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SYSTEMIC DIVERSITY UNDER THE CONDITIONS OF GLOBALISATION AND INTEGRATION[1]

Introduction

The purpose of this paper is to analyze the scope and depth of systemic differences between the national economies in the modern world, as well as to try to foresee future trends. Although variety can be regarded as the other side of globalization, this issue has not been studied at length, because almost all attention is focused on the processes of unification, standardization and universalization. Therefore, this paper contains more questions and problems than answers.

Of course, the authors adopting an extreme globalist perspective, such as K. Ohme, who believe (ZGODA) that the world is fast heading towards a borderless global economic order, give a simple answer: variety disappears with the progress of globalization. Extreme "integrists" within the European Union, who support a single socio-economic and political system, share a similar opinion. Variety is for them a question of different levels of maturity, but the ultimate goal is the same for all. However, such "end of history" views seem more and more a thing of the past. The anti-globalist movement, although it has not proposed a clear theoretical alternative, has made the world of politics and international corporations aware of the fact that globalization is a social process whose final outcome is unknown.

Furthermore, the European politicians now express much more cautious views on the future shape of the European Union. Even if federation is proposed, its form is much more moderate than e.g. the system of the Federal Republic of Germany or, in particular, the older idea of the United States of Europe. Obviously, hypocrisy is quite widespread here. Particularly in the countries facing a difficult task of obtaining social

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approval for accession in a referendum, politicians may stress an absence of threat for their national independence, cultural identity and sovereignty, if this fits their purpose.

In the second half of the previous century, the idea of homogeneity of the market economy or capitalism, as a concept which does not require any further definition, was given up. It was a time of great systemic innovations, both successful and dreadful. One of such dreadful experiments was fascism – an aberrant outcome of extreme irrationalism. Communism lasted several times longer, so it had time for evolution, adaptation and transformation. However, if, for example, communism had ended with the death of Stalin, it would be viewed from a historical perspective as nothing more than a totalitarian nightmare.

However, even those systems taught us a lesson. They simply created a new point of reference, new competitive challenges. We know now that the Soviet challenge for the West was to a large extent magnified by false statistics. Nevertheless, it triggered reforms. Let me just mention the post-sputnik shock in the United States, which forced a deep reform of the education system. Even Khrushchev's bluff of "catching up with and leaving behind [the USA]" was treated as a quite serious threat to the West by a considerable part of the Western public opinion (the American scholar who formulated two likely (!) scenarios of the Soviet Union catching up with the USA in terms of income per capita is probably still alive. According to the optimistic scenario (from the Soviet point of view), the USSR needed 14 years to achieve that aim and according to the pessimistic one – 34 years!). History likes to play tricks: approximately 34 years later, the Soviet Union collapsed. Furthermore, it is very likely that the innovative character of the socio-economic systems of Japan and Western Germany is a result of the communist threat. It is the simplest explanation of the fact that the authorities occupying those two countries after World War II promoted (in Japan, actually forced) the systems which were very different from the free market economies prevailing in their own countries.

The origin of the systems known as Scandinavian or Nordic was more autonomous. However, they were also described as the third or middle way (*Middle way*, Childs 1936). Therefore, they found reflection in the two competing systems. The communist legacy (not quite clear yet), as well as the shape of the newly forming systems of China, Vietnam and Russia, can be explained in a similar way. So, it is very likely that the period of systemic innovation is not over yet and we are witnessing the establishment of new systems, although such phenomena are usually accounted for theoretically *post festum*.

The experience of the previous over half-century seems to indicate that we are going through a period of intensive system innovation. Therefore, it is hard to believe that the acceleration of the globalization processes will put an end to the variety of socio-economic systems or that the European integration will eliminate the possibility of institutional experiments. Theoretical and historical arguments suggest a different conclusion: <u>the higher the level of social development, the stronger the tendency towards variety and differentiation, i.e. enrichment of the forms of social and economic life</u>.

At present, even egalitarians believe that equal opportunities, as well as equality in terms of income and property, should contribute to greater variety rather than uniformity among people. This is the sense of the theory of equality of Amartya Sen and John Rawls. It is not applicable to societies, countries and nations as well? Does it not seem realistic that we are integrating in order to create a better platform for co-operation of different cultures, to make the community of nations richer not only in terms of money, but also in terms of culture, i.e. to promote variety? The word "culture" is used in a broad meaning here, comprising also socio-economic systems based on different sets of values.

