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The Social Dimension of European Integration and Enlargement: 'Social Europe' and Eastern Enlargement of the EU

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Abstract: This paper argues that the social dimension of European integration has been lesser priority than economic and political considerations. It also explores the conflict between the aspiration of a European-style welfare system and IMF-World Bank-backed residualism in post-communist regions since 1989; the paper also argues that the EU did not have an influence on the post-communist welfare system with regard to 'Social Europe'. Lastly, this paper concludes that a newly enlarged Europe has not yet achieved a strong orientation towards 'Social Europe', and that the creation of greater symmetry between 'Economic Europe' and 'Social Europe' is indispensable for the future of the EU.

Keywords: EU, Social Europe, EU Eastern enlargement, social policy, welfare system

JEL Classification Numbers: F02, I38, P36

1. Introduction

In the spring of 2004, 10 European countries, most of which were communist before the 1989 Revolution, joined the European Union (EU): (Southern) Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. After approximately a year of the Eastern enlargement of the EU, the voters in France and Netherlands, which were two of the founder members of the EU, rejected the ratification of the Treaty on the European Constitution. Is the Eastern enlargement of the EU related to the outcomes of the French and Dutch referenda? And if so, what is the relation?

This paper argues that the outcomes of the referenda in the above-mentioned two countries reflect, on the one hand, the dissatisfaction of a majority of the voters with the recent evolution of the European construction due to which the economic (market) dimension has outweighed the social one; and on the other hand, that the voters have been anxious with regard to the 'social dumping' that is likely to be caused by the Eastern enlargement of the EU.

This paper examines the social dimension of the process of European integration and Eastern enlargement of the EU. First, it traces the evolution of the social policy of the EU and describes its recent trends. Second, it examines the changes in the welfare system of Central and Eastern

Europe (CEE) in the post-communist period. Third, it analyzes the relationship between the institutions and old members of the EU (hereafter EU15) and the CEE countries in the process of Eastern enlargement, and examines the implications of this process with respect to the social dimension of the European construction. Lastly, this paper explores the possibility of a *Social Europe* or a *European Social Model*, using recent terminology.

2. Achievements and recent trends of social policy in the EU

Taylor-Gooby characterizes the EU policy as follows:

'[Thus] EU policy-making accepts the Schumpeterian argument that market freedom is essential to economic success, but does allow a social agenda to enter, so long as welfare ends do not conflict with market…' (Taylor-Gooby, 2004, p. 15).

The above description implies that in the process of European construction, greater emphasis has been placed on market integration as compared with social integration. In fact, a large amount of the effort for European construction in the post-war period has been concentrated on creating a common unified market. Political integration was also developing gradually so that by 1993 the EU comprised three pillars: The European Community (EC), the Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (JHA, which is now known as Police and Judicial Co-Operation in Criminal Matters (PJCC)).

In spite of this, the social dimension of the process of European integration has been lesser priority than economic and political considerations, while welfare states developed at the national dimension among members. Esping-Andersen notes that 'welfare capitalism' was institutionalized during the 1960s and 70s (Esping-Andersen, 1999, p. 4). However, social policy has been one of the European agenda and the range and tools for its implementation have expanded incrementally. This section of the paper traces the evolution of the social dimension within the process of European construction.

2.1. Successful market integration and gradual evolution of a common European social policy: the 1960s and 1970s

The Treaty of Rome, which created the European Economic Community (EEC) as a common market in 1958, was principally a project of market integration of the six founders (EC6): Belgium, France, Italy, the Netherlands, Luxemburg and West Germany. It was assumed that a common market could be created by the free mobility of goods, services, capital and labour across the borders of the EC6. With regard to the project of market integration, the treaty contained a few social provisions that aimed at allowing free movement of labour across the borders of member states. For example, it suggested that intra-community migrants must be assured of an aggregation of social security rights that have been accumulated through employment in various countries.

More importantly, the treaty stipulated that '[m]ember-states agree upon the need to promote better conditions of living and of work for workers, so as to make possible their harmonization while improvement is being maintained' (Article 117, Treaty of Rome). Although the treaty envisaged the harmonization of living and working conditions of the EEC members, it did not define the way in which harmonization must be brought about. It can be said that the Treaty of Rome provided no legal basis for an explicit project of social integration (Threfall, 2003, p. 123).

