in fact, recognised positively and cannot be detracted or cannot cause a loss. It will be just a chance if some transaction is performed for a non-profitable price for both parts; usually, in this case the transaction would not happen. The economic science recognises the so called "externalities" that are *l'insieme degli effetti, positivi o negativi che l'attività di un operatore comporta per altri agenti*
economici» (de Luca, et al. 2002: 269). The positive externality is called also "external economy", while the negative is "external waste or non-economy". According to the Coase theorem, the origin of the externality is very often caused by the unsuccessful definition of the "property rights" (15).

In the general context of the social evolution, the transaction costs are costs that could be evaluated as to relate to the human interaction in the time. The TC concept is closely related to the concept developed by Coleman (1990) and utilised by the social capital studies.

According to Orcalli and Toschi (2003-2004), when we consider the Single Market, transaction costs are conditioned by three main factors. At first by the characteristics of the legal structure and the organisation of the market, that imposes transaction costs to the participant enterprises for the reason that they should adjust products to the quality norms, should adhere to the market policies restricted by the legal structure, etc. A second factor is related to the structure of the macroeconomic policy that is substantiated in that market: first of all to the legislation that regulates the labour market and thereafter to adequate to the single currency or to the different national currencies by holding exchange rate risks for the payment of their transactions. Considering other effects of the macroeconomic policies, we have to keep in consideration the different growth rates of the countries participating into the internal market: for instance the effect of the different inflation rate could force firms to modify their price policies according to the different market areas. A third factor is related to the measure of the fragmentation of markets into the internal area of regional integration which imposes to the firms to adjust productions and sales policies according to the different requirements that come from heterogeneous areas of the integrated market. In this respect we will have smaller transaction costs in the internal market when the three mentioned sectors are minimised; for instance where it exists a single currency, a low level of market fragmentation, and where the policies of the firms are dependent on simple economic and trade policies; this

15. According to the Theorem of Coase there will be no externalities and the eventual market failure will be avoided if property rights are precisely assigned and if the contractual parts can agree an efficient solution on the property rights.
seems to be the goal of the Single Market in Europe. We should consider that the integration in the Single Market bears additional costs that influence final prices and quantities of goods and services exchanged, the breakdown between the decreasing demand trend and the increasing costs is moving back (reducing the exchanged quantities) affected by the increased total costs (which are amplified by the costs of transaction). Transaction costs reduce the surplus of consumers and firms and therefore determine a net loss for both. Orcalli and Toschi (2003-2004: 29): «l'esistenza di costi di transazione dovuti alla frammentazione dei mercati da un lato, ed all'adeguamento alle norme comuni, dall'altro, suggerisce che le Unioni Doganali possono aver successo se il primo di questi costi e' significativamente superiore al secondo» and therefore that «le Unioni Doganali dovrebbero essere create tra paesi che hanno una forte interesse agli scambi reciprocì e .... strumenti normativi di armonizzazione poco costosi». The consequence is that: «all'interno delle Unioni Doganali deve essere disponibile un meccanismo di controllo del rispetto delle norme comuni da parte dei paesi membri. In effetti, se un paese sovradimensiona l'applicazione della norma comune al proprio interno, causerà un aumento dei propri costi di transazione, ... mentre un altro paese, che cerca di applicare la medesima norma in modo meno rigoroso, permetterà alle proprie imprese di avere costi di transazione inferiori e quindi un vantaggio comparato scorretto».

2. Economic growth and the process of convergence

Proceeding one step ahead with revisiting the economic literature in terms of growth, we have now to afford the concept that is, in some way, giving the pace of the growth process in terms of catching up of the less developed economies towards the most successful in the Union.

Convergence and divergence are concepts applied to different areas: in economics, as we shall see in detail in the following pages, the concept of convergence relates to the growth of GDP pro capita in different countries with the tendency to reach the convergence after some years. This demonstrates
implicitly that the measure of convergence to a highest level of welfare - that, in
the case of EU, is actually towards the EU15 average - should be a primary
objective for the accession countries. In the case of the economic concept of
convergence, as Blanchard (2000) is strongly suggesting, we have to define
precisely the basket of countries and the starting point before comparing the
achievement of the economic convergence of the GDP pro capita. «We need to
define the position of the countries in the past, only in this way we could compare if
effectively they were subject of a process of convergence» (Blanchard 2000: 582).

Leaving for a moment the study of the concept of convergence in the economic
sphere, we can see how other sciences approach this concept and in particular
how the concept of convergence among public institutions is giving comparable
examples of this unique aspect that has different angles (viewpoints). Berger and
Dore (1998), for instance, prove that when considering the major economic blocks
in the world, sometimes a macroeconomic convergence of the countries
composing these blocks could be easily proved, but, when assessing the national
institutions emerging in the countries, the convergence between these institutions
is being very scarce. National institutions seem to be inelastic for the reason that
the social changes are generally expensive, opposed and very slow. Even in the
case when the convergence of the national institutions is being forced by
international negotiations, the reason of the reached convergence could be rarely
identified as an automatic consequence of globalisation.

Convergence is also very often connected with the process of globalisation
which is meant as an increasing cross-border flow of goods, money and people
and a growing mutual awareness of interdependence among social, political,
economic units in the world. Economic development is about finding politically
feasible but also ideologically tolerable and mostly economically workable
combinations of the local and foreign attributes in order to promote growth.

In the social and political sciences the opposite concept, the concept of
diversity could conduce on the contrary to a way of richness (in addition to being
a risk); for this second definition, we would refer to the concept of “pluralism”
that in EU is, and will be, a milestone of our cultural and historical heritage. In
consideration that different institutional structures could bring to a success in the conditions of the modern competition.

The word 'convergence' (16) used in this study is mostly related to the catching-up in terms of social conditions and standards of living of the populations in the less favoured countries, in our case, in the newly enlarged Europe. According to the neoclassical theory, economic interdependence will lead to the convergence of the development in the national economies as soon as growth rates, productivity levels and national revenues will get closer one to the other. In order to evaluate this process, the economic variables that are generally adopted are quite different: some economists adopt the labour productivity, others the real GDP pro capita or per worker or per worker/hour, or the total factor productivity (TFP). But not only, some others focus on factor prices like real wages or rates of return on capital. Of course different measures provide different information and the result in this case is not really unified. Therefore we can maintain that economists are following different non-unified theoretical approaches to define convergence. The first models about convergence developed by Solow (1956: 65-94) assume a mechanical consolidation of the catching-up of the less favoured countries and, as the level of incomes grows, due to the decreasing marginal returns, it is assumed that the factors productivity will also decrease as soon as the economy approaches the "steady" state. The basic assumption in the Solow's models is that economies are supposed to converge toward similar technologies, population, market structures, etc. The neo classical approach assumes in fact that the national variations of the economic performances are a closer function of the approaching process of the economies or, in alternative, of the inability of a country to perform according to the prescriptions of the same neo classical economic theory. This would justify the assumption that the less developed countries converge more quickly to their equilibrium (the "steady" state) than the more favoured ones, utsing the advantage they can benefit from its backwardness and the ability to use experiences and

16. For the convergence theory we utilised an insight from the literature in Ferragina and Pastore, in V. Bene (2003: 23-42).
technologies of the more developed countries when they have mobilised national resources in order to accelerate the economic growth. A capital flow would be created from developed and rich countries having a lower marginal productivity towards poor countries where the marginal productivity is several times higher, until the original difference in capital intensity and technologies will tend to diminish. The convergence is polarising different countries towards the same structural elements and similar private business practices in such a way that the national differences will tend to disappear. Heckscher and Ohlin (1991) see in the automatic reduction of the initial income differences, assuming a perfect competition and homogeneity of productive factors, the way the liberalisation of the factors mobility - through the freedom of exchanges between countries - will lead to the convergence towards wealthy societies. This neo-classical traditional theory explains, we have seen, the way less developed countries grow faster than developed ones as a result of a difference in capital labour proportions and the difference this entails in the marginal productivities of capital. In the context of open economies and expecting high capital mobility in the market, a flow of international capital will be transferred from rich countries (with a low marginal productivity) to less favoured ones with a higher marginal productivity, causing a progressive decrease of the original difference in the intensity of capital. Of course, at the same time the actual level of implied technologies (in the sense of the functions utilised in the production) will tend to close the gap profiting from the both voluntary and involuntary transfer of know-how from more developed countries.

The real convergence prospects studied by Wagner and Hlouskova (2001) indicate that the economic growth process in the transition countries is not sufficiently described by the economists using the neoclassical theory; but, as he supports, an indirect approach should be followed, mapping the growth rates country by country and projecting these rates till the time required for closing the gap of comparable incomes in the EU15. In this way the specialisation that each of the newcomers (sometime similar with the neighbouring country) will develop in the short period of time will become relevant. We have a meaningful case in EU that should be always considered as an example: Ireland. In this sense we
have also other examples to compare: for instance we can refer to the growing importance of the automotive industry in Slovakia and the closest countries participating in the Visegrad 4 that can dramatically increase growth trends - with several new huge direct investments (FDI) in the closest economic area.

Analysing the definition of economic convergence it is usual to distinguish between two types of convergence. “Beta Convergence” is explaining the relative growth performance between developed or rich and underdeveloped countries, the measure of convergence is given by the inverse relationship between the initial value of the selected variable (pro capita income, in other cases productivity) and the subsequent growth of GDP. Countries that, starting from lower initial values of the selected variable, grow faster are deemed to catch-up with the richer ones. It is not told that even if the less developed countries grow faster than the richer ones, the gap on incomes could also increase for some time, but in any case the absolute income gap, that will at first deepen till to reach a maximum, is forced successively to decline. Convergence on a common level, according to the neoclassical theory, is only a matter of time as long as their savings and technological rates are identical. “Conditional Convergence” is a more efficient approach because it considers that poor countries have the potential to grow faster than advanced ones only in the case they satisfy certain conditions guaranteeing that the growth rate is not below their potential.

Sigma Convergence is, on the contrary, measured by the dispersion of the selected variable (pro-capita income) around the mean of a group of different countries. The ways to measure the dispersion around the mean are several: some authors utilise the standard deviation, others the coefficient of variation, Gini coefficient or the ratio between the highest and the lowest income, etc.

Quite often, these theoretical implications derived from the neoclassical models of growth are conflicting with the empirical observations. The more recent theories linked to the theory of “endogenous growth” controvert the possibility of decreasing marginal returns and explain the long term growth rate by two different models, introducing the “endogenous broad capital” and the “endogenous innovation model” (Crafts 1996).
We have observed that some economists of the regional policies argue that increasing returns generate a process of circular cumulative causation leading to decrease in the cost of production and disparities arising from differences in regional capital and labour ratios diminish over time and both trade and factors flows tend to equalise factor prices. It seems that the neoclassical theory in that sense is still helpful for explaining some passages considered by the new theory.

The new theory based on "endogenous broad capital" explains that rich countries - with an initial comparative advantage in terms of knowledge and know-how resulting from a higher stock of human capital due to a relatively higher level of educational "effort" - would be able to sustain a systematically higher rate of growth: increasing returns of scale effects are present and important positive externalities or spillover related to human capital, social capital and use of high technologies can be exploited. Romer and Lucas (17) explain that the endogenous technical progress is accumulated through the "learning by doing" and that the accumulation of human capital in one country increases the economic differences with other countries because enriches the capital and labour force productivity which is reinforced by higher educational and training programmes. The growth models based on accumulation of human capital endowed by large financial resources to the training, reinforce labour force productivity and generates externalities.

According to Ke and Bergman (1995) the educational profile of the labour force is one of the key components of the differentiation of factors in regional growth.

The models focussing on the "endogenous innovation" are based on the assumption that the technological growth abilities are supported by or based over some "intrinsic" national characteristics, connected to the social structure, that strongly determine the capabilities to reach a successful growth. Abramovitz (1979) is one between of the major supporters of this theory that includes, besides the national educational level, the level of efficiency of the national institutions in

17. Bucci (2002) is giving a complete explanation of the concepts developed by Romer and Lucas related to the importance of human capital in the imperfect market competition for delivering growth.
terms of - in general - political support and more precisely on financial and marketing resources dedicated to them and, furthermore, the level of openness of the foreign trade.

The studies of Cohen and Levinthal (1989) argue, with an interesting approach, that the main support to the economic growth is given by the countries that demonstrate to possess scientific capabilities to explain their potential growth.

In this way, in opposition to the earliest theory, the endogenous growth theories do not assume any more that the growth is drying up during a process of convergence; instead, they focus on the concept that the economic convergence is driven by the detention of a specific capability, a mix of scientific, social and educational skills accumulated by the population.

This “new growth theory” demonstrates that the attraction of potential investors lies on favourable initial conditions. It is currently contrasted a little by the supporters of the cyclical consequence in regional development that sees the embryonic failure of one radical region in the actual success because radically innovative companies locate their activities in less favoured regions and explains cyclical phenomena in the development of territories. Regional economists demonstrate on the contrary a path-dependent aspect: the take-off of a territory results from a long term process that is based on a logical and sequential accumulation of technological knowledge. When speaking of public and human capital, that are demonstrated to be important determinants for the economic growth, these two components can be considered to be categories of infrastructure having strong influence on the production factors.

Speaking about infrastructure, we need to start from the early references (Hirshman 1958) when the definition of infrastructure has seen many changes. The original definition includes a wide spectrum of economic activities; infrastructure, in this case, is the complex of installations and facilities that provide whatever service basic for whatever production capacity. According to other meanings, infrastructure is limited to the supply of services provided by a networked delivery system and of course due to support a multitude of users for public utility. Some author calls this kind of infrastructure “hard” infrastructure,
but also relevant is the "social" infrastructure that increases the labour productivity helping to attract private capital.

These ideas are commonly shared among the evolutionary economists, that see the difficulties in the less developed countries to follow a path of development similar to the evolved ones, in particular when copying with the high technologies. Previous success leads to future ones and the main risk is to change the trajectory of the actual technological development because of the uncertainty of the new policy (18). Martin and Sunley (1998) have highlighted the elements that help to reinforce the "indigenous" competitiveness potential of the accumulation of technological knowledge.

The evolutionary theory without doubts fits better to explain the specific role played by the institutions and by the specific inter-relations in the economic growth.

The convergence of the regions towards their Steady State has been developed in the literature and the studies of Barro and Sala-i-Martin (1991: 245); they come to the conclusion that "our empirical result documents the existence of convergence in the sense that economies tend to grow faster in pro capita terms when they are greater below the steady state position". The same authors have proved to find evidence of supporting conditional convergence; in particular they found that regions are converging towards their national steady state at an annual rate of about 2%.

But we have also to consider that in a large sense the terminological denotation of this term "convergence" includes the concept of the convergence of the institutional (national) models of a group of states and/or regions not only in the economic sector but also in the social and political ones, toward a common model (and this is mostly the case of the EU).

Concluding, as we have seen, we have different definitions of the economic convergence. At first we have to consider that the economic convergence in some way is the best product of the globalisation in a time when the finance sector, the technologies and products and even the labour factor are becoming very similar in

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18. This theory could easily explain the preferences of the Slovak Government to give extraordinary support in the industrial policy to the investments in the automotive sector.
all parts of the world. These elements are indicating that the anticipation of a unique price for every commodity will lead to a convergence to the production factors. The trade theory of Ricardo suggests that the productivity level of the different producers should converge if the technological know-how is of perfectly public dominion. Finally to reach the mentioned result there is no need to profit from the financial liberalisation and from the labour mobility or the free movement of capital. There is no modern economy that can be considered in a general equilibrium just because of the perfect and pure competition. We have several cases where to find a sound development based on market niches far from being close to the perfect competition on products considered homogeneous and standardised.

The convergence in the enlarged Europe will depend mostly on a couple of strategic choices that we can link to the economic rationality or demonstration of the political genesis of the economic institutions. It could easily lead to a situation of persistence of conflicting structures (therefore non-convergence/divergence). The empirical analysis conducted by Quah (1996) argues that cross section convergence regression, time series modelling and panel data analysis can be misleading for understanding convergence. He in contrary mantains that a model of polarisation in economic growth clarifies the reason for the conflicting structures; the author comes to the conclusion that «the data more revealingly modelled show persistence and immobility across countries: some evidence supports the Baumol’s idea (Baumol and Edward, 1988) of “convergence clubs”, some other evidence shows the poor getting poorer and the rich richer, with the middle class vanishing». The same thesis is confirmed by Lucas (1990: 92-96). These studies demonstrate the strength of cross country polarisation present in the world. This vision over the divergence actually dominates the evidence, previously accepted by Barro and Sala-i-Martin (1991).

In EU, as we have discussed in the beginning of this chapter, we met a deeper stage of integration than just the customs union. The common market and the economic union that we adopted in Europe are leading towards a common economic policy standard shared between all the Member States. The newcomer countries of the central and eastern EU proved the readiness to participate by
accepting to introduce in their legislation and public institutions the *Acquis Communautaire*. Now the question is about the real acquisition of the *Acquis* in the new accession countries. In consideration, for instance, that the general criteria introduced by the Copenhagen treaty are in some way disregarded, this is the case when different transitional periods are granted for the implementation of the free movement of persons, for instance. In this sense conventional criteria, set by the European countries, are compatible with the economic rules that in the world, undergoing a rapid globalisation of the economic environment, encounter a substantial harmonisation towards homogeneous organisational pattern of "best practice" and "optimal efficiency".

Kosai (1998: 197-215) writes that the diversity would be desirable because it facilitates the research for the best solution through various tentative solutions and mistakes: premature integration could deprive every country by the opportunity of the social experimentation. The same concept is also elaborated by Tilton (1998). It looks like an extreme position supported by the "Comparative Institutional" theory that is proving the way how the national capitalism can survive in different countries even in the world dominated by the internationalisation or globalisation. The interaction among different models could produce flexibility and ability to answer positively in a situation of different pressure coming from the civil society. The economic growth depends on linking a country's historically developed patterns of social organisation to the opportunities of global markets and this is mostly true for countries like CEECs that have different historical background especially if we consider the social aspects. This concept is better developed by the sociological theory of cross-national comparative advantage (Biggart and Guillen 1999) including not only the economic factor endowments but also institutionalised patterns of authority and organisation. These patterns legitimise only certain actors and relationships among them in a way that facilitates economic development and brings certain activities to success (Burkett 2000). This point is introducing the evaluation of the "social capital" that is studied in part III of our work.
3. The effects of enlargement in the single market

From the jurisprudential point, when we distinguish between different "generations" or "different stages" of the construction of the Single Market, we should think of the different steps that, according to the European Court of Justice, were characterising the building of the Single Market; these steps are differentiated following the rules applied in the Single Market to merchanides and services. The evolution in the jurisdiction led to the actual phase characterised by the clear convergence of the different commercial regimes (GATT included) also in the areas of the services.

The praxis that recently is becoming prevalent in the negotiations, according to Weiler (2003), is based on some very general and simple rules; first rule: national legislation which does not affect in a really equal way the trade of national products and the trade of products coming from other member states should be justified by a prominent public interest contrasted with the free circulation of merchanides. A second rule is also prevailing: all national regulation de facto limiting free access of the imported merchandise to the market shall be in any case justified. These two rules tend to reinforce the fight against discrimination (the key element of the free trade) and to limit applications creating obstacles for accession in the market to the cases where the obstacles itself affect the real exclusion from the products (Weiler 2003).

In order to apply these complex norms the Court is utilising complex analytical instruments which have been developed during the previous above mentioned phases. Some of these instruments are already consolidated and are recognised by the specialists, like the "proportionality criterion", the notions regarding discrimination - that are in any case spread in different sectors -, the concepts of weight and charge to prove something. All these instruments are today fine updated and we can justify that juridical decisions are already working for achieving the requirements of the Single Market, no more for building up this market (19).

19. According to Weiler (2003) somebody today can see forms of "cultural imperialism" that are advancing in the field supported by the current globalisation: these forms are based on the
Gilpin (2003) is considering that harmonisation is a concept somewhere alternative and - in the EU - complementary to the process of economic convergence. Here the strong national differences are forced not only by the effects of participating into the single market or by the ineluctable effects of the time factor, but mostly by the consequences arising from the adoption of an explicit objective during the international negotiations - in our case by the means of the pre accession and accession negotiations -, the advantages or disadvantages to fast negotiations.

Another element to be considered with reference to the actual tendency is the harmonisation philosophy of the European Union and the so called “European Version” of the «functional parallelism or mutual recognition» (20) that in the future should necessarily prevail as a result of the convergence process already adopted by the World Trade Organisation (WTO) and the European Court of Justice. Otherwise, the adoption of the principle of mutual recognition, very often utilised today by the Community, will be needed and could be integrated with the “principle of necessity” linked to the GATT sustainers. It should be clear that these aspects are supported by the MNEs - in particular in the case of the questions related to the EU internal market - interested to force in favour of the convergence of the regulation regimes adopting international standards not only at the national level but also within the commercial blocks (USA, EU, Canada, etc.), with the definite intent to penetrate into these different markets.

The conceptual assumption that governs the EU enlargement is based on the consideration that institutional differences increase transaction costs for cross border activities, because the actors have to achieve more information about legal

leveraging effect of compared advantage utilised by the exporting country, thus extending problematic issues related to the production factors and localisation. In this sense we would indicate some cases that are quite frequent in our days and at the same time quite difficult to codify, to understand. They are no more based on the characteristics of the product itself, but on the production methods adopted by the exporting country. The case of the “children labour” is emblematic of the mentioned new approach. The true success of the free market and the free trade consists on keeping the persons conscious of their own habits and consumption practices that are inevitably allied of practices normally forbidden in the country where such products are consumed.

20. The Mutual Recognition concept envisages that every nation should accept the legitimacy of the rules which other nations adopted in governing the economy. For instance, according to the freedom to establish financial services in Europe, a multinational Bank with the head offices in France when opening a branch in Italy is authorised to operate as in its own country.
conditions in several countries before being able to tackle rational decisions. Of course, this has a cost and the heterogeneity of the institutions is like a barrier against the integration in the market (21). The Single market, in addition to the establishment of the four freedoms, includes also the harmonisation of the parts of the legal system and institutions that are relevant in the trade sector and in the productive factors movements. The expectation for a big potential coming from higher efficiency - due to the harmonisation of the institutions in the countries participating to the Single Market - should have been higher than the costs the new member countries carried out for changing old, inefficient institutions. The administrative costs and the short term inconveniences afforded in order to harmonise the national legislation with the Acquis Communautaire are considered to be payable in comparison with the benefits coming from reduction of efficiency gains. But of course, even if the harmonisation is facilitating the cross-border transactions, it is also worth to see the level of "quality" reached by the institutions and "the costs savings from harmonisation - according to Jorgen Drud Hansen (1991: 11) - might be turned to a loss if the common institutions have a lower quality from an efficient point of view than the national institution which are given up".

Revisiting with a constructive intention the usual criticisms to the Commission policies regarding the enlargement, Jan Zielonka in a recent work (Lucarelli 2003: 107-129), helps us to find the limits of, in his words, the three modern paradigms of the conceptual assumptions that govern the EU enlargement. The engineering construction paradigm, the convergence paradigm and the state organisation paradigm: all three should be considered to present strong weaknesses in building the enlargement. The first, considering that the Union should integrate according to a planned and controlled way, is giving the EU Commission and Council the right and the duty to strictly monitor the performance of the conditions for accession, with a detailed sequence and deadlines, following guidelines and action plans: in one word "screening" the process. Zielonka notes that the EU Institutions have developed not always, in fact very rarely, according to a precise sequence of actions, a precise guide and sometime even a clear logic. In this way

21. Details about the concept of transaction costs are developed in the previous chapter 2.
the success of building Europe is due more to a “gardening work than a work of engineers” (Zielonka 2003: 129). This can be true for the period between the ’60s and ’80s, but during the more recent 15 years we observed an increasing series of success stories that based their fruitful results on a timely program activity designed and performed by the EU institutions, mainly by the Commission (a number of flagship policies have been installed, for instance: the creation of the single market, the completion of the competition policy that widened including merger control and the Uruguay round of trade negotiations, the adoption of the single currency within the European Monetary Union and the pooling of monetary sovereignty in the European Central bank and, finally, the present big enlargement, just to mention some of them). This proves the institutions follow a clear logic, they do not perform a series of actions chosen at random.

The economic convergence process being a target for the EU funds disbursed to the newcomers in Europe, only after the process completion it will be possible to verify the results the process of convergence has achieved. Of course, the country (or group of countries) that started with a disadvantage should demonstrate a larger growth when reaching the advanced countries. But, should it be that the real target of the macroeconomic policies is an economic system able to deliver faster growth, stability and cohesion? We see the economic convergence frequently mentioned in the policy documents of the EU Commission, and it is for sure in the aims of the citizens of the newcomer countries, but it will be not at all up to the European Union institutions either to decide or to force the speed of such a catching up, which is exactly in the hands of the national governments.

The third paradigm of state organisation assumes that the institutions of “state type” are more important than the national, political or market organisation. This refers to the modern version of the concept of state, born after the Westphalia peace agreement in 1648, that includes a strong central government, well defined borders, an army and a European common police, a single European citizenship, a single market and a common social policy.
It should be considered that the complexity of the European governance - "different levels of governance", "identity and multiple loyalties", "vague regulations", "public actors without sovereignty" and "wider holes empty of authority", using the words of Zielonka (2003: 128) - is mostly worrying for the newcomer countries since, as it would be easy to find in some political literature, some restricted group of technicians will aim at imposing more restrictive and rigid criteria to them in order to grant to a restricted number of "selected" states (the "old" EU15 states) the predominance on the EU governance, foreseeing growing disparities and diversities in the enlarged Europe. Therefore the three paradigms seem to be obsolete and misleading the process of enlargement. An alternative to the absolute sovereignty, a new modality for composing and managing different authorities and a new system of redistributed justice could be a prospective solution which is proposed by some authors. In this case, the key of the future prosperity and the peace is seen, according to a post-modern vision of the development, in the «achievement of the enlargement itself and not the institutional engineering of one European state».

Another way to evaluate the effects of the enlargement is to consider the relevance of the competition policies in Europe. On this field we observe a real progress, moving from the first period after World War II when the antitrust legislation adopted by the biggest European nations was more apparent than real. Apparent because it includes measures adopted as a consequence of external pushes from the United States in a complex political and administrative situation.

In the mid '80s in Europe the decision to build up the Single Market introduced a new approach to the decision making from the centre to the periphery, with the intervention of different agencies in Brussels. Since 1993, a juridical innovation related to the Ministerial Council's approval of certain directives with the limited consensus of the simple majority brought to a rapid approval of a large number of directives. In fact, the majority of the 282 directives listed in the White Book of 1985 and related to the harmonisation of the standards and of the European procedures, were approved in the 1990: equalising, in this way, the playing field for the European competitors and promoting the free exchange and competition
among the countries of the EU community. The policy changes, associated with
the introduction of the single market, give benefit to the European firms from
inside the market but also from outside. This claim has been developed by Smith
and Venables (1991: 388-395), who argue that «if integration has no direct effect
on firms outside the Europe, than these firms loose market share». But if there has
been some beneficial effect on these firms - for example, reduction in the cost of
market access - than “the direct effect, even small, will be positive”. At the
aggregate level, «it is quite possible that the EC firms will loose market share to
firms from the rest of the world» (Smith and Venables 1991: 394).

Since that time, the European Commission enlarged its power over an intensive
process of regulations, entering in detail the daily life of the EU citizens. The
strong behaviour of the Commission, supported by the European Court of Justice,
has led to a large privatisation of the public companies in Europe and to a large
convergence of the economic policies in this field among the member states. The
regulations for the monopolies is also headed by the Commission and, despite the
effects of the decisional process on the industrial production and on the single
market have low visibility, the overall process is relatively slow but uninterrupted.

We have to recognise that after the Maastricht Treaty, the Council and the EU
Parliament have recognised more power, while the Commission is strictly limited
to the executive power.

This short digression over the basic concepts that theoretically will support us
in the interpretation of the economic complexity that governs the recent
enlargement, should now find a model of interpretation.

In our work we refer to the complex concept of the economic integration in the
European Single Market. The evolution of this concept is being studied at a
moment which is very interesting for the European economy when, after May 1st,
2004, the enlarged Europe is counting 25 countries. The problematic aspects of
this integration are due to the different evolution stages of the economies and of
the social and political standings of the new acceding countries in contrast with
the old block of EU15. The economic effects elapsed by the growing trade and the
growing internal productivity in the newcomer countries support them in the daily
run-up towards the more developed EU countries. Being relevant part of the accession countries, the four countries of the Visegrad agreement are a specific study subject of the present research.

We have some questions that probably can be utilised to figure out the perceived risks linked to the economic effect of the enlargement: in a world where globalisation is dominating the markets, it becomes natural to doubt about the influence of the enlargement in reinforcing or weakening the competitive advantage of Europe in comparison with the strongest competitors.

Could it happen that the existing different development conditions in the two areas of Europe (highest developed regions and the EU still in transition) will condition the overall prosperity of the EU?

Furthermore, can we identify specific economic sectors that in the nearest future will be more sensitive and that could harm future development?

In order to give answers to the above questions we aimed at giving a substantial articulation to the hypothesis of the present research in consideration of the need for developing a possibly "specific" aspect of the integration theory. The hypothesis could be expressed in the following terms: in consideration that the prominent part of the newcomers in EU are characterised by a common political and economic dominant, showing a certain homogenisation - we refer to the countries of the Central Eastern Europe, this group is largely different from the block of the EU15 old countries -, we hypothesise that some of the economic policies adopted by their governments might influence the future of the EU integration showing major sensitivity than others. It seems, more precisely, that we could distinguish large areas of intervention in the public finances that could produce harmful effects, dumping in economic and social aspects. Furthermore, specific conditions synthesised in the "social capacity" of the countries could, if utilised with competitive and non collaborative spirit towards the rules of the Union, result in situations of tension and imbalance among the internal group of the participant countries and could even jeopardise the integration process.

As we expressed in the introduction, we have distinguished three main stages in the integration process of the CEEC Countries: the normative stage,
exemplified by the absorption of the *Acquis Communautaire*, which affects principally the partaking of the participation to the European Union; the incertitude stage, which is characterised by the evidence of the questions matured in a climate of difficult aggregation of areas characterised by a different degree of development; finally, the adaptive and reactive stage, earmarked by the economic and social equilibrium and re-equilibrium which is exemplified by the tendency towards the convergence of the EU economies.

The following Figure 2 exemplifies the stages of this process, of which we share the logical proceeding of our analysis in the present work. In fact in Section II, Chapter 3, we are going to analyse strengths and weak points of the process of absorption of the *Acquis Communautaire*, evidencing the possible inadequacies in the process of harmonisation with the EU legislation in the V4 countries (normative stage). Furthermore, during the pre-accession phase of the V4, there was a large production of economic studies on the effects of the foreseen enlargement: we analysed five of the studies (Chapter 4) produced under the supervision of the European Commission, that are homogeneous among themselves. The outputs of these studies are processed utilising a SWOT analysis in order to evidence strengths, weaknesses, opportunities and risks that were foreseen in relation to the eastern enlargement; this phase is identified as the "incertitude stage". Utilising a double entry table, we match the information about the process of absorption of the *Acquis* with the expectations of the five studies. Both chapters (3 and 4) are preceded by a detailed methodological note.

In the following figure 2 we aim at presenting a synthetic pattern of the process involving the accession countries. The normative stage includes the legislative harmonisation with the Acquis Communautaire, which foresees the strengthening of the countries' normative effectiveness in the integrated area. Through the "incertitude stage" the countries will tackle with the efficiency of the growing integration in the Single Market while scale economies, costs reduction and factors mobility are the final achievements.
In order to make the concepts expressed in the hypothesis operative, we decided to identify the determination of the alternative economic policies that the newcomer countries can possibly adopt (in the following we define these policies as the “sensible areas”). The identification of the “sensible areas” has been performed complying with two different explanatory paths previously described and matching the “normative” with the “incertitude” stages.
This qualitative analysis has been conducted with the intent to single out the essential elements of the institutional performance required by the Commission in order to enter the Union.

In the following chapters (Chapters 6 till 9) we went on with the detailed analysis of the “sensible areas”, namely: the taxation, the aspect related to the social policies and public budget, the migration aspect and finally the sensitivity of the social capital in the V4 countries. In addition to the four mentioned areas, other two emerged: internal trade and the agricultural sector, that we decided not to analyse in this context.

Working this way, we come to the confirmation of the initial hypothesis, reinforcing the conviction that the identified “sensible areas” – reflecting the economic policies possibly adopted by the governments of the V4 countries - might influence the future of the EU integration showing major sensitivity than others.
SECTION II

EFFECTS OF THE POLICY COMPETITION IN THE ENLARGED EUROPE
In this chapter we intend to analyse the outputs of the Comprehensive Monitoring Reports 2003 for the four countries of the CEECs (Visegrad 4) and to understand whether it could be confirmed a common relation within their administrative structures and procedures as a result of the perceived inadequate public administration systems in the last phase of the transition towards an effective good governance. Moreover, once confirmed this first assumption, we would like to understand whether it is possible to identify a common area of policies in the reformed administrative structures of the mentioned countries, on which to base our analysis; our final intent is to analyse the determinants of sensitive areas for future policies on EU integration.

In the next chapter 4 we will analyse the effects and the economic perspectives of the enlargement according to 5 selected studies conducted by primary economic institutes between September 1999 and April 2002 with the intent to evaluate the economic and social impact of the enlargement and the foreseeable consequences in the EU15 and in the applicant CEECs countries.

The output of the SWOT analysis performed on the mentioned studies is expected to contribute, together with the output of the current study, to the identification of "sensible" economic areas for the enlargement, identification that is developed using a double entry table in the closing paragraph of the next chapter 4.
1. Methodological note

Before entering EU, the new acceding countries were requested to implement the Acquis Communautaire that consists of a continuous harmonisation of the national legislation and the establishing of several new institutions. The Copenhagen European Council defined these conditions in terms of economic and political criteria as well as of the ability to assume the obligations for membership. The European Council of Madrid has specified this criteria further in June 1995, highlighting the importance not only of incorporation of the Acquis into the national legislation, but also of ensuring its effective application through appropriate administrative structures. It's known that the EU Commission has performed a systematic assessment of the administrative capacity of the Candidate Countries that was contemplated in the annual regular reports in the framework of the accession negotiations. This assessment is fully reflecting the detailed administrative structures that are required to implement the 29 chapters of the Acquis including the functions strictly required and the basic characteristics that such structures should fulfil. Analysing the benchmarks on the basis of which the assessment is made, it will be possible to learn how the Acquis Communautaire is defined. The 29 chapters of the negotiations are supported by different benchmarks, whose content we will now synthesise.

- The first chapter is related to the free movement of the goods and details the horizontal and procedural measures, legislation related to the food production, other sectoral legislation, the free movement of goods in non-harmonised areas and finally the public procurement.
- The second chapter contains provisions for the free movement of persons and includes mostly the administrative structures required for the mutual recognition of the professional qualification.
- The third chapter relates to the free movement of services and regards the financial services and data protection.
- Chapter four, related to the free movement of capital, payment systems and anti-money laundering, closes the four pillars of the EU Treaty.
• At chapter five we have the company law including accounting and auditing and the intellectual property rights.

• The sixth chapter deals with the competition policy, anti-trust and state aid normative structures and supervision.

• From chapter seven on, we enter in the different sectors: starting from the Agriculture, followed by the Fisheries (Ch. 8) and Transport (Ch. 9).

• At chapter ten we find Taxation and at chapter eleven the Economic and Monetary Union, including the economic policy co-ordination, fiscal surveillance and other.

• Chapter twelve deals with Statistics and Chapter thirteen with Social Policy and employment. Energy is dealt with at chapter 14 and Industrial Policy, Small and Medium Size Enterprises (at Chapter 15).

• The following Chapter from 16 to 20 deal respectively with Science and Research (16), Education and Training (17), Telecommunications (18), Information technologies (19), Cultural and Visual policy (20).

• Chapter twenty-one details Regional policy and co-ordination of structural instruments (this is very important for the structural support to the less developed regions in Europe).

• Environment is treated at chapter 22, with horizontal legislation and the specific fields of air, water, waste management, nature protection, etc.

• Consumers health protection is a special chapter (23), which includes the policy co-ordination, market surveillance and enforcement, access to justice and consumer representation, information and education.

• Chapter 24 covers Co-ordination in the field of justice and home affairs.

• Chapter 25 relates to the customs union, while chapter 26 deals with external relations and chapter 27 with Common Foreign and Security Policy.

• Chapter 28, again a basic chapter, includes the financial control of the public spending.
Chapter 29, the closure chapter, is related to the Financial and Budgetary Provisions, including national budget and EC co-financed measures, own resources and administrative infrastructures.

We need at first to reflect upon the background regarding the acquisition of the Acquis Communautaire, which had its normal conclusion in Copenhagen in December 2002, closing the accession negotiations with the ten acceding countries using the simple sentence: «all accession countries will be ready for membership at the beginning of 2004». As we have seen, all findings resulting from the continuous assessment had been published in the yearly regular reports reflecting the situation country by country till September 2002 and in the final report, called Comprehensive Monitoring Report, published in November 2003.

The strategy paper of the Commission of the European Communities (2002f) "Towards the enlarged Union. Strategy paper and report of the European Commission on the progress towards accession by each of the candidate countries" identified the obligations that the countries candidate for accession had to fulfil from the beginning of 2004 in order to complete the criteria for membership; the Commission was charged notably to «produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament» (CEC, ibidem, 2002f:3).

The “Comprehensive Monitoring Report(s)" issued by the European Commission on the state of preparedness for the EU membership in the accession countries (CEC, 2003c, 2003d, 2003e and 2003f), were issued, country by country, with the purpose to present the findings highlighted by the European Commission in the comprehensive monitoring of the preparation accomplished by the acceding countries in the last period before the accession. The information contained in this report, that we are going to analyse, is updated to September 2003. Of course the Commission starting point was that the acceding countries should be prepared for full membership before the date of accession on May 1st, 2004. In the introduction the report states: «...certain important task (in order to overcome the weaknesses in the institution building and harmonisation with the Acquis Communautaire) must still be undertaken between now and accession. The
importance of these tasks and the serious consequences in the event of failure, must not be underestimated. The Commission is determined to take the appropriate measures to safeguard the functioning of the Union in all areas and in particular of the internal market wherever necessary».

As we have seen, the closure of the accession negotiation was achieved as a consequence of the alignment of all single chapters with the Acquis Communautaire. Furthermore, due to some time span between the conclusion of negotiations about any single chapter and the date of accession, the closure of chapters was also partially based on reliable commitments by the acceding countries to the adoption and implementation of the EU legislation. The Commission has intensified the monitoring in order to assess whether the commitments of the accession countries were met in practice, considering that the date of accession was very close. The reference that supplies a framework for the monitoring is based on the Treaty of Accession, which contains rights and obligations of the future member states and concrete commitments regarding the adoption of the legal and political order in the Union. These basic commitments, based on the Treaty obligations, consider to enforce the full Acquis from the first day of the membership, although exceptions are agreed upon in the areas where transitional arrangements were stipulated during the negotiations. These areas concern mostly the free movement of working forces from the acceding countries to the old member states and the ownership of agriculture lands by foreign citizens in the newcomer countries.

The findings of the monitoring reports were communicated to the concerned countries for guidance in their further preparation for accession and the most important cases, including specific gaps in the alignment and implementation of the EU legislation, have been anticipated through a special official warning to the Government, notifying that the lack of adequate measures would lead to a negative assessment in the report.

The individual accession country’s report assesses each of the 29 chapters of the Acquis, thus giving the state of preparedness in every country as regards the transposition of the legislation and the perspective of the implementing structures,
their administrative capacity and enforcement. The findings are described under three well distinguished scores:

CR = The first score includes all those issues where a country is ready or just minor issues remain to be addressed. (We excluded this first category from analysis, because it can be deducted per difference from the other two).

EE = The second category includes remaining issues requiring enhanced effort and an increased pace of progress to ensure that the findings are resolved by the time of the accession.

SS = The third category addresses issues of serious concern where immediate decisive actions needs to be taken for the country to be ready by the date of accession. If the problem is not solved some of these issues may lead to a situation where a new member state will not have the full benefit of membership.

In the economy of our research and on the basis of the analysed area, we subjected to scrutiny only four of the 10 above mentioned Comprehensive Reports, that is those regarding the Visegrad four countries: Poland, Czech Republic, Hungary and Slovakia. After a deep observation and stressing over the text interpretation, we finally decided to follow the scheme here displayed, which is giving us the subsequent analytical categories:

Analytical Categories ↔️ Synthetic Categories - indicating the presence of “Sensible Areas”

We have chosen the following 5 analytical categories: IST (normative - institutional), SOC (social), ECON (strictly economic), POLIT (strictly political) and finally CULT (cultural).

We grouped together the 29 negotiation chapters according to the selected 4 analytical categories:
The logical separation between 29 blocks corresponding to the chapter of negotiation, is giving us the first input: 29 are the synthetic categories, where to address our attention.

From the above categories we selected 14 of the 29 chapters of negotiation (highlighted with grey colour in the above list) following a detailed analysis of the scores assigned to the four countries into the respective Comprehensive Monitoring Reports. In fact, the 15 chapters of negotiation we excluded from the successive step of analysis have no evidence of any SS negative score with the exception of the fisheries market policies in Poland and the Acquis related to the road transport in Czech Republic. As it could be easily observed, the 14 chapters,
which we will comment in detail in the following pages, fall in the most relevant analytical categories, respectively IST, SOC and ECON.

After analysis of the 14 synthetic categories, we will display the relationship between the findings observed by the Comprehensive Monitoring Reports and the indicators of IST, SOC and ECON that we have selected: for the IST (normative - institutional category) we have selected the migration problematic area and growth policies, for SOC (social category) we selected social capital and migrations, for ECON (purely economic category) we selected taxation policies, financial control and agriculture. These four area groups are displayed with the following symbols: T = Taxation Policies, M = Migration, SC = Social capital and GP = Growth Policies.

2. Harmonisation in the Visegrad Four

In the following table 2 we have summarised, according to the chapters that are strictly linked with the progress in the implementation of the economic and social aspects of the Acquis, for the four Visegrad countries, the scores attributed in the Comprehensive Monitoring Report 2003 - the last report issued by the Commission before accession -. The highlighted scores do not take care of the positions where the countries are considered ready, or just minor issues remain to be addressed. Therefore our attention is addressed toward two findings: EE, that stays for “enhanced effort is requested”, and SS, that addresses “issues of serious concerns”.

Furthermore close to the descriptions of the examined chapters we made - in brackets - reference (where it was the case) to the four areas of taxation, migration, social capital and growth policies.

Here below we display the summary table of the scores obtained by the V4 countries, followed by the specific issues related to the selected chapters. An empty cell means that the country is ready or just minor issues remain to be addressed. We excluded from the following table to mention the results of the chapters proving less relevance with our analysis. The reference to tax, migration,
social capital, growth policies in the first column is utilised in the closing chapter of section II in order to facilitate the indication of the sensible areas.

Table 2 - Synthetic Table: the Results of the Comprehensive Monitoring Reports

<table>
<thead>
<tr>
<th>Chapters</th>
<th>Slovakia</th>
<th>Poland</th>
<th>Hungary</th>
<th>Czech Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Free movement of Goods</td>
<td>EE</td>
<td>EE The &quot;old&quot; approach legislation, non harmonised area in the filed of free movement of goods</td>
<td>EE The &quot;old&quot; approach legislation, non harmonised area in the filed of free movement of goods, public procurement</td>
<td>EE The &quot;old&quot; approach legislation, non harmonised area and public procurement</td>
</tr>
<tr>
<td>(GP) (T)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Free movement of persons</td>
<td>EE Mutual recognition of professional qualifications</td>
<td>SS Mutual recognition of qualifications, specially training for professions in the healthcare sector</td>
<td>SS Mutual recognition of qualifications, including in the healthcare sector</td>
<td></td>
</tr>
<tr>
<td>(M)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Freedom to provide services</td>
<td>EE Insurance, information society services, protection of personal data, right to establishment and freedom to provide non-financial services</td>
<td>EE right to establishment and freedom to provide non-financial services. Banking, insurance, investment and securities market</td>
<td>EE Information society services</td>
<td></td>
</tr>
<tr>
<td>(GP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Free movement of capital</td>
<td>EE Fight against money laundering</td>
<td></td>
<td></td>
<td>EE Fight against money laundering</td>
</tr>
<tr>
<td>(T)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Company Law</td>
<td>EE Protection of industrial and intellectual property rights</td>
<td></td>
<td></td>
<td>EE Protection of industrial and intellectual property rights</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Competition policy</td>
<td>SS Competition policy, transitional arrangements granted in the steel sector</td>
<td></td>
<td></td>
<td>EE Protection of industrial and intellectual property rights</td>
</tr>
<tr>
<td>(GP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7 Agriculture

EE Trade mechanism, common market organisation for sugar, wine and beef meat, veterinary control, TSE illness, phytosanitary

SS Paying agency, integrated administration and control system, public health protection

EE Trade mechanism, common market organisation for milk, beef meat, eggs and poultry. Rural development, trade in live animals, animal products, common measures, animal welfare and nutrition.

EE Paying agency, integrated administration and control system, agri-food establishments public health protection, veterinary control, TSE illness, phytosanitary, movement control of animals, control of potato ring rot. Resources management and inspection.

EE Paying agency, Integrated administration and control system, trade mechanism, the common market organisation for sugar, wine and alcohol, beef meat, nearly all phytosanitary and veterinary issues

SS Progress in the upgrading of agri-food establishments in order to meet public health requirements

10 Taxation (T)

EE VAT and excise duties

EE VAT and excise duties

11 Economic and monetary union (GP)

EE Independence of the Central Bank

13 Social policy and employment (SC + M)

EE Public health, ESF, anti-discrimination

EE Labour law, health and safety work, public health, ESF, anti-discrimination

EE ESF, anti-discrimination

15 Industrial policy (GP)

EE Privatisation and restructuring

21 Regional policy (GP)

EE Legislative framework, institution

EE Legislative framework, institution

EE Legislative framework, institution
24 Justice and Home affairs (SC)

- EE Fraud and corruption
- Data protection for Schengen area, visa policy, external borders, asylum

It could be interesting to note the very high similarity in the degree of preparation for the four countries (22). In fact, we can observe some discrepancy only in few chapters and notably in chapter 2 “Free movement of persons” where - due to the mutual recognition of professional qualifications - Poland and Czech Republic have obtained SS (issue of serious concern), meanwhile Hungary is considered to be ready and Slovakia should just demonstrate an enhanced effort. In the chapter 4 “Free movement of capital” only Poland and Czech Republic obtained an EE quotation, in taxation (Chapter 10) Slovakia and Poland had the EE quotation and Poland has the same score in chapter 11 “Economie and Monetary Union” and in chapter 15 “Industrial policy”.

It remains of greater relevance the negative scores (SS) on the Free movement of persons, on agriculture in particular for the weak control system and integrated administration, the accumulation of negative scores in the justice and home affairs

22. We would draw the attention to the fact that these results are officially issued by the European Commission and endorsed by the Council. In spite of the different institutional development observed in Poland and Hungary, higher justification for the similarity of degree of preparation in the Acquis Communautaire could be understood for the two split countries (from 01.01.1993) of the former Czechoslovakia: Czech Republic and Slovak Republic.
sector, social policy, regional policy, competition policy, free movement of goods and financial control.

Details regarding EE and SS, remaining gaps in preparedness, are provided in the following with the support of the informal working document, limited to information purposes only, titled Main Administrative Structures required for implementing the Acquis and edited by the European Commission - last update April 3, 2003. The document contains a list of compulsory administrative structures to be implemented by the acceding countries in order to comply with the institutional and administrative basic governance criteria required by the Acquis Communautaire. At first we display once more the single lines of the previous table according to the individual (14) chapters of negotiation, the four columns should be read in order: Slovakia, Poland, Hungary and Czech Republic.

In the following text we give a reasoned explanation of the content of the findings, mostly discovering the legal source or the lack of institutional building described in short by the same findings.

Free Movement of Goods (Chapter 1)

<table>
<thead>
<tr>
<th>1 Free Movement of Goods (GP) (I)</th>
<th>Slovakia EE</th>
<th>Poland EE</th>
<th>Hungary EE</th>
<th>Czech Rep. EE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The “old” approach legislation, non harmonised area in the field of free movement of goods</td>
<td>The “old” approach legislation, non harmonised area in the field of free movement of goods, public procurement</td>
<td>The “old” approach legislation, non harmonised area and public procurement</td>
<td>The “old” approach legislation, non harmonised area and public procurement</td>
</tr>
</tbody>
</table>

Implementation of the “new” approach directives implies the conversion of a system based on mandatory over-prescriptive technical requirements and a state run mandatory certification into one where the regulatory sphere is limited to essential safety requirements, technical specifications are handled by voluntary standards and conformity assessment is carried out in a decentralised way both by the manufacturer and by accredited third parties. In addition the weakening of pre-market authorisation requires the setting up of an adequate market surveillance
through enforcement authorities. The necessary administrative structures may be deducted from the analysis of the individual pieces of the legislation.

The minimum requirements are based over a) “the proportionate and effective market surveillance”, b) “the existence of test facilities and available expertise to underpin such activities”, c) a “national standardisation infrastructure”, d) “the identification of a competent body with sector policy responsibilities covering the general implementation of the legislation”.

The “old” approach directives (dealing among other things with foodstuffs, chemicals, textiles, pharmaceuticals, motor vehicles and others) require a deregulatory modernisation by the national legislation guaranteeing a minimum level of safety standards adopting horizontal and some specific vertical, case by case, measures. According to the sectors regulated these measures should focus on absolving two main issues: pre-market authorisation and post-market surveillance.

Conceptually, the public authorities should retain only the legislative and market surveillance power and ensure that the system of assessment for conformity to the regulatory requirements run by third parties is presenting sufficient technical competence and independence.

The free movement of goods in the non harmonised area is dealing with the assessment of the administrative capacity, in particular as concerns the national monopolies (according to the articles 28 till 30 of the EC Treaty), ensuring that the national legislation has individuated an administrative entity responsible for the follow up and implementation of the mentioned articles of the Treaty and the application of the mutual recognition principle. Furthermore this entity should be responsible for the co-ordination and the reaction in case of infringement, civil servants should be trained and seconded as experts in the specific field, contact points should be available for the consumers and for supporting with information the economic operators, dealing with the specific goods. A second administrative entity is required to be establish in order to comply with the decision 3052/95/EC regarding the exchange on information on national measures derogating from the principle of free movement of goods. In this field a body responsible for the co-ordination of the transmission of individual decisions taken by the decentralised
bodies is also required. A third required authority is foreseen for the implementation of the regulation EC no. 2679/98 regarding the functioning of the internal market in relation to the free movement of goods among the Member States. In this case the limits of competence should be declared to the Commission. Finally a designation of a national authority or authorities is requested by the regulation EEC 339/93 dealing with the checks on conformity with the rules of product safety relating to products imported from third countries.

Public procurement being a very sensitive area, a national body is requested, being responsible for the management of the public procurement policy. Various tasks are deemed to be performed by this national authority: from ensuring that the rules are properly applied, to giving expert advice, till providing information and training on public purchasing. The tender notice should be published nationwide in order to make known to the business community the existence of bids. Independent monitoring and review bodies with a juridical or quasi-juridical nature should be established. The frequency of reviewed cases could be an indicator of performance proving the administrative capacity in this area.

Free movement of persons (Chapter 2)

<table>
<thead>
<tr>
<th>2 Free movement of persons (M)</th>
<th>Slovakia</th>
<th>Poland</th>
<th>Hungary</th>
<th>Czech Rep.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EE Mutua</td>
<td></td>
<td>SS Mutual recogni</td>
<td></td>
<td>SS Mutua</td>
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<tr>
<td>tions</td>
<td></td>
<td>tion of qualification</td>
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<td>tions, specially</td>
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<td></td>
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<td>, specially training</td>
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<td>training for pro</td>
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<td>in the healthcare</td>
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<td>fessions in the</td>
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<td></td>
<td></td>
<td>sector</td>
<td></td>
<td>healthcare sector</td>
</tr>
</tbody>
</table>

The Community action in the important area of the free movement of persons is limited to the organisation of the mutual recognition of professional qualifications defined by specific directives (general systems directives as per directive 89/48/EC and 99/42/EC) and the sectoral directives for lawyers, architects and health care professions. This principle is based on the mutual trust
between the different national authorities and on the previous coordination of the national legislations and training (and titles recognition).

No more actions are foreseen by the application of the *Acquis Communautaire*.

Free movement of services (Chapter 3)

<table>
<thead>
<tr>
<th>3 Freedom to provide services (GP)</th>
<th>Slovakia</th>
<th>Poland</th>
<th>Hungary</th>
<th>Czech Rep.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EE</td>
<td>EE</td>
<td>EE</td>
<td>EE</td>
</tr>
<tr>
<td></td>
<td>Insurance, information society services, protection of personal data, right to establishment and freedom to provide non-financial services</td>
<td>right to establishment and freedom to provide non-financial services. Banking, insurance, investment and securities market</td>
<td>Information society services</td>
<td>Insurance, information society services, right to establishment and freedom to provide non-financial services</td>
</tr>
</tbody>
</table>

In this chapter the Commission has foreseen the main institutional authority for the supervision activity of the three financial sectors: banking, insurance industry and capital market. In order to oversee these credit institutions, the supervisory authority (that mostly currently is requested to be a unified body for all sectors) should in general prove to be autonomous and independent, to have sufficient qualified staff, not under-remunerated, to be mostly self-financed by the market participants (in the case of the banking sector, to be under the financial support of the National Bank). The experts working in the supervisory body should have attended training courses on EC legislation and enforcement methods. To prove adequate supervisory practice, the authority should demonstrate a sufficient number of on-site examinations and the ability to act in case of irregularities suspending licences and applying financial sanctions.

Data protection should be guaranteed by a specific supervisory authority responsible for monitoring the correct application of this directive. Besides the complete independence, this authority shall be endowed with special investigative powers in front of both all public administrations and private sector. The public supervisory authority also needs effective power for intervention and for engagement in legal proceedings.
Free movement of capital (Chapter 4)

<table>
<thead>
<tr>
<th>4 Free movement of capital (T)</th>
<th>Slovakia</th>
<th>Poland</th>
<th>Hungary</th>
<th>Czech Rep.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EE</td>
<td>EE</td>
<td>EE</td>
<td>EE</td>
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<tr>
<td></td>
<td>Fight against money laundering</td>
<td>Fight against money laundering</td>
<td>Fight against money laundering</td>
<td>Fight against money laundering</td>
</tr>
</tbody>
</table>

In order to assess the administrative capacity in this area, the acceding countries should demonstrate to have implemented the directive no. 97/5/EC, establishing the body responsible for handling the customers complaints on cross-border credit transfers, and have a sufficient number of administrative people working at the National Bank and involved with payments oversight. Anti-Money laundering obligations should be guaranteed by a special Financial Intelligence Unit established under the Ministry of Justice, or Ministry of Finance or Police. To this Unit full independency should be guaranteed.

Company Law and Competition policy (Chapter 5 and 6)

<table>
<thead>
<tr>
<th>5 Company Law</th>
<th>Slovakia</th>
<th>Poland</th>
<th>Hungary</th>
<th>Czech Rep.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Competition policy (GP)</td>
<td>EE</td>
<td>EE</td>
<td>EE</td>
<td>EE</td>
</tr>
<tr>
<td></td>
<td>Protection of industrial and intellectual property rights</td>
<td>Protection of industrial and intellectual property rights, state aid area</td>
<td>Protection of industrial and intellectual property rights</td>
<td>Protection of industrial and intellectual property rights, state aid rules</td>
</tr>
<tr>
<td></td>
<td>SS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competition policy, transitional arrangements granted in the steel sector</td>
<td></td>
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</tr>
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Chapter 5 about Company Law includes inter alias the principle of accounting and auditing procedures and the intellectual and property rights. Regarding the last one, there should be at minimum one national authority to which nationals and non-nationals can present applications for one or different kinds of intellectual and industrial property protection. This authority should be properly staffed, able to carry out any application at reasonable costs and without delay. The Acquis is also requiring that courts and tribunals should be staffed
sufficiently with personnel familiar with this specific legislation; moreover, police and customs authorities should be staffed with adequate trained people in this issues, as well as the responsible structures in the competent ministries and other bodies. In order to assess the administrative capacity in this area, the document prescribes to investigate the establishment of the Copyright Office and respectively the Patent Office or a special Ministry Department, the number of trained specialist on EC legislation and over the enforcement methods, the possible court specialised for intellectual property / industrial property rights, the number of infringement cases prosecuted, the level of fines and number of possible jail sentences.

