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The Effects of Economic Crisis and Austerity Measures on Political Culture in Romania

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Abstract *What are the effects of economic crisis on political attitudes in Romania? This paper analyzes the level of political trust, satisfaction with democracy and generalized trust (social trust) in Romania from 1990-2012. Following research done on Euro barometer data (Armingeon and Guthmann 2012) we asserted that the economic crisis led to a decline of political trust and satisfaction with democracy. Next we hypothesized that the perceptions of individual living conditions will have a positive effect on political attitudes at the expense of perception of the national economy, political factors or sociodemographics. We used surveys from the Romanian Opinion Barometers and Romanian Electoral Data online platform from 1990 until 2012. We find remarkable stability on all political attitudes during the crisis. Satisfaction with democracy, political trust and social trust are low independent of the period of economic crisis. Perceptions of the economy overweigh political factors and sociodemographics during the crisis. Perception of present living conditions and perception of the future of the national economy are variables that impact political trust and satisfaction with democracy.*

INTRODUCTION

Did the economic crisis since 2007 has an impact on political culture of new democracies like Romania? The paper relies on the assumption that political culture matters in sustaining stable democratic institutions, an idea that had great impact since the 1960s and 1970s, following the publication of Almond and Verba's *The Civic Culture* (1963).

We have reliable evidence that the current economic crisis has had a significant effect on political attitudes across a large variety of countries (Friedrichsen and Zahn, 2010). Electoral processes in 30 European countries since 2008 confirm the assertion of the literature on economic voting that incumbents are voted out in elections in times of economic recession. In countries with more than one electoral process since 2008 and an acute economic decline, the voters tended to choose outside of main parties, including radical, "anti-parties" or to abstain (Kriesi 2012). Additionally, Lindvall (2012) found, based on data for 20 democracies in the 1930s and 2000s, that the political right fares relatively well during the first phase of a crisis (up to three years after the start of the crisis) but that in a second phase the left begins to significantly benefit from sharp economic downturns.

Romania is one of the countries that benefited from the IMF loans in exchange of radical austerity measures (Stoiciu 2012). In 2009, wages in the Romanian public sector were decreased by 25% and the VAT tax increased from 19% to 24%, raising suspicions that the IMF was experimenting with this country on the limits of austerity budgeting (Ban, 2012). Since the beginning of the economic crisis Romania witnessed the rise of a populist party (PPDD) led by Dan Diaconescu, the owner of a private TV station. His party won a surprising 13% at the 2012 parliamentary elections and entered the parliament.

At the same time, Romania is generally considered one of the new EU members with slower democratic consolidation. One possible reason can be derived from the EU enlargement process to which it was part. It is true that the comprehensive requirements that aspiring members had to satisfy have resulted in higher popular control over decision-making and political equality, by developing a framework of equal rights, and strengthening institutions of representative, open and accountable government (e.g. Vachudova 2005). However, several authors assert that the political culture of these countries has been negatively influenced by the EU integration process. One such side effect, impacting especially South-Eastern Europe countries like Romania and Bulgaria, resulted from the fact that reforms in these countries depend for their success on a stable policy consensus even if these reforms transform and polarize society (Krastev 2002). The stability of governmental policies has been ensured largely by international community pressure, which was aimed at arresting the extraction project of the elites (Zielonka 2001). Since these elites have learned to cite such external pressures as excuses for their own refusal to take responsibility for the welfare of ordinary citizens, external conditionalities worsen relations between politicians and the public. In Ivan Krastev words, "Governments get elected by making love to the electorate, but they are married to the international donors." (Krastev 2002: 51). As a consequence, it has been more difficult to hold politicians accountable, and political learning has become less effective than in those former communist countries where the international community pressure has been less conspicuous.

This paper evaluates empirically the effect of economic crisis on several components of political culture: institutional and generalized trust, and democratic support. We rely on a series of representative surveys of the Romanian public that allow us to distinguish between short term changes in political attitudes and behaviors and more stable and profound ones, which could have a long lasting effect on the political culture and, as a result, on the quality of democracy in this country.

POLITICAL CULTURE AND DEMOCRATIC CONSOLIDATION

The studies that looked at political support focused on their relationship with the functioning of democratic systems (Mishler and Rose 1995, Putnam 1993). Trust is considered as essential for the functioning of democracy (Fukuyama 1995, Sztompka, 1997, Ross and Escobar-Lemmon, 2009). Some found that institutional trust is considered to be beneficial to democratic consolidation (Mihaylova, 2004) while generalized trust is a resource for economic growth since it reduces transaction costs (Stulhofer, 2001, Raiser 2001). Trust allows politicians in democracies to take unpopular measures necessary for economic reform especially during crisis (Mishler and Rose, 1995). There is a stream of research that focuses on transitional countries in Eastern Europe that is concerned with studying trust as a dependent variable that is influenced by institutional and cultural legacies (Mihaylova, 2004). They start with the idea that socialism destroyed any form of generalized social trust. Nichols (1996) argues that communist societies such as Russia the spontaneous associations of citizens were replaced by forced associations. In Russia the link between social trust and rejecting democratic alternatives is ambiguous (Rose and Weller, 2001) and minimal at best. The literature that focuses on legacies of socialism claims that the previous system brought distrust and disruption of social ties (Seligman 1992, Mihaylova, 2004). The evidence lies in surveys that reveal the high number of citizens in post-communist countries displaying individualistic attributes (Haerpfer and Rose, 1994).

A lack of confidence in institutions and low levels of social trust characterized many transitional democracies in former communist countries suggesting that this is detrimental to democracy (Mateju, 2002). Communism legitimized a “primitive” type of social capital that is clan and family based and reinforced distrust in official networks (Holland 1998). Others however claim that socialism did not have any effect on the levels of trust in post -communist democracies (Mishler and Rose 1995) and more satisfaction with government performance and prospect of economic

future matter to a greater extent. A few others support the “critical citizen” view claiming the people in post-communist democracies have higher levels of social trust than it seems (Mishler and Rose, 1995 or Kolankiewicz, 1996). Later research on youth political trust in several East European societies shows that at the individual level the legacies of socialism are useful in explaining levels of political trust (Dimitrova-Grajzl and Simon, 2010) at young people. It is expected that in Romania the levels of institutional trust and generalized trust to be low. We treat institutional trust, generalized trust and satisfaction with democracy as dependent variables. The following sections will expand on these three concepts.

SATISFACTION WITH DEMOCRACY AND INSTITUTIONAL TRUST

Satisfaction with democracy has been shown to be a central part of the broader concept of regime support. Pippa Norris (1999) identified five levels of political support: political community, regime principles, regime performance, regime institutions and regime actors. Satisfaction with how democracy performs in one country fits in the third level of political support. Most often the concept is measured through the question: “On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy works in your country?”.

The concept received a lot of attention in transitology (Waldron-Moore, 1999, Kornberg and Clarke, 1994, Jonas and Ekman 2005, Torkal 2003, Klingemann 2013, Evans and Whitefield 1995). It is considered important for citizens to be satisfied with democracy because it is viewed as a dimension of political support (Almond and Verba 1963, Easton 1965, 1975). It is linked to support of regime principles but not dependent on it. In Eastern Europe there was considerable evidence that citizens offer support for democracy (Evan and Whitefield 1995, McDonough 1995, Mishler and Rose 1995).

Presently data shows that political support most often measured through trust in institutions and satisfaction with democracy remains stable (Norris

2011). There are countries like Portugal or Spain where satisfaction with democracy is at around 36% or Netherlands (80%) and Denmark (96%) where the levels are high. The average level of satisfaction with democracy in Europe is at 66 % (Norris, 2011). Regime support, *diffuse or specific* (Easton, 1965, 1975) operates at five levels. The first is support offered by citizens as a political community (Norris, 1999). The second level refers to support for democracy as a form of government. The third level where satisfaction with democracy is included refers to evaluations of the way democracy performs as a regime. The fourth level refers to support for government and parliament and this is where political trust in institutions is included. The fifth level refers to support for politicians. We focus on the third and the fourth level of support. Although less important than the first and second levels these dimensions tend to vary more than the other levels of support. We attempt to track these variations by comparing the period of economic crisis in Romania with periods of economic growth.

Eastern European countries were rated as high supporters of democracy in the beginning of 90ies (Mishler and Rose, 1997). The support for democracy and its ideals is shared by consolidated democracies in Western Europe (Anderson and Guillory, 1997). However after the fall of communism the decline of satisfaction with democracy was observed (Anderson and Guillory, 1997) in Western Europe.

Low level of support for democracy is considered dangerous to democracies (Lipset, 1959, and Powell, 1986). The poor performance of institutions was often linked to support for the system. Others referred to satisfaction of democracy as a measuring tool of how the regime actually works and not a measurement of the ideal principles of democracies (Linde and Ekman, 2003) thus the danger is not imminent. There is the danger of confusing the second level of support for democratic principles with the third level which refers to performance evaluations.

Institutional trust is a process of evaluation of institutions 'performance and a comparison between what is expected from an institution and what are its outcomes (Easton 1965, Citrin 1974). It is a specific type of trust on contrast to general evaluations of the entire political system (Iyengar 1980). There are two important approaches in studying trust in institutions. Trustworthy institutions are built through the assistance of networks of voluntary associations. These associations have the function of breeding political institutions that are trusted by citizens (Tocqueville 1863, Putnam 1993). The second approach focuses on institutions as producers of trust (Berman 1997, Tarrow 1996, Kumlin and Rothstein 2005) in which the formation of trust is linked to political context. Institutional trust is built upon the performance of institutions. If rules are respected and are predictable then trust in institutions is increased. This approach looks at trust as an outcome of the performance of the political system.

Researchers distinguish between types of institutions that citizen trust. Political trust includes trust in government (Carnoes, 2003, Hetherington 1998), political parties, representative assemblies and the president. It excludes trust in police and army (Rothstein and Stolle, 2008) which are considered to be impartial institutions not concerned with the *implementational* side of politics. Political trust is important for democracies because it promotes stability and legitimacy for the system (Gamson, 1968). However declining trends in political trust indicate that democracies can function even with low levels of political trust. Recent critical approaches (Norris 1999, Rosanvallon 2008) view low levels of political trust as a sign that citizens are alert, they pay attention to how institutions function and are dissatisfied with their outcomes. They are "better citizens" in terms of being vigilant supervisors of how democratic institutions function. More recent work (Marien and Hooghe, 2010) relates low level of political trust to an inclination to support illegal behavior concluding that political trust infuses legitimacy of institutions and laws.

The following section reviews three categories of factors that were shown to have an effect on satisfaction with democracy and institutional trust: perceptions of the economy, political factors and socio-demographics.

Personal and national perceptions of the economy. One of the important tenets of how a political regime is evaluated is whether it produces favorable economic outcomes for its citizens. Support for political institutions and satisfaction for democracy are influenced by several determinants at the individual level. One of the most important ones is economic performance (Kotzian, 2010). Good economic performance of a regime ensures political support and legitimacy for that system and electoral support for the incumbents (Lewis-Beck and Stegmaier, 2000, Criado and Herreros 2007). Institutional performance is very important in consolidated democracies. Confidence in institutions is affected by low economic performance, political scandals (Bowler and Karp, 2004) and wars or economic crisis and elections (Kaase 1988).

Perceptions on the state of national economy are considered influential on support of incumbents and of the regime and other political perceptions (Kiewiet, 1983, Kinder and Kiewiet, 1979, Duch, et al. 2000). It is not clear if economic dissatisfaction leads to regime failure or failure of the incumbents to win elections (Waldon-Moore 1999). There are studies that show that if a country permanently performs well then the regime receive specific support that transforms into diffuse support (Chu et al. 2008). Specific support however is more likely to fluctuate influenced by economic performance, scandals or economic crisis (Kotzian, 2010). There are examples of countries with defected democratic systems in which dissatisfaction lead to a slip into authoritarian rule (Rose and Shin, 2001; Welzel, 2007). *During economic crisis we expect a decrease of the level of democratic satisfaction and political trust during crisis.*

In Eastern European countries citizens' evaluations of the national economy are more important than real economic indicator when

evaluating the performance of governments (Tverdova, 2011). This distortion between objective economic indicators and perceptions of the national economy is systematic (Anderson, 2007, Johnston et al 2005). This is because of citizens' lack of capacity to acquire economic information. Sophisticated voters have more accurate information about the economy and have more accurate perceptions (Tverdova, 2011). Researchers distinguish economic perceptions of the national economy from the perceptions of the individual well-being the former being a stronger predictor of vote choice (Kinder and Kiewiet, 1979, 1981). During economic crisis the perceptions of the economy and real economic indicators may be even more distorted (Mutz 1992). Economic perceptions are considered strong predictors for political trust in several Asian countries (Won, Wang and Hsiao 2011). In Europe Mishler and Rose (2002) observe that the evaluations of political performance have a greater effect. Individual perceptions of the economy are especially important when governments' decisions affect directly the economic situation of individuals (Kramer, 1983). During economic crisis many of the decisions taken by governments affect the personal financial situations of individuals. In Romania the 30% wage cuts, and benefits cuts as well letting go 30% of the public workforce were direct actions never implemented during the transition to democracy. We take the theory of Kramer (1983) on the importance of individual perceptions on pocket voting when governments take decisions that directly affect citizens and use it to explain the importance of individual economic perceptions in explaining political attitudes of citizens during economic crisis. In 2011 several decisions that targeted the crisis had a direct effect of citizens' economic situation. That is why we expect the Kramers' theory would provide a satisfactory explanation for our hypothesis. The context of crisis obligated the Romanian government to impose decisions that were unpopular and with immediate economic consequences for citizens.