In practice, economic integration became the top priority in the process of European integration. In 1967, the institutions of three communities (European Coal and Steel Community (ECSC), EEC, and European Atomic Energy Community (EURATOM)) were integrated in order to function as one within the EC. The customs union and common market were created by 1968. Moreover, in 1973, the common market expanded to include three more members: UK, Ireland and Denmark (from EC6 to EC9).

Although economic integration was far ahead of social integration, European social policy also progressed in the 1970s. The Paris Summit of the EC in 1972 gave greater importance to the social aspects of the process of European integration than before, and the Council adopted the Social Action Program in 1974 from this perspective. The latter half of the 1970s is regarded as the golden age for harmonization of the living and working conditions in the member states because the Council adopted several directives promoting gender equality, health and safety at work.

The formation of funds of the EC was also significant from the perspective of implementation of social objectives. Three structural funds were established by the end of the 1970s: the European Social Fund (ESP), the European Agricultural Guidance and Guarantee Fund (EAGGF), and the European Regional Development Fund (ERDF). All the funds included social objectives for the reduction of disparities in living standards that existed among the regions of the member states. The ESP has played a particularly important role in the implementation of social and employment policies as the resources of the Fund have been allocated to meet various requirements such as vocational training, labour market integration of disabled people and an expansion of opportunities for women.

2.2. The Single European Act, Maastricht Treaty and the expansion of the social dimension in the process of European integration: from the 1980s to 1993

In the first half of the 1980s, social legislation at the Council was at a standstill due to resistance from the UK government that was led by Margaret Thatcher, the neo-liberal (or neo-conservative) prime minister. However, in the latter half of the 1980s, the European Commission, led by French Socialist Jacques Delors, expended much effort in enhancing the social dimension (or space) alongside the economic one as one of the EC's main goals; however, the UK government continued to oppose this development (Coriat, 2004, p. 152).

In 1985, the EU adopted the Single European Act that aimed at creating a single internal European market. Despite the creation of a customs union in 1968, a non-tariff instrument was used among the EU member states. In 1985, the Milan European Council adopted the White Paper recommendations presented by the Commission that advocated 300 concrete measures for the creation of a *completely* integrated market; the deadline for the implementation of these measures was 31 December 1992. In accordance with the Commission's recommendations, the Treaty of Rome was supplemented and amended, and the Single European Act came into force in 1987.

Although this act was essentially a program for further market integration, 'Jacques Delors, the European Commission's President from 1985 saw the idea of a social space as a necessary complement to the completion of the internal market' (Sykes, 2005, p. 208). Accordingly, as Coriat notes, the Single European Act contained some articles for advancing the common European social policies (Coriat, 2004). First, the act introduced qualified majority voting in the Council in the areas of health and safety at work in order to facilitate prompt legislation (Article 118a). Second, the act stipulated that the Commission would promote a European social dialogue (Article 118b). Third, the act defined regional policy with respect to structural funds to become formal EC policy for promoting economic and social cohesion (Article 130a–130e). From this definition, the Cohesion Fund was established in 1993 and it has aided the new member states, namely Greece, Spain and Portugal who joined in the 1980s and expanded EC9 to EC12, to 'catch-up' with the established members (*ibid.*, p. 154).

Thus, the Single European Act enhanced the legal and financial basis for the social policy of the EC. In 1989, another step was taken towards a '*Social Europe*' at the Strasbourg Summit in which the so-called European Social Charter (officially, the Community Charter on the Fundamental Rights of Workers) was passed; this was opposed by the UK government. Although the Social Charter was non-binding, it listed fundamental rights for workers and expressed aspirations that workers should be entitled to adequate social protection, and that citizens should have sufficient resources and assistance.

The Maastricht Summit in 1991 was an epoch making event in the history of post-war European construction because it set programs not only for the Economic and Monetary Union (EMU) with a single currency but also for the political community; this was done by creating a Common Foreign and Security Policy (CFSP) and enlisting the cooperation of JHA, as described above. The Treaty of European Union (the so-called the Maastricht Treaty), based on the Maastricht agreement, came in force in 1993 and led to the foundation of the EU.

