Variety of Post-communist welfare: Europeanisation and emerging welfare regimes in the New EU Member States

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INTRODUCTION

2009 marks the 20th anniversary of the fall of the communist regimes in Eastern Europe. Ever since 1989 post-communist welfare regimes have witnessed several waves of both welfare retrenchment and restructuring. Importantly, while the early 1990s have produced various influential academic accounts on the type of Eastern European welfare regimes, since 2000 academic interest has been rare in trying to identify particular regime pathways followed by different post-communist countries. More notably, the New EU Member States are still not featuring in any major comparative social policy studies, and therefore left out of both empirical and theoretical studies on issues such as the convergence, welfare reforms literature and retrenchment debate in European welfare states. Since 2000, many Post-communist EU Member States have introduced major welfare reforms; therefore it is absolutely crucial that academic work continues on capturing welfare regime formation in the region, which is able to unfold the diversity of post-communist welfare regimes, rather than group them as one welfare regime type.

Alongside the anniversary of the fall of the communist regimes, 2008 also marks the 10th anniversary of engagement with the EU in an official status as first candidate country, and later as Member States. Indeed in the last decade the EU has played a significant role in the reconfiguration of economic and social relations in Post-communist Europe. After the first wave of structural reforms in the early to mid 1990s, where the EU was absent, the EU integration has played a direct role in the second wave of structural reforms and the recalibrations of economic, fiscal and welfare policies. The EU integration has fostered increasing international trade and financial integration, large-scale privatisation, strong FDI inflows, and deep product and labour market changes in the New Member States. This academic agenda interrogates the ways in which EU integration either explicitly or implicitly, coherently or incoherently, promotes certain models of socio-economic development, and the ways in which the notion of 'Social Europe' is promoted and translated in the New EU Member States.

The aim of this paper is to sketch out a tentative welfare typology in the New EU Member States, with three important notes. Firstly, I will take a broad outlook on welfare regime, in which welfare is very broadly defined and incorporates broad socio-economic features, rather than confined to only narrow welfare measures. In that spirit I will look at taxation regimes, economic policies, public finances and political discourses around welfare. Secondly, my aim is to work with converging trends as well as with deep diversity and strong divergence in the region. Importantly, I don't see regimes as static and fixed entities; rather they are fluid and changing, and the significance of that is that these regime types are not locked into one particular pathways, but rather can and do both converge and diverse at the same time. Thirdly, in establishing such typology we do need to work with the impact of the EU at both epistemological and theoretical level. This paper takes a bottom-up approach to Europeanisation, which asserts that Europeanisation is an endogenous process, driven primarily by domestic factors. Therefore, the crucial question for this paper is not so much identifying the exact impact of the EU on domestic changes, but rather to understand Europeanisation in the broader context of post-communist transformation and regime shaping. Finally, a crucial question will be about the resilience of the different welfare regimes in the light of the current economic crisis, and the degree to which the crisis will push the regimes in different directions.

The paper is divided into two parts. In the first part I will sketch out three key issues regarding regime formation in the region. I will discuss issues around convergence and catch-up, notions of 'Social Europe' transmitted by the EU, and finally race to bottom scenarios and relevant economic models present in the region. In the second part I am going to discuss my tentative typology of welfare regimes in the New EU Member States.

1. FRAMING REGIME FORMATION IN POST-COMMUNIST EUROPE

Before entering the terrain of welfare typology, it is important to frame the discussion by three key processes that fundamentally shape and shake welfare regime formation in the region. These key themes are framing the discussion by raising theoretical and empirical questions to be answered about welfare regimes in the region.

1.1 Convergence and catch-up

The Eastern Enlargement very much came with the expectation and hope of fast catch-up mostly defined by economic terms. The European Commission (2009) in its Report on the economic lessons of Enlargement argues that the catch-up of New Member States has been impressive: it is estimated that the Accession has given an extra growth boost of 1.75% to the economies of the New Member States, which contributed to the super fast economic growth between 2000 and 2007. As the Report asserts 'the stronger growth performance enabled the new Member States to catch-up in terms of GDP per capita from some 40% of the EU-15 average five years before enlargement to 52% in 2008' (Commission, 2009:11). Although a similar report has not been published on social catch-up (in terms of living standards, wages, employment, poverty, etc.), there is a literature on the catch-up processes of the Cohesion Countries (Ireland, Greece, Portugal, and Spain). O'Connor (2007) for example argues that while there is strong evidence of economic catch-up, the picture is more mixed in terms of social expenditures as a % of GDP. Catch-up in this sense can only be observed in Greece and

Portugal, the two countries with the weakest economic catch-up. In Spain and Ireland, strong economic growth has been coupled with declining welfare efforts measured as a share of social expenditures of GDP, but because of fast economic growth welfare spending measured in social spending in purchasing power standards have actually increased. However, social expenditures do not tell the whole story. As O'Connor (2007) argues while Ireland has been successful in improving indicators on material deprivation, income inequality has remained persistently high. Also, Matsaganis et al. (2003) argue poverty remains a major issue in countries like Greece, Spain and Portugal.

The conclusion from this discussion leads us to the expectation that fast economic growth may well increase the welfare efforts measured in social expenditure as a %of GDP in PPS, but could see either a fall or a rise in the overall share of social expenditures as a % of GDP, depending on broadly defined political, economic and social attitudes to the welfare state.