Following Kramers' (1983) finding on the prevalence of egocentric perceptions against sociotropic perception of the economy we *assert that*

during economic crisis the personal economic evaluations influence satisfaction with democracy and political trust to a greater extent.

We also hypothesize that during the crisis economic factors take precedence over political factors and sociodemographics in explaining political support.

In our paper we included national and individual perceptions of the economy as explanatory variables. In line with other research (Przeworski 1991, Lewis-Beck and Stegmaier, 2000) *we hypothesize that positive national perceptions of the economy positively affect satisfaction with democracy and political trust when the context of crisis is absent.*

Political Factors. Along with perceptions on the economy and personal economic well-being political factors can alter the attitudes citizens have on institutions. For example if a person has voted for the winner it is more likely that the government performance evaluations would be positive (Anderson et al. 2007). The identification with a party and a political ideology are important in evaluating how political institutions and the system works. Credit or blame is accorded to the system with the assistance of party preferences (Enns and Anderson 2009). The explanation for these distortions are offered by cognitive consistency theory (Festinger 1957)

That is why we include political factors such as preference for the governing party as having an effect on political trust. *We expect that during economic crisis citizens party preference for the governing party has a positive effect on political trust and satisfaction with democracy.*

In terms of ideology support for conservatives has a positive effect on political trust. The reformists tend to be more critical towards institutions and the political system in general (Rudolph and Evans, 2005). In Romania the socialist parties stand for more conservative views of the economy (Kitschelt, 1992). Yet unlike in the United States the socialists preserve pre democratic values compared to right wing parties. That is why we expect

an effect of support for the right wing parties to have positive effects on political trust and satisfaction with democracy.

Sociodemographics. *Education* can impact political trust (Nie et al 1996, Schlozman et al 2012). The highly educated are more tolerant and trust institutions. The information about the economy educated citizens process is less likely to be distorted.

Younger citizens in Western Europe are considered more critical than older generations (Dalton, 1988). In Romania they are also more likely to engage in protests (Burean and Badescu, 2013). Yet youth in Eastern Europe might be more enthusiastic about democracy than older generations (Waldron-Moore, 1999). We expect younger citizens to provide more support to democracy than older generations.

We expect women to be less supportive of democratic systems possibly because of the tendency in Eastern Europe of women to accept traditional roles (Waldron-Moore, 1999). Recent research shows that women may be more disaffected with a regime that fails to perform in terms of enforcing equality of opportunities (Burean and Badescu, 2013). Thus we expect women to be less satisfied with democracy than men. Citizens living in urban areas can be more dissatisfied with democracy and support less institutions. First in urban contexts citizens have more access to information about how the system functions. Secondly urban areas are more likely to engage in protests with rural areas being more passive and supportive of institutions. The protests that swept democracies in Western and Eastern Europe and U.S. were organized in urban areas.

In this paper we look at several political attitudes we suspect are influenced by perceptions of the economic crisis. We contend that economic factors will be stronger predictors than political factors or socio-demographics. *More precisely we assert that political trust and satisfaction with democracy are affected especially by individual perceptions on the economy and less by political and socio-demographic factors or partisan*

ideology. This result suggests that personal economic security affects support for political institutions and democracy during economic crisis.

GENERALIZED TRUST

Generalized trust, referred to by scholars as social trust, moral trust (Uslaner 2002), dispositional trust (Kramer, 1999), and trust propensity (Mayer et al., 1995), is analytically distinct from “knowledge-based trust,” which requires information about a person before we trust him or her (Yamagishi and Yamagishi, 1994). Moreover, there is wide acknowledgement that generalized trust matters most for “getting things done” since it spans the broadest reaches of the moral community, and as a result, is more relevant for overcoming collective action dilemmas (Uslaner 2002).

Measuring generalized trust is anything but straightforward. Survey-based studies of generalized trust normally use as their measurement instrument the question, “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?” Besides its conceptualization, the extent to which generalized trust is malleable continues to be debated (Nannestad 2008). Do we trust strangers based on, at least in part, our assessment of the people to whom and contexts to which we are exposed? Experiential theories, which emphasize how individual trust in the generalized other is formed by experiences in the environment, respond affirmatively (Dinesen, 2010; Glanville and Paxton, 2007). Alternatively, cultural theories posit generalized trust as a stable character trait formed early in life by cultural transmission and largely immune to later influences (Uslaner, 2002).

Cross-national and longitudinal data show that East European countries tend to have levels of generalized and institutional trust that are lower than the ones in the West and stable over time. Evidence suggests that legacies of the former regimes (Newton 1999; Uslaner 1999; Völker and Flap 2003)

and effects from the transition itself (Letki and Evans 2005; Muller and Seligson 1994) account for the poor starting position. Figure 1-3 illustrate the level of institutional trust in three political institutions between 1995 and 2012. Several authors found a similar difference between East and West in terms of generalized trust (Sik 2009).

Mishler & Rose (2001) find that institutional trust has only a small impact on generalized trust in postcommunist countries in Eastern Europe, while indicators of institutional performance are related to generalized trust. Letki & Evans (2005) confirm the latter result. Delhey & Newton (2005) find rather strong evidence for the effect of “good government” on levels of generalized trust, using a composite quality-of-government scale based on a rule-of-law index, a government efficiency index, a political stability index, a cumulated freedom score, and a law-and order index. Kumlin and Rothstein (2003) present empirical evidence from Sweden showing that contact with institutions of a universal welfare state tends to increase generalized trust, whereas experience with means-tested social programs tends to lead to lower trust levels. We expect that generalized trust to be altered by the economic crisis when institutional performance may be perceived by citizens as poor.

Research Design, Data and Methods

The main research question at hand is: What are the effects of economic crisis on political attitudes in a new democracy? Our statistical investigations will develop in two stages. The first stage consists of a survey of political support and social trust. In the second stage we show the statistical models that explain the variation of satisfaction with democracy and political trust in two periods in Romania. The first survey was applied in 2007 just before the economic crisis and the year when Romania joined the European Union. The second survey took place in November 2011. It was at the beginning of 2011 when president Basescu announced harsh economic measures that directly affected many citizens. The year was

marked by protests (Burean and Badescu 2013). At the beginning of 2012 larger scale protests emerged the resulted in February in the demise of the Boc government.

By surveying trends we will acquire a comprehensive understanding of the changes of political attitudes of citizens in Romania and follow what attitudes have suffered modifications. We measure political trust by trust in parliament, government, presidency, and parties. The analysis relies on the charts compiled by Claudiu Tufis (2013) which made use of national surveys performed in Romania from 1990 until 2012. Some choose only trust in government as a measurement of political support (Hetherington, 1998). The data we have allows us to include measurement of the political support of institutions that have functions of representation and are contested. We excluded trust in police, church, army since these are institutions that are less accountable (Rothstein and Stolle, 2008) and the source of the trust is different. For measuring satisfaction with democracy we chose the surveys compiled by the Romanian Electoral Data project that includes surveys on Romania from 1990-2011. We could not find surveys in each year from 1990 that contained the question on satisfaction with democracy. The surveys were „face to face” with numbers of respondents ranging from 1100 to 2000 respondents.

For social trust we could not track the changes of attitudes in time. Surveys include different questions at different points in time making comparison of trends impossible.

We selected two surveys in order to compare the statistical models that explain satisfaction with democracy and political trust before the crisis and during the crisis. The models have the following equations:

$$\begin{aligned}
 & b1x(\text{presentlivingconditions}) + \\
 & b2x(\text{presenteconomicstatecomparedtolastyear}) + \\
 & b3x(\text{futurepersonaleconomicprojection}) + b4x(\text{past}
 \end{aligned}$$

evolutionofnationaleconomy) + b5x(futureevolutionofnationaleconomy) +
b6x(turnout) + b7x(governingpartysupporter) + b8(left-right) +
b9x(education) + b10x(age) + b11x(residence) + b12x(sex) + B=
satisfaction with democracy

b1x(presentlivingconditions) +
b2x(presenteconomicstatecomparedtolastyear) +
b3x(futurepersonaleconomicprojection) + b4x(past
evolutionofnationaleconomy) + b5x(futureevolutionofnationaleconomy) +
b6x(turnout) + b7x(governingpartysupporter) + b8(left-right) +
b9x(education) + b10x(age) + b11x(residence) + b12x(sex) + B= political
trust

The separation of pre-crisis and crisis period is not uncommon. A study on the effects of the financial crisis on trust in European governments advocated for a separation and regression runs of the periods that would reveal the differences and the mechanisms that explain trust and avoid providing misleading results (Roth et al., 2011). We are aware that we cannot prove that the changes in what affects satisfaction with democracy are pinned to the economic crisis.

Ideally, a panel study, before and after the crisis, can track changes in political attitudes that can be attributed to the financial fall down. Lacking that type of data we resorted to the comparison of political attitudes in Romania in a crisis year to a pre-crisis year. The selection of Romania allows the testing of political attitudes changes in a country with incomplete democratization and affected by the very tough economic measures implemented by the Boc government in 2011. The crisis provides

a test for how citizens would support a new democratic regime when it fails to bring economic success.

The independent variables were divided into three categories: perception of economic development, political experiences and socio-demographics. The perceptions of economic development were divided into perceptions of the national and personal economy since the literature on the effect of economic factors argues that we can discover different effects at different levels of perceptions. We did not include income because in 2011 the survey did not include the question on income. We ran a model in 2007 that included income and did not find any effect. Political factors consist of intended turnout to vote, whether a citizen is a supporter of a governing party, and left-right individual orientation. Socio-demographics that were included are age, residence (urban-rural), sex and education.

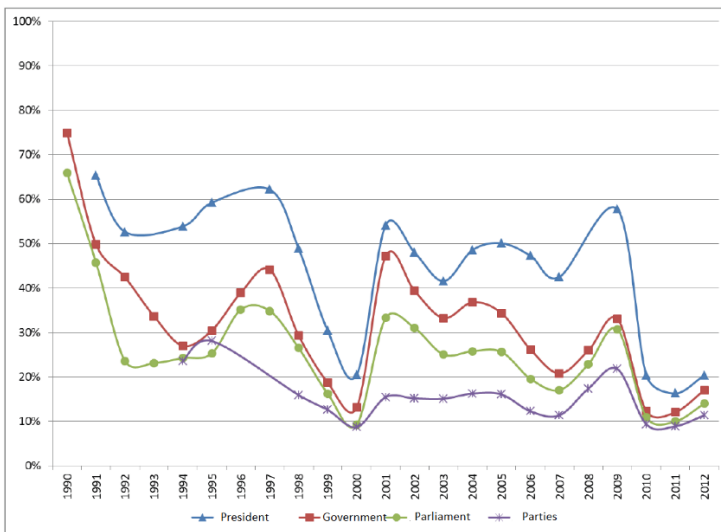
We ran one regression model for explaining the effects of economic factors, political behavior and socio demographics on political trust and satisfaction with democracy before the crisis (fall of 2007) and during the crisis (fall of 2011). Political trust was measured as a composition of trust in parties, parliament, government and president.

FINDINGS

Armingeon and Guthmann (2012) found in a study that analyses 26 EU countries based on the Eurobarometer surveys (EB) that both satisfaction with democracy and trust in parliament declined in Romania between fall of 2007 and fall of 2011 more than the mean change of all 26 countries (Armingeon&Guthmann 2012 p.23): the proportion of those satisfied with democracy decreased in Romania with 13.6%, compared to a mean of 6.6%, whereas trust in parliament decreased in Romania with 8.3%, compared to a mean of 7.8%.