Chapter 6 deals with the Antitrust (restrictive agreements, abuse of dominant position, control of mergers and the existence of a national Competition Authority) and with the State Aid rules. The antitrust authority must be vested with necessary powers to order the termination of such practices and to impose sufficient sanctions. The national competition authorities are deemed to cooperate with the Commission in competition procedures and to have jurisdiction, under precise condition, for the application of the Community law. The Commission is assuming the responsibility for state aid monitoring and control, but the Commission needs an interlocutor in each of the member states to co-ordinate and fulfil the obligations notably regarding: the notification, reporting and provision of information. The national authority for state aid during the pre-accession period was working on a proper effective control of state aid at national level, assessing the compatibility with the criteria arising from the relevant Acquis. The procedural rules adopted at national level during that period were mostly related to ensure that the authority receives all necessary information from the national entities. The state aid office had the task to develop a comprehensive inventory covering all direct and indirect aid granted to the private sector by different institutions of the national, regional and local government.
In the agriculture sector the Acquis is related to the free movement of goods and the full implementation and management of the Common Agriculture Policy (CAP), being reformed recently. Trade (both internal and external of the single market) is facilitated through a general safeguard of the public, animal health and welfare and meeting consumer expectations. Mutual recognition between authorities of the member states allows the abolishment of checks in intra-Community trade in the mentioned areas. For this, the main prerequisite in the single market is that in the member states there should be appropriate inspection arrangements for on-site origin controls, satisfactory testing arrangements, non
discriminatory checks during transportation, etc. Establishment of national competent authorities in the member states is requested for veterinary, plant health, seeds, animal nutrition, that is for guaranteeing appropriate implementation of the legislation. These authorities should prove to benefit from adequate budget (including emergency fund for diseases control, official plant health inspectors, inspectors officially appointed for control of imported and produced feeding stuffs, appropriate laboratories, etc. Regarding the agricultural markets, the implementation, management and control of the CAP requires the creation, modification and/or reinforcement of appropriate administrative structures specifically required by the Acquis: which are divided between horizontal structures and administrative structures required for Common Market Organisation. The horizontal structures that have major responsibility in the CAP implementation are guided by the Paying Agencies, required for handling the CAP expenditures under the Guarantee Section of the European Agricultural Guarantee and Guidance Funds (EAGGF) and they should achieve accreditation according to the Council regulation 1258/1999. The Integrated Administration and Control System (IACS) is also an administrative structure required by Council regulation (3508/92), which consist of a computerised database for associated farm, land and animals register. Among the administrative structures we would mention the Intervention Agencies and Centres required for implementation and withdrawal of products in a number of sectors, the EC supply management instruments that are approved purchasers in the milk sector, the Producer’s Organisations that should follow specific rules for benefiting from Community support, in the wine sector are required approved distilleries, registers for the production of olive oil, etc. Besides the administrative structures specifically required by the Acquis, different “Non-specified Administrative Structures” (NAS) are deemed to be established by the member states. This will be done according to the national legislation dealing with other specific issues as, for instance, the case of the operations within the common market organisations mechanism governing trade with third countries. Regarding the policy on Rural Development, the Acquis requires a specific administrative structure to be
established by all member states: the Monitoring Committees. These committees are charged, according to the Council regulation 1260/99, with the evaluation of the effectiveness and quality of the implementation of the rural development programmes. Other non-specified administrative structures are required according to the provisions of Agenda 2000 for the measures they implement. The agri-environment measures is the only compulsory part of the rural development Acquis that is explicitly foreseen.

Taxation (Chapter 10)

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The tax policy in EU mainly «lies with the member states being a symbol of national sovereignty of the country overall economic policy». «The EU therefore plays only a subsidiary role on taxes and social security contributions. Its aim is not to standardise the national systems of compulsory taxes and contributions but simply to ensure that they are compatible» (23).

Therefore in order to evaluate the administrative capacity of the candidate countries, the Commission adopted in 1999 a Fiscal Blueprint exercise that contains 11 blueprints, each of them representing a pillar of Best Practice for operating a modern tax administration in the Single Market covering both the strategic objectives that every tax administration must set itself and the key indicators to which such a tax administration must respond. According to these indicators all accession countries have self-performed an analysis of gaps and needs, identifying shortages, that has been used for benchmarking themselves, against which to measure shortfalls in the operational capacity. In general the requirements of the Acquis indicate that the central tax administration should be granted sufficient autonomy powers and the right of appeal should be granted to

23. Statements from the Commission contained on the following web page:
http://europa.eu.int/comrn/taxation_customs/taxation/company_tax/background.htm
the taxpayers. The main tasks shall be the revenue collection and enforcement and the fiscal control preventing and fighting fraud. In order to guarantee a due implementation of these tasks, the tax administration should be based on a solid legal base, granted autonomy, subject to internal and external audit, should have a well trained staff, the administration should guarantee the confidentiality and privacy for the data collected, etc. An important task that should be guaranteed by the administration is the international cooperation between all administrations of EU member states for the sake of efficiency in the anti-fraud information exchange. For the purposes of the intra-EC cooperation, every member state must develop cooperation procedures at policy and operational levels and put in place an integrated IT system capable to interrelate with the network of IT systems especially in the field of VAT Information Exchange System (VIES), Central Liaison Office (CLO) messaging e-commerce and recovery, System for Exchange of Excise Data (SEED). Short before the accession the ten countries have been reviewed in order to examine the following areas in relation to VAT, excise duties and direct taxation: the legislative and administrative structures, the organisation and human resources management, the legislation management, the revenue collection, system of fiscal controls, investigations and litigation, customer services and the administrative cooperation and mutual assistance. Indirect taxes require a high degree of harmonisation because they affect the free movement of goods and the freedom to provide services, this does not affect the direct tax because the EC Treaty is not requiring a specific alignment.

Economic and monetary union (Chapter 11)

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<td>11 Economic and monetary union (GP)</td>
<td>EE</td>
<td>Independence of the Central Bank</td>
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The first prerequisite for the economic and monetary union is the independency of the Central Bank. Furthermore member states should be able to conceive and
implement a consistent set of economic policies, fiscal surveillance, statistic information and liberalisation of capital movements.

Social policy and employment (Chapter 13)

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<td>Labour law, health and safety work, public health, ESF, anti-discrimination</td>
<td>ESF, anti-discrimination</td>
<td>Public health, ESF, anti-discrimination</td>
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The European Law requires, according to the Insolvency Directive (80/987/EEC, Art.5), the Independent Guarantee Institution for workers in case of insolvency of their employer; the Equality Body, provided by the directive 2002/73/EC for the promotion, analysis, monitoring and support to equal treatment of all persons without discrimination on any ground; the directive implementing of Equal Treatment between Persons Irrespective of Racial or Ethnic Origin (2000/43/EC, Art. 13).

Other bodies not specifically required by the Acquis, but left to the member states decisions are related to:

- “Posting of Workers” according to the directive 96/71/EC that deals with the liaison offices for monitoring the correct implementation of the transnational hiring-out of workers; a national public authority that should be notified in writing of any projected collective redundancy (directive 98/59/EC);
- The national labour market institutions should be involved in implementing the European Employment Strategy;
- Line ministries and enforcement agencies for the health and safety at work, appropriate and sufficient administrative infrastructures to follow up and participate in EC public health programmes,
- Appropriately trained health care professionals especially for the surveillance of communicable diseases,
• Social Security Institutions with regard the development of sustainable and equitable social security protection system and especially for insuring the co-ordinate social security schemes.

• Finally especially required are also independent commissions, Ombudsmen and other bodies for securing policy development.

Industrial policy (Chapter 15)

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<th>15 Industrial policy (GP)</th>
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For the implementation of this chapter of the Acquis, no specific administrative structure is formally requested, although the listed key institutions are commonly involved in policy making and implementation: the Privatisation and Restructuring Agency, the Competition Authorities, the Development Agency for FDI and Export promotion, SME Agency, Chambers of Commerce, Business Associations, etc.

Regional policy (Chapter 21)

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Because structural funds and cohesion fund are directly applicable from the date of accession, the new member states were requested to prove the compliance with the related Community policies and to have in place - for the effective implementation of these regulations - the legislative framework concerning: the determination of the eligible areas, the planning and programming, the norms regarding programme and project implementation and management, monitoring, control and evaluation. The administrative capacity should be proved with
established effective institutional structures preparing statistical data, defining clear ministerial responsibilities, establishing an inter ministerial coordination body, designating the Managing Authority, the Payment Agency, proving the existence of adequate budgetary procedures, the ability to show that the additionality criteria are respected, the establishment of the monitoring committees, capacity to perform an independent analysis of programmes, a functioning and independent from final beneficiaries financial control and an independent auditing capacity.

Justice and Home affairs (Chapter 24)

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<td>EE Fraud and corruption</td>
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<td>EE fraud corruption, money laundering, asylum</td>
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For cooperation in the field of justice and home affairs, members states are required to have in place institutions, management systems and administrative arrangements up to the Union standards. The Acquis in this field focuses on an independent, reliable and efficient judiciary system in order to implement measures that prevent and combat organised crime, terrorism and illicit drug trafficking and to implement efficient external border controls, asylum and immigration policies. Specific administrative bodies adequately staffed, with infrastructures and equipment, are requested in the following areas: in order to ensure effective personal data protection an independent data protection supervisory authority, for visa policy a national visa register and capacity to detect forged documents and additionally a demonstrated capacity to consular services in the third countries; in order to guarantee an effective external border control, to have in place specialised trained professionals (sufficient staffing, duly trained personnel), demonstrate proper coordination between authorities and between
member states and neighbouring third countries. For the control of external borders, the member states should furthermore prove to have operational National Schengen Information System. In order to implement the Acquis on migration of third countries nationals, member states should prove to have in place an efficient administrative structure controlling immigration, admission from third countries, for study purposes, facilitate family reunifications and in particular to handle readmission and expulsion and cooperate with other authorities responsible for implementation of the legislation in other member states and third countries. The acceding member state shall define a set of procedures for implementation of the Acquis on Asylum applications respecting the principle of non "refoulement". Police international cooperation is also an issue of the Acquis providing the availability of an integrated computer-based investigation system accessible by the relevant police services, national statistical instruments, liaison in Europol, etc. Regarding the fight against fraud and corruption and in particular fraud against the financial interests of the European Communities, a full cooperation is requested between the national authorities and the European Commission authority (OLAF). Participation to the European Information network on drugs and drug addition is part of the implementation of the Acquis in this matter, the member states are requested to implement national focal points and to prepare a national drug strategy. Furthermore the customs cooperation requires an integrated computer system with other member states to ensure inter-agencies cooperation and implement mutual assistance agreements.

Financial control (Chapter 28)

28 Financial control (GP) (SC)

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In order to control national and European funds the Acquis requires the presence of a Public Internal Financial Control (PFIC) system ensuring that financial management of the public funds, control over structural actions expenditures, national budget spending centres including foreign funds comply with the legislation and national budget in terms of sound financial management, transparency, efficiency, effectiveness and economy. Performance of ex-ante controls on the basis of risk analysis, demonstration of effective accounting and financial reporting, internal controls and a functional independent audit are also strictly required by the Acquis. The principles of separation of powers and clear institutional and personal responsibilities should be respected. A Central Harmonisation Unit (CHU) in every accession country was established, adequately staffed with auditors skilled and experienced and trained in controlling and auditing the Community programmes, with the aim to produce financial management and control manuals, to coordinate a common control and audit approach. A Supreme Audit Institution (SAI) is inseparable part of the complex system of the financial control, having full functional and operational independence from the legislative, executive and juridical system of the State. This authority should guarantee to audit final beneficiaries of EU resources informing through a formal mechanism for reactions the national Parliament; it will follow international standards (INTOSAI) in the full range of regularity and performance audit proposing a detailed description of the audit trail, guaranteeing that the procurement rules endorsed by the Commission are fully respected.

After detailed analysis of concerns referred to the application of the Acquis Communautaire in the V4 accession countries, we should recall that: the structural reform of the state administration in the four countries (Hungary, Slovakia, Czech Republic and Poland) has emerged in the recent years with a growing acceleration, exemplified by the number of new laws adopted by the national Parliaments, in particular over the last two years before accession, as a consequence of the adoption of the Acquis Communautaire, achieving a transformation of the functions and structure of the public administration in these
four countries. In consideration that inadequate public administration systems constitute a key obstacle for the proper economic development in this enlarged part to the EU, the most recent attempts, just before the accession, have been directed to readdress and to review functionally the institutions according to the "best practice" available in the old EU (Mattina 2004; UNDP 2002); considering that "good governance" should reflect the principles of effectiveness and efficiency, or, in other words, that the problems of the local society should be re-addressed timely and with an equilibrate use of the available resources (financial, physical and material). Fifteen years ago, the functions and structures of the public administration were not able to undergo any of the rapid changes that the societies of the four countries have initiated, turning from a state of command economy to a partially decentralised state with a market economy (Chavance and Magnin, 1998).

The annual assessment of the administrative capacity done by the European Commission, that we have used in the analytical part of this chapter, has repeatedly stressed over the same common constraints in the public administration of the accession countries. Our previous effort to synthesise the results of the detailed analysis, could also be summarized through a generalisation of these findings and we believe that specific aspects related to the public governance are still persisting in the Visegrad 4 countries. These weaknesses are still affecting the proper functioning of the institutions created or adopted before the EU accession. We see in fact a lack of general conceptual order in the determination of the role of state toward the economic and social sphere, even during this closing phase of transformation, with persistent institutional infrastructures that still keep old functions public managers are reluctant to transfer (24). This affects the internal coherence of the involved institutions and creates large shadow areas where misuse of public power and possible corruption lie in wait.

24. We refer, for instance, to the concept of financial control in the public domain, where independency of the internal auditors is difficult to be acquired and the concept of inter-ministerial cooperation is on the papers of the line ministries but applied just in few cases. Very often, the few efforts to overcome this bureaucratic impediments are interfered by the civil servants.
For several years there were only partial changes, the legislative process was partially embedded due to the inability to cover the growing process of liberalisation of the economy in a systematic way (Beblavy and Butasova, 2000; Burston-Marsteller, 2003). The implementation of the new legislative framework was generally suffering from inadequate and imperfect provisions, delays on building up new institutions, inability to follow the rapid evolution with a process of flywheel that accumulates and releases energy in a second time. But also institutional structures do not always match with the government objectives, as we have seen, the public functions are very often outdated, as for the management and coordination structures where the financial accountability is very low, inefficiency and lack of transparency are combined with a poor performance measurement and analysis. The recommendation for the implementation of the Acquis was always based on individual development for each country, the degree of development of its private sector, the size in general of the country and the legal sector. The functional analysis was largely used starting from the categorisation of the existing functions and the new functions to be created (25).

The first reference, in this process, has been done to the policy document that very often was adopted by the governments only closely after a need for a new function/institution had appeared. Coordination, monitoring and supervision were generally part of the regulations issued with the goal to build the support for the new structure. The ultimate decisional task of the analysis of functions has been performed with three main possible choices: to abolish the existing function, to modify, rationalise or decentralise that function or finally the choice of "non changing".

Several types of public entities like ministries, supervision bodies both in civil service or in implementation, sub-ordinate public bodies, state enterprises, etc. have been affected quite often by this process. The process of economic reform in the Visegrad 4, is affected by several well distinguished "sensitive issues" that are

25. Eastern candidates to the EU preferred the word "unification" to Europe, which implies to take in consideration their experiences in participating into the building up of the Union, instead of the exportation and appropriation of the juridical corpus related to the economic and institutional model applied with the Acquis Communautaire (Rupnik 2003: 28).
commonly recognised by the literature on enlargement (Inotai 2001) to be predominant through all countries:

- Economic growth in the new EU V4 countries is quite accelerated;
- The increase of the purchase power is growing correspondently to the productivity;
- A relatively stable currency is prevailing;
- The “easy” access to the market is prevailing;
- The labour market is quite rigid, the old structures prevail;
- The tax system and administrative rules for business are rather complex and bureaucratic;
- Serious difficulties can be foreseen with the Common Agricultural Policy;
- These countries need to fit with the structure of the EU budget;
- State budget deficits (the income tax level is lower than in the rest of EU but the social costs range at the same average level of the old EU countries);
- Difficulty to sort out from a short term approach in programming the economic reforms;
- Instable process in the decision making;
- Social cost reform necessary in most of the EU countries.

We should add that other important institutions, besides the European Commission, have participated to the monitoring of the achievements foreseen by the Acquis, between them also the UNDP. According to the UNDP Policy Paper (2002: 4) there is still (during the final development of the transition) «a certain number of key issues that characterise deficiencies in the public administrative systems in the CEECs and namely:

a) The concept of the role of state is based on weak fundaments.

b) Several elements of the previous system coexist with the new ones (they are "leftover”).

c) Lack of transparency and coherence in the policy making institutions, regulatory and licensing bodies, supervisory bodies, inspectorates, etc.
d) Lack of the horizontal management in large areas of public governance and prevalence of the "verticalism" in the decision process.

e) Large turnover of civil servants with frequent overlaps and gaps in functions.

f) A very limited attention to strategic thinking and policy development.

We have no evidence of the documentation the above considerations expressed by the author of the research are based on; in any case it seems partially to confirm the proof that is coming out from our previous detailed analysis.
1. Methodological note

This paragraph deals with the effects and the economic perspectives of the enlargement according to 5 selected studies conducted by primary economic institutes and Universities in France, Italy, Germany, Austria and Denmark. These studies are here below listed:


These studies having the same title Eastern Enlargement of the EU: Economic Costs and Benefits for the EU present Member States were published between September 1999 and April 2002 from all the EU15 countries under specific
request and economic support of the European Commission, DG Budget with the intent to evaluate the economic and social impact of the enlargement and the foreseeable consequences in the EU15 and in the applicant CEECs countries. We intend to deeply analyse these documents in the second part of this research and we recognise that they are today still actual. A precise perspectives of the increase of trade, immigration, competition and financial burdens is expected as consequence of the Eastern enlargement. They are also drafting specific concerns in the candidate countries related to the social and economic conditions because of the radical changes in the life of each individual. The selection of the mentioned 5 studies from the basket of the EU15 is done according to reasoned criterion that takes into account the following factors:

1. Differentiation of the production dates of the studies in order to mix eventual different perspectives due to the external facts in Europe during the years from 1998 till 2002.

2. To privilege the two countries that has closer borders with the eastern enlargement: Austria and Germany.

3. To include France, having long cultural and trade exchange tradition, with the countries of the Central Europe.

4. Italy has been selected being the representative of the southern Europe with larger trade.

5. Denmark being one of the Northern Europe and probably one of the relatively less effected by the eastern enlargement.

Analysing of these studies has the scope to produce a synthesis of entry data and statistics to be utilised for the SWOT inventory. The output of the SWOT analysis (26) conduced on the mentioned studies is expected to contribute,

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26. SWOT analysis is a strategic tool utilised in planning for regional strategies or in the economic marketing of the firms for helping the scanning of internal (Strengths and Weaknesses) and external (Opportunities and Threats) environment in which these entities operate. The SWOT provides information that is helpful in matching resources and capabilities for the formulation of the strategies and selection of the objectives. In case of applications to the regional development planning, this method conduce gradually to refine the possible regional development strategy, selecting (usually in a participatory approach) objectives and priority actions to be the coherent structure of the successful regional plan. In the sociological research is utilised by the Institute of International Sociology of Gorizia (ISIG) with a basic version that is applying five following
together with the output of the study conducted on the previous chapter regarding the application of the Acquis Communautaire, to the identification of “sensible” economic areas for the enlargement. The actual section is conducted over successive stages that foresee: at first a presentation of the five studies on enlargement (France, Italy, Germany, Austria and Denmark) and regarding the economic cost and benefits for the EU 15 and for the acceding countries, a synopsis of the economic models utilised in the studies. Followed by a classification of the results with comparative boxes by country and finally a SWOT analysis integrating the results and presenting a refinement of the enlargement goals and perspectives with the indication of the riskily areas for the future social and economic development.

2. Principal effects expected on Single Market after the Enlargement

All studies confirm that most of the implications related to growth of trade due the positive effects of the enlargement should be considered as already - in the time of the studies - achieved by the EU15 and CEECs. In fact the European Agreements that insofar constitute part of the negotiations have been effective since the year 1993. The factors that effect the enlargement scenario are quite complex, according to the general description of all authors, they combine demographic aspects together with institutional and mostly political decisions that largely impact not only the increased trade between the countries in the single market, largely increasing the welfare, but also modelling the integration process.

In the five documents analysed we recognise a common approach regarding the methodology adopted by the authors in conducting the surveys, making an effort to

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steps: the identification of the elements, grouping these elements in categories, labelling of the actions required for building up the strengths, weaknesses, opportunities and threats, the creation of the SWOT matrix and finally generating the strategy for each of the cells in the matrix. Zago (2001: 6). The data sources utilised for identifying the elements of the SWOT is generally based on questionnaires with involving the actors linked to the specific case. In our case we proceeded just with collecting and classifying the relevant information (the five studies) and afterwards, towards an "individual brainstorming", we followed the methodological steps as described in this paragraph.
build up prognoses of economic costs and benefits due to eastern enlargement in Europe. In general the adopted models treat the enlargement as merging of two countries (one selected from EU15 and the other from CEECs). Tariff Barriers (TB) and the Non Tariff Barriers (NTB), in the mentioned studies, are still expected to remain in force only in the agricultural sector and in some food industry products till 1\textsuperscript{st} of May 2004. All studies respect mostly the baseline scenario which considers that growth in the CEECs is assumed to follow at the average rate of growth the other countries in the system, the expectation is for keeping a GDP development in short time at a pace close to that of the main industrialised Western EU countries. More precisely the Central Eastern EU newcomers countries are expected to increase GDP between 3-5\% in the next decade. It is quite curious to see that short after the years when these studies were produced, the growth rate in Western countries was flat at lowest level in the decade contradicting the expectations. This is giving less attraction to the models utilised in the five studies with exception of the Italian model, which in this case is more advanced than others, because is considering the indirect effect of the specialisation in the economies of the 5 CEECs analysed and different growth rates of GDP.

In the following part we are going to analyse the methodological approach selected by the authors of the five studies giving particular attention to the economic model utilised for the simulations, the theoretic approach, the description of the different scenarios and finally the economic effects foreseen in the analysed economic sectors.

The French study: the French model MIRAGE, developed by the Institute CEPII - is working at macro-economic level with a sufficient deep analysis at sectoral level. It permits to determinate the economic interdependences, the linkages between trade of goods and the market of factors (in principle the salaries and employment). This is a model of general international equilibrium adapted by the French experts specifically for the present case of analysing the enlargement.
It takes care mainly of the following groups of countries: France, UE, Poland, Hungary and the PECO Countries (Central Eastern Europe).

The analysis of the strengths and weaknesses of the trade is addressed to the evolution of the compared advantages of every one of the mentioned groups in different products (for instance: information technology, agro-aliments clothing, engines, automotive sector, cereals, meat and fishes, etc.). In this way the model is showing the evolution of the specialised trade in intra-branch vertical and horizontal level. The results of the analysis of the current flows of trade are proving that France and in general the western countries are still importing very little from the CEECs, but this is just the situation in 1998, the report already foresees a growing increase of integration. The conclusions of the report are focusing the emphasis on the sectors where specialisation is traditional like wood, textile and agriculture but highlighting the sectors of future impressive development (electrics, electronics, engines and automotive vehicles). The production on these sectors are considered to have a special character because of the production on increasing efficiency that guarantees a rapid growth rate, pushing closer the production structures, it is not dramatically altering the remuneration of the employed people, etc. Exactly in these sectors is foreseen an increase of the production in CEECs (even if the report sees big reserves of productivity but also deep handicaps).

The agriculture is the sector where France is more constrained. Not so much about the cuts in the tariffs, but about the subventions in pro-rata where the incomes are expected to lower in France by around 7% of the actual level and the workers in agriculture to lose in France between 9 to 13% of their jobs.

The Italian study: utilises a multi-sectoral model (Inter Industry Italian Model - INTIMO) as part of the models INFORUM (Inter Industry Forecasting at University of Maryland).

The Italian study highlights that the indirect effect of the enlargement is, for the EU 15 that are far from the CEECs borders relatively higher than the direct effect. In the case of Italy, the indirect effect has the same magnitude as the direct effect.
The author is emphasising the opportunity to carry out an analogous research for other EU member states utilising the same model. Consideration should be done to the macroeconomic perspective of the possible changes on the industrial structure in EU after accession. A special investigation, according to the author, could be useful utilising the Italian model that is based on a multi-sectoral economic country model system. The Italian study, on the third scenario, is presenting a simulation that is including this possible aspect.

The baseline scenario (first scenario) it is assumed that in the CEECs5, GDP grows closely to the average of the EU. In this way the BTM (Bilateral Trade Model) here utilised is considering the direct effect of the CEEC’s increase in imports from the Italian economy. This model is not considering the cumulative indirect effect of enlargement due to increase of trade with Italy in other economies of EU15. This basic scenario has a standard Keynesian demand-oriented approach. Increase on CEECs import induces an increase of Italian exports, different sectoral exports will not have significant impact on the Italian prices. As effect of the simulation input that considers the stability of the CEECs prices, the increase of final demand is modest; also the productivity will not be affected. Of course this basic scenario is rather simplified.

Second scenario: this scenario contains the impact of the growth in outputs and inputs of every trade country involved in the simulation. Is not more a model where Italian development is running independently from the other countries but in opposite growth of exports to the CEECs will affect every country. The differences of the results in this second scenario in comparison with the results of the first scenario indicate the relevance of the indirect effects on enlargement for Italy. The theory of the gravity effect is in some cases disregarded (according to this theory, when the distance between the involved countries increases, the bilateral links start to weaken), in this specific case, related to the multilateral context, the indirect effects are accumulating rather more intensively than the direct effects.

The third scenario starts from the observation that during the first decade from the 1990’s the CEECs were strongly involved in catching-up the EU15 and that
trade flows were, and still are, characterised by a composition of a small bundle of commodities that is giving prevalence (around 60%) to the exchange of some specific goods like machinery and mechanical appliances, electrical machinery, vehicles, plastic products and iron and steel products. The CEECs' imports are mostly linked to furniture, clothing accessories, wooden articles, mineral oil, fuels, etc. in the meantime exports in paper, pharmaceutical products, precision and medical instruments. The specialisation in the internal trade between EU15-CEECs was already detected by Rensman and Kuper (1999).

Increase in the GDP: the first scenario implies a growth in GDP per year of about 0.15% during the entire period of simulation (2000-2010). In the second scenario GDP growth is more than doubled. The third scenario foresees additional increase of the GDP up to 0.5% during the mentioned period. Cumulating the annual gains (or losses), although other studies indicate that the effect of enlargement is expected to be rather modest, this third scenario foresees a substantial expansion in some sectors (agriculture, industrial machinery, electrical goods, motor vehicles, metal products) but others will loose their importance into the Italian economic structure: like food industries and tobacco. At the end of the period the cumulative rate of growth of GDP is calculated over 10%.

The German study: this study is also focussing on the effect of enlargement of the EU15 with the CEECs. The authors clearly recognised that Germany and Austria will register larger effects from the enlargement because of the vicinity and of the historical linkages with CEECs (Germany in particular holds the largest share of trade with Visegrad countries).

The model utilised is a dynamic general equilibrium model described in a specific paper by the same authors and calibrated for the German economy. Two significant extensions are included: the dis-aggregation of the German non-EU trade flows into trade with potential accession countries from CEECs and the trade with the rest of the world. Another alternative, introduced in this study, is concerning the distinction between productions that utilise high or low skilled labour, with the aim to predict the consequences that this diversified distribution
could have to the different commodities exchanged after the enlargement; in consideration that, as it has been generally understood before accession, imports from CEECs would incorporate relatively larger content of unskilled labour.

The overall welfare that the enlargement will bring to Germany is calculated in a rate of 0.4% yearly (similar to the increase calculated by Italian study) despite the increase in net contributions to the EU. This study is considering that in Germany, losers will be the agriculture and food sector, between the winners the chemicals, textile and clothing sector. The elimination of the relatively high tariffs in agriculture and other non tariff barriers (NTB) is expected to increase exchanges in some specific sectors up to 50% of the current. The study is particularly interested to verify whether the enlargement is affecting the labour intensive industries in EU15 (specially with hurting unskilled workers in current EU countries). The rather unexpected result is that after accession the magnitude of such a phenomena will be not relevant. The particular scenario of trade integration with the enlargement tends to favour equally skilled and labour intensive industries effecting non significantly the gap between high and low skilled labour. The impact over the public budget is positive as result of the expanded productive capacity and is expected to bolster national GDP by 0.5% on regular yearly basis. This positive effect is created by the increase of investments and export, leaded by the expansion of the German economy, which is foreseen to profit from larger fiscal base and generous transfers to the household sector. The authors recognise that this will produce an adverse re-distributional effect benefiting capital-owners and equity values immediately, but only later materialising the full benefits for workers' households.

The Austrian study is developed under the K&K model (a fully dynamic model developed by the authors) relying on inter-temporal optimisation and allowing explicit solutions of adjustment paths. The Austrian model is calculating the budgetary impact of EU accession of the CEECs1 and CEECs2 (corresponding to the “first” and “second” wave previously foreseen). It looks very similar to the model adapted for Germany, but it discovers some different results. It is
composed by two parts, in the Part I: theory, policy scenarios and results and in Part II - Appendix: model structure, data set and calibration methods. The study is giving a wide explanation of the main developments in the enlargement process as regards the growth and factor markets affecting the Single Market. A brief but comprehensive description of the previous studies of the EU integration is also included. Two details are fine tuned by the authors: the inter-industry trade regarding goods and factor market and the equilibrium in short and long run of the government budget.

The study is coming to the following conclusions: Austria could expect the pressure that stems from an increased import competition - exogenous policy shock - Considering the enlargement as an expansionary policy, the aggregate capital stock is revealed to increase by a 1,5% in the long run, that accumulated to the increasing results of the welfare that the enlargement will determine, the overall benefit in terms of the GDP is expected in the first years to reach 4%. Between the sectors that will benefit from enlargement, the most important is the transport equipment (increase of trade), in the meantime the agriculture sector will lose relevance. Considering the public budget, the effect of swelling the tax base as result of the expansion of the domestic economy will become self-financing from the point of view of the national budget even if the contribution to EU is expected to increase. In the long run the income distribution between the low-wage labour and high-wage will change. The second will increase by 2,5% while the unskilled labour will suffer a 4,6% wage cut. The results are also particularly sensitive to the price elasticity of the trade flows, but this will depend mainly of the degree of imperfect competition that will dominate in the market.

About FDI, the authors suggest to consider the effect of "risk-premium equivalent" that is balancing the actual equilibrium in capital investments. Once the risk after accession will deflate, the new equilibrium will see a lower compensation (no scope for infra-marginal returns) and at the beginning a larger presence of FDI.
The Danish study: the analysis of the Danish case is done by utilising the model ADAM (Aggregated Danish Annual Model) that is a structural, dynamic, large-scale macro-economic model with short-term Keynesian and long term classical properties. The static input-output system is consisting of 19 industries, to help sectoral balances the model includes household sector, therefore the last works as a cost minimising factor for demand system, the foreign trade is based in the Armington model (27) and finally this model includes a detailed description of public sector finances.

Results: the net effects of the enlargement in the Danish economy is quite small. In particular in short and medium term the positive effects quite not do offset costs. In long run the positive effects from integration seems to overweight costs. The immigration, probably the most relevant aspect, is expected to bring supply side effects in terms of decrease of production costs and increase of productivity. Of course the net contribution to the EU budget is expected to increase. The reason of such a relatively weak effect of enlargement is indicated, by the authors, to sort out from the previsions of the theory of gravity, that prognosticates positive effects from the freeing of the markets with many special cases and exceptions: the most reasonable being the geographical distance, language, history of trade, etc.

3. Perspectives and scenario development

The key tool adopted in this exercise is the SWOT (Strengths, Weakness, Opportunities and Treats) analysis. The outcomes from the SWOT analysis will be used, together with the outcomes from the previous chapter, to depict from a table of double entry the “sensitive” economic areas to be deeply analysed in this research thesis. We should take also in consideration that the above five studies give some contrasting perspectives and sometimes, according to different

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27. The Armington model is a parsimonious model that shares some elements of both neoclassical and new trade models. The main assertion is that the products improved by Californians (this was the case studied by Armington) from the rest of the world are considered to be imperfect substitutes for products made by California.
scenarios, the outputs do not respect always the same standards and present some impediment to be compared from the quantitative point of view. This is the reason why during the following process of selecting the input data we are going gradually to specify and refine the criteria for a coherent data entry consisting of a logical succession of priorities and a critical path of lecture of the results.

The steps followed in maturing our exercise is twofold: at first we intend to recapitulate the results of the five studies graduating the dimensions of the involved variables. Thus to formulate a SWOT inventory that could systematise the strengths, weakness, opportunities and threats arising from the results of the five studies. This part is complemented with a study on collected data and dimensions. Finally we conclude in the second part with the SWOT analysis integrating the results and refining the indicators coming from the five studies. The final formulation of the key economic aspects that would principally affect the actual enlargement will serve as input to the table on double entry utilised in the following chapter for identifying the “sensitive areas” to be deeply analysed.

Building up on the basis of the results presented by the five selected documents, we are pressed now to elaborate the following table where in the columns we consider at first repetitive or related issues like: the trade effects of enlargement, the magnitude of trade changes, the growth and factors market, governmental expenditure, equilibrium in short term expenditures, macroeconomic effects, etc. and in the rows the selected study identified by the country.

We proceed now with the recapitulation of the results, clarifying that in the column of results we have inserted the original text selected in different parts of the five studies:
<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEES trade with France – the gravity effect</td>
<td>CEECs trade with France - the gravity effect</td>
<td>The effect on specialisation of trade is evident after the enlargement. This study is underlining that only 4% of the imports in France are coming from CEECs5 imports, but vice-versa the accession countries import more that 80% from the current Member States and this trend is expected to intensify (asymmetric trade). The trade liberalisation will consist in the suppression of the residual barriers and will produce an accrued specialisation. Sectors that will be winners are: electric and electronic sector, automotive and engines. Other sectors are considered to be sensitive to the competition after enlargement: agriculture, textile and wood-processing. Intra-branch trade will increase spectacularly increasing the natural effect of the convergence into the structures of production. The gravity effect will lead growing exchanges of the CEECs with Austria and Germany.</td>
</tr>
<tr>
<td>Magnitude of the changes in trade, specialisation: the asymmetric trade West-East and the intra-branch sector (exchange of similar quality or different quality products).</td>
<td>Magnitude of the changes in trade, specialisation: the asymmetric trade West-East and the intra-branch sector (exchange of similar quality or different quality products).</td>
<td>The effect of enlargement is seen as not much positive for France. The worse will happen in the agriculture when imports will grow up to 3% and exports just a 0.5% having an imbalance after accession of -2.5%. Regarding the trade on vehicles, the projections at the end of the period are for a small imbalance (-0.42 and -0.61%). In the CEECs the model is projecting a lower, in proportion, growth of the exports versus external markets due to the increased competition. There is a phenomenon of de-specialisation as concerns the agriculture, textile, wood and vehicles. The balance of the sector in agriculture is negative (-2.5%) for France, in the meantime the balance for the sector of services is going to be positive (0.9%).</td>
</tr>
<tr>
<td>Impact over the production and the remuneration and reallocation of factors</td>
<td>Impact over the production and the remuneration and reallocation of factors</td>
<td>In France the production will increase in the sectors of Transport, Services, Metallurgie Industry (in average 0.15%) in agriculture will suffer for a shock implying 0.6% losses. The other sectors will remain under these opposite positions. Regarding the employment, in the sectors where is France that specialises (Transport, Industry, Chemistry etc.) number of qualified and unqualified employed people will grow. In the sectors characterised by monopolistic positions, will grow the number of unqualified employed people. But in the agriculture, textile and wood industry the unqualified labour will be replaced by qualified labour forces. The price for qualified labour forces will slightly increase especially in the transport sector where France seem to specialise. Also the capital stock is increasing in all the mentioned sectors.</td>
</tr>
</tbody>
</table>
| CEECs trade with EU (less France) | CEECs trade with EU (less France) | The model (Mirage) applied to the evolution of the trade with the rest of the EU (including therefore Austria and Germany) is proving increasing exports in all the sectors with particular intensity in the agriculture (plus 35%), car production (plus 5%) and wooden products (plus 4%). This trend will continue till the end of 2010. The phenomena of the specialisation is more evident in the case of rest of EU with a correspondent decrease of the EU exports of the wooden products (sector where CEECs have a compared advantage). Agriculture will observe substitution of the typical products and also different specialisation with sensible reduction of prices. Impact on
production will determine an increase in the EU (less France) of the industrial sector and textile but a reduction in the wood, transport and services. Remuneration and reallocation of resources is following consequently the increased production in the industrial sector mainly car production and transports. Remunerations will have a light increase (plus 0.12 to 0.16%) and the remuneration of capital will benefit in the sectors in expansion. Capital stocks will increase in all sectors (0.05%).

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>CEECs trade with EU15 - the gravity effect</td>
<td>The simulation conducted with the INTIMO Italian model is proving that the new prosperity of applicants and the removal of TB and NTB will have a direct effect in Italy with some 2% per year and an indirect effect of some additional 2% of growing rate. The gravity effect obtained by Germany and Austria will be probably double.</td>
</tr>
<tr>
<td>Impact of migrations</td>
<td>Limited flow of immigrants in Italy from CEECs, more in Austria and Germany. Even less migration in future due to increased standards of life in EU5 and the effect of declining demography. No evidence of migratory flows in the model.</td>
<td></td>
</tr>
<tr>
<td>Impact on FDI</td>
<td>No specific forecast, no major effects due to enlargement.</td>
<td></td>
</tr>
<tr>
<td>Governmental expenditure, Labour productivity and Wages</td>
<td>Governmental expenditure is exogenous in the model, can be modified. Labour productivity is considered to increase as the overall production is expanding, but until a certain limited extent. The labour productivity is modelled with sectoral output growth. Wages are indexed - according to the system of Italian &quot;scala mobile&quot;. It is automatically updating (thanks to a specific macro in the model).</td>
<td></td>
</tr>
<tr>
<td>The bilateral trade model</td>
<td>BTM is utilising the database WTDB (bilateral-per country database released by Statistics Canada and available in INFORUM), is composed by a matrix for every group of products (120), where is possible to create crossings for each country selected data (60) of imports. The allocation of imports to exporting countries is automatically developed according to the share that the matrix is computing. Imports by products, price by product and capital investment by industry are considered according to the national models. The model allocates the imports of each country among supplying country according to the share matrices. About prices the equation satisfies the &quot;homogeneity&quot; condition as suggested by the demand theory (i.e. if all effective domestic prices are doubling, then double all world prices in all import countries in the way that the price ratio remains unchanged).</td>
<td></td>
</tr>
<tr>
<td>Baseline scenario</td>
<td>Baseline scenario is built in the way that the GDP growth of the CEECs is equal to the average rate of other countries in the</td>
<td></td>
</tr>
</tbody>
</table>
First Scenario

- Growth of GDP in CEECs +2% more than average. The imports will grow at the same rate as GDP but resource structure remains unchanged. No shifts in the composition of the final demand. In this scenario is considered only the “direct effect” of the increase of trade between Italy and CEECs.

Second Scenario

- This scenario is considering the indirect effect of the increase in trade in all countries included in the model. That means of the effect on enlargement in all other economies. Each country will receive the impact of the changes in the outputs and therefore imports of each other country.

Third Scenario

- Specialising CEECs. Analysing trade flows on different commodities, the data reveals a concentration of import-export in a small number of them. Machinery, electrical machinery, vehicles, plastics, iron products, etc. Imports of CEECs especially of furniture, clothing accessories, mineral fuels, etc. This scenario is considering that the actual specialisation will be kept all during the analysed period. The model is considering that also new investments in the same productions will be supported by EU funds (future structural funds) in order to maintain the concentration in trade and to relate to the accumulation process.

Analysis of the scenarios

- These scenarios can be considered as standard Keynesian demand-oriented experiments, where the increase in CEECs imports induces an increase of the Italian exports. Even if the sector output increases there will be no significant impact on domestic prices because the increase in the final demand is modest and not effect productivity (that is the main factor influencing price formation).

NTB and TB removed, simulation

- The effect on the removal of Tariff Barriers is limited mainly to the agriculture sector because the tariffs have been eliminated already under the EU agreement customs. Some of them are really high: in average are at 20% in exports and 14% on imports from CEECs. Some of the highest (alcoholic beverages, sugar, dairy products and eggs, un-milled cereals, tobacco - all above 20 to 36%). The impact on the removal of TB and NTB is proved by the BTM. However import equation of the CEECs countries are not available and this prevent the authors from simulating the effect of removal NTB and TB and the relative effect on trade liberalisation. But, according to Baldwin 1997, the removal of barriers will effect mainly exports from CEECs and not so much exports from EU15 due to the big difference in the GDPs.
In order to make workable the model BTM, we assume that a reduction in TB and NTB is equal to a reduction of the import prices of the same quantity at the corresponding sector. In analysing the effect of the removal of TB and NTB the authors refer to two scenarios: a) a conservative scenario that is considering the removal as a 10% tariff rate in the heavily affected sectors and 5% in the mildly affected sector; b) the second scenario is based on a 15%, 10% and 5% in the heavily, relatively mildly and apparently unprotected sectors.

The results are showing that while the impact on trade liberalisation is very mild in most sectors, the import-substitution effect appears substantial in the growth of specific sectors: agricultural and metal products, motor vehicles, machinery. The lowest price in the mentioned sectors is effecting negatively the Italian production.

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The results are showing that while the impact on trade liberalisation is very mild in most sectors, the import-substitution effect appears substantial in the growth of specific sectors: agricultural and metal products, motor vehicles, machinery. The lowest price in the mentioned sectors is effecting negatively the Italian production.

| Evaluating the impact on Welfare | The result of the following analysis “What amount of compensation would the consumers require in order to forego the change brought by the enlargement” that implies the computation of the EV (equivalent variation). This measure uses the base year prices and ask what income change at this prices would be equivalent to the proposed change in terms of its impact on utility. For this calculation the authors utilised the “Laspeyres quantity index” and the “Paasche quantity index” (28). The results of these simulations are proving a positive effect on quantities consumed in case of enlargement (increase of welfare) superior of the quantities consumed in absence of enlargement. But the same increases also by the indirect effect of exports from Italy to other EU countries as effect of the expansionary trade flow. The slight growth of the household consumption will lead to a welfare improvement in the following analysed years (2000-2010) up to a 0.6% increase in the difference from the baseline. |
| Impact on National Budget | The overall positive effect of the enlargement is proving a swelling of the tax base so that in nominal terms government resources increase even if there is a reduction in prices. |
| Structural changes in Italian economy | Some sectors will first have a highest growth (like building and construction) during the first years after enlargement but afterwards they will decline. Others (like motor vehicles, manufacturing industry and other transport equipment) will have a progressive increase and appear to become the winner with an increase of 6% yearly in the structural changes in Italy. |

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Trade effects of enlargement on the goods market</td>
<td>Germany has the largest share of trade with the V4 Visegrad Countries. It is expected quite a dramatic increase of the imports (especially on agriculture and food products) from eastern countries, but the overall trade gains will be at the extent of more than 7% of the actual before accession.</td>
</tr>
<tr>
<td></td>
<td>Growth and factor markets effects of enlargement</td>
<td>GDP is expected to benefit from the enlargement and to grow additionally at the pace of 0.4% yearly. The sector that will lose more is agriculture with a large</td>
</tr>
</tbody>
</table>

28. Index numbers are used to measure the change in a quantity that is not directly observable, such as the “general price level”. The Laspeyres index uses a fixed set of weights from a base year, while Paasche index uses weights from the current year.
number of unskilled labour, followed by the food production sector. In the opposite side textile and chemicals will have positive effects in the country.

Governmental expenditure

Despite high net contributions to EU the national budget will not suffer thanks to the swelled tax base that will profit from an expansion in the macroeconomic activity generating positive transfers to the household sector without increasing public debt.

Equilibrium in ST and LT on wages

The trade integration coming after enlargement will be in favour of both skilled and labour intensive industries. The wage gap between the high and low level skilled labour is expected not to change.

Macroeconomic effects

Swelling the tax base as consequence of the growth and in consideration that the highest part of the labour in Germany is skilled, the tax revenues will grow considerably. The moderate growth of government consumption and the robust flow of tax revenues will contribute to a more healthy public budget.

Country | Description | Results
--- | --- | ---
Austria | Trade effects of enlargement on the goods market | We can expect lower import prices for goods coming from CEECs due to lowering physical and technical barriers. This will imply a classical trade creation (positive effect) but also parallel increased competition with temporary re-distributive effects through changes in de facto prices. The benefits coming from the trade creation should be compared to the loss in tariff revenue and, if the case of trade diversion (in favour of third countries) it could be verified a negative effects between the two components. The single market is focusing on reduction of real trade costs of cross border transactions. The simulation with a model of general equilibrium is required in order to measure interrelated effects on different countries.

Growth and factor markets effects of enlargement | The boost in exports likely will increase investment on equal conditions as with other present member states till the “risk premium equivalent” will disappear. Repatriation of profits from FDI coming from western countries is seen as more likely due to the reluctance of the eastern countries to contribute to existing assets of the western investments. Other factors like the migration of labour forces should be considered. In case of a immigration surplus the income for the residents will have a sizeable re-distributive effect.

Governmental expenditure | Change in the tax base due to the tax relief as indirect result of the GDP growth, but the major effect of enlargement will be seen in the exchanges in agricultural sector through the CAP support and the structural support to the less developed regions. Therefore the fiscal burden for a more expensive Union should be compared with the benefits from trade liberalisation effects (despite trade diversion). The re-distributive effects are not considered to be neutral.

Equilibrium in ST and LT on wages | The wage gap in LT between skilled and unskilled labour will amplify by 7% in respect to actual situation. The inward migration in Austria is expected to grow substantially.

Macroeconomic effects | The aggregate capital stock will increase by 1,5% in the long run in consideration of the GDP increase by 1%. The aggregate welfare effect (in the long run minor of the increase of GDP) is covering significant variations across individual sectors mainly in agriculture and transport (export mini boom).
Denmark

Trade effects of enlargement on the goods market

The net effects in Danish economy from the enlargement are quite small. In any case some increase of the Danish export is expected in the long run.

Growth and factor markets effects of enlargement

Due to positive effect brought by the immigration the overall welfare effect is 0.8% but from this only 0.1% is the effect of the trade integration, the rest is due to the general tax cut and the spillover effect through the other EU 15 trade.

Governmental expenditure

If taxes are used to offset the budget effect the GDP will decrease by 0.1% in the long run. The welfare loss (EVY) is calculated as a share of GDP and could be considered as 0.2% points.

Equilibrium in ST and LT on wages

The most visible effect could be the immigration from CEECs to Denmark. This flow will bring in long run positive effects that seems to overcome the costs for enlargement. Production cost will be reduced and increased the productivity.

The recurrent dimensions identified in the above comparable boxes, filled with a careful classification procedure, have been analysed utilising a qualitative approach interpreting in the complexity of its significances the key expressions that received repetitive frequency in the text. This operational function has conducted to the logical step of the identification of 26 variables described below.

Afterwards we add the weights to the identified variables as in the following table 4 and we graduate its relevance according to five weights for the variable (29):

(++ equal =2, + equal=1, +/- equal = 0, - equal =-1, -- equal = -2). The role of the variable in the economic and social future environment after enlargement is foreseen to be extremely positive receives ++; when is foreseen extremely negative receives --; if the economic and social environment is expected not to be effected receives +/-.

Afterwards, we have identified the main variables which receive the attached graduation according to the level of intensity described in the results of the five studies. The prioritised list is here presented with the corresponding importance score to each variable:

29. We adopted similar weights as in the research published under the scientific direction of Prof. Gasparini in the part III. (Council of Europe, ISIG 2003:152).
Table 4 - Description of the variables and given scores

<table>
<thead>
<tr>
<th>Progressive number</th>
<th>Variables</th>
<th>Score</th>
<th>ID Code (30)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trade in the EU15 vs. CEECS</td>
<td>+</td>
<td>TR15</td>
</tr>
<tr>
<td>2</td>
<td>Trade in the CEECS vs. EU15</td>
<td>++</td>
<td>TR10</td>
</tr>
<tr>
<td>3</td>
<td>GDP in the EU15</td>
<td>+</td>
<td>GDP15</td>
</tr>
<tr>
<td>4</td>
<td>GDP in the CEECS</td>
<td>++</td>
<td>GDP10</td>
</tr>
<tr>
<td>5</td>
<td>Consumer prices in EU15</td>
<td>+</td>
<td>CON15</td>
</tr>
<tr>
<td>6</td>
<td>Consumer prices in CEECS</td>
<td>+</td>
<td>CON10</td>
</tr>
<tr>
<td>7</td>
<td>Imports from CEECS to EU15</td>
<td>+</td>
<td>IMP15</td>
</tr>
<tr>
<td>8</td>
<td>Imports from EU15 to CEECS</td>
<td>++</td>
<td>IMP10</td>
</tr>
<tr>
<td>9</td>
<td>Service sector in EU15</td>
<td>--</td>
<td>SER15</td>
</tr>
<tr>
<td>10</td>
<td>Service sector in CEECS</td>
<td>+</td>
<td>SER10</td>
</tr>
<tr>
<td>11</td>
<td>Agricultural sector in CEECS</td>
<td>--</td>
<td>AGR10</td>
</tr>
<tr>
<td>12</td>
<td>FDI flows from EU15 to CEECS</td>
<td>++</td>
<td>FDI</td>
</tr>
<tr>
<td>13</td>
<td>Productive investments in CEECS</td>
<td>++</td>
<td>INV10</td>
</tr>
<tr>
<td>14</td>
<td>Dispersion of the economic investments in CEECS</td>
<td>-</td>
<td>DIS10</td>
</tr>
<tr>
<td>15</td>
<td>Specialisation of production in CEECS</td>
<td>-</td>
<td>SPE</td>
</tr>
<tr>
<td>16</td>
<td>Labour productivity in CEECS</td>
<td>++</td>
<td>PRO10</td>
</tr>
<tr>
<td>17</td>
<td>Technology in CEECS</td>
<td>-</td>
<td>TEC10</td>
</tr>
<tr>
<td>18</td>
<td>Environment in CEECS</td>
<td>--</td>
<td>ENV</td>
</tr>
<tr>
<td>19</td>
<td>Tax competition from CEECS</td>
<td>--</td>
<td>TAX</td>
</tr>
<tr>
<td>20</td>
<td>Social tensions in CEECS</td>
<td>-</td>
<td>SOC</td>
</tr>
<tr>
<td>21</td>
<td>Labour migration from CEECS to EU15</td>
<td>+</td>
<td>MIG</td>
</tr>
<tr>
<td>22</td>
<td>Catching-up, ecosoc convergence CEECS</td>
<td>+</td>
<td>CONV</td>
</tr>
<tr>
<td>23</td>
<td>Pressures in EU15 border areas</td>
<td>--</td>
<td>BOR15</td>
</tr>
<tr>
<td>24</td>
<td>Capital cities in CEECS with better economy</td>
<td>+</td>
<td>CITCA</td>
</tr>
<tr>
<td>25</td>
<td>Absorption capacity of EU funds in CEECS</td>
<td>--</td>
<td>ABS10</td>
</tr>
<tr>
<td>26</td>
<td>Some EU15 loose EU structural funds</td>
<td>-</td>
<td>STF15</td>
</tr>
</tbody>
</table>

30. ID code is just an abbreviation of the correspondent variable built in order to facilitate the identification and to speed up the elaboration.
4. Summary of the results of the SWOT analysis and comments

We can now formulate a SWOT inventory that could systematise the strengths, weakness, opportunities and threats arising from the values achieved by the variables above selected. In order to fulfil the factors of the SWOT inventory (Strengths, Weaknesses, Opportunities and Threats), we have matched the quoted variables with the information contained in the reports. The SWOT items (elements) are described according to the priorities outsourced from the brainstorming over the list of comparable results (outputs) of the five studies by country. **Strengths** and **Weakness** are strictly related to the internal elements expected by the enlargement of the five studies, **Opportunities** and **Threats** are built up as expected external elements affecting the countries in consequence of the enlargement.

### Table 5 - SWOT inventory

<table>
<thead>
<tr>
<th>Internal elements from the analysed studies: effects of enlargement</th>
<th>ID</th>
<th>Weakness</th>
<th>ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rapid trade expansion boosting catch-up growth in CEECs</td>
<td>TR10</td>
<td>No sufficient development of the CEECs specialisation</td>
<td>SPE</td>
</tr>
<tr>
<td>2. Export EU15 trade to CEECs increased 10 times during the 90s. Net trade balance in 1998 worth more than 2 billion Euro for EU15. Large rising trade surplus already created over 110,000 new jobs in Germany (*)</td>
<td>TR15</td>
<td>CEECs have changed exports from inter-industry to intra-industry but still exports with comparatively low unit rates</td>
<td>ENV</td>
</tr>
<tr>
<td>3. Import trade from CEECS increased 2 times during the 90s (limited to 1% of EU15 GDP)</td>
<td>IMP15</td>
<td>Increase in intensive production is creating additional environmental defaults in CEECs</td>
<td>STF15</td>
</tr>
<tr>
<td>4. Growing GDP and Welfare in all CEEC’s examined countries.</td>
<td>GDP15</td>
<td>Tax competition of the CEECs with EU15</td>
<td>TAX</td>
</tr>
<tr>
<td>5. Huge investments in CEECs in the labour intensive sectors: clothing, cars and electronics.</td>
<td>GDP10</td>
<td>GDP pro capite considerably less in CEECs regions than EU15</td>
<td>SOC</td>
</tr>
<tr>
<td>6. Favourable FDI flows from EU15 to CEECs. High opportunity for EU Member FDI in CEECs (green and old ones), 450,000 new jobs already created in CEECs (*)</td>
<td>INV10</td>
<td>Rise of labour productivity in CEECs is constant but not rapidly developing</td>
<td>GDP10</td>
</tr>
<tr>
<td>7. Overall impact on current EU15 negligible but marginally positive (gain at the level of 1% of the current EU GDP)</td>
<td>FDI</td>
<td>High unemployment rate in the CEECs</td>
<td>PRO10</td>
</tr>
<tr>
<td>8. Harmonisation of indirect taxes in EU member states</td>
<td>TAX</td>
<td>Brain drain from the CEECs for the migration of highly skilled workers to EU 15 (mainly Germany and Austria)</td>
<td>MIG</td>
</tr>
<tr>
<td>9. State Aid rules accepted by CEECS</td>
<td>TAX</td>
<td>Inefficient raw material extraction, obsolete technology and lack of environmental controls</td>
<td>TEC10</td>
</tr>
<tr>
<td>10. Restructuring of social security in CEECS</td>
<td>SOC</td>
<td>Agriculture dominate regional employment in CEECs</td>
<td>AGR10</td>
</tr>
<tr>
<td>11. High labour forces education in CEECs</td>
<td>MIG</td>
<td>Peripheral eastern and rural regions in CEECs suffer from poor infrastructure, low investment, declining agriculture and rural out migration</td>
<td>DIS10</td>
</tr>
</tbody>
</table>
### External elements from the analysed studies: effects of enlargement

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
<th>CAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Positive economic effect from the migration of CEECs workers to EU15</td>
<td>1. CEECs risk to become net contributors because of low capacity of absorption of European funds (Structural and Cohesion Funds)</td>
<td>ABS10</td>
</tr>
<tr>
<td>2. Rapid economic convergence for some CEEC countries</td>
<td>2. Social tensions expected in the CEECs do to low social support and low GDP per capita</td>
<td>ABS10</td>
</tr>
<tr>
<td>3. No additional cost for the trade expansion in actual 15 EU Members</td>
<td>3. Long learning curve related to aspect of programming Structural Funds in CEECs</td>
<td>DIS10</td>
</tr>
<tr>
<td>4. Final benefit for EU consumers for the lower prices of imported commodities from CEECs</td>
<td>4. Economic intervention dispersed in CEECs regions and initiatives with low leverage for economic development</td>
<td>PRO10</td>
</tr>
<tr>
<td>5. Capital and major cities in CEECs with highly favourable economic performance, high investments, skilled labour, training facilities, business services and better infrastructure</td>
<td>5. Growing competitive pressure in EU producer regions from Asiatic low-cost producers (China, India, etc.)</td>
<td>INV10</td>
</tr>
<tr>
<td>6. Western borders regions in the CEECs attracting investments, tourism and trade</td>
<td>6. Old rural regions in CEECs risking high unemployment, lack of economic initiatives and environmental decline</td>
<td>AGR10</td>
</tr>
<tr>
<td>7. Some of the EU15 countries benefit from the enlargement taking opportunity for economic upgrading and investing heavily in building up R&amp;D and improving human capital.</td>
<td>7. Eastern Austria regions suffering for the highest social adjustment pressure due to impact of enlargement, immigration, shadow economy</td>
<td>DIS10</td>
</tr>
<tr>
<td>8. Low corporate and income tax attract FDI in the CEECs</td>
<td>8. Germany, Italy and Portugal risk to lose support from Structural Funds due to redistributive policy competition in favour of CEECs</td>
<td>SOC</td>
</tr>
<tr>
<td>9. Free Movement of Labour forces from CEECS expected to solve shortage in EU15</td>
<td></td>
<td>STF15</td>
</tr>
</tbody>
</table>

#### Comments of the results and critical revision:

The aim of this section is to address our attention to the most relevant factors of our analysis and to facilitate the observations, we group the elements that compose the strength and weak points addressed by five research reports and including them in four different categories:

- **First**, the *trade effects* due to the recent enlargement, those are the consequence of the abolition of the residual existing import tariffs and trade costs.
- **Second**, the *Single Market effects*, measured by the improvement in efficiency and more price competition.
- **Third**, the *Factor Movements and mainly the FDI from the West to the East* and the migration of the labour forces in the opposite direction.
- **Fourth**, the *Cost of Enlargement seen as own resources to be paid to the EU Budget* and opposite the transfers (Structural and Cohesion Funds) to the CEECs.
At first we would comment the category related to the trade effects due to the recent enlargement. The economic literature agrees to the fact that the liberalisation from the trade barriers produces booming (in short-medium term) exports from some countries of the EU15 towards the acceding countries with unbalanced very low imports in opposite side. Since 1997, with the Association Regime, the economic integration of the central eastern countries has been progressing towards a free-trade area and EU eliminated with exception of the agriculture and a limited number of sensitive products all the import tariffs from the accession countries, vice-versa the CEECs have done in the recent past (2002). The expectation for an evident trade surplus (asymmetric trade) in Germany and Austria is confirmed and obviously the welfare in these countries is benefiting; trade is less pronounced with other EU15, but with similar unbalance in the flows. According to the literature the cost savings size that was foreseen as effect of the elimination of the customs duties and border control varies between 5% and 10% (Bchir, Fontagne, Zanghieri 2003), (Breuss 1999 and 2001).