1.2 The role of the EU: Social vs. Economic Europe, and the capacity for solidarity

Since 1998 when most New EU Member States became a candidate country, the EU offers an important strategic governance framework for the newly joined countries. In this paper we are taking a broad outlook on that framework, which raises two key questions. Firstly, what are the key pillars of this strategic framework, what sort of messages it is transmitting to the new Member States in terms of socio-economic development. This is highly relevant, because as I will argue later, different post-communist countries emphasise different aspects of this strategic framework, when pursuing their own socio-economic pathways. Secondly, there is a crucial issue around the capacity of the EU to exercise solidarity, and channel funding to the poorer New Member States.

1.2.1 Strategic governance framework: paradoxes and tensions

After 2004, the two most influential frameworks of the EU strategic governance for the New Member States have been the Maastricht and the Lisbon agendas. The Maastricht agenda aims to foster the economic and monetary union by achieving macroeconomic stability and convergence in single market, through reducing inflation, interest rates, exchange rate volatility, government deficits and public debts. Within this agenda, with view of the intention of joining the European Monetary Union (EMU), fiscal policy has come to the forefront of attention in all New Member States in recent years. From 2004 within the Stability and Growth Pact (SGP) the New Member States are obliged to submit their Convergence Programmes with the aim of 'ensuring more rigorous budgetary discipline'. Within the same framework, four countries came under the Excessive Deficit Procedure (EDP) in July 2004. Finally, the SGP has also contributed to the consideration of 'sustainability of public finances' to enter public discourses in post-communist Europe. The SGP is a strong disciplinary framework for fiscal policies, which is most apparent by the Convergence Programmes submitted by the New Member States since 2004. With the exception of the Baltic States, social protection expenditures are scheduled to be reduced in all NMS, and as such, public social spending take a big share in reducing government expenditures in order to meet criteria on government deficit and public debt. Initial empirical evidence available suggests that in terms of fiscal consolidation efforts and fiscal trends in the NMS two strong trends emerged in the 2000s, firstly social transfers are reduced, and second there is a reduction in investment expenditures.

The second important pillar of EU strategic governance framework is the Lisbon agenda. Side stepping the evolution of the Lisbon strategy, from 2004, after the Enlargement, the renewed Lisbon agenda has signalled 'an increasing dominance of neoliberalism in European socio-economic governance' (Howarth, 2007:91), by giving primacy to competitiveness and job creation over social and environmental protection. The emphases on reforming market structures (called ‘market-structural reforms’), and on reducing regulatory burden on business have left social considerations and welfare policies in the residual category. In the context of ‘rigorous budgetary discipline’, the OMC for social protection and social inclusion has been rather weak catalysts of any kind of social dimension in the Europeanised project of regime building in Post-communist Europe.

Most importantly, fiscal commitments have been almost completely absent from the National Action Plans for social protection and social inclusion (NAPs/social protection), while the lack of monitoring and evaluation of previous policy efforts in the field makes the OMC process totally non-transparent, non-committed, and rather weak within public policy making in the region. What is important to note here, is that on the one hand the Lisbon agenda feeds in with the Maastricht agenda with its emphasis on competitiveness, on the other hand the OMC agenda in many regards are weakened by the Maastricht agenda, not least because although many of the issues identified in the NAP/inclusions have redistributive effects and makes claim on public expenditures; new needs are identified, previous institutional structures are challenged and new measures put in place, all those generative processes are taking place in the context of tight fiscal policies, with a cap on social spending framed by the Convergence Programmes. All it means is that the EU offers an open plate for whatever agenda to be followed by its Member States.

1.2.2 The capacity of the EU to uphold solidarity

The huge economic and social gap between the ‘Old’ and the ‘New’ Europe has fully tested the capacity of the EU to respond to the massive diversity of investment and developmental needs of different part of Europe. In terms of budgetary negotiations, Kay and Ackrill (2007) argue that based on the EU’s budget for 2007-2013 for social and cohesion policies, *the New*

Member States have been the greatest relative loosers, which foreshadows a scenario in which 'without adequate supranational fiscal transfers to complement national commitments, plans for economic and social cohesion between increasingly diverse member states will face significant challenges, *with or without* developments in policy process like the OMC' (Kay and Ackrill, 2007:372, emphasis added). Beside the budgetary allocation issues, there are major problems with the absorption of Structural Funds. Stunningly, Zaman and Georgescu (2009) argue that *Romania, the poorest Member State of the EU is a net contributor to the EU in both 2007 and 2008*. It is also estimated that as Structural Funds allocation is higher for 2007-2013, than it was for 2004-2006, absorption problems won't go away, if fact it might even worsen in the coming years. As regional inequalities grow, and public investment expenditures are curbed due to the Convergence criteria, it is essential that development funds are available and easily accessible for the New Member States, but fundamentally this is about the EU, and its capacity to exercise, promote and protect notion of solidarity in the Enlarged EU.