However, a series of representative surveys conducted in Romania between 1990 and 2012 describe a different picture. Figure 1 shows that political trust in Romania fluctuated during elections (1990, 1992, 1996, 2000, 2004, 2008, presidential elections in 2009, 2012), but otherwise, the trend is fairly stable with no major changes during the economic crisis. The graph also shows that the level of trust in parties, parliament, government and president change in similar ways, and that the least trusted institutions are political parties followed by parliament, government and president

Figure 1 Levels of political trust in Romania 1990-2012

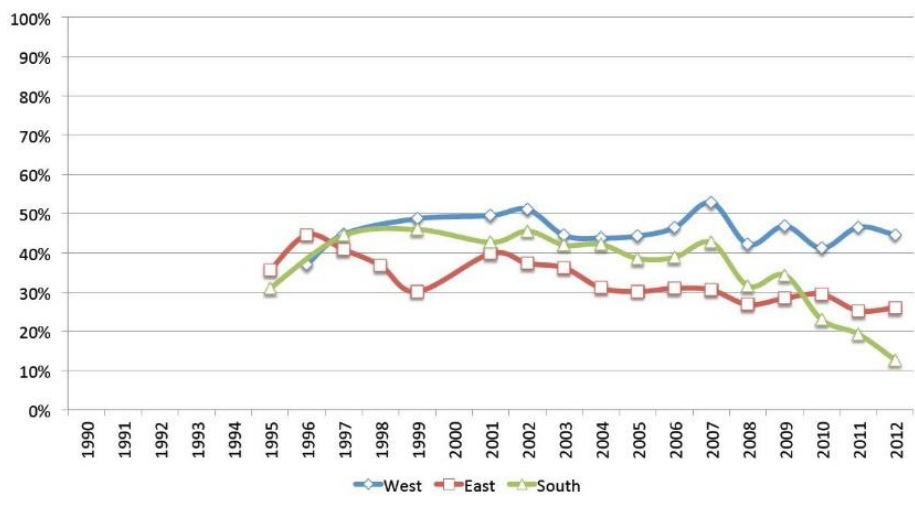


Source: Tufis, Claudiu.2013. „Changes in Institutional Trust in Postcommunist Romania”

[http://www.trust.democracycenter.ro/trust_007.htm]

These results are consistent with previous studies showing that trust in institutions in Romania are at very low levels and are fairly stable (Tufis, 2007). Moreover, as Figure 2, 3 and 4 show, the trend of institutional trust in Romania is similar with that of other European countries: both East and West European countries tend to have had stable levels of institutional trust for the last 15 years, whereas South of Europe has witnessed a significant decline since 2008.

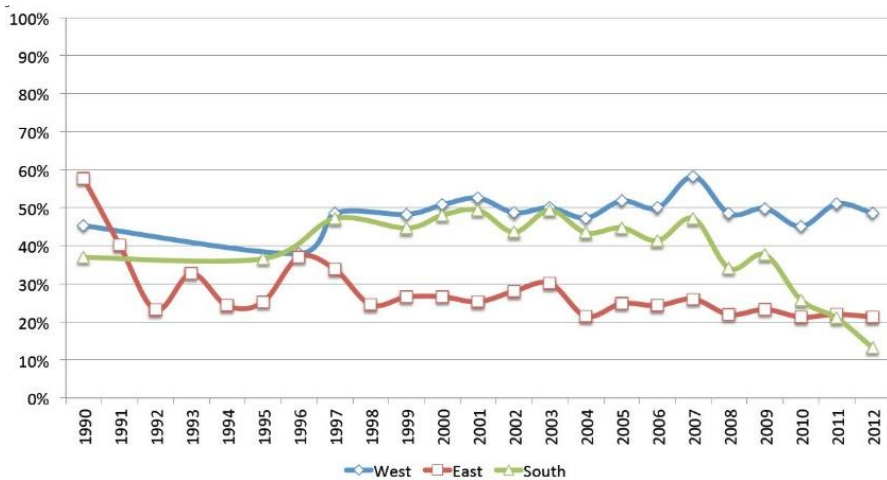
Figure 2 Trust in government comparison of West, East and South of Europe



Source: Tufis, Claudiu.2013. „Changes in Institutional Trust in Postcommunist Romania”

[http://www.trust.democracycenter.ro/trust_007.htm]

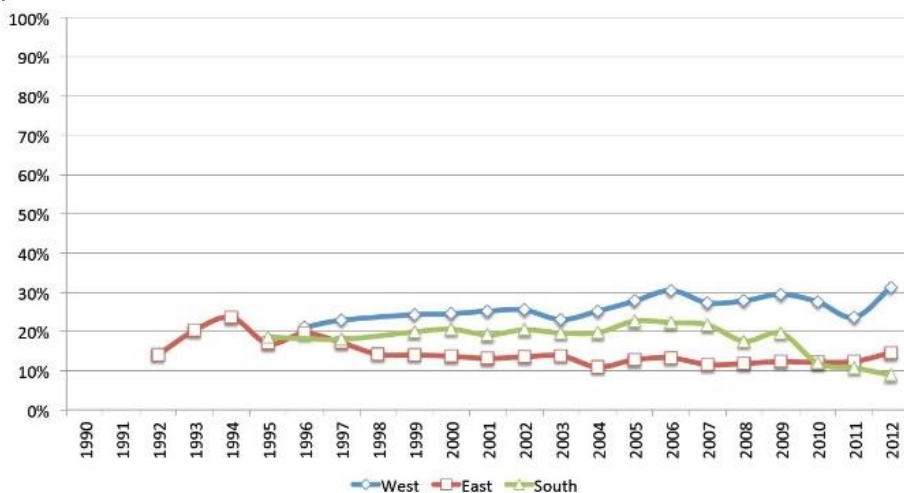
Figure 3 Trust in parliament comparison of West, East and South of Europe



Source: Tufis, Claudiu.2013. „Changes in Institutional Trust in Postcommunist Romania”

[http://www.trust.democracycenter.ro/trust_007.htm]

Figure 4 Trust in political parties comparison of West, East and South of Europe

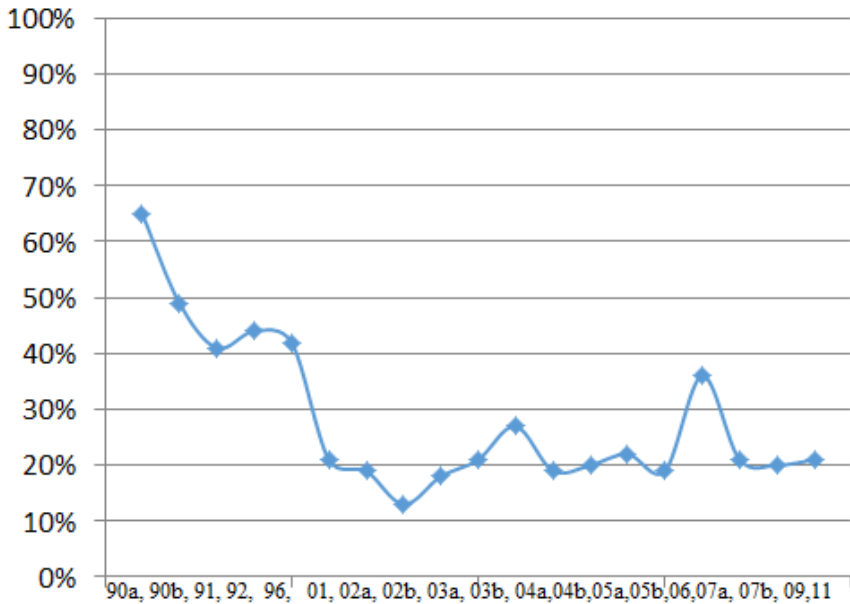


Source: Tufis, Claudiu.2013. „Changes in Institutional Trust in Postcommunist Romania”

[http://www.trustdemocracycenter.ro/trust_007.htm]

A largely similar trend can be found in the case of Romania for the general level of satisfaction with democracy (Figure 5). The trend indicates no decline of satisfaction with democracy from 2007 until 2009. In 2011 the level of satisfaction remains low.

Figure 5 The level of satisfaction with democracy in Romania 1990-2011



Source: Romanian Electoral Data. Authors' computations.

This trend did not confirm our expectation that during crisis satisfaction of democracy has decreased. After the regime change the satisfaction with democracy recorded high levels. This was followed by a rapid decline. Romanian citizens seemed to be more satisfied with democracy in 1996 when the first peaceful alternation to power occurred. In 2004 there were elections and in 2007 the abrupt change can be explained by Romania joining the European Union. As it is the case for political trust, satisfaction with democracy seems to be unaffected by the low performance of the economy.

A similar result can be found when the effect of economic crisis on generalized trust is evaluated on two different data sets. Firstly, we

compared an aggregated index of generalized trust¹ in a panel survey on Romanian high school children², with the first wave collected in May 2006 and the second in May 2009. We found virtually no change at the aggregate level during the three year period of time. The only determinants that had statistically significant effects on the individual level of trust were ethnic diversity of colleagues and family income dispersion, both with a negative impact. Secondly, we compared the mean level of an aggregated index of generalized trust in a survey conducted in November 2008³ with a similar index in a survey conducted in September 2012⁴, both on representative samples of the Romanian adult population, and found no statistically significant difference.

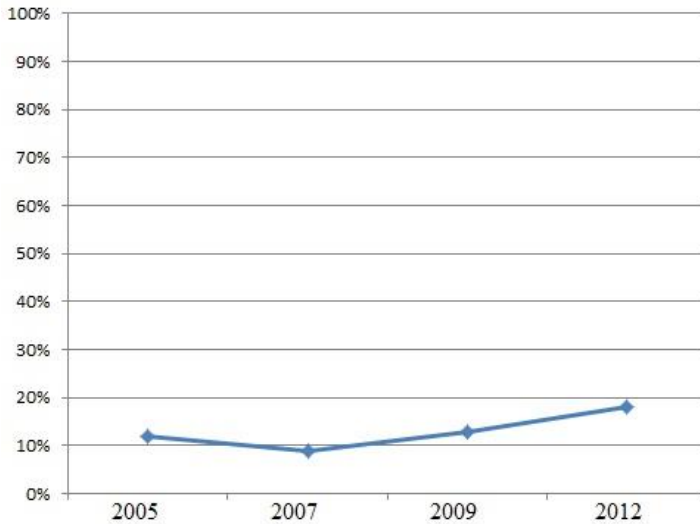
¹ The index is built as a sum of three variables that assess trust in strangers, trust in people of other religions and trust in people of different ethnicity, respectively.

² The survey was conducted by the Center for the Study of Democracy (www.democracycenter.ro).

³ The survey was commissioned by the Romanian Agency for Governmental Strategies to Totem Institute.

⁴ The survey was commissioned by Ce-Re and the Center for Democratic Studies to CURS.

Figure 6. Level of social trust in Romania



Next we turn to statistical modeling to compare the effects of factors identified in other research on satisfaction with democracy and political trust. We hypothesized that egocentric economic perception will have a stronger effect in the period of economic crisis while sociotropic perceptions of the economy will account for the variations in political trust and satisfaction with democracy. The results are presented in table 1.