Even within the European Union the processes of convergence are very slow. The fact that there still exist significant differences between the systems of the six "veterans" of European integration is meaningful. *A homogeneous economic model does not exist in Europe. The British model is closer to the US one than to German one. The Italian model, dominated by family capitalism, weakness of the state, enormous deficit of public finances and surprising vitality of small and medium companies, cannot be compared with anything, except perhaps the model of the Chinese Diaspora* (i.e. Taiwan – TK) (Albert 1994: 24). On other occasions, Albert points to the differences between the French "model" (similar to the Spanish one) and the German model.

It is enough to look at the indices regularly published by London's *The Economist* to see that big differences are not restricted to the above-mentioned countries. The unemployment rates in the EU countries vary from 2% to 13%, the child poverty rate varies from over 2% to approximately 20%. These differences do not seem to have decreased over the last 15 or 20 years. In addition, significant differences in tax rates and tax systems, pension systems and social security in general should be mentioned. Furthermore, the systems of ownership, employee participation etc. are different, too.

One of the tasks of the EU is the convergence of the economic development level of its member states. However, at present this seems to be a distant perspective. The South of Europe is catching up with the European leaders very slowly and the differences between the regions do not shrink. On the contrary, many regions experience the process of polarization (Boldrin and Cavalio 2001; Kołodko 2001). Let us, however, assume optimistically that this goal will be achieved in a not-so-distant future. One cannot rule out the possibility that thereupon, under the conditions of general welfare, the tendencies towards decentralization would grow even stronger, as the individual regions and countries would seek on their own the best forms of co-operation and competition and the best institutional solutions to help people in their work and leisure.

Yes, there is a danger of uniformization introduced from Brussels, [2] so bureaucrats, who do not like variety by nature, should be controlled by society.

The informative example of Marxism

There is no room here for more detailed studies of globalization. Let me just point out that the contemporary globalization enthusiasts are unable to make use of past experiences. I refer here to their common tendency to shorten the historical perspective. A good lesson is taught by the Marxists, who suffered serious consequences of the same mistake. Let us take a look back.

[2] It seems that also the authors of *The Transition Scoreboard*, working for the European Bank of Reconstruction and Development, build their list of transforming countries on the basis of the assumption of a single socio-economic system.

Karl Marx and Friedrich Engels were among the first enthusiasts of capitalist globalization. The opening sentences of their *Communist Manifesto* sound like a great apology of the expansion of the market, money and capital and a projection of a global social order. Our contemporaries usually hear about Marx as a radical critic of capitalism and a prophet of its collapse, so let us recall his own, very different words.

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of reactionaries, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants requiring for their satisfaction the products of distant lands and climes place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures there arises a world literature. The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian nations, into civilization. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate (Bottomore & Rubel, 1964: 136-137).

This aspect of "pre-globalist" thought was alive in the first half of the 20th century. A catastrophic vision of the establishment of global economy was developed by the Polish-German socialist Rosa Luxemburg. Her vision of the fall of capitalism was associated with the disappearance of the non-capitalist environment allowing the accumulation of capital, which (disappearance) was a barrier to capitalism as a system.

The ultra-imperialism of Karl Kautsky, the general cartel of Rudolf Hilferding, Vladimir Lenin's idea of imperialism as the ultimate form of capitalism, the idea, developed by Henryk Grossman, of profit margin disappearing as a result of the increase of organic capital composition – all these were different varieties of globalist concepts.

Rosa Luxemburg and her party, the Social Democracy of the Polish Kingdom and Lithuania, met with the condemnation of a significant part of the Polish public opinion, including socialists, because of her faith in global capitalism, which she expected to prepare ground for global socialism. On these grounds she believed national states to be a reactionary relict.

Unilateralism and determinism – continued

The Marxist adventure points to the common features of the past and present concepts of globalization. They are characterized by a radical reduction of the historical perspective. The Marxists noticed more than did the contemporary representatives of subjective economy: they described and analyzed the progressive concentration of production and capital. However, they failed to notice the strong counter-trends. They were also characterized by "unilinear determinism", marked by the belief that these processes were spontaneous and could not be influenced by the societies within the limits of a given system.

For long decades, this necessity-based way of thinking (Roberto Unger called it "false necessity") was also characteristic of academic thought. Even Joseph Schumpeter, who noticed the overwhelming tendency towards state control present both in capitalism and in socialism, considered that tendency on a very high level of abstraction, where there was no room for variety or choice. In his opinion, the emergence and the expansion of shareholder ownership and management control in place of an individual entrepreneur-capitalist, and the expansion of the "tax state" were factors weakening the dynamism of capitalism.

