THE EMERGING EAST EUROPEAN SOCIAL MODEL: A COMPARATIVE OVERVIEW

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Abstract

This paper explores the key elements of European thought and practice which define four models of integrating market driven economic policies with social justice driven welfare policies in culturally distinct areas of the EU (the Nordic, the Anglo-Saxon, the Continental and the Mediterranean). It focuses on providing a synopsis of the empirical data available on EU regional social performance, as well as drawing normative conclusions on the feasibility of social models. Key coordinates of social welfare performance in the East European area of the EU are identified, and this performance is compared with corresponding performance in the other four EU areas. The paper advances the hypothesis that, while distinctive features of labour and social policy in Eastern Europe clearly exist, it is perhaps too soon to conclude that these two sides of policy integrate into a social model at this stage. Nevertheless, further trends or directions for the future development of an East European social model could be identified.

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Introduction: Brief history of the European social model

A widely shared perspective among the subject researchers is that the European social model is the product of the political rearrangements which took place in Europe in the aftermath of World War II. The postwar period witnessed a political consensus based on forces opposing fascism. This brought together the Left and the new anti-fascist ‘Right’ (such as Gaullists and Christian-Democrats). The key basis for this wide agreement was the idea that Europe had to focus its efforts on avoiding the social conflicts that had characterised the inter-war period. This involved a clear rejection of extreme approaches, be they in the form of totalitarianism (just recently experienced) or ‘wild’ capitalism (which might have appeared appealing on the rebound). It is in order to prevent such tensions that the new movement for European integration and interconnection was formed, which then led to the creation of a federation of European states united through common interests. A more detailed analysis of the origins of the European social model is presented by Chytilova & Mejstrik (2007), Adnett & Hardy (2005) and Wickham (2002).

Arguably, the concept of a European social model has its origins in the Treaty of Rome of 1957 and the European Social Charter of 1961, and is continued in the Charter of Fundamental Social Rights of Workers of 1989 and its Additional Protocol of 1998. Although the initial objectives of the European Community included the concept of ‘welfare state’, they remained for a long time strictly economic. The social dimensions of the new Community were not outlined: these remained the domain of the national states, which were fully responsible for establishing those social policies aimed at producing the desired welfare state. However, some of the key objectives of the Treaty of Rome were clearly social: maintaining a high employment rate, ensuring social security, increasing living standards and the quality of life, economic and social cohesion, and solidarity among the member states (EC Treaty, 2002).

It is also widely accepted that the concept of a European social model was consolidated in the European Social Charter of 1961, produced by the European Council and focusing on increasing social homogeneity within the European Community. The main directions of social policy initiated through this Charter were: provision of health services; social security; protection of family rights, as well as of the family's status of basic social unit; improvement of labour conditions; and, the right to education. Nevertheless, the concept of 'social cohesion' was formulated more than 25 years later, in the Single European Act of 1987. According to this document, in a society characterised by social cohesion its members share an engagement to maintain social order and assume responsibility for the general welfare of society. Hence, social interests transcend immediate personal relations, and social cohesion is construed somewhat in opposition to individualism (Single European Act, 1987).

In the 1980s, attempts by the European Commission to promote an active social policy have been limited. One of the main causes of this limitation has been Great Britain's return to a different ('Anglo-Saxon') social model, based on the deregulation of the labour market – in stark contrast with labour policies and practices in countries of continental Europe. However, in the late 1980s European integration was revitalised through the initiative of creating the Single European Market – a process finalised in 1992. A consequence of this was exposure of the member states to European level competition. In this context, the introduction of the Social Charter in 1989 can be explained as a measure for social protection against possible excesses of the market. The Charter also triggered a public debate around 'the new welfare state' (Social Charter, 1989).

The term 'European social model' became known in European policy language in the early 1990s, with the initial implementation of the Maastricht Treaty. It was first used in a Green Paper of 1993, and then in a White Paper of 1994. The latter focused on the future of social policy and stipulated a set of common values as part of a largely normative project. These values were personal liberty, social dialogue, equal opportunity and solidarity at all levels of society.

This emphasis on social quality has become more prominent and specific in later European policy documents. For instance, the Declaration of the European Council of March 2000 states:

> 'The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' (DEC, 2000: 2).

A critical view of this new political direction is provided by Wickham (2002), who argues that emphasis on quality of social relations has given rise to a normative wishlist which defies trade-off situations and the scarcity principles of classical economics:

> '[This is] the European version of the American "apple pie": not just growth, not just employment, but *good* jobs and even social cohesion as well. In an earlier stage, one might have said guns *and* butter: today the cynical might say, having your cake and eating it. No hard choices, just everything you want'. (Wickham, 2002: 2).