Table 1 Explanatory model for satisfaction with democracy and political trust in 2007 and 2011

	Satisfaction with democracy		Political trust	
Variables	oct2007(β)(s.e.)	nov2011(β)(s.e.)	oct2007(β) (s.e.)	nov2011(β) (s.e.)
<i>Personal perceptions of living conditions</i>				
Satisfaction with individual living conditions	,149**(,035)	,168**(,048)	,101**(,054)	,081(,056)
Perception of present individual economic condition compared to the previous year	,061*(,033)	,081(,044)	-,015**(,052)	-,029(,053)
Perception of future individual economic condition	,084**(,032)	,015(,043)	,100**(,049)	-,043(,051)
<i>Perception of the national economy</i>				
Perception of Romanian economy in the present compared to	,157**(,039)	,061(,055)	,097**(,060)	-,009(,065)

previous year				
Perception of the future of Romanian economy	,147**(.043)	,195**(.045)	,120**(.066)	,148**(.053)
<i>Political factors</i>				
Turnout	,057*(.049)	,058(.079)	,146**(.076)	,053(.094)
Support for the governing party	-,008(.077)	,020(.114)	-,073**(.118)	,305(.135)
Left-Right	-,005(.001)	-,065(.013)	-,008(.001)	,023(.015)
<i>Socio-demographics</i>				
Education	-,014(.005)	,063(.011)	-,047(.008)	-,035(.013)
Age	-,036(.001)	-,039(.002)	,053*(.002)	,049(.002)
Urban-Rural	,098**(.046)	,068(.067)	,131**(.071)	,062(.079)
Sex	,015(.547)	-,050(.062)	-,009(.068)	-,060(.073)

**<.01 *≤.05

adj R²=,132adj R²=,130adj R² =,205adj R²=148

(Political trust = trust in political parties + trust in government+trust in parliament + trust in president)

For both indicators of political culture (satisfaction with democracy and political trust) we find the national evaluation of the future of the economy

to have significant effects before the crisis and during the crisis. Egocentric evaluations matter before the crisis and mid crisis for satisfaction with democracy. What we found out is that the economic evaluations of the economy are the single statistically significant independent variables that impact both political trust and satisfaction with democracy during crisis. The importance of political and socio-demographic factors fade out in the crisis period. Citizens who turn out to vote are not necessarily more satisfied with democracy or trust institutions more. Place of residence becomes irrelevant in explaining political support together with age and several indicators of egocentric economic perceptions.

Thus we find a partial support for our hypothesis. We expected egocentric economic perceptions to impact political support. We found that national economic perceptions about the future of the economy and satisfaction with living conditions (on satisfaction with democracy) to have an effect on political support. Citizens who have positive evaluations of the future of the national economy and are satisfied with their living conditions are more likely to provide political support. The findings tell us that during economic crisis, the economic factors are more important predictors than political or socio demographic factors.

CONCLUSIONS

Did the economic crisis since 2007 has an impact on political attitudes and behaviors of Romanians? We found reliable evidence that the current crisis has had a sizable effect on political attitudes and, as a result, influenced the electoral outcomes in the 2012 Parliamentary elections in Romania. However, it is less clear if the economic harshness has had a profound and long lasting impact, by changing and adding additional strain to the political culture of this new democracy. We evaluated empirically the effect of crisis on three components of political culture, institutional trust, generalized trust and democratic support, by relying on a series of

representative surveys of the Romanian public, including the results of a panel survey measuring social trust.

The overall result is that none of these attitudes have changed significantly as a result of crisis. It is a rather surprising finding, given both the severity of austerity measures in Romania and the weakness of democratic culture in this country. One possible explanation is that the political culture in Romania, as well as in Bulgaria, had already been negatively influenced during the EU integration process, by the lack of responsiveness and accountability of their elites who invoked external pressures of the international institutions as excuses for their own refusal to take responsibility for the welfare of ordinary citizens. Another possible explanation stems from the fact that Romania and Bulgaria had the least successful economic transitions among the EU post-communist countries, with two severe slumps preceding the 2007 crisis that 'desensitized' their public. Finally, it is also possible that political culture is more resilient than thought and that only a longer crisis than the current one has the potential of making significant changes.

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About Post-soviet labor market origin within Ukrainian transformational case

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Abstract *Contemporary Ukraine is under press of needed but not realized proper market reforming, instead of sharp crucial changing within labor sphere, which could be seen as spontaneous and reveling really appropriate and even immanent for majority of Ukrainians individual way of establishing new employment options. Hence the way from full employment to self-employment is corresponding with deep, experienced by millions of Ukrainians, and could depict real social changes as most important transformational tracks in post-soviet Ukraine.*

Keywords: full employment, transition/redistributive/mixed economies, segmented/plural labor market, self-employment, informal employment, Ukraine.

For the introduction would be correct to remind a still important remark made by N. Fligstein in 1996, that there 'are two great institution building projects going in post-socialist societies: state building and market building and these projects cannot be divorced from one another because much of state building is about market building, both in terms of setting rules for markets and the state role in markets and also deciding how societies will respond to markets in fields like social policy. This period in the former socialist societies is like the 1880-1920 era for the advanced OECD countries in that the basic outlines of institutions are being laid down'(Fligstein 1996).

Socio-economic differences in Central and Eastern European countries in nowadays reflect the impact of different economic country's chosen modes including the employment policy. *'Although differences in trajectories of transitions across reforming state socialist and post-communist societies have become more pronounced over time, path dependence is likely to result in structural similarities across transition societies'* (Nee, Matthews 1996). Some countries from this region experienced proper economic reforming by means of economic restructuring, some – not at all, partial changes or just very few reorganizations on the background of prolonging the usage of previously formed economic resources. Ukraine is one among these countries following the post-soviet transition without restructured economy system by means of exploitation the inherited huge soviet economic industrial model of 1930-50s primitively shrunken in twenty post-soviet years. As economics was not restructured, not modernized according to technological challenges of contemporary times, the only main changes happened to be as market-like when industrial objects were privatized by selected representatives of red directorate and party nomenclature – real winners of post-soviet transition through realization of their inspiration – to legalize their ownership and of course them as official owners. Opposite them, working people as ideological concrete of soviet regime were pushed to new for majority unexpected socio-economic experience of work search for life surviving after broken ideological rule: one life – one work. Ukrainian politicians during the all post-soviet period were unable to offer any kind of employment policy following vitally needed but absent economic restructuration. Need to remind, that leading communist cadres in power were able only for command-administrative managerial

activity as non- experienced in market development. Certainly-- the only interest in selectable privatization in the time 1990-1994 when majority of communists and red directors in Ukrainian parliament formed the biggest and influential MP group "For the just *soviet* Ukraine"- actually core of contra-revolution after 1991, as it was named by soforeign and Ukrainian experts.

So, Ukrainians from the beginning of 90-s experienced new working challenges opposite to the long life soviet full employment policy and ideology. Need to clarify, that meaning of *full employment* in soviet terms differs from that, used to be in the West, where everybody who seeks work should be employed. In soviet terms, everybody in workable age should be employed, if not - would be in prison. Well-known is *Article #12* in soviet constitution of *sponging*, introduced firstly in 1936, according to which work in USSR was announced as obligation for every capable citizen due to principle: nonworking one has no right to eat. Later in 1961 was issued the Law, based on this Article #12, 'About strengthening the struggle with individuals, who omit social- useful work and live on the 'nonworking' incomes from exploitation the land allotments, automobiles, habitation as support base for their parasitical living mode etc. The social-useful work means only work under state sanction. Important also, that in 80-s struggle with nonworking incomes was simultaneously followed by perestroika changes, when the new *Law of individual working activity* (1987) and *Law of cooperation* (1988) were issued. Finally in 1991 struggle with sponging was finished when new *Law of employment issued*, which abolished the criminal responsibility for sponging and first time acknowledged the unemployment. Thus, soviet system of prohibitory issues formed actually special attitude to work, earnings,

unification of living standards and then, beginning from 90-s new economic space of market opportunities was unknown for majority people, economic initiative was nipped in the bud, highlighting only severe problem of searching the living sources. Millions after long lasting secure low wages but full employment were dismissed from closed industrial units, numerous nonacademic research institutes (NDI), connected to different economic branches and mainly to war industry, -- suddenly lost their certain working places, actually experienced previously unknown unemployment

Therefore, all processes within socio-economic sphere depicted by statistical figures and sociological data reflect initially spontaneous changes in employment structuring, attitude to work, work motivation, new tendencies in working aspirations together with market consciousness development, simultaneously displayed soviet tracks – low wages system and post-soviet complicated fiscal weight with consequence of widening the shadow economy and informal employment.

Conceptual framework. Obviously previous argument refers to the well-known methodology of path dependency, actually generalized all the rest possible and appropriate conceptions for understanding and explaining the post-soviet social realities. Firstly, they were analysed in terms of transitional studies, which afterwards was changed by more adequate research logic for analysis of starting state 'from' then 'where'. The state of pre-transforming social-economic system occurred to be more important for future development and changes, that's why in 2000-s the path dependency conception took the first position within post-soviet studies. Well-known

among economists this conception was developed already within wide range of interdisciplinary works of economics, sociology, cultural studies and history (David, North, Biggart 2001 and others). Path dependency in general means that current and future statements, actions and decisions depend on previous statements, actions and decisions in consideration of time aspect, finally forming the model of institutional 'sticking' (Scott E. Page 2006). Thus new state formations in its development are more depending on previous sense of proto-state existence stressing on the core for analyzing major depending factors – institutional, eventual and mood character. This conception means the institutional display of established patterns of social technologies and norms, reproduced already in new conditions, defining the politic-economic character of development, state of society, social processes with strongest dependence from factors of mentality and values. M. Burawoy as real ethnographer master of transitional societies noticed, that post-soviet countries passed transit without transformation, in particularly Russia instead of neo-liberal revolutionary break with past or expecting neo-institutional evolution act towards capitalism finally came to involution degradation (Burawoy 2000). Consequently, political choice of social state model in the majority of post-soviet countries, was caused not by some special national features, but only principles of soviet social policy, providing it on the all social and politic levels by the same soviet nomenclature names, according to the election results, as citizens even after independence elected representatives of old soviet nomenclature with authoritarian customs of command-administrative management. Thus, in the time of changes from socialism to capitalism was actually reproduced the soviet model of social policy. Formed in

soviet period peculiarities of social organization and culture became the obstacles to market changes, continue to be reproduced, the main of which are: 1) low living standards and low claims for improving of mass groups during soviet period; 2) patience as national feature with correspondence to protest potential and undeveloped civil society; 3) mass vision of social justice in terms of socialist ideology with dominance of work orientation over market, when entrepreneurial labor is measured not in working days, but definitely another even innovation economic criteria (Shabanova 2005).

2. Thus, the main conceptual approach could be more appropriate well-known theory of market transition from socialist to market economy developed by Victor Nee (Nee 1989, 2012) probated and proved its validity for analyzing the reforming socialist economies with accent on transition from redistribution to market in state socialism, shifting sources of power and privileges to favor direct producers relative to redistributors. Opposite to modern market economies, where redistribution is provided by the welfare state institutions, in state socialist societies redistribution ‘constitutes the integrative principle of the economy’ and is provided by institutions of central planning. Administrative mode of distributive the rewards in state socialism prolonged afterwards in some case of utility of political power for entrepreneurs, hierarchical forms of economic coordination remain dominant. Nee’s basic three theses in his market transition theory are: 1) *market power thesis* – less power in control over resource by through market like exchanges; 2) *the market incentive thesis* – redistributive economy depress incentive, because administrative prices for labor with no pay for different performance, just only in regard for loyalty and are lower than market-determined prices’; 3)

the market opportunity thesis about changes in structure of opportunities concentrating rather on the marketplace, than within redistributive sector. Following Polanyi's concept of redistribution and nonmarket trade, Nee referred also to J.Kornai specification of consequences of partial economic reform, which 'brings out the worst aspects of central planning and markets', making ground for enlarging the distributive consequences of partial reform, when 'redistributors doubling own profit from distributive and market opportunities'; as also 'modeling entrepreneurship and labor market that transfer surplus labor in to the second economy'; and finally, role of the state in establishing the institutional system of mixed economy.

The concept of 'second economy', formed in Eastern Europe, refers to all income-generating activities outside the redistributive economy, relatively autonomous from the state comprises such activities, as private construction, repairs, handicrafts, coaching of pupils out of school classes, medical care services etc. in USSR was simply dangerous, where even right for additional work place was strongly restricted due to redistribution policy following the ideology social equalizing. Conception 'second economy' was proposed in 1970-s by American economist G. Grossman deals with productive and exchange activity characterized by one from two principles – straight personal benefit or avoid law system. Different sovietologists (G.Shreider, H.Gramatski others) underlined that shadow economy penetrated to all spheres of production and consumption out of state control fulfilled many functions: information, supply, stability, innovation. In the middle of 1980-s already the few soviet economists described the function of informal activity within the

context of individual work activity as prediction of private entrepreneurship (Khavina, Superfin 1986).

Hence, from the very beginning of market transition the few people, engaged in second economy legalized their quasi market activities and became the first entrepreneurs but only some of them generally used the habits of parallel economical activity in order to avoid fiscal weight remained by transforming to the contemporary informal economy.

3. Next approach refers to the concept of informal economy, and informal employment particularly. It should be agreed that informality in economics instead of its widening in all countries differs only in levels and measuring methods, still needs more research attention, especially in the post-soviet countries. The concept of informal employment based on the ILO definition as most appropriate is taking to consideration informal producers or distributors of commodities and services in small amounts in response to market demand with concern of regularity, but the biggest figures of informal sector turned to be considered already as shadow economy sector.