J. M. Keynes made a heroic attempt at awakening society from determinist lethargy. His fundamental message was: the capitalist market system cannot be left to its own devices and allowed to develop spontaneously. It not only can and should be reformed, but, in fact, it must be reformed under the threat of stagnation. The state policy can transform free market capitalism into capitalism with full employment. Lord Beveridge drew further conclusions from Keynes' activist theory – he prepared the concept of welfare state. However, as an unintended effect of both Keynes' *General Theory* and the welfare state concept, the capitalist world becomes more and more divided into countries which, to a varied extent and in different forms, have followed and still follow these concepts and those which reject them.

The concept of balance between antagonistic forces, put forward by K. Galbraith (1952) was the next step towards understanding the nature of capitalism. Its actual sense is reflected not by the main title of his book (*American capitalism*), but by the subtitle (*The concept of countervailing power)*. In Europe, self-organization of social groups could have been taken for granted as a result of the historical past. North America was behind Europe in this respect. Galbraith derived this concept from his understanding of this fact and the current needs. He argued that economically weaker groups, such as manual workers and farmers, must become stronger for capitalism to function normally. He wrote: *Steps to strengthen countervailing power are not, in principle, different from steps to strengthen competition. Given the existence of private market power in the economy, the growth of countervailing power strengthens the capacity of the economy for autonomous self-regulation and thereby lessens the amount of over-all government control or planning that is required or sought* (Galbraith 1952:155).

Until the 1970s, such balance existed in the USA. The trade unions might even have gained an advantage as a result of full employment in the late 1970s. However, the alignment of power was reversed in the next years. The trade unions sustained a significant, if not complete, loss of their power, while inequality, poverty among workers and unemployment were on the increase. Also the British trade unions lost much of their power. The situation of trade unions is currently one of the factors that differentiate socio-economic systems. At present, there are countries with strong trade unions and co-operation based on social agreement (the Scandinavian countries, Austria, possibly Germany), countries with antagonistic relations in industry (Italy, Spain), countries where trade unions have lost the battle, countries where the power (membership) of trade unions is growing and those where it is shrinking (mainly the Anglo-Saxon countries) (*The Economist* 2000a:96). Therefore, it is not true that trade unions are a thing of the past which is disappearing from the economic scene, as is commonly argued in Poland (Gardawski 2001).[3]

J. Schumpeter did not deny that he owed his understanding of capitalism to Marx. Indeed, thanks to the author of *Das Kapital*, he understood that capitalism was not market economy in general, nor even private market economy, but a new civilization – a civilization of inequality, i.e. an economy dominated by great fortunes and their logic. However, he assumed wrongly after Marx (his famous: "Accumulate! Accumulate! That is Moses and the Prophets") that accumulation and investment follow from the very nature of a capitalist entrepreneur and are limited by nothing but supply, the amount of profit, or the availability of credit. Accordingly, he did not perceive any specific barriers to capitalist accumulation. This logic of operation of capitalists (rather than entrepreneurs in general) was discovered and analyzed by Keynes. He found a deep discrepancy between savings and investments. Contrary to the conventional wisdom of neoclassical economy, according to which savings must increase in order to increase investment, he put forward the opposite argument: savings depend on investments. He formulated the "law" that the tendency towards consumption decreases as the income (profit) grows.

Without this law, it would now be impossible to understand Reagan's presidency or the latest American "economic miracle" or the recent economic boom in France. As the condition of the American economy largely determines the condition of the global economy, one can imagine what would have happened in America (and the rest of the world), if Reagan had chosen to stick to his election rhetoric of "sound finances" and had not fuelled the economy with unprecedented, save during a war, budget deficit and public debt.

[3] *Richard Freeman of America's National Bureau of Economic Research compared the degree of unionisation and the extent of collective bargaining across a range of economies between 1980 and the mid 1990s. In general, he found not convergence but divergence. America, Britain, Japan, New Zealand and Australia all saw declines in unionisation and collective bargaining. But in many European countries the pattern was mixed. France, Germany and the Netherlands, for instance, all had falling unionisation but rising coverage of collective-bargaining arrangements. And in some European countries – Spain, Finland and Sweden – unionisation and coverage of collective-bargaining arrangements increased* (The Economist 2000a:96).

If, subsequently, America had not expanded its (foreign) debt on an unprecedented scale, its “economic miracle” of the 1990s would have been impossible. The relevant data must be shocking for the followers of neoclassical economy. During the peak of the economic boom in America, the level of savings of the private sector was more than five percent below zero. The same can be said about France – had Dominique Strauss Kahn continued the fiscal and monetary policy of his predecessors, the French economy would still be half-stagnant. On the other hand, the German economy of the 1990s, with its rather slow growth rate, had a much higher level of savings. Those who advocate an increase of savings even during recession should keep this in mind.