Despite Wickham's analogy, the European social model (ESM) differs significantly from its American counterpart. In the case of the ESM, rights to education, social security and healthcare are directly linked to the government's responsibility to make these services universally available. On the other hand, the American model, while advocating similar objectives, is based on individual responsibility. As a consequence, employment rights (including unemployment and sick benefits, maternity leave, and the regulation of working hours) are more generous in European countries than in the USA.

In sum, a key feature of the ESM could be formulated as prosperity through a free market, combined with egalitarianism in social opportunity and benefit through redistribution.

Opportunities and challenges in reforming the ESM: The EU Report 2006

Although the distinctive features of a European social model have not been clearly defined, the concept is largely used to describe the European postwar experience in the integrated promotion of sustainable economic growth and social cohesion (Jepsen & Serrano Pascual, 2005). Most recently, the Report of the European Parliament re the ESM (July, 2006) states:

> 'The European social model is first and foremost a question of values. Whatever European social system we examine we find the common values of equality, non discrimination and solidarity and redistribution as fundamentals' (REP, 2006, p. 5).

The recommendations of this Report require a critical examination at this point. According to the Report, ESM values (equality, solidarity, individual rights and responsibilities, non-discrimination, redistribution with access for all citizens to high-quality public services) should be enhanced while high social standards should be maintained (European Parliament, 2006). But can EU national economies support this highly demanding goal? Achieving this complex goal demands performance from three sources: (1) from the economy, in terms of high levels of wealth, efficiency and productivity; (2) from the government, in terms of universal high-quality public services; and (3) from individuals, in terms of accepting the ESM values in theory and practice (especially in the form of solidarity, respect for individual rights and non-discrimination). Two questions could be raised here: (a) Is it possible to combine a free Single European Market with national social policies? This may be a real challenge, especially in terms of delivering individual rights, access to public services, redistribution and (finally) equality (in welfare); and (b) Can the efficiencies obtained through the unified Single European Market be then harmoniously put to work to support equity growth as administered by individual governments of the member states, and as understood by citizens of different EU states in relation to each other as members of the same EU?

The Report (European Parliament, 2006) further states that economic and social cohesion contribute to identity of interests among EU members. This is understandably the case, especially for those moved by identity-of-interests state policy arguments rather than by arguments based on natural and universal political rights: economic and social cohesion, defined as harmonisation of economic and social objectives, is bound to lead to a convergence of interests across EU membership. It can be considered that we are now well past the need to justify the importance for the EU to simultaneously achieve economic and social cohesion among its member states. The crucial question (which appears to remain unanswered at this stage) is whether the objective of social cohesion should continue to remain the responsibility of each member state, in conditions where economic cohesion continues to be pursued through a common market.

A third conclusion of the Report (European Parliament, 2006) is that economic and social systems that fail to achieve efficiency and socially sustainable development, meet challenges of demographic change, globalisation and IT revolution – should be reformed. In reply, we would be hard pressed to find an economic and social system (among any EU members, no matter how developed) which scored highly on absolutely all of the above criteria. Even the most highly performing systems (to be found in the Nordic countries) owe their exceptional performance to fairly specific and exclusive (closed-system) interpretations of socially sustainable development, demographic change and globalisation. Considering this, in what direction should reforms go? And what would be the main drivers/factors that would determine the direction(s) of reform?

The Report (European Parliament, 2006) also indicates that the present growth rate in the EU makes structural reform extremely difficult. This is already an alarm bell showing that the problematique associated with the classical trade-offs between equity and efficiency should be taken seriously. None of the available economic bases is spectacularly strong enough to deliver on all the ambitious goals of integrating economic prosperity and social welfare across all 27 EU members; and this is valid for the older, richer EU members as well. This means that there is at present little leverage (either at the level of West European states or at the level of their citizens) to support a potential project of unified social policies at EU level. It is unlikely that any EU state or citizen would agree to EU-based social protection systems which would predictably reduce their own current entitlements and benefits (be it in favour of the citizens of other EU member states).

Finally, the Report (European Parliament, 2006) identifies that unemployment rates are growing, especially among the young people, with dangers being exclusion, poverty, insecurity on the job market and potential failure of social security systems. This general concern throughout the EU (including older and younger members alike) is perhaps the main reason why the ESM is discussed as a crucial factor in EU development, despite discouraging economic signals and pressures caused by globalisation and labour mobility. A severe reduction in the pool of social opportunity, especially for the younger generations, would pose one of the most serious threats to the future of the European Community and the Single Market. Under the pressure of globalisation and labour mobility, the only factor that could counterbalance job market insecurities and turn this phenomenon into something beneficial/positive (for both individuals and economic systems) is a significantly superior increase in economic and social opportunities. Currently, EU performance in this respect is relatively low if compared to other regions, such as North America, East Asia, (some parts of) South East Asia and Australia. On the other hand, it is highly unlikely that EU states could increase labour market opportunities for their own youth without restricting the movement of non-EU labour force into EU countries. Even within the EU, free movement of the labour force among EU members may cause a reduction of employment opportunities for younger citizens of more affluent EU countries in favour of expanding employment opportunities for citizens of less developed EU countries, at least in the short to medium term.

