Contradictions and Limits of Neoliberal European Governance

From Lisbon to Lisbon

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5. In a flat tax system, all income brackets and most or all allowances and deductions are abolished and one unitary rate of taxation is applied to all taxable income, thus abolishing the progressivity of taxation that is so characteristic for welfare state capitalism. The flat tax normally applies to both personal income and company income, although the rates may vary for these types of taxation. In some cases the same rate also applies to indirect taxation (VAT).

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Race to the Bottom? Transnational Companies and Reinforced Competition in the Enlarged European Union

Dorothee Bohle

Introduction

Starting with the world economic crisis of the 1970s, European integration underwent a fundamental change. Historically, European institutions mainly secured the diverse national development paths without interfering with the domestic market order. This changed with the main integration projects since the 1980s. With the Internal Market, European Monetary Union and the Lisbon Strategy a new mode of integration has been established, which aims at enhancing competitiveness of the Member States, and the European Union (EU) as a whole. By directly taking over certain state functions as well as by reshaping significantly the framework in which nation states operate, the EU has enhanced regime competition between different national systems of governance.

The new mode of European integration has allowed transnational companies (TNCs) to expand significantly their room for manoeuvre. On the one hand TNCs have direct access to all levels of European decision-making. This stands in contrast with the much more limited access domestically oriented enterprises and trade unions have to the European level. On the other hand, the increased regime competition allows TNCs to play off Member States against each other when it comes to their investment decisions.

Eastern enlargement of the EU has increased the competitive pressure within Europe (see Vliegenthart and Overbeek's analysis in Chapter 7 of this volume). The East European newcomers are significantly lagging behind in terms of economic development and social standards. Observers have expressed fears about the newcomers spurring a race to the bottom of wages, social standards and corporate taxes. As a result of their radical transformation from state socialism towards capitalism under the supervision of the EU, these countries are said to have settled on a regime strongly reminiscent of the Anglo-Saxon model of capitalism, with its highly deregulated labour markets, and comparative low levels of social protection. Their semi-peripheral position, moreover, has made Eastern Europe strongly dependent on foreign investment. In order to attract investors, the region competes with low wages, pronounced labour market flexibility and low corporate taxes. Eastern Europe thus is said to reinforce the competitive pressure on the old Member States.

This contribution seeks to evaluate the dynamics, limits and contradictions of the increasing locational competition in the enlarged EU. It shares the basic assumption that eastern enlargement has reinforced the room for manoeuvre for TNCs and strengthened the competitive pressure in the European economic area. At the same time, it cautions against a too simplistic understanding of European countries being engaged in a 'race to the bottom' where those countries closest to the neoliberal ideal outperform the rest in terms of attracting investment. Such a view is inadequate for two reasons. First, it underestimates the capitalist diversity in Eastern Europe, and cannot explain why it is not the most neoliberal regimes of the region that exert the strongest competitive pressures on Western Europe. Second, the simplistic race to the bottom thesis underestimates the contradictions of further deregulation.

The second section of this chapter outlines the theoretical framework underlying my analysis. I will elaborate on Karl Polanyi's central idea of a double movement of liberalization and countermovement guiding the dynamics of capitalism and offer an interpretation of contemporary forces and strategies of the countermovement in comparison to the one analysed by Polanyi.

The third section characterizes the current mode of European integration and the privileged role TNCs have acquired in it. It argues that despite the neoliberal turn European integration has taken since the 1980s, its neoliberalism is still more embedded socially and institutionally than the US model of capitalism (as discussed in more detail by Van Apeldoorn in Chapter 1 of this volume). The fourth section analyses the models of capitalism that have emerged in Eastern Europe as a result of their transformation and integration into the European order. It will be shown that the Baltic states – Estonia, Latvia and Lithuania – have embarked most consequently on a purely neoliberal transformation path, whereas Slovenia resembles closely the small West European neo-corporatist states. The development path of the Visegrád Four (V4) – Czech Republic, Hungary, Poland and Slovakia – has been shaped most thoroughly by TNCs. It can be conceptualized as a semi-peripheral form of embedded neoliberalism. The fifth section demonstrates that in contrast with the race to the bottom thesis, it is not the neoliberal Baltic states but rather the Visegrád countries, that exert the strongest competitive pressures on Western Europe. The sixth section turns towards the locational competition among the V4 and explores the tendencies towards a race to the bottom. The final section concludes by asking about resistance and limits to further liberalization and deregulation.

Theoretical background: the new great transformation

The changes on the European (and global) order over the last decades are reminiscent of the earlier, nineteenth-century 'great transformation' towards liberal capitalism. As in the nineteenth century, the 'self-regulating market' provides the utopia under which state elites and business groups rally in order to create the international and national institutions that would perpetuate the liberal economic order. As a consequence, incompatibilities between the capitalist world economy, democratic polities and the pursuit of social welfare have resurfaced to a degree unknown in the post World War II period. In this context, I find it useful to build on the insights of Karl Polanyi's *The Great Transformation* to analyse the dynamics and contradictions of the contemporary liberalization movement. Polanyi's central claim is that the 'the idea of a self-regulating market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society, it would have physically destroyed man and transformed his surroundings into wilderness. Inevitably, society took measures to protect itself' (Polanyi, 1957: 3). Thus, ever since the idea of liberal capitalism asserted itself, market societies have been governed by a 'double movement' or by 'two organizing principles': on the one hand the principle of economic liberalism that guides the establishment and institutionalization of the self-regulating market, and on the other hand 'the principle of social protection aiming at the conservation of man and nature as well as productive organization' (Polanyi, 1957: 132).

Polanyi's concept of second organizing principle of society, or the countermovement, bears some similarities with Marx's analysis of class struggle and the emancipatory role of labour. Similar to Marx, he sees the countermovement stemming from the commodity character of labour that can't be anything but fictitious. Treating labour (as well as land and money) as commodities disrupts the social and cultural ties that make up human community as much as it destroys the environment and productive organizations. The countermovement emerges as a reaction to these dangers. There are, however, also differences. Most importantly, first, for Polanyi, rather than relations of production, it is the process of extension and deepening of market relations, which generates the countermovement. Silver defines the 'Polanyi-type of unrest' (as opposed to the Marx-type) as 'the backlash resistances to the spread of a global self-regulating market, particularly by working classes that are *being unmade* by global economic transformations as well as those workers that benefited from established social compacts' (2003: 20, my italics). Silver's adaptation of Polanyi's countermovement as backlash resistance is in my view useful for the current European context, which is to a large extent about the *unmaking* of an industrial proletariat, and the *retrenchment* of the welfare state.

Second, even if in the historical context of the nineteenth century it is labour whose interest is closest to society's need of protection against the perils brought about by economic liberalism, labour is not the only social force that drives the countermovement. Polanyi analyses the countermovement as a spontaneous one, coming from all quarters of societies, including forces of productive capital, and the state itself (Polanyi, 1957: 141–2).