Strangely enough, the present situation of the countries of Central and Eastern Europe resembles in many respects the situation of America in the past, not because trade unions have never existed there, but because they are treated as relics . Moreover, the politicians, still thinking in terms of planned economy, do not understand that the workers’ fight for higher wages and for rights protecting them from various risks (unemployment, disability, old age, illness) increases the purchasing power of society and automatically gives rise to regulations preventing or alleviating recession. Polish renowned economists have moved backwards to the times when it was believed that savings were completely and without delay transformed in every cycle into investments. They disregard the barrier of demand in the capitalist economy. Individual capitalists do not understand it and reduce payroll costs, which works against economic prosperity. Thus, they collectively cut the branch on which they sit. If the workers did not fight for a pay rise, capitalism would suffocate because of its own logic of restricting demand.

Cyclic fluctuations of demand and its dependence on the accumulated pessimism or optimism have always been associated with a risk of instability. In the era of globalization of financial capital, mainly speculative, capitalism becomes a highly unstable system by nature. It was Keynes who first proposed the idea of “casino capitalism”.[4] From the point of view of balanced growth, globalization brings about not only macdonaldization and informatization, but also the elephantism of “casino

[4] Although a systematic concept was first presented by Suzan Strange (Strange 1986).

capitalism". Therefore, on a global scale, a rational (praxeological) concept of balanced growth is contrasted with the casino logic.

Different social philosophies: individualism versus communitarism

a) Social security

Apart from a small group of specialists in comparative economics, the fundamental division observed and discussed in non-communist world is that between Anglo-Saxon capitalism (system, model, version) and German and Japanese (sometimes German-Japanese) capitalism. This division arises from different social philosophies. The former model is individualistic, the latter one is communitarist. A more detailed analysis of these philosophies has recently been proposed by two American scholars (Morrison and Wolf 1999/2000). Here are some of the major conclusions they arrived at after several years of research.

– For the Germans, the welfare state (*Wohlfahrtsstaat*) is an outcome of a kind of social agreement between the government and the citizens. Social aid is not only accepted, but expected. Most social services are provided as rights, regardless of their cost and the income of a particular family. The state is obliged to build a social network for the common good. Communitarism prevails over individualism. In contrast, in the United States people on welfare are seen as failures. There is a strong tendency to condemn losers. The state is perceived as an inevitable evil and the expenses on maintaining the state – as a threat to individual freedom. The authors quote one of the recurring themes of Bob Dole's pre-election speeches: *The scariest words in the English language are 'I'm from the federal government and I'm here to help you'.* It is hard to imagine a European politician, even an extremely conservative one, who would use this sentence as his election slogan.

– Differences consist not only in the level of material aid aimed at reducing poverty and social pathologies, which is much higher in Germany than in the USA, but also in a different method of action. The German welfare state tries to eliminate the causes of social pathology (preventive action). By contrast, social workers in the United States mainly take care of people already affected by pathology. Therefore, by nature, the

German approach is more sociological and the American approach – more psychological.

– knowing the American love of individual freedom, the authors' claim that in the USA an individual dependent on social aid is controlled by the government to a greater extent than in Germany must seem surprising. The authors explain this fact not only in terms of a different concept of welfare state, but also by reference to the allergy of Germans to all-embracing state control, dating back to the times of fascism.

As a result of the difference in approaches, the number of social care clients is much smaller in Germany than in the USA, which in the authors' opinion is a direct proof of the effectiveness of preventive action.[5]

b) Different characteristics of firms

Unfortunately, a comparison of American and German firms is not available, but the Italian-British-American economist Ronald Dore has contrasted the fundamental characteristics of British and Japanese firms, which can indirectly be applied to the opposition discussed above (see Table 1).

Table 1. The characteristics of Japanese and Anglo-Saxon firms

United Kingdom	Japan
What is an enterprise (firm)?	
Market property	Community, collective body
Main task of management:	
Ensuring maximum profits for shareholders	Long-term development of the firm, i.e. all employees
Managers' success criteria	
Share price as an index of their pay	Growth of the firm's market strength
Means of maintaining discipline among managers	

[5] It should be added that not only the German welfare state model has been maintained, with slight modifications. Also the particularly well-developed Swedish welfare state model is surviving and seems no less effective than the systems of most OECD countries. Sweden still has the highest proportion of state expenditure in GDP in the world (approx. 65% in 1996). Earnings and income inequalities are still small and the position of trade unions is strong. The poor and the unemployed still enjoy so ample rights that even the high unemployment of the first half of the 1990s did not cause a considerable growth of inequality or poverty (Korpi and Palme 1997).