The method of shadow economy measurement, used by J. Schneider is well-known and gives us imagination of economic informalization around the world, and deep analytic research insight in nature of informational activities. American researchers Alexeev and Pyle after profound study of all existent informal economy measure methods used for describing the size of this sector in post/soviet republics came to conclusion, that such type of economy more a historical phenomenon than institutionally determined (Alexeev, Pyle 2001). Therefore, the aspect of in/voluntary informal employment is definitely right

direction in understanding such process within labor sphere in the post-soviet economic space, actually gives us some ground for understanding the **labor market formation process**. With respect to IZA research group within its grandioso longitude project on emerging labor markets in Ukraine, I agree with their vision of post-socialist grounds in nature of informal employment, except rigorous conclusion about self-employment. Lehmann and others (Lehmann, Pignatti 2007) used three conceptual approaches in special research of the informal employment in Ukraine: *traditional* concern about involuntary engagement of workers in segmented labour market: primary formal market with 'good' jobs and secondary informal with 'bad' jobs; next is '*revisionist*' approach (Maloney1999, 2004) about voluntary involvement to the informal employment according to higher utility of informal job than formal one and also vision the *labour market as a continuum of options* that workers have in a point of time or over the working life. The third conceptual approach is more complex vision of *labor market segmentation with 'upper ties jobs' and 'free entry jobs'* in the secondary informal sector (Fields and others): the first as good jobs are restricted, the last one are open for anyone, as most jobs in informal sector, which people take only involuntary. Sure, that we have to differentiate the economic activity within informal sector and informal activity within formal sector, salaried workers and self-employed within these categories also. According to the IZA conclusions in the Ukrainian labour market formal salaried workers clearly dominate in total employment not only in terms of quantity, but also reflecting the fear of unemployment, when informal job as just a 'waiting stage' before formal employment, but in terms of quality still strong inherited socialist pattern of work. To choose a pattern of

self-employment as a model of employee and employer in one person is extremely hard decision for majority of post-soviet people, only those the few, who has brave to risk voluntary turn to self-employment as formal entrepreneurs, and the biggest part take the option of informal employment involuntary, just for surviving (Ivashchenko 1994, 1995, 2001, 2002, 2003, 2004, 2008, 2010, 2011)

Thus, the last conception point --within the study of phenomenon of informal activity, beginning from Hart' long-lasting structuralism approach further developing by legalist approach as 'other path' introduced by de Soto in 1986 -- both have right to be in account regarding post-soviet realities, where and when the reason of informal activity is search of earnings for life should be added by de Soto assertion that informal economy certainly is a natural or 'normal' form of people's mass capitalist entrepreneurship within bureaucratic and overregulated market economy institutional structures, where the sphere of legal big business is tightly connected with state power -- what is more likely to consider as a reservation with no room for small business, forced to go to shadow sector. Optimistically de Soto insists that raising of informal sector should be seen as an evidence of display of widening the cohort of dynamical and entrepreneurial people with needs only regarding the economic deregulation.

Sociological descriptive analysis. Work, employment guarantees and employment itself during all post-soviet period occupied the highest positions within the Ukrainian citizen values structure according to the Social Monitoring data survey conducted by the Institute of Sociology National

Academy of Sciences (1991-2013). After epoch of soviet full employment, where every person was institutionally tied to certain work place, million people suddenly were faced to open and hidden unemployment. Therefore mass search of work or simply life means and different social adaptation' challenges led generally to historic changes of labour sphere: **80, 4% (1994)** respondents never changed workplace, but just in 5-6 years later this group reduced to **43% (2001)**. Employment situation shaped correspondingly to enlarging the private sector: since 1994 the state sector employment dropped twice from 51,2% to 19,6 (2010) opposite to almost 5 times growing the private sector – 6,1% (1994) to 29,8% (2010). Instead of changing falling tendency of employment rates in 1990s by raising from 56,5% (2000) to the historically highest point 59,3% (2008), the fact of social tension towards unemployment remained still high: 54,4% (2008) sharply jumped to 80% (2010), reminding the 84%' level of 1990s. Employment rates changed accordingly to Ukrainian economy: in industry the rate reduced from 30, 6% (1990) to 15,8% (2009), in agrarian sector even more – from 17,1% (1990) to 4,4% (2009). Without proper economic reforms, especially concerning the sheer lack of employment policy the only segment of nonworking people is consistently raising 39, 3%(1994):48,1(2010) particularly by growing part of those without permanent work -- 10,7% (2010). Quite remarkable is problem with mismatch of work and education/vocation, in general the employed structured themselves as employee due to their special education – 51,6%, mismatched to professional education 30% and 12% hesitated to give proper answer. Concerning employment according to the gained professional level, situation is even worse – only 28,2% are working according to professional

level, 32,3% without of correspondence to professional level, the rest 30% hesitate to point the proper answer.

Important point also should be taking to consideration that in Ukraine, as in the other CIS countries emerged segment of poor working people due to low wages system, inherited from USSR, therefore teachers, medical doctors, researchers and university faculty need to earn elsewhere: usually 10-12% respondents were engaged in work for additional payments, in 2010 those working additionally to first main work consisted already 28,9%, together with those without permanent work formed significant segment of 56% informal economy sector (F.Schneider).

New market opportunities, opposite to expectations before transitional period, pointed quite low rates of Ukrainian's involvement into entrepreneurship, which now could be compared with figures of pre-reforming Central Europe. Enlarging private sector describes only structural quantities' changes without proper qualitative tracks concerning private individual initiative movement: all kinds of entrepreneurs compound the group of 2 millions on the background of 20 millions employed, only self-employed sector is keeping quite noticeable positions: official state statistics include also agrarians by pointing 17% (2009), opposite to 5,2% (2010) self-positioned sociologically. Orientation to self-employment is caused by different reasons: economic crises, low wages, initiative in searching the means, slow but strong proliferation of market consciousness (Ivashchenko 1994, 1995, 2002, 2003, 2004, 2010,2011). Anyway the problem of good paid work search in accordance to qualification remains the sharpest problem for the majority of

Ukrainians – 73% and for 55% even any work search is quite problematic. On the background of such frustrated data the only rocking figure of *Ukrainian's willingness to open the own business still is raising: strongly agreed 20% (2004): 30% (2010): 26% (2012), which together with agreed respondents reach incredible 41%(2004):49%(2010):45%(2012),* which gives strong hopeful base for positive economic perspective revealing the ongoing development of entrepreneurial culture and increasing market consciousness, especially comparing to other CIS extremely low rates.

Generally, post-soviet employment practices, by means of experienced different survival strategies – informal employment, labor migration, plural labor markets involvement, sharpened the core predominance of common dependant soviet mentality values model, constantly transforming it to market opportunity modeling of own working place with boss and worker in one person, developing in de Soto terms people's capitalism.

These pointed above socio-economic circumstances led to emerging the labor market, first, segmented labor market, secondly, or overall vision of plural labor markets: formal labor market in correspondence to main working place; labor market of additional work; informal (shadow) labor market; labor market for self-employment opportunities, private initiative; foreign labor market(s); grant/credit foreign and national labor market for scientists, NGOs, small-medium business etc. The quantity and quality of these markets could be described by statistics and sociology for understanding the continuity involvement and circulation within these markets and outwards, perspectives for entering, reentering and abandoning these labor markets could be

generalized as research knowledge mainly undertaken for lighting the new post-post soviet labor market formation and its nature, on what Victor Nee and Matthey stressed in 1996, asking '*Where do labor markets come from?*' They do not emerge from the state hierarchy, instead it' link to the rise of production markets, but the sense is that labor market in reforming state socialism is fundamentally important for explanation the changes of stratification order and societal transformation in general.

In conclusion, the sense of study labor market formation process or simply its nature gives opportunity to follow the different political, economic, socio-economic and social evidences by means of terms and concepts of redistributive/mixed hybrid/informal/market economy. Such opportunity provides possibility to find real social transformation tracks within market transition period from soviet state socialism to post-soviet capitalism explaining analyses of the state in 'departure point' for simultaneous understanding what is going and vision on when and where would be 'arrival point'.

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The Economic effects of 10 years of membership of Poland in the EU

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Abstract: *Membership in the EU has brought the Polish economy both benefits and economic costs. The purpose of this study is to examine the main economic effects of 10 year old Polish participation in the EU. With analysis based on the theory of integration and empirical studies suggest that the impact of the integration of the Polish economy with the EU was essential and multi-sector. Effects of integrative formed not only under the influence of free trade and European single market with free movement of capital and workers, but also as a result of EU' aid under the structural policies, namely, regional policy and agricultural policy. The benefits of the integration has prevailed economic costs , therefore, a total of Polish participation in the EU has brought an increase in economic growth of at least 0.5% of GDP per year to 1.75%. Integration marked the beginning of a process of catch-up with better developed the EU member countries, and the assistance from the structural funds to Poland has allowed the avoidance economic crisis.*

The economic effects of participation of 10 years participation of Poland in the European integration process – the biggest economy among the EU' new member states seems to be worth of scientific analysis because it may shed some light on the efficiency of all enlargement processes.

In this paper economic integration is taken in a “negative “ sense : to indicate the gradual elimination of economic frontier between Poland and the EU partners as well as in a “positive” meaning as participation by Poland in some

the EU' economic policies. Poland was a partner of "negative" integration before and after the EU membership and partner of "positive" integration after accession to the EU.

The main objective of this article is to identify and evaluate the benefits and costs of various stages of Polish integration within the EU. The goal of this paper is to discern and compare the essential economic effects of Poland participation in European integration process. Attempts will be made to evaluate the past, actual and future process of integration in economic terms. Poland has taken part since 1992 in a free trade area and since 2004 in the EU customs union and European single market. The best and typical method of assessment of the economics of integration processes is the comparison the costs and benefits. The paper analyses and compares the economic effects of the most important parts of European integration processes: free trade, four freedoms of the single market, economic union . The paper assumes that integration process has its own logic and next steps of integration might have its sources in benefits of the former stages. The analysis of the successive parts of the participation of Poland in the integration processes serves to find the answers for the following questions: has the introduction of free trade created new exchange between Poland and the EU? Has the accession of Poland to the single market been brought positive impact on Polish economy and what was costs and benefits division among the "four freedoms"? If the realization of the EU economic policies have been involved with higher benefits then adjustment costs for Polish economy? If integration process between Poland and the EU has had in general positive impact on economic growth and finalize Polish economy caching up processes ?

The analysis is done mainly with medium term perspectives, but it may also give clue about the benefits and costs and long-term impact of EU membership upon the Polish economy. It is important to note that the theory of international integration doesn't dispose the precise methods of assessment of the effects of integration processes. Two methods are usually distinguished: the ex ante approach tries to estimate the effects of a planned integration by forecasting what will happen if this process is realized and what if it is not realized. The ex post approach sets out to estimate the effects of integration that has already been realized with so called "antimode situation", what would have happened if integration group had not been formed. Because these two methods have several drawbacks, which produce different output I decided to look at the explanation in the theory of integration, compare detailed statistical data, use the output of different Polish and foreign analysis as well as through its theory of economics to give the most objective picture as possible of all important economic effects of Polish membership in the EU.

Economic integration starts usually with the liberalization and gradual removal of trade barriers between partners. In European integration free trade is treated as the entrance to the single market. Trade liberalization is additionally supplemented by the lifting of restrictions on the flow of productive factors. The European Single Market includes four freedoms: free trade of goods and services, and free migration of capital and people. These freedoms lead to an adjustment of partner countries economies in order to reap the benefits of the international division of labor. The EU also undertakes of economic policies in some fields (agricultural, regional, competition policy, etc.) in which participated Poland after accession in 2004.

The integration processes between Poland and the EU have also started from free trade. The free trade in industrial goods with the EU partners was entrance to the European Single Market. After accession into the EU Poland introduced all four freedoms' *acquis communautaire*. Free trade included not only industrial products, but also trade in agricultural products. Moreover, Poland also enlarges the liberalization process to free circulation of services, capital and people. It was obliged to abolish not only the last direct barriers to trade and migration of factors of production, but also many so-called indirect barriers, like technical standards, administration rules, harmonization of taxes, and public procurements law. In 2004 Poland joined also the Economic and Monetary Union and the EU common policies contained several sectors of the Polish economy (competition policy, agricultural policy, regional policy). Although Poland has not participated yet in third phase of the EMU, from the legal point of view monetary integration is also part of Polish integration process.