While the Report recommendations clearly signal the main ailments of the ESM and the need for reform, they remain largely ineffectual, as they stop short of addressing upfront the specific challenges of integrating economic and social policy among economically and (especially) socially non-homogeneous countries and regions.

On the other hand, it can be noted that the Lisbon Strategy (both the initial plan of 2000 and the reoriented agenda of 2005) has been designed to have EU enlargement contribute to and reform the ESM towards a unified European meaning beyond international competitiveness (Daianu, 2007). What are the chances of this happening, and in what way? A long-term interpretation of this will have to be formulated around the expectation that new EU members would have an economic and social input capable of redressing any imbalances experienced by an EU limited to pre-Iron Curtain membership. It would be difficult to see how this could be achieved without making sure that the transmission of social problems in East European countries to West European ones (namely, from newer to older EU members) is rigorously limited, at least in the short term, to avoid the erosion of the existing ESMs. Attaining a unified European social meaning beyond the interests of a common market is a major current challenge for the enlarged

EU, especially as the immediate impact of EU enlargement increases the economic and social heterogeneity of EU membership.

The European social submodels

Within the 'European model' (or 'social Europe'), four submodels have been identified, which cover four different geographical areas: the Nordic social democratic model, the Anglo-Saxon liberal model, the continental (corporatist) model, and the Mediterranean model (Sapir, 2005).

Nordic countries (Denmark, Finland and Sweden, plus the Netherlands) have the highest levels of social protection expenditures and universal welfare provision. The emphasis on social redistribution is illustrated by the share of taxes in GDP, which is above 45%. There is extensive fiscal intervention in labour markets, based on a variety of "active" policy instruments. Strong labour unions ensure highly compressed wage structures. The Nordic model features a purely Danish invention, ***flexicurity***, which is based on the belief that flexibility and security are not contradictory and can actually be mutually supportive. Flexicurity consists of a flexible labour market with fewer restrictions on both hiring and firing, a high level of social security and an active labour market policy.

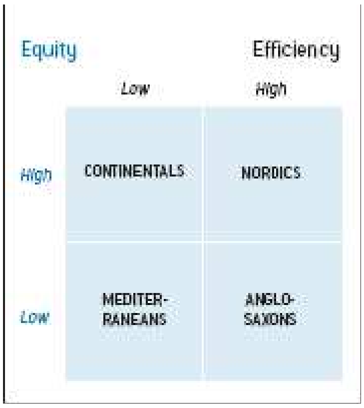
The continental corporatist model (France, Germany, Austria, Belgium and Luxembourg) places a strong accent on the role of labour law and the collective bargaining. These countries rely extensively on insurance-based, non-employment benefits and old-age pensions. Although their membership is declining, unions remain strong as regulations extend the coverage of collective bargaining to non-unionised workers.

Anglo-Saxon countries (Ireland and the UK) are characterized by predominant role of markets, minimal role of the state and low degree of regulation. They feature relatively large social assistance of the last resort. Cash transfers are primarily oriented to people in working age. This model displays a mixture of weak unions, comparatively wide and increasing wage dispersion, and relatively high incidence of low-paid employment.

The Mediterranean Model is primarily used in Italy, Greece, Portugal and Spain, and concentrates the social spending on old-age pensions. Its social welfare system typically draws on employment protection and early retirement provisions to exempt segments of the working age population from participation in the labour market. This system is family-centred and retains some characteristics of agrarian, paternalistic societies.

Sapir (2005) summarises the four models using a typology based on two criteria: efficiency and equity. A model is considered efficient if it provides sufficient incentive to work and generates high employment rates. On the other hand, it is considered equitable if it keeps the risk of poverty relatively low. The table below provides the results of Sapir's typology in terms of efficiency and equity for the four country groups.

Table 1: The Four European Models: A Typology



Source: Sapir, 2005

Table 1 is based on the familiar debate regarding the controversial efficiency-equity trade-off. Nordic and Mediterranean countries apparently face no such trade-off. Nordics enjoy an envious position, with a social model that provides both efficiency and equity, while Mediterraneans have a social system with neither efficiency nor equity. On the other hand, the Anglo-Saxon and Continental countries both seem to face a trade-off between efficiency and equity. Anglo-Saxons have an efficient but less equitable social model, whereas Continentals enjoy far more equity but less efficiency.