Dismissal by shareholders, hostile takeover	Loss of prestige in the firm, rebellion of junior managers, subordination to the central bank
Main criteria determining effectiveness:	
Managers' decisions (agency/principal theory)	Productivity of principal and all employees
Employment contract:	
Labor purchase contract	(Lifetime) career contract
Earnings:	
Pay for work done determined by the market	Pay calculated on the basis of career path, depending on the number of years with the firm
Differentiation of earnings:	
Big	Small
Motivation **a) individual:**	
Earnings, short-term	Long-term increase of pay and influence
b) group:	
minimal	Quite serious: identification with the firm
Firm behavior during recession:	
Cost reduction – mainly cost of employment	Acceptance of lower dividend, decrease of profits, high salaries (if any) are reduced
Firm behavior in the situation of decline of a given industry:	
Fast liquidation of deficit departments, activization in new industries	Internal diversification of production, transfer of employees to departments with prospects
Qualifications of employees:	
Market as the source of better qualified staff	High expenditure on internal training, the firm is responsible for qualifications

Source: Ronald Dore's presentation, Prague 1994, script.

Dore elaborates on the above contrast as follows: One can call this the Community View of the firm as opposed to the Property View; the Entity View as opposed to the Profit

Instruments View; the Corporate Membership View as opposed to the Matrix of Contracts View; the Shareholder Firm versus the Stockholder Firm (Dore 2000: 26). However, Dore himself prefers a milder form of this opposition: the employee-favouring firm versus shareholder-favouring firm.

Is German economy adopting American system?

Many authors believe so. Even Michel Albert (1991/1994), a supporter of German social market economy, regretted that the "Rhine model [is] ***losing ground"***, although in his opinion it was more just and effective than the "neo-American model".

Albert gave a dramatic description of the struggle between the "Rhine" (i.e. West German) system and the neo-American system. Although he stressed that the ultimate outcome was uncertain, he was concerned about the successful progress of the latter model: *It will be an underground war, violent, obstinate, but partly hidden or even full of hypocrisy, just as any internal struggle within any one Church is full of hypocrisy. A struggle between brothers armed with two models ... carrying two antagonistic kinds of logic within the same liberalism. And perhaps ... two systems of values ...* (Albert, op. cit..26)[6]. Albert wrote these words more than ten years ago, but the final outcome is still hard to foresee, because in the long run the more effective and at the same time fairer of the competing systems does not always win.

Suzan Berger seems to have captured the logic of the competition between systems aiming at short-term profit maximizing and systems whose goals and resources are more socially oriented. She wrote:

Absent a political will to sustain institutions and values that transcend efficiency and growth, no national traditions, culture, or historical legacies by themselves can restrain market forces. Seen from this perspective, even if the Japanese and German systems do better in the long run, they are vulnerable. In a competition between the long term calculations about the uses of labour, resources, and capital characteristic of the political economies of these two countries in the postwar period and the short-term profit maximizing of Anglo-American capitalism, economic opportunism will win. When deregulation or open borders give national capitalists the

[6] Retlanslated from Polish edition.

chance to escape constraints on wages, working conditions, layoffs, financial speculation, mergers, or environmental protection, they will – no matter their previous involvement in social democratic neocorporatist, or Japanese-like lifetime employment systems. Given the general decline of the left and indeed of all those political forces in Western advanced societies that might sustain collectve action on behalf of values other than competition and efficiency, market forces confront little opposition (Berger 1996: 12).

However, for CDU leaders, social market economy still is a value that is worth defending. Here is what the chairman of the CDU Parliamentary caucus, W. Scheuble, told a *Polityka* journalist when asked about his opinion on the opposition between Rhine capitalism and Anglo-Saxon capitalism: *I prefer the traditional concept of social market economy .... Germany was doing quite well within its model. Now we have some problems, because our model is too bureaucratic. However, we are starting reforms, trying not to move too close to pure market economy. We will always have social market economy, based on the elimination of differences by political means* (Scheuble 2000).

However, it is hard to predict whether the politicians' and trade unionists' will is strong enough to resist the invasion of Anglo-Saxon corporations. The political maneuvers of the German social democracy do not give a clear answer to this question, either. Before their coming to power in 1998, the pre-election declarations of German social democrats were ambivalent, based on a sort of dualism: some voted for the left-winger Oskar Lafontaine, others for the more centrist Gerhard Schroeder. As the new Minister of Finance, Oskar Lafontaine, tried to change the macroeconomic policy, his main idea was to increase global demand by increasing real wages and salaries and reducing tax burdens imposed on poorer groups. At the same time, he wanted to increase corporate income taxes, especially paid by the companies that destroy the natural environment. He also wanted to impose taxes on capital. He attacked the central bank, demanding that fighting unemployment and fighting inflation be treated on an equal basis.[7] Furthermore, new hopes were associated with the establishment (or, actually, restitution) of the Committee of Labor, Education and Competition consisting of representatives of employers, employees and the government, responsible for negotiating and adopting the main directions of economic and social policy.