1.3 Economic development and race to bottom scenarios: implications for emerging welfare regimes

In terms of economic development, with the exception of Slovenia, New Member States run a very open, highly competitive, FDI-led, business-friendly, and strongly deregulated economies. Those features have only accelerated since 1998. Average trade openness (measured as total exports and imports of goods and services as %of GDP) has increased in the New Member States from 0.41 in 1998 to 0.48 in 2004 are substantially higher than in the Old Member States (the average of Euro area was 0.35 in 2004) (Angeloni, et. al, 2007). Transnationalisation has intensified, not least due to the significant rise of FDI inflow between 2004 and 2006. Labour markets have been deregulated, and tax burden, particularly for corporations, have substantially been lowered. Further privatisation, liberalisation and marketisation in all sectors have continued within the European regulatory framework. This economic policy package has produced fast economic growth in all the NMS in the 2000s.

Table 1. Economic environment indicators 2004 (the most supportive environments are ranked higher, 1-10)

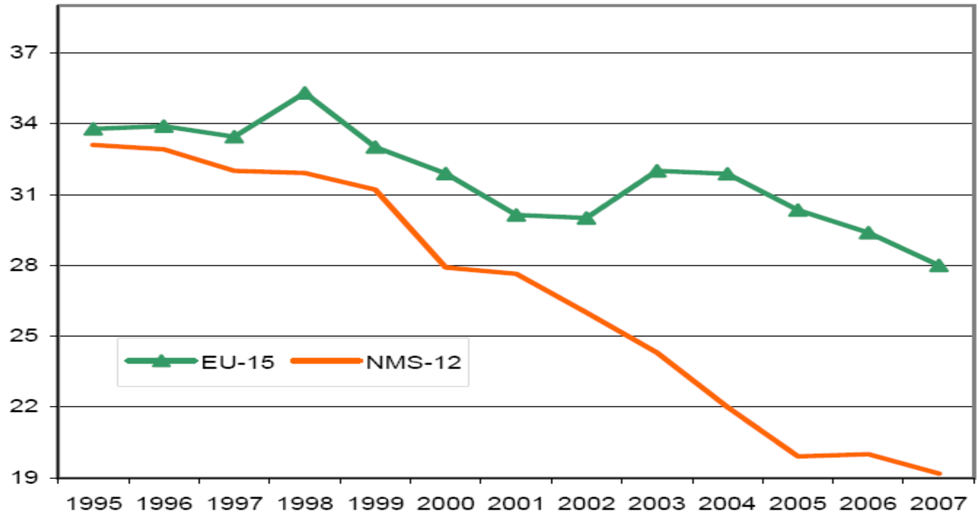
	Economic freedom	**Growth competitiveness**	**Business environment**
Finland	2	1	1
Austria	3	2	3
Ireland	1	4	2
Portugal	4	3	4
Hungary	**6**	**5**	**7**
Greece	7	6	8
Poland	**8**	**9**	**6**
Czech Republic	**5**	**7**	**5**
Slovakia	**8**	**8**	**9**

Source: OECD Economic Surveys: Slovakia, 2004

Particular domestic public policy frameworks and performances will greatly mediate the impact of economic developments on social structures. All New Member States have run an economic policy centring on FDI-led economic growth, leading to liberalisation, privatisation, and deregulation. Despite stagnant labour market and deep structural problems in some countries, employment protection has weakened in the whole region, in some countries through weaker legal protections, in others through weaker social protection of the unemployed. Tax regimes competition has also intensified. Between 1995 and 2007 there has been a drastic drop in corporate taxes in the New EU Member States (Mariana, 2008).

Since 2007 the race to the bottom in terms of corporate taxation accelerated. In 2007 Bulgaria has introduced 10% tax rate for corporate income, and soon after the same rate was adopted by Macedonia, an EU candidate country. What is most important is that the tax competition is clearly headed by the New Member States, where corporate taxes have fallen a lot sharper than in the EU-15.

Graph 2. Average statutory tax rates on corporate income 1995-2007



Source: Jakubiak and Markiewicz, 2007

The significance of the tax competition is twofold. On the one hand, it is considered primarily as an economic incentive to boost Foreign Direct Investment. On the other hand, it fundamentally reconfigures not only the balance between business and labour in terms of tax burden, but also it will also have direct impact on public revenues.

Tax regimes fit in with broader issues around of economic development models in the region. For many commentators Central and Eastern European economies are so called *'dependent competition states'*. They are commonly characterised by disproportionate reliance on Foreign Direct Investment (FDI), dependent on foreign investments, and a strong emphasis on economic competition. For King (2007), this economic regime is a 'liberal dependent capitalism', which relies on Foreign Direct Investment and dependent on its technology transfer and training. For King, the dominance of foreign banks is crucial, as it makes available credit dependent on foreign investors. As he argues in 2001 77.5% of Polish banking stock was held by foreigners, while the same figure for Germany was 4%, Italy 3%, and Austria 13%. He asserts that 'there will be capitalist growth, but it will dependent on the investment strategy of the particular MNC, and the lending decisions of foreign-owned banks' (King, 2007:325). In similar tone, Drahokoupil (2007) argues that the structural power of transnational capital and integration into the European regulatory framework had major roles in steering the state into the competitive direction. He insists that ECE [East Central European] countries have undergone a transformation, whereby social policy has been subordinated to the project of attracting investment and economic competitiveness aiming to promote workforce flexibility and employability according to the needs of capital. He asserts that the trends in the Visegradi 4 countries (Poland, Czech Republic, Slovakia and Hungary) conform to the SWPR (Schumpeterian Workfare Postnational Regime) developed by Jessop (2002), with the modification that these New Member States are not a Schumpeterian regime (with emphasis on innovation and knowledge based economy), but rather a cruder 'Porterian' regime with an emphasis on competitiveness and foreign direct investment, rhetorically aiming for quality investment, but in reality 'takes everything if big'. Importantly, there is an important difference in the FDI regime between the Visegradi countries and the Baltic States, namely, that while in the Baltic States low-tech FDI is the dominant, the Visegradi countries have been successful in attracting high-tech FDI (Bohle and Greskovits, 2007).