On the other hand, the Social Protocol annexed to the Maastricht Treaty included a number of advancements in the creation of a European social policy, although UK was permitted to opt out. This protocol expanded the area of qualified voting in the Council to include working conditions, workers' consultation, equal opportunities and treatment and integration of those excluded from the labour market, in addition to health and safety at work (Taylor-Gooby, 2004, p. 9). It also expanded the role of social dialogue by defining the procedure for conversion of the agreements of the social partners into directives of the Council. Later, the Council adopted several directives based on the agreement of the social partners at the EU level: a directive on parental leave (1996), one on part-time work (1997), one on fixed-term contracts (1999) etc. (Vaughan-Whitehead, 2003, p. 18). In spite of such achievements, the Maastricht Treaty reconfirmed the principle of subsidiarity (see below) that limited the commitments of EU institutions in important European social policy areas. For example, unanimity on the Council is still required for the protection of workers against unfair dismissal in the workplace (Taylor-Gooby, 2004, p. 14).

2.3. The Amsterdam Treaty, creation of the euro and the recent tendency of social policy: from 1993 to the present

The European economic situation deteriorated in the beginning of the 1990s. Although it improved slightly from 1994 onwards, it was not until the period from 1998 to 2000 that a more sustained growth rate of approximately 3 per cent was achieved. The issue of unemployment was serious in Europe in the mid-1990s when the average unemployment rate in the EU member states reached a level of over 10 percent (10.8 per cent in 1996, Chapon and Euzéby, 2002, p. 38).

It should be noted that the so-called Maastricht convergence criteria strictly limited the Keynesian demand-side policy and social spending by the EU members. In other words, each national government was compelled to commit to sound money, control of public finance and price stability in order to create and join the EMU (see below).

Under these circumstances, a different tendency from the past began to appear in European social policy from around 1993, when the White Paper on Growth, Competitiveness and Employment (so-called Delors White Paper) was issued. The Delors White Paper, which had followed the Green Paper on social protection, included a set of priorities such as promoting monetary stability and a more open and decentralized labour market characterized by greater flexibility. It also raised the issue of devising a common European approach to employment for the first time.

The Amsterdam Treaty, which was signed in 1997, finally incorporated the entire Social Protocol (Article 11) and ended the non-participation of UK. It also created a title on employment (Title 8, Article 125–130) and defined an 'Open Method of Coordination' (OMC) as a tool for the employment strategy of the EU. This established a soft path toward harmonization in which the EU set benchmarks or indicators in order to guide national policy outcomes. Since the Amsterdam Summit in 1997, the employment policy has been the centre of European social policies. The first European employment strategy (1998–2002) was centred on the 4 pillars of employability, entrepreneurship, adaptability and equal opportunities.

The Lisbon Summit in 2000 declared that by 2010 the EU should become 'the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more jobs and better jobs and social cohesion.' According to Pijl, the Lisbon agreement reveals a 'challenge to the United States, in setting the target of competitive economy' (Pijl, 2006, p. 35). With regard to employment, the summit determined ambitious objectives for total employment to increase from 63 percent to 70 percent, and for female employment to increase from 54 percent to 60 percent (Gács, 2005, p. 79).

It is evident that the current European employment policy has placed an emphasis on the supply side, such as employability and adaptability; this approach permeates social assistance as well. It was agreed in the Lisbon Summit that the OMC must be adopted in order to eradicate poverty and social exclusion. Further, the Nice Council in 2000 agreed to the European Social Policy Agenda and set objectives in the area of social inclusion in which the first place went to facilitating participation in employment through employability and equal opportunities. As O'Connor notes, the guiding principle of the European Social Policy Agenda 'was to strengthen the role of social policy as a productive factor' (O'Connor, 2005, p. 349). Thus, current policy emphasizes positive 'activation' rather than benefits for the unemployed and the poor (Taylor-Gooby, 2004, p. 12). This policy perspective appears to be close to that of 'the third way' (Giddens, 1998) or similar to the '*embedded neo-liberalism* that has emerged in the EU', as argued by Bohle (Bohle, 2006, p. 68). Undoubtedly, at present the EU determines social objectives ('embeddedness'), but in a manner that causes social policy to be subordinate to the objective of competitiveness ('neo-liberalism').

It can be said that the above tendencies regarding social policy have been related to economic policy that is aimed at creating and maintaining the EMU. The Maastricht Treaty established four convergence criteria for EMU members, and among them the following two criteria were most important.