There was no expectation for a big bang of the trade after the date of accession. The reason is based on the fact that the effects of the enlargement have already taken place during the recent years before accession. In fact, as we have seen, the trade with the new member states was largely made free from the Europe Agreements with EU during the 90s and it could be proved that over 95% of EU trade has been liberalised before the accession date (31). The new members have adopted since middle 2003 the norms and standards that are governing trade in EU, the participation to the EU trade decision mechanism, including the EU policy concepts and WTO.

First of May 2004 the new members adopted “in toto” the Common Commercial Policy, the EU Bilateral Agreements, the common external tariff, the EU trade defence measures and as a consequence they share responsibility of the external trade with non EU countries. The average tariff charges decreased from 9% to about 4% and, as consequence, we can expect an increase on the volumes

of external trade. Also the previous bilateral agreements with non-EU countries have been partially replaced. The effects of the opening of the markets has been, as we already presented, a win-win effect for all members. The larger number of consumers (EU single market could account with over 450 million citizens) is represented by above 18% of the overall world trade contributing to 25% of the world GDP. The newcomer countries benefit from faster growing economies and from the preferential condition that old EU members had in the past; all trade partners have to grant the new member states the same trade treatment they gave to the previous member states. The concentration of several new countries in a common market permits to the non-EU members having investments in the territory of one of the member states to profit from the enlarged market, having same rules and respecting the four freedom pillars.

More evidence should be given to the specialisation and the asymmetry of the trade flows as trade from CEECs to EU is 20 times larger than trade from EU to CEECs. Both aspects are already present in the inter trade between EU15 and CEECs. The growing specialisation in limited sectors of production in CEECs and the fact that more than 70% of the exports are addressed to the old members but only 4% of total trade of the EU is transacted with CEECs, is proving the asymmetry of the trade and the specialisation. The increase of the real GDP as effect of the trade creation in the EU 15 is valued to be very low (in an average of 0,3 to 0,5% during the five years after accession) but quite relevant (3 to 4%) in CEECs for the same period (Breuss 2001). The accession country that is profiting more of the trade creation is Hungary with and increase of real GDP of 4,5%. We can simplify telling that CEECs, measured in real GDP, will gain around 10 times more than the EU15. As we have already observed, in general the five studies have not analysed in detail the consequences of the enlargement in a country by country prospect and not even foreseen the effect of the integration at EU regional level (for instance a rich region with a close poor region).

The consequences in the Single Market according to the mentioned studies will result with the increase of competition, which will be reflected to the increase of productivity and decrease of price levels mostly in EU15. It is assumed that
increasing efficiency and economies of scale will imply a favourable increase of productivity in the CEECs (of above 2-3% in the next five years), while, in the meantime, in the current EU15 this phenomenon will be moderate (less that 1% in next five years). Some simulations produced by Breuss (2001), demonstrate that the real GDP, after accession, will develop much more rapidly in the small EU countries than in the EU15. The effect on prices is seen to be acute in CEECs due to the increased competition and expectation from the positive effects in the Single Market. Decrease on prices will result only for an expansion of the aggregated demand and again this will be more evident in the CEECs.

Factor Movements, capital (FDI) flowing from West towards East and, in the opposite sense, migrations of labour are two main aspects analysed in the five mentioned studies. Before accession the CEECs have attracted high flows of FDI. In terms of percent to GDP, Foreign Direct Investment could have expanded, in the mentioned countries, at least for 1,5% per year (estimation mentioned by Breuss 2001). Several authors agree that this important factor is the main engine for the growth potential in the CEECs and it can be easily assumed that after accession the FDI inflow in CEECs will continue to increase due to the consequence of reduction in the “risk premium”; therefore the investors are expecting from the capital introduced in the accession countries a larger number of safety investments.

About the worker’s migration we have just to mention the contrasted position that supposes an invasion of immigrants from the CEECs, pushed by the big gap in the wage levels, coming in Germany, Austria and Scandinavia (real gap in wage level is evaluated at around 40% of the average EU according to Breuss 2001, higher gaps according to other authors). The recent estimation made by the EC Commission (study Boeri and Bruker, 2001) is calculating that around 300.000 people are considering to move after the date of accession to EU15 and mainly in the mentioned 3 countries (32). This flow will diminish by 1/3 at the end of the decade. The immigration surplus in the recipient countries will allow the firms to produce more utilising lower wages. This will produce a slight benefit in the welfare of the recipient country and opposite loss in the GDP of the

32. As result of the migration from the V4 countries and from the Baltic states.
countries of provenience. Incomes will be redistributed, in EU15 profits will increase at the cost of wages and in the CEECs it will happen the opposite, wages will profit.

In the last stage of the negotiation specific arrangements were agreed country by country about the way how to implement provisions related to the mentioned document. The overall cost of the enlargement for the EU budget is fixed in 80 billion Euro till 2006 including the pre-accession costs. From this amount we need to deduct the own resources that newcomers will deposit to the EU budget.

The long-term effect of enlargement should consider the effects that, - *ceteris paribus* - once passed the transitional phase, will be produced in case of unchanged budget policy in the new enlarged EU. From 2006 to 2013 the new members will receive between 23 to 27 billion Euro and they will contribute 3 to 4 billion Euro in that period. Scenarios for calculation of the cost (mainly related to the agricultural and structural policy) of an enlarged EU are conducing to very different results. It depends mainly of the reforms that will be carried out to the actual policy in the two mentioned sectors. This view corresponds to the conclusions that the EU 15 reached in the Brussels Summit in October 2002. In that context the decisions on EU policy were not considered as priority, a top down approach has been followed when was needed to choose the maximum volume of EU funds to be spent for the agricultural policy (in average, according to the different reforms discussed, over 70 billion Euro in 2007 and over 50 in 2013). But in any case the distribution of the agricultural funds and the structural funds from 2007 is not yet in the agenda.

The examination of the EU policies after the enlargement has room for a continue update, taking in consideration that the actual major enlargement is coinciding with a very low profile of the economic development in the actual EU 15 members. The economic stagnation (if not recession) is growing doubts over particularly some of the basic pillars like the stability pact. It is therefore predictable that some of the EU15 members will be reluctant to increase their participation fee to the Euroclub.
Formulation of the key economic aspect that would principally affect the actual enlargement: the aim of the integrated SWOT analysis, crossing Strengths and Weakness with Opportunities and Threats is to come to a final goal formulation that includes the selection of the sensitive areas for the informal scenarios of the future enlargement. The matrix described in the following table 6 is the result of a "brainstorming" exercise, a personal point of view of the author that is proceeding step-by-step in the goal refinement through building up maxi and mini elements of the SWOT matrix.

Table 6 - Swot Matrix's results as a framework for goal refinement (between maxi and mini elements)

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Maxi-maxi elements</th>
<th>Maxi-mini elements (WO)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weakness</strong></td>
<td></td>
</tr>
<tr>
<td>1. Large increase in trade, but asymmetric</td>
<td>1. Lack of harmonisation of corporate taxes</td>
<td></td>
</tr>
<tr>
<td>2. New productive investments in labour intensive sectors</td>
<td>2. Welfare state under restructuring</td>
<td></td>
</tr>
<tr>
<td>3. Competitive cost of factors</td>
<td>3. Labour productivity, technology and specialisation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Threats and Risks</th>
<th>Maxi-mini elements (ST)</th>
<th>Maxi-mini elements (WT)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade Effects</strong></td>
<td><strong>Single market effects</strong></td>
<td></td>
</tr>
<tr>
<td>S1.O1= growing trade trends</td>
<td>W1.O1= Tax competition could foster the convergence process</td>
<td></td>
</tr>
<tr>
<td>S1.O4= trade is increasing</td>
<td>W2.O2 = Welfare more integrated</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Factors movement</strong></th>
<th><strong>Cost of Enlargement</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>S3.O1= the cost of factors will tend to converge, relax in LT future growth</td>
<td>W3.O2= increased specialisation could attract more FDI</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Cost of Enlargement</strong></th>
<th><strong>Factors movement</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>S2.O3= investments in CEECs are facilitated</td>
<td>W4.T1= Risk of growing corruption and misleading of public funds</td>
</tr>
<tr>
<td>S2.03= investments in CEECs are facilitated</td>
<td>W4.T3= Risk of becoming net contributors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Cost of Enlargement</strong></th>
<th><strong>Single market effects</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>S3.O1= blocking the leakage of resources in the poorest regions and limiting the brain drain</td>
<td>W4.T4= decadent economic landscape in the peripheral regions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Single market effects</strong></th>
<th><strong>Cost of Enlargement</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>W2.O2= balanced value of the local currency in a strongly diversified economy</td>
<td>W1.T4= The tax competition could put in risk the macroeconomic stabilisation</td>
</tr>
<tr>
<td>W2.T4= strong limit to the national budget</td>
<td>W2.T4= The lack of public funds could endanger the macroeconomic stabilisation</td>
</tr>
</tbody>
</table>
From the results of the SWOT we separate four boxes highlighting respectively: the maxi-maxi elements (elements strictly confirmed where the strengths create positive opportunities), the maxi-mini elements (elements of chance, where the weak points could turn in opportunities), the mini-maxi elements (elements of challenge, where the strong points face risks and threats) and the mini-mini elements (elements uncontrolled, where the weakness could joint risk areas).

Between the elements strictly confirmed we can find: growing trade trends, growing FDI in CEECs, cost convergence of the production factors in EU. In the same time there are some elements of change like the possibility that utilising competitive taxation the newcomer countries could attract more capital investments in their countries shortening the economic catch-up, or that the increased productive specialisation in some of the CEECs could attract more and more FDI. To the elements of challenge local governments should give particular attention, in fact they represent strong points achieved by the country, but where risks and threats could jeopardise positive economic and social results: here we can find the need to keep control over the trade balance, to limitate the intra-community labour migration, to readdress FDI towards the poorest regions, etc. Finally the “uncontrolled” elements, where weakness joint risks and threats: at first the competitive productions coming from the Asiatic area, as the risk of growing corruption and misleading of public funds, the inability of the local governments to programming and disburse properly EU funds, to limitate public deficit, etc.

5. Identification of “sensible areas” for the economic growth

In the previous chapters and particularly in the chapter 3.2 “Harmonisation in the Visegrad Four” and in the Chapter 4.4 “Summary of the results of the SWOT analysis and comments” we have seen that some of the economic and social peculiarities of the Visegrad four countries like the ability to attract FDI, increase trade, transform the productive sector and furthermore we observed the relevance
of aspects like the availability of skilled and cheap labour forces, the relevance of human resources and the social capital of the population. We observed also how important will be for this region to compete in terms of attracting foreign capital and investments by means of the valorisation of the specific resources but also being able to perform a safety equilibrium in the public budget defending specific policies like the competitive policy with low rates in the taxation of the big investors, the ability to keep the macroeconomic equilibrium pursuing the sustainability of the public debt and accepting the obligations of the growth and stability pact. We have seen also that the reform of the social sector and the reform of the labour market introducing more flexibility to the national rules, could have a serious impact on the integration between the old and new Europe countries avoiding large masses of migrants from the east towards west. We intend now to match in one table on double entry the “concerns” raised by the evaluation of the harmonisation level achieved before accession by the four countries of Visegrad and the “results” of the SWOT analysis over the foreseen costs and benefits of the enlargement, as we described in the paragraph 3.2 and 4.4. The final relation between this information, both objective, one descending from documents officially recognised by the European Commission and Council and the second, abstracted from the different studies based in the same platform, is expected to emphasise strong points or to discover and underline opportunities for the new countries.

We are going now to display the structure of this concise double entry table: in the column of the double-entry table we list (from Chapter 3.2) the following “concerns” as per the evaluation of the Acquis implementation:

- Four freedoms and in particular the free movement of persons,
- Justice and home affairs, Money Laundering, Financial Control of budget expenditures and Protection of the financial interest of EU,
- Social Policy,
- Competition Policy and Company Law,
• Economic Development and Regional Policy together with the Agricultural Sector

In the row, the summary of the result of the SWOT analysis (Chapter 4.4) containing the following items:
• Risk to become Net Contributors for the European funds, representing the economic cost of the enlargement not recovered by the V4 countries
• Tax competition
• Social conflicts
• Brain drain in CEECS, migration towards developed EU, low productivity, human capital investments

Crossing the above items we finally highlight 5 boxes where the different characteristic of the economies of the old member countries and the 4 countries of the Visegrad Pact are in some way competing: here below the table 7 that exemplifies in the white boxes the policy areas of major constraints.
Table 7 - Cross table of determination of the “sensible areas”

<table>
<thead>
<tr>
<th>From SWOT Chapter</th>
<th>Net contributors?</th>
<th>Tax Competition</th>
<th>Social conflicts</th>
<th>Brain drain in V4, migration towards developed EU, low productivity, human capital investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.2</td>
<td>Economic cost of the enlargement not recovered in the V4</td>
<td></td>
<td></td>
<td>The benefits from economic integration are slowed down by the protectionist policy of the EU15 against accepting labour immigration from new EU.</td>
</tr>
<tr>
<td>Chapter 5.2</td>
<td>Harmony in Four freedoms Free movement of persons</td>
<td></td>
<td></td>
<td>Unacceptable tax competition is just the peak of the iceberg. Forcing the rules of the competition will be easier for the new member states that are free from heavy social burdens.</td>
</tr>
<tr>
<td>Justice and home affairs, Money Laundering, Financial Control of budget expenditures Protection of financial interest of EU</td>
<td></td>
<td></td>
<td></td>
<td>New EU is characterised by a society that is short from the economic and social transition. Old behaviours coexist with new strong liberal ones and are far from being completely shared by the citizens. Old EU is blocked by a rigidity situation: ageing of population, reform of pensions and public health, heavy burdens in the state budgets.</td>
</tr>
<tr>
<td>Social Policy</td>
<td>Competition policy, Company Law</td>
<td></td>
<td></td>
<td>Serious concerns about ability to recover in short term economic discrepancies between old and new EU, EU of 25 will be able to really achieve targets of Lisbon?</td>
</tr>
<tr>
<td>Economic development and regional policy, Agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In the first box we identified the sensible area of “Labour Migration”, which is underlining that *The benefits from economic integration* (mostly from the side of the new acceding V4 countries) *are slowed down by the protectionist policy of the EU15* (that, imposing the transitional periods for the labour migration proved to be:) *against accepting labour immigration from new EU*. The second box is dealing with the specific problematic that both groups are facing related to the “social policy” and the respect of the “stability and growth pact”, *old EU is blocked by a rigidity situation: ageing of population, reform of pensions and public health, heavy burdens in the state budgets*. In the third box that relates to the “social capital” of the new acceding countries we describe: The *new EU is characterised by a society that is short from the economic and social transition*. *Old behaviours coexist with new strong liberal ones and are far from being completely shared by the citizens*. The fourth box is dealing with issues related to policy competition in the internal market, particularly on “tax competition” *Unacceptable tax competition is just the peak of the iceberg. Forcing the rules of the competition will be easier for the new member states that are free from heavy social burdens*. The final box concerns the process of economic catching up of the V4: this last question we intend to attach to the sensitive area designed in the third box because: *Serious concerns about ability to recover in short term economic discrepancies between old and new EU, will result from the enlargement. The EU of 25 will be able to really achieve targets of Lisbon?*

With this last question we close this second part of our work considering that in the third part we will enter in detail to the examination of the sensible areas for the future integration policies in the Europe of 25 the we have just identified.
Section III

FOUR “SENSIBLE AREAS”:
IMPACT OF THE VISEGRAD FOUR COUNTRIES ON THE INTEGRATION PROCESS
In this chapter we are going to examine the most relevant economic achievements in the Visegrad four countries of the actual stage of political and economic development just after the enlargement.

We are conscious that all the economic and social indicators described in the following are available to large public through the numerous reviews and publications, for that reason we are reluctant to spend too much of our effort in expanding this information; while what we believe useful is a reasoned selection and short justification of some selected topics that could be understood as logical components of the path followed in the present research. The actual achievements in terms of GDP growth, FDI attraction, labour costs and productivity, Purchasing Power Parity (PPP) and some social indicators of the CEEC countries are described at the end of this chapter. Furthermore we are convinced that the studies we analysed in paragraph 4.4 in some parts they keep the validity but due to recent changing events especially for the economic policies adopted by the Central Eastern Countries in EU, some of the projections need now to be updated. These studies are based on the general theory of the trade development surging from the participation of the newcomers to the Single Market; but they have no possibility to conduce to a complete answer to the question of economic cost benefits of the enlargement. These studies, that we deeply analysed in the chapter 4, deal with static effects of trade creation and trade diversion and they have no proper tools for evaluating the dynamic trade effects. In literature we observed a large agreement on the fact that some of the dynamic effects clearly outweigh the static ones. We refer particularly
to the "indirect effects" observed when the accession countries participate for the first time to the common market: the exuberant FDI attraction (for production and service sectors) and the effects of the specialisation, that are considered to enhance competitive productions in the new member countries in competition with the emergent countries of recent development like China and India.

According to our point of view, the evaluation of the economic cost and benefits due to the enlargement should be mostly dedicated to the dynamic vision of the medium term forecast. This leads towards a new type of analysis that, even if adopting techniques developed in the studies related to the economic integration and growth, should consider also other factors strongly interfering (in the medium and long period) with the economic development of the newcomer member states. It is just the case to mention, for instance, some of the policies adopted across Europe influencing the "internal" migration flow. Strong effects are born also from policies guaranteeing incentives to the foreign investment offering a very competitive taxation rate, attractive labour cost per hour (several times cheaper than in Western Europe) and public investments in infrastructures in the new countries, etc.

The productive specialisation of the V4 countries could easily become another vehicular factor for a new accelerated growth (currently unknown in the countries of the old Europe). Specific conditions of factors market (availability of physical spaces, geographic centrality, relative abundant offer of labour force with education at medium-high level, relative cheap cost of the labour force, direct aid from the state to the private sector, large offer of infrastructures, etc.) assured in a political environment of a relative stability, and other positive conditions arising from participation to the European Single Market like the harmonised market legislation, assuring the attraction of the European and foreign MNEs, etc.

The acceding countries have been growing much more rapidly than the existing Member Countries, the general reason, according to the neoclassical theory, can be called the convergent growth due to the effects of the lowering customs barriers, strong effect of increase of the trade but also as consequence of the structural reforms already in place before the accession.
To give the direct perception of the different growth rates in the two blocks (old EU15 and the newcomer countries) we present the following figure 3: at the right side the table of the real GDP growth in the acceding countries compared with that of the old members; special attentions should be put on analysing the spread between the two groups, considering that the catching up could be measured only in relation of this indicator.

**Figure 3 - Process of growth in the CEECs Countries**

![Graph showing real GDP growth and spread between New Members from CEECs and EU15 Countries](image)

(*) Forecasted data  

Starting our short analysis with the Foreign Direct Investments (FDI) in the new countries, we observe that these investments knew a growing development from the starting of the 90s. At first the privatisation of the large state owned companies of the past communist regime was the engine for attracting foreign investment that took advantage from cheap prices even if those productive
complexes, still somewhere functioning, were obsolete and badly organised. In the second stage, particularly when started to be clear that in certain regions grew up the productive specialisation, we observed a large flow of green investment, concentrating large productions that have moved from the old Europe, utilising very often new technologies.

Therefore while analysing the relevant aspects of the benefits linked to the actual European integration we should take in account not only of the benefits introduced by the natural growth of internal trade and from the direct effects brought by the single market, but mainly by the new de-localisation of the western and other international industrial manufacturers in the countries of the Visegrad four, where local governments adopted strong incentives that the governments of the old Europe are unable to compete with.

When we examine the economic opportunities offered by the enlargement not only from a macro-economic point of view but also micro-economic, we learn that this phenomenon will not only accelerate the growth of the single market but also create new wealth based on the large difference on the labour cost, consumption models during time when in old Europe the consumptions are stagnating and the markets are very closed to the saturation. These new productive locations and expanding markets from the Central and Eastern Europe help several industries that otherwise risk to lose their competitive position on the world market due to the inflexibility of productive factors.

This advantage will get more value if we consider that the comparative advantages of the developed economies in the old Europe, in particular Germany and Austria and the closest newcomers like Slovak Republic, Poland, Hungary and Czech Republic are not conflicting between themselves but are mostly functional each-other. It is easy to predict, and it is already supported by several studies: the integration of the industrial sector with the accession countries has already and will have in future a prominent importance for the western MNEs, supporting the increase of efficiency and in general the global competitive capacity of large productive sectors in Western Europe.
This condition seems to need a special consideration from the governments of the old Europe which probably essay to maintain the aggregate demand with expansive policy. The governments of the newcomer countries could also to be active in the integration within the internal market making easier, in their countries, such kind of productions that develop large scale industrial economies. They are requested to guarantee political stability and invest with special attention to the infrastructures that can facilitate the production. Fiscal incentives in the countries of accession will have its role in particular to attract foreign investments from the old Europe. This complex game between the parts needs a system well defined from the starting phase; clear rules well defined where the two blocks are strictly involved in the integration process in order to pursue the common objective. The integration process is open to external interferences to the internal market, to the process of globalisation; but in particular it is under the pressing condition of the competition that today is very strong and comes also external to the single market and that effects the polarisation of the world productions in Asia, particularly in the emerging markets of China and India.

The risk that the new Europe faces regarding the integration process could be synthesised, out of the mentioned ability to compete externally in the single market, in the following issues:

* The current model of "social solidarity" adopted by the EU will get difficulties with the increasing number of new "clients" that dispose of a income pro capita well beyond of the average of the EU15.

* The process of economic restructuring of the past years in old Europe is addressing to adopt a process of liberalisation of the labour market. This process needs to proceed in a rational frame of foreseeable integration with the CEEC countries where the inevitable competition because of the low salaries will prevail. The risk is that strong contraposition and protection will develop in EU, which could endanger the full process of integration. Furthermore the pressure originated by the restrictive policies to the public expenditure together with the low level of salaries could induce to reduce the incentives, affecting
negatively the labour productivity which, following the old pattern of the socialist system will conduce to a deterioration of the industrial relations (33).

* Other aspect that can affect the proper development of the economic integration in the long period is poisoned by the corruption that could find a revival in particularly in the newcomer countries especially in the public procurement procedures for public investments. Similar risk could be foreseen for the transparency in spending of the community funds. These mentioned two attitudes could have serious consequences for the consolidation of the integration process.

* Even most relevant could be the following consideration: the real capacity of the CEECs to implement a macroeconomic strategy which, in respect to the criteria dictated by the Maastricht Treaty allows an accelerated economic growth. The restrictive application of the Acquis Communautaire could limit decisively through quibbling regulations the accelerated growth of the economy in the newcomer countries. The premature imposition of social and monetary restrictions will, in that case, probably decrease the growth rate of GDP and investments.

We could observe that the integration process lies in a natural contraposition of interests both from the old EU15 member countries than the newcomers of the Central and Eastern Europe. Some of the motivations for contraposition are clearly depicted as internal to the two blocks of countries. In the following table we try to identify some of the most verifiable aspects of these diversified positions. We would not expect that the divers groups will react exactly with the motivations here described; of course, there could be diverse or strategic motivations which may divert or put in a different form from these reactions. In the following table 8 we are describing the contrasting interests as they could be perceived by the main actors (social parts) in the old Europe (EU15 and in the newcomers from Central Eastern Europe.

33. According to the elaboration of the total nominal labour costs per hour in the industrial sector, which is displayed with a figure at the end of this chapter, the short term development is proving that the relative changes of the Visegrad 4 countries are decreasing progressively in the last 3 years. It could be explained as an attempt to break the rapid convergence towards the average of EU 15 labour costs per hour.
<table>
<thead>
<tr>
<th>Social parts</th>
<th>Motivations</th>
<th>Social parts</th>
<th>Motivations</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU15</td>
<td>European MNEs investing in the CEECs</td>
<td>CEECS</td>
<td>Local Enterprises</td>
</tr>
<tr>
<td></td>
<td>• In favour of the offer of qualified and cheap labour cost in the CEECs for investment in the production</td>
<td></td>
<td>• In favour of the state aid and state support to investment in the R&amp;D sector</td>
</tr>
<tr>
<td></td>
<td>• Consumption capacity in the newcomer countries</td>
<td></td>
<td>• Increase of the external customs duties of the Single Market (protection)</td>
</tr>
<tr>
<td></td>
<td>• Taxation regimes in CEECS simplified and lower than in old EU</td>
<td></td>
<td>• State subsidies for the local SMEs</td>
</tr>
<tr>
<td></td>
<td>• Subsidies and contribution from the State Budget / Infrastructure investments in CEECs</td>
<td></td>
<td>• Low level of general regulations for the internal market</td>
</tr>
<tr>
<td></td>
<td>• Political stability with a large opportunity for personal linkages with politicians and parties &quot;eager to please to foreign investors&quot;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Internal regulations in the Single Market that protect its semi-monopolistic positions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local administrator</td>
<td>• Interest to impose to candidate countries a large package of social and political obligations</td>
<td>Local administrators</td>
<td>• Strong defensive of equal rights in EU25</td>
</tr>
<tr>
<td>s</td>
<td>• Limitate competitively behaviour of the countries of the V4</td>
<td></td>
<td>• Promotion of the economic development of the country free from limitations to state aid</td>
</tr>
<tr>
<td></td>
<td>• Avoid tensions procured by the labour immigrations</td>
<td></td>
<td>• Indifferent to conditions of temporary labour emigrations</td>
</tr>
<tr>
<td>Consumers</td>
<td>• Upgrade or stabilise the actual level of purchasing power</td>
<td>Consumers</td>
<td>• Increase substantially the actual level of purchasing power in order to reach the level of the consumers in the EU15</td>
</tr>
<tr>
<td></td>
<td>• Availability in the Single Market of good quality products with the actual prices</td>
<td></td>
<td>• Availability in the Single Market of cheaper products independently of the quality</td>
</tr>
<tr>
<td></td>
<td>• Protection in the field of health and environment</td>
<td></td>
<td>• Less concerned about environmental protection and health protection than the consumers of EU15</td>
</tr>
<tr>
<td></td>
<td>• No special attraction for products' prices reductions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed people</td>
<td>• Improvement / maintenance of the actual labour conditions, improvement of salaries, stability of the working place, quality of life, etc.</td>
<td>Employed people</td>
<td>• Substantial improvement of the remunerations, new working places</td>
</tr>
<tr>
<td></td>
<td>• Reliable pension systems</td>
<td></td>
<td>• Participate to labour conditions, quality of life, purchasing power similar to the colleagues from old EU</td>
</tr>
<tr>
<td></td>
<td>• Worried about competing with the colleagues from the enlarged EU</td>
<td></td>
<td>• Very low support from trade unions, no tradition to organise themselves</td>
</tr>
<tr>
<td></td>
<td>• High support to trade unions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Due to the strong attraction that the V4 countries have showed during the recent fifteen years, as we have seen, in particular due to the favourable offers of productive factories from the state privatisation and cheap cost of labour accompanied by attractive conditions for the new investments (tax holidays, tax relief, very low tax rates to the profit and dividends) the FDI inflow has gained momentum. Close to the date of accession, several investors are moreover interested by the central location of these countries and from the relative high level of scholar education of the labour forces. In the more recent years, FDI inflow in the V4 countries during the period from 1999 till 2002 is in general registering a stable trend, with a strong decrease in 2003; but the internal participation in V4 countries is quite dissimilar. In the following table 9 we have transferred data from the Transition Report 2004 released by EBRD with the intent to display the mentioned trend:

Table 9 - FDI, Net Inflows recorded in the balance of payments of the V4 countries, in Mil. US$ 

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>6.234</td>
<td>4.943</td>
<td>5.476</td>
<td>8.276</td>
<td>2.351</td>
<td>3.710</td>
<td>803</td>
<td>228</td>
<td>11.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>3.065</td>
<td>2.191</td>
<td>3.580</td>
<td>2.590</td>
<td>874</td>
<td>3.364</td>
<td>259</td>
<td>87</td>
<td>4.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Poland</td>
<td>7.239</td>
<td>9.324</td>
<td>5.802</td>
<td>3.901</td>
<td>3.339</td>
<td>1.355</td>
<td>102</td>
<td>100</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>701</td>
<td>2.058</td>
<td>1.460</td>
<td>4.007</td>
<td>549</td>
<td>1.894</td>
<td>745</td>
<td>102</td>
<td>16.6</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>17.239</td>
<td>18.516</td>
<td>16.318</td>
<td>18.774</td>
<td>7.113</td>
<td></td>
<td></td>
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</tbody>
</table>


As concerns Hungary, after a stable trend where the net inflow FDI counted for about 4% of the national GDP, in the year 2003 started to decline rapidly. Poland

34. The mentioned references in the EBRD table for these data are: IMF, Central Banks and EBRD estimates. The additional note is showing that «For most countries, figures cover only investments in equity and in some cases contributions-in-kind. For those countries where net investment into equity capital was not really available (- list of countries not included in the elaboration plus - Slovak Republic), more recent data include reinvested earnings as well as inter-
is demonstrating a decline in the recent years with the exception of the year 2000 when was registered a huge improvement. In general from FDI counting for a 4% of the national GDP in the first year of this analysis (1999) this index is decreasing till 2% in the recent years 2002 and 2003. Slovakia in contrary is benefiting from a very large foreign direct investment in the most recent years, which from the 3,8% in the year 1999 is growing around up to 8% and down to 6% of GDP in the years 2000 and 2001 for reaching in the year 2002 a very high rate that is closed to 16,6% of GDP. Czech Republic is also receiving a comfortable amount of direct investment from abroad being relatively stable till the year 2002 and accounting for a considerable participation of the FDI to the 10% of the GDP per year from 1999 and reaching the peak value close to 11,2% in the recent 2002.

On the basis of the empirical patterns of different productions some authors (for instance Bellak, 2003) proved that while the specialisation outcome is prevailing in the short run, the convergence towards an increasingly competition between old and new EU members for the same type of FDI is more likely to prevail in the medium term.

The fundamental question is to evaluate if investment incentives (tax holidays, special economic zones, or preferential regimes) really attract FDI. The statistics of the IMF and OECD unfortunately include in the inward FDI all the forms of investment; it would, in fact, be preferable to have separate investments linked to incentives - like effected by the privatisations or from the re-selling of investment to strategic partners- from the normal new inward investments (35). Another attractive argument linked to the FDI in the Central Europe is called "tax competition", that is the way to attract investors by proposing very reduced tax rate for the activities performed in the destination country: in the taxation chapter

35. The study of Szanyi (2003) is coming to interesting results obtained by separating the so called "resource oriented" investment from the "market oriented" investments. The first block comprises investments that result of a lower production costs and the second by the purchase of favourable market positions.
later, we will analyse the incentives offered to investors by the countries of the V4.

We have now the possibility in the following figure 4 to observe the growing stocks of FDI in the V4 countries in comparison with Austria and Germany and with the United States data, within the international economy, indicating the recent trend.

**Figure 4 - Total Stocks of FDI, Inwards, Outward as percent of GDP: Austria, Germany, V4 Countries and USA**

The index displayed in the above figure is furnishing the accumulated stocks of inward and outward FDI flows in the years 1990, 2000 and 2002 divided by the GDP for the respective country. The accumulated stock of FDI refers to the international investment made by a resident entity or a direct investor in order to acquire a lasting interest in an entity operating in an economy other than of the investor. It involves both the initial transaction between the two entities and all
subsequent capital transaction between them and among enterprises both incorporated and unincorporated. This figure, where the scale of the years is not in proportion, but not for this has lost the validity, is helping to understand the strong growth potential the still have the Visegrad 4 countries. First of all we see that the inflow and the outflow of the FDI in the United States, which we utilise for comparison, is practically balanced. Like for Austria and Germany where the incidence of the accumulated stocks of FDI are higher than in the States. Now if we consider Czech Republic and Hungary, we see that the incidence of the inflow FDI in these countries is practically double of the value obtained by Germany and three time of the inflow - always weighted by the GDP of the country - of the States. Furthermore the outflow FDI is just starting to show some small percentage of the GDP. The first consideration is related to Poland: being the largest country in the region, if the results of attraction of FDI obtained by Hungary and Czech Republic could be replicated in Poland (we should consider the similar conditions in the productive factors, central location, etc.), we could have a large de-location of the productive activities in the Eastern Europe. Slovakia, for instance is just at the beginning of the process: in fact several big firms for automotive sector have already agreed with the Slovak Government to transplant their productions there. When in few years the real transfers of capital will come to the country, it is foreseeable an increasing amount of FDI that, mostly in very short time, will overcome the performances of Hungary and Czech Republic.

In order to attract foreign investments the countries of Central and Eastern Europe are forcing their attractive competitive position with lowering the tax rates for the foreign investors. As we have opportunity to deeply analyse in the following chapters these policies are often considered at the limits of the tax dumping. As we will analyse in the chapter 6, the strong competition on direct taxes engaged by the V4 countries in order to attract FDI is increasing year by year. In the following figure 5 we show the tax rates faced by investors in the year 2004 in different countries, the difference between rates paid for corporate tax and
the effective rate on investment income combining corporate tax and dividend tax is proving the attractiveness for the rates in Slovakia and Hungary.

**Figure 5 – Nominal Tax rates faced by investors in the year 2004 in different countries**

![Bar Chart](Figure 5)

**Source:** Own elaboration, data from World bank “Quarterly Economic Report, 2004” Special Topic: Corporate Income Taxation on FDI, (Table 1 page 2 of the Special Topic “Corporate Income Taxation and FDI in the EU-8) and European Commission “Tax Survey”, Working Paper No.3 (2004).

Very close to the subject of FDI attraction and being the direct consequence of the increased polarisation of the productions is the specialisation effect of some of the accession countries. This effect is well described by the literature. Szalavetz (2002) anticipates, in contrary, the lack of proper policy planning in the new member states. Analysing the recent documents prepared by the national administrations of the accession countries in order to comply with the structural funds (the National Development Plans, NDP), we can observe that in very few cases a long term policy is properly addressed to the national development of industry (36). This passive policy approach is described like the result of the

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36. It is just the case to remember that the production structure in the V4 countries is characterised by few leading sectors: Food products beverages and tobacco (covering between 11 to 22,8 percent of the total manufacturing sector in 2002), chemicals (covering between 5,7 and 7,3% of total productions), Basic metals and fabricated metal productions (7,4 to 16% of total production), Machinery and equipment (5,8-8,9% of the total), Electrical and optical equipment
consciousness that the foreign direct investment (FDI) during the transition decade has been absolving the scope and has achieved a remarkable success with a very low intervention from the state. But there is no guarantee that the investment by foreign companies will continue in such a massive way conducing the country towards successful stories of industrialisation. As we have seen in Ehrlich and Szigetvari, 2003 in some of the V4 Countries the FDI is reversing from inward to outward investment from the country. The changeable trend of the FDI is proving the maturity of the industrial system of the country. The accession itself will not help the increasing of the modernisation inducing trade and automatically attracting additional FDI in the newcomers. Countries like Slovakia and Poland have additional reserves for attracting large investments, Hungary and Czech Republic probably less. The tax incentives and the favourable spread in the labour remunerations with a large offer of qualified manpower had already contributed in the recent past to produce the highest attraction. Time is coming for abandoning the “laissez faire” approach of the local governments and approaching with a developmental policy the state involvement. The investments turn to maximising efficiency, exploiting economies of scale with higher specialisation and to acquire dynamic resources and create knowledge, innovation and organisational skills, in other words strategic assets-seeking (37). Will this develop through a rapid economic convergence?

(7,9-30,7% of total production) and finally transport equipment (8,9 to 19,7 % of the total productions in 2002). United Nations, 2004.

37. A very specific case, which can be considered in this contest a “learning lesson”, is related to the emerging automobile cluster in central Europe, which is proving how large strategic investments can overcome limited and small domestic markets. In terms of policy recommendations to the governments the success story is focussed to the promotion of the core enterprise sector (represented by leaders in the sector of car production) in order to attract FDI and successfully integrate in a cluster the industries of suppliers. The comparative advantage that is actually indicated by the cheap and qualified labour in the Visegrad 4 countries is going to lose the main attraction of these countries substituted by the strategic objective that, in modern industries, is considered to be the reduction of fixed costs and the achievement of external economies associated with industrial clusters. In these countries the actual car production is totalling 1 million cars per year. In 2007 according to the investment plans already in place, the yearly production will overcome 2,4 million cars. The new supply strategies are based on a greater use of the car components produced locally, on local services to this business enhanced by the deeper intra-regional integration of producers. The well known advantages of the industrial agglomeration, resulting in internal and external scale economies according to the Krugman’s theory are based on

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A recent paper of the *Revue Enlargissement* (DREE – Minefi, 2002) is highlighting that convergence should be considered not only in income levels (Real Convergence), price levels (Nominal Convergence) but also the convergence in Business Cycles (that we can assume as Symmetry Convergence). Recent studies Fidrmuc J., Fidrmuc, J. and Horvath (2002), demonstrate that convergence on incomes doesn’t not imply as such correlation in industrial cycles, but, besides some “individual trajectories” the Visegrad Countries are proving an increasing correlation of the manufacturing cycle since 1993 with the euro area. This effect comes from increased trade between mentioned countries. Whether increase FDI, both direct output from intra-branch trade (in principle favourable to the mentioned convergence) or towards intra-branch specialisation, cannot prove itself direct relation. About the nature of economic shocks that can disturb the natural convergence of the business cycles during a medium term, we can expect that the foreseen reorganisation of the agricultural sector in the V4 countries or the probable changing of the shopping basket of the consumers - due to the improvement of the living standard - as other specific shocks, could effect the correlation of the business cycles in the area.

We can observe that the four countries analysed (Hungary, Slovakia, Czech Republic and Poland) have increased tremendously their trade exchange with the EU15 during the last decade. The overall trade exchange of the mentioned accession countries with EU15 is amounting at 176,9 billion Euro in the year 2003, trade balance for the accession countries is mostly balanced (SK and HU) or in favour of their exports (CZ and mostly PL). Exports versus EU are becoming more and more important accounting for 60 till 70% of the overall export for the four accession countries mentioned. Imports are in average quite a ten percent below amounting between 50 to 60% of their total imports. But the trade with EU 15 remains asymmetric for all the V4 countries. In the recent years the strong depreciation of the dollar is largely effecting the export statistic data that being quoted in this currency (over 70% of the regional goods are traded in dollars) in

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specialised suppliers, pooling of specialised labour markets, knowledge spillover and strong market leaders as final suppliers on the production chain [United Nations, 2004].
terms of absolute value are revealing an incredible boom in exports [for instance an increase of 28% in the period Jan-Sept 2003 in respect to the previous year United Nations, 2004]. At the end of the 2003 the Eastern countries started to be helped by the gradual recovery of the western European demand, but these countries were even more successful in the intraregional markets together with exports in other developed economies where they proved to acquire more dynamism. The effect of the free quotation of the local currency is having an additional effect on the trade flows. Poland, for instance, experienced from 2001 a considerable depreciation of the zloty in real effective terms; the rapid decrease of the unit labour costs is proving the effect of such a depreciation that is consolidating the competitive position of the country's exporters in their major markets. Not so much for Hungary, where in opposite the forint considerably appreciated between 2001 and 2002 creating a pressure over the margins of the export goods in order to keep the competitiveness in the market and forcing some MNEs to relocate some productions in Asia. The similar situation of the appreciation of the Slovak Crown has not affected yet the trade performance in Slovakia, where the total labour costs and the tax rates are still competitive in respect of the neighbour countries. In the contrary Slovakia is increasing the share of exports in the old EU.

In the following pages we are annexing some recent data regarding the achievements of the four countries we are investigating. Often in the figures and tables we display for comparison the average of the EU15 or single countries of Europe and, in some cases even economic data of the United States. We do not consider performing an analysis of the proposed data; this is not in the purposes of our study. We just would like to clarify that the explanations of the ratios that we presented in the following notes are just copied by the Eurostat data sources.
Figure 6 – Total Nominal Labour Cost per Hour in Industrial Sector

Percent changes compared to same quarter of the previous year 2002-2003


The total nominal labour cost per hour of the V4 countries in the industrial sector is compared with the average cost of the countries in EU15. The figure shows that the average EU15 tend slightly to diminish. The tendency of the V4 countries are very differentiated: if we construct a polynomial regression we can see that SK and PL have similar trend: SK is starting higher than PL but both are clearly decreasing and both intersect the line of the EU15 close to the beginning of the year 2004. This means concretely that if this trend will continue in the years ahead, the cost of the labour in these two countries will never reach the cost of the
average EU (unless the cost of the average EU will not collapse dramatically). For the other two V4 countries, HU and CZ the cost of the labour started at the beginning of 2001 to decrease but between 2002 and 2003 the tendency has inverted direction, in fact from mid 2003 till the 3rd quarter 2004 the two curves started to increase rapidly showing a large gap with the tendency of the EU15. In this case we observe a rapid growing of the labour cost that is proving a certain future convergence with the average of the old member states.

Main economic indicators of the V4 in comparison with EU15 countries and with United States are described in the following tables, that have been composed utilising the Eurostat database “new cronos” available at the web page below indicated. The explanations given in the notes about the content of the indicators are derived by the descriptions that, for every table are inserted in the same mentioned database of Eurostat.

Table 10 - GDP per capita in Purchasing Power Standards (38)

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</thead>
<tbody>
<tr>
<td>EU (25 Countries)</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
</tr>
<tr>
<td>Germany</td>
<td>114,4</td>
<td>113,3</td>
<td>112,0</td>
<td>110,1</td>
<td>108,7</td>
<td>108,1</td>
</tr>
<tr>
<td>Austria</td>
<td>125,4</td>
<td>126,9</td>
<td>127,9</td>
<td>124,4</td>
<td>122,7</td>
<td>122,2</td>
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<tr>
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<td>67,6</td>
<td>68,8</td>
</tr>
<tr>
<td>Hungary</td>
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<td>53,5</td>
<td>56,4</td>
<td>58,6</td>
<td>60,5</td>
</tr>
<tr>
<td>Poland</td>
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<td>45,8</td>
<td>45,9</td>
<td>45,6</td>
<td>46,0</td>
</tr>
<tr>
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<td>48,9</td>
<td>51,3</td>
<td>52,1</td>
</tr>
<tr>
<td>United States</td>
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<td>156,6</td>
<td>155,3</td>
<td>152,4</td>
<td>152,1</td>
<td>154,0</td>
</tr>
</tbody>
</table>

Source: Eurostat/ newcronos database http://europa.eu.int/comm/eurostat/newcronos/

38. Gross domestic product (GDP) is a measure for the economic activity. It is defined as the value of all goods and services produced less the value of any goods or services used in their creation. The volume index of GDP per capita in Purchasing Power Standards (PPS) is expressed in relation to the European Union EU25 average set to equal to 100. If the index of a country is higher than 100, this country level of GDP per head is higher than EU average and vice versa. Basic figures are expressed in PPS (like a common currency that eliminates the differences in price levels among countries allowing meaningful volume comparison of GDP.
Table 11 - Labour Productivity per Hour Worked (GDP in Purchasing Power Standards (PPS) per hour worked relative to EU15) (39)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
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<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
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<tr>
<td>Germany</td>
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<td>104,2</td>
<td>103,0</td>
<td>102,7</td>
<td>102,7</td>
<td>102,6</td>
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<tr>
<td>Austria</td>
<td>99,9</td>
<td>99,8</td>
<td>99,7</td>
<td>96,8</td>
<td>97,1</td>
<td>97,8</td>
</tr>
<tr>
<td>Czech Republic</td>
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<td>42,2</td>
<td>41,9</td>
<td>44,7</td>
<td>45,2</td>
<td>46,1</td>
</tr>
<tr>
<td>Hungary</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
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<td>38,0</td>
<td>43,6</td>
</tr>
<tr>
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<td>44,8</td>
<td>46,1</td>
<td>49,8</td>
<td>56,3</td>
</tr>
<tr>
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<td>108,1</td>
<td>109,3</td>
<td>111,1</td>
<td>113,6</td>
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</table>

Source: Eurostat/newcronos database http://europa.eu.int/comm/eurostat/newcronos/

Table 12 - Hourly Labour Costs (40)

<table>
<thead>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>EU (15 Countries)</td>
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<td>22,62</td>
<td>22,59</td>
<td>23,36</td>
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</tr>
<tr>
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<td>24,82</td>
<td>25,68</td>
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<td>n.a.</td>
<td>22,87</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3,23</td>
<td>3,41</td>
<td>3,86</td>
<td>4,64</td>
<td>5,39</td>
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</tr>
<tr>
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<td>3,14</td>
<td>3,63</td>
<td>4,04</td>
<td>4,91</td>
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<tr>
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<td>4,48</td>
<td>5,30</td>
<td>5,27</td>
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</tr>
<tr>
<td>Slovakia</td>
<td>2,91</td>
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<td>3,07</td>
<td>3,26</td>
<td>3,59</td>
<td>4,02</td>
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<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: Eurostat/newcronos database http://europa.eu.int/comm/eurostat/newcronos/

Table 13 - Unit Labour Cost Growth (41)

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
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<td>0,5</td>
<td>-0,4</td>
<td>-0,3</td>
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<td>1,2</td>
<td>-0,1</td>
<td>-0,7</td>
<td>-0,4</td>
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<tr>
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<td>-2,0</td>
<td>-0,7</td>
<td>-0,7</td>
<td>-0,2</td>
</tr>
<tr>
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<td>-0,4</td>
<td>0,2</td>
<td>3,2</td>
<td>0,8</td>
</tr>
<tr>
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<td>1,2</td>
<td>2,8</td>
<td>-0,1</td>
<td>-0,6</td>
</tr>
<tr>
<td>Poland</td>
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<td>-0,4</td>
<td>-1,5</td>
<td>5,3</td>
<td>-3,7</td>
<td>-4,5</td>
</tr>
<tr>
<td>Slovakia</td>
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<td>-3,7</td>
<td>-0,8</td>
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<td>-0,2</td>
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<tr>
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<td>1,8</td>
<td>-0,3</td>
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<td>-1,9</td>
</tr>
</tbody>
</table>

Source: Eurostat/newcronos database http://europa.eu.int/comm/eurostat/newcronos/

39. Basic figures are expressed in PPS (like a common currency that eliminates the differences in price levels among countries. Expressing productivity per hour worked will eliminate differences in the full-time/part-time of the workforce.

40. Average hourly labour costs defined as total labour costs divided by the corresponding number of hours worked.

41. Growth rate of the ratio: compensation per employee in current prices divided by GDP in current prices per total employment. This derived indicator compares remuneration (compensation per employee) and productivity (gross domestic product GDP per employment) to show how the remuneration employees is related to the productivity of their labor. It is the relationship between how much each worker is paid and the value he/she produces by their work. Its growth rate is intended to give an impression of the dynamics of the participation of the production factor labor in output value created.
Table 14 - *Trade Integration of goods* (42)

<table>
<thead>
<tr>
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<th></th>
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<td>11,1</td>
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<td>27,9</td>
<td>28,3</td>
<td>27,8</td>
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</tr>
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<td>34,1</td>
<td>35</td>
<td>34,5</td>
<td>34,8</td>
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<tr>
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<td>55</td>
<td>57,4</td>
<td>53,4</td>
<td>55,1</td>
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<tr>
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<td>55,7</td>
<td>64,9</td>
<td>62,1</td>
<td>55</td>
<td>53,9</td>
</tr>
<tr>
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<td>23,0</td>
<td>22,9</td>
<td>25,3</td>
<td>24,5</td>
<td>26,3</td>
<td>30,4</td>
</tr>
<tr>
<td>Slovakia</td>
<td>53,7</td>
<td>52,8</td>
<td>60,9</td>
<td>65,6</td>
<td>63,7</td>
<td>68,2</td>
</tr>
<tr>
<td>United States</td>
<td>9,1</td>
<td>9,3</td>
<td>10,2</td>
<td>9,2</td>
<td>8,8</td>
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</table>

Source: Eurostat/newcronos database http://europa.eu.int/comm/eurostat/newcronos/

Table 15 - *Total State Aid as a percentage of GDP* (43)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU (15 Countries)</td>
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<td>0,60</td>
<td>0,57</td>
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</tr>
<tr>
<td>Germany</td>
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<td>0,76</td>
<td>0,71</td>
<td>0,65</td>
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<tr>
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<td>0,72</td>
<td>0,65</td>
<td>0,67</td>
<td>0,63</td>
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<td>1,82</td>
<td>3,87</td>
<td>2,76</td>
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<td>1,07</td>
<td>1,09</td>
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<td>n.a.</td>
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<td>0,84</td>
<td>0,71</td>
<td>2,76</td>
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<td>0,59</td>
<td>0,36</td>
<td>0,46</td>
</tr>
<tr>
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<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: Eurostat/newcronos database http://europa.eu.int/comm/eurostat/newcronos/

42. Average value of imports and exports of goods divided by GDP per cent. Trade integration of goods as a percentage of GDP. Average of import and exports of the item goods of the balance of payments divided by GDP. If the index increases over time means that the country is becoming more integrated within the international economy.

43. The numerator is the sum of all State Aid granted to all private sectors, in the denominator the GDP.
From this charter we start to analyse the four sensitive areas that we have identified in Section II. Starting from this chapter 6 we will deeply investigate the tax policies and, in the next chapter, the growth policies and the compatibility of the level of public expenditures for the social protection with the fiscal consolidation and economic and social growth in the countries of the enlarged Union. The evaluation of the internal migrations and social capital will follow in the final chapters 8 and 9.

1. Introduction

In this chapter 6 we analyse the sensitive area of the tax policies in Europe, being a discussed issue, at the present time both in the East - West confrontation and moreover a relevant internal policy issue of the individual countries. In Europe, indirect taxation (VAT and Excise duties in particular) is sufficiently harmonised. Part of the indirect taxes collected by every member states are assigned to the Communities for the purpose of financing the budget of the European Union (traditional own resources, the resources accruing from VAT and the GNP based own resources) (European Commission, 2002).

This chapter is dealing with analytic aspects related to the direct taxation that in old Europe, even between large differences, remains quite homogeneous; while in contraposition, in the new accession countries, the local governments try to attract foreign investors offering competitive low corporate tax rates which
provoke worries by some of the old members states which in this kind of competition cannot play. This tax policy is considered by some member countries (notably France, Germany and others) an unfair competitive advantage of the new entrants in Europe as to suggest that the EU regional aid should be withdrawn from countries engaging in this practice as these countries do not need aid if they can afford to lower taxes. The opposite argument in favour of lowering tax rates is based to a justified means to attract the investments needed for a rapid growth and convergence. At least, but this is not generally outspoken, lower tax rates can encourage tax compliance, limiting and for sure reducing tax avoidance.

Analysing the effects that derive from the taxation of capital incomes in a common market, means that if all participant countries would apply the same tax rate (and considering that it would be possible to verify that) capital will move towards the country offering higher earnings. Therefore, when a country introduces a tax rate lower than the others; automatically benefits foreign investments in its country, by attracting larger amount of capital.

Differences in the effective tax burdens in different countries raise tax competition and as a consequence corporate companies are reacting with different strategies: could be that they find incentives to relocate activities from one country to another, to open new productions but also differences in the effective tax burden could induce the tax optimisation processes or - as a consequence of long term changes in tax planning strategies - create indirect losses to some tax administrations.

The risk is to loose the tax base because the MNEs will transfer their activities in the closest countries where the overall fiscal burden is smaller as soon as the stability and reliability of the country that already participates into the single market will be reinforced by participating also into the Euro area.

The marginal theory would explain that till marginal return of new investments is not equalising the return on the capital of other competitive countries. It exists an optimisation level (in reality quite difficult to calculate) between the losses in terms of social utility (determined by the lower state incomes from taxation) deriving from the allocation of capital (the difference
between the amount cashed by the country B in respect to the amount of country A where the invested capital would have determined an higher level in terms of paid taxes) that should be balanced accumulating the benefits deriving from the introduction of capital mobility (to be always measured in terms of total social benefits between participant countries. Some studies utilise econometric models in order to assess eventual increase of the welfare supported by the capital mobility in the common market: final result of these studies not always confirm the hypothesis; it could happen that the loss due to the low remuneration of the capital is higher than the benefit introduced by the capital mobility. To find a answer to these questions means to give a answer to the fundamental question related to the convergence or divergence of the economies of these countries participating to the common market; otherwise the need to determine is the difference between the welfare levels of these countries is increasing or decreasing during the time from participating to the common market. It seems certain that the full mobility of the productive factors is affecting the capital flow from the country that is well equipped with this factor versus the country that has less. Viceversa for the labour factor that is moving in the opposite direction. These flows produce a convergence between the level of capital per employed in the single countries. Transfers of capital transmit also the know-how flows towards the countries less equipped helping to increase a rapid growth. If these transfers are not contra balanced by labour immigrations with cheaper costs, they will produce losses in terms of social utility. The challenge of the more technologically advanced countries in terms of product innovation (Krugman 1990) represents the last ratio of this process that could never stop when having chosen a precise direction, but come back to the more advanced economies that maintain the leadership of the innovation.

2. Methodological note

This work is concentrating on the specific concept of the companies taxation in Europe, having as its main objective the analysis of the following dimensions:
the overall fiscal burden over the companies;
the longitudinal and geographical utilisation of different tax rates for company taxation;
the presence of compliance costs that could hamper the location of companies;
the magnitude of the tax competition in Europe;
the attitude towards the unification of the taxation.

In order to measure the anticipated dimensions, we found useful the recourse to the following indicators:

- the nominal or statutory tax rate for the company taxation;
- the effective tax rate (ETR and EATR);
- the costs for tax planning and tax compliance for companies investing abroad;
- the statutory tax rates applied by the national tax jurisdictions;
- the preference of the European citizens towards the unified taxation.

We recognise different ways to measure the fiscal burden over the companies and it will be useful to utilise the set of indicators developed by the literature over this subject. We have purely descriptive analyses that utilise the nominal or statutory tax rates; but also more sophisticated methodologies that calculate effective tax rates inclusive of the complex rules that affect the tax base. In the second case there are several possibilities to proceed: through a calculation of the average or marginal burden, or by means of rates evaluated in the macro or micro perspective and furthermore by rates calculated in retrospective - “back-looking indicators” - or in advance - “forward-looking indicators”. In our case we utilised the following official statistical sources from which we have outsourced the empirical material:

- OECD “Revenue statistics 1965-2003”;
- World Bank “Corporate Income Taxation on FDI in the EU/8”;
• Eurostat "Structures of the Taxation Systems in the European Union. Data 1995-2002" (2004);
• Commission of the European Communities "Company Taxation in the Internal Market" (2001c) [COM (2001) 582 final and SEC(2001) 1681 Annexes];
• Statistics from the Ministries of Finance of the V4 countries (Web pages of the Ministries in the CEEC-countries);
• Eurobarometer 2003.4, Public Opinion in the Candidate Countries;
• Commission of the European Communities "Conclusions and Recommendations of the Committee of Independent Experts on Company Taxation [commonly called the Ruding Report] (1992). This database basically rely on two different sets of fiscal burden: the nominal/statutory rates and the effective rates (44). We have analysed four variables: the total tax revenues, nominal (or statutory) tax rates, the simple average Effective Tax Rates (ETR) and the Effective Average Tax Rates for the Corporate Enterprises (EATR).

The theoretical question that we have considered since the first moment is the way how the national taxation policies could interfere with the process of integration in Europe and in particular whether the lack of harmonisation of the direct taxation could jeopardise the process of equilibrate growth of the two blocks in EU.

At first we observe separately the influence of the taxation factor in the societies that could be defined "economically static societies" and "economically dynamic societies". In doing so, we intend to utilise a different indicator: the amount of total tax collected (tax revenues) in relation to the GDP. The longitudinal (1980 - 2000) analysis compares the trends of the total tax revenues

44. «Effective tax rates are summary indicators that take into account the interaction of different aspects of tax legislation: e.g. national and local statutory rates, allowances from the tax base, tax credits and, for international investments, methods to reduce or to avoid double international taxation. Their computation involves a variety of complex conceptual and measurement problems. Notwithstanding certain limitations, these indicators provide a useful insight into the principal tax distortions and can be used to evaluate the impact of tax reforms or policy coordination» (Giannini, Maggiulli 2001: 634).
divided by the GDP in the EU15, in Japan and in the United States. In a second table we analyse the same indicators for the EU15 countries and the Visegrad 4 countries in the year 2002.

In order to give an answer to this first question we begin with a “walk around” the map of “European Taxation Systems”, which demonstrates the large differentiation between the two blocks: the effective tax rates applied in the EU15 are in average (with the only exception of Ireland) much higher than the rates applied in the new accession countries.

Starting from the idea that this relation could be due to a large number of factors, from the nationals balance of resources, to the need to attract FDI, to the different models of welfare supported by the countries, we considered necessary to compare the main criteria for taxation adopted by the EU countries, putting together the “taxation culture” of every country. We intend in fact to analyse individual effective rates applied according to the longitudinal and geographical distribution, the simple average of the effective tax rates (ETR) in the countries of the west EU15 and in the newcomers (EU8).