In the context of highly open, deregulated, 'Porterian competition states' with intensified tax competition, race to bottom scenarios are potentially back on the cards. The combination of high public deficit, flat tax rates and falling public revenues, the pressure of rising pension and health care costs, and rising unemployment as a result of the current economic crisis have major implications for post-communist welfare regimes. The crucial question here is whether economic liberalisation will be followed by liberalisation of welfare provisions or alternatively economic and welfare development can take very different paths within each Member States.

As we have seen, welfare regime development is taking place in a largely complex environment in which domestic transition paths, EU pressures, and fast economic growth followed by a deep economic recession guides the ways in which welfare states are meant to cope with socio-economic development.

3. VARIETIES OF WELFARE REGIMES IN POST-COMMUNIST EUROPE: TOWARDS A TYPOLOGY

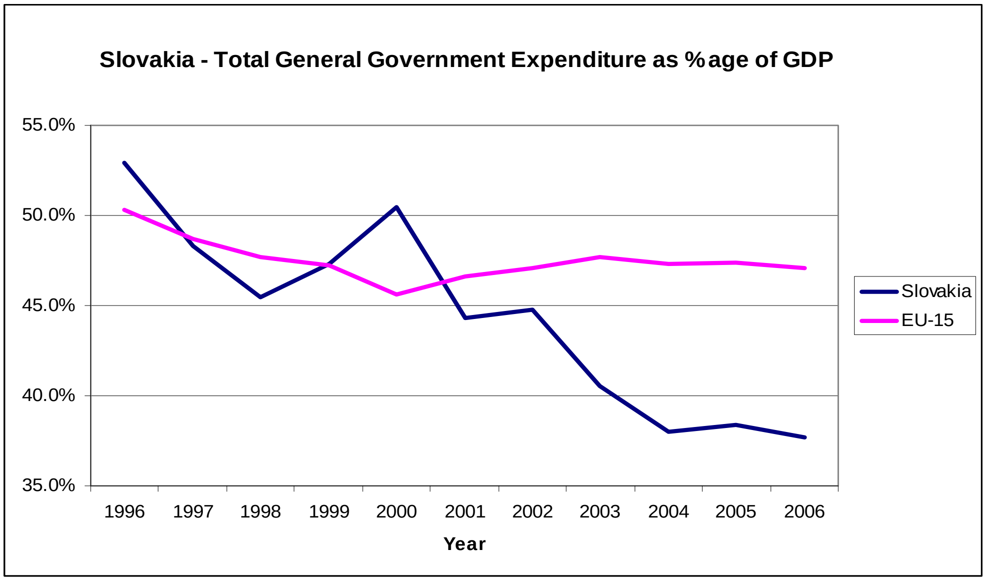
Following Greskovics and Bohle's (2007) call for understanding the variety of post-communist capitalism in New EU Member States, I argue that there is a surprising variety and diversity of welfare regimes in the region. In fact diversity is just as much present in New Member States as in the EU-15. For example the latest data released by Eurostat shows that the relative distance in welfare efforts measured in social expenditures as a % of GDP between the poorest and the richest, that is between Romania and Slovenia is the same as between Luxembourg and Portugal (Eurostat, 2009).

3.1 Neoliberal welfare regime: the Baltic States and Slovakia

In the last 15 years Estonia, Latvia, Lithuania, and later Slovakia, the four fast-growing small states, have opted for radical economic reforms resulting in minimal states, low welfare spending, low taxes, strongly deregulated labour markets and widespread liberalisation. Estonia and Slovakia have the highest trade openness in the region (with 176% and 170% of GDP in 2006, while the same figure in the euro area was 80%) (von Hagen and Siedschlag, 2008). Despite the geographic proximity and the influence of the Nordic countries, the Baltic States have opted for radical economic reforms already in the mid 1990s, soon after their independence. In a complex neoliberal economic package Estonia was the first in Europe to introduce flat tax rate at 26% in 1994. Soon after, Lithuania and Latvia followed the trend and lowered their tax rates, particularly their corporate taxes. Currently Latvia has the lowest corporate tax rate in the EU at 15%. Since the mid 1990s the tax rates have gradually been lowered in all Baltic countries – Estonia scheduled to lower their tax rate to 20% from 2009 – (IMF, 2006). In 2004, Slovakia has joined the Baltic groups by introducing a flat tax rate at 19% and alongside introduced one of the most radical economic and social reforms that the region has seen. This particular tax regime resulted in a record low tax-revenue-to-GDP ratio in the EU-27 – while on average countries collected 41.2% of their GDP in tax revenues in 2006 in the EU-27, the same ratio in Slovakia was 29.5%, Lithuania 30%, Latvia 30.4%, and Estonia 31.1% (Eurostat, 2008).

