European integration, capitalist diversity, and inequality in East-Central Europe

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Structure

• Emergence and characteristics of East Central European capitalist diversity

• East European varieties of capitalism and inequality

• Varieties of crisis responses and their possible repercussions on inequality
How has European integration shaped East European (varieties of) capitalism?

• Via accession conditionality, painstaking monitoring, and socialization of the new member states, the EU has profoundly shaped their new economic order.

• This has prepared the ground for East Central Europe’s peripheral integration in two closely related core European projects – efficiency oriented restructuring of its manufacturing sector and fostering of financial capitalism.

• The requirements of EU integration have combined with domestic policy preferences and legacies to produce East European varieties of capitalism, and varieties of growth models.
Neoliberalism in the Baltic States

Legacies and policy preferences:
- Socialist legacies as a threat to independence
- Priority of nation & state building
  ⇒ Radical economic reforms

Nationalist social contract
- Compensates by identity gains for social losses, reverses ethnic hierarchy
- Operates through destroying losers’ collective action capacity to resist and deprivation of democratic rights

Finance driven growth during the 2000s
- Radical reforms destroyed manufacturing base
- Foreign banks induced a mortgage and housing boom
Embedded neoliberalism in the Visegrad countries

Legacies and policy preferences
- Industrial and welfare state legacies are considered assets, but heightened sense of lagging behind the West
- Economic modernization and catching up with the West
- => gradual economic reforms

Welfarist social contract
- Protects against loss of status acquired through work
- Protection provided proportional to perceived or demonstrated voice in politics (“Divide and Pacify”)

Export-oriented growth during the 2000s
- Governments embed TNCs via investment incentives
- TNCs induce rapid upgrading of industrial production in complex sectors
Neocorporatism in Slovenia

Legacies and policy preferences
- Arguably the most advantageous economic and social legacies in ECE
- Continuation of a reform path embarked upon earlier
- => gradual reform path, building on insiders

Democratic Corporatist Social Contract
- Combines welfarist contract and institutional labor inclusion

Domestically based export-oriented growth gradually gets exhausted during the 2000s
Varieties of Social Contracts

**Early choices**

**Later patterns**

<table>
<thead>
<tr>
<th></th>
<th>Social expenditure/GDP (average 2003-2013)</th>
<th>Union Density (latest available data)</th>
<th>Bargaining coverage (latest available data)</th>
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</thead>
<tbody>
<tr>
<td>Baltic States</td>
<td>15</td>
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<tr>
<td>Visegrad-4</td>
<td>19</td>
<td>12</td>
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<tr>
<td>Slovenia</td>
<td>23</td>
<td>22</td>
<td>65</td>
</tr>
</tbody>
</table>

GDP decline and social spending

UNICEF (Children in Transition)

Eurostat, Visser 2015
Varieties of social contracts: at risk of poverty rates

At risk of poverty rates after social transfers, 2006, Eurostat
Gini over time

## Varieties of capitalism and income inequality

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini average 2003-2014</th>
<th>Impact of social transfers in reducing Gini (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baltic States</td>
<td></td>
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<tr>
<td>Estonia</td>
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<td>Visegrad-4</td>
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<td>Czech Republic</td>
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<tr>
<td>Slovenia</td>
<td>20</td>
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</table>

Source: EU SILC
Wealth inequality vs income inequality

<table>
<thead>
<tr>
<th></th>
<th>Gini net worth</th>
<th>Gini income</th>
<th>difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>68</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>Hungary</td>
<td>64</td>
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<td>Poland</td>
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<tr>
<td>Slovenia</td>
<td>63</td>
<td>24</td>
<td>38</td>
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</tbody>
</table>

Skopek et al 2014

- There is (to my best knowledge) little data on wealth distribution in ECE
- The Gini does not tell us all that much, because many people don’t own any wealth
- I assume that overall wealth distribution in ECE is still significantly more equal than in the West
A first cut

- In all ECE countries, income inequality has increased significantly in the past two decades.
- There seems to be a close affinity between VoCs and income inequality in the two polar types – the neoliberal Baltic States and neocorporatist Slovenia.
- The affinity is somewhat less clear in the embedded neoliberal regime, with high inequalities in Poland, initially high but then decreasing inequality in Hungary, and gradually increasing inequality in the Czech Republic and Slovakia. These differences most likely reflect differences in starting points, and in the pace of international integration.
- There is no systematic relation between wealth inequality and VoCs
Varieties of crises responses
Austerity nationalism in the Baltic States

- In the fall of 2008, Central and Eastern Europe became one of the flashpoints of the global financial crisis. By March 2010, however, the crisis in that region had ... abated. Public attention moved from Latvia...to the PIGS... The issue was no longer why Latvia must devalue, but what Greece could learn from Latvia. (Aslund 2010: 1)

<table>
<thead>
<tr>
<th></th>
<th>Budget consolidation % of GDP</th>
<th>Wages (2009)</th>
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<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>Estonia</td>
<td>8.9</td>
<td>3.1</td>
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<tr>
<td>Latvia</td>
<td>9.5</td>
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<tr>
<td>Lithuania</td>
<td>8</td>
<td>3.7</td>
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Increasing diversity in the Visegrad countries

Business as usual in the Visegrad-3

• Poland: Crisis? What crisis?

• The Czech Republic and Slovakia stayed on the embedded liberal pathway

Hungary’s turn to illiberal nationalism

• Neoliberal tax policies (flat rate)

• Severe cuts in welfare benefits, redistribution geared towards the middle class, extensive workfare at below minimum wage

• Alleviation of debt-burden of households

• Decrease of mandatory school age

• Punishment of foreign companies with the aim of creating a domestic bourgeoisie

• Rise of oligarchs close to the ruling party
The erosion of neocorporatism in Slovenia

• With EMU accession and increasing transnationalization during the 2000s, business, labor and the state began to resent the discipline that consensual politics implies

• When Slovenia was hit by a double – banking and export – crisis, it had to respond under conditions of polarized politics
A second cut: crisis responses and inequality

• With the Baltic States remaining committed to their neoliberal model even in hard times, inequality and poverty is likely to remain high. Massive emigration takes some of the pressure.
• No big changes are to be expected for the Visegrad-3.
• Hungary’s illiberal nationalist regime is likely to produce higher inequality and poverty. Only a thin middle class layer will be further on protected.
• In Slovenia, the social forces and institutions that fostered equality have dramatically weakened during the crisis.