1) The annual inflation rates of member countries must not diverge by over 1.5 percent from the average of the three best-performing countries.
2) The budgetary deficits must be kept under 3 percent and the national debt under 60 percent of the GDP (see Palánkai for further elaboration on convergence criteria, Palánkai, 2004, pp. 119–120).

Following the Maastricht convergence criteria, the Amsterdam Summit agreed on the Stability and Growth Pact (SGP), which has obliged the participants to maintain the budget deficit at below 3 percent even after joining the EMU. With respect to the monetary union, the euro began to function as a single currency in accounts among 11 EMU member states in 1999. On 1 January 2002, euro banknotes and coins were put into circulation in the 12 EMU member countries.

The Maastricht convergence criteria and SGP have limited the deficit financing of state provisions and state welfare spending and led to a 'productive approach' to the social policy of the EU, which has emphasized 'activation' and 'employability'. On the other hand, the principle of subsidiarity has limited the EU's ability to commit members to important social policies. Here, the principle of subsidiarity implies that EC jurisdiction is restricted to areas in which national governments are unable to meet policy objectives through their own actions, but where EC intervention can achieve these objectives (Taylor-Gooby, 2004, pp. 9–10). This was one reason why the EU adopted an 'open method of coordination' in the area of employment and social assistance.

The principle of subsidiarity in the social policy area corresponds with national practices of post-war Europe that were directed at welfare states. It is important to note that the European economic integration has weakened the competence of national welfare states. Thus, the present situation is characterized as 'a lack of symmetry between economic and social Europe' (Sala, 2005, p. 145). Further, according to the author's viewpoint of this paper, asymmetry between these two dimensions of Europe has been enhanced by the acceleration of market integration in the EU, the creation of the EMU, globalization and, to some extent, 'embedded neo-liberalism'.

The rejection of the Treaty on the European Constitution in France and Netherlands in the early summer of 2005 was apparently caused by a *deficit of Social Europe* alongside a *deficit of Democracy*. In fact, the constitution has ambiguous features, and more importantly, it contains many conflicting articles.

On the one hand, Article I-3 provides a list of objectives of the EU, including the pursuit of social justice and progress, full employment, social cohesion, solidarity and gender equality, all of which are indispensable for *Social Europe*; the same article also uses the term 'social market economy'. On the other hand, Article I-3 defines an internal market to be the core purpose of the EU. Further, Article I-30 states that the primary objective of the European Central Bank, whose independence is affirmed, is price stability. Moreover, several articles in Part III of the Treaty on the European Constitution emphasize the principle of open markets with free competition.

Although several articles in Part III (Article 203 to 208) define the EU employment policy, including an open method of coordination, the described purpose of the employment policy is not 'full employment' but a 'high-level of employment'. Further, Article III-210 (6) suggests that the EU does not commit each member in the area of wages, the right to form unions or the right to strike and hold lockouts. It could reasonably be argued that *Economic Europe* outweighs *Social Europe*, or at least that *Social Europe* is insufficient in the Treaty on the European Constitution (see, Sala, 2005, p. 144).

In addition to the inadequate provisions for creating a *Social Europe*, the anxiety of social dumping, which is likely to occur from the accession of Central and Eastern European countries into the EU, was the other reason why two of the EU founders, France and Netherlands, did not accept the Treaty of the European Constitution. The next section of this paper examines the trajectory of the post-communist welfare system of the CEE and its influences on social dumping.

3. Transforming the welfare system of the new member states of the EU in the post-communist period

In the period of enhanced economic integration in the EU, a system change from communism to capitalism was implemented in CEE countries. This change includes the area of welfare alongside economic and political areas.

This section examines changes in the welfare system in the post-communist countries with a focus on three Central European countries from among the new members of the EU: the Czech Republic, Hungary and Poland. The author believes that similar changes occurred in other CEE countries as well, although each one had its own trajectory.

First, this section defines the communist welfare system. Next, it traces the changes in the Central European welfare system in the post-communist period, relating them with determining factors. Lastly, it characterizes the current welfare system of Central Europe and refers to the influence of the current trend in the welfare system of the new member states of the EU on social dumping.