The four countries in this group have also opted for *small governments* – in 2004 they spent around 36-38% of their GDP through government (Schneider and Zapal, 2006). Importantly, in the period between 1998 and 2004, in the process of European Accession, government expenditure has fallen in all of the four countries. Indeed, in a path breaking development, Slovakia has produced one of the most spectacular government shrinkage in history (Schneider and Zapal, 2006) with the government expenditure falling from 65% in 1997 to 37% in 2006.

Graph 1 The fall of government expenditures in Slovakia

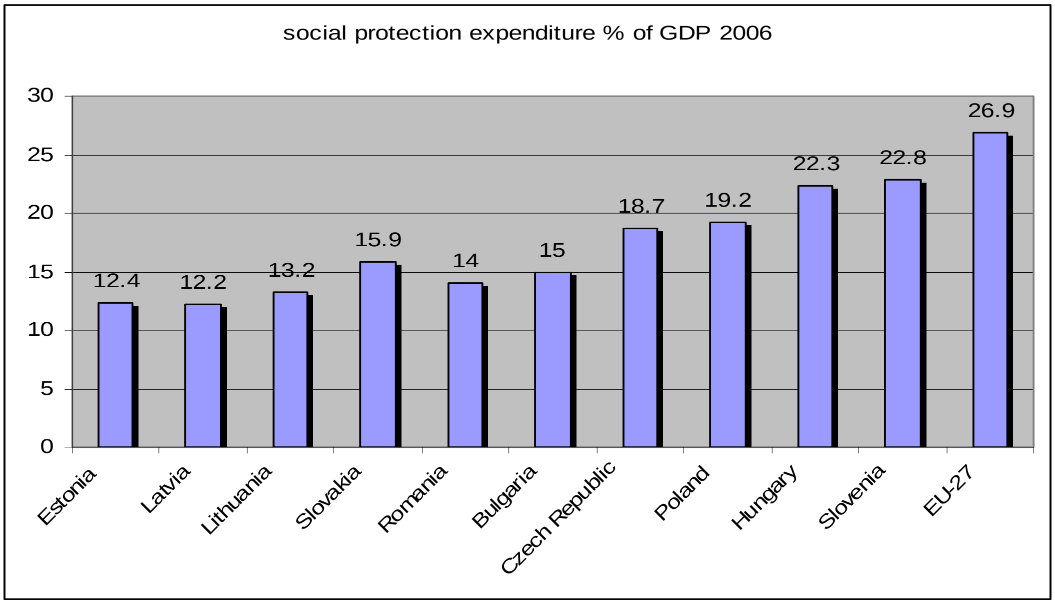


Source: Eurostat, New Cronos Database

Estonia in particular has been described as a prime example of implementers of radical economic reforms (partly to weaken Russian influence, to reintegrate to the West very quickly and to marginalise the elite with ties to the Soviet past). In the Variety of Capitalism (VoC) literature Estonia has often been used to represent the Liberal Market Economy (LME) model. In this theoretical framework, the LME in Estonia has been characterised by low union membership, weak collective bargaining, shorter job tenure, and very high stock market capitalisation with the predominance of short-term capital (Feldmann, 2007).

This particular neoliberal regime is as much a social model as an economic model. The welfare efforts measured in social protection expenditure as % of GDP are extremely low in the four countries.

Table 2. Social protection expenditure as % of GDP in 2006



Source: Eurostat (2009)

Although an economic growth that comes with high job intensity is a favourable development in the Baltic countries, the Joint Report on Social Protection and Social Inclusion (2007) makes it clear that those countries have *'huge social inclusion needs'*. Low minimum wages, high tax burden on low wage earners, high private health care costs, and the high share of working poor means that 'growth and jobs' has not been able to create an inclusionary democracy in those countries. Slovakia in this group does not even have favourable employment situation. In the period of 1998 and 2007, employment remained stagnant at 60.6% employment rate and the unemployment rate is still very high at 11% in 2007.

The social problems facing these countries are numerous. Despite fast economic growth, poverty rates between 2000 and 2007 have increased in the Baltic states. While there are various poverty rates used, Lelkes and Zolyomi (2008) argue that both the relative and absolute poverty rates are high in the Baltic states. Based on EU-SILC 2006 database, relative poverty rates are far higher in the Baltic states than in the EU-27, (Latvia 23.2%; Lithuania

20% and Estonia 19,9%), while the absolute poverty rate (using 10 euros per day adjusted with PPP) are high in Latvia at 32% and Lithuania at 28%, but less in Estonia at only 3%.

The Joint Social Protection Report also highlights a range of social issues, such as high poverty rates, strong inequalities, high in-work poverty, low replacement rate of pensions, poor targeting performance of social benefits, and under-funded health care and social services (Joint Social Protection Report, 2007). Along with co-payments in health and education, all contour a strongly liberal and exclusionary welfare state in those countries.

