Секция «Политическая глобалистика и проблемы социального и политического неравенства»

Progress of New Member States in Overcoming Inequality in the EU

Научный руководитель – Ткаченко Станислав

Вершинина Полина Игоревна

Student (bachelor)

Санкт-Петербургский государственный университет, Факультет международных отношений, Санкт-Петербург, Russia

E-mail: happygirl05@yandex.ru

With the collapse of the Council for Mutual Economic Assistance in 1991, the Eastern European nations of the former socialist bloc had to face their capitalist future. The countries of Central and Eastern Europe (CEE) have moved from planned to market economy, based on the model of borrowing institutions from the West. The transition coincided with preparations for membership in the European Union, which was to provide an institutional framework and economic conditions for the CEE countries to pursue a catch-up development strategy.

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Despite successful implementation of reforms and expansion of the EU, new member states (NMS) raised the issue of inequality within the union. The development of NMS was challenged by several regional shocks: the recession of the early 1990s, the rolling global financial crisis that started in July 1997, the political shocks that attended EU enlargement in 2004, and global financial crisis in 2008.

According to the current Regional Policy framework from 2014 to 2020, all European countries are divided into three groups:

-less developed regions (GDP/capita is below 75% of EU average)

-transition regions (GDP/capita is between 75% and 90% of EU average)

- more developed regions (GDP/capita is above 90% of EU average) [1]

Consequently, the fact of inequality is recognized at the highest level. Furthermore, according to that division, all NMS are designated as less developed except for a few areas which are mostly national capitals.

There are several ways to overcome inequality: national capitalist political economy, support from EU funds and FDI.

The postsocialist states have established three basic variants of capitalist political economy: neoliberal, embedded neoliberal, and neocorporatist. The Baltic States followed a neoliberal prescription: low controls on capital, open markets, reduced provisions for social welfare. The larger states of CEE have used foreign investment to stimulate export industries but retained social welfare regimes. Slovenia has proved to be an outlier, successfully mixing competitive industries and neocorporatist social inclusion. [2]

Undoubtedly, despite the variety of forms of capitalism and approaches to the economy, it is impossible to overcome inequalities exclusively by "own forces". Structural funds and the Cohesion Fund come to the rescue. They are the main financial tools of providing EU Regional policy aimed at improving the welfare and reducing the inter-regional economic gap. Europe's

poorer regions receive most of the support, but all European regions are eligible for funding under the policy's various funds and programmes. [3]

ng a brief look at the changes of EU funds expenditures spent on regional policy during the last decade, the troubling tendency of gradual budget cuts can be observed. In the long term it may lead to a reduction of regional development policy in general, which makes these measures slightly unstable.

Among the NMS there was an 86% increase in GDP growth by 1999, but after 2008 there was a terrible slowdown in GDP growth. The real problems of all NMS are the maximum attraction of FDI from old EU members and the high proportion of enterprises under foreign control from the total number of enterprises that only increased after 2004. However, after the global crisis the situation has changed and at the moment there is a decrease in foreign direct investment. [4]

The truth is that the risks of reducing the funding from the EU budget, the reduction in the size of foreign FDI and the search for countries like China as an alternative, ultimately only indicate that attempts to reduce inequalities are not satisfied with success. The main goal should be to return the economy to a confident and sustainable growth. This will lead to reforming the integration model of economic growth, namely, reducing dependence on Western European capital, diversifying exports, developing innovation as a driving force for competitiveness, and moving from technology imports to creating own innovative products. If these key tasks are not resolved, NMS is unlikely to be able to enter such growth rates that will ensure a reduction in their economic gap from developed countries in the long term.

References

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