In sum, Sapir's typology of ESMs develops along the coordinates of a 2x2 matrix, covering the whole the spectrum of possibilities, with the Scandinavian model at ++, the continental model at +-, the Anglo-Saxon model at -+ and the Mediterranean model at --. Logically, a fifth (East-European) model will have to fit into one of the four quadrants. Our hypothesis is that such a model would bear the closest resemblance to the Mediterranean model - - (this is purely in terms of performance of relevant economic and social indicators; however, in terms of structural differences between the East European and the Mediterranean countries, different trends could be predicted for the two models.

The challenges of EU enlargement

As illustrated in the above-mentioned European submodels, the role of the state differs significantly among the old EU members. We will show further that the contrast is even more categorical when comparing old with new EU members.

No new EU member state has opted for a pure social model, and there is a clear differentiation among these states, which classifies into two groups: (1) Baltic states, Slovakia and two south-east European members (Bulgaria and Romania); and (2) other new member states (Czech Republic, Hungary, Poland, Slovenia). The first group (referred to here as group A) has adopted a more neo-liberal (Anglo-Saxon) social model, whereas the second group (referred to as group B) resembles the Continental model. It is worth noting that no post-communist country has adopted the Nordic model. Is this an indication that balance/harmony between equity and efficiency cannot be achieved at low general levels of prosperity? Other disruptive factors in East European countries may be: corruption, rent-seeking, anti-social behaviour.

The restructuring and European integration of these countries (both groups A and B) has undergone two phases so far: recession (in the first years of transition), followed by recovery (within the last 5 years, on average). In both phases, the chances of socially inclusive politics have been low. In the first phase, these chances were limited by the negative macroeconomic consequences of recession and by the conditionality imposed by the international financial organisations (the International Monetary Fund and the World Bank). Following that, the recovery period has been constrained by the conditionality of the EU accession criteria. Another constraint, identified by Bohle and Greskovits (2006), is the intensifying competition for FDI, uniformly pursued by national governments, regardless of their political orientation.

The new EU members and especially the Visegrad countries are part of the dynamic area of Europe, with an annual economic growth far higher than those of the old EU members (5-6% as opposed to 1-2%). An expected result of the significant economic growth would be a greater social stability and sound politics, but Eastern European societies are much less prosperous than their Western counterparts. The significant rates of GDP growth were accompanied by increasing social inequality and polarisation.

In general, the EU's influence in shaping social models in the new member states has been weak. The open method of coordination (introduced only in 2000) has had no enforcement mechanism. Consequently, the development of a social model in the new EU countries has been left to their discretion, in line with the EU definition of social policies as belonging to the national competency. The reforms implemented by these countries, especially by the neo-liberal group, have been interpreted by the old member states as threats, in the form of fiscal and social dumping, tax competition and immigration. The main fears of the EU-15 include: (1) concerns about social cohesion as a result of reforms that could lead to a sharp reduction in social protection; (2) undermining social services of general interests; (3) weakening of social dialogue; (4) a growing threat to the 'competitive sustainability' of the ESM; (5) the corrosive impact on the basic values and institutions of the ESM (Schmögnerová, 2007).

In spite of differences among the new EU members, two general common aspects can be identified: a) one can monitor propensities towards a more individualistic approach following the collapse of the socialist era. As people sought to escape socialist paternalism and enforced social entitlements such as unified corporate housing or corporate holidays, the general perception of the word 'social' became increasingly negative (Večerník, 1993); and b) irrespective of the political attitudes, the new EU members cannot (at this stage, at least) afford welfare states at the level of development enjoyed by the richer members.

The current trends indicate that economic growth is likely to stimulate social polarisation (also favoured by corruption and rent-seeking) in the new member countries, especially those of group A, to the significant reduction of the middle class.

So far, EU enlargement appears to bring about more economic and social divergence than ever before, thus rendering the future of ESMs uncertain. An open debate between older and younger EU members, combined with a conscious common effort to revive 'social Europe' under commonly agreed values and inter-country coherent social policies, could be the only way out of this impasse.

The present study analyses the social situation of the EU post-communist countries firstly in a comparative perspective with the old members, using the following indicators: (a) general government expenditure; (b) expenditure on social protection (as a percentage of GDP); (c) statutory minimum wages; and (d) the Gini index. The analysis will then proceed by making reference to taxes and social contributions.

Economic and social performance: A comparative analysis

We concluded in the Introduction that the ESM is characterised by achieving prosperity through a free market, combined with egalitarianism in social opportunity and benefit through redistribution.