Polish participation in various integration stages of European integration process has had an important influence on the Polish economy. It involved all sectors of the Polish economy, changed public policy, the environment of many firms, and the position of consumers. It opened a market much larger than that of Poland to Polish exporters of goods and services. On the other hand, integration process opened the Polish market to foreign competition and new foreign investments. It gave Poles the opportunity to take jobs nearly all around Europe on non-discriminatory conditions. It brought about new institutional and business regulations. Since Poland has entered the European Single Market, the next logical steps were to assume the principles

of the EU economic policy. Now Poland is undergoing the process of fulfilling the convergence criteria, an event which has further consequences for Polish economy.

Each integration process is characterized by economic benefits and costs of adjustment. Sometimes these benefits and costs may be unevenly distributed among the partner countries. Some countries may draw mostly benefits from the single market, while the others may bear the main costs of adapting to the new environment. The benefits and cost may be also unevenly distributed among particular economic sectors. Moreover, different integration initiatives may bring different economic effects between partners and their regions. To avoid the uneven distribution of costs and benefits, the liberalization process should be supplemented by some corrective mechanism. In the EU the function of the corrective mechanism is provided by the two structural policies: the Regional policy and the Common Agricultural Policy. The other EU economic policies are also characterized by economic costs and benefits of early adjustment and further functioning.

The benefits derived from European economic integration have been widespread and substantial to all member states. The customs union created the biggest trade block in the world economy. Establishment of customs union together with common market was accompanied by “golden decade of growth” in Europe. Later liberalization of non-tariffs barriers in the single market enlarged (according to European Commission) the earlier benefits to overall 800 billion euro income, increased income in member states by 4.25%-6.5% and created 2.5 million new jobs (Emerson M. 1991: 193-218). The

access to a large market increased efficiencies of scale, productivity of the firm and gave business new investments opportunities, affected migration of capital and people. The economic integration increased competition, structural adjustment and improved allocation of economic resources. The common economic policy brings about more stable framework for public policies and business cooperation. The EU structural policies recompensed market failures and helped less developed partner countries and their regions in convergence processes. However, despite much success today crisis in euro area indicates that are also a lot of hurdles on the way to a final goals as the common European economy.

Membership in the European Union has brought also many profits to the Polish economy coming from different sources. One of the most evident is that Poland drew a lot of benefits from division of labor and trade expansion with the EU members countries .The dynamic growth of exchange between Poland and the EU accompanied the whole process of trade liberalization. The Association Agreement abolished the direct impediments to trade in industrial goods and Poland became the fourth biggest EU external export market. In the single market Poland eliminated barriers in agricultural trade, lifted technical obstacles, liquidated boarder checks with Schengen partners, adjusted indirect taxation, and introduced European law concerning public procurement. Since Poland has become part of the EU, it has shown the highest dynamics of growth of trade among the partners. In 2004- 2005 the export of goods from Poland grew by 31% and 19.6% to 55.1 billion euro in 2005, to 67.6 billion euro in 2006 , to 80.3 billion in 2007 euro, to 90.4 billion euro in 2008 . Even in the time of crisis Polish export reached 95.6 billion

euro in 2010 and 105.6 billion euro in 2011. In 2012 the foreign trade increased in comparison to 2011, but has weakened their dynamics. Imports grew more slowly than exports, resulting in a negative balance improvements. Turnover in euro increased in the export side by 4.9% to 143,5 billion, and import side by 1.0% to 154,0 billion. Negative balance amounted to EUR 10.5 billion (in 2011, minus 15.9 billion). Trade with EU countries the volume of exports increased by 1.4% to 90.8 billion euro and the turnover with the countries of Central and Eastern Europe by 9.6% to 13.8 billion euro. The volume of goods imported from the EU countries decreased by 2.1% to 88.5 billion euro but from Central and Eastern Europe increased by about 5.8% to 24.5 billion euro.

Tab.no 1 Polish foreign trade turnover in total and by countries in 2012

EKSPORT	in million. Euro	in %
	143456,1	100,0
Developed countries.....	117973,5	82,3
of which EU	109080,0	76,1
of which euro-zone	74445,2	51,9
Developing countries.....	11640.1	8,1

Countries of Central and Eastern Europe	13842,5	9,6
IMPORT	154040,2	100,0
Developed countries	99434,5	64,6
of which EU	88580,8	57,5
of which euro- zone.....	69489,8	45,1
Developing countries	30080,9	19,5
Countries of Central and Eastern Europe	24524,8	15,9
SALDO	-10584,1	
Developed countries	18539,0	
of which EU	20499,2	
of which euro -zone	4955.4	
Developing countries	-18440,8	
Countries of Central and Eastern Europe	-10682,3	

GUS, Główny Urząd Statystyczny, Statistical; Yearbook 2013,
Warszawa 29.07.2013

Poland became also more important market for the EU producers with import worth nearly 89 billion euro and 57%.5 % of all global import. There were common opinion expressed by economists that the growth of import from the EU would exceed Polish export mainly due to trade liberalisation and more aggressive market selling strategies of multinational firms at home market. The forecast on the temporary deterioration of Polish trade balance after accession to the EU didn't come true. In 2005 for the first time Polish trade balance showed small surplus with the EU countries, in 2008 +4,5 billion euro, in 2011 Poland obtained even bigger surplus in trade with the EU countries + 16.4 billion euro and in 2012 + 20.4 billion euro . The trade deficit between Poland and the EU in the agricultural sector reached 677.8 million euro in 2003, but in 2004 there was surplus of 850 million and this trend continued since the start of the post accession period. The growth rate of agricultural exports to the EU-27 states was almost twice as much as the imports growth rate in the entire post accession period and the expansion of Polish export from 4 billion to 11.3 billion euro. The most important importers of agricultural products from Poland were: Germany , the United Kingdom , the Czech Republic, and the Netherlands. The highest growth of export developed in meat and milk products. In the 1990s only 18% of Polish beef production was exported, after accession beef export grew to 50%. One fourth of Polish poultry was exported to the EU partner countries, and the export of pork outweighed pork import from the EU. Poland continued to be mainly an exporter of meat products (25%), dairy products (12%) and fruit and vegetables (over 20%), tobacco and manufactured tobacco substitutes (6.4%), sugar and sugar confectionery (3.4%), and beverages, spirits and vinegar

(3.1%). The positive trade balance with the EU partner countries showed, that Polish economy was able to withstand the competition forces of the single market.

Poland began the liberalization process with the EU with highly concentrated export specialization. Before accession to the EU Poland' place in the division of labor with members countries was defined rather by cost and price factors than factors related to technological development. In the free trade area Poland showed stable and well defined comparative advantage in relation to the EU partners countries in heavy industries and agricultural goods. This strong entrenched comparative advantages in trade between Poland and the EU partners induced the development of trade according to the rules of comparative costs advantages. Strong development of inter- industry specialization had been shown especially in chemical industry, pharmaceutical industry, resource industry, metal and paper industry . After accession to the EU Poland developed more intensive and diversified intra-industry specialization within single market, although the level of intra- industry coefficient is still less than in more advanced EU. In the EU Polish producers developed of intra-industry specialization in trade of capital- intensive industries (machinery), labor –intensive (textiles) and resource- intensive (building materials). The intra-industry specialization in some branches of industry, like textiles, home appliances apparatus, cars, were connected with development of two-way trade inside foreign companies acting in Poland. The single market helped to change in the structure of mutual trade with the growing importance in Polish export capital intensive goods (machinery, cars), labor intensive goods (furniture, agricultural

products), technological intensive products (difficult to imitate) and import more technologically advanced goods (machines and mechanical appliances, electrical equipment).

For 2008 the Grubel–Lloyd index calculated for trade of industrial products classified under SITC level 3 had the value of 0.634775. The same coefficient calculated for all Polish trade with the EU at SITC level 5 (SITC 0–9) had the value of 0.505027 The Grubel and Lloyd index increased from 10% in 1988 in trade with 12 EEC members state, to 36% in 2006 in trade with 25 EU members states and to 50.5% in 2008). The growth of this index by 0.191458 in the period 1998–2008 signifies further intensive development of intra-industry specialization in trade between Poland and the EU (Kundera 2010: 72,73). This progress strongly suggests that there is more convergence of the economic structure of Poland and the EU partner’s countries. Growth of exports and imports between Poland and the EU in the transport equipment’s sector is typical example of how intra-branch specialization develops. The highest growth of intra-industry specialization was detected in such group of products as parts of electrical machinery, chassis fitted with engines for the motor vehicles, iron or non- alloy steel, central heating boilers. However it should be emphasized that the level of intra industry trade between Poland and the EU was still lower than in trade between 15 member states. Before crisis in 2008 year Polish intra-industry trade was still 50% than intra- industry trade in France, Germany, Belgium – Luxemburg, and 20% lower than intra industry trade in Spain or Ireland. Moreover, the intra- industry trade between Poland and the EU member states mainly had the form of vertical intra-industry trade: export of low-quality intermediate/ final goods and the

import of high-quality intermediate and final goods than horizontal intra-industry trade: exchange of varieties of goods with similar qualities (Poland competitiveness Report 2008:29).

In order to gain more profits from the international division of labor, the structure of Polish exports has to change continuously towards production of goods with high value added. Thus far Poland has accomplished some evolution to improve structure of exchange on the single market (selling more machines, and fewer textiles). However in the long term Poland needs to produce and export more goods there are technologically advanced. Because these kinds of goods show the highest dynamic of demand, Poland must do more, thought than just compete on the basis of lower labour costs. Poland must also strive to increase productivity (now at the level of about 60% of EU-27 average) and technological development. It is necessary to spend a lot of resources on Research and Development (R + D) to invent new products and methods of production. Just after accession to the EU Poland spent over 1 billion euro yearly on R+ D. In 2012 Poland spend on R+ D two times more - about 2 billion euro, but still much less then France- 50 billion euro or Germany – 70 billion euro. In relation to the GDP R+D spending amounts to a small amount of 0.7% in comparison with EU -27 – 1.85% (Les echos de Pologne 2010: 12). In Poland the government is main provider of funds for R+D – 63%, business enterprise invests only 33% of all research spending. Most R + D efforts are directed towards engineering and technology, natural sciences, medical sciences and agricultural sciences. Universities and other higher education institutions have the key role in technological progress. The percentage of companies carrying out innovation

activities was less than half. Among private enterprises more than 60% of total innovation expenditures was spent on machinery and technological instruments, about 15% on physical infrastructure and only 11% on proper R + D. It is worth adding that the number of patent application to the European

Patent Organization per one million inhabitants reveals huge gap in innovation activity between Poland and the better developed EU countries. While Germany registered 269.3 applications, Finland – 223.2, France – 115.2, the Netherlands – 165, Belgium – 124.6, Italy – 71.8, Spain – 26.4%, Ireland – 57.7, Poland registered only 2.3 applications (Annual Innovation Policy Trends and Appraisal Report: 204-205). Therefore in the long run to participate profitable in the division of labor on the European Single Market Poland must develop specialization in more technologically intensive production. To achieve this goal Poland must spend more resources on R + D and do so by increasing the participation of Polish enterprises in innovation processes, in the introduction of new methods of production and the creation of new products.

As a result of accession to the customs union Poland has also adopted the EU external customs tariff. In the case of industrial goods an average customs tariff had been significantly reduced. It is estimated that lowering of customs tariffs for industrial goods from third countries have had limited impact upon the level of market protection in Poland. Over the all period of trade liberalization, the exchange between Poland and the EU has been developing much faster than with the thirds countries. The growth of trade has been then more likely due to the effects of trade creation than trade

diversion influencing on positive allocation of Polish and the EU economic resources. However, in the time of crisis in euro area trade relation between Poland and third countries (outside the EU) developed more dynamic then with EU partners.