Undoubtedly, this concept was based on the analyses and ideas of Keynesian economists, in particular Heiner Flassbeck, Lafontaine's closest aide and economic advisor. In general, however, Lafontaine's attempts at changing the macroeconomic policy were unskillful, although he encouraged the governments of the other European Union states to co-ordinate their macroeconomic policy, which even *The Financial Times* regarded as a good idea.[8] However, without waiting for the results of any talks, he started actions that were badly received by the business circles and the more and more influential Labor Party leadership.

After Lafontaine's resignation (in March 1999), Schroeder in a way returned to a policy inspired by the Maastricht Treaty. Lafontaine's office was given to a determined monetarist Hans Eichel. He immediately took steps to cut business taxes and dramatically reduce government expenditure (mainly social spending) to balance the budget. His proposal for a pension reform involved the establishment of a mandatory capital pillar (as in the Polish pension reform). Eichel's policy and his proposals not only gave rise to domestic protests, but also were severely criticized by *The Financial Times*: *Mr Eichel's package is a school-book example of what fiscal policy should not be like. At the time of high unemployment and slow economic growth, he chooses strict fiscal policy ... It would make much more sense to do exactly the opposite* (Munchau 1999). The article ends with an ironic remark: *Eichel's predecessor* (Lafontaine – TK) *was not a reformer, either. At least, he understood economy.*[9]

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[7] Lafontaine skillfully referred to the policy of the US Federal Reserve: *The head of the Federal Reserve Alan Greenspan proved that both inflation-free growth and increase of employment are possible* (in: Barber 1998).

[8] The paper's regular columnist wrote about it (Wolf 1998). The editor added the following heading: *Martin Wolf believes that although many of the ideas of the German Minister of Finance should be evaluated as wrong, he should be given credit for starting a debate on this issue.*

[9] Because of a similar policy, Franco Modigliani called the former minister of finance, Theo Weigl, an economic ignoramus (Grzybowska 1997).

This policy (including the joint declaration of Blair and Schroeder, published in June 1999) resulted in over half a dozen failures of the German Social Democrats in local elections (to Länder authorities), some of them quite spectacular. Moreover, both the declaration and the policy of the government were severely criticized and the conflict with trade unions worsened. The joint manifesto was perceived as an assault on the fundamental institutions of social market economy and an indication of welfare state demolition.

In consequence, the authorities had to withdraw from a number of intended reforms, e.g. the pension reform. Since that time the socio-economic policy of the government has gone in two directions. Moderate labor market liberalization is accompanied by a much more daring policy of lowering business taxes, liberalization and deregulation of the financial market and far-reaching openness to foreign competition. Deregulation and privatization of a number of industries has already begun (power sector privatization, demonopolization of Deutsche Telekom, announced privatization of the post). *The Wall Street Journal* expressed an enthusiastic opinion about this policy. It particularly appreciated the government proposal to abolish tax on the sale of shares in blocks (to date, the main barrier to "hostile takeovers" of German firms by foreign capital). Hans Eichel has repeatedly said that "Germany is no longer a closed market". *The Wall Street Journal*, seeing Schroeder's intervention to prevent the bankruptcy of a well-known construction company Holzmann as an exception, added: *What happened since then is of crucial importance .... Schroeder and Eichel managed to launch free market mechanisms without attracting attention. Therefore, it seems that the policy of the current government is better for entrepreneurs than the policy of the former Chancellor Helmut Kohl* (Roth, 2000).

Schroeder's government is aware that it must act with caution in matters concerning labor market flexibility and the corporatist system of pay negotiations, taking into account the power of the trade unions backed by the left wing of the SPD. According to *The Economist*, *There are no reasons to believe that he is ready to dismantle the system of negotiations with trade unions, which restricts competitiveness of companies so much* (*The Economist*, 2000a). Therefore, the active and quite consistent policy of liberalization, deregulation and privatization is accompanied by caution in the relations with the powerful trade unions, particularly in the field of restricting social and employees entitlements. It seems that Schroeder has drawn the following conclusions from the 1999 failures: give up Blair-style free market rhetoric, give up the idea of stressing the "uniqueness" of his policy and make no more straightforward declarations of policy directions.