In this context, general government expenditure (GGE) and social protection expenditure (SPE), expressed as percentages of GDP, are two indicators of particular relevance for the redistributive component of the model. That is, higher levels of GGE and SPE, for example, indicate higher levels of wealth redistribution within that respective community. Similarly, the level of minimum statutory wages (as linked to the purchasing power standards) is relevant as a factor that induces a more egalitarian income distribution among the labour force. The Gini index (the Gini coefficient expressed as a percentage) is also a representative indicator for the degree of material equality maintained within a community. From a qualitative perspective, a study of national or regional approaches to taxation and social contributions can tell us something about the impact of taxation and social contribution practices to achieving reasonable wealth redistribution and relative material equality.

Consequently, in this study we compare East European performance with West European one with respect to 4 indicators (a-d) and to taxation and social contributions (see Table 2 below).

Table 2: Selected economic and social performance indicators (per ESM country category)

	Nordic ESM	Continental ESM	Anglo-Saxon ESM	Mediterranean ESM	East European ESM (A)	East European ESM (B)
General government expenditure (as % of GDP)	DEN 52 FIN 51 SWE 57 HOL 46	FRA 52 GER 48 AUS 50 BEL 50 LUX 42	UK 44 IRL 34	ITA 48 GRE 48 POR 48 SPA 34	EST 32 LAT 36 LIT 32 SLK 37 BUL 31 ROM 39	CZE 43 HUN 50 POL 42 SLN 48
Social protection expenditure (as % of GDP)	DEN 30.1 FIN 26.7 SWE 32.0 HOL 28.2	FRA 31.5 GER 29.4 AUS 28.8 BEL 29.7 LUX 21.9	UK 26.8 IRL 18.2	ITA 26.4 GRE 24.2 POR --- SPA 20.8	EST 12.5 LAT 12.4 LIT 13.2 SLK 16.9 BUL 16.1 ROM 14.2	CZE 19.1 HUN 21.9 POL 19.6 SLN 23.4
SPE in PPS per capita	DEN 8497.6 FIN 6833.4 SWE 8528.9 HOL 8305.4	FRA 8044.0 GER 7529.3 AUS 8268.3 BEL 8248.9 LUX 12946.2	UK 7176.4 IRL 5856.5	ITA 6225.6 GRE 5139.1 POR --- SPA 4775.8	EST 1760.8 LAT 1389.5 LIT 1593.4 SLK 2258.4 BUL 1260.4 ROM 1087.9	CZE 3291.8 HUN 3165.3 POL 2236.2 SLN 4539.4
Statutory minimum wages (PPS)	DEN --- FIN --- SWE --- HOL 1244	FRA 1150 GER --- AUS --- BEL 1203 LUX 1503	UK 1292 IRL 1141	ITA --- GRE 768* POR 546 SPA 724	EST 362 LAT 310 LIT 324 SLK 351 BUL 216 ROM 204	CZE 465 HUN 423 POL 389 SLN 701
Gini index (2007): percentage of Gini coefficient (plus worldwide	DEN 24.7 (14) FIN 26.9 (11) SWE 25.0 (6) HOL 30.9 (9)	FRA 32.7 (10) GER 28.3 (22) AUS 29.1 (15) BEL 33.0 (17) LUX --- (18)	UK 36.0 (16) IRL 34.3 (5)	ITA 36.0 (20) GRE 34.3 (24) POR 38.5 (29) SPA 34.7 (13)	EST 35.8 (44) LAT 37.7 (45) LIT 36.0 (43) SLK 25.8 (42) BUL 29.2 (52) ROM 31.0 (60)	CZE --- (32) HUN 26.9 (36) POL 34.5 (37) SLN 28.4 (27)

ranking in income levels)						
Taxation practices	DEN FIN SWE HOL -high taxes -progressive taxation	FRA GER AUS BEL LUX -high taxes -progressive taxation	UK IRL -lower taxes -progressive taxation	ITA GRE POR SPA -lower taxes -progressive taxation	EST LAT LIT SLK BUL ROM -low taxes -flat income tax	CZE HUN POL SLN -low taxes -progressive taxation
Social contribution practices	DEN FIN SWE HOL -mostly through income tax	FRA GER AUS BEL LUX -mostly through payroll tax	UK IRL balanced income/payroll tax	ITA GRE POR SPA -mostly through income tax	EST LAT LIT SLK BUL ROM -mostly through payroll tax	CZE HUN POL SLN -mostly through payroll tax

Note: All figures represent percentages. The reference year is 2005 (most recent with relatively complete data).
--- = Data not available.
* 2006 figures for non-manual workers only.
Extracted from: Eurostat (gov_a_exp), 2005; Eurostat – ESPROS, 2008; Eurostat news release 85/2007 – 18 June 2007; Human Development Report 2007/2008 (UNDP, 2008).