As I will show below, I believe that Polanyi's theoretical figure of a double movement captures well main features of the current process of European integration and its limits. However, the transportation of this figure from the context of the nineteenth and early twentieth century to contemporary capitalism requires some reflection about how the contemporary nature of the forces of the countermovement and their strategic options differ from the earlier one. Three major differences come to mind. First, with transnational movement of persons and capital, which are core elements of the European order, the boundaries of what used to be nationally constituted societies have become increasingly permeable. This increases the range of actors of the countermovement, as well as the range of their strategic options. With reference to actors it implies that in certain respects transnational capital can also become a force of the countermovement.
This refers mostly to productive capital, which, as Polanyi explained, also frequently demands 'protective legislation ... and other instruments of intervention' (ibid.: 132). As to the strategic options, transnationalization has important consequences. Polanyi's historical account of the countermovement mostly relies on the manifestation of 'voice' – to use Hirschman's (1970) term – with industrialists, landed aristocracy and most importantly labour voicing their concerns and asking for protective state legislation.

Hirschman's model knows only the alternatives of voice and exit.[1] Even taking only these two options into account, it is clear that exit is a much easier option for both labour and productive capital in the current European order than it was 100 years ago. In addition, as Ferrera (2005: 28–36) points out, Hirschman's original model has one shortcoming in that it treats the two patterns of voice and exit as alternative behavioural options. However, each of these options has their own opposite: silence vs voice, and staying vs exit. Also, although Hirschman was mostly concerned with insiders, outsiders might also have a say. Based on these extensions, the following typology of strategically relevant options of the contemporary forces of the countermovement can be built (Table 8.1).

The point of Table 8.1 is that it allows one to explore the wider varieties of strategic options forces of the countermovement currently have (light grey cells) in comparison with the period of early industrial capitalism and early democratization (dark grey cell). First, voice from outside is an option for some forces of the countermovement, most notably for TNCs. Second, vocal exit is an option for capital, while silent exit has become an important option for labour. Finally, silent staying in – abstention in elections – has become much more wide spread than it was during early democratization, when especially labour used their newly acquired right to vote extensively.

Table 8.1 Extending Hirschman's model: Strategic options of the countermovement

Vocality	Locality			
	Insiders		Outsiders	
	Exit	Staying in	Staying out	Entry
Silence	Silent exit (*emigration*)	Silent staying in (*abstention during elections*)	Silent staying out	Silent entry (*immigration*)
Voice	Vocal exit (*productive TNCs*)	Voice from within (*most important strategic option of Polanyi's countermovement*)	Voice from outside (*productive TNCs*)	Vocal entry

Source: Adapted from Ferrera, 2005: 30.

Table 8.1 also allows us to think in more detail about the relation of the state and the forces of the countermovement. Historically, while always accountable to capital, the state nevertheless turned out to be a central ally of industrial labour in the fight for embedding capitalism. Currently, the state has become much more accountable to the demands of the most contradictory forces of the countermovement, namely productive TNCs, while at the same time it is much less exposed to demands of labour.[2] This is reflected in labour's strategic choices. Silent exit or silent staying have become an important strategy for labour at the expense of voice – be it in the form of strikes or class voting.

I do not intend to offer an explanation for labour's increasing silence. However, one important point is worth mentioning. This is that the most important force of the countermovement as analysed by Polanyi, namely *industrial labour*, has lost its centrality. While Polanyi analysed the role of industrial labour in the phase of its ascendancy, today we witness its decline. As a consequence, on the one hand other groups of labour, such as public sector workers, have become important in the countermovement (see Bieler, Chapter 11 in this volume). On the other hand, labour as a whole seems to lack common foundations of status, dignity, solidarity and vision that would be comparable to their nineteenth-century counterparts. All in all, labour as a force of the countermovement is much more fragmented and disintegrated compared with the turn of the last century.

Below, I will draw on Polanyi's figure of a double movement to analyse the main features of the current process of European integration and the social limits to liberalization.

Embedded neoliberalism in Europe

The new mode of European integration

Critical literature has long insisted on the qualitative change of European integration since the 1980s (for detailed analysis, see Van Apeldoorn's Chapter 1 in this volume). In the first decades after World War II, European economies could pursue diverse development paths, which reflected national compromises in respect to economic efficiency and societal goals in the social, cultural or environmental areas. European integration exerted only limited pressure for Member States to open their economies, and was compatible with high and diverse levels of national market protection. In the aftermath of the world economic crisis of the 1970s, however, European integration took a quite different, neoliberal character. Central to the new mode of integration is that it contributes to reshaping national regimes with the aim of advancing the overall competitiveness of the European economic space. Three integration projects have been essential to this aim: the European Single Market, the Economic and Monetary Union (EMU) and the Lisbon strategy. The single market project's aim has been to thoroughly deregulate and liberalize the Member States' economies in order to open up domestic markets to international competition, and thus create an integrated European economic space. The Maastricht Treaty with its centrepiece of EMU aims at the constitutionalization of macroeconomic stability and a single European currency. The convergence criteria established under the Maastricht Treaty impose strong constraints on Member States' fiscal and monetary policies and indirectly promote privatization as a resource for budgetary revenues. A strong euro is considered essential in the international currency competition (Altvater, 1996). Finally, the European Council in Lisbon designed a comprehensive long-term strategy that integrated the earlier projects with the aim to 'make the EU the world's most competitive and dynamic knowledge based economy in the world' (European Council, 2000). The Lisbon Strategy stresses active policies in the areas of innovation, technology, research and development, infrastructure and industrial upgrading. It also seeks to spell out a social dimension of European integration, which, as Sandy Hager argues in this volume (Chapter 5), is characterized by a workfare orientation. Employability, skill upgrading and lifelong learning have become new foci of EU's activities in the social realm (Jessop, 2003).

The changing form of European integration reflects the priorities of major business groups, who have tried since the crisis of Fordism to escape the confines of the domestic markets and national compromises. It is widely acknowledged that the major integration projects of the EU were strongly influenced by the European TNCs (Van Apeldoorn, 2002; Balanyá et al., 2003). These forces, in close co-operation with representatives of the European Commission, have often bypassed national governments in designing the next steps of European integration. The strategic selectivity (Jessop, 1990: 149–52) of the European governance system favours TNCs over other social forces. Trans-national companies have access to both European and national levels of government, and benefit from the lack of a European public, democratic accountability and the fact that European decision-making processes often lack transparency (Wissen, 2005). In contrast, domestically oriented business groups as well as trade unions can only access more marginal European institutions and are moreover fragmented along national lines (see however Bieler, Chapter 11 in this volume). Moreover, the increased regime competition triggered by the major integration projects allows TNCs to play off Member States against each other when it comes to their investment decisions. In a kind of virtuous circle, therefore, each new major integration project of the EU reinforces transnational capital's room for manoeuvre.