As we observed above, besides the objective data, we utilised also data from two sample surveys and available at aggregate level on countries’ basis, re-analysing tables and results from the analysis of the frequencies distribution, synthetic statistical parameters (as the average, mode and median), standard statistical deviation, etc.

The “Ruding Committee Survey” [Conclusions and Recommendations of the Committee of Independent Experts on Company Taxation (commonly called the Ruding Report)] has been conducted with successive waves of interviews in the year 2000 by the European Commission. Our hypothesis for this analysis has been the insurgence of compliance costs of the European enterprises when investing in the Single Market. In order to face the subject of the compliance costs we have selected 5 items of the questionnaires, as follows:

1) With reference to foreign source income approximately what are the costs incurred by your firm (e.g. tax accounting salaries, fees, etc.) in tax planning and
complying with the provision of the domestic tax system? Express such costs as a percentage of the actual income flows net of foreign tax from the foreign sources.

2) With reference to domestic income, approximately what are the corresponding costs of tax planning and compliance with the provisions of the domestic tax system? Express such costs as a percentage of total domestic source income.

3) With reference to foreign sources income, approximately what proportion of income actually received from the foreign sources (including all forms of income net of foreign taxes) is taken in tax by your country of residence?

4) Insofar as it is possible to distinguish between compliance costs and tax planning costs, what proportion of the total costs referred to in question 1) go on tax planning?

5) Insofar as it is possible to distinguish between compliance costs and tax planning costs, what proportion of the total costs referred to in question 2) go on tax planning?

The frequencies, being expressed originally in percent terms, have been arbitrarily divided in five classes having the same extension and proportionally between the minimum and maximum result achieved. The graphic representation of the output values obtained in the 5 classes facilitates a homogeneous reading of the answers’ trend.

In the closing part of the chapter on taxation we have additionally analysed data from Eurobarometer 2003.4 (interviews of the 2003 year extended to all acceding countries). In order to explore the attitude of the European citizens towards the direct taxation from the Union we have considered to analyse the following question of Eurobarometer: «At present each member states passes to the European Union part of its tax revenues. Would you prefer to pay this contribution directly to the European Union, or not?».

We displayed in a figure the alternative answers (Yes or Not) from the statistical sample of interviewed persons from the V4 countries together with Slovenia and the average of the 10 newcomer countries.
Registration of information and data elaboration (tables and figures) have been performed utilising the programme Excel of Microsoft.

3. Basic principles for the harmonisation

The EC Commission, according to specific mandate of the Council of Ministers, is pressing for a more advanced fiscal harmonization in Europe, emphasizing the need to combat harmful tax competition and reducing the continuous distortions in the single market; in view of stimulating economic growth, enhancing international competitiveness of the Community, prevent excessive losses of tax revenues from the Members States and finally helping the tax structures to develop in an improved “employment-friendly” way. The EC Commission is also engaged in eliminating the remaining tax obstacles and tax provisions that may hamper cross border economic activity in the Single Market. The cooperation in the tax policy area between the Member States is explicitly not considering the standardisation of tax rates but, in the same time, the overall tax pressure should be not become inconsistent with the fair tax competition in the Single Market, as it is declared in the mandate given by the Council of Ministers to the Commission of the European Communities (2001b: 109). The tendency to harmonise the taxation in the Community is only partially affected by the competition in the tax rates, in particular de facto today is more influenced by the equilibrium in the overall expenses level that, in the majority of the Western member states, creates troubles to keep the budget deficit under the limitation agreed in Maastricht. The different stage of development in the two blocks, old and new Europe, and the different characteristics of the two economies, are affecting the way how the taxation policy could be implemented and the flexibility of choosing different models and strategies. In this sense, as we will see in the following pages of this chapter, the new accession countries of the central eastern area of Europe have for sure a competitive advantage. In the same time we have to admit that, purely from the point of view of percentage of budget
categories, the overall fiscal charge effect in the CEECs could be considered far below the average of the EU15.

Maastricht Treaty, therefore, is conducing to an increase of the harmonization pressure of the public balance sheets and the public deficits - in this way at the end some national governments will loose part of their power. As a result, according to several authors, there will be a lower internal competition. This is not consistent with the tax policy in the United States where, at the contrary, we can observe strong competitive fights between the states of the union (Thurow 1997). We can say, as it is observed by Ruta Vainiene (2002: 2), Vice President of LFMI (Lithuanian Free Market Institute), that in Europe the ideology is forcing the economy and in the other parts of the world is opposite: the economy that is pushing the ideology. The mentioned author is arguing that tax competition is a political aspect especially with closed links with democracy, being “first and foremost the result of democracy in a free world. People elect a government that sets certain taxes. It is due to democracy functioning in the predominant majority of world countries that people have - what they elect” Ruta Vainiene (2002: 2).

We can expect that competition and democracy are two interacting factors; according to this reasoning a lack of competition is diminishing the right to participate in democracy -. The EU is playing evidently a sensitive game defending the tax competition that is a pre-condition of tax reduction and in the same time the tax harmonisation (in particular in the field of tax rates, everybody considers to give less importance to the about the harmonisation of the tax base). The key argument that will allow the politics to define the proper equilibrium between these two contradictory strategic lines is when the harmonisation can be called “spontaneous” and when “coercive”. In this sense the accession countries are in favour of maintaining the previsions of the Nice Treaty regarding the unanimous vote for changes in the tax legislation. Art. 96 of the EC Treaty perhaps could lead to provide for a legal basis attacking the harmful measures of tax identified by the Code of Conduct (Primarolo Group, 2000). In the field of the “harmful measures” from several documents of the Commission of the European
Communities (2001c), we could identify the following means that infringe the minimum requirements for identification of an "harmful measure":

- absence or very low (much lower than ordinary) tax rate;
- incorrect, not transparent, even negotiable definition of tax base;
- exemption, in brake of the rule of equal treatment, for the foreign source income (included tax incentives only for foreign investors, "ring facing" special taxpayers, etc.);
- the regime of preferential tax regimes is not requiring any economic activity from non-residents;
- lack of information and even secrecy provisions from the tax heaven and the other countries.

If the tax harmonisation is one of the aspects that conduce towards a stronger single market, it is also true that this subject has been several times opposed by the Council of Ministers that are defending their national interest. Harmonisation into areas like taxes on sales is already achieved: VAT rate cannot be under 15% and only few exceptions are permitted, the regulations about how to apply VAT are shared all around EU and the new Member States. This is not the case of corporate tax, of the tax on investments and of tax on personal incomes (direct taxes). In the case of tax competition the consequence will be directly by exerting pressure on public expenditure. Also employment and environmental protection could be effected by the competition as result of the widening tax base and reducing rates that somewhere tend to extend the tax burden out of the direct scope of direct tax charges. The following figure 7 shows the incidence of the total taxes in the EU15, in the US and in Japan as percent of the GDP for the period 1980 till 2000. The effect of the average tax ratio applied in different countries is only partially explaining the trend showed by the figure related to the total taxes collected: in fact in the countries of EU15 the average tax rates have increased steadily during the analysed period, the average in Japan, in contrary, increased till the 1990 and afterwards started to decrease; meanwhile in the US has decreased in the first five years, and afterwards started to increase at the same pace as in Europe. The main difference is once more on the ratio of the total taxes
in percent of the GDP: in Europe, as it becomes evident reading the following figure, the total tax collected in percent of the GDP produced by the countries of the Union are higher more than 1/3 of the total taxes collected per GDP produced in Japan and US.

Figure 7 - Total taxes as percent of GDP in EU15, Japan and US during the period 1980-2000

Total taxes in EU15, Japan and USA in 1980 - 2000 as percent of GDP


As we can observe from the dimension of the coloured piles in the figure, the gap between the EU15 and Japan & USA is not decreasing. From 1980 when the difference between the total taxes as percent of GDP was at less than 10 points higher in EU15, in the nineties the gap is almost increasing and is stabilising at 13-14 points percent. The explanation for this consistent difference between the three major economies in the world could be simple but it has different cuttings: in substance it rises the evidence about the different economic models that consolidated in the “liberal” economy in the States, the “social” Europe and the “corporative” Japan.
Analysing in detail the situation of the total tax revenues as percent of the GDP of the various countries in Europe, we will discover that also the European Countries follow different patterns. In the following figure 8, we can delimitate in fact four groups more or less homogeneous (with some exceptions) in which we can classify the different relevance of the state revenues from taxes in comparison with the GDP produced by the country. When counting for the total tax burden, in this case we add to the tax revenues also social security contributions.

**Figure 8 - Total taxes as percent of GDP in the year 2002**


A first group could be identified as the Northern group, composed by Sweden, Denmark, Belgium, Finland, which has the highest share of tax revenues compared with the GDP. The second group is less homogeneous and is composed by the Central West Europe that rage at the average level of 40% of the tax revenues in % of the GDP. The third group is the Southern group (Italy in this case is an exception having the highest percentage) which is normally below the 40%. Now the new countries of the Central Eastern Europe that are positioned
very close to the Southern being below 40%. Ireland and UK are the outsiders. These two countries perform a more liberal economy, their systems are “light” in terms of social protection. The differentiation in Europe is quite relevant: in fact from the lowest (Ireland) where in the year 2002 the total tax revenues of the state was at 29% of the GDP to Sweden, where this percentage is highest in the Europe, being at 51% of the GDP, the distances are considerable. We have moreover to point out that in comparison of the rigid situation in old Europe, the countries of the Central Eastern Europe could be subject to deep transformation, in consideration that they are still in economic transition and that their social sectors are in a deep restructuring. For this it seems difficult, in these terms, to predict the future evolution.

If what we analysed till now is the relevance of the revenues for the state in terms of share of GDP produced, it will be necessary to see the tendency of the trend of the rates applied in particular to the company incomes and the share of the indirect taxation over the total taxes.

In the very recent years we have observed a general decreasing of the real tax rates (calculated over the comparable tax base) in all Europe with a clear strong generalised cutting down of the rates applied in the accession countries. In a report published by the EU Commission and the German Institute ATW – Forschung (2000) the experts have made for the first time an inventory of the effective rates of the different taxation applied in the accession countries of the Central Europe. This has been built up following the pattern of the report published regularly on the inventory of taxes levied in the Member States of the EU15 by the Commission (45). The result of the study is proving that the indirect taxes are playing a larger role in the CEECs countries compared with the share of the same indirect taxes collected in the old EU members to the overall revenues: in the old EU the average of the indirect taxes collected is 32,5% of the overall tax revenues, in contrary the accession countries this proportion is higher (up to 40%)

45. Giannini and Maggiulli (2001) have reviewed the methodological approach related to the calculation of the effective tax rates applied on company taxation in EU in order to discriminate between the eventual harmful effects that could promote different locations of the economic activities in the Member States.
of the total revenues). The opposite for the direct taxation: the collection trends in CEECs show less relevance than in the EU15 average and, what is also relevant, tax rates applied are lower in the CEECs. In fact, according to the mentioned study, in old EU the balanced average was at 31,2% while in the CEECs the rates applied were ranging between a minimum of 19,3% and a maximum of 30%. From this study we like to mention also one additional aspect of this comparison: as regards the social contribution to be calculated over the contract of employment, the study is showing that this specific revenue calculated in percent of the overall tax resources are in average in the old EU at 36,3%. With exception of the Czech Republic that shows an higher proportion (44,2%), the remaining countries of the Central Eastern Europe accumulate for the social contributions in average only 33% of the overall tax revenues (46).

In a recent study of the World Bank, EU-8 Quarterly Economic Report October 2004, conduced with comparing the simple average of the effective tax rates (ETR) (47) in the old and new European Member Countries, the authors display that the EU15 member countries are increasing their ETR from 1995 till the year 2000, meanwhile in the opposite, the new member countries from the Central Eastern Europe have decreased in the same period their ETR rates. Only after year 2000 the ETR rates of the two blocks (CECCS and EU15) seem to converge (even with continuing to apply a considerable gap in the rates). In the following figure 9 we utilise the results of a recent World Bank study to display that the trends of the annual (simple) average ETR rates, from the year 1995 till 2002, inverted the trend tendency. The EU15 countries from 1995 have increased ETR rates meanwhile the EU8 in the same period have decreased ETR rates substantially.

A simple comment to the trends displayed on the above figure: for the countries like the EU8 (newcomers in Europe) that mostly are at the latest stage of the economic transition, but with a strong attempt to restructure the public sector,

46. This information is also confirmed by a study conduced by Diano and Giannella in the *Revue Elargissement* published by MINEFI/DREE (2003).

47. We should distinguish ETR (simple average of the effective tax rates) from EATR (Effective Average Tax Rates), which are calculated as the difference between the pre-tax and post-tax return of the equity capital invested in the corporation divided by the pre-tax return. These returns are derived from the value of the firm at the end of the simulation period.
cuts on the tax rates are possible, even welcome because they improve the ability to reduce consistently the weight of the public sector. The opposite for the consolidated economies of the EU15: increase rates means to fight for keeping the standards of the public budget, maintaining the level of the revenues or even increasing this level. But, as it is well known, there is a limit: the enterprises if the fiscal pressure is too high they will leave the country with a considerable damage for the national economy.

Figure 9 - Trend of the average ETR rates from the year 1995 till the year 2002

Source of data: World bank EU-8 Quarterly Economic Report October 2004, Special Topic: Corporate Income Taxation on FDI in the EU-8 (pag. 8, fig. 4).
Note: EU8 is composed by the 4 countries V4 plus Slovenia and the 3 Baltic Countries.

The only solution in the unified Europe in order to avoid the strong tax competition from one country to another is to harmonise the taxation sector giving, as it seems reasonable, a limited range of decision to the countries participating in the Union to select their own tax rates. With the intent to harmonise the Member State’s tax rules, the EC Treaty made provision for the
Council to adopt directives unanimously (art. 94) and for the Commission and the Council the provision to address certain differences between the original rules in force in the MS that could distort competition (art. 96 and 97, for the so called “enhanced cooperation”). These rules were foreseen to be adopted by the qualified majority. Without taxation policy coordination between the MS the free movement of capital may conducted to a harmful tax distortion. However the EU Commission never had the intention to harmonise completely the taxation systems in Europe. High degree of harmonisation was, and is certainly desirable in the indirect taxes (mainly VAT and excise duties); the free movement of goods and services in the single market requires an harmonisation of the legislation on this field. The art. 93 of the Treaty is expressively providing to avoid distortions of competitions in the indirect taxes. The EU Commission recognised, year ago, that the VAT regime needs still several improvements, it should be simplified, adjourned and proof from possible frauds in order to smoothly perform in the internal market (Commission of the European Commission, 2001c). Improvement in the indirect taxation has followed in more recent years; but as regards the direct taxation little changes has been registered, unfortunately the adopted tax-tools are mostly inefficient and the attempt to introduce a legally binding Code of Conduct is still far from being adopted, however it has some “political” force. The Code of Conduct together with the taxation of savings income, the taxation of interest and royalties and the published guidelines on the application of the State Aid rules form part of the Tax Package adopted partially at the end of the year 2002 (see Commission of the European Commission, *ibidem*). The Code of Conduct was specially introduced in order to detect only such measures which unduly affect the location of business activities in the Community by being targeted merely to non-residents and by providing them with a more favourable tax treatment than that which is generally available in the Member State concerned. For the specific purpose to identify the harmful measures, the Code set out the criteria against which any potentially harmful measures should be tested (Commission of the European Commission, *ibidem*).
4. Company taxation in the internal market: A descriptive analysis

A comprehensive analytical study on company taxation was carried out by the Commission on request of the ECOFIN Council (Commission of the European Commission, 2001c). The study expected to achieve ambitious objectives related to the distinction among the relevant differences on the effective level of corporate taxation in the Member Countries and identifying the main tax provisions that hamper the cross-border economic activity in the Single Market. The possible effects on location of investments of the economic activities have been also investigated according to a factual analysis and a policy assessment. This study was a continuation of the so called the Ruding Report dealing with the same topics related to company taxation that took place in the early 90s by independent experts and in both cases supported by the European Commission. The overall result of the suggested implementation of the recommendations raised by the first study related to the harmonisation of the tax legislation on company taxation was observed to be very poor; little progress has been achieved in this field in the ten years (up to the end of the year 2000) in spite of specific findings and recommendations issued by the Commission to the Member States, however the context for studying company taxation in the EU has since then changed in various ways. For instance one of the points investigated by the study (Commission of the European Commission, ibidem) has consolidated the previsions of the prevalent literature on the concept that taxation has influence to the productivity growth of companies through almost two channels: at first taxation stimulates or de-stimulates the creation of an enterprise and second influences the behaviour in the investments. Empirical studies, still are discordant about to prove a third effect that would consider the influences of different taxation systems to the flows of foreign direct investments in different countries. The recent "Tax Survey" (Commission of the European Commission, 2004) conducted by the European Commission - a study which is regularly repeated in order to update the information of the evolution of the different tax system in Europe - is furthermore highlighting the relevance of different taxation systems as
a factor for investment locations decisions. The result of the mentioned survey suggest that taxation could effect the choice for location of the productions and type of investment in EU. Taxation proves to be a relevant condition that affects decisions on the location of entire production sectors, coordination centres and financial services centres. In case of mergers and acquisitions (M&A) different taxation systems could also influence decisions: we can read in the “Tax Survey” “the estimates show that a majority of firms that merged with, or acquired another business in the EU during the past five years had difficulties regarding capital gain taxes and double taxation” (Commission of the European Commission 2004:6). The compliance with the complex regulatory rules has a unpredictable higher cost for the companies that invest abroad. In order to assess the relevance of the “compliance” costs related to the different legislation in Europe, we consider to propose the results of the survey conduced by the Ruding Committee and published by the (Commission of the European Communities, 2001c - Annex J, 2nd sub-annex, Page 77 ). We selected the questions that, in the questionnaire, are strictly related to the tax “compliance” costs and the tax “planning” costs. The distribution of responses to the “Ruding Committee Survey” about these costs is displayed in the following figure 10.

**Figure 10 - Answers to the selected questions of the “Ruding Committee Survey” on “compliance” and “tax planning” costs**

1) With reference to foreign source income approximately what are the costs incurred by your firm (e.g. tax accounting salaries, fees, etc.) in tax planning and complying with the provision of the domestic tax system? Express such costs as a percentage of the actual income flows net of foreign tax from the foreign sources.
2) With reference to domestic income, approximately what are the corresponding costs of tax planning and compliance with the provisions of the domestic tax system? Express such costs as a percentage of total domestic source income.

3) With reference to foreign sources income, approximately what proportion of income actually received from the foreign sources (including all forms of income net of foreign taxes) is taken in tax by your country of residence?

4) Insofar as it is possible to distinguish between compliance costs and tax planning costs, what proportion of the total costs referred to in question 1) go on tax planning?

5) Insofar as it is possible to distinguish between compliance costs and tax planning costs, what proportion of the total costs referred to in question 2) go on tax planning?


The results of this investigation conducted with interviewing hundred of multinational enterprises that invested in Europe are proving the sensitive aspect of the lack of tax harmonisation in the single market, which is effecting the location of the entrepreneurial activities and finally distorting the competition.
The report is additionally highlighting how the overall economic framework has changed significantly in the early nineties, affected by the increased mobility of factors (mostly capital and labour), by the systematic growing of the services sector, the rise of M&A activities, the growing of “tax heavens”, including the controversial aspect of e-commerce. But mostly, the establishment of the EU single market was causing the decreasing the economic efficiency generating specific compliance costs and contributing to a lack of transparency. This negative assessment, collected by the independent expert panel of the Ruding Survey, (Commission of the European Communities, 2001c) is consequent to the perception of the EU companies that, with the creation of their “home market”, expected to participate to a system where it would be easy to tackle with harmonised taxation. Not at all, the “EU dimension” is proving to be more and more characterised by a variety of legal and economic factors that are specific for every country and affect (often negatively) the experience of the companies investing abroad. The strategie goal of the economic efficiency would conduce to an ideally neutral tax system that is not reallocating investments around EU just because of lower rate of taxation. In theory the extreme effects of the tax competition could, under certain conditions seriously decrease the revenues for the state. In a study Micossi, Parascandolo and Triberti confirm that MNEs are afflicted by «severe conceptual and administrative problems that conduce, especially in the case of integration, to high compliance costs added to uncertainty in defining the tax burden on their activities» (2003: 4). The study is indicating two possible solutions: the first is to use a common agreed consolidated tax base in Europe as a reference on which to calculate, according to some presumptive indicators of activity in each jurisdiction, the amount of taxes. This will guarantee the neutrality of the productive factors and the different forms of corporate financing and, at the same time, to leave clear space for the different attractiveness of each location. The second solution would be drastically abandoning the corporate income tax and taxing the business activity like the company value added, sales or employment. But also this solution does not seems to be affordable: returning to the study (Commission of the European
Communities, 2001c), the experts came to the conclusion that is not possible to precisely quantify the size of tax differentials needed to correct or mitigate market failures. However the complex measure of tax differentials introduced in the study, that does not intend to guarantee "universally valid values", taking in consideration the nominal rate and the effective rate (simulated at pre-tax return of 20%) shows quite large discrepancies among the EU countries. In order to prove the large discrepancies between nominal and effective tax rates in Europe, we have utilised the "Calculation of the Effective Level of Taxation" produced by the Dreverux, M.P. and Lammersen, L. (2002). In the following figure 11 we present the corporate tax rates in the EU15 in the year 1999, calculated according to the nominal and effective rate applied.

**Figure 11 – Corporate Tax Rates (Nominal and Effective in the Year 1999 in EU15**

**Corporate Tax Rates (Nominal and Effective) in the year 1999**

![Graph showing corporate tax rates (nominal and effective) in the year 1999 in EU15](image)

**Source:** Own elaboration based on Devereux and Lammersen “Corporate Taxes and Economic Inefficiency in Europe” (2000: 5)

From the figure we can observe that the relation between the nominal and effective rates is not comparable, we have in fact, in Ireland effective tax rates higher than nominal; while in Greece, Spain and Italy in opposite larger differences with higher nominal rates than the effective ones. The reason for such a different relation between the two rates is depending of a large number of
factors, the calculation of the effective rate as explained in the methodological note of this study can give some reasons for that.

One indicator that is followed mostly by investors relates to the total “tax burden” which summarise the effective rates to be paid including all form of taxation of the entrepreneurial activity. We found a very dispersed literature on this subject that could be quite confusing. Following our intent to describe the different aspects that in Europe affect the possible future harmonisation of the company taxation we have abstracted and indicated some of the conditions that, according to our judgement, could determine obstacles to the fair competition among entrepreneurial locations. The results obtained by the researchers are bearing out that the most relevant tax drivers that influence the tax burdens can be formulated as follows.

- Regarding domestic investments, there is a substantial considerable variation in the effective tax burden faced by the resident investors in EU (even if the EU code tend to address similar forms of investment by assets and sources of financing).

- Different countries’ situations conduce to one specific similar result: it seems that all tax systems in EU tend to favour investments in intangibles and machinery where the debt is the most efficient source for financing (this hypothesis is confirmed by the results of the study “Survey of the Effective Tax Burden in the EU” (Backer and McKenzie 1999).

- The different location of the seat of the companies and the different location of activities of producers competing in the Single Market are strongly affected by this very complex plot of tax regulations: two companies competing in the same market could face different tax rates according to its seats, or vice versa two MNEs established in the same country will be charged by different tax burdens according to a different location, they have, for the production of the same products. Even more complicated is when we consider the taxation due to the repatriation of dividends, when a subsidiary is established in the third county, the existence of credit schemes and exemption tax schemes, etc.
• The different nominal tax rates on profits in the member states are normally self justifying the differences in effective corporate tax rates. This assertion is very important because is simplifying the comparison between different tax systems. It could be considered valid under the condition that we leave aside our comparison eventual preferential tax regimes and in the case we include in the nominal tax rates the statutory tax rates, surcharges and local taxes. (Also in this case the hypothesis is reinforced by the results obtained by the study of Baker and McKenzie (1999), which highlights the importance of the nominal tax rate and considers the different tax bases not much relevant for the selection of the productive location by the companies, leaving in this way higher consideration to the nominal tax rate over the effective tax rate).

• The freedom to choose the most-favourable form of financing is helping more the MNEs operating in the host country than the SMEs located in the domestic country. This is valid, even in the frequent cases, when the local SMEs are favoured by a simplified and supporting tax domestic treatment. This is well known for discouraging domestic SMEs that face the disadvantages in the cross border activities where they are in competition with the largest MNEs.

• The above mentioned problems hamper the cross border economic activities and in the enlarged Union could be even a loss of potential economic welfare that could cause a serious delay in the development of the local SMEs.

Summarising, we can say that the effects of 15 different tax systems in the old Europe are conditioning the international location of companies.

• The choice of the companies in selecting their allocation of profits is done in most cases according to an evaluation on “arms length” and in a case by case basis.

• The member states are reluctant to accord tax relief for losses occurred by associated companies that gained profits outside the scope of their taxing rights.

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• When a MNE is reorganising its cross border activities, it could mean losses for the member state that is supposed to react with rising tax on capital gains and other charges.
• Conflicting tax systems may give occasion of double taxation or non-taxation cases.

Furthermore, as we have seen above, there are large discrepancies between nominal rates and effective rates. The study of Benassy-Quéré, Fontagné, Lahrèche-Révil (2001) besides confirming the described discrepancies, is highlighting that only one country in Europe exceptionally decreased the effective tax rates during the last decade: Ireland.

Analysing tax competition in Europe we need to shortly introduce a parallel policy effect that member states in some cases utilise for attracting foreign and local investors and boost the economic growth in the regions, utilising a public financial (direct or indirect) support granted to the private sector: this is called state aid.

Distortions of competition steaming from the consistency and inequality of treatment between Member States due to the State Aid are governed by the art. 88 of the Treaty. Financial direct or indirect support that confers to the recipients (private business individuals and companies) an advantage which relieves them from charges normally borne in their budgets (like tax holidays) and when this advantage is granted directly by the State or through State resources is called State Aid (48). This form of aid is not allowed by the EU legislation when especially

48. We have several examples of different forms of state aid: according to Lasarte, Javier, 2003, Lo stato della fiscalità nell'Unione Europea, l'esperienza e l'efficacia dell'armonizzazione Ministero dell'economia e delle finanze, Roma giugno 2003: 957-958. «La forma che può assumere l'aiuto è la più varia ... gli esempi delle varie possibili forme di aiuto sono molteplici: cessione di beni pubblici ad un prezzo inferiore al valore di mercato» ed ancora «assegnazioni di appalti e contratti di fornitura di beni o servizi in cui la prima misura potrebbe operare nel senso di creare una riserva nell'aggiudicazione dei contratti a favore di determinati contraenti» od ancora «lo sgravio da oneri fiscali e fiscali verso i quali la prassi passata e corrente della Commissione mostra un'avversione fondata, in termini concettuali, sul fatto che detto genere di misure non aiutando le imprese a recuperare la redditività ma semmai ne prolungano l'agonia», ed infine «le agevolazioni nella riscossione e attenuazione della misura dei contributi previdenziali».
the measure effects competition and trade between Members States and when the measure is specific and/or selective in the way that favours certain undertakings or the production of certain goods (or entire sectors). Consolidate exception is when the measures are open to all economic agents of the EU, a not discriminating measure is, in fact, called General Measure and is not belonging to the provisions of State Aid. In this way any measure from the administration that is not in accordance with the general tax rules of the country in order to benefit one individual entrepreneur or a company leads to a presumption of state aid and, according to the rules settled in the Treaty, shall be analysed in detail by the Commission. Member State concerned will provide a detailed explanation, when notifying to the Commission the justification for such a derogation by the nature or the general scheme of the system. We have, like an accepted exception, a general sets of measures that are considered compatible with the single market; these relay to the general concept of the promotion of the economic development of particular areas. In this case state aid is granted on the basis of a regional criteria. The Commission has the power to ensure that it contributes to regional development, helping to close a real regional handicap and assuring that the measure is examined in a community context. State aid in order to be accepted should prove not to be "operating aid" by means of a continuous tax relief and not intended to promote single projects. The European Commission has conduct nine surveys, each of them regarding a period of three years, in order to monitor the volume and the direction of the state aid granted to the private sector by the member states in Europe (EU15). In absolute terms the volume of the aid to the enterprises remains quite high if we consider that only the manufacturing sector received over 2,3% of the total value added produced in support by the means of state aid (European Commission, 2001b). From this amount, the most relevant part has been transferred to the manufacturing sector for regional proposes (probably in addition to the support coming from Structural Funds). Another indication that is more evident when we calculate the amount of the aid to the enterprises is the correspondent amount granted per employee. This value ranges between a minimum of 188 Euro/employee to a maximum of Euro 1955/per
employee, according to different Member State. The principal regulations adopted by the Commission in order to modernise the rules of state aid are related to the exemptions for aid to SMEs, training aid and with the codification of the application of *de minimis* rule (regulations no. 68, 69 and 70/2001 - OJL10, 13.1.2001).

5. Stability and reliability of the taxation systems in the newcomers’ countries

The strong effort to harmonise the tax legislation of the accession countries in the field of indirect taxation has obtained generally good results already before 1st of May 2004. Unfortunately the harmonisation of the national legislation with the EU *Acquis* is not sufficient to guarantee a timely and correct implementation of the common rules in the enlarged Europe. The accession countries had too short time for experiencing the new rules, for concretising a compatible secondary legislation, for adapting their administrations for the new regulations. When in the chapter 3 we have analysed the comprehensive monitoring reports (Commission of the European Communities, 2003c, 2003d, 2003e, 2003f), we easily discovered that the readiness to implement such a directives and *Acquis* was mostly forced by the deadlines of the accession. We doubt that the newcomer countries at the time of accession were able to possess the necessary reliability for the taxation system that has direct and so important effects to the state budget and the budget of the EU. It seems clear that such an important area of the state administration is a core activity under the full responsibility of the local Governments; but it should be also clear that in order to avoid distortions in the tax competition between the EU25, the stable high performance of this sector should be guaranteed. Several risky areas can be identified if we consider that the administrations in the CEECs are young and inexperienced to deal with the private sector, they have no sufficient experience with the tax audits (in some countries like Slovakia, the tax investigation offices where established in the middle of the year 2003), their staff is also relatively inexperienced and the trainings are just at the starting, etc. Not
speaking, of course, with the high risk of corruption that in this field everybody
knows to be always present (49). Other relevant issue is reflected to the strong
competitive pressure that mostly all the acceding countries are able to conduce in
order to attract investments of productive industries profiting from their attractive
labour costs (wages level and overall wage costs). The existence of a qualified
labour offer, the geometrical accessibility of markets (geographical central
location), the environmental standards to be respected, the overall aptitude of the
governments to play an active role to attract investments are now additionally
supported by a very competitive effective taxation rate. Could it be considered tax
dumping? In any case we have to accept that taxation is one of the determinants of
investment and financing decisions and the pattern of international investment is
increasingly sensible to the cross-border differences in the direct tax rules
including other than corporate tax also personal income taxation of dividends,
interest and capital gains (now regulated by a directive in EU). The tax collection
is affecting the most relevant effect of the state revenues and, as we have seen
above, the amount of revenues is directly effecting the stability of the country’s
is investigating the effects of the tax incentives in attracting FDI in the CEECs.
Besides an interesting map of the diverse incentives adopted by these acceding
countries after the revolution, the study is considering the ratio between tax
revenues and GDP/population for the acceding countries of the V4. This ration is
for Austria at level of 0,02567, for Germany 0,01807, for Czech Republic quite
similar to Germany at 0,01800 but for Hungary at 0,00713 (the lowest in the
region), for Poland at 0,01308. This can give us a way to measure the

49. In a recent study (Lacko 2004) the author is coming to the conclusion, after the empirical
cross-country comparison on OECD and Transition countries, that simple comparison of the
statutory tax rates on economic activities cross-countries may be misleading if we do not take in
account the environment in which they let their impact be felt, «any characterisation of tax rates
according to their nominal size or even in international or time wise comparison is misleading»
(pag. 72). The impact of taxes, in particular as regards the taxation in labour market and of the
enterprises, should be analysed in the context (environment) of the society in which these rates are
set and the revenues are collected and distributed. A new indicator has been developed: the
subjective tax rate (STR). This indicator includes the effect of the tax-equivalent burden of
corruption valuated as $tk = a1(k^* - k)$ where $K^*$ and $k$ are the respectively the maximum of
corruption and the corruption index for the country. The STR is equal to the sum of the tax rate
plus the tax equivalent burden ($tk$) (pag. 11).
effectiveness of the domestic industrial policy (lower competitiveness of the domestic industry) and the preferences for the imports. The cross border effects of the introduction of tax incentives in Poland, for example, have probably caused stagnation of the inflow of the FDI in Hungary procuring a cross border effect in the FDI in the region. We agree with the conclusions of the Sedmihradsky and Klazar study, which is confirming on the basis of a correlation analysis on the cross country effect of the tax incentives (intergovernmental competition) that especially in the case of symmetric countries the theory of tax competition is justified (2001). In case of asymmetry the size of the country is determinant in fact the largest one has a competitive advantage due to the larger market, according to the mentioned authors. The tax factor plays a minor role in that case, even if it would be difficult to accept that the dimension of the market plays such an important part on this game.

The interpretation of the dictate of the “harmful competition” in the taxation systems is undoubtedly subjective when is linked to the conditions like relevant lower real tax rate, tax rate equal to zero, etc. During the recent past the very low tax rate of Ireland has suggested a case of tax dumping. If Europe in future will decide for higher tax harmonisation, for a more impulsive tax competition or whether for a situation that will exasperate the taxation systems of its Member Countries with dumping measures is not possible to predict in advance. The recent cases of Slovakia, Hungary and Austria are going to the direction to lower additionally the overall tax burden for the company taxation. It is too early for giving a serious judgement on the results. But if it will be true what currently seems an increase of the state revenues (the case of Slovakia is based on the first quarter after application of the Flat Tax rate for the VAT and for the corporate taxes at 19%). The harmonisation could be the result of some convergence on the effective rates that according to the actual climate of competition have been reduced correspondently in several countries. The conclusions of the study conducted by Benassy-Quéré, Fontagné, Lahrèche-Révil (2000), is proving that investments from Japan and United States will be indifferent to the level of corporate taxes in Europe because investors of these countries are eligible for a credit
scheme on the benefits of their foreign subsidiaries (that means they are refunded for taxes paid abroad). But in the position of host countries, Japan and US are sensitive to corporate taxes in Europe in fact this study is proving that if EU will reduce rates the inward investment in Japan and US will lose over 2 billion US$ (the case is evaluated as result of the race to bottom of the rates in EU).

The tax harmonisation in Europe, as it is proved, will have no impact on the investments nor in the internal market nor in the mentioned countries. There is a second result that the mentioned study is validating, following a simulation that tax competition in EU will bring a substantial loss in tax revenues for all the member states; but, in the same time, it should be expected a correspondent benefit in inward FDI. Of course the distribution of losses and gains is different country by country and depending if the case of harmonisation of nominal rates or of effective rates. Ireland would be suffering from competition or harmonisation of nominal rates, Spain and Germany from effective rates. Finally, what seems more valuable, harmonising tax schemes would have more impact than harmonising tax rates for the EU internal market. Adopting a common exemption scheme will increase the FDI in the single market because some countries, like the case of UK and investors from third countries will get an incentive to invest abroad.

The most recent situation in the V4 can be described starting from the country that provides the lowest (actually) nominal tax rate to the corporate tax, Hungary, with 18% rate. This country has introduced since 1995 this favourable rate that is accompanied by the withholding tax on dividends, which in most cases where the convention on double taxation is applying it accounts for 5%. Since 1998 the investor that guarantee an investment of more than 10 billion HUF (around 50 million Euro) in the defined less developed areas of the country, is eligible of 10 years tax holiday (the law applies till 2011) at the condition that the investment creates new 500 working places and the turnover of the company grows at the last of 5% per year. Besides the mentioned tax holiday the company can always benefit from incentives in small scale investment and retraining of

50. Information on the conditions applied to the tax on corporate entities is deducted from the web sites of the Ministries of Finances of the four analysed countries. From the literature analysed we have the obligation to mention the study of Jarass and Obermair (2000).
labour forces (facilities normally accepted by the norms of state aid in EU). In Hungary still exist some special economic zones, which were created in regions with high unemployment. In these zones, the tax incentive is granted for 5 year tax holiday and there is quite low limitation for the plafond of the minimum investment required to benefit from the incentives, Hungary is one of the few countries to provide a specific legislation in favour of the “offshore companies”.

In Slovakia, from the year 1998 under pressure from the Ministry of Economy, the Parliament has passed a law that guarantied a tax credit to the companies investing in the country in specific activities. This law was reiterated in the year 2000 giving the opportunity to the companies increasing own capital contributing with fresh cash for a value of more than 5 million Euro and proving that saved money has been utilised for the purchase of assets to improve the business activity. This benefit was valid only for companies owned by foreign investors with at least 75% of foreign capital. This regulation was withdrawn by the current government in application of the Code of Conduct (Primarolo Group, 2000) from the Commission Services that is giving pressure to the potential harmful tax measures(51). The introduction of a flat tax rate of 19% and a substantial fiscal reform from 1st January 2004 has proved that Slovakia’s basic philosophy is to

51. The screening according to the Code of Conduct applied to Slovakia and dated 15/5/2002 has indicated as potentially harmful the tax measures listed in Annex 3 of the document “Initial Technical Assessment” issued by the Commission Services. Under the Measure 1 - 10 years tax holiday for foreign owned companies, under Measure 2 - Tax exemptions for newly started companies, Measure 3 - 100% corporate income tax credits for foreign, Measure 4 - 100% corporate income tax credits for foreign investors (first amendment), Measure 5 - 100% corporate income tax credits for foreign investors (second amendment), Measure 6 - Other measures - were found “Significantly lower level of taxation, tax measures which provide for a significantly lower effective level of taxation, including zero taxation, than those level that generally apply to the member states in question are to be regarded as potentially harmful and therefore covered by this (i.e. mentioned Code of Conduct) code. The main criteria indicated by the document are related to “whether advantages are accorded only to non residents or in respect of transactions carried out with non-residents”, whether advantages are “ring-fenced” from the domestic market, so they do not affect the national tax base”, “whether advantages are granted even without any real economic activity and substantial economic presence within the member state offering such advantages”, “whether the rule for profit determination in respect of activities within a multinational group of companies departs from internationally accepted principles, notably the rules agreed upon within the OECD”, “whether the tax measures lack transparency, including where legal provisions are relaxed at administrative level in a non-transparent way”, “without prejudice to the respective spheres of competence to the member states and the Community this code of conduct which covers business taxation concerns those measures which affect, or may affect, in a significant way the location of business activity in the Community”.

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have a “light, non “distorsive”, simple and transparent tax system with the intent to create business and investment friendly environment for both individuals and companies, eliminate existing weakness and inefficiencies in the tax law, achieve the highest possible degree of tax fairness by taxing all types and all amounts of income equally, shift the tax burden from direct to indirect taxes and finally eliminate “distorsive” roles of tax policy as instruments for achieving non fiscal-goals”(52). The income tax rate, corporate income tax rate and value added taxes in the new system have a unified rate at 19%, in the new system there are no exceptions, exemptions and special regimes for the calculation of the personal and the corporate income tax base, no special taxes and rates for other taxes. The reform has also eliminated the most forms of double taxation of income like the dividend tax, inheritance tax, gift tax and real estate transfer tax (the last one only as of the beginning of 2005 year).

Due to the effect combined by corporate tax and dividend tax (exempted in Slovakia), the tax rates faced by investors in Slovakia are the most attractive in the region of V4.

In Poland, already from the communist time there was a large number of foreign direct investment in the country; in fact the first legislation protecting the foreign investments was issued in the year 1976 and in 1983 the joint ventures with foreign investors were exempt from direct taxation for two years after the constitution. This law was amended in the 1988 giving additionally opportunity to the joint ventures with at least 20% of foreign capital to benefit from tax holidays from three to six years exemption. The concept of the exemption from direct taxation was matter of change in 1991 when the new government decide to amend the tax credit for a tax liability equal to the invested capital while the total new investment introduced in the country is proved to be over 2 million Euro. In a situation where the high state authorities had the possibility to judge utilising non transparent criteria for allowing such a huge benefits, the investment finally were addressed to some of the less developed regions according to the level of unemployment, the percent of the exports, the new technologies introduced in the

52. Paper of Miklos Ivan, Minister of Finance (2004).
production and other secondary criteria. Two years later also this legislation was changed reducing most of the benefits to investors. A new concept of incentives to the private investments was introduced some years later till 1997 regarding the 19 Special Economic Zones established in regions with high unemployment and low developed. Investments in these zones give the right to the investors of a different schemes concerning tax advantages. At first the privilege is assured to the entrepreneurs that develop their business exclusively in the zone, it is consisting of tax exemption of income tax up to the invested amount. An additional reduction of income tax is calculated at 100% for each of 10 people employed and up to a different plafond of the total incomes (in some of the special zones is at 100% of incomes), and finally an exemption up to 50% of the income according to the produced goods and services exported. Under pressure from the European Commission no more zones were established and all the state aid has to be in line with the association agreement and no more incentives in the special economic zones could be granted. The Czech Republic was initially reluctant to introduce tax holidays and tax incentives for attracting FDI and boosting the internal economic growth. This because the government considered the good chances of the country to furnish to the foreign investors well educated labour forces and good infrastructure (but, in consideration to the low unemployment rate from the beginning of the 90s, a limited availability of workers). In the year 2000 the government decided to introduce new investment incentives having lost part of the competitive advantage accumulated in the previous years. The scheme that compose such a investment incentive is comprising reduction of income tax, grants to the municipalities that invest in new infrastructures and grants for the newly created jobs and support for retraining the employees. The eligibility criteria for accessing the incentives are multiple and quite restrictive: they start from a minimum amount of investment, the restriction of the sectors - that in general comprise all the manufacturing products - the level of regional unemployment, etc. But the incentives are quite generous especially in the case of green investment with a reduction of the actual tax on corporation for 100% in ten years. Imports of machinery for the purposes of increasing the production is
exempt from import duties, but the owner should prove to keep the property for five years with equipment not older than one year.

Beside all the incentives that we have just analysed, the four countries of Visegrad they are running in a strong competition for attracting new investments. As we have seen in the statistical data on FDI in the chapter 5, the importance to have a large productive sector in their countries is considered first priority by the actual governments, conscious that the time for achieving stable results in this matter cannot be delayed over time. Additionally and in the way of reinforcing these policies for attracting new foreign capitals, these countries reducing the tax rates applied to the company taxation and corporate taxes. We have found in the web sites of the ministries of finances of the V4 countries the recent data regarding the nominal tax rates applied in their countries. In the table 16 here below we are presenting the recent data published by the respective Ministries of Finance of the V4 region regarding the trend of the nominal tax rates from the year 1996 till 2004.

### Table 16 - Effective and Nominal tax Rates accordingly to the Ministries of Finance in the V4

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>PL nominal</td>
<td>40,0</td>
<td>36,0</td>
<td>30,0</td>
<td>28,0</td>
<td>19,0</td>
<td>▼</td>
</tr>
<tr>
<td>CZ nominal</td>
<td>39,0</td>
<td>35,0</td>
<td>31,0</td>
<td>31,0</td>
<td>28,0</td>
<td>▼</td>
</tr>
<tr>
<td>SK nominal</td>
<td>40,0</td>
<td>40,0</td>
<td>29,0</td>
<td>25,0</td>
<td>19,0</td>
<td>▼</td>
</tr>
<tr>
<td>HU nominal</td>
<td>19,6</td>
<td>19,6</td>
<td>19,6</td>
<td>19,6</td>
<td>17,7</td>
<td>▼</td>
</tr>
</tbody>
</table>

Source of data: Web pages of the Ministry of Finance of the V4 countries.

The general trend of the tax rates in the four countries is substantially decreasing. Besides Hungary that decided a drastic cut of the rates in the beginning of 90s, the other countries started more recently, the actual level in 2004 is the lowest in EU (besides Ireland).
6. National tax policy and state budget, why the old EU cannot compete with the new Europe?

Thurow (1997: 238) is arguing that developed economies of EU are bounded by the respect of the Maastricht criteria and by the public welfare they created in the past. The level of the public debt is in general overcoming the threshold of the stability pact and the restructuring of the public budget is far from being adopted. The limitation that affect every attempt to drastically address a new reform in this field has several names and different supporters: social solidarity, trade unions, politically accepted or politically correct, etc. The EU tradition is, generally speaking, in favour of a social economy that has proved to be expansive till the times when the economic growth was supported by the introduction of new technologies, by the limited cost of the factors and in general by the competitiveness of the production and by the growing support of the services. The old EU economies in recent years grew, when some increase of the GDP can be proved, by a few percentage points. The remedy is not easy to find, there is no other solution than combine an expansive Keynesian policy (increasing public spending) with restructuring of the public debt (namely the pension sector), keeping the public deficit at acceptable level. In this frame cutting the tax rates will be very hard risk. «No government in the old Europe is able to diminish the tax or increase the public spending during stagnant phases in order to fight the recession suffering from enormous structural unbalances of the state budget» Thurow (1997: 347). When the government will be trying to do so during a recession, the voters will force to maintain such a temporary manoeuvre as definitive. Additionally the increase of public budget spending should be based on a long term increase of the taxation. The effect of that might be undesirable under the economic profile and not realizable under the political profile. Increasing taxes is never an easy decision, in this way the governments are kept in a fiscal circle that hinders from solving the state budget deficits. The only exception could be represented by the biggest economies in the world, however no country is able to realize monetary and fiscal policies that are autonomous at national level, because of the effect of the globalisation.
We take the case of UK as serious example: Gordon Brown, Chancellor of the Exchequer in the Blair Government is admitting that the fiscal withdrawal in percent of the GDP in UK is growing and is approaching the level of other member states of old EU, somewhere in average to 41%, while the competitive economy, the US is just at 29% of GDP. In 2003 France tax revenues are at 45% of GDP, in Germany around 40%, in Italy at 42%, 46% in Belgium, 47% in Finland, 54% in Sweden, etc. (according to OECD, 2004b). Policy makers in Europe generally consider that cutting tax rates is not a primary target of the expansion economic policy as it is considered in the USA. We argue that the curve of Laffer doesn’t work properly. The curve of Laffer (53), according to some economists, proves that under certain conditions over 1/3 of the GDP, tax charges in the economy provoke the disaffection of the entrepreneurs. In any case this depends of several factors and is not sure that is valid for economies that are just in transition. Only concrete real cases can prove ex-post this assumption. It seems possible that states of the new Europe, mainly the CEECs, they are able to cut direct tax rates, because of the different conditions of their economies. The average of the tax revenues in the public budget for Hungary, Slovakia, Czech Republic and Poland is not higher then 22, 23% when, as we have seen above, in the western countries is 30% to 50% higher.

We can come to the conclusive assertion that competition is a good thing but competition needs to be regulated. The effect of tax competition in a enlarged Europe could increase the instability of the system reflecting social tensions and unfair competition in the economic sector. The economies of the two blocks (old and new Europe) are not fully synchronised yet and the growth rate of the acceding countries is expected to be several times faster than in the old Europe and the tax systems in enlarged Europe are far from being harmonised. We should consider that the competition is based not only over the tax rates but also to ability

53. The Laffer curve shows how tax rates and tax revenues are related. Initially growing tax rates would increase revenue, but after some point, further increase in tax rates would reverse the revenues. The effect could be simplified on the fact that high tax rates discouraging people for additional work effort or encouraging them to hide their income. The curve is the icon of the supply-side economics supporters.
of the tax administrations to force taxpayers to comply with the home tax legislation, to the preparedness of institutions in the new member states to implement the new rules recently adopted regarding the indirect taxation.

As we have seen till now, member states of the Union and in particular the newcomers from the central and east EU seem very reluctant to accept to introduce new steps towards the harmonisation of the fiscal systems related to the direct taxation of the enterprises and they oppose the attempts, several times expressed by the European Commission, having the intent to regulate the competition between member states in this field. In this sense local governments defend their rights to guarantee the freedom in deciding the fiscal manoeuvre. While it arises a doubt about how the citizens of these countries would react, what will be their attitude towards an overtake (that could be also partial) of the national authority in favour of the European Union in terms of taxation. In order to give answer to this question we intend to utilise a recent Eurobarometer survey conducted in the countries of the Central East Europe on the behaviour of the taxpayers, in particular of taxpayers from V4 countries, about the harmonised taxation to be paid directly to the Union. To develop this item we utilise the results of a specific questionnaire submitted to the representative sample of taxpayers in the accession countries produced by Eurobarometer 2003.4. The taxpayers in the candidate countries (in the time of the interviews they were still in this position), they declared not to be very supportive in order to pay directly to the EU part of their income tax. The specific question that was addressed to the CEEC's citizens was the following: «At present, each member state passes to the European Union a part of its tax revenues. Would you prefer to pay this contribution directly to the European Union, or not?». We have elaborated the following figure 12 as result of the answers of the representative sample of interviewed citizens. There is practically no country that is considering most appealing the pay directly to Europe part of the taxation; the preference therefore is going, as it functions now, for a taxation imposed directly by the own country.
We can learn additionally from the results of the survey that the greatest opposition to the European tax is among from the self-employed people (47%), people above 40 years age (44%) and people with the lowest education (43%). Managers and unemployed people are little less against, respectively 42% and 40%. But, the attitude in the old EU15 countries on the same subject is going even worst: in fact considering the average of the answers in the 15 countries, against of the EU tax is 54% of the interviewed representative sample and in favour just a small minority (21%).

In conclusion we can say that weak tax collection systems in the new accession countries, incapability to guarantee independent and efficient tax audits and with difficulties to foresee and to plan the amount of state revenues due to lack of consolidated experiences and somewhere unavailable or unreliable national statistics, could frustrate the attempt of the administrations of these new states to reach the performances requested by the state budget in particularly under the restrictions of the growth and stability pact. The different levels of tax burdens for the companies could effect not only the revenues of the public sector but also the location of the foreign investments.
Tax competition being a political choice, as we have already seen, it marks the route of the local governments distinguishing according to the political colour the effectiveness of economy and definitively the welfare of the country. In future, the biggest problem will be to guarantee compatibility to the concept of subsidiarity in Europe, in particular in the case when the newcomers compete with very low tax rates attracting investments in the meantime that the developed economies of the old Europe should contribute paying higher taxation rates that are collected also for being delivered afterwards by means of the structural and cohesion funds and finally deployed in large measure to the less developed acceding regions. These countries could play additionally attracting investments with state aid directly through public investments in infrastructures and indirectly through tax holidays and tax relief in favour of the international investors.

The introduction in the acceding countries of the rules for an harmonised application of the taxes seems not to have a successful result, the case of a strong competition between tax rates in the single market (Hungary and Slovakia proved already to apply the one of the lowest tax rates in the continent) is increasing the risk of jeopardising the equilibrium of the overall economic development in the Union. As we have seen the two blocks, old and new countries in Europe, being in the date of accession in very different starting positions, are effected by a common tax policy that risk to distress in the medium-long term the conditions for a convergence of their economies. With the dictates on competitive tax rates and strong public support to foreign investments, the acceding countries impose on the old Europe a new fair play in the matter of taxation total strange in the previous time in Europe, that is proving once more the feebleness of the Union in regulating the competition and the discordance in the application of the common rules.

This study is proving that this competition already started and includes all ingredients for being disruptive of the former balanced equilibrium of the EU15. It confirms also that the unfair competition will contribute to increase losses on tax revenues adding more chances to the social instability to the old block of EU, suffering already from a currency, too strong, the EU15 countries are forced to
enter to the tax competition with the new Europe. Reducing taxes in the new member states from central and eastern Europe increases the chances to attract foreign investment and to keep for a relative longer time the productions in their countries as combined effect of maintaining lower the cost of productive factors, increasing the potential of the internal consumption and, probably not the least effect, of increasing the tax compliance with a final positive balance for the overall tax revenues in the country.
1. Introduction

In chapter 8 (Growth Policies versus Social Europe: critical analysis of the prevalent models) of the third part of the study we entered in the thematic area related to the "different forms of capitalistic models in Europe"; as a result of the SWOT analysis and the analysis of the weaknesses in the absorption of the Acquis Communautaire, through the relation between these two results we have selected the "sensitive area" of the social model growth.

In Europe consolidated in the past different models of social state that in some way correspond to diversified models of capitalism. The new member countries from Central and Easter Europe that bring together several years of the old Communist system, have a diversified approach to the social state: some of them just from the beginning of the revolution have reformed very deeply their model, others have still difficulty to change because they find an internal resistance towards the transformations and react with a certain apathy every form of changes. The state intervention in some of the social sectors is essential for the correct functioning of the society and the economic progress. In the emphasis of the reforming process some governments of the V4 countries enclose economic policies very much liberalistic far from being in the tradition of the old Europe.

In this way they propose a negative competition internally to the Union advancing not only the "tax dumping" - which we have analysed in the previous chapter 6 - but also the "social dumping". Countries in the old Europe that
participate to the Euro area are moreover linked with the stability and growth pact. In this way their growth policies are forced to respect the constraints of the public debt and the raise of the public deficit that could have supported the growth stimulus.

Inevitably these days the V4 countries are united against the proposals of Germans, Italians and French for revising the Stability and Growth Pact, in consideration that for the moment they are not in the club of countries that have to respect strictly this Pact, in fact they are free for the moment to apply strictly these conditions and they play with public deficits more higher than the 3% on GDP as it is expected from the Western Countries.

The European Head of States in the year 2000 in Lisbon decided to embrace a growth objective very precise and determined: in the year 2010 Europe shall become the most advanced of the areas in the entire world both as economic growth than the IT technologies. Where are the abilities of the new countries to give the necessary support to the old group in order to meet this objective? Our study try to give an answer to these questions well conscious that, as it will described in the last paragraph no. 5 of this chapter, will not always be easy to pursue the efficiency (the economic performance) and, in the same time, to guarantee the social equality (social state). Some of the citizens of the Visegrad 4 countries have already experienced how the old Communist system has been not able to guarantee the economic efficiency, meanwhile the new system where they live now, is in difficulty to guarantee possibly the social egalitarianism.

2. Methodological note

Chapter 8 deals with several main concepts that can be identified as:

- Social assistance from the state
- Economic growth
- Technological process
- Environmental protection
These concepts can be observed in view of several dimensions they have realised in the daily basis of our social and economic life:

<table>
<thead>
<tr>
<th>Social assistance from the state</th>
<th>Economic growth</th>
<th>Technological process</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Health care sector</td>
<td>E) Gross Domestic Product (GDP)</td>
<td>M) Labour productivity</td>
</tr>
<tr>
<td>B) Pension support</td>
<td>F) Investments</td>
<td>N) Employment</td>
</tr>
<tr>
<td>C) Support to unemployed people</td>
<td>G) Consumption and Price Level</td>
<td>O) Energy consumption</td>
</tr>
<tr>
<td>D1) Vocational training to workers</td>
<td>H) Expenditures from the state budget</td>
<td>P) Volume of Transport</td>
</tr>
<tr>
<td>D2) Educational attainment</td>
<td>I) Fiscal balance</td>
<td>Q) Gas emissions</td>
</tr>
<tr>
<td></td>
<td>L) Total Debt</td>
<td>R) R&amp;D Expenditures</td>
</tr>
</tbody>
</table>

We started our analysis with the description of the different social models prevailing in the old EU15 countries and we found that three or four different patterns could be identified in which the state intervention in favour of the citizens welfare is largely differentiated. At first we had to give an answer to the question: how much the individual countries in old Europe and in the newcomers of the Visegrad 4 spend from their budget for social welfare? We found as available indicators for the mentioned dimension (H), what follows:

- general governmental expenditure as % of GDP in EU15 and 3 CEEC Countries (Czech Republic, Slovakia and Hungary);
- expenditures on social protection as % of GDP in the EU15 countries;
- expenditures on social protection as % of the GDP in the V4;
- total health expenditure as % of the GDP in EU15 and V4 for the year 2000.

From the shortcomings evidenced by the result of the first analysis, we addresses our attention to the questions of public balance stability and mostly to the margin of manoeuvre that the two blocks have after respecting the provisions of the stability and growth pact, taking into consideration the accrued public debt. The focus of our analysis has been over the dimensions of the GDP (E), the fiscal balance (I), the total debt (L) and the general government expenditures from the state budget (H); the following indicators have been utilised:

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• trends of GDP growth in the V4 (E);
• convergence indicator and GDP growth in the V4 (E);
• fiscal balance dynamics in the V4 (I);
• deficit and debt ratios according to the Commission Opinion of excessive deficits documents (I and L);
• trend of the General Government Balance as % of GDP (I);
• trend of General Public Debt as % of GDP (L);
• convergence process in the V4 (E);
• forecast of the general government expenditures as percent of the GDP in the V4 (H).

Finally analysing the structural indicators foreseen by the Lisbon agenda, we are going to observe that the challenges the V4 countries are facing are even more requesting than simple assurance of the public finances viability or the improvement of labour productivity. It is foreseen in fact to foster the growth process and catching up with the more developed countries of the old Europe within a strict time limit. As a basis for our analysis we utilised the indicators described by two surveys published annually by the European Commission - Report from the Commission to the European Spring Council titled “Delivering Lisbon Reforms from the Enlarged Union”, (2004c) and by the Blanke and Lopez-Claros “The Lisbon Review 2004. An assessment of policies and reforms in Europe” (2004, World Economic Forum). The indicators utilised by the two surveys are grouped according to the different approach and they are identified with:
• performance of the EU15 members according to the structural indicators adopted by the EU Commission;
• rank and scores of the Lisbon Review 2004 in the EU15, V4 and comparison with the USA.