General government expenditure

The general government expenditure indicator has been selected for analysis because it shows national government expenditure overall, as well as the breakdown in expenditure for key government functions such as economic affairs, education, health, general public services and social protection. This is one of the most appropriate indicators to illustrate the level of government involvement and responsibility in meeting social cohesion-related objectives. A relatively high level of achievement measured by this indicator is likely to show propensity for a Continental or Nordic ESM.

The largest category of general government expenditure using this classification was social protection, which accounted for 18.8% of the EU 27's GDP in 2004, while general public services, health and education all accounted for broadly similar shares of expenditure, between 5.2% and 6.5%. The variation across countries was strong in 2005, particularly social protection, with Sweden, Denmark, France and Germany spending over 22% of GDP and Latvia and Ireland less than 10%.

Predictably, for 2005 the Nordic and Continental groups of countries recorded on average the highest levels of GGE (51.5% and 48.4%, respectively). The Mediterranean group was lagging behind, with 44.5, and the Anglo-Saxon group had an average of 39%. Of the two East European groups identified in the previous section, the group of continental inspiration (B) is already exceeding the GGE levels of the Anglo-Saxon group, with a GGE average of 45.75%, while the group of neoliberal inspiration (A) is struggling at 34.5%. Romania, the only country in this group featuring a level comparable to that of the Anglo-Saxon group, had only 30% spent on the core functions of economic affairs, education, health, general public services and social protection, which raises the issue of the extent to which the remaining 9% for other functions (a significantly higher percentage for this category when compared with the equivalent of the other countries in the group) could be an indication of inefficiencies in administering the various government functions. Further research is required to clarify this point.

Social protection expenditure

The social protection expenditure indicator is also useful in determining the extent of redistributive national effort. A relatively high level of achievement measured by this indicator is likely to show propensity for a Continental, Nordic or Mediterranean ESM.

In 2005, social protection expenditure in the EU accounted for 27.2% of GDP. This ratio reflects the recent upward trend experienced in most countries. The proportion was highest in Sweden (32.0%), Denmark (30.1%), France (31.5%), Belgium (29.7%) and Germany (29.4%), while the lowest ratios were recorded by three new EU members: Latvia (12.4%), Estonia (12.5%) and Lithuania (13.2%). These differences reflect different living standards and also the diversity of national social protection systems and of the demographic, economic, social and institutional structures specific to each country. Again, three new EU members spent the least: Romania, Bulgaria and Latvia. The leaders in this respect were again the Nordic ESM group, with an average of 29.25% of GDP spent in social protection, compared with 28.26% for the Continental ESM group, 23.8% for the Mediterranean ESM group, and 22.5% for the Anglo-Saxon ESM group. Among East European countries, group B is again leading significantly ahead of group A, with 21%, in contrast with less than 14.22% recorded by the latter.

When social protection is expressed in PPS per capita, the differences between countries are more pronounced within EU-27. Luxembourg has the highest expenditure in 2005, followed by Sweden and Denmark.

Statutory minimum wages

In January 2007, 20 of the 27 EU member states had national legislation setting statutory minimum wages**.** Looking at the level of the minimum wage in euro (see Table 3), important information concerning the living standards can be obtained. The member states belong to three broad groups, where the newcomers register the lowest levels. In Bulgaria (€ 92 per month), Romania (€ 114), Latvia (€ 172), Lithuania (€ 174), Slovakia (€ 217), Estonia (€ 230), Poland (€ 246), Hungary (€ 258), and the Czech Republic (€ 288), minimum wages were below € 300 per month in January 2007. Portugal (€ 470), Slovenia (€ 522), Malta (€ 585), Spain (€ 666) and Greece (€ 668 in July 2006) fell into a second group, with minimum wages of between € 400 and € 700 per month. In France (€ 1254), Belgium (€ 1259), the Netherlands (€ 1301), the UK (€ 1361), Ireland (€ 1403) and Luxembourg (€ 1570) minimum wages were over € 1200 per month. For comparison, the federal minimum wage in the USA was € 676 per month in January 2007.

Table 3: Statutory minimum wages in January 2007

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	Euro*	PPS*	National currency	% of employees receiving the minimum wage, 2005	Minimum wage in % of the average monthly gross earnings in industry and services, 2005
Belgium	1 259	1 203	1259	:	:
Bulgaria	92	216	180	16.0	50
Czech Republic	288	465	8 000	2.0	39
Estonia	230	362	3 600	4.8	33
Greece**	668	768	668	:	:
Spain	666	724	666	0.8	40
France	1 254	1 150	1 254	16.8	:
Ireland	1 403	1 141	1 403	3.3	52
Latvia	172	310	120	12.0	34
Lithuania	174	324	600	10.3	38
Luxembourg	1 570	1 503	1 570	11.0	51
Hungary	258	423	65 500	8.0	38
Malta	585	805	251	1.5	51
Netherlands	1 301	1 244	1 301	2.2	46
Poland	246	389	936	2.9	34
Portugal	470	546	470	4.7	41
Romania	114	204	390	9.7	33
Slovenia	522	701	522	2.8	46
Slovakia	217	351	7 600	1.7	34
United Kingdom	1 361	1 292	916	1.8	37
Turkey	298	498	563	:	:
USA	676	779	893	1.3	32