3.1. Social policy and the welfare system in the communist era

Until 1989, a similar social policy and welfare system existed in the CEE and former USSR. To summarize Deacon's accurate analysis (Deacon, 2000), its basic features can be enumerated as follows:

—The welfare system was an inseparable part of the entire political and economic system, which was controlled by monopolized power in the form of the communist party-state. The communist party-state guaranteed people employment and provided them with highly subsidized food, housing, transportation and other basic necessities, as well as free education and health care services (although patients actually had to pay a gratuity to doctors to receive quality treatment).

—Apart from hidden privileges for the power elite, that is nomenclature, the communist welfare system was almost egalitarian, although some categories of workers (in particular, employees in heavy-industry sectors) were provided with privileges in the wage system to which pensions and other benefits were related. With respect to gender issues, women received favourable treatment in the form of a three-year-child-care leave with partial wages (grants) and the right to resume their previous job; however, the communist regime did not guarantee gender equality. Among other things, only females—not both genders—had to bear the dual burden of maintaining a paid job in the workplace and providing unpaid family care.

—Another feature of the communist welfare system was that state enterprises provided several cash and in-kind benefits and services to their employees, employees' families and retirees, such as several types of allowances, subsidized recreational facilities, vacations and day-care facilities.

Trade unions also played a role in the provision of benefits and services.

In defining the communist welfare system, Deacon suggests that the communist welfare system had, to some extent, certain common features with 'the European conservative corporatist tradition' in which 'the benefits reflected acknowledged status differences between workers' (Deacon, Hulse and Stubbs, 1997, p. 91). According to the author's viewpoint of this paper, the communist welfare system shared common features with the social democratic regime as well because it brought a high degree of decommodification and female participation into the workforce (for details on the well-known classification of welfare regimes into liberal, conservative and social democratic, see Esping-Andersen, 1990).

The communist welfare system had its achievements and defects. With regard to the former, Ferge, a well-known Hungarian expert on social policy, indicates

'[D]espite all its inhuman features and tragic failures, state socialism was not unqualified evil… By developing, and assuring access on a mass scale to the health system, to education, and to stable incomes, it contributed to the eradication of practically feudal social distances, the very significant reduction of utmost poverty, and the development of human capital…' (Ferge, 1997a, p. 108).

At the same time, Ferge refers to the defects of the communist welfare system as follows:

'The main defect of social policy in these states [state socialism] was that it was permeated with the totalitarian logic of the former political system' (Ferge, 1997b, p. 301).

In other words, the main defect of the communist welfare system was a lack of democracy.

On the other hand, Kornai, the best-known Hungarian economist, criticizes the 'premature welfare state' created in the country as a defect. Kornai argues:

'What I meant and still mean by premature welfare state is a country ahead of itself by comparison with its realistic economic potentials… The [Hungarian] welfare state has outgrown its desirable extent. It needs cutting back and reforming…' (Kornai, 1997, pp. 95–96).

Although both scholars mainly describe the communist welfare system in Hungary, they also appear to present their own evaluations of the communist welfare system in general. It is able to say that the communist state was a comprehensive welfare state 'despite all its inhuman features'.

3.2. Changes in social policy and welfare system after 1989 in Central Europe

The characteristics of the communist social policy and welfare system described above were also essentially valid for three Central European countries: the Czech Republic, Hungary and Poland. Since 1989, several factors have influenced the transformation of social policy and the welfare system in Central Europe. Among these factors, some important determinants existed, which are enumerated below.

—Social costs of transformation

—A traditional European welfare system

—Neo-liberalism as the dominant orientation in the world before and after 1989
—Advice and commitments from international organizations such as the World Bank and the International Labour Organization (ILO)
—Legacies of the communist era

The transformation process of social policy and welfare system in Central Europe in the post-communist period can be characterized as follows.

In the initial years of the system change in Central Europe, social policy possessed a character of 'emergency response' to the social (societal) costs of the economic transformation, and the process of instituting emergent social policy overlapped with the transition to the traditional European model of welfare. Since the mid-1990s, neo-liberal social policy was enhanced by the World Bank in cooperation with the Ministries of Finance in the region. On the other hand, people continued to expect a strong commitment to welfare from the state and resisted attempts by post-communist welfare regimes to move towards a more residualist welfare state.