The indicators here below refer to the following dimension as in the table above:
E) Gross Domestic Product (GDP);
M) Labour productivity;
N) Employment:
D2) Educational attainment;
R) R&D Expenditures;
G) Consumption and Price Level;
Q) Gases emissions;
O) Energy consumption;
P) Volume of Transport.

Here is the list of the “Performance of the EU15 members according to the structural indicators adopted by the EU Commission”:

- GDP pro capita in PPS;
- Labour productivity;
- Employment rate;
- Employment rate of older workers;
- Educational Attainment
- R&D Expenditures in % of GDP;
- Business Investment in % of GDP;
- Comparative price levels;
- At-risk-of poverty rates;
- Long term unemployment;
- Dispersion of regional employment rates;
- Greenhouse gases emissions;
- Energy intensity of the economy;
- Volume of transport.

The study produced by Blanke and Lopez-Claros, (2004) does not present precise indicators and the methodology followed. We know instead the 8 dimensions they evaluated:

1. to create an information society for all;
2. to develop an European area for innovation, research and development;
3. to pursue the liberalisation in order to complete the single market, to limit the state aid and to enhance the competition policy;
4. to improve the specific industries networking like in the telecommunication sector and in the utilities and transportation;
5. to create the environment for an efficient and integrated European financial services sector;
6. to improve the environment of the private enterprise, supportive for the business start-ups, and an efficient regulatory framework;
7. to increase the social inclusion by lowering the unemployment, upgrading skills and modernising the social protection;
8. to enhance the “sustainable” development.

In performing this analysis we utilised simple statistical elaborations operated on the following official sources:

- GVG – Gesellschaft für Versicherungswissenschaft und-Gestaltung e.V. “Study on social protection systems in the 13 candidate countries”, 2003;
- World Health Organisation, European Health Report, 2002;
- Eurostat, Theme I, “Eurostat Yearbook 2004” for data on real GDP growth rates at constant prices, 2004;
- Deutche Bank Research, “EU Monitor Reports on European Integration, (2004);
- Eurostat, Theme I, “Eurostat Yearbook 2004” for data on General Government Balance as percent of GDP (2004);
- Antczak, M. “Do acceding countries need higher fiscal deficits?”CASE (Centre for Social and Economic Research, 2003)
For the elaboration of the trend of frequencies we have utilised the Excel software of Microsoft and for the graphic representation we had recourse at bar diagrams.

3. Social models in the enlarged Europe

The European social policy is quite a large area covering from free movement of labour forces and social security for emigrants to the equal treatment between men and women, labour law, working conditions and health and safety at work, public health programmes, aged people, poverty and social exclusion, last privileged people like, disabled employment, vocational training especially for young and unemployed people and social protection.

Colin Crouch (2001) has found that in Europe coexist different models of social states with quite deep differences, the eventual similitude in the social models are valid for a limited area of the sub-continent. He is individuating a large generalisation that is containing a sort of “European Identity” that could be defined as a diversity that could be defined ordained limited and structured in contraposition of the American diversity that he would call pluralistic and disarticulated.

Despite the fact that every member state has its own social security legislation and labour market policy, according to the doctrine, we can classify the different systems in several main groups. These groups, according to the classification proposed by Esping-Anderson (1990 and 2002) are divided in Liberal Welfare State, Social-Democratic Welfare State and Corporatist Welfare State (Conservative).

The theoretical aspects of this last author is based on the process of “decommodification” of the worker - intended as a worker with a price - in relation to the three theoretical welfare regimes and social policies developed by the advanced capitalist nations. The worker therefore will act in order to receive the best price for his/her resources and skills but trying to be guaranteed that is not get passed over in favour of a better offer. But in reality as we know the labour
market is far from being balanced and stable; the worker is not able to retain from participate for long time without appealing to other alternative means of subsistence. This concept of “stability” determines the inability of the worker to exercise the freedom of choices and, due to the lack of financial means for the survival, the humanistic element of the welfare is emerging.

The three categories above mentioned are located geographically in areas well defined. Other authors (Boeri 2002 and Delsen 2002) use a different categorisation: Anglo-Saxon, Scandinavian or Nordic, Continental and Southern Europe. The first group, Liberal Welfare States or Anglo-Saxon are represented by the United Kingdom and Ireland. These countries present quite a fair limited collective provisions targeted particularly to the citizens that have no other alternative to meet their needs, largest groups of people better provided have to cover their risks with private arrangements or employed benefits provided by their company. When the State is supportive he will do through special supporting schemes on the taxation system.

The second group, Social Democratic Welfare State or Scandinavian or Nordic include Denmark, Sweden and Finland. These three countries have socio-economic systems based on the tendency to reduce the income differentials of their citizens and to universalise the social security systems to everybody giving large space to all kind of coverage of social risks. In general, this is done in such a way that the conditions for acceding to the social support are very generous and with large benefits. Of course the main condition for such a system is to guarantee the full employment; facilitations are provided in order to improve the participation of the unemployed, incapacitated and mostly to the women with special schemes. The third group according to Esping-Anderson (1990) is named the “corporatist welfare states” that include Germany, Austria, France and Belgium where the state support is mainly targeted to specific occupational groups with differentiated supporting schemes. The social costs are changed in different way according to the different corporations with the benefits mostly following for the same different channels. For instance the civil servants are always considered a category “a part” being the preferred group because of their
links with the state. As consequence the consequential relation between the paid contributions and the received benefits is increasingly higher than in other group of welfare states. Several are the hybrid cases, in particular other authors include Boeri (2002) and Delsen (2002) the Mediterranean group (Greece, Portugal, Spain and Italy) where there is no clear safety programmes in form of a package of benefits equalised and balanced. Patronage and clientele are dominating social environment and, especially for Italy, the system of pensions is quite generous as effect of the gains acquired by the local politicians in promising good pension provisions. The question that can be raised in this time is whether the different systems are converging and, in consideration that a clear answer could be not, Boeri (2002: 2) is «arguing about the scope of competition among the different restrictions that should be imposed on competition among the different social security systems and the role that the EU supra national authorities may play in this context». The aspects of negative and positive policy competition are interfering with the form of integration that is prevailing in EU. This integration that is leaded by a “market making” process (Scharpf 2001) removing of national regulations, custom barriers, etc. is characterised to be a form of negative integration because it «restricts the freedom of the member states and does not involve the transfer of power to a supranational level» (Delsen 2002: 7).

The new member countries, having experienced in the past a very different model of state, they were forced to accept and introduce in their legislation the Acquis Communautaire, a complex of more than 97.000 Rules and regulations issued by European Institutions in order to regulate the market in Europe. This contributed strongly to restrict the process of liberalisation of the newly acceding countries and many of their comparative advantage being seriously restricted. We refer to the way how “each new member of Europe must implement and enforce European Law, which includes key areas of social policy such as limits on working time, minimum standard of safety in the workplaces, gender equality and
other measures to combat discriminations. Thus a risk of social dumping will be avoided" according to the statement of the European Commission (54).

Some authors affirm that protectionist measures in Europe are still limiting the economic prosperity and the liberal economic policies. In particular social rights are quite often disguised and there are several attempts to protect high-cost producers in highly regulated countries with unsustainable welfare standard that are often against cheaper labour in more productive countries. The accession to the EU of a large number of countries from central, eastern and south Europe is conditioning trough a negative integration (prefigured by pulling down the obstacles to the trade freedom) (55) otherwise concretised by the demolition of the administrative structures highly specific in favour of the structures that are much closer to the markets (Crouch 2001: 518-519) - a form of Americanisation of the model with a capitalistic model much more dependent to the finance - that are in conflict with all themes of fiscal and social policy of the member states contrasting with important elements of the integration process in Europe.

Different considerations are coming from the European Commission that, as we have seen in the previous chapters, have monitored and evaluated the regular reports of the last years before the accession the status of the institution building in the accession countries. The results achieved by the accession countries and described in the reports reflecting this complex activity of monitoring has been accepted by the Council and agreed by the governments of the Europe before May 2004.

Social protection systems have experienced in the former Communist Countries (Visegrad four) significant reforms in the 90s and more recently years. These reforms have been forced by the changing ideologies and different orientations in these countries due to the privatisation process and partially to the changing needs and challenges of the mentioned states from the time they

55. «Abbiamo visto recentemente in molti paesi europei ex-comunisti la punizione ai governi che hanno impoverito troppo violentemente e senza protezione di welfare state adeguati i ceti più poveri e indifesi della società», Gasparini 2004: 2.
participate in the European Union. We envisage a social security gap between the old member countries and the new ones. The results of the reforms in the main social critical areas like pension and health care systems are impacting in this time with the constraints of the economic growth developments guided by the governments and the strict requirements of the Stability and Growth Pact of the Union. The difference in social expenditures are increasing. It could be expected, as consequence, that the social “landscape” of the Union will be affected by the enlargement.

The pension reforms in the V4 countries started just in 1998, 1999 in Hungary and Poland, while Slovakia is currently by the way. These three countries have adopted a new mandatory model that is based in the introduction of capital funding in the old-age security system in order to help coping with the impact of the foreseen demographic development - ageing of the population is expected to proceed quite rapidly. The capital founded pension scheme is based on a functional national capital market where banks are active in the financial sphere and the regulatory and supervision authority prevent from capital market crisis and misleading in the management of the funds. The risk of mismanagement of the funds is not the only risk in this kind of operations: rising the individual control in order to limitate the tax avoidance and to assure the employer contribution compliance is another important issue that is affecting the success of the reforms. The combination between first (compulsory) and second pillar of the pension reform is already in advanced stage. Czech Republic has found a different direction initiating to restructure the public pension scheme reforming the first pillar by strengthening the link of the contribution benefits and rising the age for retirement. To rise the age of retirement is still in all the new acceding countries one issue of a particular sensitivity: in fact before the reform the age of retirement was quite low and this was hurting with then rising unemployment and low possibility to find a new job for aged people. The question remains to see whether the new systems will met the intended expectations, whether (they) will be able to cope with the future financial challenges and at the same time to

The reforms in health care systems are reconstructed over decentralisation and very often privatisation or newly created local entities. The model that foresees an independent non-state regional health insurance body is based in principle to the “Bismarkian” model that was implemented in the V4 countries from the beginning of the 90s and also for Poland later on. This corresponds to the traditional Austrian Hungarian national health insurance fund that should be almost partially independent from the Government even if the funding is mixed, provided often by the taxation, social insurance contributions, voluntary insurance premium and user charges. The over dimensioned structure (56) of this sector in the beginning of the 90s brought to a serious consequences in the public budget. The tradition of a long history of social protection is going back more than one century and is influenced by the German and Austrian developments.

These systems are faced by serious risks that could put financial strain on the public finances of the V4 countries. We would mention some of the major risks that, in line with the outputs of the G.V.G. study (2002) could seriously endanger the financial stability of the new acceding countries:

1. the compulsory reimbursement foreseen by the EU regulation 1408/71 that provides the possibility of the treatment offered to nationals of the acceding countries in the EU15 countries. This can cause serious costs to the health systems of the acceding country;

2. the price of drugs and medicaments in the acceding countries;

3. medical and paramedical well educated and trained staff of the acceding countries that could migrate in countries with higher remunerations (drain of physicians);

4. contribution evasion.

56. For instance, the number of beds in the acute care hospitals of the V4 countries, according to the Synthesis Report of the “Study on the social protection systems in the 13 candidate countries” (G.V.G. 2002: 224), were about from 30% to 100% higher than in the correspondent EU average hospitals.
The individual self-reliance that opposes to the "socialist paternalism" of the years close to the revolution of the beginning of 90's in the Visegrad countries is promoted by the withdrawal of the state and the spread of the market - utilising the concepts of the professors of the Eotvos Lorand University in Budapest, Ferge and Juhasz (2004, 14/3: 233-251). «The situation is paradoxical. The EU seems to attach increasing importance to social policy even if the priority goes to social policies that promote employment through the competitiveness. It also seems to encourage between-country convergence towards the European social model». Meanwhile it has approved the changes in the accession countries that promoted the "Americanisation" rather than the "Europeanization" of the social policy Kovacs (2002: 17). This critical observation, partially acceptable, is dictated by the strong interest coming from both, the local government in the CEECs countries and the European Commission to sustain the process of economic convergence with addressing more and more funds to the macroeconomic stability and towards the investments in physical infrastructures better than "spending" resources in the social sector.

We would now to revise shortly the current macroeconomic developments effecting the social spending in the V4 countries, before introducing in the following chapter, the analysis of the public expenditures in social protection and the reforms initiated in the Visegrad 4 countries. In Czech republic macroeconomic developments, according to the data published by the World Bank, are quite disappointing in the early 2004 (World Bank "Quarterly Economic Report on EU8, 2004). The growth rate is slightly below the rate of the previous two quarters, the inflation is increasing rapidly and the current account deficit is also increasing. The consequent fiscal deficit is expected to increase over 6% on yearly basis in the year 2004 that will require strong measures in order to achieve the medium term fiscal targets. A long series of social measures related to the first fiscal package in the second part of the 2003 proved to be unable to reduce the expenditures in health care sector and in the pension sector. The first is managed
with large losses and the second, planned to be stabilised before 2015, is facing serious problems because of the effect of ageing of the population.

In Hungary the recent macroeconomic developments are of a mixed shape, with the GDP growing at the rate of 4.2%, the inflation is growing due to the introduction of adjustments in the VAT rates introduced in May 2004. The fiscal deficit is probably exceeding the already revised measure of 4.6% of GDP by additional 0.5%. The reforms in the budget expenditures, according to the World Bank report, will not bring the expected result. Health and Education systems are fare from being rationalised, local governments need to downsize public sector employment, consolidate local government expenditures, reduce subsidies and address the long term challenges of the aging population.

Poland has registered quite a growing economic development in the beginning of 2004 calculated on y-o-y basis of 6.9% realised tanks to the stocks built by local firms in advance to the EU accession. But the inflation also is increasing in respect to the target fixed by the government. The fiscal performance is benefiting from an increase of tax revenues that, rather that to be used to reduce the deficit, is already promised to be spent in the social sector. The budget expenditures in the 2005 are planned to be restricted and the current deficit of 5.3% in the 2004 will diminish to 4.1 percent in the year 2005.

Slovak Republic represents a real exception to the relatively poor trend in the other V4 countries. In fact the World Bank report expresses unusually a “very favourable” development in the first part of the 2004. The output growth accelerated to 5.5%, current account balance is in surplus, core inflation at 2.8% on yearly basis, the fiscal deficit seems it will improve being lower than expected (lower than -3.9%). Slovakia is going to complete the pension reform after having launched the second pension pillar based on compulsory pension funds managed by private operators from the beginning of the year 2005. A third pension pillar is also foreseen to be approved by government in the second part of the 2004. Public health system is also under a complete restructuring with the aim to reduce the participation of the state budget, private spending in health sector in Slovakia is one of the lower in Europe. The Public Finance Management Reform (PFMR)
supported by the expertise of the World Bank and the European Commission is giving the best results in the budgetary process that is foreseen to be prepared for the year 2005 in the way that all chapters are presenting their budgets in a programmatic and multi-annual format; with the reform of the State Treasury underway this is the best example of management of public finances in the Central Europe (57).

4. Public expenditures for social protection. The reforms in the V4 countries

Different models of social Europe have developed as consequence of different economic and political conditions after and even before the two world wars. The quantification of the government public spending and the economic performance of the country has been always subject of economic studies. As we have discussed in the theoretical part I, the studies presenting a Keynesian approach and neoclassical economic frameworks utilised till the 60s' are substituted by those empirically oriented that distinguish between the impact of the different types of governmental spending that are not so much interested to the leverage effect of the overall government expenditures. In fact the net effect of such expenditures it remains often unclear. More recent studies (58) tend to demonstrate the different performance effect of countries with relatively small government expenditures (below 40% of the GDP) coming to the conclusion (Afonso, Schuknecht and Tanzi 2003) that in general they perform better that countries with a larger government expenditures. But the empirical study of La Porta et al.(1998) came to a different conclusion after having correlated taxes and results of the government spending, calling for a quite frequent positive relation between high taxes and a government performing well, the government efficiency is proved by the quality of public goods, larger governments expenses are often less corrupt, they present lower bureaucratic delays and they have higher tax rates. The comparison of the

57. The World Bank Quarterly Economic Report on EU8 (2004: 10) is expressing that this process is «one of transparent peer review and international best practice».


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two mentioned results should not work properly because of the different dimension and development of the targeted countries; in the case of the La Porta (*ibidem*) study, too many developing countries are included in the sample.

As we have seen, there are contrasting results in the empirical studies about governmental spending, efficiency in terms of quality of public goods supplied and tax rates applied to the private initiatives. Very probably there should be a certain "stability" of the pattern of public spending internally of different blocks of countries (we could identify for instance more developed EU countries, the group of smallest dynamic countries that participated more recently to the Union, the block of the former communist countries of the Visegrad four, etc.). We are interested to give our contribution on this issue by passing through examination in particular in particular the model adopted by the group of the Visegrad 4 countries. Here below we present the total governmental expenditures as percent of the GDP in the EU15 (59) and the Czech Republic, Slovak Republic and Hungary (the governmental expenditure data for Poland unfortunately is not available) for the year 2003. The graph built up on the basis of the sources of Eurostat published in 2003, is proving that the 3 newcomers (Czech Republic, Slovakia and Hungary) have quite a large governmental expenditure in proportion of the GDP, higher that the EU15 average. In the following figure 13, we can observe how the total governmental expenditure in Czech republic, Slovakia and Hungary is placed in the highest position between the EU countries, meanwhile the total tax revenues, always compared with the GDP was, as explained in the previous chapter, placed in average in the mid-lowest place of the EU average, this shows some contradiction with the results of the studies above mentioned.

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59 From the 80s in EU15, national budgets have reached 50% of the overall GDP paying large amounts for the interests to the public debt. This is affecting very much, till today, the fiscal policies of these countries. Together with the indexation of the real labour wages over high levels that contributed to rise the inflation, «la rituttanza a stimolare l'economia ha portato l'Europa occidentale negli anni ottanta a dipendere pesantemente dalle esportazioni verso gli Stati Uniti ed ha reso le economie europee sempre più sensibili alle importazioni» (Gilpin 1990: 480).
From the above graph we can deduct that the average of the general governmental expenditure in the EU countries is being close to 50% of the GDP produced by the country. Ireland, Spain and UK are quite below this average trend, meanwhile, as we presented above, the 3 newcomer countries in Europe are little over the EU average, with Czech Republic topping at first position.

We intend now to get more in deep on this analysis in order to discover eventually a possible convergence on the economic model, in particular taking care of the social protection expenditures on the growth path of the newcomer countries towards the “old” Europe. The following table 17 is showing for each of the EU15 countries the trend of the expenses in social protection as percent of the GDP in the years 1991 and 2000. The Purchasing Power Standards for the year 2000 is also presented.
As we can observe from the table above, there are quite large discrepancies within Europe old member states about the total expenditures for the social protection of its citizens. From the highest budget allocation in Sweden (32.3% of the total national budget expenditures of the year 2000) to the lowest budget allocation - less than half percent - of Ireland that, for the same year 2000, has spent for the social protection only 14.1% of the total budget at disposal. In order to make a comparison with the old member states, we need to adopt the same criteria for the calculation in the budgets of the new member states and in particular to the Visegrad four countries.

From the same source we have unfortunately only two acceding countries data: Slovakia with the percentage of social protection expenditures on GDP at 20.4 of the year 1998 and 20.0 in the year 1999 (the data from the year 2000 is not included) and with the amount in PPS at 2097 unit in the year 2000. The second country ranked from the mentioned source (Eurostat, European Commission “The social situation in European Union”, 2003) is Slovenia that accounts expenditures for social protection for 26.6% in the year 1998 and the same 26.6% in the year 1999, the PPP (Purchasing Power Parity) is ranking at 4057 units in the year 2000.

From a different study (GVG, Slovak Republic Country Report, 2003) we can deduct that public social expenditures in percent of the State Budget present an increase trend: 37.5% in the year 1999, 37.9% in the year 2000 and 40.0% in the year 2001.
year 2001. These high percentages are due to the transfers to insurance companies (8.2% in the year 2001), to social assistance benefits and state social benefits (5.7% in 2001), to Social insurance benefits (7.4% in 2001), to the establishment of social services and other (2.3% - 2001) to the subsidies to National Labour Office for the creation of public works (0.7% - 2001), a big part in Education and Training (15.2% - 2001) and finally to sustain health care - not including expenditures on social insurance companies and health insurance companies already accounted separately - (0.6% in 2001).

In Czech Republic the study published with the same funds (GVG, Czech Republic Country Study, 2003) is giving separate information about income and expenditures on social insurance (excluding the cost sustained for armed forces). The expenditures supported by the state budget are increasing: from the year 1997 when started to overcome incomes this expenses grew quadruplicating from 4.5 billion CzCr to 19.6 CzCr in the year 2001.

In Poland, this study (GVG, Poland Country Study, 2003) is highlighting the public expenditures for health care in percent of the state budget expenditures: from the state budget 2.85% to be added to the same expenditures supported by the local self-government at 3.60% of the self-government budget. In terms of percent of Polish GDP in the year 2000 the health care expenditure ranks to 4.24%.

In Hungary (GVG, Hungary Country Study, 2003), we have a complete information about the public social expenditure as percent of the government total expenditure: for health care is increasing year by year passing from the 8.7% in 1995 to 10.5% in the year 2000. Expenses for Education are also increasing from 7.3% in the year 1995 to 8.3% of the total government expenditures of the year 2000. Pension expenses from a 14.7% in the year 1995 to a 18.7% in the year 2000. Other public social expenditures excluding income tax reductions for large families range from 2.7% in the year 1995 to 3.3% in the year 2000.

The total public social expenditures of the Hungarian Government in the year 2000 are overcoming 40% of the total expenditures for that year; the real problem is how to evaluate if they are effective. In opposite side the tax policy conducted
by the V4 countries is to reduce to a very low level the rates for the corporate and private income tax, where the component of labour contribution for social health and pension system is generally very high. While social dumping is related to the unfair competition between national systems caused by differential in the wage costs, working conditions and mainly social cost and in general to conduct a low wage policy for obtaining a competitive advantage; thus a reduction of social standards in the Northern countries of EU is a form of social dumping. But, as Delsen (2002: 9) is arguing, «However also a deliberate neglect made by less developed countries of the legislation for good social standards in terms of social fringe benefits, protection against injuries, pension schemes, codetermination of rights and all like this, is a form of social dumping».

The data regarding the V4 countries are not homogeneous and this is mostly due to the fact that these countries have adopted the ESA95 rules just recently for the fiscal notifications to the European Commission (60). Furthermore the different systems adopted from the beginning of the 90s as regards the health care system, the pension system and all sort of subsidies and benefits related to the social welfare are extremely complex and various. Some of them, as we have seen, are supported by the local self-government (the case of Poland, for example); this creates delays and complications to the accounting system. The systems for accounting such expenses and incomes are also complex (61), in fact not all the V4 countries have an efficient State Treasury system in place.

60. Fiscal notifications to the Directorate General for Economic and Financial Affairs are due by all the EU member countries. The fiscal notifications consist of reporting to the European Commission government deficit and debt figures calculated in accordance with the EU methodology (ESA 95 system of economic accounts). Main results of the April 2003 fiscal notifications presented by the candidate countries are published with the use of the same format and consist of producing the same data as the notifications provided by the member states in the framework of the excessive deficit procedures (Directorate General for Economic and Social Affairs, 2003) and are available from the following web page: http://europa.eu.int/comm/economy_finance.

61. The new State Treasury system in Slovakia, for instance, is far from being completed. Initial steps are being implemented at the beginning of the year 2004.
In the following table 18 we abstracted from the mentioned study of GVG, the social protection expenditures as percent of the national GDP with separating the trends in the years 1996, 1998 and 2000.

**Table 18 - Social Protection Expenditures as Percentage of the GDP in the V4 Countries**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>17.40</td>
<td>18.10</td>
<td>19.50</td>
</tr>
<tr>
<td>Hungary</td>
<td>24.80</td>
<td>24.20</td>
<td>23.20</td>
</tr>
<tr>
<td>Poland</td>
<td>25.50</td>
<td>23.90</td>
<td>24.00</td>
</tr>
<tr>
<td>Slovakia</td>
<td>23.28</td>
<td>21.88</td>
<td>21.70</td>
</tr>
</tbody>
</table>

**Source:** Own elaboration based on the G.V.G., “Study on the social protection systems in the 13 candidate countries” Chapter 1, Table 12 page 22 (2003). The author is explicitly warning that not all data related to the social expenditures presented in the table is comparable between the V4 countries, mostly because of different concepts of considering “social expenditure”.

From the above table we can observe that only Czech Republic has a growing percentage of social protection expenditures in percent of GDP in the year 1996, 1998 and 2000, but in any case lower in percentage than the other three countries. Hungary, Poland and Slovakia tend to decrease or stabilise this component of the public budget. Utilising the database of the World Health Organisation (WHO) we have, additionally the possibility to compare a part of the total social protection expenditures that are the total health expenditure as percent of GDP for the EU15 and V4 countries. In the following figure 14 in fact we display the total health expenditure for the mentioned countries, taking in consideration that the data are related to the year 2000.
We can see that Luxemburg, Ireland and Finland have the lowest participation of the total health expenditures over the GDP (6 to 7%) that means they have a comparable low attention to the health care among the EU countries (but of course the condition of the quality of the services - or better the sectoral efficiency - probably is not comparable. Meanwhile Czech Republic, Hungary, Poland and Slovakia are in the lowest position ranging around between 6 and 7% of their own GDP. These countries present in any case a similar social pattern in the expenditures of the social sector related to GDP.

An alternative approach to draw parallel between the single countries’ health expenditures can be to compare the share of these expenditures with all expenditures in the social sector. This will give a different dimension to our perspective. In the following table 19 we have compared for the EU15 countries the share of the health expenditures on the total social envelop.
Table 19 - Comparative table: Share of Health Expenditure on the total Social Protection Expenditures of the EU15 countries

<table>
<thead>
<tr>
<th></th>
<th>EU1S</th>
<th>B</th>
<th>DK</th>
<th>D</th>
<th>EL</th>
<th>E</th>
<th>F</th>
<th>IRL</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>26,4</td>
<td>27,1</td>
<td>29,7</td>
<td>26,1</td>
<td>21,6</td>
<td>21,2</td>
<td>28,4</td>
<td>19,6</td>
<td>25,2</td>
</tr>
<tr>
<td>2000</td>
<td>27,3</td>
<td>26,7</td>
<td>28,8</td>
<td>29,3</td>
<td>26,4</td>
<td>20,1</td>
<td>29,7</td>
<td>14,1</td>
<td>25,2</td>
</tr>
<tr>
<td>%</td>
<td>0,32</td>
<td>0,33</td>
<td>0,29</td>
<td>0,37</td>
<td>0,35</td>
<td>0,37</td>
<td>0,30</td>
<td>0,45</td>
<td>0,32</td>
</tr>
<tr>
<td>1991</td>
<td>22,5</td>
<td>32,6</td>
<td>27,0</td>
<td>17,2</td>
<td>29,8</td>
<td>34,3</td>
<td>25,7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>21,0</td>
<td>27,4</td>
<td>28,7</td>
<td>22,7</td>
<td>25,2</td>
<td>32,3</td>
<td>26,8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>0,26</td>
<td>0,32</td>
<td>0,28</td>
<td>0,40</td>
<td>0,27</td>
<td>0,26</td>
<td>0,27</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Own elaboration on database of the WHO “The European Health Report”, 2002

The highest share of the health expenditures over the overall social package has Ireland (45%) followed by Portugal (40%). The average of the EU15 is going in between (30-35%). Unfortunately we have no available data for the comparison with the V4 countries.

5. Compatibility of the fiscal consolidation with growth in the V4 countries

We now will recall in our analysis some of the obligations that the Visegrad 4 countries have accepted at the time of acceding in the Union. These obligations refer to the provisions of the stability and growth pact on the performance of the local governments in the Visegrad four. The convergence criteria and Maastricht obligations arise from the respect of the “golden” rule of the public finances according to which current expenditure shall be financed by the current incomes, while the investment expenditures could have been financed by the increasing of the public debt. As we know, the principle of fixing the public deficit at 3% of the GDP is the result of the observation that in Europe during the period 1974-1991 public investments ranged in average at 3% of the GDP, Dastoli, Majocchi and Santaniello (1996: 82).

The experience of the first five years of the application of the stability and growth pact in the European member states is showing a poor deficit performance (62).

62. According to the research of Feldmann (2003: 287-309) the causes of the poor deficit performance in Eurolandia from 1998 till 2002 are linked to:
The fiscal consolidation started by some of the member countries in Europe is
effecting the longitudinal distribution of the growth and having some important
effects. Mainly the fiscal consolidation require a fiscal contraction causing
intergenerational welfare effects (63).

The recent discussion about how to improve the SGP pact is reasonably
reflecting the dissatisfaction of the European governments about the poor
performance of the Euro area in order to sustain demand and guarantee an
expected economic growth. The decision of the Governments of the old Europe to
avoid sanctions to the countries that have broken the norm on budget deficit is
putting serious doubts on the resistance of the SGP Pact as it currently
implemented. The European Commission is proposing to consider the structural
deficit in place of the actual budget deficit. In consideration that some structural
reforms (like in the field of taxation) could improve the growth potential and
strengthen the public finances in the long term but be costly in the short medium
time, the Commission proposes that there could be a justification, under certain

1) cyclical downturn;
2) structural unemployment (specially in Portugal, Germany, France and most of the EU
countries);
3) too optimistic growth forecast and low cyclical safety margin;
4) political pressure determined by the lobbing of the “voting majority” in the Council of
Ministers that constituted a cartel against the sanctions in favor of the countries with high deficit;
5) the role of spending of local and regional governments (LRG). They are in fact, in most part of
Europe, not obliged to respect the SGP, in some cases central government cannot control the borro-
wing of the LGR. This determine in some countries a higher risk of overcoming of the deficit limits;
6) the concurrent slow pace of debt reduction. Some cases: Netherlands has reduced its debt by
14% ranging at the end of 2002 at 52,6%; Ireland by 22% ranging at 33,3%; Spain by 10% with
the debt at 54,0%; but Italy by only 8% having still the debt over the GDP at 106,7%; Belgium by
13% with the debt at the end of 2002 at 105,3%;
7) the performance of the high government deficit (for political reasons accepted by the
citizens and supported by local politicians);
8) the “creative accounting”, the way how some governments try to mislead their accounting
rules giving prospectus to the European Commission of a non veritable balance situation;
9) discretionary fiscal policy, that is forced to be expansionary during certain years;
10) insufficient limitation of expenditures, forcing growth and public investment with Keynes-
ian policies.

63. Hougaard and Rutherford (2002: 491) under the conclusions the authors summarise the
basic messages of the study in three main issues: the intergenerational equity doesn’t need to be
sacrificed for fiscal consolidation provided that short term cuts are restored with an interest
dividend for future generations, but the most likely obstacle of the fiscal consolidation emerge
from one intergenerational conflict regarding objectives of the older and new generations and third
issue relates to the definition of the formal pace of debt reduction, being the slow (30 years) target
preferred to the faster one (10 years).
conditions, for a temporarily deviation from the Pact. Different proposals for improving the SGP Pact are made by the economists, from which we consider the proposal made by Blanchard and Giavazzi (64) that is in favour of including in the calculation of the deficit the net public investment. Actually the governments have no pressure to reduce current government spending, to lower taxes or to find resources for higher public investments. In fact the SGP Pact is just forcing to reach a balance between public incomes and expenses. The way how governments are investing is currently damaged by the restrictions of the pact, we have a clear probation on the study of Feldmann (2003), in fact it should be considered not irrelevant the fact that member countries are trying through “creative accounting”, through investment agencies (65), through the expenditures of local and regional governments (LRG) to overcome the limitation of the SGP Treaty in terms of budget deficit. Considering the effect of the public investment in the calculation of the budget and the resulting deficits, we have to take care of the decreasing incidence of the average gross investments in the countries of the Euro area that is continuously decreasing in the last 30 years (from 4% of the GDP to the actual 2,4%) having the net investment close to zero in Germany, Italy, Belgium and Austria (66). The effort to make more compatible the SGP Pact rules with the present political-socio-economic situation in the member countries would also prevent from a difficult contrast that could be spread in Europe between newcomers and old members. As we will better analyse in the next paragraph, the overall budget situation in the newcomers, particularly in the V4 countries, is quite different from the old countries of Europe, in terms of social expenditures,

64. Blanchard and Giavazzi (2003: 2) consider that the Pact is «containing a serious error: the way governments are expected to account for public investment. Correcting this error and applying, as article 104.3 of the treaty allows, the current rules of the Pact to a measure of the budget where the treatment of investment expenditures is done properly - which means applying the rules of the Pact to the budget inclusive of nominal interest payments and of capital depreciation, but excluding net investment - would have several desirable characteristics». In this way they mention that the amortization of the investment expenditures is not allowed by the SGP pact, but in the same time the Treaty is not preventing it.

65. Investment Agencies or financial intermediaries, like in Italy and Germany, are fully state owned companies or intermediaries that issuing state guaranteed bonds procure the financing for public investment projects both national or local governments, limiting in this way the exposures in the state budget, their budgets in same cases are not fully consolidated in the government accounts.

in terms of growth, in terms of public debt, in terms of inflation, etc. For instance, the debt ratio when we consider public investments or intergenerational transfers expenditures should probably be accounted in a special way when is due for "social" investments that have probably not only a different rate of return but also a higher political reason of priority. The changes proposed by the European Commission recognise first of all the needs for definition of the medium term budgetary targets in structural terms, the possibility to allow more flexibility to the countries that prove to have sound public finances (limited public debt) and finally to enhance the surveillance of the cyclical economic performance. But in the same time the Commission is forcing over the improvement of the microeconomic mechanism adjusting the labour market and the market of products. It remains "however to be seen, also at the light of enlargement, if < these mechanisms> go far enough to improve cyclical stabilisation while ensuring long term sustainability. Another issue is whether the current mechanism of EU governance <the SGP> is effective to ensure ownership and compliance at the national level" Sapir (2003: 55).

We go now to analyse the effects of the Stability Pact in the V4 Countries. The debt dynamics in the accession countries and especially in the countries of V4 are strongly affected by the observance of the nominal criteria of the Maastricht GSP (Growth and Stability Pact). The strict observance of this Pact could be sensitive during the duration of the catch-up process. In fact inflation and growth rates between the new member states and the developed countries are expected to differ for many years till when the prices and output levels will converge.

In the following table 20 we display the trends of the GDP growth year by year in the Visegrad 4 countries:
Table 20 - Trends of the GDP growth in the V4 (from 1997 till 2003)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>0,8</td>
<td>-1</td>
<td>0,5</td>
<td>3,3</td>
<td>2,6</td>
<td>1,5</td>
<td>3,1</td>
</tr>
<tr>
<td>Hungary</td>
<td>4,6</td>
<td>4,9</td>
<td>4,2</td>
<td>5,2</td>
<td>3,8</td>
<td>3,5</td>
<td>3,0</td>
</tr>
<tr>
<td>Poland</td>
<td>6,8</td>
<td>4,8</td>
<td>4,1</td>
<td>4,0</td>
<td>1,0</td>
<td>1,4</td>
<td>3,8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>4,6</td>
<td>4,2</td>
<td>1,5</td>
<td>2,0</td>
<td>3,8</td>
<td>4,6</td>
<td>4,0</td>
</tr>
</tbody>
</table>


The rates of economic growth (67) in the year 2002 presented in the above table can easily be compared with the average for the same year of the EU15. According to the mentioned Statistical Annex published by the European Commission, the average growth in the year 2002 of the EU15 is close to 1.8%. Taking into account the actual level of the GDP pro capita in the V4 countries and in the average of the developed EU, the projections of the growth rates needed to satisfy a real convergence in 25 years are for Czech Republic at average growth rate of 4,04% per year, for Hungary 4,51%, for Poland 5,18% and Slovakia 4,96%. That means at the rates of the year 2002 no one of the mentioned countries of V4 will have, theoretically, the chance to reach the average of developed Europe even not in 25 years (the closest is Slovakia, as we can easily deduct from the previous table). This result is proved by various studies that are consistent with the provisions of a medium term transitional period for obtaining the convergence in 10 to 20 years according to different countries (68). In the following table 21 we display the convergence indicator calculated by the Deutsche Bank. Also the GDP growth data are selected from

67. The recent documents providing figures of the economic programmes of the V4 countries and designed by the governments of the concerned countries are available at the web pages of the EU Commission: http://europa.eu.int/comm/economy_finance/publications/european_economy. These documents called "Pre-accession Economic Programme" (European Commission, 2001c) PEPs contain updated economic indicators with a forecast for the mid period (till the year 2006). Analysing the PEP for Hungary 2003, published in August of 2003, it appears quite clear that the growth forecasted projections are over-estimated - the same PEP 2002, pag.4 of the document, was projecting higher growth rates for the year 2003 than the annual percentage recorded one year later.

68. Just to mention the consistency of this result with various studies like: European Commission, 2001c; Fidrmuc, Fidrmuc and Horvath (2002); Wagner and Hlouskova (2001).
the same source of information and, because of the different dates of elaboration, we can see some discrepancies in the figures in respect to the previous table.

**Table 21 - Convergence Indicator and GDP growth year by year in the V4 Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Deutsche Bank Research - Convergence Indicator</th>
<th>Country</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>73,2</td>
<td>70,6</td>
<td>2,0</td>
</tr>
<tr>
<td>Hungary</td>
<td>71,4</td>
<td>69,0</td>
<td>3,3</td>
</tr>
<tr>
<td>Poland</td>
<td>65,1</td>
<td>67,4</td>
<td>1,4</td>
</tr>
<tr>
<td>Slovakia</td>
<td>70,3</td>
<td>70,3</td>
<td>4,4</td>
</tr>
</tbody>
</table>

**Source:** Own elaboration on data from the Deutsche Bank Research “EU Monitor”, (2004) - 2003 Estimation, 2004 Forecast

(*) As we have seen in the previous table, the real GDP growth in Czech Republic was at 2,9%.

Once more we see here that the result of the convergence indicator shows the close similarity of trends in the V4 countries on macroeconomic development.

Faster that the new countries will growth, major will be, of course, the possibility to meet the criteria of the three percent as a maximum deficit. The sustainability of the current account is the first constraint in this first phase after the enlargement. But not all the countries are at the same starting conditions, in the following table 22 we can observe the fiscal and current account balance according to the national statistics of the Visegrad 4 countries:

**Table 22 - Fiscal and current account balance according to national statistics**

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Balance in % of GDP</th>
<th>Current Account Balance in % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>-6,8</td>
<td>-7,9</td>
</tr>
<tr>
<td>Hungary</td>
<td>-9,2</td>
<td>-5,7</td>
</tr>
<tr>
<td>Poland</td>
<td>-5,1</td>
<td>-4,8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>-7,2</td>
<td>-5,0</td>
</tr>
</tbody>
</table>

**Source:** Own elaboration based on data from: Deutsche Bank Research “EU Monitor”, (2004) (Fiscal balance figures according to the national statistics).

Czech Republic has a fiscal balance in percent of the GDP that is increasing in the last three years, meanwhile Hungary and Slovakia the trend is opposite. Poland exceptionally this indicator is relatively stable. As regards the current account balance, Czech Republic and Hungary observe a trend which is opposite
to the trend of the fiscal balance. Poland is once more stable, but in Slovakia the current account balance is decreasing rapidly.

The point of higher interest in our current discussion is about the deficit and the debt of the state budgets in the V4. The previsions about the speed in catching up with the Western economies is in fact mostly depending of the fiscal consolidation of the public finances and of the respect of the criteria for joining the Euro zone. The fiscal deficits and the total debt accumulated in the public balance sheets are presented in the following table 23.

**Table 23 - Deficits and Debt ratios according to the Commission Opinion of excessive deficits documents**

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Balance in % of GDP</th>
<th>Debt Ratio on GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2003</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>-6,4</td>
<td>-12,9</td>
</tr>
<tr>
<td>Hungary</td>
<td>-9,3</td>
<td>-5,9</td>
</tr>
<tr>
<td>Poland</td>
<td>-3,6</td>
<td>-4,1</td>
</tr>
<tr>
<td>Slovakia</td>
<td>-5,7</td>
<td>-3,6</td>
</tr>
</tbody>
</table>

**Source:** Own elaboration based on the Directorate General for Economic and Social Affairs (2003) Fiscal notifications on the existence of an excessive deficit in the V4 countries, in application of the article 104(5) of the Treaty establishing the European Community.

The most important point for the next future is the sustainability of the fiscal position of the new member countries (69), in particular the risk of high interest rates and low economic growth that can conduce to a new situation where these countries cannot pursue their fiscal consolidation. It could be added that, before the adoption of the Euro, an excessive exchange rate risk can jeopardise all the

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69. The definition of “Budget Deficit” or the general government deficit includes the budgets of the central state, the local governments and social security funds but excluding the finances of the public sector enterprises. This definition is corresponding to the public standard adopted by the IMF, OECD and utilised to define the Maastricht criteria and the Stability and Growth Pact. We should consider, furthermore, that the countries of V4 here analysed in the last three years started to adopt the official European national accounting methodology ESA95. Due to different standard statistical treatment of off-budgets funds in the mentioned countries, the comparison between budget deficits before the adoption of the ESA95 rules, could be not fully compatible. According to the Directorate General for Economic and Social Affairs “Main results of the April 2003 fiscal notifications presented by the candidate countries” several countries are «confronted with persistent large tax and social contribution arrears that may have significant impact on the calculation of their governmental balance» (2003: 10). Furthermore important differences between the national budget figures and the ESA 95 data are affected by the fact that the first accounting system is usually calculated on a cash basis whether the ESA 95 data are on accruals-based.

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process. These unfortunately serious negative threats are somewhere caused by very high fiscal instability that Europe is suffering from the recent years.

The trend of the fiscal policy indicators Fidrmuc J., Fidrmuc J. and Horvath, (2002) in the Visegrad four is proving quite high instability during the last three years, as it can be observed in the following table 24.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>0.5</td>
<td>-1.1</td>
<td>-1.4</td>
<td>-0.9</td>
<td>-2.5</td>
<td>-4.2</td>
<td>-3.4</td>
<td>-3.7</td>
<td>-5.9</td>
<td>-6.8</td>
<td>-12.6</td>
<td>-5.9F</td>
</tr>
<tr>
<td>Hungary</td>
<td>-6.6</td>
<td>-8.4</td>
<td>-6.7</td>
<td>-5.0</td>
<td>-6.8</td>
<td>-8.0</td>
<td>-5.6</td>
<td>-3.0</td>
<td>-4.4</td>
<td>-9.2</td>
<td>-6.2</td>
<td>-3.7F</td>
</tr>
<tr>
<td>Poland</td>
<td>-2.4</td>
<td>-2.2</td>
<td>-3.1</td>
<td>-3.3</td>
<td>-4.0</td>
<td>-2.1</td>
<td>-1.4</td>
<td>-0.7</td>
<td>-3.8</td>
<td>-3.6</td>
<td>-3.9</td>
<td>-4.0F</td>
</tr>
<tr>
<td>Slovakia</td>
<td>-6.0</td>
<td>-1.5</td>
<td>0.4</td>
<td>-1.3</td>
<td>-5.5</td>
<td>-4.7</td>
<td>-6.4</td>
<td>-12.3</td>
<td>-6.0</td>
<td>-5.7</td>
<td>-3.7</td>
<td>-3.8F</td>
</tr>
</tbody>
</table>


We have transferred the result shown in the table above to the following figure 15 which give us the possibility to visualise the instable trends realised by the V4 countries in the general government balance:

**Figure 15 - Trends of the General Government Balance as percent of the GDP**

![Graph showing trends of General Government Balance as % of GDP](image)

We perceive from the projections of the trends here shown that there is a general tendency in the V4 countries to deepen the deficit in the general government balance in the last ten years. Poland could be the only one case that proves more stability. The reason for that could be the heavy support that the state budget is called to give to the rather inefficient state administration, but most probably during this long phase of restructuring of the public finances new burdens are expected like the restructuring of the decentralised and regional administrations (requested strongly by the EU for allowing the programming of the structural funds).

The long term tendency of the Public Debt in the V4 countries has unfortunately the tendency to increase; the expansion of the public deficit is reasonably linked to larger expenses charged in the recent years and to the increase of public investments. Due to the respect of the Maastricht criteria and to the commitment to reach the EMU area in the short time, the four countries have presented a deficit forecast for the year 2004 close to minus 4 percent with the exception of the Czech Republic that has still room for expansion of the total public debt as it is clearly shown by the following table 25.

| Table 25 - Trend of the General Public Debt as percent of GDP in the V4 |
|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Czech Rep.      | 18.8 | 17.6 | 15.3 | 13.1 | 12.2 | 12.9 | 13.4 | 18.2 | 25.3 | 28.8 | 37.8 | 40.6F |
| Hungary         | 90.4 | 88.2 | 86.4 | 72.8 | 64.2 | 61.9 | 61.2 | 55.4 | 53.5 | 57.2 | 59.1 | 59.0F |
| Poland          | 88.7 | 72.4 | 57.9 | 51.2 | 44.0 | 39.1 | 40.3 | 36.6 | 36.7 | 41.1 | 45.4 | 49.1F |
| Slovakia        | 31.5 | 28.0 | 24.6 | 24.5 | 28.6 | 28.6 | 43.8 | 49.9 | 48.7 | 43.3 | 42.6 | 45.1F |


Once more, in this case, we present here below the figure 16 related to the trend of the general public debt which has been already documented in the above table.
The trend of the General Public Debt is clearly proving to have a different approach of the public governance in two countries of the former Czechoslovakia: from the year when they split their public debt was quite low (around 20 and respectively 30 percent of the GDP). During the recent decade this is rapidly growing till to reach an amount of 40% of the GDP. In contrary Hungary and Poland in the year 1993 started with the highest amount of debt (close to 90% of the GDP) and then, as the economy was developing, this amount started to decrease as effect of the faster growing GDP than the public expenses. This amount in the year 2003 for Hungary is closed to 60% (limit considered by the Stability and Growth Pact) and for Poland is closed to 50% of the GDP still acceptable in order to enter in EMU area. We would present now a much more comprehensive view of the general economic ratios that could give a complete
picture of the standing point of the V4 countries as regards the convergence criteria. In the following table 26, that we called EMU convergence process, we have presented in the first row (in bold) the reference values that the countries in Europe should respect for entering in the Euro zone:

<table>
<thead>
<tr>
<th>Country</th>
<th>Inflation YoY</th>
<th>Interest rates</th>
<th>Fiscal balance YoY</th>
<th>Public Debt % of GDP 2002</th>
<th>Exchange rate against parity 2003</th>
<th>Exchange rate March April</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>0,1</td>
<td>4,5</td>
<td>-12,6</td>
<td>(28,8) 37,6</td>
<td>-4,0%</td>
<td>32,9</td>
</tr>
<tr>
<td>Hungary</td>
<td>4,7</td>
<td>7,7</td>
<td>-6,2</td>
<td>(57,2) 59,0</td>
<td>-9,1</td>
<td>249,7</td>
</tr>
<tr>
<td>Poland</td>
<td>0,7</td>
<td>6,8</td>
<td>-3,9</td>
<td>(41,1) 45,4</td>
<td>-21,1</td>
<td>4,75</td>
</tr>
<tr>
<td>Slovakia</td>
<td>8,5</td>
<td>5,0</td>
<td>-3,7</td>
<td>(43,3) 42,8</td>
<td>-6,3</td>
<td>40,1</td>
</tr>
</tbody>
</table>

**Source:** Own elaboration based on data from Eurostat, “Statistical Yearbook on Candidate Countries”, 2003, for the General Public Debt as percent of GDP - percent of change on previous year (on inflation, interest rates, exchange rate against parity and on March 2004). The parity average rate of exchange is calculated over the last 3 years (http://europa.eu.int/commm/eurostat/newcronos/reference/, Deutsche Bank Research, April 2, 2004).

(*) For the year 2003 these figures are presented according to the EU Fiscal notifications, (Directorate General for Economic and Social Affairs, 2003) regarding the existence of an excessive deficit in the V4 countries. This procedure is followed in application of the Article 104(5) of the Treaty establishing the European Community. This table shows few discrepancies with the published data by the EUROSTAT.

We have highlighted in this table with grey colour the ratios where the four countries are already respecting the convergence criteria for EMU. We can see that no one has the fiscal balance, current deficit within the limit of 3%. Per contra their public debt is for all below the threshold of 60%. In Slovakia and in Hungary inflation is still quite high.

We would recall that the convergence criteria laid down in Maastricht Treaty requested for entering in the Euro zone (adopting Euro) is composed, as it is well known, by three main ratios dealing with the nominal convergence:

1) The long term (10 years) nominal interest rates of government debt must be within 2 percent of the average in the three countries with lowest interest rates.
2) Inflation should be contained within 1,5 points percent of the average prevailing in the lowest three European countries.

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3) The exchange rate criteria requires that the candidate to EMU have stayed in the ERM-1 system without realignment for almost 2 years respecting any possible fluctuation in a band of + or - 15%.

Several economists evaluating the situation of the new member countries in Central Europe in order to adopt the Euro currency, have reached similar conclusion: because mostly of the effect of Belassa-Samuelson (70), the participation to the ERM - II system seems unnecessary if not even worst and harmful. The clear conclusion accepted by Buiter (2004) is that these countries need to achieve fiscal sustainability prior to adopt Euro. This seems the only really necessary condition (71). The described factors will inevitably be reflected in the evolution of the public debt in the new acceding countries. We need to consider also other aspects that condition the results of an earlier or later accession to the EMU system: the burden of the fiscal cost of delaying the accession to the European monetary union. According to the simulation conducted in the Centre for Social and Economic Research of Warsaw: Gorzelak (2004: 6) in some of the new members including the countries participating in the Visegrad 4 agreement: “the sooner the EMU accession date, the stronger the incentives for the policymakers to carry out fiscal adjustments that would result in significant savings in the near future. Additionally the earlier accession date means a faster decrease in the interest rates, which also substantially reduces costs of the debt service” Gorzelak (2004: 6). The comparative simulation, not accurate forecast, is based on the main economic indicators for the mentioned countries and is conducted assuming two scenarios of joining the EMU system (in 2007 and

70. According to the well known effect of Belassa-Samuelson, the new members that started with a level of GDP pro capital substantially lower than the EU15 countries, they are engaged in the process of catching up with the rest of the countries of Euro-zone. The real convergence on productivity and growth levels with the rest of Europe will be forced also by the common monetary policy that restricts the inflation differentials. In the meantime it is inevitably that improving productivity with lower labour costs and the rapid improving of the productivity in the traded sector higher than in non-trade sector, the relative price of non-traded goods will rise faster than the prices of the goods traded in the European markets. Whatever exchange rate will be fixed, and in particular with the rate fixed adopting Euro, all new acceding countries that are engaged in this catch up will suffer from a higher inflation than the average in the Euro-zone thus a rising exchange rate.

The projections based on the current amounts of public debt, budget deficits, debt structure and interest rates level considering two options of the GDP growth (fast and slow) prove that the bigger benefits result in the countries with worse initial conditions regarding interest rates, greater debt ratio and larger primary debt ratio.

The Czech Republic, Slovakia, Hungary and Poland all face a rising in the public debt according to the mentioned order. In Czech Republic, Poland and Slovakia the combination of slow growth with higher interest rates payments and low inflation are worsening the debt position (72). The conclusion of the Hallet (2004) study is coherent with the prognosis that is forecasting higher difficulty to control growth in the public debt once they will enter the European Monetary Union: V4 countries will suffer from different difficulties mostly political and social pressure that could force the regular respect of the Stability Pact. In medium term the risk for a difficult management of fiscal policy will be real in these countries in consideration of the actual large budget deficits. The reasonable tendency will be to address a fiscal consolidation policy in order to contrast the effect of the unsustainable macroeconomic instability. Fiscal consolidation that could be reached mainly through a tightening of the public spending control that would give opportunity for cutting tax and attracting more foreign direct investment. We have also to consider that, after entering in the EMU area, the instrument of control of interest rates will pass from the National Banks to the European Central Bank and the result will be that Governments will have mostly only two economic instruments available: the public spending and tax decisions (73).

72. The study of Hallet (2004) is predicting the paths of Debt ratios under 25 years convergence scenarios - fast convergence scenario -: Czech Republic will have debt ratio to converge to equal or more than 60% in the year 2010, Hungary already in the 2004, Poland will never be higher of 60% as effect of the debt ratio declining or converging to a level inferior of 60% and finally Slovakia will converge in the year 2019. The calculations of the authors are affected by the condition that growth rate will be larger than interest rates during the 25 years ahead. At the current situation in 2004, all four countries will have to reduce their budget deficits if the imperative respect of the Stability Pact is enforced: Their primary deficit ratios and interest payments exceeds in fact 3% in all cases (being, in the year 2003, Czech Republic at 6,2%, Hungary 4,5%, Poland at 5,8% and Slovakia at 4,0%).

73. The decision to enter in the EMU area is a commitment that the accession countries have already accepted as part of the acquis and they refused the clause of opt-out (like UK and
There is a different exogenous condition that could be very effective in helping or, as some of the Ministries of the V4 have already declared, to worsen the state balance in the next years. These are the EU funds in particular structural funds and cohesion fund. At first we clarify the reason of a possible negative consequence to the state budget: it is known that these funds will be put at disposal of the state administrations at one condition, the obligation for co-financing. Now, for the state administration will be not easy to refuse the funds and, as consequence, the need for co-financing and therefore the increase of the public expenditures is guaranteed.

The ability for absorbing European Funds will be determinant in the V4 countries according to the short-medium term projections considering that the commitments are substantially higher (between 5 to 8 times) than the pre-accession funds. The effects of the EU structural funds should be considered in general as an aid to reduce the regional disparity accelerating the normal time requested to the economy of the less advantaged regions to converge with the higher developed.

The amount is quite significant, the total sources that the V4 countries receive form the European funds in the years 2004-2006 have been calculated to overcome in some countries the average level of 2,5% of their respective GDP (74). But, besides that, it should be well intended that the effect of this large percentage is being calculated on the basis of the commitments and not from the disbursed funds. This could - and for sure will - constitute a problem when the countries will take stock of the ability to disburse EU funds, proving to have programmed sound projects, implemented and disbursed in the due time with appropriate co-financing of national financial sources. Poland benefits from larger commitments (up to 2,7% of the GDP), Czech Republic, Hungary and Slovakia around 2% of their GDP. The total amount of funds calculated as transfer allocation in the period 2004-2006 in the V4 countries amounts at 80% of the total

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74. If we calculate together Structural funds, the Cohesion Fund and the ongoing Transition Facility 2004-2006 funds.
of the 10 new countries that is 40.851 million Euro. The reason for the difference that these countries should account for fewer funds disbursed by the European Commission is well known: the total funding available for multi-annual programmes is going beyond the year 2006, benefits on the GDP will be diluted for several years afterwards. Furthermore the risk, as we have seen, of matching co-financing of the projects with proper national funds is in most of the cases, an additional limit of the level of disbursement. This gives the opportunity to the new member states to prove the ability, called “absorption capacity”, how successful they are in securing projects related funds and particularly how the programmes and agencies are in applying them effectively (75).

The main stream of investment and support financing is covered by three key funds in the agriculture sector, structural funds and the cohesion fund. From the amount of 40 billion Euro, the largest share is due for the actions in the new member states related to the structural funds for a total of 22 billion Euro. Now we have to consider that all the programmes covered by the projects presented by the beneficiaries member states shall be co-financed with different percentage according to the different facility: for the structural measure with 25%, for the cohesion funds with 15% and for the rural development funds with 20% of the amount allocated by the Commission. In consideration to the expected diversification of funds and the reduced absorption capacity that is expected to lower the level of funds really disbursed, it seems quite probable that the V4 countries will have to co-finance projects for above 4 billion Euro during the 2004-2006 period. Financial contributions of the new member states are equal to the other old member states with the only exception related to the reduced contribution for the first year 2004. For the year 2005 and 2006 the Visegrad 4 countries will contribute with the equivalent of 1,27% of their annual GDP (corresponding to the overall amount calculated on the basis of 0,9% of the GNP

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75. The “disbursement ratio” according to the study of Sapir (2003: 61) is considered as «the difference between the amount of money allocated to a given country and the actual amount paid out to it». At the same page of the study, the author is highlighting in a foot note that «there seems to be a high correlation between the disbursement ratio and measures of corruption such as the Corruption Perception Index published by the Transparency International». 

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resource, 0.2% of the VAT resource, 0.1% of the traditional “own allocations” and finally some 0.1% of the “UK rebate”).

The limitations in budget expenditures and effects on growth due to the fiscal effects of accession in the Visegrad countries are object of different studies, for instance Hallet (2004) these studies are coming to some “mixed” conclusions. There is a general concordance regarding the difficulties that the governments should expect in the first two-three years after the accession and, regardless the absorption rate, the starting fiscal positions are strategically important for the new members. The study of Antczak (2003: 23) is proving that the Czech Republic and for Hungary having higher current fiscal deficits could expect “serious difficulties to keeping their fiscal deficits under control after the accession”. This paper highlights also that the net fiscal gains (net effect of accession on the government sector considering the flow of EU transfers, the expenditures from the national budget related to the accession as well as the positive fiscal effects of the accession) are only one of the aspects of the several implications due to the accession. The cost of complying with the Acquis (that is not easy to materialise) in environmental protection, additional infrastructures and institutions, the strong limitations to the subsidies to the production (state aid), the harmonisation in the field of indirect taxation, the reducing of the risk premiums in the financing sector, could have deeper impact than the membership contributions payments for the budgets of the new member states. Moreover should be considered in the situation where the government deficits are increasing for various reasons like the effects of economic slowdown, anti-cyclical loosening and fiscal policy, in some countries loosening before elections, increase of the social expenditures and in some countries the late effects of the restructuring of banks.