* As figures refer to statutory minimum wages applicable on 1 January, the average exchange rate for December 2006 has been used to convert to euros. The conversion rates for PPS are provisional.
** The figures for Greece refer to the minimum wage for non-manual workers. A different rate applies to manual workers. Data refer to July 2006
: Data not available

Source: Eurostat news release 85/2007 – 18 June 2007.

Interestingly, in terms of PPS per capita, three ESM groups are leading the way with over 1000 (PPS per capita), namely the Nordic, the Continental and the Anglo-Saxon. The performance of Ireland is remarkable here. The Mediterranean ESM group features a range of 500-770 PPS per capita. On the other hand, of the East European B group only Slovenia is drawing closer to the Mediterranean ESM level (701 PPS per capita), while all the others are lagging far behind (within 380-470 PPS per capita in the same B group, and within a range of 200-370 PPS per capita in the A group). Having said that, group B is clearly superior in performance to group A, with respect to minimum wage levels.

The Gini index

As already mentioned, all recent accession states have experienced high growth rates. But growth does not necessarily generate adequate employment opportunities quickly enough, and in the absence of policies to mitigate the uneven distribution of income generated by growth, the increase in inequality and poverty can be significant.

The post-communist countries bring into the EU societies a new ‘class structure’, in which income, consumption and wealth inequality have risen rapidly, dividing society into ‘losers’ and ‘winners’. Income inequality, as measured by the Gini coefficient, has risen in the EU-8 (the 2004 newcomers), for example, from pre-transition 23.8 to 30.9 on average.

The Gini index (i.e. the Gini coefficient[1] expressed as a percentage) measures the inequality of wealth or income distribution in each EU country. As a lower Gini index indicates a higher level of equality in income or wealth distribution, countries with a lower Gini index are likely to indicate a Continental or Nordic type of ESM. Interestingly, this prediction is not entirely confirmed, as the Nordic group (ranging 6 to 14 in ranking) is slightly better matched by the Anglo-Saxon group (ranging 5 to 16 in ranking) than by the Continental group (ranging 10 to 18 in ranking). This may indicate a highly performant Anglo-Saxon market in terms of social cohesion outcomes, with little need for compensatory mechanisms such as redistribution through government social protection services. The Mediterranean group stretches over the next segment (with an exceptional Spain at rank 13, then ranging 20 to 29 in ranking). Group B of the new EU members is closer to catching up with the Mediterranean group in this respect (with a ranking range of 27 to 37), while group A displays distinctly higher levels of material inequality than any other group (with a ranking range of 42 to 60).

Consequently, social inequality can be established as one of the defining features of countries in group A. On the other hand, the good performance of the countries in the Anglo-Saxon group in relation to the Gini index suggests that the brand of 'neoliberalism' allegedly adopted by the East European countries in group A may have little in common, substantially, with Anglo-Saxon market liberalism, and may resemble more what in Marxist terms would be characterised as a 'primitive accumulation of capital' phase. Transcendence of this phase towards levels of wealth distribution and social cohesion comparable with those enjoyed within the Anglo-Saxon ESM may depend on group A countries' ability to resolve issues of inefficiency, lack of competitiveness, rent seeking and corruption. Increasing levels of rent-seeking and/or corruption lead to reduced levels of national income and increasing economic polarisation: the few have much, and the many have little (Tache & Lixandroiu, 2006).

Taxes and social contributions

One of the important reforms in the new EU members was that of tax policy. Key features of tax policy in East European countries relate to low and flat taxes. Tax policies such as lowering corporate taxes (e.g. zero tax for re-investment in Estonia, and zero dividend tax in Slovakia), have been a product of pro-business policies and competition among transition countries to attract more foreign direct investment. Some of the new members have introduced flat income tax rates. Estonia started in 1994, followed by Lithuania, Latvia, the Slovak Republic and Romania. As of 1 January 2008, Bulgaria also introduced a flat income tax, replacing the previous progressive tax schedule.