Limits of deregulation

Although the new mode of European integration has a strong neoliberal character, the EU is often depicted as an alternative to the ultra-liberal US capitalism. Representatives of this position point to the stronger welfare states, lower social inequality, and the more co-operative nature of relations between capital and labour (Hall and Soskice, 2001b; Pontusson, 2005). Major EU actors themselves stress the significance of the 'European social model', which distinguishes the EU from the USA and is at the same time a major factor of Europe's competitiveness.

To contrast the 'social' European capitalism with the 'liberal' US–American is not totally convincing, as it underestimates the repercussions of neoliberal restructuring in Europe (e.g. Bieling, 2006b). Nevertheless, it seems plausible that for the foreseeable future, differences between the two models of capitalism will remain. This is so because European capitalism offers forces of the countermovement to liberalization better institutional legacies and more points of intervention than US capitalism.

First, research on welfare state reforms has convincingly argued that retrenchment does not follow a linear logic. Retrenchment is most pronounced in those countries, where the welfare state was the least institutionalized – the liberal market economies. In contrast, highly developed welfare states have typically generated broad societal support that excludes radical retrenchment (see e.g. Pierson, 2001a). This is not to say that welfare state retrenchment has not advanced over the last decades. Rather, the point I want to make is that as welfare states are stronger entrenched in most European countries than the USA, there are reasons to expect that its retrenchment will be met with more resistance (see also Chapter 2 in this volume, by Ryner).

Second, as pointed out by the research on varieties of capitalism (Hall and Soskice, 2001b; Iversen, 2005), European capitalism relies strongly on economic sectors that require more long-term and consensual agreements between banks, labour and capital, as well as social security systems that allow workers to invest in industry-specific skills. To put it differently, sectors of the 'old economy' are still much more central to European capitalism in comparison with the USA. This is confirmed by the composition of the ERT. The majority of its members represent still industrial companies of the car, steel, food or related industries.

Third, in contrast with the USA with its integrated domestic market, a unified European capitalism is still in the making. In this context, nation states tend to support domestic players to position themselves on the transnational market, and protect them against too aggressive foreign competition, as for instance against hostile take-overs. At the same time, different governments seek to make their national territory as attractive as possible for TNCs. Attracting TNCs is not necessarily always compatible with the ideal of a neoliberal, competitive market order and a lean state. More often than not, industrial TNCs ask rather for economic protection. As Palan argues:

> The new period of globalization displays market strength and confidence of capital and, yet, it is a period also characterized in business literature and magazines as extremely hazardous and difficult . . . Contrary to the belief, the ideology of neoliberalism and open markets is not necessarily an unadulterated business ideology, unless one accepts the proposition that 'business likes competition'. It is far more appropriate to say that business likes competition when it suits – which is a rare occurrence indeed – business likes no doubt an efficient and flexible labour market, business does not mind at all competition among governments in the provision of sweeteners, subsidies and other incentives . . . But business, as a general proposition, does not like competition.
>
> (2006: 258)

It is realistic to assume that business' quest for economic protection of the kind Palan is referring to is more successful in Europe than the USA not only because of the integrated nature of the US domestic market. In addition, the European multi-level governance system offers enterprises – as well as other social forces – many more 'veto points' than the US American federalism.

All in all, the changes of European capitalism over the last decades can be analysed as an ongoing process of double movement in the Polanyian sense. The movement towards liberalization is supported by state elites and TNCs. However, it is only financial TNCs and institutional investors that would support full liberalization of European capitalism (see Bieling and Jäger in Chapter 4 of this volume). Industrial TNCs' ambitions are more contradictory – while they seek the opening of markets for themselves, they simultaneously seek the protection of national governments against their competitors. Thus, some of the actions of industrial TNCs can

be characterized as 'countermovement'. In addition, domestic capital, trade unions and supporters of the welfare states all resist at different points in time the thrust towards liberalization. As a result, the current form of the European socio-economic order can be conceptualized as 'embedded neoliberalism' (Van Apeldoorn, 2002). This order is fundamentally different from the post-war order of 'embedded liberalism' (Ruggie, 1982), in which detailed regulations and generous welfare states thoroughly mitigated the impact of market forces and offered economic security to most members of society. The embeddedness of neoliberalism is much more limited: it is based on institutional inertia and selective and contradictory resistance against liberalization. At the same time, it is mostly industrial TNCs who profit from limitations of the market mechanism, which paradoxically helps their expansion (for a thorough discussion of embedded neoliberalism see Chapter 1 by Van Apeldoorn in this volume).

What is the role of eastern enlargement of the EU in this double movement of liberalization and protection? Critical literature as well as public opinion see enlargement as another lever towards deregulation and liberalization of European capitalism (see also the contribution by Vliegenthart and Overbeek in Chapter 7 of this volume). In a nutshell, the critical view on the future of European capitalism can be summarized as follows: on the one hand, it is institutional investors, investment banks or hedge funds – so aptly dubbed locusts by Franz Müntefering, the former president of the German Social Democratic Party – , that destroy the traditional model of capitalism with its long-term and patient relationships among corporations, their banks and employees from above (Beckmann, 2007). On the other hand, the East European newcomers to the EU initiate a race to the bottom in terms of wages, working conditions and taxation, which challenges European capitalism from below. How adequate is this latter view? In order to answer this question, first a look at the varieties of East European capitalisms is in order.

Neoliberalism, embedded neoliberalism and neo-corporatism in Eastern Europe[3]

Enlargement has allowed the EU to expand the core elements of its market order to Eastern Europe. Early on, the candidates had to liberalize their external trade and introduce the internal market regime. During the preparation for membership, the EU closely monitored macro-economic development, monetary and budgetary policies, privatization policies and administrative reforms. In addition, the candidates were urged early on to seek compliance with the criteria for the introduction of the euro. Three factors have so far contributed to the fact that capitalism in Eastern Europe is less embedded than in Western Europe. First, as Grabbe (1999: 17) argues, the EU accession has promoted a policy model, where 'the thrust of the agenda is neoliberal . . . The socio-economic system they implicitly promote has a more "Atlantic" than "Rhenish" or "Latin flavour"' (see also Bohle, 2006). Second, during the first decade of transformation, neoliberalism was very attractive for most East European reform makers. This is because it offered the most radical and convincing critique of the delegitimized socialist system (Szacki, 1995). At the same time, trade unions and left-wing social forces emerged as weakened from the break-down of Socialism (Greskovits, 1998; Ost, 2005). Third, the East European societies are strongly dependent on capital imports, a fact that has been reinforced by their rapprochement to the EU (Bohle, 2006). However, as will be demonstrated below, not all East European states have managed or desired to attract 'embedding' industrial capital on a similar level.