Table 3. Selected social indicators – the Baltic States

	Inequality of income distribution (2006)	In-work-poverty-rate after social transfers (%) (2006)	Poverty rate (%) (2006)	Minimum wage euro/month (2008)	Social benefits paid by general government (%) (2006)
EU-15	**4.7**	**7.0**	**16**	**1117**	**15.7**
EU-8	4.8	8.0	15	300	
Estonia	5.5	8.0	16	278	8.8
Latvia	7.9	11.0	22	229	8.0
Lithuania	6.3	10.0	20	231	8.6

Sources: Eurostat database

Despite poor performances in terms of reducing poverty, and social inequalities, it is noticeable that two of the Baltic States, namely Estonia and Latvia have shown a strong growth in employment. Along the favourable employment rates, by 2007 unemployment has fallen to the third, to around 5% in all the three countries (although it is important to point out that in some countries unemployment rate has fallen due to migration). Having said that, new data on unemployment in the period of 2008 and 2009 shows that unemployment rate has plummeted again in all the three Baltic states from around 5% to14-17%, just in a year.

To sum up, neoliberalisation as a distinct pattern in these countries represents a regime in which radical economic reforms are coupled with minimal social commitments. Prior to the economic crisis, this group managed to deliver very impressive economic growth rates, the

Baltic states manage to run high job intensity economic growth (which took them very near to the Lisbon targets of 70% employment rate), yet, there is very little evidence that this economic growth would be an equitable growth. This regime has strong exclusionary features (Bohle and Greskovits, 2007) and has poor welfare performances. In this group Europeanisation seems nothing but an economic agenda aiming for competitiveness and a race to attract FDI, constantly reinforcing the asymmetries between capital and labour.

3.2 Incongruous welfare regimes: the case of Poland and Hungary

In efforts of trying to map the region, Bohle and Greskovits (2007) characterise the Visegradi countries (Poland, the Czech Republic, Slovakia and Hungary) (V4), from the point of view of industrial relations, as an embedded neoliberal regime, where

> 'selective and limited inclusion parallels, and occurs at the expense of and exclusion of the remaining social actors by disarticulating and neutralizing their capacity for collective action….(and)…this dual logic is complemented by an unequal distribution of resources, where benefits are only extended to allied sectors of business and labour' (Bohle and Greskovits, 2007:454).

While I do agree with their assertion, based on a framework I use, I argue in this paper that the Visegradi countries show significant differences. As I have argued above, in many regards Slovakia has left the V4, with a radical withdrawal of the state from welfare commitments, from 2004 onwards. In the section below I will also argue that the Czech Republic also represents a diverging case. What left is Poland and Hungary, and the story of messy and incongruous regime formation.

Importantly, unlike the previous group, both Poland and Hungary finances *'big governments'*, and spends 42.4% and 50.1% of GDP through their governments. In order to join the race in the regional tax competition, both Poland and Hungary has significantly reduced their corporate taxes to 19% and 16%, while their personal taxes are very similar to the EU-25 standing at 38% and 40% - running 'big governments' means that there is very limited scope for introducing very low personal and corporate taxes. However, there is a range of generous tax concessions available to foreign investors. 'Big governments' in both countries come with serious fiscal policy imbalances and challenges. In July 2004 both countries came under the Excessive Deficit Procedure (EDP), which although later has been loosened, it signalled serious challenges that the two countries have faced in terms of consolidating their public finances. According to Schneider and Zapal (2006) fiscal consolidation efforts in these countries have been highly unsuccessful. Similarly, taking a close look at the Hungarian situation, Gyorffy (2007) argues that instead of anticipated fiscal adjustment in line with the efforts of joining the Euro, Hungarian fiscal policy has continued to be expansionary, and led to the raise of fiscal indebtedness of the country in recent years. This moral hazard, as she argues, resulted in a completely counterintuitive effect of EU integration (namely higher and not lower public debt). In both cases, the high political volatility of fiscal policy is incongruous with the declared aim of joining the Euro.

Other scholars have explored incongruities too. Mykhnenko (2007) for example argues that Poland has developed a very incongruous capitalist system, which can be characterised by heavily regulated product markets with large public sector, administrative burden for corporations, barriers to entrepreneurship, and a high protection against foreign trade and investment, *at the same time* has a deregulated labour market, significant FDI, and weak state involvement in industrial relations, and labour policies. In that sense both strong protectionism as well high level of openness of the Polish economy co-exists. Shields (2007) see the Polish incongruities in terms of competing political agendas between neoliberalism and neopopulism. Both in Poland and in Hungary, the duality of neoliberalism and neopopulism leaves its fingerprint on welfare regime. On the one hand, neoliberalism is supported as competing with the 'Baltic tigers' as well as with the economically more developed Czech Republic and Slovenia gains support for the economic competitiveness agenda. On the other hand, however, constant protectionism, major concessions to large voter groups, and welfare populism constantly counteracts the pressures for more liberalisation.

Crucially from the point of view of welfare retrenchment, the Polish welfare state has been contracting in size between 2000 and 2006. The withdrawal of the state from social commitments is accompanied by very unfavourable socio-economic trends in Poland. Despite significant economic growth, employment rate has fallen between 1998 and 2007, from a low 59% to an even lower rate of 57%. Although the unemployment rate has fallen it is still one of the highest in the EU standing at 10% in 2007. Income and consumption based inequalities have risen, while poverty is stubbornly high at 20%. The rate of working poor is also the highest in the EU. Health care institutions are heavily indebted, while they still work with long waiting lists (Joint Inclusion Report, 2007). There is a total absence of active employment policy, while there is a low level of passive labour market policies (Myshknenko, 2007). The Polish welfare state is also very much oriented towards pensioners, as it spend disproportionate amount of social expenditures on pensions, while social services are under-developed and under-funded. As Myshknenko argues 'given the chronically high levels of unemployment in Poland and contracting level of public social spending, Poland's conservative continental welfare state has been unable to provide an adequate amount of social protection and poverty alleviation' (Myshknenko, 2007:374).