The rates at which these flat taxes are levied are usually low, ranging from 19 per cent in Slovakia to 33 per cent initially in Lithuania, reduced then to 27% in 2006 and to 24% in 2008. There are Western adherents who recommend that the West should follow the example of the East with respect to reducing and flattening taxation. Among Western Europe's most prominent proponents are Paul Kirchhof (Angela Merkel's economic advisor during her election campaign) in Germany; George Osborne (the Conservative Party shadow chancellor) in the UK; the Dutch

[1] The Gini index is a measure of statistical dispersion most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1. A low Gini index indicates more equal income or wealth distribution, while a high Gini index indicates more unequal distribution: 0 corresponds to perfect equality (everyone having exactly the same income) and 1 corresponds to perfect inequality (where one person has all the income, while everyone else has zero income).

government's Council of Economic Advisors; and the Greek Finance Minister Giorgios Alogoskoufis (Barysch, 2005).

The specific reasons why flat taxes are considered appropriate for Eastern Europe are linked to the weaknesses of the local tax collection and administration and the phenomenon of tax evasion. The West European countries also have their own reasons for preferring the more sophisticated progressive tax systems, for example social fairness (higher tax rates for big earners) and the use of the tax system for specific policy objectives (e.g. encouraging pension savings or home ownership).

A common feature of the new EU members is that they finance their social expenditures predominantly through social security contributions levied on wages, as in the Continental social model, and not through general income tax, as in the Nordic or Anglo-Saxon models. As a consequence, payroll taxes in the new EU countries are usually above those of the old members. For instance, in Poland, Hungary and Slovakia social security contributions add almost 40 per cent to labour costs, more than in Italy or Germany, and twice as much as in the UK. In these circumstances, success in improving tax collection depends in part on complementary reforms in social insurance contributions. High marginal rates of payroll taxes can be a major obstacle on the way to fiscal reform. Further research should be undertaken to establish how this fiscal system can be reformed and in what direction.

Conclusion

From the selected data analysed above, one can conclude that the new EU members form two distinct groups, in both current social performance and structural trends. Countries in group A (the Baltic States, Slovakia, Bulgaria and Romania) tend to register significantly inferior performance when compared with those in group B (Czech Republic, Poland, Hungary and Slovenia), in terms of general government expenditure, social protection expenditure, minimum wage levels and levels of material equality. While social performance across group A is constantly inferior to all four traditional ESMs practised by the older EU members, countries in group B have registered partial results comparable with Mediterranean and even Anglo-Saxon countries. Results so far suggest that, in Eastern Europe, social policies of the Continental type seem to deliver better social performance than minimalist social policies of the neoliberal type. This may mean that market liberalism in conditions of low competitiveness and low productivity is unlikely to produce social equity – a sign that, in certain conditions, there may be a positive (rather than negative) correlation between equity and efficiency.

To escape the current ESM difficulties in an enlarged EU, Daianu (2007) proposes the strengthening of moral and ethical foundations of society and the formulation of the relevant values as policy guiding principles: ethics and morality are crucial factors in solving social issues (Daianu, 2007: 7). While return to ethics and values is recommended as a basic principle of economic and social policy, this may not be sufficient in delivering practical social and economic outcomes. According to Sapir (2005), EU enlargement promised prosperity for all and has so far delivered greater economic and social differences, which have slowed down the path to the Single European Market (Sapir, 2005).

While distinctive features of labour and social policy in Eastern Europe clearly exist, it is perhaps too soon to conclude that these two sides of policy integrate into a viable social model at this stage. Nevertheless, further trends or directions for the future development of an East European social model could be identified. Countries in group B display a more stable ESM blueprint than those in group A. The first condition for the formation of an East European social model would be a reduction of the gap between the two country groups in terms of social performance, according to the four indicators discussed in this paper. This could be achieved if countries in group A made it a matter of policy to increase investment in quality public services and social protection expenditure. Secondly, both groups (A and B) should strive for reducing wealth inequality and producing social expenditure outcomes comparable with the Continental ESM group. This may mean less ‘gambling’ with minimalist government and market liberalism, and more strategic coordination of economic and social policies in a more welfarist approach.

Barysch (2005) reaches a similar conclusion arrived at, albeit in a different analytical approach. Barysch notes that income convergence between old and new members should become a priority in EU social and economic policies. In this context, East European countries should strengthen their labour market policies, while West European markets should stop preaching ultra-liberalism to the new members, especially considering that, historically, East and Central European countries have very little in common with market liberalism of the Anglo-Saxon type (Barysch, 2005). Moreover, it has been found that the mass privatization process, implemented in the first phases of transition, failed to emulate the main features of a functioning Anglo-Saxon capitalist model (see Tache, 2008).

As the new EU members (especially the countries in group A) have an economic situation comparable with that of the older EU members in the 1950s and 1960s (when welfarism and government-based services were dominant in Western Europe, as part of the after-war reconstruction effort), this may be an indication that Continental welfarism could be a more sensible path for post-communist reconstruction than market liberalism.

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