Continued ability to attract foreign direct investment (FDI) occurred to be one of the basic factor of successful integration between Poland and the EU. After 2004 the Polish economy received a lot of FDI and Poland continued to lead in attracting such investments in Central European region. FDI inflow was motivated by such the factors as search for new markets, rapid growth of GPD and export development based on the using the cheap Polish labor force. Each year after accession to the EU annual flow of FDI grew from 7.8 billion USD in 2004, to 7.72 billion euro in 2005, to 11.6 billion euro in 2006 up to 16.8 billion euro in 2007, 9.8 billion euro in 2008 and 9.863 in 2009 year. In the time of crisis in euro area the foreign capital activities concentrated mainly to reinvest profits. In 2010 FDI inflow to Poland fell to 7.53 billion euro, but rose again in 2011 to 10.9 billion euro. In 2012, the Polish received direct investments with a value of 4 716 million. Reinvested profits were 4 440 million. The flow of the rest of the capital, i.e. the various debt instruments amounted to 2 913 million. The influx of net equity withdrawal fell to -2 637 million. Since only the third year of Poland accession to the EU there has been double growth of foreign direct investment: the inflow of FDI was two and a half times larger than before accession. Before crisis in euro area Poland became the largest recipient of FDI among the EU 10 new member countries with about one quarter of all investment undertaken in the region. At the end of the year at the end of 2012. liability for foreign

direct investment were 178 257 million Euro. The EU partners were the biggest foreign investors (9 out of 10) in Poland. The highest foreign direct investment were reported to investors from Germany -26.8 billion euro, the Netherlands -26.2 billion euro, France - 12.6 billion euro, Luxembourg 18.2 billion Euros (NBP 2012). Capital originating from the EU partners was invested in a number of sectors (car industry, telecommunication, textile, business services, and real estate).

Tab. no 3. Total FDI in Poland at 2011 in billion euro and %

Country	Germany	Netherlands	Luxembourg	France	Italy
	26.8	26.2	18.2	13.1	10.5
	17.8%	13.5%	12.42%	8.73%	7%

Source; Polska w liczbach. Inwestycje Zagraniczne Polska Agencja Informacji i Inwestycji Zagranicznych (PAIZ), Warszawa, 15.01.2012.

Continued ability to attract FDI occurred to be one of the basic factors of Poland' successful transformation and integration with the EU. Given that

there have already been important trade creation effects between Poland and the EU, there are investment which hold the key to the future economic growth in Poland. The main Polish traits to attract foreign investors were: access to the European Single Market, growth of the economy and the availability of a cheap labor force. Polish experiences showed that FDI stimulated not only capital accumulation, but also global and local production, productivity and export. Privatized firms acquired by foreign investors had higher productivity gains than domestically privatized enterprises and other locally owned firms due to the transfer of knowledge and technology. The positive impact of FDI on Polish export had two dimensions: one quantitative (increased volume) and the other qualitative (superior quality). The increase in FDI in Poland has been paralleled by significant increase in growth of trade on the European Single Market. There were synergistic effects of capital and trade flows, when trade liberalization induced capital inflow but, on the other hand, FDI had positive impact on growth of export. Contrary to the expectations, Poland has not experienced any dramatic concentration of FDI in some regions and branches of productions. The use of special zone with corporate income tax reductions proved to be as an effective method of shaping the geographic pattern of FDI in Poland and counteract their possible excessive concentration. However, in times of economic uncertainty, firms tend to be more cautious with investments. There have been less new foreign direct investments in industry, services and real estates. A slump in the inflow of FDI would be painful for the Polish economy, considering their importance in the economic growth and modernization of Polish economy. In the time of crisis in euro area the EU partners occurred to be still the biggest investors in

the Polish economy, mainly due to reinvested profits of the firms already acted in Poland. After crisis the flows of new FDI to Poland are expected to return to its at least previous level.

After 2004, there was a strong wave of emigration of Polish workers to the EU: the Polish emigration rose from about 1 000 000 before accession to a peak 2.2–2.5 million emigrants. The EU partner countries were among the most important destinations for the Polish emigrants and included: the United Kingdom (690 thousand), Germany (490 thousand), Ireland (200 thousand), and the Netherlands (98 thousand) (see table 4). Polish migration comprised mainly young, energetic and well-educated people. The main reasons for emigration were economic one; lower wages in Poland than in the EU-15 member states, and a lack of job in Poland. Although this emigration brought about some negative consequences due to the decrease of labor force on the local market, the significant yearly transfer of money the emigrants (more than 2 billion euro each year) benefited Polish economy. Like in the other new accession countries the macroeconomic effects of migration of Poles seemed to have rather limited impact on the Polish economy, taking into consideration remittances to families, growth of productivity, reduction of unemployment, the pushing up wages and adding to skill shortages. Remittances from abroad constituted at their highest only 4.5% of income from Polish export. Emigration was only a partial labor marker relief in terms of unemployment. In the case of Poland the reduction due to emigration of the population of working age as a whole depressed GDP in 2005 by 0.16% , in 2006 by 0.25%, in 2007 by 0.24% , in 2008 by 0.23% , and in 2009 by 0.31% . It also decreased unemployment by 0.29% in 2005, 0.45% in 2006, 0.41% in

2007, 0.32% in 2008, 0.21% in 2009. The substitution of labor by capital, building the capital stock and stepping up of investment led to productivity increases of Polish workers by 0.16% in 2005, 0.33% in 2006, 0.47% in 2007, 0.58% in 2008, and 0.63% in 2009. Overall the increased mobility of Polish labour force within the single market, especially with regard young well educated has had a positive influence on the Polish economy and partly resolved the painful unemployment problems during transformation period. Since 2004 to 2011 Poland received totally 26.3 billion euro remittances. Consumption together with growing productivity tended to offset the downward effect of emigration on GDP in Poland with positive impact net on per capita growth by 0.28% in 2005, 0.51% in 2006, 0.58% in 2007, 0.58% in 2008, and 0.51% in 2009 (Barrell P., Fitzgerald J.F., Riley R. 2007). However, the remittances that have been enjoyed over the past few years as emigrant workers repatriated their savings would dry up. Crisis in euro area weaken the attractiveness of some partners and their firms as a potential employer, but economic slowdown in Poland may also influence the volume and direction of Polish emigration.

Tab. no 4 . Temporary Migration from Poland in 2007 - 2009 (in thousands, end –of year stock)

	2007	2008	2009	2010	2011	2012
1. United Kingdom	690	650		587	635*	
2. Germany	490	490	415		470 *	

3. Ireland	200	180	140	125	120 *
4. Netherlands	98	108	84	89	
5. Spain	80	83	84	50	
6. Italy	87	88	85		
7. France	55	56	47	60*	
8. Austria	39	40	38		
9. Belgium	31	33	34		
10. Sweden	27	29	31		
11. Greece	20	20	16		
12. Denmark	17	19	20		
Overall	2270	2210	1870	1940	
EU	1860	1820	1570		
Source: EU 10 October 2008. In Focus: An Update on Labor Migration from Poland, page 18., Główny Urząd Statystyczny. Departament Badań Demograficznych, 2009, 2010, Warszawa. Gospodarczo –społeczne efekty członkostwa w Unii Europejskiej, z uwzględnieniem wpływu rozszerzenia na UE- 15, Warszawa 2012, p. 11.12, * prevision					

The accession of Poland to the EU is to be positive in the terms of the balance of structural aids. The Structural Funds for Poland stimulated catching up processes and helped the Polish economy to avoid negative consequences of crisis in euro area. The structural aids net from the EU budget to Poland rose year by year: from 1.1 billion euro net in the first year of accession to 1.61 billion euro in 2005, to 2.49 billion in 2006, to 4.79 billion in 2007, to 3.99 billion in 2008, to 6.01 in 2009, to 7.73 billion euro in 2010, to 10.49 billion net in 2011 and 1.96 in the first quarter of 2012 (see table no 5). The prognosis, which had indicated Poland would have difficulty in absorbing the structural aids, now seems exaggerated. In assessing the impact of Structural Funds it is used to distinguish between the short – term demand effects and long term supply effects. Direct aids, investments in infrastructure or in human capital, which create additional demand increase production and employment in short run. In the long run investments act for increase productivity of factors of production and structural change, hence bring long term growth.

Tab.no 5 Balance of payments between Polish and the EU budget in billion euro in 2004–2012

10.49	1.96	40.18

Ministerstwo Finansów. Skumulowane przepływy finansowe między RP a UE w latach 2004- 2012

*Since January - March

In the first years of accession the Structural Funds have financed thousands different projects in Poland. The EU funds generally contributed positively to economic growth, improved many sectors of Polish economy (for example transport, environmental protection, education, small and medium-sized enterprises) and convergence among regions. The majority of the EU supports was spent on the upgrading of the Polish road transport system: in 2013 is brought into use 1 326 km of new motorways, approximately 535 km of express roads and dual carriageways around 230 km of expressways carriageway. The roads built with the help of structural funds were much longer than the roads built by license holders and with the help of the national budget only. After accession to the EU Polish government supported by only budgetary resources has built: 20 km highways, 28 km express ways and 230 circuit roads. In addition, thanks to the co-financing of structural funds Poland modernized of 1 594 km railway lines, paid for 42 651 km broadband Internet, took an 408 investment in renewable energy, built 506 new research centres and 1 649 new laboratories, 1764 innovative ideas were supported, 2701 new technology were implemented, 25 791 small medium enterprises received investment support (see table no.6).

Tab no 6. Effects of the structural funds in Poland for the period 2007-2013

1 326 km of new highways
1 594 km built or upgraded railway lines
398 wastewater
408 investment in the renewable energy
318 717 new jobs
42 651 km broadband network
506 new research centers
1 649 new laboratories
1764 innovative ideas supported
2701 implemented new technology
25 791 supported investments in enterprises
233 supported institution in business environment
Source: Portal Funduszy Strukturalnych, Warszawa 1.11.2013

wwwhttp://www.fundusze-strukturalne.gov.pl/

According to HERMIN demand model European Commission assesses increase of GDP in Poland yearly by 0.4%- 0.5% over the course of spending period. More significant are the supply side effects of Structural Funds 2007-2013 in Polish regions estimated in the range from 8% to 12% of GDP (Report on Economic, Social and Territorial Cohesion 2010: 249 -254). The structural aids for Poland are not evenly distributed among regions. The most beneficial regions in this respect were Mazowieckie voivodeship, Śląskie, Dolnośląskie, Zachodniopomorskie, Warmińsko-Mazurskie, the medium aids were regions : Wielkopolskie, Kujawsko-Pomorskie, Pomorskie, Lubuskie, Łódzkie, Podlaskie, Opolskie; and the value of aids per one inhabitant was the least in such regions as: Lubelskie, Podkarpackie, Świętokrzyskie and Małopolskie. It is assessed by the help of three macroeconomic models (HERMIN, MaMoR2, CGE-type model) that with the aids of the EU funds spent in the period 2007–2013, Poland will be able to reach almost 70% of the EU-25 GDP in 2020 and without the Structural Funds – about 3 points less. About 1/6 of the rate of development in Poland in 2020 will be a contribution rate of the resources coming from the Structural Funds. Infrastructure investments and the Environment Operational Program will have the most important, positive impact on Polish economy. The EU funds will generally positively contribute also to the regional convergence among Polish voivodeships. In 2020

Mazowieckie voivodeship will be still considered as the richest region in Poland, but the poorest regions will upgrade significantly crossing the threshold of 80% of the country average. Only one Operational Program—Development of Eastern Poland is expected – according to the macroeconomic modeling – to deliver additional GDP of 1.38% and up to 13 610 new jobs annually in five the least developed Polish voivodeships (Piech K.2008: 1 -37).

The Common Agriculture Policy has also brought positive changes to the Polish agricultural sector. The rise of exports to the single market has increased farmers' income and profitability from agricultural production. The farms outputs especially that of the biggest have been growing at a fast rate and restructuring and modernization of farms have been accelerated. Polish farmers were the only social group to receive direct aids and 1.4 million of them applied for the Structural Funds. In the first six years since accession Polish farmers have received from the EU about 12 billion euro. Contrary to what critics said would happen, the Polish agricultural information system (IACS) proved to be efficient and effectively supported many small Polish farms. However, these aids for Polish small farms often helped to increase their consumption rather than investment and there has been with little effect in turning them into a more productive sector of economy. Although Polish agriculture received only part of direct aids, they have had positive effects on the income situation in all sectors. The European Commission opposed assigning the same direct aids, that the old member states received to the new members states, because it feared that doing so it would provoke a redistribution of resources at the expenses of the 15 member states. It was

agreed in the Accession Treaty that Polish farmers would receive direct payments in the amount of 25%, 30% and 35% in the period 2004 and 2006 and these payments would increase progressively to reach full quota in 2013. While in the last four years before Polish accession to CAP the annual average level of subsidies to agricultural production was 863 million zloty, in the five years following accession their average annual value was 9866 billion zloty, more than an eleven-fold increase (Piotrowska M., Kurowski L., 2009: 384). The overall value of the support for this sector in Poland has grown from year to year: in 2005 Polish farmers obtained aids that was close to the previewed payments (preview payments in parentheses) amounting to 702 million euro (755.8). In 2006 the aid amounted to 811 million euro (881), 935 million euro (1140.8) in 2007, 1037 million euro (1425.9) in 2008, 1 446 million euro in 2009, 1827 million euro in 2010 , 2504 in 2012 million euro and about 3.5 billion euro in 2013 (see table no 7). As a result direct aids to Polish agriculture was higher than previously suggested, but still less than what was given to farmers in EU – 15 members states. For example in 2010 French farmers received 8420.8 million euro, German farmers 5772 million euro and Spanish farmers 5091 million euro.