In Hungary similar incongruities are shaping the political, economic and social landscape ever since the Accession process. Despite FDI-led economic growth, the Hungarian labour market is rather stagnant (jobless growth). While employment rate was only 57% in 2007 (Eurostat, 2008), some reports suggest that it has fallen to 54% in 2008, one of the lowest in the EU.

Regional labour market differences are the second highest in the EU (Joint inclusion Report, 2007). There are also very significant educational inequalities in Hungary. Finally, Hungary is considered as a high risk Member State in terms of pension sustainability. The Joint Report on Social Protection and Social Inclusion 2007 concludes that the challenge ahead lies 'in the context of budgetary restraint to maintain the level of resources dedicated to combating poverty and exclusion' (JIR, 2007:308). Although social spending has been relatively constant (with some ups and downs), the problem of welfare state development in Hungary is that welfare policies are highly incongruous and inconsistent. The lists of those incongruities are long: despite low employment and high inactivity rates, early retirement schemes are still used in public sector; in the context of poor health status of the population, co-payment has been introduced for GP visits and hospital stays (following the Estonian model) – although the visit fees have been abolished after a referendum; there are still big gaps between the legal and formal requirements of social services provided by local governments and between the actual practices; the constant change in the institutional setting in the Ministerial structure; the introduction of minimum quality requirements in health and social care, yet, due to massive lack of financial resources most health care provider are not able to comply even with the minimum requirements. There is a growing sense of frustration in the field of health care, which in the context of poor regulatory capacities, lack of sufficient funding, indebted providers push the system more and more towards a privatisation. Pension expenditures are following election cycles, with the former Prime Minister Gyurcsany offering the introduction of 14th month pension in 2008. Relatively high social spending are not so much a welfare commitment, rather than crucial election reserve on both side of the political spectrum. Finally, deep political divisions and the resulting institutional fragmentations make it difficult to build a coherent welfare regime in Hungary.

The common features of the incongruous Europeanisation is that the 'social' remains fragmented, volatile and subject to economic policies or politically motivated interventions, rather than a coherently run welfare policy based on strong political commitment to a 'Social Europe'. In this two countries welfare policies are locked in between strong neoliberal and neopopulist political agenda that could go either way in terms of the other two groups in the region.

The Czech Republic and Slovenia: a social corporativist welfare regime

The Czech Republic and Slovenia in many respects are the 'Scandinavian islands' of Post-communist Europe. Both countries have inherited very favourable economic situations within the Communist Bloc. Slovenia was the richest part of Yugoslavia, as it succeeded to achieve a level of productivity and national income 2.5 times over the Yugoslav average, and had 25% of total Yugoslavia exports and around 18% of the Yugoslav GDP (Prunk, 1997). With similarly good legacies the Czech Republic also inherited good economic and social infrastructures.

Both Slovenia and the Czech Republic manage 'big governments', with the highest social spending in the region, and high efficiency of redistribution towards vulnerable groups. In both countries the welfare state is strongly built on corporativist principles. In the Czech Republic 80%, while in Slovenia almost 70% of social expenditures are funded by social contributions, which is significantly higher than the EU-27 average of 59% in 2006. Slovenia devotes almost 23% of its GDP to social protection, which represents the highest welfare commitment in the region. The Czech Republic is more modest in its share of social protection expenditures as % of GDP with almost 19%, but due to relatively high GDP per capita, this share of social protection expressed in PPS is similar to Hungary's 22.3% social expenditures. Importantly, these two countries have the lowest poverty rates not only among the New Member States, but also in the whole of the EU.

The Czech and the Slovene welfare state are founded on strong political and popular consensus, which then results in a coherent public policy supporting an inclusionary capitalist regime. Vecernik (2008) argues that in the Czech Republic social protection was always highly valued and wasn't questioned in any fundamental way. Similarly, Potucek (2007:139) argues that '(b)y and large, the European social model (ESM) …. and the Czech social model …. are fully compatible in terms of history, culture, institutional frameworks, attitudes of the population and political legitimacy'. Symbolic of the Czech social attitudes, is the statement in their National Lisbon Strategy 2005-2008, where they argue that

> 'the Lisbon strategy remains a meaningful concept for developing European potential with the aim to improve economic output of the EU. However, it should not be taken only as a means of changing the European economy with the effort to catch up with the most developed world economies. More likely, it is an attempt to fulfil the European vision of future, based on modernisation of EU economy while maintaining the particularities of its social model' (p.3)

In Slovenia, too, the welfare state developed in a balanced fashion in the 1990s where the economic, political and social considerations produced and maintained a strongly redistributive welfare state. The social protection system of Slovenia has played an extremely important role in the transition process. It was a rock of stability in a tumultuous and period of rapid economic, political, and social change. The system has to a large degree remained generous, particularly in comparison with those in other Central Eastern European (CEE) countries (Stanovnik, 2004).

The balanced socio-economic development in these two countries has been able to maintain very favourable social situation. Both poverty rates as well as social inequalities are lower than in the EU thanks to generous welfare provisions and effective redistribute mechanisms, minimum wages are the highest among NMS, and health care coverage are universal and there are no co-payment required.