The accession process has not led to convergence among its East European members. Although the EU and its most powerful actors, the TNCs, have strongly contributed to shaping the development paths in the region, they have not done so from the beginning on. The legacies of the communist system and the initial reform strategies were similarly decisive. As a consequence of the interaction of all three factors, three models of capitalisms have emerged in Eastern Europe: a neoliberal type in the Baltic states, an embedded neoliberal type in the V4, and a neo-corporatist in Slovenia (for a more detailed analysis see Bohle and Greskovits, 2007).

Pure neoliberalism in the Baltic states

Thus, it is the Baltic states that have embarked on the most radical regime change (Feldmann, 2001). Quick withdrawal of the state from the economy, fast liberalization of foreign trade, and equally rapid privatization drove their transition strategy closest to the neoliberal ideal type of comprehensive and radical reforms (EBRD, 2001). In terms of their welfare states and social standards, the Baltic regimes appear among the most unequal and least socially inclusive not only in the region, but in Europe as a whole (Bohle, 2007). Social expenditure per gross domestic product (GDP) is extremely low with an average 13 per cent, while the EU average is around 28 per cent. Not only is the welfare state in the Baltic countries stripped down to a bare minimum, but in general, the Baltic states abstain from state interference in the economy. The extreme liberal trade regimes, institutionalized early on, are a case in point. Another indicator for this are state subsidies to the economy, where again the Baltic states stand out in an overall European comparison by the meagre amount of subsidies granted (Bohle and Greskovits, 2007). Finally, a major thrust of Baltic reforms has been the institutionalization of macroeconomic stability. Relative to their GDP, the Baltic countries operate by far the smallest fiscal states of the region and keep relying on the most restrictive monetary institutions, currency boards. The Baltic states not only have the least generous welfare states within the EU, but in addition, organized labour has equally been all but completely marginalized. Trade union density as well as collective bargaining coverage is among the lowest in Europe (Visser, 2004).

The radical reform path in these states was closely linked to their political priority of cutting all ties with the Russian economy. EU accession and integration in the European political economy has partly mildly corrected, and partly reinforced domestic politic choices (Lindstrom, 2005). The EU, together with the World Trade Organization (WTO), has insisted on trade barriers to be raised again, and improving the standards of social (and democratic) inclusion has become an issue in the accession negotiations. Overall, however, EU priorities in the region are in line with the Baltic reform priorities, and EU accession therefore could mostly serve as a factor locking in earlier institutional choices.[4]

Neo-corporatism in Slovenia

Diametrically opposite to this is the socio-economic regime that has emerged in Slovenia over the past decades. Slovenian transformation was built on a consensus among all major forces of society – employers, employees, experts, major political parties. The Slovenian welfare state is the most encompassing in the region, and its industrial relation system stands out for its high trade union density, high level of collective bargaining coverage, and the centralization of collective bargaining (Stanojevic, 2003). Although Slovenia accepted the general framework of macroeconomic stability, it was also clear for the reformers that this 'alone would not facilitate a successful transition to a capitalist economy' (Lindstrom, 2005: 23). Trade liberalization and privatization was carried out gradually, and the Slovene reform elites relied heavily on domestic forces, including labour, in the privatization process. Slovenia opened its economy to foreign ownership and control only very reluctantly and gradually and, against explicit advice of the EU, kept its strategic sectors in national hands (Lindstrom and Piroska, 2007).

Dependent embedded neoliberalism in the Visegrád countries

The Visegrád countries occupy an intermediate position between the neoliberal Baltics and neo-corporatist Slovenia. Although these countries all embarked on a thorough path of liberalization, privatization and deregulation, their strategies were more gradual than the Baltic countries. The most distinguished characteristics of the Visegrád's model of capitalism is the significant role of foreign direct investment (FDI) not only in sectors that secure market control (infrastructure, finance, trade), but also in the export oriented manufacturing sector. Hungary very early on settled on a path of foreign dominated accumulation. In contrast, the Czech Republic, Slovakia and Poland all initially attempted to secure broad domestic ownership in the economy. Ultimately, however, the privatization policies in these countries have become subordinated to the cause of attracting FDI (Bohle, 2002; Drahokoupil, 2007b, and see also his Chapter 9 in this volume). Attracting FDI in the major manufacturing sectors entails important state activities. In contrast with both Slovenia and the Baltic countries, the Visegrád countries have developed a wide variety of instruments in order to attract FDI and thus to upgrade their industrial bases. These include instruments towards further liberalization as well as measures geared towards economic protection. Thus deregulation of the foreign investment regime has been combined with tax exemptions, direct subsidies for specific investments, import protection, building of infrastructure, investments in skills, and reforms of the labour code towards more flexible regulations. Trans-national companies have been crucial in shaping these policies. Ever since their entry to the V4, they successfully demanded import protection, which led to the de-liberalization of the trade regime. Thus the EBRD finds that for the early transition period, '[i]n Poland, FDI-intensive industries have average tariffs on imports that are 66 per cent higher than in manufacturing as a whole. The corresponding figure for Hungary is 10 per cent, but Hungary uses quantitative restrictions more heavily than Poland. When non-tariff barriers are taken into account, the strong link between high protection and high FDI also appears in Hungary' (EBRD, 1994: 137). The *Financial Times* comments dryly: 'Ironically, Western multi-nationals have become eastern Europe's most effective lobby for protection and their efforts to link investment commitments to guaranteed markets have become all the more intense as local demand has fallen below expectations.' (*Financial Times*, 1992, cited in EBRD, 1994: 137) Available evidence suggests that each bigger capital intensive investment in Eastern Europe in the early 1990s led to strong and successful lobbying for import protection, as well as significant tax holidays (EBRD, 1994; Balcet and Enrietti, 1997; Bartlett and Seleny, 1998).

The focus of the Visegrád states' support to TNCs has changed over time. With the EU accession process, import protection and tax holidays levelled off, as the EU asked the applicant countries to fulfil the requirements on common external tariff and state aid. Instead, the Visegrád countries switched to tailor made incentive packages, which include preferential treatment in acquiring land, cash benefits, investments in the infrastructure and training of the labour force, and committed themselves to a thorough deregulation of the labour codes (see below).

'Embedding neoliberalism' through investment incentives is a highly contradictory affair. On the one hand, this state activity has indeed allowed the Visegrád countries to transform their industries into modern and competitive sectors. This achievement stands out if compared to the experience of the Baltic states, where radical reforms and the minimal state led to a dramatic de-industrialization (Table 8.3). In addition, wage increases are substantive in an East European comparison, and it is especially the big transnational firms that pay high wages. At the same time, labour market flexibility is the highest

among the East European countries. Moreover, especially in Poland and Slovakia it seems that foreign-led restructuring of the economy does not 'trickle down' to the whole society. Poland and Slovakia have the highest long-term unemployment rates and among the highest unemployment rates in the EU. In contrast with the Baltic states, however, the governments of the Visegrád countries have tried to compensate the social risk (Vanhuysse, 2006). Social spending per capita is significantly higher than in the Baltic states. At the same time, in these countries it was repeatedly tried to institutionalize tripartite systems, although these arrangements were contested, and unstable (Ost, 2000).