Table no 7. Direct payments transfers for Polish agriculture in million euro in the period 2005- 2012 in brackets the preview payments

Years	Direct payments in million euro
2005	702 (755.8)
2006	811 (881.7)
2007	935 (1140.8)
2008	1037 (1425.9)
2009	1446 (1711)
2010	1 827 (1996.1)
2011	(2281.1)
2012	2504 (2566.2)
2013	3 500 (2851.3)

Source: 5 Years in the EU, Warszawa 2009,p.207, Rzeczpospolita 132 Października 20011

The result of the final agreement on direct payments is that Polish farmers have not been covered by all CAP regulations since the day of membership (100% direct payments). They had to operate under different, and worse competition conditions than did the farmers of the old 15 EU member states. In the EU average direct payments are 271 euro in the budgetary period in 2013. While Polish farmers obtained 214 euro per one ha, the direct payments in Holland and Belgium reached the level of 406 euro.

Partial direct payments, and the consequence the lack of uniform competitive conditions in the whole single market provided for two separate agricultural policies operating for a temporary period, one within the area of old 15 member states and one within the new member states. As a result in the first years after accession benefits for the Polish agriculture were only minimal. The full integration of Polish agriculture will take place in the next budgetary period in 2013- 2020. It should be added that Poland has accepted the so-called “simplified system” of direct payments. That system means that all the types of agricultural area were supported by direct payments. The argument for introducing a “simplified system” instead of the standard system was that the standard system used in the EU-15 member states was too complicated to be used in the new member states. The simplified system significantly decreased the cost of its current agricultural administration in Poland. It is worth adding that due to introducing a different, temporary system of CAP in new member states, helped the EU-15 to economize on the cost of enlargement. It has been calculated that as Poland was gradually covered with direct payments between 2004 and 2013, EU budget funds would amount to EUR 16.3 billion. The potential EU budget “savings” resulting from not covering Polish agriculture in 2007–2013 with full direct payments might approximately have been as much as 10.6 billion euro (Centrum Europejskie Natolin 2003: 11).

The lack of uniform competitive conditions between Poland and the EU in agriculture did not mean a lack of possibilities to compete. Positive effects upon income in Polish agriculture started from first years of accession. benefits for the Polish agricultural sector arose from several sources. Firstly,

direct payments to Polish farmers (in Polish zloty) rose year by year: from 442zloty per ha for crop production in 2004, these payments grew to 483 zloty in 2005, 523 zloty in 2006, 562.09 zloty in 2010 and 710.57 zloty in 2011, 731.72 zloty in 2012 and 830.3 zloty in 2013. They were supplemented by 274.23 zloty per ha for basic crops. In 2010 Polish farmers received 346.43 zloty per one cow , 410.89 zloty in 2011 and 584.79 in 2012. Per one sheep Polish farmers received 105.91 zloty in 2010 and 123.11 in 2012 (Agencja Restrukturyzacji I Modernizacji Rolnictwa 2011). During the first five years after accession Polish farmers received 10 billion euro of direct aids while transfers from Polish budget were two times less at 22 milliard zloty. Growth of direct payments from the EU for small Polish farmers made up the main part of their agricultural income. For some small farms (those up to one or two hectare) direct aids accounted for 90% of their average agricultural income, while for medium-size farms from 8.2–16.5 ha direct payments accounted for between 31% to 84% of agriculture income (Urząd Komitetu Integracji Europejskiej 2008: 184–186). Secondly, contrary to critics the Polish Agricultural Information System (IACS) proved to be efficient in managing the direct aids to Polish farmers. In 2010 this system transferred direct payments 12.8 billion zloty to 1.2 million Polish farmers - 92% from 1.375 million Polish farmers. Thirdly, due to UE accession Poland was also covered by the other instruments of the Common Agricultural Policy. The Common intervention regime encompassed cereals, sugar and butter markets. CAP instruments aimed at guaranteeing minimum sale prices to farmers included such Polish crops as cereals, meat, milk, potato, starch, sugar, dried fodder, tobacco and fruit and vegetables. In 2012 outlays from the Agricultural Market Agency

amounted to PLN 52.44 zloty for one ton of sugar, 2 785.45 zloty for one hectare of soft fruits, 162.1 zloty for one ton of vegetables. Fourthly, farmers became more interested in buying more land, thereby influencing the price for agricultural land. Before the financial crisis the price of one hectare of arable land rose by 140% in comparison with 2003, and the price of land sold by the Agricultural Property Agency increased 2.3 times (Polityka 2009).

The cost of the adaptation of the CAP rules for the Polish agriculture was also important. It increased production cost due to the VAT increases on agricultural machines, construction materials, and higher prices for fertilizers. Polish farmers had to make necessary investments to modernize cowshed and milk storage, and to install modern ventilation, and lighting systems; these investments were required so that farms adhered to standards of environmental protection. Farms specializing in animal production required greater environmental investment such as building storage structures for waste. Farms producing eggs obtained a transitional period, in which to modernize or replace of cages for laying hens. All farmers were obliged to store adequately and safely all substance that could be dangerous to groundwater. The total investment outlays related to upgrading Polish agricultural production to meet EU sanitary, health, veterinary requirements were assessed at 1.709 billion euro. Capital expenditure on agriculture increased by about 70%. The largest part of this financing was used to modernize and upgrade method of milk production (MRIRW 2004).

After 2004 Poland observed temporary and limited negative impact of the EU on Polish economy. The most visible was the growth of prices on some

agricultural products (especially sugar) as well as building materials, alcohol, cigarettes, connected with changes in indirect taxation. Although the level of inflation gradually decreasing in the following years, in 2008- 2012 the inflation rate in Poland was still higher than in euro area. The fears that Polish enterprises would start to wind on mass scale after accession to the EU did not materialize. Up to the crisis Polish firms developed their sale to the single market and improved their profitability. Accession to the EU of new member country is as usual connected with differentiation process of regional development. It is argued that some regions in Poland gained more on the integration processes than others that: capital Warsaw seemed to receive the most profit from accession into the EU as the city attracting a lot of foreign capital, the greatest benefits from integration processes fall also to large agglomeration (Poznań, Cracow, Wrocław Tri- city – Gdańsk, Sopot, Gdynia), integration benefited some regions like Mazowieckie voievodship, Śląskie, Wielkopolskie, Dolnośląskie voievodships, places localized near modern communication links, but most disillusioned regions were located in the east part of Poland facing external EU tariffs barriers, personal control, losing business connections with eastern partners, and regions dependent on heavy industry, shipbuilding sector and states farming. The present crisis in euro area has gradually decreased development of Polish trade and new investments. The influence of these negative effects on the Polish economy will depend on the ability of EU to overcome crisis.

Overall after accession to the EU Poland showed robust economic growth for a couple of years (5% in 2004, 3,2% in 2005, 5,8% in 2006, 6,4% in 2007, 5% in 2008). In the time of crisis in euro area Polish GDP grew at 3.9%

in 2010, 4.3% in 2011. Poland remained on a path of economic growth even in times of crisis for many EU' member countries. In 2012, the pace of growth pact Polish economy slipped to 1.9% of GDP, but it was still positive. For the period 2007-2011 the Polish economy to grow at a high pace, generating the highest compounded annual growth rate in the European Union as a whole (4.3% to 0.5% in the EU-27). Additional growth due to the accession to the EU is assessed by different analysis from 0,5% -1% to 1,75 % of the Polish GDP. The positive economic effects of the first years of accession was shown by dropping of Polish unemployment statistics from nearly 20% unemployment of total labor force in 2004, to 17,6% in 2006, 14% in 2007, and even 8% in the middle of 2008. However, crisis in euro area influenced negatively economic growth in Poland and unemployment rose again to above 13% at 2013. The EU structural funds helped Poland to avoid a recession at this time . We estimate that, on average 0.5 -1 percentage points of annual growth over the period was the result of investments co-financed by the EU. Because of the fast economic growth after accession to the EU Poland showed strong convergence process within the single market. During the crisis in euro area this real convergence has been additionally intensified by the GDP increase in Poland and its decrease in many partner countries. The distance between Poland and the EU-27 average GDP per capita measured clearly decreased after accession to the EU by more than 13 percentage points. Polish GDP constituted in 2004 approximately 41% of the average GDP of EU at purchasing power parity, in 2008 about 50% of the average GDP 27 members states, in 2013 about 64%. It is worth noting that, in the period 2014-2020 Poland will receive another huge potential of 73 billion euro of structural

funds. According to the convergence program real GDP growth in Poland in 2013 is expected to be 1.5%, 2014-2.5% in 2015 – 3.8%, and in 2016-4.3 percent.

The current crisis in euro area poses also new challenges for integration of Poland in the EU by declining dynamics of trade exchange, investment and services circulation, pressure to reform structural policies in the EU. The excessive debt and deteriorating confidence exposed Polish economy for slower production and growth of unemployment, an excess borrowing, lower capital inflow. In the view of crises in euro area the question arise what will be the future position of Poland in the EU and which efforts should be undertaken to safeguard the achievement from Polish accession? Firstly, the gains from accession to the EU can be further exploited by deepening the integration of markets of goods and services with the EU partners. Polish integration process with the EU has shown a synergistic effect of capital and trade flows, in that trade liberalization has induced capital inflow, and FDI has had positive impact on growth of exports. However in the long run Poland's economy should not only compete on the basis of lower labour costs and production of capital intensive goods, but also strive to increase productivity, and technological development to export more technologically intensive products and services. Because there is clear evidence that market integration in services has advanced at slower pace than in goods Poland should also act to ease barriers to cross-border services trade and improving the operation of network sectors. Polish SME in service sector should take an opportunity to develop export specialization and expansion on the European Single Market. Further liberalization of the public sectors could

lead to large increase in cross border trade and significant price decline. There are also considerable gains to be realized in easing of restriction in professional services (accounting, architecture, legal and business services). Secondly, the strong financial interdependence between Poland and the EU partners underscores the importance of strengthening the EU- wide cooperation in financial sector and supervision. The EU countries and Poland ought to do the best to restore stability, transparency and confidence in the financial sector and to undertake profound reform under the banking union with common banking guarantee funds and regulatory and supervisory system. Creating a true the single market for retail banking, mortgage lending, insurance, debts and long term savings may bring further benefits, because these markets are still fragmented between Poland and the EU. Thirdly, Poland in the EU should increase the effectiveness of the public administration to substantially cut red tape, and improve functioning of its judiciary system. Simulation made by the European Commission shows that output and consumption could increase, if a reduction in administrative burdens were achieved. Fourthly, overall today' debt crisis demonstrates that the economic costs of a single currency have been underestimated, and that the economic benefits were overestimated. Crises in euro area have exposed the EU member countries vulnerabilities of budgetary equilibrium and fiscal system. Meanwhile sound fiscal policy is essential to maintaining macro-financial stability and one main condition of economic growth. Because crisis in euro area is influencing negatively Polish economy the resolving of debt problems in EMU is an important asset for the promotion of growth in the EU as well as in Poland. In spite of the logic one money for one market the EMU

has not been shown to increase profits for less competitive countries in significant ways than the European Single Market. In the time of crisis in euro area Polish national authorities can effectively protect Poland against economic recession. However, an eventual breakup of the EMU may cost all the countries more than their further integration. Reformed euro area with efficient institutional arrangement that is able to spur economic growth and to resolve the public debt crisis is a euro area that Poland deserves to join. The time of the eventual accession should be decided after an analysis of the costs and benefits entry. Profits derived from European integration are conditioned on the possibilities to accomplish the necessary structural changes as in the EU as is in Poland. In the long run remaining outside of the euro area Poland may be in danger of losing influence on economic policy and becoming a second class European partner. Poland should decide then to join a more integrated and better governed EMU; otherwise Poland should limit its integration to the single market.

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