Social cost of transformation and 'emergent' social policy

Since 1989, the CEE countries have replaced the communist party-state system with a system governed by the rules of market and parliamentary democracy. In general, three Central European countries, Poland, Hungary and the Czech Republic are the forerunners of democratization among post-communist countries. After a heavy depression due to economic transformation, the countries have embarked onto the path of growth.

However, from the viewpoint of social policy-making, it is important to consider that social (societal) costs of transformation, in other words negative results or 'sacrifices' due to the system transformation (Szamuely, 1996, p. 55), have been heavy in all post-communist countries, including those of Central Europe; they required 'emergent' social policy in the region. The main social costs of transformation were represented by phenomena such as excessive mortality, mass unemployment, increase in the economically inactive population, a rise in poverty and increase of income inequalities.

After the collapse of communism in the region, in addition to the inadequacy of the medical system, stress brought about by the drastic system change caused high mortality and a decline in life expectancy. During the period from 1989 to 1994 life expectancy of males drastically fell from 64.2 to 58.2 years in Russia; it fell only slightly in Hungary from 65.4 to 64.8 years. Life expectancy also fell slightly in Poland from 1990 to 1992. In the Czech Republic, the same phenomenon occurred, but only in 1990 (Szamuely, 1996, p. 66).

The transformational depression caused unemployment in post-communist countries and negated a basic component of the communist welfare system: full employment. In Poland, the unemployment rate peaked in 1993 (16.4 percent) and gradually declined until 1998 (10.4 percent); however it increased again to 17.9 percent by 2005. During the years of transformational depression, i.e. from 1990 to 1993 in the Czech Republic, the unemployment rate was relatively low (3.5 percent in 1993); however it increased significantly from 1997 onwards and to become 9.4 percent in 1999; the rate decreased slightly to 8 percent by 2005 (KOPNT-DATORG, 2002; 2004, and *Eurostat*). In Hungary, the unemployment rate recorded 12.1 percent in 1993, declined to 5.9 percent in 2003, but gradually rose to 7 percent by 2005 (KOPINT-DATORG, 2002; 2004, and *Eurostat*).

Moreover, in Hungary the recovery of the employment rate is slow and there are a large number of economically inactive people—over 2 million—among the 6 million people of working age in 2003 (Fazekas and Varga, 2005, p. 183).

While the percentage of females among the total number of unemployed people was higher than that of males in Poland and the Czech Republic, it was lower than 50 percent in Hungary. However, in Hungary the decline of the economically active population after 1989 was more drastic among females than among males (Frey, 1998). Thus, it can be said that the gender gap (bias) in labour, which already existed in the communist era, has grown by varying degrees in the respective post-communist countries.

Poverty was already in existence under the communist regime. Andorka notes that one million Hungarians, or 10 percent of the population, lived on a per capita household income that was lower than the subsistence minimum in the 1980s (the subsistence minimum is defined as the value, per capita household income, of a basket of certain goods and services required by an average household in order to maintain a minimum standard of living, Andorka, 1997, p. 76).

However, it should be emphasized that economic transformation drastically increased and deepened poverty in the post-communist countries. In Hungary, the proportion of the poor to the total population increased threefold by the mid-1990s. The poor included families with three or more children, the unemployed and the economically inactive population. The Roma ethnicity, whose majority was unemployed, was also over-represented among the poor after the economic transformation in the country (Andorka, 1997, pp. 81–82).

Similarly, poverty spread rapidly in Poland and the Czech Republic during the years of system change. The proportion of the poor to the total population was higher in Poland than in the other two countries (Adam, 1999, pp. 155–170).

When system transformation was underway in post-communist countries, the social structure in the countries also changed, as is reflected in the increase in income differentials. In the case of Hungary, in 1988, the year preceding the system change, the income of the highest household decile was 5.8 times higher than that of the lowest household decile; while from 1994 to 1995, the former was 7 times higher than that of the latter (Kolosi and Sági, 1999, pp. 52–54).

Similarly, in the Czech Republic the income ratio between the lowest and highest household deciles increased from 2.6 in 1988 to 3.2 in 1996 (Potůček, 2001, p. 86). According to a World Bank report, the income differential on the basis of Gini coefficient was widest in Poland in 1993

(The World Bank, 1996, p. 68). The growth of income differentials revealed the appearance of the new rich on the one hand and deteriorating living standards of the majority on the other.