All in all, the socio-economic regime that emerged in the V4 is best described as the East European variant of embedded neoliberalism. Their state activities are most compatible with the new mode of European integration. In contrast with the minimal Baltic states, these countries seek actively to improve their locational conditions. In contrast with Slovenia and many West European countries, state activity is almost exclusively geared towards attracting foreign capital rather than preparing domestic capital for the European and global competition. This priority reflects the dependent nature of capitalism in the V4. The decisive question is how sustainable a strategy that attempts to embed neoliberalism by attracting FDI can be in the long run. This question will be taken up below.

Table 8.2 summarizes important features of the socio-economic regimes of the new EU Member States.

Table 8.2 Socio-economic indicators of the East European capitalisms

	Index of economic freedom (2006)	State expenditure (% of GDP, 2003)	State aid (% of GDP, 2003)	Social expenditure (% of GDP, 2003)	Gini (2002)
Neoliberalism (Baltic states)	2.1	34.1	0.3	13.4	33
Embedded neoliberalism (Visegrád)	2.3	45.6	1.9	20.4	28
Neo-corporatism (Slovenia)	2.4	48.2	0.7	24.6	22
Germany	2.0	46.8	0.9	27.2	28.3

Sources: Adapted from Bohle and Greskovits, 2007. Column 1: Heritage Foundation; 1 is the 'freest', 5 the most regulated economy, Heritage Foundation Index of Economic Freedom available from www.heritage.org. Column 2: EBRD Transition Reports for CEE countries, OECD in Figures 2005 for Germany. Columns 1 & 2: Eurostat, Statistics in Focus Reports (various issues, available at ec.europa.eu/eurostat). Column 5: European Commission Report on Social Inclusion for CEE, UN Human Development Report 2005 for Germany, European Commission, Annual Joint Report on Social Protection and Social Inclusion (various issues).

Race to the bottom? I: Locational competition between Eastern and Western Europe

Who competes?

Which are the East European countries that exert the strongest competitive pressure on Western Europe? According to the proponents of the race to the bottom thesis, it should be the Baltic states with their low taxes and salaries, their limited social expenditures and minimal states. The Baltic model of capitalism has indeed found much appreciation among relevant neoliberal economic fora and think tanks. Thus, the World Economic Forum (WEF) ranked the new EU Member States in respect to their fulfillment of the EU Lisbon Agenda, according to which the EU is to become the world's most competitive region within a short period of time. WEF found Estonia the most and Latvia the third most competitive of the East European countries. Both countries lie ahead of all four Visegrád countries. Only Lithuania lags far behind, in sixth place (Blanke and Lopez-Claros, 2004).

According to a number of other indicators, however, the Baltic tigers seem much less impressive. Their GDP in 2003 was still below the level of 1989. Although they attract high levels of FDI (especially Estonia), these investments typically go into service sectors like financial intermediation, transport or trade. These investments are not motivated by competition on labour or social standards, but by market control. In terms of manufacturing, it is the traditional sectors like wood and food processing, textile and clothing that attract most FDI. The traditional nature of the competitiveness of the Baltic states' economy is furthermore reflected in their commodity exports: They mostly export raw materials and traditional industrial goods. Even within the limited amount of more high tech manufacturing exports, like electronics, these countries specialize in the lowest value-added segments (Table 8.3; see also Dulleck et al., 2004; Tiits, 2006). This picture is confirmed by a recent study of the European Industrial Relations Observatory (EIRO) on relocation of production to Eastern Europe (Blažienė, 2006; Eamets and Philips, 2006; EIRO, 2006; Karnite, 2006).

All in all it is not the Baltic states with their neoliberal profile that exert strong competitive pressure in the enlarged EU, but rather the Visegrád countries, which as a result of their generous investment incentives are successfully attracting FDI also in their manufacturing sectors. Moreover, these countries have attained similar export structures to the developed European countries. They export to the West what the West exports to the rest of the world: electronics, cars and car components, machinery and equipment goods, pharmaceuticals, and chemical goods. If there is a race to the bottom in terms of social and tax standards, it should originate from these countries. Is this indeed the case?

Table 8.3 Indicators of Eastern Europe's competitiveness

	GDP (2004, 1989=100)	Average growth rate of industrial output (1992–2003)	FDI (stock 1989–2003, per capita)	Complex manufacturing FDI stock per capita (2002–4, US$)	Complex exports 2003 (% of total commodity exports)
Neoliberalism (Baltic states)	97	-1.5	1,641	77	26
Embedded Neoliberalism (Visegrád)	124	4.6	2,581	744	53
Neo-corporatism (Slovenia)	126	1.0	1,647	198	49

Sources: Adapted from Bohle and Greskovits, 2007. Columns 1–3: EBRD Transition reports, various volumes. Column 4: calculated on the basis of national foreign investment agencies data. Column 5: based on COMTRADE database of UN Statistics Division (available at comtrade.un.org); complex exports are products coded 5 (chemicals) and 7 (machinery and equipment) in Standard International Trade Classification (SITC) classification.

Effects of eastwards relocation on the German economy

In order to answer this question, I will turn to the effects of eastwards relocation of production on the German economy. Among the West European countries, Germany is most strongly exposed to eastern competition. Moreover, its 'model of capitalism', described as co-ordinated by the varieties of capitalism literature (Hall and Soskice, 2001b), is prone to liberalization, should a race to the bottom indeed occur.

For a number of reasons it is impossible to give a precise account of the overall effect of the increasing competition from and relocation to the East on the institutional settings of the Western countries. Data collection on relocation is difficult, its effects are hard to isolate from the effects of other instances of restructuring, and it is next to impossible to come to terms with secondary effects like new job creation in new sectors due to relocation. The following elaboration therefore has to be treated with some caution, as it is no more than a tentative approximation to the question.

According to the most recent European Restructuring Monitor Report (Storrie with Ward, 2007), the scale of job losses associated with relocation to the V4 is not important. Between 2003 and 2006 Germany lost around 1 per cent of its total employment due to restructuring. Out of this, only 7 per cent of the job losses are due to relocation of production, and out of these again only a portion – albeit a significant one – are the result of relocation to Central Eastern Europe.[5] The limited degree of relocation notwithstanding, it can be argued that relocation has started to impact on the German model of capitalism, for a number of reasons. First, there is a significant sectoral concentration of relocation.[6] It is particularly important in the motor vehicle industry, which accounts for almost half of all the relocated jobs. In addition, the telecommunication industry is strongly affected. Relocation in these sectors is motivated by cost-saving and to a lesser extent also by tax levels. A number of authors found that TNCs use the Visegrád countries in order to escape the German social model (Meardi and Toth, 2005; Bluhm, 2007). The evidence in the car industry moreover suggests that although shifting production abroad has to date not resulted in an overall reduction of workforce in the sector, firms' current and future investment decisions seem to privilege non-German locations (Jürgens et al., 2006: 24–30).