Is it only tactics? The fate of the pension reform project mentioned above is an argument in favor of such an answer (after the protests of the unions it was revised and now has a much less radical form). It may happen to a number of other projects, too. One of the main reasons for this is the fact that in Germany, as well as in France, liberalization (as well as the popularity of free market capitalism), is limited.[10] For Germany, the very fact of close co-operation with France is a certain barrier.[11]

Due to the special role of Germany and the German economy in the European Union, the fundamental question of convergence refers to the process of convergence of the German economy with the American economy, or submission to what Ronald Dore calls "American-led global capitalism" at the expense of "a good society". Ronald Dore has studied the problem of the possibilities of retaining specific features of the German and Japanese systems perhaps more thoroughly than anyone else. A considerable part of his latest book (2000) is devoted to this problem. He has a much more optimistic forecast for Japan than for Germany. In Germany, further expansion of market economy and the "finance-centered economy" now seems inevitable. On the other hand, the deeper educational awareness of Japan, as well as certain common

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[10] *The Economist* (2000b) sees these limits particularly realistically: *Nonetheless, the faith in excluding governmental control of the European social model has its limits. As it is rightly pointed out on the Continent, advertising the British solutions is not very convincing, as on average the Germans and French are still richer than the British. The Germans, even though they have absorbed 17 million of poor East Germans, still feel rich and do not see a need to reduce their expenses. Moreover, even if the restructuring of the British economy in 1980s was successful, the success was only partial, because the productivity, even after restructuring, is still lower than that recorded in France and Germany.*

[11] Unfortunately, I am not aware of any studies of systemic convergence between France and Germany, although there is an in-depth analysis of the process of convergence of the French system with the German system (Boltho 1996). However, it presents the common process of liberalization of both economies mainly as a result of the establishment of the common market. As far as the labor market institutions and employee participation are concerned, both countries have retained their differences: the far-reaching system of labor market socialization in Germany is still much different from the French system. After the almost simultaneous rise to power of the SPD in Germany and the socialists in France, the differences in tax policy rather increased, as I have mentioned above.

features shared by its society with the neighbors (not only Korea, but also China) and a much more developed and all-embracing neocorporatist system result in a lower probability of globalization of the Japanese society and economy (op. cit., 220-225).

Will Central European economies converge with the EU?

We shall not go into the whole theoretical debate on convergence (meant as catching up in terms of *per capita* PKB with most advanced economies), limiting our interest only to these ideas and facts which may be important to at least pose some questions and suggest a very tentative answers. All the ten accession candidates to the EU, but Slovenia[12] are less or much less developed than even the least advanced economies within the EU, like Spain and Portugal, Greece not excluding. Thus, they may be treated simply as the future periphery of the core EU countries. Confrontation of the initial EU tasks and promises to the relatively backward latecomers, like Spain, Portugal and Greece, with the results obtained may be quite informative.

The EU leaders have rejected the old neoclassical view the that market mechanism itself leads to inter-country and regions convergence. In the 1989 Report of the then chairman of the European Commission Jaques Delors, we find an unequivocal declaration: *Historical experience suggests (...) that in the absence of coun*

tervailing policies, the overall impact of more developed centres on peripherial regions could be negative. Transport costs and economies of scale would tend to favour a shift in economic activity away from less developed regions (...) The economic and monetary union would have to encourage and guide structural adjustment which would help poorer regions to catch up with the wealthier ones[13].

[12] Other candidates are: Cyprus, The Czech Republic, Estonia, Hunagary, Litvania, Latvia, Malta, Poland, Slovakia. In the second raw are mentioned Bulgaria and Rumania.

[13] Delors (1989), p. 227. More theoretical argument presented in his famous article P. Romer (1986). According to him (1986), increasing returns to scale production technology results in a strong counter-tendency to converge. The rich countries not only maintain, but increase their lead over the third world countries. Indeed, the table 1 shows that only Asia has made a small step towards the OECD level. But only half of a dozen or so countries were lucky enough to join “a club of the rich”. J. Sachs & A. Warner (1995)disagree with him, stressing that opportunities of catching up lay in proper policy. They stress that: *Poorly managed economies – such as those with the absence of secure property rights,*

This opinion is sometimes termed as the divergence theory, since it opposes the old neoclassical contention that under a free market regime regions being on a lower level of development will spontaneously converge with the most advanced countries or regions (cheap labour and land attracts capital inflow). Counteracting the divergence tendency assumes the state or community intervention.

Acting in accordance with this theory, a crucial part of activity of the EU economic authorities was focused on fostering economic growth of backward regions, particularly those with high unemployment. This is the main target of several Funds, mainly of the Structural Fund, representing for years 1994-99 one third of the Union's budget. However, the results of this countervailing policy are cry far from expected.

M. Boldrin and F. Canova who thoroughly analysed the results of this policy with regard to regions inequality, have presented a rather gloomy picture[14]. Their main conclusion is surprising: *Absent regional policies, the increase in trade of the 1950s and 1969s was associated to a fairly strong reduction in national and regional income disparities. /Whereas/With regional policies in place, increasing trade within the EU was no longer accompanied by convergence in per capita incomes. Labour productivity kept converging, but very slowly. This is a very different from, and almost opposite to, what divergence theories predict should happen* (p. 227).