About the expected increase of the social expenditures, we have afforded the analysis in the above paragraphs; there are serious perspectives and negative predictions regarding future tensions in the mid period expected. These effects could force the expenditures to overcome the equilibrium in the years after the accession to EMU for the countries V4.
We like to close this paragraph with the table 27 of the General Government Deficit (as percent of the GDP), forecasted for the V4 countries. This data has been elaborated by the Antczak study (2003:8). This study is proving that the trend of general government net borrowing and the net lending in the new Member States in percent of the GDP is generally foreseen to remain substantially at the similar level as it was in the recent past.

<table>
<thead>
<tr>
<th>Country</th>
<th>2003</th>
<th>2004</th>
<th>2005*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Rep.</td>
<td>-6,3</td>
<td>-5,9</td>
<td>-5,5</td>
</tr>
<tr>
<td>Hungary</td>
<td>-4,9</td>
<td>-3,7</td>
<td>-2,5</td>
</tr>
<tr>
<td>Poland</td>
<td>-4,2</td>
<td>-4</td>
<td>-2,2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>-5,3</td>
<td>-3,8</td>
<td>-2,6</td>
</tr>
</tbody>
</table>

*The data for 2005 comes from the earlier sources, is not in fact of forecast (of independent forecasting institutions) but the declaration of a political will* Antczak (2003: 8).

Now a day it is clear that the “political expectations” for having a deficit in 2005 under the limit of the stability pact of 3% of the GDP is a measure not realistic. The long way of the Visegrad countries towards the fiscal consolidation and the respect of EMU conditions will be not short nor easy. It seems better that, besides the official declarations, the perception for acquiring the SGP conditions, will be achieved, according to the “political willingness” better later than earlier.

We need to recognise that, of course, we limited our investigation on a very partial aspect that have an impact on economic development. Other important circumstances are determining the limitations to the growth (ageing of population (76), internal migrations, individualisation, increased competitiveness, etc.) and in

76. According to the study of Sapir (2003: 95), «The combination of population ageing and early retirement schemes, instituted across Europe to cope with rising unemployment, was clearly one of the main drivers behind the rise in public expenditures that took off from the 70s*. Unfortunately the outlook on the demographic front for the coming decades is even grimmer than the previous trend. According to the United Nations (Economic and Social Survey, 2004), the dependency ratio in the EU-15 is expected to reach 47 in 2020 and 70 in the 2050. It has been also estimated thus the pure demographic effect of ageing would be an increasing in public
general the effect of the policy competition between states in Europe. Another economically relevant aspect is determined by the redistribution of EU funds that makes the accession countries even more attractive as a location of FDI. The redirection of Structural and Cohesion funds from current to new Europe members according to some authors will effect the inflow of FDI in UK, the Netherlands, Belgium-Luxemburg and France in favour of Austria, Hungary, Czech Republic, Slovakia and Slovenia (77).

6. The speed up of the reforms foreseen by the Lisbon process

The challenge for demonstrating competitive ability of the European economy before the year 2010, launched in Lisbon, is beginning to show signs of strain in face of the missing growth of the technological innovation in the developed countries of the old Europe.

The recent enlargement doesn’t show to have brought too much stimulus and opportunities for the continent. We have to be patient, in the coming years it will be possible to verify whether there are more opportunities or more risks in the process of integrating the European socio economic environment. The perspective to become strongly competitive within the new role played by Europe as new world’s united power is still vivid not only among the populations of the “old” Europe but much more in the newcomers.

The results of the analyses described in the section II of the current study, demonstrate that important effects connected with the growth model of the single countries, their autonomous ability to compete, the equilibrium in their internal budgets and their social capital should be kept in consideration. Moreover the same legal environment in the Single Market is in continuous evolution.

The growing competition between different economies, in the matter of taxation for example, affects the rate of the internal consumption, increases the expenditures related to the pensions and health care of eight points of the GDP between 2000 and 2050.

77. Breuss, Egger and Pfaffermayr (2002) demonstrate, using a logistic regressions approach, that the reallocation of structural funds foreseen in the Agenda 2000 and successive revisions leads the financial perspectives for an enlarged Union to the redistribution of FDI by approximately 4-8 percent points in the 2004 scenario and up to 7-10 points percent in the 2007 scenario.
ability of the newcomers of attracting foreign investments even considering that this favourable position is already supported by their lower labour costs; as we have to consider that the growth process in Europe remains the first priority.

We would now try to introduce the examination of an additional policy variable that can effect the development of the V4 countries: the Lisbon Strategy of economic and structural reform (78). In order to achieve, by the 2010, the goals foreseen by the Lisbon Agenda, member countries, included the countries participating from the recent enlargement, are scrutinised by the European Commission and by independent organisations in view to assess their competitive performance, and to ensure that they contribute effectively to the competitiveness recalled by the Lisbon statements.

The European Commission starting from the year 2000, and on regular annually basis, continuously scrutinised the performance producing an analysis based on the implementation reports of the Broad Policy Guidelines and to the Employment Guidelines together with the indicators proposed by the Commission itself and agreed by the Council. The progress made by the countries in the Union in this exercise is stigmatised by the result analysis conducted by the Commission in the year 2004 that concluded "simultaneous and integrated pursuit of reforms will produce an increase in the GDP growth potential of the Union in order of 0.5 to 0.7 percent points - per year - over the next 5 to 10 years" Report from the Commission of the European Communities to the Spring European Council, “Delivering Lisbon, Reforms from the Enlarged Union” - COM (2004c: 2). We face also a risk for insufficient implementation of the Lisbon strategy that "could produce significant net costs for Europe: in terms of reduced growth, delayed improvements in employment levels and a growing gap with some of our large industrial partners in the filed of education and R&D (European Commission, ibidem, 2004c: 2). In order to overcome the bottlenecks and to reduce the risks the Commission in the fourth report of the year 2004 is prioritising with a “must” the

78. We refer to the Lisbon European Council of March 2000 where the heads of states of the EU15 declared their intention to make the European Union «the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion by the year 2010».  

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commitment of the Member States towards a more firmly pursuing of the reforms and asking for a decisive intervention of the Council in sustaining the following priority areas: improvement of the investments in knowledge and networks, strengthening of the competitiveness of EU enterprises and promotion of the active ageing.

According to the structural indicators agreed with the Council, the Commission is annually revising, as we have seen, the performance of the member states. The content of the structural indicators has been chosen according to four pillars: employment, innovation, economic reform and social cohesion. In order to proceed to analyse the results of the performance of the member states for the structural indicators, we first of all introduce in the following table 28 the description of these items:

<table>
<thead>
<tr>
<th>Table 28 - Content of the structural indicators adopted by the European Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicators</strong></td>
</tr>
<tr>
<td>GDP pro capita in PPS</td>
</tr>
<tr>
<td>Labour productivity per person employed</td>
</tr>
<tr>
<td>Total Employment rate</td>
</tr>
<tr>
<td>Total Employment rate of older workers</td>
</tr>
<tr>
<td>Total Youth Educational Attainment (20-24) in percent</td>
</tr>
<tr>
<td>GERD - R&amp;D Expenditures in % of GDP</td>
</tr>
<tr>
<td>Business Investment in % of GDP</td>
</tr>
<tr>
<td>Comparative price levels</td>
</tr>
<tr>
<td>Total At-risk-of poverty rates after social transfers</td>
</tr>
<tr>
<td>Long term unemployment rate</td>
</tr>
<tr>
<td>Total Dispersion of regional employment rates</td>
</tr>
<tr>
<td>Total Greenhouse gases emissions</td>
</tr>
<tr>
<td>Energy intensity of the economy</td>
</tr>
<tr>
<td>Volume of freight transport relative to GDP</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on the scores published by the report from the Commission of the European Communities to the Spring European Council – “Delivering Lisbon, Reforms from the Enlarged Union” - COM (2004c) 29 final/2.
According to the described indicators, the European Commission is updating the analysis of the progress of the Member countries to the achievements related to the Lisbon strategy. The average scores, reproduced in the following table and ranked by the EU15 Member Countries, were published in the beginning of the 2004. They refer to the year from which the data are extrapolated, together with the mention of the country with the lowest and respectively highest rank. The EU15 average is also compared with the scores reached by the United States for the same years. In the following table 29 we are repeating the scores obtained by the structural indicators as they are adopted by the European Commission and published in the report 2004.

Table 29 - Performance of the EU 15 Member states according to the structural indicators adopted by the European Commission

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Year of reference</th>
<th>Lowest (*)</th>
<th>Highest (*)</th>
<th>Average</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP pro capita in PPS</td>
<td>2003</td>
<td>69,2pt</td>
<td>186,5lu</td>
<td>100</td>
<td>138,5</td>
</tr>
<tr>
<td>Labour productivity</td>
<td>2003</td>
<td>63,8pt</td>
<td>129,7lu</td>
<td>100</td>
<td>120</td>
</tr>
<tr>
<td>Employment rate</td>
<td>2002</td>
<td>55,5lt</td>
<td>75,9dk</td>
<td>64,3</td>
<td>71,9</td>
</tr>
<tr>
<td>Employment rate of older workers</td>
<td>2002</td>
<td>26,6be</td>
<td>68se</td>
<td>40,1</td>
<td>59,5</td>
</tr>
<tr>
<td>R&amp;D Expenditures in % of GDP</td>
<td>2002</td>
<td>0,6gr</td>
<td>4,3sc</td>
<td>2,0</td>
<td>2,7</td>
</tr>
<tr>
<td>Business Investment in % of GDP</td>
<td>2002</td>
<td>13,5se</td>
<td>21,6pt</td>
<td>17,2</td>
<td>n.a.</td>
</tr>
<tr>
<td>Comparative price level</td>
<td>2002</td>
<td>131dk</td>
<td>82es</td>
<td>100</td>
<td>113</td>
</tr>
<tr>
<td>At-risk-of poverty rates</td>
<td>2001</td>
<td>20,0pt,gr</td>
<td>11,0de,dk,fi,nl</td>
<td>15,0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Long term unemployment</td>
<td>2002</td>
<td>5,1gr</td>
<td>0,8lu,at</td>
<td>3</td>
<td>0,3</td>
</tr>
<tr>
<td>Dispersion of regional employment rates</td>
<td>2002</td>
<td>7,8fi</td>
<td>2,4at</td>
<td>12,6</td>
<td>n.a.</td>
</tr>
<tr>
<td>Greenhouse gases emissions</td>
<td>2001</td>
<td>136pt</td>
<td>56lu</td>
<td>98</td>
<td>114</td>
</tr>
<tr>
<td>Energy intensity of the economy</td>
<td>2001</td>
<td>125dk</td>
<td>263fi</td>
<td>194,2</td>
<td>330,1</td>
</tr>
<tr>
<td>Volume of transport</td>
<td>2002</td>
<td>137es</td>
<td>85dk</td>
<td>102,4</td>
<td>91,3</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on the scores published by the report from the Commission of the European Communities to the Spring European Council – “Delivering Lisbon, Reforms from the Enlarged Union” - COM (2004c) 29 final/2.

(*) Close to the lowest, respectively highest, scores we inserted the first two letter identifying the name of the countries that received the worst / better position. When more countries are mentioned, it means that they are at similar low / high position.
In general, according to the mentioned report, there are several areas where strong improvement are requested in order to achieve the results identified in the Lisbon strategy. We identified the most relevant: ensuring the viability of the public finance, improving the employment and productivity still insufficient for growth, to overcome the weakness in the internal market and competitiveness, to ensure the sustainability of growth and reinforcing social cohesion; special consideration to the environment should also grow and finally it would be necessary to implement strategies in order to overcome the concerns on the sustainable development strategy in Europe. Comparing the results of the EU15 with the United States, we observe that having the US a GDP per capita higher than the EU average of more than 1/3, the labour productivity is just 1/5 higher than the average in EU. That means there is space for improving in the next years, the total employment rate is also 8% higher, but especially the employment of older workers demonstrate an opportunity to grow; in fact in US the rate of people aged between 55 and 64 is having active employment in higher proportion (20% more) than in the average of the EU15 countries. R&D expenditures in proportion of the GDP are also higher in the US. The general prices comparative level is less proportional than the higher GDP per-capita and the long term unemployment is very low in the US. The intensity of energy consumed in the private sector as proportion of GDP is more relevant in the US. Now the question is how much the new EU25 will loose in comparison with the most developed economy in the world. In order to assess the effect of the recent enlargement and in view to built up a final consideration on the perspectives to reach the Lisbon objectives we start from going to examine the results of the structural indicators for the Visegrad 4 countries.

We have to point out that from the latest report the European Commission is starting to publish the results on the indicators for the new member countries. Here below they are presented in the table 30 taking in consideration that the years of reference are the same as for the previous table.
Table 30 - Relative Performance of the V4 Countries according to the structural indicators adopted by the European Commission

<table>
<thead>
<tr>
<th>Indicators (*)</th>
<th>Average</th>
<th>CZ</th>
<th>H</th>
<th>PL</th>
<th>SK</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP pro capita in PPS</td>
<td>EU15</td>
<td>100</td>
<td>57</td>
<td>53</td>
<td>41</td>
</tr>
<tr>
<td>Labour productivity</td>
<td>100</td>
<td>53</td>
<td>65</td>
<td>48</td>
<td>58</td>
</tr>
<tr>
<td>Employment rate</td>
<td>64,3</td>
<td>66</td>
<td>58</td>
<td>52</td>
<td>58</td>
</tr>
<tr>
<td>Employment rate of older workers</td>
<td>40,1</td>
<td>41</td>
<td>27</td>
<td>26,5</td>
<td>23,5</td>
</tr>
<tr>
<td>Educational Attainment (20-24) in percent</td>
<td>74</td>
<td>92</td>
<td>85</td>
<td>89</td>
<td>94</td>
</tr>
<tr>
<td>R&amp;D Expenditures in % of GDP</td>
<td>2,0</td>
<td>1,3</td>
<td>0,94</td>
<td>0,7</td>
<td>0,65</td>
</tr>
<tr>
<td>Business Investment in % of GDP</td>
<td>17,2</td>
<td>22</td>
<td>20</td>
<td>15,8</td>
<td>26,2</td>
</tr>
<tr>
<td>Comparative price levels</td>
<td>100</td>
<td>52</td>
<td>54</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>At-risk-of poverty rates</td>
<td>15,0</td>
<td>7,8</td>
<td>10</td>
<td>15</td>
<td>n.a.</td>
</tr>
<tr>
<td>Long term unemployment</td>
<td>3</td>
<td>3,8</td>
<td>2,5</td>
<td>11,0</td>
<td>12,1</td>
</tr>
<tr>
<td>Dispersion of regional employment rates</td>
<td>12,6</td>
<td>5,8</td>
<td>9,2</td>
<td>7,5</td>
<td>7,5</td>
</tr>
<tr>
<td>Greenhouse gases emissions</td>
<td>98</td>
<td>-22</td>
<td>-0,1</td>
<td>-32</td>
<td>-31</td>
</tr>
<tr>
<td>Energy intensity of the economy</td>
<td>194,2</td>
<td>920</td>
<td>580</td>
<td>630</td>
<td>1010</td>
</tr>
<tr>
<td>Volume of transport</td>
<td>102,4</td>
<td>100</td>
<td>91</td>
<td>70</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on the scores published by the report from the Commission of the European Communities to the Spring European Council - “Delivering Lisbon, Reforms from the Enlarged Union” - COM (2004c) 29 final/2.

(*) The years of reference are the same as in the previous table.

As result of the comparison between outputs of the indicators for the EU15 countries and the V4 countries, we can observe that there is a clear distinction that characterises the newcomer members from the EU15. In the following table 31 we have evidenced the main discrepancies:

Table 31 - Comparison table of the performance of the structural indicators: average of the V4 and EU15 countries

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Comments on major differences: V4 countries in comparison with EU15</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP pro capita in PPS</td>
<td>Very low: around 50% of the EU15</td>
</tr>
<tr>
<td>Labour productivity</td>
<td>Very low: at 50 to 60% of the EU15</td>
</tr>
<tr>
<td>Employment rate</td>
<td>Around average of EU15</td>
</tr>
<tr>
<td>Employment rate of older workers</td>
<td>For H, PL, SK very low (closer to half of the EU15)</td>
</tr>
<tr>
<td>Educational Attainment (20-24) in percent</td>
<td>Very high in V4 (higher than the highest in EU15)</td>
</tr>
<tr>
<td>R&amp;D Expenditures in % of GDP</td>
<td>Quite low: at the lowest level of EU15</td>
</tr>
<tr>
<td>Business Investment in % of GDP</td>
<td>Quite high: at the top of EU15 (only PL lower)</td>
</tr>
<tr>
<td>Comparative price levels</td>
<td>Very low: at 40 to 50% of the EU15 average</td>
</tr>
<tr>
<td>At-risk-of poverty rates</td>
<td>Quite low: below the share in EU15 average</td>
</tr>
<tr>
<td>Long term unemployment</td>
<td>Critical in PL and SK, in average in H and CZ</td>
</tr>
<tr>
<td>Dispersion of regional employment rates</td>
<td>Quite low: the coefficient is placed at lowest of EU15</td>
</tr>
<tr>
<td>Greenhouse gases emissions</td>
<td>Positive change since base year; high positive improvement (no other country in EU15)</td>
</tr>
<tr>
<td>Energy intensity of the economy</td>
<td>Very high consumption of energy by GDP: (from 2 to 4 times the EU average)</td>
</tr>
<tr>
<td>Volume of transport</td>
<td>According to EU15 average in CZ, at lowest level in SK and PL</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on the scores mentioned in the above tables.
The outputs of the indicators for the V4 countries are clearly showing an average model that is differentiating from the EU 15 in the general economic development: in the V4 countries still suffering from very low GDP pro capite, with a general price level that is correspondent to that. Labour productivity could still gain large enhancements for the next decades, in particular in consideration of the very high educational attainment of the population and the space for enlarging the occupation to the oldest population aged between 55 and 64. The R&D sector is underdeveloped, but registering a quite high fixed capital in the private sector. The R&D could improve in the next years, as consequence of the accumulation that will provide sufficient funds for research and development. The share of persons with an equivalent disposable income below the risk of poverty threshold is low due to the lowest prices and low national average of disposable income in comparison with the EU 15 countries. The very high consumption of energy in the economy in relation to the GDP produced, is a demonstration of the combined prevalent productive activities (very probably some of them inefficient) and the high presence of primary transformation of raw materials. In few words, this analysis concludes that the countries of V4 are still economies in transition with high potential for development.

We have now the chance to analyse the results of a different instrument that is providing a screening of the performance of the EU countries towards the same objectives.

Blanke and Lopez-Claros has published, the most recent in the year 2004, “The Lisbon Review 2004” by the World Economic Forum, (WEF) an assessment of policies and reforms in Europe that is utilising different indicators for assessing the performance of the European countries towards the objectives of the Lisbon strategy. The indicators adopted by the World Economic Forum are strictly related to the eight distinct dimensions foreseen by the European Leaders in March 2000 while defining the Lisbon Reform Agenda. The “critical aspects” that could be considered strategic for the European competitiveness are described according to the following needs (Blanke and Lopez-Claros, 2004):
1. to create an information society for all;
2. to develop an European area for innovation, research and development;
3. to pursue the liberalisation in order to complete the single market, to limitate the state aid and to enhance the competition policy;
4. to improve the networking of specific industries like in the telecommunication sector and in the utilities and transportation;
5. to create the environment for an European efficient and integrated financial services sector;
6. improving the environment of the private enterprise, supportive for the business start-ups and an efficient regulatory framework;
7. increasing the social inclusion with lowering the unemployment, upgrading skills and modernising the social protection;
8. enhancing the “sustainable” development.

Accordingly to the above eight dimensions the World Economic Forum has reviewed also in the year 2004 the performances of the EU25 countries giving scores in scale between 1 to 7 where higher values represent stronger performance. We are going to present in the table 32 here below, the scores received by the EU15 and by the V4 countries and, just for comparison, the scores reached by the US. The numbers in the column refers to the 8 “critical aspects” listed above.
Table 32 - Ranking and scores of the Lisbon Review 2004 in the EU15, V4 and comparison with the United States

<table>
<thead>
<tr>
<th>EU 15</th>
<th>Rank</th>
<th>Average Score</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>1</td>
<td>5.80</td>
<td>5.78</td>
<td>5.87</td>
<td>5.36</td>
<td>6.33</td>
<td>6.13</td>
<td>5.48</td>
<td>5.46</td>
<td>5.97</td>
</tr>
<tr>
<td>Denmark</td>
<td>2</td>
<td>5.63</td>
<td>5.68</td>
<td>4.87</td>
<td>5.14</td>
<td>6.51</td>
<td>5.96</td>
<td>5.60</td>
<td>5.52</td>
<td>5.78</td>
</tr>
<tr>
<td>Sweden</td>
<td>3</td>
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<td>Greece</td>
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<td>3.44</td>
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<td>4.74</td>
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<tr>
<td>Average EU15</td>
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<td>4.54</td>
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<td>5.86</td>
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<td>Czech Republic</td>
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<td>3.34</td>
<td>4.01</td>
<td>5.19</td>
<td>4.03</td>
<td>4.18</td>
<td>4.40</td>
<td>4.48</td>
</tr>
<tr>
<td>Poland</td>
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<td>2.95</td>
<td>3.53</td>
<td>3.75</td>
<td>4.00</td>
<td>4.26</td>
<td>3.56</td>
<td>3.42</td>
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<td>3.89</td>
<td>3.29</td>
<td>3.34</td>
<td>3.84</td>
<td>4.50</td>
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<td>3.43</td>
<td>3.83</td>
<td>4.53</td>
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<tr>
<td>Average V4</td>
<td>15</td>
<td>3.96</td>
<td>3.28</td>
<td>3.42</td>
<td>3.93</td>
<td>4.57</td>
<td>4.39</td>
<td>3.9</td>
<td>3.96</td>
<td>4.27</td>
</tr>
</tbody>
</table>

We can see that the V4 countries rank at the bottom of the list receiving substantial lower scores than the average of the EU countries. We observe also that with enlarging Europe the distance between the US and EU25 is coming to be more evident. In order to gain in the transparency of the presentation of the results of this table we have built up the following figure 17 that is showing the average scores gained by the EU15, by the V4 and the United States.
We see also here that in all the eight dimensions the V4 countries are below the average range of the EU15 and, at the same time, that the average range of the EU15 is below the US performance, with the exception of the dimension called “sustainable development” where the EU15 present little bit better performance. The positions in which the countries of the V4 are weaker are respectively: information society, net industries, innovation and R&D, financial services, liberalisation, enterprise, social inclusion and sustainable development. This partially confirms the results of the study of the European Commission that we have examined in the previous pages.
7. Will the V4 able to combine equality (social state) with efficiency (economic performance)?

To come to the conclusion announced in the title of this closing paragraph will not be easy; in the literature we have several authors that sustain that pursuing the efficiency necessarily creates inequalities, for instance Ederveen and de Mooij (2003) and therefore the developed economic systems face a trade-off between equality, with promoting employment, and efficiency, like with improving the labour productivity. From opposite side, according to other literature, the same question finds a positive long-run association between income equality and economic performance, we mention here Gomez and Meltz (2002).

Utilising the wording of Delsen (2002: 1) we can say that «The present welfare state crisis is endogenous to its own growth in the post war period» and «well-intentioned disability pensions schemes have become a hidden receptacle for people who, because of age or unemployables, are squeezed out of the labour market. From a macroeconomic point of view a huge amount of human capital remains unused while the financial burden and the work pressure of the active part of the population have increased». This situation is aggravated by the ageing of the population all around the member states of Europe, where disability, illness, medical expenses and unemployment are also age-related. The only remedy is to reform drastically the social security systems (79) in order to obtain a reduction of the public social burden. The social expenditure during the second half of 90s is giving some signals of decreasing in the EU15 as effect of the rising employment and especially of the efforts of the member states of strengthening the public deficits obeying to the Maastricht pact (80). But, accordingly to the critical fiscal

79. From technical point of view, omitting to take in consideration the relevant social, political and economic consequences, we can identify three main policies useful for giving a solution to the problems arising from the ageing of population: increase taxation, increase the rate of the private savings and force employment period to get longer. These three policies can, of course, find a different solution in order to cope with the increased number of European aged people that after the 50s already has triplicate.

80. Scharpf (1997) demonstrates that in the previous first part of the 90s the social spending in percent of the GDP was, in the 12 member states of Europe, related directly to the average GDP pro-capita owned by their citizens. With the figure 2 at page 4, he proves that for every 10.000 USD of higher annual GDP pro capita, the 12 different European States grant overall expenditures in social transfers and services of about 10% higher GDP.
position that we have analysed, how the reduction of social expenses will be perceived and accepted in the new member states? The economic policy of the V4 cannot easily find a solution in consideration of the expectations of the population that for long time now suffers from a poor purchasing power, with prices that, in the open market tend to rapidly inflate and converge versus a stabilised average in the core of Europe. As we analysed, some temporary solution could be reached by the increase of the rate of employment in the V4 countries with reduction of the still high number of unemployed people and employing of a number of old workers aged between 55 and 64. This could be expected as positive effect of the new working places opened by the new productive investments moving towards Central and Eastern Europe. The negative integration consisting of obligations that restricts the political power of the new member states without transferring power to the supranational entity in this case could be very dangerous for the newcomer countries in Europe. Positive integration concerns when the member states agree to built up forms of institutional powers created and transferred from national level to the Union level with the conditions that these powers contains an inner market correcting process, according to Scharpf (1997); this positive integration is fare from being adopted in EU in the social sector. As result of the integration in the single market, at first it is expected to appear the income convergence and eventually only afterwards the "social" convergence. But countries that perform low social standards and benefiting from lower labour costs have a comparative advantage in front of the developed countries in the Union, as we observed already in other part of this study. Moreover negative policy competition between governments with the intention to attract foreign investments (the case of the V4 with lowering the corporate tax and keeping strong pressure on the labour remuneration protecting domestic jobs) involves competitive deregulation that reflects the negative integration. Furthermore for the countries that still have not adopted the Euro currency the adjustment in the exchange rates to differ rates of inflation is a measure that can compensate the effects of social dumping. In other terms, the variability of exchange rates, so important balancing mechanism for the economies of the V4, where the present different stage of
development and institutional structures, is also a relevant component of the actual economic policy. This important manoeuvre will be not longer available in the case the V4 countries adopt the Euro currency.

The newcomer countries according to the processes enhanced by the integration will have a tendency to increase wages and this will be more rapid when entering in the EMU area. This effect is at the same time supported by the employees and the employers of the richer countries that could benefit from the lowering of the competitive advantage of the neighbouring societies. «This process of convergence may result in cost increasing more than productivity gains» Delsen (2002: 13). Other parallel effect could be the reinforcement of the internal migration in Europe, induced by the so called “welfare shopping” or “social tourism”. But, as we will see in the following chapter, internal migration is not so significant phenomenon in Europe like it used to be in the Unites States; differences in the languages, culture are the most important barriers that are really limiting the labour mobility. Despite large and growing regional disparities, the low mobility contrast with the general theory. The theory foresees in this case a low divergence (low disparities) between regions.
1. Introduction

In this chapter we analyse the migration effects that could rise in the years ahead as a consequence of the integration of the Visegrad four countries in the Single Market. The pillar on the free movement of persons in the internal market is, in principle allowing the free establishment of residence of all European citizens in the hosting foreign member country, giving them the opportunity to participate into their labour markets and guaranteeing social assistance rights identical to those of the citizens of the hosting country. The transitional period adopted by most of the EU15 is delaying and probably strongly reducing the effects of the expected east-west mass migration.

In order to evaluate the theoretical possibility of a workers mass migration from the Central Eastern European countries towards the richer West, we first of all would consider the recent trend of absorption of external migration in some selected countries (France, Germany and Italy) to see the dimension of the past migration and to deepen the analysis over the area of origin of the immigrants living in the most attractive continental western countries. Once determined the past magnitude of the migration in the possibly most attractive western economies, we address our attention to the analysis of the labour market in the Visegrad four countries. Our aim is to find in these countries a target group available for possible emigration. Studies and researches on the effects of eastern enlargement in Europe are very frequent, they investigate over large subjects very often utilising multi-disciplinary instruments. The new economic, social and
political Europe is being proposed by economists, sociologists and political scientist in a context where uncertainty and risks overcome the control of the utilised scientific instruments making often incomplete and unable to represent the complexity that is currently under our judgement (81). New aspects, which effects are difficult to foresee, are pushing under the wind of the process of globalisation. Known processes, as the economic growth, productivity and movement of the productive factors stratify in different environments under conditions of a strong changeableness.

The EU countries, before having consolidated the rules of the single market, matured the effects of the single currency and before having shared a common constitutional charter, they prepare to integrate a mass of new citizens under acceding countries that for decades grew in a different political and economic environment (82). Quite often the public debate over the impact of the enlargement lies over misleading or non-informative figures. The proponents of the EU integration typically refer to the growth in volume of trade, the rise of the border-crossing, increase in jobs and income particularly in the less developed regions. As we worldwide observe in the last decades a general increase of trade, the same it seems to be for the increase of internal migrations.

Our scope is to explore a preliminary assessment of the factors that could prevail when predicting the flows of internal migrations in EU, the effect of internal migration in some of the EU countries during the last two decades and to compare our findings with the estimates of the existing empirical studies in order to take advantage from the applications of the macroeconomic models applied. A comparison with the flows of migration in the NAFTA area will additionally support the study.

81. The migration issues in the enlarged Europe close to the accession date has been so far the most sensitive political issue tackled by the member countries. The risk that enlargement was proceeding in parallel with the weakening of the degree of economic and political integration in Europe was clearly perceived by the largest scientific community (Boeri, et al. 2003).

82. While, in terms of workers migration, all countries of Visegrad have agreed a transitional arrangement regarding the free movement of workers concerning the following: for the first two years following accession current Member States will apply national measures, or bilateral agreements, to regulate the access of workers from the acceding country to their labour markets. These arrangements may continue up to a maximum of seven years.
The actual situation of the immigration in the old Europe is proving to have direct relationship with the economic indicators especially when we point out our analyses to the long term. In that case, the flow of migration is proved to have direct relation with the unemployment rate and with the annual variation of the real compensation per worker according to the study published by Eurostat: Theme 3, "Analysis and Forecasting of International Migration by Major Groups, (2003). In the short period, for instance, the analysis after the Germany reunification is proving the strength of economic indicators in the light of the erratic flows of immigration in Germany; but the stocks (of unemployed people) seem not to have relevance for explaining this immigration. The new economic geography describes the cumulative process of spatial agglomeration and the consequences of the clustering process that produces a larger access to the demand of goods where labour migrations are attracted by the "real wage" differentials. The study of Crozet (2003) is proving that migrants follow the market potential; but in EU centripetal forces are too weak to overcome the mobility costs.

Krugman, Obstfeld (1995: 181-188 and 209-224), mention that, as per the international and interregional trade, severe barriers are diagnosed to the free movement of the labour forces: cultural and lingual differences but, at first, in particular the political hostility that is reflected by the limitations to the mobility with impediments represented by the immigration policy and limitations to the residence. To mitigate such behaviour it will require several decades, especially in Europe (83). Other interpersonal obstacles are represented by the limited personal contacts outside the own country and the lack of informal networks limiting the personal information, that is very often restricted inside the national boundaries. In USA the labour mobility is much more reactive than in EU. A severe recession in one of the states has, of course, immediate reaction on the unemployment rate.

83. Regional differentials of unemployment and wages will not be quickly attenuated by migration and given to the low labour mobility in the region, it seems that east-west flows will be as consequence very weak (Fidrmuc, Fidrmuc and Horvath 2002). The author recognise the concept that in Europe the labour mobility is very weak, the depressed regions have largely immobile populations and large unemployment differentials generate only very small net immigration flow.
But, if the state has no possibility to recover the working places lost, the workers will move from one coast to another in America, searching for other opportunities so that after an average of 6 years the level of employment - according to the statistics - is regaining the original equilibrium Krugman, Obstfeld (ibidem).

More recently the big fears about job losses due to enlargement have extended and concentrated on the analysis of high skilled labour groups and IT jobs (84). Even if low job costs will be competitive for some decades in the Eastern Europe, the enlargement leads, according to a study published by Dalia Marin (2004), to a small job losses in consideration of the fact that especially in Austria and Germany these kind of jobs do not compete with jobs in CEECs. Furthermore low costs jobs help German and Austrian companies outsourcing the skilled labour in Eastern Europe and help the affiliates of the big Western corporations to be competitive on their business. It looks quite clear that the reason for a 10% of high skilled jobs transferred from Germany to the Eastern Countries and an even bigger amount from Austria (48% is the result according to the above mentioned study) during the 90's should be the lack of human capital offered in the two mentioned countries. Very interesting will be to evaluate the magnitude of transfers of the good jobs, the high skilled, R&D and IT subsidies to the CEECs because, according to some first indication, there are already several cases to transfer such a high qualified activities in the CEECs. This forces the need for liberalise high-skilled qualified jobs in all central Europe.

2. Methodological note

Our main objective is to pursue an estimation of the maximum number of possible future migrants considering some starting pre-conditions:

- In the next mid term (maximum ten years), the actual number of employed people in the V4 countries will not diminish (in consideration that the current positive economic growth will continue).

84. The migration involves – additionally - some losers notably among the unskilled and the least mobile components of the population in the countries of destination according to Boeri, et al. (2003).
• Restructuring of the agricultural sector in the V4 will release progressively new labour forces that will compensate the expected decrease of the number of unemployed in other sectors (the total number of unemployed will result finally in equilibrium).

• Finally that, as it is well described in the literature, only a part of the unemployed people will choose to leave the country (in consideration of the low labour mobility in Europe).

An examination of the major recent studies produced on the same subject (forecast of the magnitude of the east-west migration in Europe for the next decade, 2004-2013) will help to consolidate this scenario, taking in additional consideration the results of the analysis of the analogous immigration flow from Mexico to the United States during the NAFTA agreement (in consideration that the USA labour market looks to be more dynamic than the Single Market, but similar as far as dimension is concerned).

This work is concentrating the attention on the internal migration in the European Single Market, having as its main objective the analysis of the following dimensions:

• the longitudinal migration trends in the last 20 years in some EU countries;
• the country of origin of the migrants;
• the composition of the labour market in the V4 countries;
• the longitudinal migration trends in the last 10 years in NAFTA.

We found useful, in order to measure the anticipated dimensions, the utilisation of the following indicators:

• the immigrants flow in the selected countries;
• the nationality of the residents in the selected countries;
• the number and the rate of employed and unemployed in the V4;
• the immigrants flow from Mexico.

In performing the analysis we utilised simple statistical elaborations on data from the following official sources:
3. Migration trends: A longitudinal analysis

Before investigating and commenting the result of some recent studies over the migration in Europe between the new members and the developed countries in the old EU, we intend to present a short evaluation of the migration trends in three countries of the old Europe in the last decades. The selected countries are: France, Italy and Germany. The criteria for selected these three countries is just because of the different immigration policy adopted and the discordant resulted trends. The elaboration of the migration data flow, here referred, is founded over the data published by the Eurostat publications.

The French case: France represents a country where recent labour immigration is relatively stable, besides of the picks in the years 1982 and 1992. The relatively low number of labour immigrants, (10-15,000 as average per year during the two last decades) had a consistent increase during the two mentioned years. The massive regularisation that intervened in the 1982 was the real cause of this massive increase of registered immigrants. In fact in 1982 approximately 97,000 applicants were granted legal status (being before unauthorised residents in France). In December 1991, 1993 and 1995 the regularisation campaign was reiterated with introducing stricter conditions for acquiring the residence permits.
and for family reunification. As a result of such actions in the year 1992 it was registered a second peak with some 42,000 new registered immigrants. Besides that, the number of foreign immigrants was relatively stable from 1984 till 1989 and from 1995 till 1997. Also certain foreigners, remaining illegally in the country, but parents of French children, were entitled to the residence permits following the provisions of the Act on Immigration Control issued on 1993. In the year 1997 a new large group (80,000 people) received these permits (most in family system). Former colonies and North Africa are the prominent origin of provenience of the immigrants. During the war in former Yugoslavia a larger number of immigrants were coming from the Balkan countries. In order to have a prospect of the magnitude of the registered immigration flows in France during the period from 1981 till 1997 we present the following figure 18.

Figure 18 - Long-term labour immigration flows in France

France: Labour Immigration flows

Source: Own elaboration base on data source Eurostat, Theme 3, 2003.

(*) from 1984 till 1989 included the average of the six years period was of about 10 thousand immigrants per year.
As we can see, besides the two years when the regularisation process caused a large number of new registered immigrants (1982 and 1992), the most recent trend is proving to stabilise below 20 thousands immigrants per year.

The Italian case: the transformation from emigration country to immigration country in Italy is dated 1972. According to the study of Montanari and Cortese (1993) this transformation resulted from the effect of two different but concomitant aspects: the return migration of old emigrants mostly from Western Northern Europe and a large number of immigrants from Africa, Asia and Latin America. The increasing trend of migrations (both emigration and immigration) is directly coupling with the trend of unemployment. Available data from 1960 confirms that, during the first period 1960-1972, the migration flow as result of the two phenomena was quite stable and that it accounts for a negative balance (less 100.000 migrants per year). From 1972 till 1988 the balance between the incoming and outcoming was very close to zero with a strong effect of the return migration. From that time (1988) the immigration is prevailing and the country is registering in average a number between 100.000 to 150.000 of new immigrants per year that are entering in the country. The number of immigrants from third countries from 1985 till 1989 is relatively stable below 100.000 per year, while starting from the year 1990, more than 60.000 (registered) Albanians went to Italy, practically doubling for some years the average number of immigrants. The following figure 19 is synthesising the flow of labour immigrants above described:
The immigration policy in Italy is considering four entry systems, which are: the entry system related to a job, to asylum, to students and finally for family settlements. From 1986, followed in 1990, in 1995 and in the year 1998 several regulations of illegal immigrants took place in Italy. This unfortunately created possibly the expectative of an illegal entry in EU, that spread as a common behaviour in the world of immigrants from external EU. If we consider the number of persons applying for the amnesty in the year 1998 (around 400.000) and compare with the previous provisions (1996, some 250.000 cases, 1990 230.000 cases and the first in 1996 with 118.000) (Eurostat, 2003) we can easily understand that an ideological negative potential is growing, which can be defined shortly as “illegally is the best”. Growing grey economy, unregistered jobs and irregular residence is the worst terrain that attracts a profiteering scam run by criminals that has nothing to do with labour immigration. This informal economy characterises all Southern European systems, and it expands as consequence of the larger number of individuals absorbed by the informal sector (Bruecker 2001, Krieger 2004).

The case of Germany: in presenting the migration flows in Germany we have at first to point out the relevance that the German unification and the collapse of the Communist regime had for the labour market in the country. We distinguish, according to the German tradition, between the “Aussiedler” (ethnic Germans
entering the country) and the “Übersiedler” (people moving from East to West Germany). After the reunification the last category is not more considered as immigrated but just as a likely effect of the internal migration from different Landers. This phenomenon was quite impressive if we consider that only in the year 1989 more than 388,000 people was moving from East to West. In the year 1990 the highest number of “Aussiedler” was constituted by 133,872 immigrants from Poland, 147,950 from former Soviet Union and 111,150 from Romania (Department of Economic and Social Affairs - UN, 2004 and Eurostat, 2002). Here below, in the following figure 20, we selected the number of immigrants in the country from the year 1985 till 1997.

**Figure 20 - Long term labour immigration flows in Germany**

![Graph showing labour immigration flows in Germany from 1985 to 1997](image)

*Source: Own elaboration base on data source Eurostat, Theme 3, 2003.*

The growing number of foreign labour immigrants in Germany grew till the unification and peaked up in the 1992 when it overcame the number of 400 thousands new immigrants. After that year the number is stabilised at around 250 thousand (per year).

Germany, which is the country that applies par excellence the “ius sanguinis”, has based most of the legislative policy from the early 90’s in favour of facilitating the naturalisation process giving more space for the prerequisite of the
“Aussiedler”. But in 1992 having observed some years of intense immigration the new German Law limited the incoming migration of ethnic Germans to 200,000 people per year. Also the number of non-EU immigrants was reduced in the following year and in the year 1995 with the programme for “Gastarbeiter” a special scheme was introduced for the workers that, being involved in an intensive programme of training, agreed with the conditionality to return in their country of origin at the end of the scheme.

Inevitably, from long time in EU countries live a large number of foreigners coming from the CEECs and former SU countries. The statistics highlight also the differences between gender of the foreigners registered in the countries of old EU. The number of male foreign citizens is giving the indication of the most stable working positions in the labour market of the destination countries. The composition of the foreign citizens in a country gives some indication about preferences, migration paths, longitudinal dimensions of the immigration phenomena, cultural and linguistic preferences, etc. Eurostat in the year 2003 has published interesting data of the composition per provenience of the foreign citizens living in the EU15 countries. We have selected five countries of destination according to the specific dimension of the presence of foreigners. The countries selected are: Belgium, Germany, France, Italy and Austria. The countries of provenience have been also grouped according to the following geographic areas: CEECs and former SU countries, Turkey Malta and Cyprus, Africa and other provenience.

The highest percent of citizens from CEECs and former SU countries lives in Germany and Austria, some part also in Italy. The immigrants with origin of African countries are concentrated in France, Belgium and Italy. It could be interesting to emphasize that in the total of EU 15 countries, the provenience is well distributed between the groups of countries as it can be seen in the following table 33 here below.
Table 33 - Provenience of Male Citizens from third countries living in the selected countries of EU15 in the year 2002, percent from total foreigners

<table>
<thead>
<tr>
<th>Country Origin</th>
<th>Belgium</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>Austria</th>
<th>Total EU 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEECs and former SU</td>
<td>7.7</td>
<td>31.7</td>
<td>6.8</td>
<td>23.3</td>
<td>63.7</td>
<td>23.9</td>
</tr>
<tr>
<td>Turkey, Malta, Cyprus</td>
<td>17.5</td>
<td>44.5</td>
<td>8.9</td>
<td>0.5</td>
<td>23.3</td>
<td>25.3</td>
</tr>
<tr>
<td>Africa</td>
<td>57.1</td>
<td>5.8</td>
<td>69.5</td>
<td>40.5</td>
<td>1.7</td>
<td>24.3</td>
</tr>
<tr>
<td>Others</td>
<td>17.7</td>
<td>18.0</td>
<td>14.8</td>
<td>35.7</td>
<td>11.3</td>
<td>26.5</td>
</tr>
</tbody>
</table>

Source: Own elaboration from the “Statistiques en bref” Eurostat, Thème 3 - 2/2003 - Migration des femmes et d’hommes en provenance et a destination de l’Union européenne

In average one quarter of the total of the Male Citizens residing temporarily or definitively in the EU15 is coming indifferently from one of the blocks described in the following tables. We can additionally observe that from the CEECs and former SU countries migration was very high in Austria, being close to the 2/3 of the all foreigners and in Germany (being mostly 1/3 of the foreigners). But, as we have already highlighted, the special circumstances of Germany should be considered as a specific case.

4. Tendency of emigration from the V4 new member states

We would now proceed to investigate the number of possible labour emigrants based on the number of actual people on working age unemployed in the V4 countries. We are aware that there is no direct linkage between this number and the magnitude of the possible future labour migrants from the origin countries – in particular to the weak labour mobility in EU; nevertheless it seems very improbable that the number of emigrants could, in short run, overcome the number of unemployed people (Douven 2002).

We move forward considering at first the number of workers occupied in the four main economic sectors in order to have a first balance of the situation, as displayed in the table 34.
We consider here the four countries of the Visegrad 4 agreement (V4). The analysed data are referred to the year 2002 (85).

Table 34 - Number of occupied workers per sector and per country (year 2002)

<table>
<thead>
<tr>
<th>Country</th>
<th>Industry</th>
<th>Construction</th>
<th>Trade</th>
<th>Services</th>
<th>Total per country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>1,509,881</td>
<td>391,565</td>
<td>718,761</td>
<td>502,851</td>
<td>3,123,058</td>
</tr>
<tr>
<td>Hungary</td>
<td>834,714</td>
<td>112,095</td>
<td>n.a.</td>
<td>278,107</td>
<td>1,224,916(*)</td>
</tr>
<tr>
<td>Poland (**)</td>
<td>2,757,680</td>
<td>574,553</td>
<td>1,212,107</td>
<td>726,084</td>
<td>5,270,424</td>
</tr>
<tr>
<td>Slovakia</td>
<td>472,757</td>
<td>76,733</td>
<td>146,629</td>
<td>134,478</td>
<td>830,597</td>
</tr>
<tr>
<td>Total per sector</td>
<td>5,575,032</td>
<td>1,154,946</td>
<td>2,077,497</td>
<td>1,641,520</td>
<td>10,448,995</td>
</tr>
</tbody>
</table>

Sources: Own elaboration from Eurostat “Statistiques en bref” Thème 4 - 21/2003 - Les statistiques structurelles des entreprises dans les pays candidates

(*) The number of occupied workers in Hungary is just partial, which not includes the occupied in the trade sector (in general the figures for this country appear underestimated.

(**) The number of the occupied workers in the Services sector of Poland is calculated from other sources as percent of the total number of employees.

It should be manifested the incongruence in the above figures regarding Hungary, in fact, if we combine data from the following table, the number of the employed people is far from reflecting the total employment in the four mentioned sectors, while agriculture (which is not included) in Hungary represents, according to our estimation, the numeric difference. As consequence in the following of the study, although we continue to indicate the dates for Hungary, we are not in the position to demonstrate the validity and reliability of these figures.

In the following table 35 we analyse the employment rate in the four V4 countries as percent of the population in working age (15-64 years).

85. The following data has been abstracted from the publication of Eurostat “Statistiques en bref” Thème 4 - 21/2003 - Les statistiques structurelles des entreprises dans les pays candidates.
Table 35 - Employment rate as percent of population in working age 15-64 years (in year 2002)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total % of employed</th>
<th>Population at age 15-64</th>
<th>No. of employed</th>
<th>% Female of the total population at age 15-64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>65,4</td>
<td>7.170.600</td>
<td>4.689.572</td>
<td>57,0</td>
</tr>
<tr>
<td>Hungary</td>
<td>56,6</td>
<td>6.908.400</td>
<td>3.910.154</td>
<td>50,0</td>
</tr>
<tr>
<td>Poland</td>
<td>51,5</td>
<td>26.472.600</td>
<td>13.633.389</td>
<td>46,2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>56,8</td>
<td>3.774.600</td>
<td>2.143.972</td>
<td>51,4</td>
</tr>
<tr>
<td>Total in the V4</td>
<td>54,9</td>
<td>44.326.200</td>
<td>24.377.087</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Own elaboration from Eurostat “Statistiques en bref” Thème 4 - 21/2003 - Les statistiques structurelles des entreprises dans les pays candidats

We can assume that the difference between total employed people in the V4 in the year 2002, which is equal to 24,3 million and the number that we collected from the previous table of total occupied in the four sectors in the year 2002 (10.4 million) - that is resulting to be between 12 to 14 million employed (besides the number of employed in Hungary) it could be allocated in the remaining sectors and mostly in the first sector (agriculture).

In the last table 36 we display the unemployment rate in the four countries divided by female, and people under 25 years. From the percentage we calculated the number of people unemployed in the four countries.

With a fast growing economy (GDP is growing at the pace of 4% per year in the V4) it seems predictable that most of the current unemployment in the Czech Republic and in Hungary will be absorbed by the local labour market. Different judgement should be deemed for Poland and Slovakia. This last country is having an economy still under restructuring but performing very positively. Several FDI will start with green field investments in 2005 and 2006; the number of new working places is expected to growth rapidly. While Poland remains a strong potential for labour migration in the closest developed countries, especially Germany, Austria and some of the Northern states having attractive social security systems. Furthermore the composition of the population by age is showing a high
number of young unemployed with less than 25 years; they are more attracted to effort stable jobs outside the country of origin.

Table 36 - Unemployment rate per country in the year 2002

<table>
<thead>
<tr>
<th>Country</th>
<th>Total % of unemployed</th>
<th>% of female unemployed</th>
<th>% of under 25 on the unemployed</th>
<th>Estimated number of unemployed in million</th>
<th>Estimated number of unemployed under 25 in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>8,0</td>
<td>10,3</td>
<td>18,3</td>
<td>0,400</td>
<td>0,073</td>
</tr>
<tr>
<td>Hungary</td>
<td>5,9</td>
<td>5,7</td>
<td>12,8</td>
<td>0,250</td>
<td>0,032</td>
</tr>
<tr>
<td>Poland</td>
<td>19,1</td>
<td>19,9</td>
<td>40,7</td>
<td>3,100</td>
<td>1,261</td>
</tr>
<tr>
<td>Slovakia</td>
<td>16,6</td>
<td>16,9</td>
<td>30,5</td>
<td>0,400</td>
<td>0,122</td>
</tr>
<tr>
<td>Total</td>
<td>4,150</td>
<td>4,261</td>
<td>3,100</td>
<td>14,88</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Own elaboration from Eurostat “Statistiques en bref” Thème 4 - 21/2003 - Les statistiques structurelles des entreprises dans les pays candidats

5. Description of some studies on migration published in the last decade

During the last decade there was a flourishing of studies prepared by institutes and universities striving over the question: will the recent enlargement give an opportunity for a large migration of people from the east towards the developed economies of the old Europe? We considered useful to analyse some between of the most frequently mentioned studies in order to collect the recurrent results of the researches, which, utilising econometric models, convene, as we will see in the following pages, to very comparable outputs.

We start commenting the study of Herbert Bruecker «How can Trade Migration and Capital Movements between the EU and the CEECs effect wages and employment?» (2001). This study comes to the conclusion that according to the trade patterns, wage and employment will remain mostly unaffected in the old EU. Trade growth between the acceding countries and EU15 have still a certain possibility to increase and the dismantled barriers have not yet produced the exhausting of the potential increase of trade volumes. The dramatic reorientation of the trade flows of the CEECs towards EU15 is not yet come to the end and also
the magnitude of FDI flows is still expected to increase. Considering that the mobility of labour is mostly related to the differentials of income pro capita in different EU countries, and in view of the fact that the pecuniary incentive for migration will diminishing only slowly due to the inertia of the process of convergence the study is coming to the conclusion that in Germany, the country more effected by the enlargement (together with Austria) there will be some 350,000 immigrants from the 10 acceding countries as the initial yearly immigration, of course after the free movement of labour is guaranteed. The study is also predicting two different scenarios: in case that a very pessimistic assumption on employment in old EU this number will decrease by 20% and under an extreme optimistic expectation vice versa the long run migration will increase by 25%. Exceptions can be seen in the border regions, where in case of the effect of high transports cost and low factor mobility, the mobility of labour could exacerbate. Due to the quite good educational degree of the emigrants from the CEECs the study underlines the possibility that the blue-collars workers in the old EU may be more damaged from the immigration coming from the new EU. The transitional period requested by Austria and Germany before opening the labour market (seven years, the maximum according to the treaties) will smooth the immigration flows.

The second study analysed is edited by Heinz Fassmann and Rainer Munz, with the title: EU Enlargement and Future East-West Migration in Europe (2002). This study is presenting an interesting analysis of the model based projections done by different surveys (micro level studies) and macro-analytical model based calculations and published in the recent last decade. The estimations are normally based on the assumption that there is interdependence between the size of migration flows and the level of wage differences. According to this approach, the difference in the wage level can be the engine for the labour migrations between two or more regions. The magnitude of this migration will depend, at first, to the differential between the wages and secondly from the extent of the spatial mobility. Through a correlation that can be estimated on the basis of empirical studies, the extent of the migration could, in this way, be projected in the coming
years. The experience of the U.S. model (where, we repeat, the labour mobility is higher than in Europe), is showing a range between 0.05 to 0.15 percent of the population that from one state that will move - in case of a positive differential in the wage incomes (at minimum of 10%) - in another state while the conditions of full freedom of labour movement are satisfied.

If we apply this ratio, the annual net migration from the CEECs to the old EU will be quite high: 45 million of people living with wage levels several times lower of that of the developed EU countries will force up to 1% of the population to migrate! But the labour mobility in Europe is more relaxed. Further empirical evidence for the correlation between the income difference and the migration flow is done by the analysis of the stock figures of the foreign residents in the most attractive countries. Unfortunately this calculation, based on longitudinal trends, is moving in an uncertain terrain first of all because is not taking in consideration the conditions of the commuters, which could be reflected in alternative to the permanent migrants, and mainly because it has no specific rules for predicting any changes due to the moving economic and different political environment in EU.

The case of Spain, from the southern enlargement is proving that from the over 200,000 people leaving the country in 1970, the number decreased 10 year late to 120,000 and after Madrid jointed EU in the early 1990, the number of emigrants was reduced to 2-3,000 people per year (86).

The future of the CEECs is still unpredictable and if the strong economic growth in these years could be interpreted very positively for a rapid catching up with the developed EU countries, this, of course, could affect definitively the tendencies of migration in the V4 area.

The study is furthermore including a summarising table of the selected macro-analytical model-based calculations collected by the authors that is being attached in the following note (87). There is some interesting observation to be done after

86. Of course there is no way to make a comparison: too many elements differ, like the stage of economic development, the behaviour of the working population, the expectations for the future, the level of wage differences, etc.

87. In the following table we present own elaboration based on information collected in the mentioned study (Fassman, Munz 2000: 38):
having considered carefully the results of the studies listed in the note. At first that as we keep the simulation limited to the short time (some years) the results become more precise and the expectation are for a lower intensity of migrating people. Second that the studies, even when they adopt a different model, come up with results that are close each other, providing perspectives of immigration in the old EU that are acceptable for the policy makers of the member states. The mentioned study is also estimating with a micro-analytical survey the result of the migration potential in the CEECs using alternative techniques to these described

<table>
<thead>
<tr>
<th>Author</th>
<th>Method</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sinn et al.</td>
<td>Regression model looking at the correlation between the changes within the stock figures of the Greek, Italian, Portuguese, Spanish and Turkish resident population in Germany at the wage differential plus further factors; projection of the stock figure of the Polish, Rumanian, Czech and Hungarian population in Germany on grounds of the observed and expected wage differentials</td>
<td>In the long run an East-West migration is expected that affect up to 4-5% of the total population living in the countries of origin. This would mean an average of 200.000 - 300.000 persons migrating to Germany per year.</td>
</tr>
<tr>
<td>Brueker et al.</td>
<td>Regression analysis looking at the emigration rate from East Central Europe to Germany correlated with the GDP per capita and Purchasing Power Parity, and with the level of employment in the countries of origin and destination.</td>
<td>Annual East-West migration from 10 Central and East EU states would start at the level of approx 336.000 people in 2002 and decline up to 2.400 in the year 2030.</td>
</tr>
<tr>
<td>Bauer, Zimmermann</td>
<td>Econometric simulation based on empirical data of migration flows taking place after the Southern enlargement of the EU.</td>
<td>Between 2001 and 2015 an East-West migration flow is predicted that would ultimately lead to the emigration of at last 3% of the population of the new member states</td>
</tr>
<tr>
<td>Walterskirchen and Dietz</td>
<td>Assessment of the emigration potential based on the extrapolation of expected incomes differentials - GDP per capita and Purchasing Power Parity - whereby it is assumed that a 10% income differential will lead to an annual migration of 0.05% of the total population of the poorer region.</td>
<td>Annual East-West migration from Poland, Slovakia, Slovenia, Czech Republic an Hungary for an estimated number of 220.000 people</td>
</tr>
<tr>
<td>Franzmeyer and Bruecker</td>
<td>See above, however with higher coefficient modelling the interrelation between income differential and migration rate.</td>
<td>Annual East-West migration from Poland, Slovakia, Slovenia, Czech Republic and Hungary between 340.000 and 680.000 people</td>
</tr>
<tr>
<td>Layard et al.</td>
<td>Extrapolation based on the South-North migration in Europe between 1950 and 1970.</td>
<td>The migration potential of all CEECs is estimated at 3% of the total population. The duration of this effect will not overcome the period of 15 years.</td>
</tr>
</tbody>
</table>
above (utilising analysis on a household or individual level via surveys based on interviews). The outputs are also in this case coming to the same conclusion: the expected number of migrants will not be higher than 200,000 to Germany and some 50,000 to Austria. The authors in the conclusions are evidently effected by the political pressure that is coming from the trade unions and from the political parties in Germany and Austria that are afraid of the opening of the barriers to the migrants from the closest countries. In fact they propose and conclude with the clear recommendation to adopt transitional arrangements restricting the freedom of movement for a maximum of five to seven years (as it has been actually adopted) from the time of accession. These restrictions will last till 2009-2011 and after that time the situation is expected to change: Austria and Germany will probably need new skilled labour force, due to the ageing of population; the CEECs will be more relaxed about unemployment due to the positive effects that the huge foreign direct investment will produce; in the meantime a large number of new working places, could reduce dramatically the unemployment. It will come the time, according to the authors, when the old Europe will look at the immigrants coming from the CEECs, as the most important factor of growth of the productions.