Second, although much of the job relocation happens below the radar screen of public awareness, a number of spectacular cases have nevertheless had a profound impact on the public perception about the costs of enlargement. The case of Siemens AG threatening in 2004 to close several production units in Germany and shift production to Hungary and China on the grounds of too high labour costs is a case in point. Trade unions could prevent relocation temporarily, in exchange for substantial concessions. Despite all concessions, the failure, selling and finally bankruptcy of the mobile phone division of Siemens was not prevented. The Siemens case has

not been an exception: At the end of 2007, white consumer good producer Electrolux closed its location in Nürnberg, and relocated most of the 1,700 jobs to Poland. This happened notwithstanding the readiness of work councils and trade unions to make substantial concessions in terms of wages and working time (FAZ.Net, 2005; ERM database). Most recently, mobile phone producer Nokia decided to close its plant in Bochum, and relocate 3,000 jobs to the ethnic Hungarian part of Romania (*Netzzeitung*, 2008). These and other spectacular cases have resulted in widespread public fear about the threats stemming from their low-wage neighbours. According to the Eurobarometer of 2006, 84 per cent of German respondents state that they fear relocation of jobs to Eastern Europe (*Welt Online*, 2006). Significantly, the perception of the East European competitive threat also puts the German system of industrial relations under pressure. Jürgens et al. (2006: 23) find that in terms of industrial relations, the current balance of power in car enterprises have significantly changed in favour of management, which extensively uses the threat to relocate production to low cost areas in order to gain concessions. Apart from cutting costs, another aim of management has been to decrease employment protection, with outsourcing as a major instrument. Hand in hand with this goes an increased differentiation of the workforce along the production chain, with only core workers keeping their high levels of employment protection (Jürgens et al., 2006).

All in all, then, there are reasons to assume that the competition from the V4 has indeed started to disembed Western embedded neoliberalism by exerting a downward pressure on social standards and wages. The question then is: are there limits to a possible downward spiral? In order to answer this question, the following section will take a closer look at the competitive pressure initiated by TNCs among the four Visegrád countries themselves.

Race to the bottom? II: Locational competition among the Visegrád countries

It is too often overlooked that the competition among the East European countries is much fiercer than competition between East and West countries. Trans-national companies can more easily play out the Visegrád countries against each other than Western against Eastern locations, as these countries crucially depend on capital imports. Moreover, over the past years, a transnational industrial cluster of strategic industries, which covers the south of Poland, the west of Slovakia, east of Czech Republic and the northwest of Hungary, has emerged. In this cluster, it is of minor significance for TNCs which side of the respective national border they ultimately locate the production. It is in this context where 'sweeteners' do indeed make all the difference. If there is the potential of a race to the bottom in the enlarged EU, it should be most virulent among the V4.

The increasing locational competition among the Visegrád countries is closely related to a second generation of economic reforms, which aim at boosting investment O'Dwyer and Kovalčík (2007). These authors define second generation reforms as sharing the following features:

1 Steep tax cuts for business, simplification of the tax code, and a preference for flat-tax systems;
2 Generous incentives to foreign investors, including long tax holidays and land grants;
3 Loosening labour regulations with little consultation from organized labour;
4 Funding tax cuts and incentives through a reduction in the state's commitment to the welfare system. (O'Dwyer and Kovalčík (2007: 8)

How far have these second generation reforms taken hold in the Visegrád countries? Have they led to the dismantling of the Visegrád countries' regime of embedded neoliberalism? How are they related to TNCs playing these countries out against each other?

Tax competition

Tax competition between the Visegrád countries started in earnest towards the end of the 1990s. For a long time, Hungary was leading with its low tax rates. Poland followed with a tax reform in 1999, the Czech Republic in 2000 (Bönker, 2003). A new round in the tax competition among the Visegrád countries was initiated by Slovakia in 2004, when it introduced its flat tax rate regime of 19 per cent for income, corporate and value added tax (VAT). With this step, the corporate income tax (CIT) fell significantly below EU average, and also below the average among the new EU Member States (Moore, 2005: 21), prompting neighbouring countries to lower their corporate taxes in return (see also Chapter 7 in this volume, by Vliegenthart and Overbeek). Hungary reduced its CIT from 18.6 per cent to 17.7 per cent (Moore, 2005: 21). Although Social Democrats in the Czech Republic 'were careful to distinguish themselves from Slovak's tax reforms', with 'Prime Minister Gross declar[ing, D.B.] that his government would not copy Slovakia's flat tax' (O'Dwyer and Kovalčík, 2007: 20), they still reduced CIT from 31 per cent to 28 per cent, and the upper rate of the VAT from 22 per cent to 19 per cent. Poland discussed and ultimately rejected the introduction of a flat tax regime.

There is some evidence that tax competition has been spurred by TNCs. Thus, in an interview conducted in 2003, the then executive director of AmCham in Hungary, Péter Fáth, argued that as EU accession puts limits to tax exemptions for TNCs, the next task for AmCham would be to lobby for a lower corporate tax rate, modelled after the Irish example (Fáth, 2003).

General investment incentives

One of the most striking outcomes of the empirical investigation of investment incentives in Eastern Europe by Cass is that incentive packages have become *more generous* in the period since the late 1990s compared with the early transition. He continues: 'This result is consistent with the extensive accounts of growing competition between countries for relatively mobile efficiency-seeking investments' (2006: 41). This assumption is confirmed by a recent empirical investigation of state–TNC negotiations on three major investment projects: PSA-Peugeot in Trvnava, Slovakia; Hyundai/Kia Motors in Žilina, Slovakia; and Hankook Tire in Dunaujvaros, Hungary (Kolesár, 2006). This study concludes that once locational specificities among competitors are similar, investment incentives play a major role in the TNCs' decision for a specific location. Thus, in the case of Hyundai/Kia the Slovak government outcompeted the Polish in the final round of decision by adding

> special purpose subsidies for the acquisition of further investment property, financial subsidies for professional re-qualification and for the purpose of employment . . . finishing of construction of [a, D.B.] highway . . . English-language education for employee's children, housing, hospital, administrative buildings, support of the Technical University in Žilina specializing in transport, constructing of the railway terminal and a reconstruction of the nearby airport to the general investment stimuli of 15 per cent of the total investment sum as allowed under the EU regulation.
>
> (Kolesár, 2006: 42)

In addition, the Slovak government promised to build a village for the Korean management close to the factory site, as well as luxury houses close to the capital city. It also promised not to increase the corporate tax, or employment and social protection. Kia did not have to give much in return – it neither had to commit itself to a minimum investment nor minimum employment (ibid.: 46). Similarly, in the case of the Korean tyre producer, Hankook Tire, it was investment incentives rather than locational advantages that made all the difference. This became clear when Hankook Tire revised its decision to invest in Slovakia after the Slovak government had to cut back on some of its promised incentives. This situation was swiftly exploited by the Hungarian government, which felt in desperate need of attracting an investor, since the last major investments in the region went to its competitors Slovakia or the Czech Republic (ibid.: 50–3).