In a discussion on Boldrin's and Canova's contribution there was also raised a question of the South European economies' convergence with the more developed EU members (in per capita income). The picture is mixed, but by and large not very optimistic. Portugal and Spain have converged slightly, although their economies grew within the EU not faster than before accession. Greece rather diverged[15]. Only the recent couple of years brought to this country's economy some relative improvement. The only relatively backward country, which entered the EU rather late (in the 70s), fully succeeded in catching up with the most developed EU members is Ireland. But there is a wide agreement that this jump resulted from a combination of the intense industrial policy (not necessarily in accordance with the Maastricht Treaty) and the

autarkic trade policies, inconvertible currencies, and so forth – are unlikely to experience convergence no matter what the underlying production technology or initial level of human capital (ibidem, p. 5).

[14] Boldrin & Canova (2001).

[15] Cf. Boldrin & Canova (2001), Discussant J.S. Pischke, Figure 10, p. 246.

unique unrepeatable opportunities cleverly exploited by this small English speaking nation enjoying an assistance of a quite powerful minority in the United States of America[16].

The specialists draw attention also to experiences of the backward Italian Mezzogiorno and East Germany. Both these regions do not show any clear convergence either[17]. If the three British investigators are finally more optimistic with regard to East Germany then to the South of Italy, this is because of the different history of these countries, which “may matter just as much as the design of economic policies and the working of market forces”[18]. Thus, the German government may commit less errors than the Italian one.

What sort of conclusions may be drawn from the experience of the South European late-members of the EU for the Central and East European candidates to EU? Can these countries expect at least the fate of Portugal and Spain?

The answer cannot be unequivocal, because these countries the Central European countries will not experience “just another accession”, but will pass through a much harder process of adaptation than the above mentioned South European countries[19]. The “Ceasterners” have much less experience on the international market than the Portuguese and Spanish entrepreneurs; have a weaker financial and trade infrastructure; their economies still suffer the results of “misdevelopment” (overburdened by heavy industry). Their negotiating position is also much weaker than of their predecessors, because globalization makes it that by now it is much more difficult not to join the EU then 15 – 20 years ago. Also on the side of the EU there are several changes making accession more difficult now. The EU with its Maastricht Treaty, the rules of Amsterdam Pact, with euro and the European Central Bank, is

[16] But even Ireland’s economy did not growth, in the period of its EU membership, on average more rapidly than beforehand.

[17] Boltho et al, (1997) write that *Despite massive regional policy efforts, GDO per capita in Southern Italy has only briefly converged on Northern Italian levels in the 1960’s. Failure of convergence since then is associated with a policy switch from investment toward income maintanance, with reduced wage sensitivity to regional labor market conditions and with increases in rent-seeking opportunities. East Germany’s early experience of rapid wage and income, but not productivity, convergence raised fears that a Mezzogiorno scenario could be repeated*(Ibidem, p.241). True, they express hope that Germany will avoid many mistakes made by the Italian policymakers, but their argument is very thinly founded.

[18] Ibidem, p. 261.

[19] . This was convincingly shown by John Eatwell and his colleagues (1997).

much more integrated then 15 years ago. On the other hand, the process of negotiation glaringly shows that by now the EU most developed countries are much less generous in the declarations of assistance to the less developed regions and countries.

All in all then, Robert Boyer may be right, saying that: "(t)he simple dynamics of convergence is only one out of many other evolutions: cumulative divergence, catch up and collapse, catch up and then forging ahead, partial convergence and the stabilization of the productivity gap"[20]. If this is the right prophecy, if accession promises very few and uncertain economic advantages, the political and general civilizational aims only may appear too weak for the creation of a durably integrated, stable and cohesive Europe.

Can one in this conditions seriously predict that in Europe there will in the feasible future emerge one integrated socio-economic system? Or, let us put the same question differently: is it reasonable to project and enforce it? Dani Roderick published recently a sort of declaration: **Let's flourish thousand models of growth**, with clear message that "non-orthodox solutions often facilitate economic growth[21]. That is why the world needs not one model of development, but more diversity and more experimentations encouraging entrepreneurship and institutional change". And what is most important, according to Roderick, there is no one best model, which can be implemented in any country, independently on its tradition and culture. There are many ,models, the efficiency of which is contextually dependent. And this is what contemporary comparative economics is about. When this message is taken seriously, globalisation as well as integration is, beyond certain limits, harmful to future development.

[20] Berger & Dore (1996).
[21] Roderick (2002).

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