Other authors effort important analysis on the EU labour market, like Tito Boeri and Herbert Bruecker with the study: *Eastern Enlargement and EU Labour Markets: Perceptions, Challenges and Opportunities* (2001). The authors focus on trade, FDI and migration. The first two issues are very unlikely to produce a compensation of the prices of factors, and a relatively high pressure on migration can be expected for a long period. They base their study on a time series analysis applied to a model of immigration in Germany. The findings highlighted are: the migration from the CEECs to Germany that will reach in 30 years the considerable number of 3,5 million persons. Some 335,000 people in the first year but decreasing year by year in few year not more than 100,000, 150,000. This particular calculation is based on total immigration, if we distinguish specifically the labour migration this number will be limited to 1/3.
Not always the studies above described are defining if they evaluate total numbers of population that will migrate or the total population that originally is present in the country with respectively the labour migrants or the foreign labour forces in the country. A microeconomic exercise developed from the same study is proving that the immigration will have a very soft impact on wages and employment in the country of destination. Also in this case the regions located close to the borders with the CEECs will be most affected and the expectation is for a intense exchange of commuters particularly in the region from Bratislava and Vienna and from the Czech and Polish border towards Germany. Catching up, and the initial conditions of the PPP utilised to measure the speed of the convergence are basilar conditions for the simulation of the attractiveness of the migration towards the richest countries. The authors base their calculations on the estimations from World Bank, (which range the income levels in the CEECs around 1/3 of the average of the EU15). Eurostat is giving a better result (around 40% of the EU15). In any case the situation is not homogeneous also between countries of the same area.

We continue with the study of Fritz Breuss and Jean Tesche, «A general equilibrium analysis of east-west migration. The case of Austria-Hungary» (1996). This study is based on a model that is simulating the effect of immigration in three countries (Austria, Scandinavian Countries and Germany) with a 14 sectors computable CGE, with the following variables: labour market, productions and macro economy. The short development of immigration affects increasingly local unemployment and decreasingly the income in line with the general theory of the migration. A total number of 3,5 million immigrants to the EU15 is confirmed to migrate from the CEECs during the next 20 years. Part of this immigration that would be addressed to Austria will have a slightly positive effect on the GDP of the country only in the case, foreseen in one of the simulation, that Austria manages a more flexible labour market.

Hubert Krieger (2004) with the study “Migration Trends in an Enlarged Europe” deals with a difficult political subject and difficult in methodological terms: this could be the conclusion drafted by the author, he comes to similar
result as we have seen in the previous cases and he expects that the wave of immigration in EU15 will not be dissimilar to the case of the Southern enlargement, that means very mitigated. In terms of precise data: 1,1 million migrants in the first 5 years. It could be interesting to note that he describes correctly also some serious limitations of the study in particular as regards the indicators that do not provide the target country, no length of stay in the country by the immigrants, no calculation of the number of commuting workers in the border regions between CEECS and EU15 and finally no calculation of the return migration.

Summarising the relevant outputs of the researches here above analysed we could point out few basic common achievements: in the long run the internal migration from East to West will continue with a magnitude that could reach up to 1% of the present population in EU15. The economic effects of migration will be limited to small net gains in terms of output pro capita in the hosting country; it is not expected that migration will affect visibly the native unemployment even if these effects are not spread equally in the local population.

Another document analysed, the Information Note of the European Commission on the “Free Movement of Workers in the Context of Enlargement”, (2001a), is furthermore explaining that the European Agreements newer took a position about employed work in the EU for nationals of the accession countries. As we have analysed a certain number of workers having the nationality of one of the accession countries are in fact present in EU according to specific national regimes or bilateral agreements. Free movement of labour is defined by article 39 of the EC Treaty and has been achieved before the expiry of the transitional period fixed until 1991. It could be interesting to note that transitional arrangements applied also for the Southern enlargement of Greece, Spain and Portugal in 1981 and 1986 with imposing a general safeguard clause concerning serious and persistent economic problems in a sector or a region. For the last two countries the transition period was determinate in 7 years that were reduced because the fear of a big wave of migration was considered to be inconsistent after some time. The member states but also candidate countries, regions and sectors
have the possibility to differentiate between several options like the full and immediate application of the *Acquis*, to adopt safeguard clauses, to establish flexible systems of transitional arrangements, to establish a fixed quota or finally to not applying the *Acquis* for a limited period of time.

6. Migration flows: An analogy based on similar case study

We have seen that "similarities in the initial differences", as they are called by Boeri and Bruker, (2001), between EU-15 versus CEECs like in Canada/USA versus Mexico and they seem to be really relevant. We are going to investigate whether the migration trends could be comparable and if we could learn some lesson from the analysis of the flow of migrants from Mexico to US. The recent flows of legal migrants in this case towards the US from Mexico can be summarised by the following figure 21:

**Figure 21 - Mexican migration in the USA**

![Graph showing Mexican migration flow in the USA](image)


The share of the population that emigrated during the mentioned years is about 0,40% having a peak in 1990 till 0,90% in 1992, down to 0,12% in the years of low emigration (1995, 1996) and up to 0,20% in the more recent years. The date of establishing of the NAFTA agreement for Mexico was 1994. As we can
observe from the above figure, after the agreement the immigration of Mexican (unskilled) workers in the US recorded even a decreasing tend. In any case the flow stabilised in the recent years as consequence of a restriction in the immigration laws (limitation of the green cards of immigrants’ visas to 140,000 per year) (88). The big problem that suffers the US migration is the high number of unauthorised immigrants living in the US. The number of the Mexican is calculated to be around 5-6 million (probably a half of all irregulars living in the country), according to diverse positions presented to IRPP Conference on North American Integration, in April 2004.

The first agreement, the Canada-US Free Trade Agreement was signed in 1989. The number of Canadian immigrants in the US is very limited and is composed, at the contrary of the immigrants coming from Mexico of quite high labour specialisations. The overall Canadian immigrants were below 15,000 per year during the period 1986 till the year 1990. But from the last years their number is growing: 19,933 in 2001 and 19,519 in 2002 with a growing tendency in 2003.

We can attempt to come up with some conclusions from this case that present analogies: we have at first to take in consideration that the EU internal market and the NAFTA common agreement differ from the level of integration, the economic policies pursued in the participating countries, while the dimensions of the two markets are similar like similar is the number of employed people and comparable level of development of the economies. The very unusual similarity that we have to record is in the number of immigrants from Mexico entering to the States, which is comparable to the number of migrants from eastern countries expected to move towards the more developed countries in the old Europe.

Restrictive immigration laws have stabilised at 200,000 per year the number of new entrants in the United States from Mexico. These measures are necessary to

88. According to the immigration Act of the 1990 the number of worldwide immigrants in the States is fixed and the different categories have an annual limit that could rage between 421,000 and 675,000 depending of the admission in the previous years. These categories and their limits include family-sponsored preferences (the majority from 226,000 till 480,000 persons), employed based preferences (140,000) and diversity immigrants (55,000). The employment preferences limit can be higher than 140,000 if family preferences go unused in the previous years.
reduce drastically the pressure that brought in the US during three years (from 1990 till 1992) over 2 million new immigrants from Mexico. Could it happen also in Europe when similar conditions are met?

7. Predictable and unpredictable events that can move internal migrations

Studying international movements of factors, we need to analyse the conditions affecting migration of the labour force (migration of the low or high qualification of labour), taking in consideration that labour is usually less mobile than the capital factor. The chance of emigrating for the EU citizens represents we assume a deep content of “personal freedom”.

In the countries where there is a high concentration of shadow economy we can observe a strong participation of flows of illegal economy (see the case of USA). The problems linked with the illegal immigration in EU are mostly due to the inflow of persons coming from the North Africa region and in general to the most underdeveloped countries having a low labour qualification and some times due to the emigration with political motivation. Deterrents could be found with the regularisation of the immigrants that prove to be resident in the country for more then a certain period of time and with penalising with high fines the employers that assume illegally foreign workers.

We can expect in the coming years some additional problems due to the stabilisation of the internal labour market in Europe:

- Illegal economy could attract in case of important savings in the remuneration (89) a large number of workers with low specialisation. This seems less realistic for the citizens coming from the new countries (90).

89. We have seen that one of the relevant conditions for the labour mobility is the earning evaluated as the spread of remunerations between the local labour market and in the foreign country, as it is well described by the theories of the new economic geography.

90. Social protection in EU is covering all citizens, of course with different intensity, but people working in the shadow economy loose most of the social protections. Due to the closest experiences of the communist time, especially the oldest generations of workers from the V4 countries, are little in favour of irregular jobs outside the own country.
• The condition regarding the high qualified labour force is different: some of them have the possibility to find a good job in their country of origin thanks to a growing economic environment. But, most of the young, well educated people prefers to find a temporary job outside in the developed countries receiving high remuneration.

• Different situation could be found in case of temporary employment with high remuneration, in this case specialised workers coming from the accession countries will be in competition with the high unemployment offering qualified specialist at home that is offering a second or third job at the condition of being free from taxation and regularisation.

The current aspects that affect the migration flows need first of all to be confronted with the rapid trend of adjusting of the average salary and the correspondent purchasing power that the employees can earn in their countries of origin. As much higher is the difference between the net earnings that they can receive in the hosting country in relation to the net earnings in the country of origin as much they will be attracted to leave their home (Fassmann, Munz 2002). We can easily adopt the following rule indicating the ratio of economic return / indicator of attractiveness for the country A: Ratio of economic return / Indicator of attractiveness = number of years expected to be worked before the pension * Difference of the real salary between the earning abroad and the salary in the country of origin. (Salvatore 2002: 469-501).

To the latest should be added / detracted a value for the benefits deriving from the education of children and the opportunity for employment of other members of the family. The alternative cost for the new dislocation should consider additionally the costs of transport; losses on the salary for the time spend searching of the new working place, the difference of the cost for the new accommodation in the hosting country. Other aspect that, is not so easy to quantify, but in the same time it seems to have a certain relevance, is related to the separation from the relatives, friends and the acquaintances, the difficulty of a new idiom. Finally the attraction due to positive differences in the social
protection is playing, according to several studies, an increasingly importance, as we have analysed in the previous chapter (Bruecker 2001).

As result of the previous considerations we could expect that the main constraints could derive from Poland where an highest group of labour force nowadays concentrated in the primary sector as effect of the agricultural restructuring (Salvatore, 2002) will become in few years unemployed and possessing probably a low social capital, will press on the borders with Germany and some Northern countries in order to live socially and economically active. This pressure at first will be direct from the Polish countryside to the urban sites but being so numerous (we can easily calculate that more than 1 million of Polish farmers will be effected by the restructuring) they will try to emigrate, an high unemployment is nowadays still to be considered additional to this basic number.

In general advantages to the general wellness of the states coming from the direct or indirect effects of the international migration of labour are clearly identifiable from the increased production of the hosting country. In the country of origin it is clearly identifiable a redistribution of the national product in favour of the factor “capital” and also in different part in favour of the factor “labour” due to the deposits of emigrants. The effects are exactly opposite in the hosting country. The “flight of brains” is the result of the enormous cost for the instruction which are supported and have no return in case of a large emigration of highly specialised labour forces.

The specific of the CEECs is that being till the end of 80s living in a communist regime, population was not affected by almost two generations from labour emigration. At the contrary the rule was that the state will find a job for you, you have any chance to leave the country and the only way to improve your economic and social power was to obey to the ideology. Somebody could object that also in the first generation of emigration in the poorest Western countries of the old EU in the 50s and 60s there was little experience from large emigrations of all members of the family. In the mentioned similitude we should consider that the
economic and social conditions were not comparable with the conditions that population at labour age lives in the CEECs today.

The effects of eastern enlargement to the third countries and in particular the impact with some states participating to the former URSS bordering the new member countries, is not largely discussed in the literature even if it could bring quite important positive and negative effects for the third country (external to the EU border) (91).

In conclusion, the weakness of the demographic structure in the old Europe is stimulating the discussion on the possible economic immigration from east to west in EU. In the developed countries of the “old” Europe there is a growing attention about the immigration policies, in consideration that contrasting interests are fighting each other on daily basis: the high cost of labour is weakening the productive presence in most of the advanced countries (attracted by the cheaper labour costs in the east and in Asia), the stable or decreasing number of employees is reducing the accumulation of financial funds for the pension schemes that risk in many countries the be insolvable in the next future. This is one of the arguments why in Europe we assist to a larger agreement in order to introduce immigration quotas (92), therefore to regularise number and skills of immigrants (nevertheless this should be valid for the external migrations, could

91. For instance the alignment to the EU legislation of the CEEC Countries is affecting the Russian enterprises requested to deal with an uniform legislation and with uniform requests from EU. Chief negotiator on Russia’s admission to the World Trade Organisation in an interview told that the custom’s and trade’s procedures will have to be completely standardised, but the Russian enterprises will face difficulty operating in the Single Market because of the traditional exports of these enterprises (aluminium and specific food productions) will be charged by higher customs’ duties to external countries and will be substantially more expensive. Besides that exporters and Russian producers will have to pay for anti-dumping duties which were requested in the past from countries of EU15 but not by the countries of enlargement. Other major issue is represented by the subsidies to the agriculture; also this sector will become very critical since it protects entrepreneurs of the internal market and excludes others that are in the third countries.

92. According to Boeri, et al. (2003:6) - «EU-wide quotas are to be preferred to national restrictions because the regulation of immigration at national level during the transitional periods creates two economic problems, ... country specific restrictions are binding and migration flows may be distorted away from the countries. secondly, national governments may decide to introduce more restrictive migration policies than in case of coordination». 281
not be seen a solution for the internal market where this subject is regulated by the transitional agreements on bilateral basis between individual countries.

In EU we suffer for a taboo regarding the free circulation of EU citizens. The most relevant problem in EU is linked with the risks that employees from the old EU countries will see their wages to decrease and lose purchasing power. The illegal immigration is mostly disruptive and costs less than to guarantee a true labour place to immigrants from the less industrialised new EU countries (in fact internal migrants should be socially protected, they will transfer their families, it should be budgeted a cost for long permanence, for their integration in the society, it is expected to train them, to guarantee a social security level non dissimilar of the citizens of the country, etc.). Furthermore EU is not helpful for the immigration policy of the member states because with the abolishment of the internal boundaries, due to Schengen agreement, the single countries are in difficulty for controlling their immigrants. Member countries that are competing on the issue of compared advantages internally the Union, they found a contraposition with the rules in the private sector. The EU private companies oppose on the ground of competitiveness lowering labour costs (with paying less taxes and social contribution).

In conclusion of the analysis addressed in this chapter we can say that the alarms coming from some of the developed countries in Europe (mostly Germany, Austria, Sweden) for a hordes of migrants moving from new member states are inconsistent (93). In opposite, the job losses in the EU15 are and will depend of the transfers of productions to the central and eastern Europe that will profit for some time of lower cost and skilled labour. In the same time the artificial closure of the western labour market as effect of the transitional arrangement for the application of the free movement of workers, is diluting in term of future next years the eventual pressure for emigrating from the accession countries. The openness of the markets not only in Europe is incontrovertible and produces

93. Moreover the general inclination to migrate is shown to be lower in the V4 countries (at 2,4% in Hungary, Czech Republic and Slovakia; Poland at 3,5%) and higher in Turkey (6,2%) and Romania, Bulgaria (5%), according to the results of Krieger (2004) survey on migration trends in Europe focussing on several conceptual dimension (one of them being the migration to the EU in the context of different target areas of migration) built up on a survey based study.
automatically the transfers of productions in the cheapest countries. The availability of qualified labour in the newcomers from Visegrad 4 is quite limited according to the demographic data and very soon, if the current trend of productive investments will be maintained (94), there will be a scarcity in the offer of this productive factor. Poland probably will be the only one exception. Even it seems possible, and one study mentioned in the current research (Marin, 2004) is documenting that, the flow of skilled labour can in future even transfer from west to east (due to the transfer of wide sectors, like for instance of R&D department of MNEs). The dominant condition for the eventual migration of large masses is therefore once more the eventual collapse of the economic reforms, the growth trend in the domestic market.

The slow integration in EU of the labour market is mostly conditioned by historical and behavioural customs of the population that are refractory to the labour mobility.

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94. For the next decade according to Krieger (2004).
1. Introduction

The objective of this chapter is to analyse the fourth sensible area: social capital in the Visegrad four countries, taking in consideration the different historic experiences matured by these societies during more than 50 years of communist systems.

Instead of developing in our study a deep interpretation of the concept of social capital, we intend to submit a short presentation of the discussion that characterised the different points of view about this concept.

Following the approach of some authors (Sciolla, 2003; Mutti, 2003; Bertolini and Bravo, 2001; Healy, 2002; Bagnasco et al., 2001) we outline rather schematically the two main approaches in the development of concept of social capital.

We only would recall synthetically the attention on the fact that the definitions more accredited in the literature of social capital can be recognised in two different school of thought. The largest accepted definition relates to James Coleman (1990) who proposes a definition of social capital in normative-cultural and relational terms, all of that as rational choice of the individual resources. In short, the concept of social capital is interpreted as a relational network related to individuals. The second perspective is due to Putnam (2004) that defines the social capital as a property of social systems, not limiting the definition to the network of the individual relations but extending it to the co-operative relations, that in short can be identified with the civicness. By and large, according to
Coleman the social actor behaves intentionally in order to meet a certain purpose, meanwhile according to Putnam he acts following norms inherent to the social context where he developed.

The application of the notion of social capital allows to achieve the evidence that societies - in term of normative and behavioural models - have relevance in the economic aspects. In other words, social capital confirms the permeation between the social sphere and the economic sphere (Trigilia 2001, Bagnasco, 2001).

The ethic qualities of the participant facilitate the economic exchanges also outside the group, as an effect of the social identification of the member and the recognition of the validity of the specific group. The availability of an extra-economic social network (related to the family, to the ideology or to the political party) determinates the basis for the functioning of the social networks, to the benefit of information circulation and the building up of the confidence and trust to others. This is proved to be economically relevant, because trust and circulation of information help trade and lower the costs of the economic transactions. In order to fight against opportunism - that generates deception, tricky business and incentives to the fraudulent behaviours - societies should build on positive moral resources. This positive behaviour is proved to be supportive also in case of the circulation of cognitive knowledge and of the non-codified knowledge in case of the innovation processes (Trigilia 2001).

As we have seen, recent studies take in consideration the relevant importance of the social capital as an important factor of production. The transition of the CEECs from the communist system brought together in the enlarged Europe a new factor that is not yet well studied. The existence of this factor can be easily proved by the slow development reached by the CEECs despite the amount of physical and human capital available from the starting of the 90s. Paldam and Svendsen (2000) argue that the former communist system used to replace the poor social capital with a form of official society organisation where grey or black networks were allowed to flourish in order to give the system the necessary flexibility. It should be at first clarified that this "negative" social capital is quite
harmful to the market economy. In effect, most of the definitions of social capital are multi-dimensional and include different units and levels of analysis. There is no one single result of the measurement of the social capital that can be considered the only verified result. This aspect has several faces depending on the viewpoint of the observer. The sociologist Coleman (1990) defines the role of social capital in the way it is forming the educational results and the formation of human capital in a community. It is not a single entity but a variety of different entities having two common characteristics: all consist of some aspect of the social structure and facilitate certain actions of individuals who are within the structure. The low level of welfare and the collapse of the public services in the transition countries furthermore produces a new wave of individual relational networks (in order to overcome the low quality of the health services everybody approaches through a net of individual acquaintances the trusted physician, the lawyer, somebody that could advice about the trustful pension fund, etc.). The appropriate job for qualified people is moreover in the decisions of a restrict group generally linked to one party.

Several authors identify a sort of negative effect related to the shortage in social capital. The post communist countries introduce, resuming once more the concept of Paldam and Svendsen, (2000), a problematic inheritance because the transition proves to have weakened the control system and the grey networks already in place during the previous system; these systems of relation grew becoming consistently negative. The last mentioned authors introduce three hypotheses (Paldam and Svendsen, ibidem, 7-10): at first they assume that dictatorship and totalitarianism destroy the normal social capital. The second hypothesis says that the communist model generates grey/black networks, which are kept by a large control apparatus (when the control disappears, the networks also disaggregate but leaving large niches of self-resistant negative social structures). Finally, according to the third hypothesis, the transition switches the grey/black networks from necessary into harmful and the weakening of institutions allowed this negative social capital to grow and become a barrier to a normal economic development. Besides that, the power centralisation in a
political system incite probably more corruption due to the monopolistic power of the bureaucrats and corruption leads to a "lower" level of social capital if measured in terms of generalised trust; as Svendsen (2003) is arguing, in this sense it is confirmed that distrust and corruption possess a high correlation, according to Paldam and Svendsen (*ibidem*).

In conclusion, the different concepts related to the social capital allow some scholars to determine the main dimensions that are synthesised generally in 3 or 4 main pillars. Some authors (see for example Sciolla, 2003: 262 and following pages), point out at least three main groups of aspects characterising the shape of the social capital: reciprocity and exchanges – relational aspects (including connectedness, networks and groups), general trust and, the third dimension – the dimension that relates to the civicness - represented by the ethic and moral values (common rules, norms and sanctions). The general trust is based on repeated actions, for instance participation to associations independently from the motivations; one of the generally adopted indicators for general trust is the inclination to cooperate with others.

Apart from differences in drawing, in the literature, the concept of social capital, which is giving almost a complete overview of the core "dimensions" of this concept, we could recall here the study of Healy (2002), according to which:

- The first dimension relates to active civic engagement and interactions (civicness), political participation, community involvement, informal networks/sociability, trust in norms and sanctions. Indicators of this dimension can be the patterns of voting, prevalence of trust in political structures or institutions, etc.

- The second dimension refers to the community participation, the formal networks in the community like membership or frequency of involvement in associations (sporting, cultural, religious, etc. - independently from the motivations –, volunteering or other types of altruistic behaviour).
• The third dimension relates to the informal networks and includes all the "social support" networks, family relationships, informal sociability and unpaid help.

• The forth dimension describes "the belief about the good intentions and expected behaviour of others. Trust arises from experience of other people's trustworthy actions as well as innate or socially determined views about others" Healy (2002: 3).

2. Methodological note

Our elaboration is using information already existing, derived partly from the analysis we have done in the first part of the chapter regarding the 2000 and 2003 surveys on the Corruption Perception Index published by the Transparency International (95) and in the second part from the elaboration of data contained in the database of the European Social Survey.

Our intention is to utilise only indicators already tested by other researches in this field and to utilise data collected by institutes and universities with international reputation.

95. The Corruption Perception Index published by the Transparency International (http://www.transparency.int) is a composite index composed by different sources according to the concept that a combination of data sources included in a single index increases the reliability of each individual figure. As indicator of the overall reliability of the index is proposed the high correlation between the sources utilising the standards Pearson correlation and the Kendall rank correlation (that for the 2003 version is giving 0.80 for the Pearson and 0.65 for the Kendall correlation indexes). Additionally the reliability of each individual country score is checked over the larger the number of sources (there are consistent differences of sources in each country analysed), and the lower the standard deviation between the sources, the more reliable is the value for a country. The 2000 index is composed by 8 different independent sources (Freedom House Nations in Transit (FH), The Economist Intelligence Unit (EIU), The Institute for Management Development of Lausanne (IMD), The International Crime Victim Survey (ICVS), Political Risk Services (PRS), The Political and Economic Risk Consultancy, Hong Kong (PERC), The World Bank and the European bank for Reconstruction and Development (WB, EBRD), The World Economic Forum (WEF) accounting together for 16 different surveys. The 2003 index is based on 13 different independent sources including together 17 different surveys. In addition to the FH, EIU, IMD, ICVS, PRS, PERC, WB and EBRD (already utilised in the 2000 index) we have: Survey on Middle Eastern Business People 2003; World Markets Research Centre, Risk Ratings 2002; Columbia University State Capacity Survey 2002 (CU); PricewaterhouseCoopers, Opacity Index 2001; Multilateral Development Bank Survey 2002 and Gallup International Corruption Survey 2002.
We have elaborated a methodological scheme for being applied to our analysis performed in the four parts of the present chapter. In the following scheme we have represented the complex concept of social capital composed in the operative translation – broken down in dimensions and indicators:

<table>
<thead>
<tr>
<th>Concept</th>
<th>Dimensions</th>
<th>Indicators / Utilised Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Capital</td>
<td>Generalised Norms</td>
<td>HLPPPL-E20 How often you help others not counting for work/voluntary organisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PRFOFRD-E4b Personal friends in business/ professions/ farmers organisation</td>
</tr>
<tr>
<td>Civicness / Moral Values</td>
<td></td>
<td>IMPOBWL -E24 To be a good citizen: how important to always obey to law</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TRSTLGL -B8 Trust in legal system</td>
</tr>
<tr>
<td>Volunteerism /</td>
<td></td>
<td>SCLMEET- C2 How often socially meet with friends, relatives or colleagues</td>
</tr>
<tr>
<td>Participation to</td>
<td></td>
<td>IMPVO- E19 How important is in life to help voluntary organisations</td>
</tr>
<tr>
<td>Associations -</td>
<td></td>
<td>IPHLPPPPL-G1 How important is to help people and care for others well being</td>
</tr>
<tr>
<td>Relational Altruism</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interpersonal Trust</td>
<td></td>
<td>PPLTRST-A8 Most people can be trusted, or you can’t be too careful</td>
</tr>
<tr>
<td>(Normative, Focalised)</td>
<td></td>
<td>PPLFAIR -A9 Most people try to take advantage of you or try to be fair</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PPLHLP -A10 Most of the time people helpful or mostly looking out for themselves</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IMPFML- E13 Important in life: family</td>
</tr>
<tr>
<td>Informal Networks</td>
<td></td>
<td>IPLYLFR- Gr Important to be loyal to friends and devote to people close</td>
</tr>
</tbody>
</table>

In the first part of our secondary analysis we have introduced a comparison of the perception of corruption related to the selected countries. To do so we utilised the perception index published by Transparency International.

The general definition for corruption utilised in this first comparison could be deducted from the “Framework Document” - Background Paper to the 2000 Corruption Perception Index (page 4) that defines corruption as «the misuse of the public power for private benefits, e.g. bribing of public officials, kickbacks in public procurement, or embezzlement of public funds»; each of the sources also assesses the extent of corruption among public officials and politicians in the countries. The different sources are standardised and combined together before calculating the mean value. The data utilised in the year 2000 were compiled between 1998 and 2000. The comparison between the closest last previous years index is not reliable due to the continuous change of the “basket of the indexes”.

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In our case we have studied the perception index of the years 2000 and 2003 but we don’t attribute scientific relevance to the changes between the two years.

The 2003 perception index uses a homogeneous definition of “level of corruption”; in this case the number of sources utilised is 13. Because each of the utilised source has its own scaling system, in order to achieve a mean value for every country, the data outcome from each source is standardised using the matching percentiles, considering that the ranks of countries are the only information processed by the sources.

**In the second part of our secondary analysis** we have introduced a parallelism between the information obtained in a study of Matějů and Vitásková, (2005:19) when is referring to the “Social Stratification Survey” (SSS) conducted in the year 1993 and the distribution of frequencies of the answers to similar questions obtained in the ESS 2002-2003 survey.

The European Social Survey (ESS) is a biannual multi-country survey covering over 20 nations; the first round of interviews was fielded in 2002/2003. The aim of the project is - utilising advanced and consolidated methods of cross-national survey measurement in Europe - to monitor and interpret changing public attitudes and values within Europe and to investigate how they interact with Europe’s changing institutions (96).

The surveys of the ESS 2002/2003 is conducted with an obtrusive technique on a representative sample of the universe as defined in the above explanatory note.

These face-to-face interviews are conducted under the responsibility of the Participating Countries, using a structured questionnaire respecting a conceptually well-anchored and methodologically bullet-proof study of changing social

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96. The universe of ESS Survey is composed by all persons aged 15 and over, resident with private households, without any limitation regarding nationality, culture, religion, etc. in the following countries: Austria, Belgium, Czech Republic, Denmark, Finland, France (included only in the database ESS1e05_spss) , Germany, Greece, Hungary, Ireland, Israel, Italy, Luxemburg, Netherlands, Norway, Poland, Portugal, Slovenia, Spain, Sweden, Switzerland, United Kingdom. The classification of the thematic areas utilises the following keywords: immigration, citizenship, trust, politics, social values, exclusion and religion. The project is founded jointly by the European Commission 5th Framework Programme and by the European Science Foundation and academic funding bodies in each participating country. It involves strict random probability sampling, a minimum target response rate of 70% and rigorous translation protocols. The questionnaire is
attitudes and values. In order to achieve these aims the cross-national context is
managed evaluating the “optimal comparability” in the operationalisation of the
survey within all participant countries (97). The questionnaire is organised
according to 6 thematic areas as follows:

A1-A10 Media and social trust;
B1-B50 Politics, including: political interest, efficacy, trust, electoral and other forms of
participation, party allegiance, socio-political evaluations / orientations, multi level
governance;
C1-C28 Subjective well-being and social exclusion; religion; perceived discrimination; national
and ethnic identity;
D1-D58 Immigration and asylum issues, including: attitudes, perceptions, policy preferences
and knowledge;
E1-E43 Citizen involvement: including organisational membership, family and friendship
bonds, citizenship values, working environment;
F1-F65 Socio-demographic profile, including: household composition, sex, age, type of area,
education and occupation details of respondent, partner, parents, union membership,
household, income, marital status;

followed by three sections, to be administrated face-to-face or with the self-
completion method using show cards, on:

Section G Human value scale;
Section H Test questions;
Section I Questions to interviewer.

Even utilising the same question in the local languages in order to keep the
original meaning, the perception of the interviewees is sometimes different from
country to country. Problems that could affect data reliability, accuracy, measures
validity and mostly the effects of cross cultural context are especially addressed
by the researchers.

The statistics presented in this second part (where we show the distribution of
variables abstracted from the ESS 2002-2003 database) have been elaborated
composing – through the procedure “custom tables” the table of frequencies

composed by more than 120 questions and the interviews, with a foreseen duration of one hour,
are conducted face-to-face.

97. The criteria adopted in the ESS survey for sampling in this field of multinational
comparison consists in the best random practice utilised in the participating country, respecting the
basic rules of a full coverage of the target population, assuming a high response rate, no
substitution and the same minimum effective sample size of 1,500 interviews for a country with a
population over 2 million inhabitants and of 800 interviews in the case of minor country.

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introducing the variable CNTRY (countries) and in subgroup one by one the five variables (PPLTRST, PPLFAIR, HLPPPL, IPHLPPL and PPLHLP).

As we will see in the description presented in this second part of the present chapter, this confrontation unfortunately reveals several inadequacies:

- Due to the non homogeneous reference population interviewed (in the SS 1993 were included five post-communist countries: Bulgaria, Czech Republic, Hungary, Poland Slovakia and Russia, while in the ESS 2002-2003 Czech Republic, Hungary and Poland);
- Due to the ten years’ difference between the two interviewing campaigns;
- Moreover the different questions submitted.

The following table 37 is listing in the left column the questions submitted to the representative sample in the SSS 1993 survey and in the right column the questions submitted in the 2002-2003 ESS survey.

Table 37 - List of the variables examined from the SSS1993 and ESS 2002-2003 databases

<table>
<thead>
<tr>
<th>Trust: There are only a few people I can trust completely</th>
<th>PPLTRST-A8- Trust: Would you say that most people can be trusted, or that you can’t be too careful in dealing with people?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best: Most of the time you can be sure that other people will take advantage of you</td>
<td>PPLFAIR-A9-: Do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?</td>
</tr>
<tr>
<td>ADNT: If you are not careful other people will take advantage of you</td>
<td></td>
</tr>
<tr>
<td>PRVHLP: How often, because of your job, the office you hold, or contacts you have, to other people (relative, friends, well-known people) turn to you to help them solve some problems, cope with difficult situations, or apply your influence for their benefit?</td>
<td>HLPPPL-E20-: Not counting anything you do for your family, in your work, or within voluntary organisations, how often, if at all, do you actively provide help for other people?</td>
</tr>
<tr>
<td>GETHLP: And what about you? When you are in a difficult situation, do you think there are people who could intervene on your behalf?</td>
<td>IPHLPPL-GI-: How important is it to help people and care for others well being?</td>
</tr>
<tr>
<td>IMPORT: How important a role do useful contacts play in your life?</td>
<td>PPLHLP-A10-: Would you say that most of the time people try to be helpful or that they are looking out for themselves?</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from SSS 1993 and ESS1e04_spss databases
In the third part of our secondary analysis we rely on the methodological indications utilised by the two studies of Matějů and Vitaskova (2005) and Paldam, Svendsen (2000). With the intent to validate once more the path covered by these two studies, we selected indicators in the ESS research linked to the social trust, political trust, citizens involvement including family and friendships bonds, socio-demographic profile (including household income) and human values scale.

The selected indicators have been transformed into variables according to their availability in the database of the ESS survey. For composing the table regarding the means for different variables (22 in total) per selected country (Austria, Germany, Czech Republic, Hungary and Poland) we have used the “compare mean” function inside the “statistics” procedure.

Here below we list the selected variables, the first part of the code is the abbreviation of the name of the variable, the second part the identification code.

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPSPPL E22</td>
<td>To be a good citizen</td>
</tr>
<tr>
<td>IMPOBWL E24</td>
<td>To be a good citizen: how important to always obey to law</td>
</tr>
<tr>
<td>TRUIWKP E39</td>
<td>Difficult or easy for trade union influence conditions at workplace</td>
</tr>
<tr>
<td>IMPRWCT E43</td>
<td>Fairly or unfairly treated in attempt to improve things at work</td>
</tr>
<tr>
<td>IMPOPIN E25</td>
<td>To be a good citizen: how important to form independent opinion</td>
</tr>
<tr>
<td>HINCTNT F30</td>
<td>Total household’s net income, all sources</td>
</tr>
<tr>
<td>IPLYLFR G6</td>
<td>Important to be loyal to friends and devote to people close</td>
</tr>
<tr>
<td>IPRSPOT Gq</td>
<td>Important to get respect from others</td>
</tr>
<tr>
<td>IMPRICH Gb</td>
<td>Important to be rich, have money and expensive things</td>
</tr>
<tr>
<td>SMBTJOB E35</td>
<td>Get a similar or better job with another employer</td>
</tr>
<tr>
<td>IMPFRDS E14</td>
<td>Important in life: friends</td>
</tr>
<tr>
<td>IMPFML E13</td>
<td>Important in life: family</td>
</tr>
<tr>
<td>PRFOFRD E4b</td>
<td>Personal friends in business/professions/farmers organisation</td>
</tr>
<tr>
<td>IMRSPRC D33</td>
<td>Richer countries responsible to accept people from poorer countries</td>
</tr>
<tr>
<td>SCLMEET C2</td>
<td>How often socially meet with friends, relatives or colleagues</td>
</tr>
<tr>
<td>NEEDTRU B45</td>
<td>Employees need strong trade unions to protect work conditions/wages</td>
</tr>
<tr>
<td>GINVECO B43</td>
<td>The less government intervenes in economy, the better for the country</td>
</tr>
<tr>
<td>DCLWLFR B39</td>
<td>Preferred decision level of social welfare policies</td>
</tr>
<tr>
<td>STFFILTH B34</td>
<td>Conditions of health services in country nowadays</td>
</tr>
<tr>
<td>PPLHLP A10</td>
<td>Most of the time people helpful or mostly looking out for themselves</td>
</tr>
<tr>
<td>PPLFAIR A9</td>
<td>Most people try to take advantage of you or try to be fair</td>
</tr>
<tr>
<td>TRSTLGL B8</td>
<td>Trust in legal system</td>
</tr>
</tbody>
</table>

In the forth part of our secondary analysis, we introduced a comparison of the frequencies distribution of the following variable taken from the ESS 2002-2003 database:
The information obtained have been elaborated composing – through the procedure “custom tables” - the table of frequencies introducing the variable CNTRY (countries) and in subgroup one by one the six variables above mentioned.

In performing the analysis with the support of the software SPSS we performed simple statistical elaborations based on the following official sources:

- Transparency International - Corruption Indexes for the year 2000 and 2003;

The used database is ESS1e04_spss available at the ESS website. In this database a total of 22 countries for a total of 40,856 valid questionnaires are included. A second database (ESS1e05_spss) is available since the beginning of 2005 which reports 1503 additional questionnaires related to France and comprises a total number of 42,359 valid questionnaires; in our work we did not make use of this database.

The elaborations on the ESS1e04_spss database have been performed by the software SPSS for Windows (release 7.0, Dec.1995) Standard Version.

3. Perception of the corruption and a study comparison

Economic decisions depend not only on the availability of the economic resources; but mostly on the social conditions where to operate. Transaction costs, according to the Coase theory and as underlined also by Granovetter (1998), heavily condition the different impact that, from the economic viewpoint, is introduced by the economic relations. Thanks to the social capital associated to
the personal relations network that links entrepreneurs, they can relay to appeal to the market; nevertheless, a situation of riskily conditions, with a lack of trust, pervades the market.

The former communist countries are permeated by a low leve\] of trust to others (this can be easily depicted also from different studies), meanwhile the entrepreneurs dispose of a quite solid network of interpersonal relations. This characteristic that distinguishes the former communist countries and separates them from the mature economies (even if these countries are still in transition), is subject to a concrete risk of regressive forms of “mafias” tails and clan behaviours, that could form a rich soil for attempts to the abuse of power, bribery and corruption of public officers, lack of transparency in the public procurement (we consider mostly the risks related to the future structural funds) and to the excess of personalised management of public funds.

This paragraph would analyse the consistence of these main risks in terms of level of corruption considering to compare the perception of corruption among different countries. There is a high risk of the eventual tight symbiosis between political and economic alliances - unassailable from political competitors. These groups manage the most of the national GDP through high valuable public service concessions, public tenders and they have the power to reach compromises with the large economic powers: by granting property rights, state aid, fiscal exemptions in order to attract domestic and foreign investors. At the same time we have also to consider that the justice sector is very weak (as it can be deducted from the analysis on chapter 3), and sometimes indulgent with the political power. The negative condition of the low remunerations in the public sector, the police and the judiciary and the lack of a proper financial control (see chapter 3) of the public spending is playing in favour of the resilience of these powerful groups.

As we have already presented, we rely on the definition adopted by Paldam, Svendsen (2000: 12) which considers that the best measure available for social

98. Quotation specifically requested by the authors of the ESS survey.

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capital, the generalised trust, is combined, when analysing the "negative effects of social capital" (99), with the index of corruption (100).

In this first part of the secondary analysis, we intend to analyse the perception that the population in the Visegrad four countries has about the level of corruption of their public officers, and therefore we would compare the same perception index sorted out in other European countries and in some major world economies. We aim at analysing the corruption level that, being based on the personal perception and even if not precisely appraised in quantitative terms, could rely to personal experiences and the degree of personal acceptability of the circumstances of the corruption, to the public sensitivity to this phenomenon, etc.

All aspects certainly present difficult objective measurability; but in case this estimation is done through a comparison of the perception among EU countries, it could show us the unmistakable degree of relative relevance that this negative human behaviour has assumed between the citizens of a country. Variations and comparisons of the perception level in different years, even if obtained from the same source survey, cannot guarantee the correctness when drawing parallels.

The Corruption Perception Index published by Transparency International is a well known indicator accepted also in academic circles. For the methodological approach followed in this part of the study, we refer to the methodological note at the beginning of this chapter. It is proved that there is a positive correlation between this indicator and the indicator of distrust. Low values of corruption (corresponding to the a certain positive value of honesty) are bounded with low value of distrust (corresponding to a certain value of trust). A general consideration that reflects the high corruption is that the credibility of the governments in CEECs in general is low according to the various studies

99. «...Le conseguenze del capitale sociale per lo sviluppo locale non sono sempre positive... la sottovalutazione della politica non consente di distinguere con più precisione a quali condizioni il capitale sociale possa avere un impatto favorevole, e a quali invece possa generare clientelismo, dipendenza politica o addirittura corruzione ed economia criminale nei processi di aggiustamento dell'economia locale.... [è difficile] distinguere bene tra effetti positivi del capitale sociale per lo sviluppo locale e altri che hanno invece conseguenze favorevoli ai detentori del capitale ma negative per lo sviluppo» (Trigilia, 2001:117-118).
published by the World Bank. In the following table and figure we are showing the Corruption Perception Index for the year 2000 and for the year 2003 published by Transparency International. The table is built up considering the weigh of the countries’ population when aggregating per groups of countries.

Table 38 – Corruption perception index 2000 and 2003

<table>
<thead>
<tr>
<th>Countries</th>
<th>Index 2000</th>
<th>Index 2003</th>
<th>Population 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU15 Average</td>
<td>7,1</td>
<td>7,3</td>
<td>376,327,660</td>
</tr>
<tr>
<td>V4 Average</td>
<td>4,2</td>
<td>3,8</td>
<td>64,347,090</td>
</tr>
<tr>
<td>EU15 + V4</td>
<td>6,6</td>
<td>6,8</td>
<td>440,674,750</td>
</tr>
<tr>
<td>NAFTA Average</td>
<td>6,8</td>
<td>6,3</td>
<td>410,266,000</td>
</tr>
<tr>
<td>Hungary</td>
<td>5,2</td>
<td>4,8</td>
<td>10,022,000</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>4,3</td>
<td>3,9</td>
<td>10,273,300</td>
</tr>
<tr>
<td>Poland</td>
<td>4,1</td>
<td>3,6</td>
<td>38,650,000</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>3,5</td>
<td>3,7</td>
<td>5,401,790</td>
</tr>
<tr>
<td>Ireland</td>
<td>7,2</td>
<td>7,5</td>
<td>3,794,000</td>
</tr>
<tr>
<td>USA</td>
<td>7,8</td>
<td>7,5</td>
<td>281,550,000</td>
</tr>
<tr>
<td>Canada</td>
<td>9,2</td>
<td>8,7</td>
<td>30,750,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>3,3</td>
<td>3,6</td>
<td>97,966,000</td>
</tr>
<tr>
<td>Japan</td>
<td>6,4</td>
<td>7,0</td>
<td>126,870,000</td>
</tr>
<tr>
<td>Thailand</td>
<td>3,2</td>
<td>3,3</td>
<td>60,728,000</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on data from Transparency International, Corruption Index 2000 and 2003

100. As Paldam, Svendsen (2000:12) explain, the corruption index is a honesty index, because, as we will see, the highest values present the highest honesty while the lowest values show the corruption.
We can consider the actual trend in the EU15 moving towards a gradual improvement of the honesty in the behaviour of their societies, but, as we described in the methodological note, this effect might be affected by the different panel of indicators utilised in the two years. We cannot tell the same for the average index of the societies of the V4 countries. The average level of honesty is even decreasing, more corruption is deemed to perverse in the practices in Poland, Hungary and Czech Republic during the last three years. This comparison between different groups of nations in the years 2000 and 2003, at the contrary of the previous trend, could be accepted because is internal to the same indexes adopted. In general, the situation in the mentioned countries with transition economies is peculiar, due to the lower (less than 4 points) rank in comparison with the rest of EU (over 7 points); but also due to the fact that, in spite of the economic growth in the last three years, the perception of corruption is increasing instead of decreasing. We presented, for a useful comparison, the ranks for USA and Canada. These two countries prove to perceive higher honesty (less corruptive practices) than in EU15. In any case the public perception of the corruption in these two countries is increasing from 2000 to 2003. Mexico, which is involved in
the NAFTA agreement, is performing in the last three years a little better than before.

As we have seen, Paldam, Svendsen (2000: 12) in their research come to the conclusion that there is a strong correlation between corruption and distrust. We have no possibility to perform a correlation because the two sources of data are different; but if we would rely on a comparison of the intensity of the two behaviours (generalised trust and corruption) among different selected countries, we will come to the conclusion that, besides the intensity that we have no instruments for measuring, the indicators are synchronised.

In this paragraph we proceed now to observe the trend of frequencies of the variables related to the above described dimensions of social capital per country. The distribution of these frequencies is collected in the ESS 2002/2003 database (for a detailed description of the ESS survey, we refer to the methodological chapter). Our intent is to examine and compare different opinions of the citizens of old Europe and of the Central Eastern European countries (101) having experienced till the early '90s a specific political and economic regime.

In this second part of the secondary analysis we utilise information derived from the mentioned surveys (one per country) developed by ESS during the year 2002 and 2003. These surveys deal with behaviours and attitudes grouped in a set of selected questions with fixed answers modality. We have selected some of the suitable indicators of various dimension of the concept of social capital frequently utilised in the comparative surveys, adding indicators that could be useful to assess the effects of the "weak social ties" (Granovetter, 1998) for the job and career mobility and access to highly valued resources.

A second goal of this work is to reinforce the [Matějů, 2002; Matějů and Vítasková 2005 (102)] demonstration of two contrasting conceptualisations of social capital, both equally useful and theoretically rewarding approaches, the

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101. Unfortunately only Poland, Czech Republic and Hungary have participated to the 2002/2003 surveys of ESS, Slovakia will be included only since the recent 2004/2005 survey.

102. In accordance with Matějů and Vítasková (2005) that conceptualise and measure the of social capital with a special focus on the form of "individual" social capital that is prevailing in the countries of Eastern Europe (former communist) social capital drawing from interpersonal trust seems to be rather low.
authors recalling probably to the distinction on how Putnam interprets the social capital as "bene pubblico (A)" and "bene privato (B)" (103): one defined as the social capital attribute of the "societies" (A) attribute of the developed societies of the Western Europe, based on the quality of networks and relationships enabling individuals to cooperate and act collectively (Putnam, 2004:16-17). It is characterised by a high degree of trust on the institutions, general trust reinforced by the rule of law and guaranteeing transparent and safe exchanges, improving the level of efficiency and productivity in the relations between subjects (Granovetter 1998). This attribute of the social capital has "the capacity to contribute to the explanation of economic growth (especially in advanced countries), meanwhile it has the capacity to shed light on particular determinants of life-success (particularly in transforming countries" (Matejú and Vitásková 2005: 15).

A second form of social capital has the attribute to enhance the "individual" social capital (B) attribute of the transforming countries of the former socialist regimes of the Central Eastern Europe valuable opportunistically for the mutually beneficial exchanges, prevailing in the V4 former communist countries, and based on social connections and informal networks allowing individuals to achieve their own particular objective. These attributes of the individual social capital are defined like the ability of a subject to activate a network of social connections over the basis of a mutual recognition maintained with symbolic or material exchanges (favours that turn in advantages for the single person). Matějů and Vitásková (ibidem, from page 15 on) after having tested a set of 3 models (two parameters models) came to the conclusion that the best measurement model confirming their hypothesis selects two separate dimensions (TRUST and EXNET) of social capital. TRUST is defined as a generalised trust between members of the society and EXNET as the participation in mutually beneficial exchange networks.

103. As Putnam affirms: "Una società caratterizzata da reciprocità generalizzata è più efficiente di una società in preda alla diffidenza, per la stessa ragione che rende la moneta migliore del baratto. Se non è necessario esaurire ogni scambio all’istante, è possibile ottenere molto di più. La fiducia è un lubrificante della vita sociale. Interazioni frequenti tra vari gruppi di persone tendono a produrre una norma di reciprocità generalizzata" (Putnam, 2000:18).
About these attributes, it is often argued that communism (as in general all totalitarian regimes are deemed to do) destroyed the most important norms of trust like the public institutions and the normal trust to others. With the collapse of the regime the negative social capital (based on briberies and corruption) is remaining, that contributes to block the economic development and the institutional building up. (Paldam and Svendsen 2000).

Mateju refers to the studies of Eyal, Szelenyi and Townsley on the post communist social stratification in Europe, referring to their concept: «...during a transition people try to convert devaluated forms of capital into new more valued forms. This is the preferred way individuals cope with changes in social structure. In a post communist transition, those who are well endowed with cultural capital may be able to convert their former political capital into informal social networks, which can than be usefully deployed to take advantage of the new market opportunities» (Matejů and Vitásková 2005: 4). This leads the authors to consider that the real winners in the transition are people who, having accumulated political capital on the past, are able to effectively combine now in the new situation political with cultural capital (education and knowledge).

In the transforming societies two types of indicators are used (accordingly to Matejů and Vitásková 2005: 5): the “distal indicators”, that refers to the outcomes of the social capital that are not directly related to its key components (life expectancy, health status, crime rates, participation rate) and the “proxy indicators”, which are directly related to the concepts of social capital (mainly trust and community participation). For the transition countries of CEECs the authors suggest to assess the degree of involvement of the weak social ties (Granovetter 1998) in shaping people life chances (job and career mobility, access to highly valued resources). The indicators that the authors suggest to examine are referring to dimensions like:

A) Measurement of social capital stemming from a current or past position in the social stratification and power structures, from position in social structure (social status, prestige, esteem) and political capital (party membership, political participation)
B) The active involvement of the persons in building up networks based on mutual recognition of usefulness and various kind of exchanges.

In this sense the authors refer to the survey conducted by “Social Stratification Survey (1993)” (104) that - for the part related to the subjective evaluation of the respondent’s involvement in the exchange networks - was submitted only in Czech Republic and Slovakia.

In the following table 39a and 39b, we compare the information obtained in the Matějů and Vitásková study (2005:19) with the distribution of frequencies of the similar questions abstracted from the database ESS 2002-2003; in the left column we present the data published by the two authors of the SSS 1993 questionnaires submitted in the year 1993 and in the right column the answers to the questions of the ESS Database.

104. The authors Matějů and Vitásková (2005) refer at page 7 of the mentioned report, to the Social Stratification Survey carried in the year 1993 in five post-communist countries: Bulgaria, Czech Republic, Hungary, Poland, Russia and Slovakia.
Table 39a - *Distribution of answers: parallel results observed in the SSS 1993 and ESS 2002-2003 surveys*

<table>
<thead>
<tr>
<th>Questions of the SSS 1993 (*)</th>
<th>Distribution of answers in %</th>
<th>Questions of the ESS 2002-2003 (**)</th>
<th>Distribution of answers in %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trust: There are only a few people I can trust completely</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Agree strongly</td>
<td>27.6</td>
<td>PPLTRST Trust: Would you say that most people can be trusted, or that you can’t be too careful in dealing with people?</td>
<td>16.6</td>
</tr>
<tr>
<td>2. Agree</td>
<td>51.4</td>
<td>2. You can’t be too careful</td>
<td>38.7</td>
</tr>
<tr>
<td>3. Neither agree or disagree</td>
<td>11.0</td>
<td>3. 2-4</td>
<td>22.9</td>
</tr>
<tr>
<td>4. Disagree</td>
<td>9.0</td>
<td>4. 6-8</td>
<td>18.7</td>
</tr>
<tr>
<td>5. Disagree strongly</td>
<td>1.0</td>
<td>5. Most people can be trusted</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>Total</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Best: Most of the time you can be sure that other people will take advantage of you</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Agree strongly</td>
<td>2.8</td>
<td>PPLFAIR: Do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?</td>
<td>11.0</td>
</tr>
<tr>
<td>2. Agree</td>
<td>20.1</td>
<td>2. Most people try to take advantage of me</td>
<td>31.1</td>
</tr>
<tr>
<td>3. Neither agree or disagree</td>
<td>34.8</td>
<td>3. 2-4</td>
<td>25.1</td>
</tr>
<tr>
<td>4. Disagree</td>
<td>35.9</td>
<td>4. 6-8</td>
<td>28.8</td>
</tr>
<tr>
<td>5. Disagree strongly</td>
<td>6.5</td>
<td>5. Most people try to be fair</td>
<td>4.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>Total</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>ADNT: If you are not careful other people will take advantage of you</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Agree strongly</td>
<td>15.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Agree</td>
<td>48.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Neither agree or disagree</td>
<td>21.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Disagree</td>
<td>13.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Disagree strongly</td>
<td>1.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Our own elaboration from SSS 1993 and ESS 1e04_spss database
### Table 39b (continue) - Distribution of answers: parallel results observed in the SSS 1993 and ESS 2002-2003 surveys

<table>
<thead>
<tr>
<th>PRVHLPL: How often, because of your job, the office you hold, or contacts you have, to other people (relative, friends, well-known people) turn to you to help them solve some problems, cope with difficult situations, or apply your influence for their benefit?</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GETHLP: And what about you? When you are in a difficult situation, do you think are there people who could intervene on your behalf?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No, nobody</td>
</tr>
<tr>
<td>11.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IMPORT: How important a role do useful contacts play in your life?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Essential</td>
</tr>
<tr>
<td>7.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HLPPLPL: Not counting anything you do for your family, in your work, or within voluntary organisations, how often, if at all, do you actively provide help for other people?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Every day</td>
</tr>
<tr>
<td>6.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IPHLPLPL: How important is it to help people and care for others well being?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Very much like me</td>
</tr>
<tr>
<td>18.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PPLHPLPL: Would you say that most of the time people try to be helpful or that they are looking out for themselves?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Most people look out for themselves</td>
</tr>
<tr>
<td>18.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Own elaboration from SSS 1993 and ESS1e04_spss database

(*) In the SSS 1993 questionnaire the subjective evaluation of the respondent's involvement in the exchange networks were submitted only in Czech Republic and Slovakia.

(**) For the ESS 2002-2003 questionnaire, the distribution of answers is calculated on the base of the simple mean of the distribution reached by the three countries Czech Republic, Poland and Hungary. Being the distribution of the possible answers between the two extremes values represented by the shown sentences divided in 9 points we grouped together the first sentence with the point 1, afterwards the average obtained by points 2 till 4, the central value remains the point 5 and the average points 6 to 8 and finally the point 9 with the last sentence.
The answers to the 1993 and the 2002-03 surveys confirm a strong presence of distrust in both the samples interviewed. The ten years’ difference between the two researches is somewhere indicating that the behaviour of the populations coming from the former socialist countries are not changing so rapidly; unfortunately we don’t have a tool for investigating deeply on this subject. In fact we have only one survey (the ESS 2002-2003) at disposal. As regards the two question submitted with the SSS 1993 concerning the negative attitude of the behaviour expressed with the sentence: “people is profiting and taking advantage of you”, the answers in the “Best” and the “ADNT” boxes are, at a first lecture, consistent with the fact that both promote the idea that persons should be careful to avoid that third parts take advantage of them. The same reaction is shown in the ASS answers to the variable PPLFAIR which is clearly showing the prevalence of distrust in general.

As concerning the set of questions displayed in the second sheet of the table (39b), we could observe that, regarding the question PRVHLP, an egoistic behaviour is prevailing “the others don’t ask you to help them” and from the question HLPPPL we learn that is quite unusual for the interviewee to help other people “are you expecting other people to help you if you are in difficulty?” The GETHLP answer is quite definitive: “not so much or not at all!” The answer given in the more recent interviews (the ESS survey) is contrasting: “I wish to help others” has been told by the majority of the interviewees! But it seems to be contrasting with similar answers and we imagine something wrong in the way of understanding the question: “how important is to help people and care for others well being”. Regarding the final variable IMPORT, we are not able to easily compare it with any of the variables in the ESS questionnaire. It remains relevant because, as we have seen above, here is the important role that “useful” contacts (part of the “weak linkages”) play as attributes of the “individual” social capital.

In conclusion in the tables 39a and 39b we have performed a parallel of the results observed in the SSS 1993 and ESS 2002-2003 surveys. This comparison reveals several inadequacies, due to the non homogeneous reference populations interviewed (in the SS 1993 five post-communist countries were included:
Bulgaria, Czech Republic, Hungary, Poland Slovakia and Russia, while in the ESS 2002-2003 (Czech Republic, Hungary and Poland), due to the ten years difference between the two interviewing campaign and, moreover, to the different questions submitted. Nevertheless, observing the tendency in the distribution of the variables, we identify a certain similitude in the answers to the questions related to the general trust in table 39a (TRUST, PPLTRST, BEST, ADNT and PPLFAIR): the distribution is very similar and is indicating a low level of general trust. As regards the belief about the social support (table 39b), this comparison discovers the low importance for the strong ties and the absence of altruism in the statistic sample interviewed. Obviously, we need to deepen the analysis if we would like to come to some acceptable conclusions about the described behaviours.

We are now introducing a third part of our analysis in which we intend to perform a comparison among the EU countries over the dimensions of the social capital that we have already studied in the Visegrad countries. Following the indicators utilised by Matějů and Vitásková (2005), with whom we share the concept of social capital, we intend in the following to compare the two dimensions (TRUST and EXNET) in the countries of the Visegrad weighting the means obtained by the variables indicating these two dimensions within the 22 countries that compose the package of the ESS data base and separately with Austria and Germany. These two last countries, being the closest with the V4 countries, could represent a possible comparable pattern for their socio economic and cultural area location; but clearly separated by different historic development. The definitions that we choose for the two dimensions are: TRUST as generalised trust between members of the society and EXNET as participation in mutually beneficial exchange networks.