The study also argues that the general EU regulations of state aid put only a limited degree of restraints on the Visegrád governments' readiness to offer generous incentives. As demonstrated above, general investment subsidies are typically supplemented by special treatments of strategic investors, including infrastructure provision, educational, medical or housing facilities and the like, which are not covered by EU rules. Finally, in the bargaining process on investments, it is clearly the TNCs that have the upper hand. Kolesár offers ample evidence on the strategic use of misinformation, confusion, prematurely released reports and so on on the part of the TNCs, all of which are tailored towards extorting additional concessions from the competing governments.

All in all, the dynamics of investment competition among the V4 points indeed towards a race to the bottom. Embedding the necessary investments put huge strains on the government's budgets, and ultimately enters in contradiction with the principle of social protection (see below).

Deregulation of the labour market

Since the early 2000s all Visegrád countries with the exception of the Czech Republic fundamentally revised their labour codes. In Hungary, the conservative Fidesz government introduced major changes in the labour code that led to a significant increase of labour market flexibility in 2001. A number of the flexibility measures introduced in 2001 were however curtailed by a revision under the Socialist government in 2002 (Tóth and Neumann, 2002). Slovakia reformed its labour code in 2002, and, after sustained pressure from the employer's side, amended it again in 2003. The main purpose of the 2003 amendment of the labour code was to achieve a higher level of flexibility in labour relations (Munková, 2004). In Poland, in November 2002 a more flexible labour code came into force, which reflected the demands made by employers for a number of years (Czarzasty, 2002). In 2005 proposals for a new Labour Code were presented, which include the establishment of the right of lock-outs for employers and a further deregulation of dismissal protection (Towalski, 2005). Although the right to establish lock-outs has meanwhile been abandoned, the draft of the labour code currently under discussion seeks to increase flexibility in terminating contracts (Towalski, 2006).

Two types of pressures have led to the revision of the labour codes in the V4. On the one hand, during the accession process the countries needed to harmonize their labour codes with the *Acquis Communautaire*. Although the *Acquis* strengthened employees' rights in some places, it also generated heightened debates on labour market flexibility, specifically concerning provisions of working time and dismissals. The revisions of the labour codes in relation to the EU entry provided political opportunities for employers, and specifically foreign direct investors, who had been lobbying for more flexible labour codes for years. In Slovakia, the liberal labour code reflects the preferences of its foreign investors (Munková, 2004: 4; Bohle and Greskovits, 2006). In Poland and Hungary, governments also worked closely together with major employers in order to reform their labour codes.

Table 8.4 Employment protection legislation in the Visegrád countries

	Employment protection legislation (1999)	Employment protection legislation (2003)
Czech Republic	1.9	1.9
Hungary	1.5	1.7
Poland	1.9	2.1
Slovakia	2.5	2.0
Germany	2.6	2.5

Sources: OECD, *Employment Outlook*, 2004. This index measures the regulation for regular contracts, temporary contracts and collective dismissals: 1 refers to the most flexible, and 21 to the most protected economy.

Although the reforms were met in some countries with union protests, and trade unions' influence on the legislation process has not been totally absent, it is only in Hungary that trade unions together with a socialist government actually reformed the labour codes to the advantage of employees. Despite this, the current employment protection in Hungary is among the most liberal in Europe (Table 8.4).

Welfare state retrenchment

Finally, with the exception of the Czech Republic, which only very recently embarked on that path, all Visegrád countries have over the last five years been engaged in partly quite radical welfare state reforms. The reforms were triggered by the fact that the regime of embedded liberalism has led in all countries to an accumulation of macroeconomic imbalances. The urge to address these imbalances is strongly related to the requirements of EMU convergence. In contrast with the old EU Member States, the East European newcomers were not granted the possibility of opting out of the EMU, and since their accession to the EU there has been growing pressure on them to meet the convergence criteria.

In 2002–3, together with the reform of its tax system, Slovakia enacted sweeping reforms of its pension and health care systems, and radically decreased social benefits. Recipients of social benefits were asked to participate in 'activation' programmes. Although benefits were significantly lowered for every eligible person, the failure to comply with the activation requirement resulted in having benefits cut in half. Given the unequal distribution of benefit dependency, it is the Roma population, already by far the poorest strata in Slovak society, that is hardest hit by these cuts (Moore, 2005: 25–8).

In Poland, between 2001 and 2004 the socialist government repeatedly attempted to cut public expenditure in order to prepare for EMU accession. In 2001 a package was proposed, which 'provided for a freeze on salaries in the administration and in education, more stringent criteria for awarding many social and pre-retirement benefits, and lower government-subsidized discounts on railway tickets' (Zubek, 2006: 205). Political conflicts within the Socialist Party and radically decreasing popularity among voters led to the reforms being aborted. A second attempt to prepare fast EMU entry through the introduction of a comprehensive stabilization package was rejected on the same grounds. A third package was prepared in January 2004. It 'envisaged a reduction in overall social spending of . . . almost 4 per cent of GDP over four years between 2004 and 2007' (Zubek, 2006: 211). This last package shared the fate of its predecessors – because of the intense struggles within the party, which faced plummeting approval rates, and the resistance of trade unions, the party back-tracked from introducing further reforms.

In Hungary, radical welfare state reforms and EMU convergence have emerged as a top priority under the second socialist government led by Ferenc Gyurcsany. In the face of serious macro-economic imbalances that had accumulated since the socialists' return to power in 2002, in summer 2006 the Gyurcsany administration announced a comprehensive package of tax increases and budget cuts, and structural reforms of the state administration, the health care system and the educational system. A number of stabilization measures have since been introduced, resulting in a plummeting of the government's approval rates (Greskovits, 2007).

All in all, it seems that the priorities of TNCs and the conditions of EMU entry combined with domestic politics have indeed introduced a race to the bottom in the V4 that risks catapulting these states into the neoliberal Baltic camp. The initial latecomer Slovakia has taken the lead in disembedding neoliberalism. Its numerous liberal reforms and its successes in attracting FDI and meeting the EMU convergence criteria have exerted strong competitive pressures on its neighbouring countries. The concluding section explores the social limits to such a race to the bottom.