Europeanisation in the two countries is associated with some positive developments. In the Czech Republic for example policy efforts to integrate Roma communities have been positively acknowledged by the EU. In Slovenia, on the other hand, life-long learning figures have improved spectacularly in the last few years. Although the two strongest welfare states in the region is under heavy financial pressure, there is a firm political commitment in both countries to maintain not only a competitive, but an inclusive regime.

In an interesting development, the Czech Republic responding to the pressure of keeping the deficit low and getting on with joining the eurozone decided to introduce a fiscal reform package, which came into effect in 2008. The package included the introduction of a flat tax rate of personal income tax at 15%, which is scheduled to be reduced to 12.5% from 2009 onwards, and the introduction of user fees in health care. Worryingly the package includes a set of pro-rich policies, such as significant gains for high earners in the new flat tax rate (a fall of tax rate for high earners from 32% to 12.5%), as well as large tax deduction on mortgage interest, and state subsidies for house renovation, which all benefit the high earners more than poor households. Furthermore, as the OECD (2008) points out the reform does not resolve the problem that for low-earning families the marginal tax rate is very high, which may hinder employment and in a strongly corporatist regimes like in the Czech Republic may hinder later welfare entitlements.

CONCLUSIONS

The transformation in Post-communist Europe is taking place in the context of very different structural conditions, complex public policy choices, multiple socio-economic trajectories and unique institutional landscape. This process is not simply a ‘system adaptation’, but a much more fundamental ‘system restructuring’ with different dynamics at play (Ferrera, 2005).

As I have argued in this paper, Europeanisation is an ‘open’ project that feeds into the broader process of post-communist transformation. Indeed, different countries in the region has produced very different paths. The Baltic States and Slovakia followed a strong neoliberal path with high economic growth, good employment situation, but high poverty and high social inequalities, and low level of public welfare spending. As the EU acknowedges these countries face ‘huge social needs’(JR, 2007), and have developed exclusionary democracies (Bohle and Greskovits, 2007). As these states are heading the tax regime competition, and labour market deregulation, slowly, but surely the foundational values, institutions and policies for the welfare state are disappearing.

In other countries, most noticeably in Poland and Hungary, the welfare regime is a very paradoxical and incongruous process, a complex patchwork associated with both neoliberalisation and neopopulism. Welfare state arrangements: fiscal expansion go hand in hand with fiscal consolidation; punative and supportive welfare arrangements co-habitate; and inclusionary and exclusionary patterns have randomly institutionalised in the context of deep structural problems of the labour market. Poland, in recent years started welfare retrechment and it will be a question whether Poland follows the footpath of Slovakia and goes down on a even stronger and deeper neoliberalisation. In both countries political volatility is strongly infuences and reinforces institutional incongruities. Indeed, the ambiguity of the EU agenda in terms of socio-economic development is mirrored in the Polish and Hungarian domestic debates; and as Kovacs has predicted ambiguity mobilises routine coping strategies on the part of governments in ex-communist countries, to whom it is all too familiar this kind of double speak (Kovacs, 2002).

In Slovenia and the Czech Republic socio-economic tensions are less severe, collective structures are still strong, and there is a strong political consensus over their welfare state. Although both countries are under heavy fiscal pressure, the two countries represent a very distinct Europeanisation path, which explicitely references a socially concious European integration, and the protection of social dimension. We are yet to see the full implications of the latest development in the Czech Republic which break with the strong political commitment to progressive taxation.

As Bruszt (2002) put it very aptly, this 'diverging convergence' in Post-communist Europe has, I believe, important implications for the future of European integration. Firstly, within the European economic division of labour, an economic model crystalising in 'dependent competition states' combined with poor public policy performances will likely to push the NMS towards more neoliberalisation. The conclusion of Shields (2007) here is highly relevant, as he argued that while CEE has continued the export of core neoliberal deregulatory programmes, at the same time concurrently deferred the extension of the inclusionist social features of EU. In that sense, EU enlargement has been associated with the second wave of neoliberalisation in the region and reinforced the first wave transition process by embedding a highly selective application of Europeanisation. If this trend continues, the race to the bottom scenario will be become a real danger. Last but not least, it will also greatly infuence the ways in which the social dimension of the EU can evolve in the future.

As Galgoczi (2007) argues, the current Maastricht agenda of the EU is highly problematic for the New Member States. In the context of welfare deficit, stagnant labour market, the SGP criteria are rigid and might sacrifice in growth, employment and wage convergence, with knowledge-based economy targets might be unavoidable. Indeed, as he argues, it might well be the case that Maastricht becomes a means to maintain social dumping (Galgoczi, 2007). The one-sided emphasis on fiscal discipline is problematic for other reasons too. In the context of low active labour market spending, in need of education reforms, deep regional inequalities, and huge infrastructure deficit, the implementation of the Lisbon agenda is deposited at the hands of multinational companies (in terms of job creation, economic growth, research and development, human training, etc.). Although, it seems that more than ever there is a need for strategic governance, with an emphasis on equitable and sustainable growth, inclusive societies and supportive public services and investments, economic liberalisation in the region seems to promote welfare liberalisation and the withdrawal of the state in many fields. In this gloomy scenario, it well may be the case that the race to the bottom has already started to take place in the enlarged EU.

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