In order to select the questions that could better display a discrimination between the analysed countries, we have printed out the statistics of the 22 variables we have at disposal through the ESS database. The following table 40 shows the 22 selected questions from the ESS research linked to the social trust, political trust, citizen’s involvement including family and friendships bonds,
socio-demographic profile (including household income) and human values scale. In the right side of the table are described the precise questions submitted with the ESS2002-2003 questionnaire. In the following tables we describe the questions related to the 22 variables and, in the right side, the means which have been calculated for the following countries: Austria, Germany, Czech Republic, Hungary, Poland and for the average of all 22 countries participating into the survey.
Table 40 – List of the 22 Questions submitted

<table>
<thead>
<tr>
<th>Question</th>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPSPPL E22 - To be a good citizen</td>
<td>To be a good citizen how important would you say it is for a person to support people who are worse that themselves</td>
<td>1</td>
</tr>
<tr>
<td>IMPOBW E24 - To be a good citizen: how important to always obey to law</td>
<td>To be a good citizen how important would you say it is for a person to always obey laws and regulations?</td>
<td>2</td>
</tr>
<tr>
<td>TRUWKP E39 - Difficult or easy for trade union influence conditions at workplace</td>
<td>How difficult or easy it is for the trade unions to influence conditions at your place of works?</td>
<td>3</td>
</tr>
<tr>
<td>IMPRWCT E43 – Fairly or unfairly treated in attempt to improve things at work</td>
<td>Regardless of the outcome, how fairly or unfairly were you treated in your attempt to improve things at work?</td>
<td>4</td>
</tr>
<tr>
<td>IMPOPIN E25 - To be a good citizen: how important to form independent opinion</td>
<td>To be a good citizen how important would you say it is for a person to form their opinion independently of others?</td>
<td>5</td>
</tr>
<tr>
<td>HINCINTNT F30 - Total household’s net income, all sources</td>
<td>If you add up all incomes from all sources, which letter describes your household’s total net income? If you don’t know the exact figure please give an estimate.</td>
<td>6</td>
</tr>
<tr>
<td>IPLYLFR Gr - Important to be loyal to friends and devote to people close</td>
<td>How much important is to be loyal to friends and devote to people close?</td>
<td>7</td>
</tr>
<tr>
<td>IPRSFOT Gq - Important to get respect from others</td>
<td>How much important is to get respect from others?</td>
<td>8</td>
</tr>
<tr>
<td>IMPRICH Gb - Important to be rich, have money and expensive things</td>
<td>How much Important is to be rich, have money and expensive things?</td>
<td>9</td>
</tr>
<tr>
<td>SMBTJOB E35 - Get a similar or better job with another employer</td>
<td>How difficult or easy will be for you to get a similar or better job with another employer if you wanted to?</td>
<td>10</td>
</tr>
<tr>
<td>IMPFRDS E14 - Important in life: friends</td>
<td>How important is each of these things in your life? Friends?</td>
<td>11</td>
</tr>
<tr>
<td>IMPFML E13 - Important in life; family</td>
<td>How important is each of these things in your life? Family?</td>
<td>12</td>
</tr>
<tr>
<td>PRFOFRD E4b - Personal friends in business/professions/farmers organisation</td>
<td>Do you have personal friends within this organisation? A business professional or farmer’s organisation?</td>
<td>13</td>
</tr>
<tr>
<td>IMRSPRC D33 - Richer countries responsible to accept people from poorer countries</td>
<td>Please say how much you agree or disagree with the following statements. Richer countries have a responsibility to accept people from poorer countries?</td>
<td>14</td>
</tr>
<tr>
<td>SCLMEE C2 - How often socially meet with friends, relatives or colleagues</td>
<td>How often do you meet socially with friends, relatives or work colleagues?</td>
<td>15</td>
</tr>
<tr>
<td>NEEDTKR B45 - Employees need strong trade unions to protect work conditions/wages</td>
<td>Please say how much you agree or disagree with the following statements. Employees need strong trade unions to protect their working conditions and wages?</td>
<td>16</td>
</tr>
<tr>
<td>GINVECO B43 - The less government intervenes in economy, the better for country</td>
<td>Please say how much you agree or disagree with the following statements. The less government intervenes in economy the better is for country?</td>
<td>17</td>
</tr>
<tr>
<td>DCLWLFR B39 - Preferred decision level of social welfare policies</td>
<td>At which level do you think the following policies should mainly be decided?</td>
<td>18</td>
</tr>
<tr>
<td>STTFLTH B34 - State of health services in country nowadays</td>
<td>Please say what do you think overall about the state of health services in the country nowadays?</td>
<td>19</td>
</tr>
<tr>
<td>PPLHL P A10 - Most of the time people helpful or mostly looking out for themselves</td>
<td>Would you say that most of the time people try to be helpful or that they are mostly looking out for themselves?</td>
<td>20</td>
</tr>
<tr>
<td>PPLFAIR A9 - Most people try to take advantage of you or try to be fair</td>
<td>Do you think that most people would try to take advantage of you if they got the chance, or would it try to be fair?</td>
<td>21</td>
</tr>
<tr>
<td>TRSTLGL B8 – Trust in legal system</td>
<td>How much you personally trust each of the institutions I read out? The legal system.</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from database ESS1e04_spss
<table>
<thead>
<tr>
<th>Question</th>
<th>Austria</th>
<th>Germany</th>
<th>Czech R.</th>
<th>Hungary</th>
<th>Poland</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPSPPL E22 - To be a good citizen</td>
<td>7.57</td>
<td>7.36</td>
<td>6.15</td>
<td>6.71</td>
<td>7.47</td>
<td>7.59</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.01</td>
<td>1.92</td>
<td>2.44</td>
<td>2.46</td>
<td>2.08</td>
<td>2.00</td>
</tr>
<tr>
<td>IMPOBWL E24 - To be a good citizen; how important to always obey to law</td>
<td>7.68</td>
<td>7.59</td>
<td>8.18</td>
<td>9.10</td>
<td>8.99</td>
<td>8.14</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.17</td>
<td>2.04</td>
<td>2.16</td>
<td>1.47</td>
<td>1.59</td>
<td>1.96</td>
</tr>
<tr>
<td>TRUWKWP E39 - Difficult or easy for trade union influence conditions at workplace</td>
<td>4.15</td>
<td>4.05</td>
<td>4.21</td>
<td>4.12</td>
<td>3.83</td>
<td>4.82</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.48</td>
<td>2.29</td>
<td>2.46</td>
<td>2.51</td>
<td>2.47</td>
<td>2.40</td>
</tr>
<tr>
<td>IMPRWCT E43 - Fairly or unfairly treated in attempt to improve things at work</td>
<td>6.99</td>
<td>6.66</td>
<td>6.21</td>
<td>7.05</td>
<td>6.26</td>
<td>7.01</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.51</td>
<td>2.52</td>
<td>2.49</td>
<td>2.57</td>
<td>2.42</td>
<td>2.41</td>
</tr>
<tr>
<td>IMPPOPIN E25 - To be a good citizen: how important to form independent opinion</td>
<td>8.75</td>
<td>8.84</td>
<td>7.92</td>
<td>7.93</td>
<td>8.19</td>
<td>8.41</td>
</tr>
<tr>
<td>Std dev.</td>
<td>1.77</td>
<td>1.61</td>
<td>2.19</td>
<td>2.23</td>
<td>1.90</td>
<td>1.81</td>
</tr>
<tr>
<td>HINCTNT F30 - Total household's net income, all sources</td>
<td>6.20</td>
<td>6.74</td>
<td>3.72</td>
<td>2.98</td>
<td>3.27</td>
<td>6.03</td>
</tr>
<tr>
<td>Std dev.</td>
<td>1.99</td>
<td>2.02</td>
<td>1.54</td>
<td>1.69</td>
<td>1.58</td>
<td>2.53</td>
</tr>
<tr>
<td>IPLYLFR Gr - Important to be loyal to friends and devote to people close</td>
<td>1.78</td>
<td>1.83</td>
<td>2.07</td>
<td>1.99</td>
<td>2.04</td>
<td>1.96</td>
</tr>
<tr>
<td>Std dev.</td>
<td>0.60</td>
<td>0.86</td>
<td>0.90</td>
<td>1.02</td>
<td>0.80</td>
<td>0.90</td>
</tr>
<tr>
<td>IPRSPOT Gq - Important to get respect from others</td>
<td>3.03</td>
<td>3.38</td>
<td>3.45</td>
<td>3.18</td>
<td>3.07</td>
<td>3.20</td>
</tr>
<tr>
<td>Std dev.</td>
<td>1.32</td>
<td>1.37</td>
<td>1.34</td>
<td>1.37</td>
<td>1.38</td>
<td>1.35</td>
</tr>
<tr>
<td>IMPRICH Gb - Important to be rich, have money and expensive things</td>
<td>3.85</td>
<td>4.17</td>
<td>4.17</td>
<td>3.82</td>
<td>3.83</td>
<td>4.07</td>
</tr>
<tr>
<td>Std dev.</td>
<td>1.33</td>
<td>1.27</td>
<td>1.30</td>
<td>1.38</td>
<td>1.37</td>
<td>1.32</td>
</tr>
<tr>
<td>SMBTJOB E35 - Get a similar or better job with another employer</td>
<td>3.75</td>
<td>2.75</td>
<td>3.33</td>
<td>2.96</td>
<td>2.35</td>
<td>4.22</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.97</td>
<td>2.68</td>
<td>2.74</td>
<td>2.04</td>
<td>2.53</td>
<td>3.09</td>
</tr>
<tr>
<td>IMPFRDS E14 - Important in life: friends</td>
<td>8.64</td>
<td>8.43</td>
<td>8.14</td>
<td>7.50</td>
<td>8.08</td>
<td>8.47</td>
</tr>
<tr>
<td>std dev.</td>
<td>1.88</td>
<td>1.75</td>
<td>2.04</td>
<td>2.59</td>
<td>1.96</td>
<td>1.77</td>
</tr>
<tr>
<td>std dev.</td>
<td>1.76</td>
<td>1.53</td>
<td>1.67</td>
<td>1.07</td>
<td>0.90</td>
<td>1.33</td>
</tr>
<tr>
<td>PRFOFRD E4b - Personal friends in business/professions/farmers organisation</td>
<td>1.33</td>
<td>1.49</td>
<td>n.a.</td>
<td>1.23</td>
<td>1.21</td>
<td>1.29</td>
</tr>
<tr>
<td>std dev.</td>
<td>0.47</td>
<td>0.5</td>
<td>n.a.</td>
<td>0.42</td>
<td>0.41</td>
<td>0.45</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from database ESS1e04_spss

Table 41a - Distribution of the answers to the 22 questions
Table 41b (continue): Distribution of the answers to the 22 questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Austria</th>
<th>Germany</th>
<th>Czech R.</th>
<th>Hungary</th>
<th>Poland</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMRSPRCD33 - Richer countries responsible to accept people from poorer</td>
<td>2.47</td>
<td>2.94</td>
<td>3.18</td>
<td>3.08</td>
<td>2.34</td>
<td>2.6</td>
</tr>
<tr>
<td>countries</td>
<td>Std dev.</td>
<td>1.13</td>
<td>1.03</td>
<td>1.05</td>
<td>1.06</td>
<td>0.87</td>
</tr>
<tr>
<td>SCLMEETC2 - How often socially meet with friends, relatives or colleagues</td>
<td>5.01</td>
<td>4.84</td>
<td>4.41</td>
<td>3.81</td>
<td>4.31</td>
<td>4.98</td>
</tr>
<tr>
<td>Std dev.</td>
<td>1.51</td>
<td>1.42</td>
<td>1.54</td>
<td>1.82</td>
<td>1.66</td>
<td>1.59</td>
</tr>
<tr>
<td>NEEDTRU B45 - Employees need strong trade unions to protect work</td>
<td>2.18</td>
<td>2.36</td>
<td>2.11</td>
<td>1.81</td>
<td>1.98</td>
<td>2.07</td>
</tr>
<tr>
<td>conditions/wages</td>
<td>Std dev.</td>
<td>1.07</td>
<td>1.01</td>
<td>1.06</td>
<td>0.88</td>
<td>0.86</td>
</tr>
<tr>
<td>GINVECO B43 - The less government intervenes in economy, the better for</td>
<td>2.83</td>
<td>2.75</td>
<td>3.01</td>
<td>3.30</td>
<td>3.26</td>
<td>3.12</td>
</tr>
<tr>
<td>country</td>
<td>Std dev.</td>
<td>1.15</td>
<td>1.01</td>
<td>1.10</td>
<td>1.04</td>
<td>1.07</td>
</tr>
<tr>
<td>DCLWLFR C39 - Preferred decision level of social welfare policies</td>
<td>2.54</td>
<td>2.59</td>
<td>2.87</td>
<td>2.94</td>
<td>3.20</td>
<td>2.76</td>
</tr>
<tr>
<td>Std dev.</td>
<td>0.85</td>
<td>0.75</td>
<td>0.59</td>
<td>0.66</td>
<td>0.74</td>
<td>0.82</td>
</tr>
<tr>
<td>STFHLTH B34 – State of health services in country nowadays</td>
<td>6.72</td>
<td>4.81</td>
<td>4.91</td>
<td>3.74</td>
<td>3.85</td>
<td>5.27</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.36</td>
<td>2.43</td>
<td>2.32</td>
<td>2.26</td>
<td>2.43</td>
<td>2.55</td>
</tr>
<tr>
<td>PPLHLP A10 - Most of the time people helpful or mostly looking out for</td>
<td>5.14</td>
<td>4.85</td>
<td>3.95</td>
<td>4.16</td>
<td>3.18</td>
<td>4.78</td>
</tr>
<tr>
<td>themselves</td>
<td>Std dev.</td>
<td>2.38</td>
<td>2.10</td>
<td>2.32</td>
<td>2.36</td>
<td>2.34</td>
</tr>
<tr>
<td>PPLFAIR A9 - Most people try to take advantage of you or try to be fair</td>
<td>5.55</td>
<td>5.77</td>
<td>5.07</td>
<td>4.64</td>
<td>4.54</td>
<td>5.89</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.39</td>
<td>2.17</td>
<td>2.33</td>
<td>2.46</td>
<td>2.42</td>
<td>2.41</td>
</tr>
<tr>
<td>TRSTLGL B8 - Trust in legal system</td>
<td>6.09</td>
<td>5.57</td>
<td>3.78</td>
<td>5.11</td>
<td>3.66</td>
<td>5.50</td>
</tr>
<tr>
<td>Std dev.</td>
<td>2.40</td>
<td>2.41</td>
<td>2.37</td>
<td>2.59</td>
<td>2.30</td>
<td>2.60</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from database ESS1e04_spss
The variables that better discriminate among the selected countries are the following:

- No. 2 IMPOBWL - To be a good citizen how important to always obey to law
- No. 7 IPLYLFR - Important to be loyal to friends and devote to people close
- No. 12 IMPFRDS - Important in life: friends
- No. 13 - IMPFML - Important in life: family
- No. 15 SCLMEET - How often socially meet with friends, relatives or colleagues
- No. 20 PPLHLP - Most of the time people helpful or mostly looking out for themselves
- No. 21 PPLFAIR - Most people try to take advantage of you or try to be fair
- No. 22 TRSTLGL - Trust in the legal system.

Here is a short description of the distribution of the 8 selected variables comparing the three Visegrad countries with Austria, Germany and the average of the 22 countries composing the ESS database (106). The precise questions submitted to the interviewed sample can be deducted from the table 40.

No. 2 IMPOBWL - To be a good citizen how important to always obey to law
The average mean for all 22 countries in the package is 8,14 that shows a high rank of the interviewed citizens respecting the law and the validity of the official rules. The Visegrad countries, Czech Republic, Hungary and Poland (Slovakia, we have seen, unfortunately is not included in the ESS package) consider to give higher value to the rules and to obey to the state institutions than, in general Austria and Germany for instance.

No. 7 IPLYLFR - Important to be loyal to friends and devote to close people
Here also the three countries are consistent between themselves in judging the importance of being loyal to friends. In general, they overcome the mean of the countries included in the database. They also prove to be more careful to the relations with strict friends than Austrians and Germans.

No. 12 IMPFRDS - Important in life: friends
The three countries in Central Eastern Europe unexpectedly give here less importance to friends than the average of the interviewees and of the population of Austria and Germany. It looks likely there has been a misunderstanding of the
“message” implied by this question. In effect looking carefully to the sequence of the questions as they are presented in the questionnaire, the question “how important in life: family” is receiving larger scores and is preceding the current question.

No. 13 IMPFML - Important in life: family
Here in fact the three countries are compact in giving higher support to the relevance of their family in the range of important things in life, than the average and the single countries Austria and Germany.

No. 15 SCLMEET - How often socially meet with friends, relatives or colleagues
The three selected countries have less frequent social relations with friends, colleagues and relatives than both the average of the ESS package and Austria and Germany.

No. 20 PPLHLP - Most of the time people helpful or mostly looking out for themselves

No. 21 PPLFAIR - Most people try to take advantage of you or try to be fair

No. 22 TRSTLGL - Trust in the legal system
Help to others, trust towards others and trust towards institutions: we enter here in the area of institutional generalised trust, where all similar surveys conducted in the Central Eastern European countries lead to the same result: an evident lack of trust. This has been anticipated and well described in the literature as a general problem for the countries in transition.

In conclusion the results of this second exercise induce us to admit that the variable No. 2 IMPOBWL discriminates the civeness of the three Visegrad countries showing quite high values on this dimension of social capital. The variable No.7 IPLYLFR together with the No. 20 PPLHLP and No. 21 PPLFAIR describes the dimension of general trust, related to the belief about the good intentions and expected behaviours of others, where the three countries are generally very weak. The exception refers to the first variable 7 IPLYLFR, that could also indicate the dimension related to the “social support”, informal

106. For detailed information on the ESS 2002-2003 database we refer to the methodological note.
sociability and unpaid help. In this last case the contrasting position, positive for
the three countries, could better refer to the "informal networks" often mentioned
as still surviving networks by the literature about the countries in transition from
the post-communist regime. The variable No. 22 TRSTLGL is reinforcing the
negative trend of the trust toward institutions, which is also generalised in the
transition countries.

Finally we have the variables No. 12 IMPFRDS, No. 13 IMPFML and No. 15
SCLMEET that describe the participation of citizens of the three Visegrad countries
in the "informal networks"; the results obtained in the distribution of these variables
show some incoherencies that only a more detailed analysis can justify.

4. Analysis of the social capital in Czech Republic, Hungary and Poland

A similar set of proxies, which we have used above, based on the assumption
that the networks together with shared norms, values and understandings facilitate
coop-operation within or among groups are applied by other two researches -
Paldam and Svendsen (2000) and the most recent by Fidrmuc and Gerxhani
(2004) - for the estimates of social capital in the former communist countries.
Social capital is figured, according to these practices, from the point of view of
three dimensions: A) Participation in voluntary organisations, clubs and

We intend in this forth part of the secondary analysis to undergo a similar
study, but utilising the instrument of comparison among countries.

The participation in voluntary organisations dimension is being measured
through the indicator:

- How important is in life to help voluntary organisations

The presence of trust - which is the most relevant among the dimensions -
could be indicated by the extent to which people find strangers trustworthy. In our
research it is measured with the following indicators:

- Most people try to take advantage of you, or try to be fair
- Most people can be trusted, or you can't be too careful
• Trust in legal system

Finally, we utilise for measuring the density of networks, as indicated in the studies of Paldam and Svendsen (2000) and Healy (2002), the following questions:

• How often you help others not counting for work/voluntary organisation
• How important is to help people and care for others well being

The following tables display the results of our elaborations from the database ESS 2002/2003. From the more than 120 items included in the database we selected here 5 basic questions that, according to the assumptions described above, better represent some of the aspects related to the social capital in the Czech Republic, Hungary and Poland and we present them in crosstables with the average of the results obtained in the total countries and case by case with Greece and Italy or Spain and Ireland. Data for the Slovak Republic are not included in the database. We decided to select the countries according to the following criteria: the selected group of the V4 (in this case without Slovakia), two of the Southern countries of the old EU more representative and Ireland (representing a small country of the Northern Europe with very recent high development).

Participation in voluntary organisations:

we start introducing the distribution of the answers to the question “How important is in life to help voluntary organisations” (variable denominated with the name IMPVO) in a cross table with the variable CNTRY (countries) from the European Social Survey (ESS 2002-2004) described in detail in the methodological chapter; the elaborated data relate to the years 2002 and 2003 (107).

107. For the elaboration of these variables we utilised once more the software SPSS. The data source is always the ESS 2002-2003. The simple aggregation of frequencies in a crosstable, were we introduced as independent variable CNTRY (the selected countries) and the above mentioned variables, is displayed in a range of 6 (and in one case 7) entry scale. The average reached by the frequencies in the total countries’ is our base reference data for the calculation of the differences (both positive and negative) observed in every country in percentage term to this base reference. The “distances” from the mentioned average range from a very small percentage (0,1) till, in some
Table 42 - Distances in percent from the average of all countries’ variable to the question E19: “How important is each of this things in your life?” Voluntary organisations

<table>
<thead>
<tr>
<th>CNTRY/IMPVO E19</th>
<th>average of all countries in database</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ireland</td>
<td>Greece</td>
<td>Italy</td>
<td>Czech</td>
<td>Hungary</td>
<td>Poland</td>
</tr>
<tr>
<td>Extremely unimportant</td>
<td>21,0</td>
<td>-2,1</td>
<td>-5,0</td>
<td>-16,3</td>
<td>18,1</td>
<td>38,9</td>
</tr>
<tr>
<td>2+3</td>
<td>17,1</td>
<td>1,1</td>
<td>-2,2</td>
<td>-7,9</td>
<td>2,9</td>
<td>-2,9</td>
</tr>
<tr>
<td>4+5</td>
<td>25,1</td>
<td>1,0</td>
<td>2,1</td>
<td>-4,0</td>
<td>-5,0</td>
<td>-11,0</td>
</tr>
<tr>
<td>6+7</td>
<td>17,9</td>
<td>0</td>
<td>5,1</td>
<td>10,2</td>
<td>-5,0</td>
<td>-12,1</td>
</tr>
<tr>
<td>8+9</td>
<td>12,9</td>
<td>-1,0</td>
<td>0</td>
<td>9,1</td>
<td>-6,9</td>
<td>-7,9</td>
</tr>
<tr>
<td>Extremely important</td>
<td>6,0</td>
<td>1,0</td>
<td>0</td>
<td>8,9</td>
<td>-4,1</td>
<td>-5,0</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from ESS database ESS1e04_spss

Figure 23 - Distances in percent from the average of all countries’ variable to the question E19: “How important is each of these things in your life?” Voluntary organisations

Source: Our own elaboration from ESS database ESS1e04_spss

cases, over 40%. Every table is accompanied by a figure where the zero line represents the average value reached by all the countries in the database. The “distances” form the average in the figures are immediately perceived visually both in positive and negative terms. A particular attention
First of all we like to facilitate the reading of these figures. The zero percent row represents the average of the values obtained by the full package of the 22 countries included in the ESS database: the distribution of the variable is calculated for every country in percent of these values. When a country obtains in the scale from “extremely unimportant” to “extremely important” respectively negative – in the first part, less unimportant – and positive – close to extremely important, more important - scores in percent, this denotes an overall more positive trend in respect to the average. Vice versa in the opposite case (see the opposite distribution of Italy and Poland in the above figure).

From this first figure we can have a first clear approach of the dimension related to the participation in volunteering organisations. Once more the three Visegrad countries declare lower interested to help voluntary organisations that the average of the universe and in opposite southern countries rely more on the voluntary organisations. Ireland has very small differences in respect of the average. Greece and Italy, with higher magnitude, give lower importance and extremely unimportance (up to less 16% of the average obtained by the 22 countries included in the survey of the position “extremely unimportant”) to the subject of the above question. The distribution of the answers giving more and extreme importance is higher in Italy (around 10% over the average). Exactly the opposite for the three countries of the Central Eastern Europe: Hungary is close to the very high level of 40%, the highest rank of unimportance in helping voluntary organisations. Of course, when the question is asking whether it is extremely important to help, the adhesion is lower than the average.

should be paid to the position of the bars in the histograms that normally range from the left side “extremely unimportant” to the right side “extremely important".
Presence of trust:

Table 43 - Distances in percent from the average of all countries’ variable to the question A9:
“Do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?”

| CNTRY/ PPLFAIR | A9 | average of all countries | difference in average difference in average difference in average difference in average difference in average difference in average difference in average |
|----------------|----|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                |     | PPLFAIR                  | Ireland         | Greece          | Italy           | Czech           | Hungary         | Poland          |
|                |     |                          | average         | average         | average         | average         | average         | average         | average         | average         | average         | average         | average         | average         |
| Most people try to take advantage of me |    |                          | 6.6             | -2.5            | 16              | 4               | 1.2             | 4.6             | 5.4             | 2             | 3             | 4             | 5             | 6             | 7             |
| 2+3            |    |                          | 13.3            | -2.8            | 13.9            | 9               | 4.8             | 7.8             | 8.6             | 2             | 3             | 4             | 5             | 6             | 7             |
| 4+5            |    |                          | 28.7            | -1.4            | 1.4             | 4.1             | 4.4             | 7.3             | 6.8             | 3             | 4             | 5             | 6             | 7             | 8             |
| 6+7            |    |                          | 27.1            | 0.2             | -14.4           | -4.4            | -3              | -7.7            | -8.5            | 4             | 5             | 6             | 7             | 8             | 9             |
| 8+9            |    |                          | 20.9            | 5.7             | -14.4           | -11.8           | -5.2            | -11.9           | -11.7           | 6             | 7             | 8             | 9             | 10            | 11            |

Most people try to be fair | 3.5 | 0.8 | -2.4 | -0.9 | -2.2 | 0 | -0.6 |

Source: Our own elaboration from ESS database ESS1e04_spss

Figure 24 - Distances in percent from the average of all countries’ variable to the question A9:
“Do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?”

Source: Our own elaboration from ESS database ESS1e04_spss

The Southern countries of EU here clearly show their specificity based on individualism and distrust of the others; in respect to the overall average of the
interviewed countries also the 3 CEECs are proving their decisive general distrust. This is opposite to the distribution of the answers in Ireland, that outlines more trust toward others and the perception that most people are fair in social relations.

Table 44 - Distances in percent from the average of all countries' variable to the question A8: “Generally speaking would you say that most people can be trusted, or that you can’t be too careful in dealing with people?”

<table>
<thead>
<tr>
<th>CNTRY/ PPL/TRST</th>
<th>average of all countries</th>
<th>difference in % to average in Ireland</th>
<th>difference in % to average in Greece</th>
<th>difference in % to average in Italy</th>
<th>difference in % to average in Czech</th>
<th>difference in % to average in Hungary</th>
<th>difference in % to average in Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>A8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>You cannot be too careful</td>
<td>10,4</td>
<td>-2,1</td>
<td>13,9</td>
<td>2,3</td>
<td>3,5</td>
<td>6,0</td>
</tr>
<tr>
<td></td>
<td>2+3</td>
<td>17,1</td>
<td>-2,6</td>
<td>9,6</td>
<td>2,7</td>
<td>9,1</td>
<td>6,2</td>
</tr>
<tr>
<td></td>
<td>4+5</td>
<td>30,0</td>
<td>-3,5</td>
<td>-2,3</td>
<td>3,9</td>
<td>2,4</td>
<td>7,0</td>
</tr>
<tr>
<td></td>
<td>6+7</td>
<td>24,7</td>
<td>1,6</td>
<td>-12,6</td>
<td>-0,2</td>
<td>-7,8</td>
<td>-9,3</td>
</tr>
<tr>
<td></td>
<td>8+9</td>
<td>15,5</td>
<td>5,6</td>
<td>-7,5</td>
<td>-7,5</td>
<td>-6,3</td>
<td>-9,5</td>
</tr>
<tr>
<td>Most people can be trusted</td>
<td>2,3</td>
<td>1,0</td>
<td>-1,1</td>
<td>-1,2</td>
<td>-0,9</td>
<td>-0,4</td>
<td>-1,2</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from ESS database ESSle04_spss

Figure 25 - Distances in percent from the average of all countries' variable to the question A8: “Generally speaking would you say that most people can be trusted, or that you can’t be too careful in dealing with people?”

Source: Our own elaboration from ESS database ESSle04_spss

The answer to this question, related to the general trust, is reinforcing the results shown in the previous table. The Italians interviewees prove to be more
moderate, but Greeks are once more clearly indicating their disappointment with
the statement that most people can be trusted and they increase the attitude
expressed by the average of the interviewed that “you cannot be too careful” in
believing that people is so fair. CEECs and in particular Polish people are
approaching very closely Greeks in this behaviour.

We have seen that the theoretical and empirical contributions to the social
capital tend to attribute a central place to trust, because in an environment where
people trust each other the natural safety protection is partially substituted by a
less expensive safeguard or complicated contracts that support the economic
transactions and all kind of social ventures. Where trust is low, individuals risk
greater personal losses and they are treated as brainless if they do not play safe.
We understand the linkage that general trust has with the trust towards public
institutions for the determination of social capital. It seems in fact that trust
towards public institutions, in our case in a clear legal system with defined and
enforceable rules, can be less necessary in the case of a society with low reliable
personal ties and low general trust or “trust towards each other” among the
members. In the literature about social capital, stress is expressed about the
question on whether trust and trust towards public institutions are complementary
conditions in the description of social capital.

Table 45 - Distances in percent from the average of all countries’ variable to the question B8:
“How much you personally trust each of the institutions: the legal system?”

<table>
<thead>
<tr>
<th>CNTRY/ TRSTLGS</th>
<th>average of all countries in database</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
</tr>
</thead>
<tbody>
<tr>
<td>B8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CNTRY/ TRSTLGS</td>
<td>average of all countries in database</td>
<td>difference in % to average</td>
<td>difference in % to average</td>
<td>difference in % to average</td>
<td>difference in % to average</td>
</tr>
<tr>
<td>No trust at all</td>
<td>8,4</td>
<td>1,7</td>
<td>-0,5</td>
<td>-1,6</td>
<td>11</td>
<td>1,8</td>
</tr>
<tr>
<td>2+3</td>
<td>14,8</td>
<td>1,7</td>
<td>-5,6</td>
<td>-2,7</td>
<td>14,7</td>
<td>2</td>
</tr>
<tr>
<td>4+5</td>
<td>25,9</td>
<td>4,1</td>
<td>-5,4</td>
<td>1</td>
<td>19,7</td>
<td>6,9</td>
</tr>
<tr>
<td>6+7</td>
<td>24,8</td>
<td>-1,8</td>
<td>-3,4</td>
<td>8,8</td>
<td>-8,1</td>
<td>-5,6</td>
</tr>
<tr>
<td>8+9</td>
<td>21,6</td>
<td>-4,5</td>
<td>7,4</td>
<td>-5</td>
<td>-15,8</td>
<td>-5,5</td>
</tr>
<tr>
<td>Complete trust</td>
<td>4,5</td>
<td>-1,2</td>
<td>7,5</td>
<td>-0,5</td>
<td>-3,7</td>
<td>0,4</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from ESS database ESS1e04_spss
As we can deduct from the above figure, the separation between general trust and trust towards the public institutions works differently in the Southern countries and in the CEECs. They are in this case in clear contra tendency; Greece and Italy, in fact, present some positive trust towards the public institutions and in particular in this case towards the legal system. On the contrary, the CEECs show distrust over the average also towards the public institutions and their legal systems. Ireland, in particular, is slightly more negative that the average.
Density of Networks:

Table 46 - Distances in percent from the average of all countries’ variable to the question E20:
“Not counting anything you do for your family, in your work, or within your organisation, how often, if at all, do you actively provide help for other people?”

<table>
<thead>
<tr>
<th>CNTRY/ HLPPPPL E20</th>
<th>average of all countries in database</th>
<th>difference in % to average Ireland</th>
<th>difference in % to average Greece</th>
<th>difference in % to average Italy</th>
<th>difference in % to average Czech</th>
<th>difference in % to average Hungary</th>
<th>difference in % to average Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every day</td>
<td>8,2</td>
<td>0,5</td>
<td>-4,5</td>
<td>1,8</td>
<td>-4,4</td>
<td>1,1</td>
<td>-2,8</td>
</tr>
<tr>
<td>Several times a week</td>
<td>13,7</td>
<td>-2,3</td>
<td>-6,1</td>
<td>-5,4</td>
<td>-7,9</td>
<td>-1,6</td>
<td>-7</td>
</tr>
<tr>
<td>Once a week</td>
<td>11,7</td>
<td>3,0</td>
<td>-6,2</td>
<td>-5,2</td>
<td>-3,5</td>
<td>-2,6</td>
<td>-3,9</td>
</tr>
<tr>
<td>Several times a month</td>
<td>17,2</td>
<td>-6,5</td>
<td>2,8</td>
<td>-5,7</td>
<td>-5,7</td>
<td>-0,2</td>
<td>-0,6</td>
</tr>
<tr>
<td>Once a month</td>
<td>13,4</td>
<td>-1,1</td>
<td>4,3</td>
<td>-5</td>
<td>-4,6</td>
<td>0,1</td>
<td>2,3</td>
</tr>
<tr>
<td>Less often</td>
<td>26,0</td>
<td>0,6</td>
<td>12,7</td>
<td>8,8</td>
<td>23,3</td>
<td>2,3</td>
<td>9,6</td>
</tr>
<tr>
<td>Never</td>
<td>9,8</td>
<td>5,8</td>
<td>-3</td>
<td>10,7</td>
<td>2,8</td>
<td>1</td>
<td>2,5</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from ESS database ESS1e04_sps

Figure 27 - Distances in percent from the average of all countries’ variable to the question E20:
“Not counting anything you do for your family, in your work, or within your organisation, how often, if at all, do you actively provide help for other people?”

Source: Our own elaboration from ESS database ESS1e04_sps

The analysed countries have mostly similar reaction to this question. The first part of the country bars shows that, besides Ireland that is quite balanced with the
average of the answers of the total countries composing the ESS basket, Greece, Italy and Poland prove to be less altruistic in helping others (less frequently, and up to 10%, 15% less often, or even never). Czechs are decidedly (more than 23%) answering that they help others “less often”. The distance between the Southern countries and the three CEECs is more evident with the Hungarians; they prove to be very close to the average of the respondents from the basket of all the interviewed countries.

Table 47 - Distances in percent from the average of all countries' variable to the question GI:
“How important is to help people and care for others well being?”

<table>
<thead>
<tr>
<th>CNTRY/</th>
<th>average of all countries in data base</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
<th>difference in % to average</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPHLPPL</td>
<td>Greece</td>
<td>Italy</td>
<td>Czech</td>
<td>Hungary</td>
<td>Poland</td>
<td></td>
</tr>
<tr>
<td>G1 Very much like me</td>
<td>21,8</td>
<td>2,4</td>
<td>8,1</td>
<td>9,9</td>
<td>-8,9</td>
<td>0,1</td>
</tr>
<tr>
<td>Like me</td>
<td>41,5</td>
<td>3,0</td>
<td>4,4</td>
<td>0,2</td>
<td>-5,2</td>
<td>-6,7</td>
</tr>
<tr>
<td>Somewhat like me</td>
<td>25,4</td>
<td>-6,4</td>
<td>-5,9</td>
<td>-5,8</td>
<td>6,3</td>
<td>4,9</td>
</tr>
<tr>
<td>A little like me</td>
<td>8,6</td>
<td>0,2</td>
<td>-5,2</td>
<td>-3,5</td>
<td>4,2</td>
<td>-0,5</td>
</tr>
<tr>
<td>Not like me</td>
<td>2,1</td>
<td>0,6</td>
<td>-1,3</td>
<td>-0,8</td>
<td>2,9</td>
<td>1,3</td>
</tr>
<tr>
<td>Not like me at all</td>
<td>0,5</td>
<td>0,1</td>
<td>0</td>
<td>0</td>
<td>0,7</td>
<td>0,8</td>
</tr>
</tbody>
</table>

Source: Our own elaboration from ESS database ESS1e04_spss

Figure 28 - Distances in percent from the average of all countries' variable to the question GI:
“How important is to help people and care for others well being?”

Source: Our own elaboration from ESS database ESS1e04_spss

The approach to help people is very dissimilar in the three countries of the CEECs in comparison with the Southern countries and Ireland. Once more the
former communist countries are very consistent among themselves; they show to be very reluctant to help people. Ireland, Greece and Spain on the contrary aim at helping people and at taking care for other’s well being, proving an altruistic vision of the life. The associational life and membership into formal groups is a common dimension that could be measured to confirm the intensity of the social capital. Putnam, for example, argues that low participation to the associations or the domination of the associations by powerful groups in the Southern of Italy was the reason of weak social capital in this part of the country.

We undertake now a summarisation of this last analysis regarding the social capital measurement in the three Visegrad countries (Czech Republic, Hungary and Poland). In conclusion, the participation into the voluntary organisation - considered to be a dimension valuable for the social capital - is evidently negative according to the examined indicators. The other relevant dimension that, in any case, should be the most relevant for proving a positive social capital, the generalised trust and the trust towards the public institutions, is presenting very low scores in all the area and the consistency of the indicators among the mentioned countries is remarkable. In the poor representation of this dimension, the three countries appear to be very close to the tendency of the Southern countries here evaluated (Greece, Italy and/or Spain). Contrary to the hypothesis of Putnam, which in his well known study about Southern Italy, ascribes the reasons for a lack of social capital to a poor civic culture inherited from the past, Trigilia (2001) maintains that the relation between social capital and local development is not reducible to the positive impact of a culture favourable to the co-operation. In fact he sees as crucial the role of the politics in mediating the relation between networks and market: when politics is little modernised, it might affect negatively the productive valorisation of the social capital, which is connected to traditional social structures, because it lacks autonomy in respect to the interest that has been built in the society (Trigilia, ibidem, 122-123). We could hypothesise that in the CEEC countries, the “not yet” modernised politics
negatively influence, according to the universalistic rules, the accumulation of the “positive” social capital.

The third dimension, related to the density of the networks, the tendency to take care for other people and to help others, is also affected by a very comparable behaviour among the three countries. Through the utilised indicators we have estimated that these populations are reluctant to help others or, if they do, this happens less often than the average in all countries part of the survey.

Specific social and cultural behaviours coming from the years of communism are still embedded in the population of the Central and Eastern European countries and, we suppose, it will take more generations before such a behaviour will change. The most visible aspect, the high rate of perceived corruption, is affecting these countries and will continue to filter considerably through the social and economic life in this part of Europe. The speed that the economic development will take, will proceed complementary with the acceleration of the process of rebuilding a positive social capital. The appropriate way should be by encouraging the establishment of community groups, attempting to support the trust and the confidence towards public institutions and business activities and fighting against corruption in the public environment.
The Central Eastern European countries after the enlargement are fully involved in the integration process into the single market. Being free from trade barriers and increasing the inward investment, these countries have started to take advantage from a consistent incentive to the economic and social internal growth, secured from the large increase of trade, the free circulation of goods, capitals, services and persons (the free movement of labour is expected only after 2010). The participation into the single market allows large benefits; nevertheless, from the point of view of the induced costs, this process obliges the new member states to continue to harmonise their internal legislation with the European economic normative. The freedom of the member countries to take autonomous decisions will be limited, in some cases, and these countries could be loosing significant competitive advantages. The single market participation is limiting, in fact, the market liberty forcing the newcomers towards the compliance with the EU Law in several sectors, like: labour regulations, indirect tax harmonisation, agricultural and environmental limitation, and additionally forcing for the adoption of costly welfare entailments related to the new EU constitution. The most relevant being the national veto that will charge indirectly significant costs to the new entrants. The convergence process of these new economies, that grow at 2-3 percent points per year over the average of the old EU countries, is just at the beginning; but several decades will last before that the GDP pro capita of the newcomers will be comparable with the EU average. The continual process of adapting to the EU standards, which require compatibility of the socio-political structures, is a burden
to the public administrations of the new entrants; additionally we have to recognise that the compliance costs are very high. A new form of neo liberal economic policy is growing in the CEECs, clashing against the traditional Keynesian policies of the old Europe. This increasingly causes economic conflicts between new and old Europe and produce discrepancies that it will not be easy to put in right. Sometimes, a compromise solution is being adopted, which would represent the only choice for the continuation on the agreements; but not always this formula represents the best solution.

In this study we focussed on the difficulties of the European integration after the big enlargement and we analysed the forecasts for the economic future that the countries from Eastern Central Europe will have to face in the next years while pursuing the convergence towards the same level of income and economic growth of the old countries in Europe.

We have analysed especially four sensible areas that could strongly influence the economic relations among the countries participating into the Internal Market. The evaluation of the progress towards harmonisation of legislation with the Acquis Communautaire and of the institutional building achieved by the Visegrad 4 countries (performed in the Part II of this study) has evidenced the low consistency and level of the results obtained in these countries and mostly the short time granted to their national governments to prepare for bearing full responsibilities in the European Union.

The Union is now at a critical point: the reform of the decision process is overburdened at the same time by the hesitations of the old EU in reforming their welfare state (in particular the pension system) and the EU15 are suffering from a high unemployment with negative projections related to the ageing of the population.

Furthermore, in the newcomer countries, in particular in the Visegrad four, we identified different circumstances that play an important role in disagreement with the policies adopted by the old EU:

- member states intend to retain (and not to loose) their competitive advantage;
• their national legislation is often conflicting against compliance with the EU regulations;
• they suffer from effects born by the negative integration (not built up through new laws but through restrictions to the market liberalisation);
• they refuse the pressure for increasing expansive Keynesian policy;
• there is a trade-off between increasing efficiency and equity (Lisbon agenda tries to oppose the trade-off);
• they should bear increasing costs in taxation: due to the increasing mobility of capital and firms, losses on tax revenues due to competitive tax policies and costly welfare entailments;
• in the meantime, social heterogeneity is increasing in Europe, due to the individualisation and the emigration;
• the low labour mobility in Europe affects the market transparency and prevents from a proper form of competition (protective niches).

We would try now to delineate, with the help of a functional graph, our line of reasoning. The sensible areas that we have first selected and after described could be grouped in two categories. The first category includes the economic policies adopted by the member states: we put the macroeconomic policies (the area called growth policies versus social Europe) on the top of an imaginary y-axis and on the bottom the area of taxation.

Along the imaginary x-axis we set the human resources of the member states: migration on the right and social capital on the left side. We are able now to represent our four sensible areas or, in other words, the key uncertainties that in the figure 29 we identified with the arrows displaying the four directions towards macro-economic policies and human resources.
In this representation we suppose that at the centre of the orthogonal arrows is conceptually located the EU Single Market. We would anticipate that the described sensible areas should not be considered exhaustive of all possible solutions that can affect the single market integration.

If it could be understandable to find the growth policies and taxation policies in the vertical alignment, in the horizontal one we found a conceptual linkage between the migrations and the social capital through the human resources of a country to be interdependent, as Shiff (2000: 1) states: «movement of people differs from the movement of goods and services because people creates attachments with those with whom they share social capital».

We will outline in the following, according to the results of our study, how these areas play in the internal equilibrium of the states and how in the complex area of the Union.

**Growth Policies:** together with taxation, growth policies are a vertical issue, related mostly to the macro but also to the micro economic policies adopted by the country.
In the chapter on growth policies *versus* social Europe we analysed at first the diversification of the welfare models in the Union and we tried to determine the place for the pattern followed by the Visegrad four countries. The strong reform pursued by the V4 governments, is steadily decreasing the incidence of the welfare expenses as percent of the produced GDP. In particular for the health and pension systems, the cuts on the state budget accompanied by the attempts at drastical reorganisations in the sector will, according to our evidence, clash against the evidence that the accumulation of the pension funds and the growing production costs in the field of public health need higher redistributive impulse from the state. From the combined effect of lowering the taxation, we have seen that these countries have chosen a neo-liberal approach in the guidance of the public economy that - if exaggerated - could introduce unavoidable risks in the medium, long term.

The thread of the study in that chapter 7 has been the contrast between “equality” and “efficiency”; in the literature several authors assert that pursuit for efficiency necessarily creates inequalities and therefore the developed economic systems face a trade-off between equality, for instance promoting employment, and efficiency, improving the labour productivity. If we accept the concept that the present welfare state crisis is endogenous to its own growth, consequent to Delsen’s statements (Delsen 2002: 1), (from a macroeconomic point of view) a huge amount of human capital would remain unused while the financial burden and the work pressure of the active part of the population increases.

This situation is aggravated by the population ageing all around the member states of Europe, while disability, illness, medical expenses and unemployment are also age-related. The only remedy will be to reform drastically the social security systems in order to obtain a reduction of the total public social burden. The social expenditure during the second half of the '90s gave some decrease signals of in the EU15 as a consequence of the rising employment and especially of the efforts of the member states to reduce public deficits, obeying to the Maastricht pact. But, according to the critical fiscal position that we analysed, will the reduction in social expenses be accepted by the population in the new member
states? The economic policy of the V4 cannot easily find a solution in consideration of the expectations of the population, which for a long time will suffer from a very low purchasing power, with prices that, in the open market, tend to rapidly inflate and converge versus a stabilised average in the core of Europe. As we analysed, some temporary solution could be reached through the increase of the employment rate in the V4 countries and by providing a job to the high number of old workers aged between 55 and 64. This could be expected as a positive effect of the new working places created by the new productive investments in all countries of Central and Eastern Europe.

The negative integration, consisting of obligations that restrict the political power of the new member states without transferring power to the supranational entity, in this case could be very dangerous for the newcomer countries in Europe. Positive integration concerns the member states' agreement to built up forms of institutional powers created and transferred from the national level to the Union level on conditions that these powers contains an inner market correcting process; but this positive integration is far from being considered in EU in the social sector. In the single market, the result of the integration will bring the “income” convergence and eventually only afterwards the “social” convergence. Countries that perform low social standards and benefit from lower labour costs have a comparative advantage in front of the developed countries in the Union. Moreover, negative policy competition between governments with the goal of attracting foreign investments (the case of the V4 lowering the corporate tax and keeping strong pressure on the labour remuneration protecting domestic jobs) involves competitive deregulation that reflects the negative integration. Furthermore, for the countries that still have not adopted the Euro currency, the adjustment in the exchange rates as a consequence of different inflation rates is a measure that can compensate the effects of social dumping. In other terms, the variability of exchange rates, so important a balancing mechanism for the economies of the V4, in particular in the present stage of development of the institutional structures, is an irreplaceable component of the actual economic
policy. This important manoeuvre will no longer be available at the moment when
the V4 countries adopt the Euro currency.

The newcomer countries, according to the process enhanced by the integration,
will have a tendency to converge wages towards the EU average. The
convergence will be more rapid when entering in the EMU area. The theory
foresees in this case unchanged low divergence (low disparities) between regions.

Taxation: the analysis of the companies taxation in Europe has brought
evidence of an increasing competition realised through a progressive decrease of
the tax rates applied by the Visegrad four countries, with the aim of attracting
investors from all the rest of Europe and outside. The effect on the EU15
countries for rising the costs of taxation is already realised, due to the increased
mobility of capital and firms moving towards east. The competition has the
consequence of causing losses in the total tax revenues in the member states: the
administration that has reduced rates without enlarging substantially the tax base
is loosing as well as the member state from which the investments are moving,
because of loosing the tax base. Decreased tax revenues mean less redistribution,
higher pressure on state budget for realising the objectives of an expansive
Keynesian policy and finally increasing social heterogeneity in Europe. From the
analysis we have remarked that the average of the states in Europe in the year
2000 have stil an higher amount of total taxes in relation to the GDP produced,
more than 42% of the GDP, meanwhile in Japan and in the United States the total
tax revenues account for less than 30% of their GDP. In the decade from 1990 to
2000 the impact of tax revenues on GDP is decreasing in the USA, while is
increasing in the average of EU.

The first effect of the reduction of direct tax rates in the Visegrad 4 seems to be
the increasingly attraction of FDI with de-localisation towards east of some
productions. This effect is registered by the statistical data on the inward FDI in
the four countries. But the study is also bearing out the high costs for compliance
with the different tax regulations in Europe and the tax planning hold by the
companies that invest outside their country. Due to the lack of harmonisation of
the taxation systems in Europe, the process of internationalisation could slow
down. If this is the case, the risks for the immediate future in the Visegrad
countries are weak tax collection systems, incapability to guarantee independent
and efficient tax audits, incapacity for forecasting the amount of state revenues -
due to a lack of consolidated experiences - and sometimes unavailability or
unreliability of national statistics. These limitations could frustrate the attempt of
the administrations to achieve the performances required by the state budget, in
particularly under the restrictions foreseen by the growth and stability pact.

Tax competition, being a political choice, marks the route of the local
governments, distinguished according to their political “colour”, and determines
the efficiency of the economy and definitively the equity of the countries welfare
systems. In the future, due to the increased competition, the biggest problem
should be to guarantee the compatibility for the concept of subsidiarity in Europe.

The EU governments can retreat the public sector, giving more space to the
private initiative, in conformity with the different social preferences and the
freedom of the individuals. It could be realised through a decrease of the overall
tax burden, leaving the private sector to enlarge the influence sphere in a
competitive environment that will enhance the efficiency. But to do so it requires
policy innovation and improvement of the efficiency without reducing the equity
(the flat tax rate, as it is applied nowadays in some of the V4 countries, cannot be
considered an equitable instrument). One solution could be to enlarge the tax base
by including a more consistent application of the benefit principle in taxation.
Encouraging innovation could be also an additional tool; considering that the
reduction in the tax burden for the working generation could also support an
effective reform.

Social Capital: we will present now the results obtained on the “horizontal
issues” that have their core subject in the Human Resources, among which we
studied the social capital that induces large effects also in other areas like labour
mobility (migration), trade (transaction costs), regional integration (when trade is
growing and therefore also a generalised trust between the integrating regions).
The increase of labour migrations, creates externalities as an effect of the social capital and could generate more efficiency both in the hosting economy and in the country from were migrants move away, but in the last, the social capital may decline when members of the groups and networks are left away.

For our analysis of the social capital in the Visegrad countries, we made reference to two different studies. One of them (Paidam, Svendsen 2000) explains the slow development after the collapse of the communist regime in the eastern countries. The reason for that is, according to the two authors, the lack of social capital which is an important factor for production. In fact those countries at the start of the transition towards the market economy demonstrated to possess a large amount of physical and human capital available. When measuring the generalised trust and the corruption perception index in the Visegrad 4 countries, in comparison with the scores obtained in the rest of Europe, we come to a conclusion which confirms the observations made by the two authors. In these countries grey/black networks still flourish (called a form of "negative" social capital), which can be harmful for the performance of the economy. The second study we refer to, has been worked out by Matějů and Vitásková (2005) from the Institute of Sociology of the Academy of Science in Prague. The authors distinguish between social capital - intended as the "individual social capital", a behaviour that can be expressed in terms of mutual beneficial exchange based on social connections - and informal networks that prevail in the findings about the post-communist societies; the result is linked to the individual reaction that consolidated during long years of communist regimen in oppositions to the collective actions formally requested by the system in the official daily life. The composite reaction of the individuals - that built up a parallel net of social relations for the reciprocal exchange of services - is based on the reliability of the small tasks and concrete responsibilities in order to manage the combined favours.

Opposed to that, we can find the prevalent conceptualisation which is related to social capital as an attribute of the societies based on a high degree of general trust and trust toward the institutions that facilitates interpersonal cooperation and decreases the transaction costs (therefore influencing positively the trade
development). This second approach prevails in the societies of the Western Europe.

The social capital attribute of the societies is not compatible with the behaviours of the CEECs societies and almost seen with suspect; and in particular our research confirms that generalised trust and trust towards the institutions is very weak when compared with its level in the Western European Countries. Interpersonal cooperation and help to others receive, in the four countries, a lower score than in the rest of Europe. The strict relation with the family is proved to be stronger and it seems that the interpersonal cooperation could be accepted under the precondition of a restricted circle of persons (family and friends). The third part of our research is dealing with the measurement of generalised trust, trust toward the institutions, participation in the voluntary organisations, interpersonal cooperation and help to others. Using the recent ESS survey (2002-2003) we document once more the level of social capital in the Visegrad 4 and in the old member states. From this comparison the gap between the two groups in all these behaviours is evident. Different initial conditions and historical inheritages are deemed to disappear only with the real economic and institutional convergence of the Visegrad four (Fidrmuc and Gerxhani 2003).

**Migration**: in order to study the transborder migrations in Europe, we revised the literature dealing with the conditions affecting the movements of the labour force (migration both of the low and the high qualified labour). Labour migrations, we have to take in consideration, is a factor less mobile than the capital factor. The chance of emigrating for the EU citizens represents a deep content of "personal freedom". The actual aspects that affect the migration flows need first of all to be confronted with the rapid trend toward adjustment of the average salary, and the corresponding purchasing power, that the employees can earn in their countries of origin. The difference between the net earnings that the migrants can receive in the hosting country and the net earnings in the country of origin, could be considered the index of attraction for leaving home.
Our analysis of the labour markets in the Visegrad four countries has reached the conclusion, that we could expect major constraints from Poland, as an effect of the agricultural restructuring; in Poland the highest group of labour force nowadays is concentrated in the primary sector. In effect, as Salvatore (2002) describes, a large mass of population working in the agricultural sector could become unemployed in few years, they will be pressing on the borders with Germany and some Northern countries in order to find the way to live socially and economically active. This pressure at first will be directed from the Polish countryside to the urban sites but being so numerous (we can easily calculate that more than 1 million of Polish small farmers will be affected by the restructuring and an high unemployment is nowadays still to be considered additional to this basic number) they will try to emigrate.

Giving an answer to the most frequent question raised by the old member states about the magnitude of the future east-west migration, our study is coming to the conclusion that the alarms coming from some of the developed countries in Europe (mostly Germany, Austria and Sweden) for a hordes of migrants moving from new member states are inconsistent. On the opposite, the job losses in the EU15 are and will depend on the quantity of productions transfers in favour of the central and eastern Europe, that for some time will benefit from lower cost and skilled labour. The artificial closure of the western labour market, as an effect of the transitional arrangement preventing the free movement of workers, will dilute over the next decade the possible pressure from the accession countries. The openness of the markets not only in Europe is incontrovertible and automatically causes the productions transfers in the cheapest countries. The availability of qualified labour in the newcomers from Visegrad 4 is quite limited according to the demographic data and, very soon, if the current trend of productive investments will be maintained; there will be a scarcity in the offer of this productive factor. Poland probably will be the only one exception. It seems even possible, and one study mentioned in the current research (Marin 2004) is documenting that, that the flow of skilled labour can in future transfer from west to east (due to the transfer of wide sectors, like for instance R&D department of
MNEs). The dominant condition for the possible mass migration is therefore once more the possible collapse of the economic reforms, the growth trend in the domestic market. The slow integration of the labour market in EU is mostly conditioned by historical and behavioural customs of the population that are refractory to labour mobility.

Thinking over the results of the four sensitive areas, we pointed out that there is a symmetry between the described areas that deal in the single country and the similar aspect that affects the overall Union. In consideration of that, we illustrated, using the same logical scheme, the scenario for the future development in Europe which reflects, at this moment the level of dynamics in the “Union”.

The vertical axis is once more the outcome of the strategic policies, now at the level of the Union, from which we can see that the effective economic integration is proceeding at the same pace as effective are the growth policies in the member states, and that the divergence due to the disharmonic policies will, on the opposite, result from rejecting the compliance with the EU basic principles and regulations affecting the overall weakness of the Union.

Along the horizontal axis in this case we identified the external economic conditions: the globalisation of the economy, which is a factor that could not be influenced by the Union (both internal-external factors, where we had migrations, in the case of the single country) and the conditions of the regional market, where the social capital is better localised.

This could be considered a new scenario, from which we should take in consideration the possible composition of the following factors that will interfere in the integration process of the new Europe. In fact the Lisbon targets selecting productivity, employment, income equality and environment quality are driving towards a Europe that intends to consolidate the basis for the social protection, for development based on research and innovation and to spread welfare to all citizens, protecting the environment.
Economic integration refers to the old trade models that develop towards the inclusion of services and production factors, entering in this way the "hearth of national sovereignty" (Tsoukalis 2003: 259) amplifying the regulatory, redistributive and increasingly stabilisation policies. The economic integration served wider political objectives and has allowed the democratic consolidation and the modernisation in the CEECs.

Divergence in terms of less integration. The public sector retains the central role of income redistribution, adopting different tax policies and tax rates, which affects the policy harmonisation of the taxation on capital tax gains, capital gains, income of physical persons, company taxation. The state plays the role of retaining competitive advantages on tax competition and welfare competition.

Global economy is represented by the state, which retreats in front of the strengthening of market forces that, in the name of efficiency, influence the
economic order by weakening the power of the state. This effect could be observed mostly in the weakening of the public finances with the large accumulation of large public debts. The liberal economy pushed by the strong winds of the increased internationalisation (globalisation) influence the trade-off between efficiency and equality, promoting a higher growth performance at the expenses of increasing income inequalities and of the crisis of the welfare systems.

Regional markets have the opportunity to preserve longer the social capital (both positive and negative for the economic development). The ability of the transition economies is to keep longer and to valorise their social capital (as Poland and Hungary were able to do, to the contrary of the Czech Republic, according to Stiglitz 2002: 188-189) pursuing the economic development. In the regional markets is easier to rely in a wider consensus towards the economic and social model that is realised.

Ultimately, the results of our analysis, presented here in a condensed version, in a sense corroborate the presence of the "sensible areas" that could give "problematic" answers to the integration process, and seem in some way to reinforce the largely diffused opinion according to which the enlarged Europe is beginning to look a reality overloaded by uncertainties and dark areas as far as the effects of its future development are concerned.

These threatening clouds are mostly located partially in the short time span allowed to force the newcomer countries to afford the path for the accession preparation and for the harmonisation with the Acquis Communautaire. All of this helped to reinforce and consolidate the institutional transformations necessary to guarantee supervision and the control over the economic activities, over phenomena of misgovernment, corruption and fraudulent misuse of the public funds. Moreover, they find strengths from the lack of a clear definition of the political "form", and consequently economic form, which we give (or would give) to the Europe. This definition, as it is largely agreed in Europe, should have had a less shaded outline at the accession time for the new countries. Discrepancies and
uncertainties in just one of the 25 member countries cannot be reflected all over the Union, and not only: what constitutes an obstacle for the development of one country could be transformed into an opportunity for development for another country.

On the basis of the results of our work, we could confirm, for example, that the competition on the direct taxation of companies and of physical persons is one of the most evident "difficulties of aggregation" that presents major uncertainties; which is followed by the effort of the government to guarantee an adequate social security level to its citizens, by the levels of the public budget deficit, unacceptable for the stability pact, and by the unsuccessful liberalisation of the pillar of the free movement of labour.


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