Conclusion: limits of the race to the bottom

The aim of the paper was to investigate the dynamics and contradictions of the increasing locational competition in the enlarged EU. It argued that the new mode of European integration fosters regime competition and has allowed TNCs to expand significantly their room of manoeuvre. Eastern enlargement of the EU has reinforced these features of European integration, and thus contributed to an accelerating race to the bottom in terms of social standards, labour market flexibility and taxation. The fiercest locational competition is not between East and West, however, but between the four Visegrád countries. As the Visegrád countries can be seen as the weakest and most vulnerable elements in the embedded neoliberal European constellation, this last section asks whether there are limits to a downward spiral in this region. In line with Polanyi's understanding of the countermovement to (neo)liberalism, my answer will take into account economic, social and state actors in their attempts of limiting liberalization.

The analysis argued that industrial TNCs have behaved as forces of the countermovement by seeking state protection from pure market forces, and thus contributed in a limited way to the embedded character of Visegrád capitalism. At the same time, they used their strategic options – most importantly vocal exit and entry – to pressure highly exaggerated subsidies and incentives from governments, which seriously risk to undermine the very capacities of states to provide protection. Although a serious effort to analyse the costs of embedding TNCs in the region is still wanting, the Slovak example gives support to the assumption that in the context of heightened locational competition, attracting TNCs within the supranational EU framework has significant negative repercussions on the public budget, state administration and social welfare programmes.

To counterbalance TNCs' contradictory and ultimately destructive strategies would require a European institutional system that keeps some autonomy from the narrow, short-term interests of capital. The contemporary European system does not allow for this autonomy. Over the last decades, its basis of accountability has strongly shifted in favour of capital. Rather than re-regulating competition in the European common space, EU and state actors are actively involved in the opposite strategy of strengthening regime competition and thus reinforcing the room for manoeuvre for TNCs.

In this constellation, the race to the bottom can only be contained from opposing social forces. As suggested by the theoretical discussion above, there is not much evidence of an organized attempt of resistance among opposing forces in the V4. Rather, with the possible exception of public sector unions, who have been able to mobilize more systematically,[7] trade unions and social movements are engaged in sporadic and isolated cases of social protest. Otherwise, sporadic protest prevailed. As a reaction to the radical Slovak reforms, food riots emerged in several, mostly Roma populated, villages of eastern Slovakia. It took a week before in the largest domestic security operation since 1989 riot police and the army could restore control over the region. In Hungary, protests and riots have never completely stopped since the Gyurcsany package was announced in September 2006.

Overall, voice in forms of strikes and protests have not been able to influence governments' stance on further liberalization significantly. Recently societal dissatisfaction has found another outlet. In three of the four Visegrád countries, new or refashioned nationalist-populist parties have asserted themselves in the political scene, promising encompassing social protection – and partly even sticking to these promises, once in power (Meardi, 2006).[8] The rise of these parties, paradoxically, is as much due to extreme voice as it is to increased silence by those who are not any longer willing to vote for established parties, but out of loyalty consideration prefer not to vote rather than to vote extreme (Greskovits, 2007). In addition, as pointed out by

Meardi (2007), massive silent exit might paradoxically lead to a reversal of the fortune of those who stayed, silently or otherwise. Especially in Poland and Slovakia emigration has led to severe labour shortages, which might open an opportunity for those scarce workers who stayed to get their voices heard.

All in all, then, Polanyi's observation that while liberalization was planned, the countermovement emerges and acts in a spontaneous way seems to be even more true for contemporary capitalism. Limits to liberalization emerge not as a planned attempt of organized forces who aim to resist the direction of change. Rather, they are the result of partly co-ordinated, but mostly individual strategies and their intended as well as unintended consequences.

Notes

1. Loyalty, which he adds, is not a category that describes strategic behaviour.
2. Although I discuss here only strategies open to the countermovement, the state obviously is exposed strongly to forces of the movement, which reinforces its limited accountability to labour.
3. The following is based on Bohle and Greskovits (2007).
4. This is especially visible in the case of EMU accession, where the Baltic states use most consciously the Exchange Rate Mechanism 2 entry as an international pillar of their policies to lock in macroeconomic stability, and acquire credibility in financial markets (Feldman, 2006).
5. The European Monitoring Centre on Change has built a database on restructuring since 2003. Restructuring is defined as bankruptcy, internal restructuring, business expansion, merger and acquisition, offshoring/delocalization (which I refer to here as relocation, which is the more usual terminology) and outsourcing. The information is gathered from press reviews of newspapers and business press. Only instances of restructuring that pass a certain threshold are registered. See http://www.eurofound.europa.eu/emcc/erm/index.php?template=home, accessed 29 February, 2008).
6. The following is based on DB Research (2004); Sachverständigenrat (2004); EIRO (2006); Jürgens et al. (2006); Stettes (2006).
7. I thank Bela Greskovits who brought this to my attention.
8. An interesting example is the fight between the government and foreign investors in Slovakia over a new labour code. See (http://connect.globeforum.com/news/328069/oxford_analytica_update_monday_april_23_2007.html).

9

The Rise of the Competition State in the Visegrád Four: Internationalization of the State as a Local Project

Jan Drahokoupil

An era of rapid internationalization in Central and Eastern Europe (CEE) came to a close in the mid-2000s. A variety of foreign-led economies emerged in the region in the late 1990s and early 2000s (see Myant, 2003; Greskovits, 2005; Vliegenthart, 2007). State economic strategies in the Visegrád Four (V4)[1] region have converged towards a distinct model of the competition state, aiming at upgrading the industrial base in the region by attracting high-value foreign investors (see Drahokoupil, 2007a, 2007b). The 'outsourcing hotspot' has seemed to cool down as the investors have started to complain about wage increases.[2] Yet Eastern European politics is hotter than ever. Politicians mobilizing by appealing to xenophobic and nationalist sentiments were brought right into the political mainstream and governmental offices. In Poland, the Kaczynski 'terrible twins', as foreign journalists would have it, rediscovered Polish national interests and aggravated relations with both Berlin and Brussels. For Kaczynski's 'pig-headed government', 'liberal traitors who want to allow foreign companies to exploit innocent Poland' became the bogeyman of choice.[3] In Hungary, Viktor Orbán, the leader of the Hungarian opposition party Fidesz, rails against 'luxury profits and rapacious foreigners' and calls for 'a national government in Hungary, which sees the world through Hungarian eyes, thinks with a Hungarian mind and senses in its heart a Hungarian beat'.[4] In Slovakia, the nationalistic Movement for a Democratic Slovakia (HZDS) was brought back to government as a minority coalition partner. Finally, the return of the Civic Democratic Party (ODS) to power in the Czech Republic put the Ministry of Industry and Trade, the belly of the beast, firmly in the hands of a major critic of subservience to foreign investors. This led to a major purge in the investment attraction agency CzechInvest.[5]

However, in contrast to the early 1990s, nationalism – as I will argue in this paper – has not provided a major blow to the project of the competition state. What is more, this chapter will show that the externally oriented project of the competition state has solid social bases in the CEE states and beyond. This not only provides strong ground for facing such a challenge,