Due to the above social costs, the social policy in the initial stage of system change had the character of 'emergency responses' in the region (Cichon, 1995; Cichon, Hagemejer and Ruck, 1997, p. 19). In other words, emergency measures were introduced in order to deal with the social costs of transformation such as mass unemployment, widespread poverty and deteriorating living standards. All countries in the region swiftly introduced unemployment and social assistance benefits and modified their pension provision strategy in order to fight rampant inflation.

In the three countries under discussion, decrees on employment were enacted and unemployment insurance was introduced in the initial phase of system transformation. The unemployment benefit plans were initially generous, although they later became limited in terms of the replacement rate and length of entitlement in the region (see below).

Pension provision strategies were modified, mainly aiming at improving the living standard of pensioners and preventing an increase in unemployment in the initial stage of system change in Poland and Hungary. In Poland, automatic indexation of old-age benefits to wage increases was introduced in 1990; in Hungary, pensions were adjusted twice a year, following wage levels, as a result of parliamentary action in 1992. Moreover, both countries applied generous eligibility conditions to old age and disability pensions in order to promote early retirement. In other words, early retirement was considered to be an alternative to unemployment.

In the initial stage of system change, all three countries enacted decrees regulating social assistance that were intended as a safety net for those who were no longer able to support themselves. Social assistance has been a means-tested benefit for poor people.

In brief, the initial social policy after 1989 could be characterized as an 'emergency response' to the social costs of transformation.

The shift to a traditional European welfare system

According to a publication of the International Labour Organization, Central and Eastern European Team (ILO-CEET), the social security system in Central Europe in the mid-1990s was characterized as an 'emergency response' to the outcomes of economic transformation, while developing a shift to the three-tier social security system prevalent in Western Europe (Cichon, 1995; Cichon, Hagemejer and Ruck, 1997, p. 10); the three-tier comprises social insurance plans, universal benefits and social assistance policies. Such a shift undoubtedly occurred, to varying degrees, in the region by the mid-1990s.

Alongside the creation of the three-tier system, European-style tripartite institutions were also established. Thus, it could be said that, in parallel with the 'emergency response', the Europeanization of social policy occurred in the region to a certain extent.

With regard to social insurance policies, Hungary was the most advanced example of a social insurance-based social security system in the region by the mid-1990s. In Hungary, the social insurance fund was separated from the state budget in 1989 and an employment insurance fund was introduced following the enactment of the Employment Act in 1991.

In the same year, the Czech Republic (at the time Czechoslovakia) introduced a health care insurance system with competing insurance funds. Besides one general insurance company, a number of NPO-style insurance funds were created on the basis of industrial sector, profession and firm. Although the main contributors to the funds are the employer and the employee, the government also pays contributions for the unemployed, the retired, women on maternity leave and children without support (Adam, 1999, pp. 144–145). Therefore, health care funding in the Czech Republic is a combination of the Bismarckian-style of insurance and the Beveridgean-style of state funding. Poland separated the pension fund from the state budget in 1986 and introduced a health care insurance system with a number of insurance funds in 1999.

The shift to an insurance-based social security system in the region is considered to be an easy method of institutional restructuring for ex-communist countries, as noted by Deacon:

'The logic of post-communist development was towards a conservative, corporatist kind of welfare policy. Workplace entitlement to welfare and existing workplace status differentials inherited from the days of the socialist state could be readily converted into insurance-based, wage related and differentiated benefit entitlements of the Austro-German, Bismarckian kind' (Deacon, 2000, pp. 151–152).

The communist era also left behind legacies of universal benefits. Through the retention of the family allowance and childcare leave with partial wages, the principle of universal provisions was maintained in the initial stage of system change in the region.

Moreover, the European-style tripartite bodies were established at the national level as an institutional framework of industrial relations and social dialogue in the post-communist countries in the initial stage of system change. In Hungary, the Interest Reconciliation Council was established in 1990 as an institution for dialogue among the government, employers and employees. Similarly, a tripartite body was established in the Czech Republic (then Czechoslovakia) in 1990 and in Poland in 1993–1994.

Some international organizations, particularly the ILO and UNICEF, encouraged post-communist countries to create a traditional European-style welfare system. The ILO, whose branch was established in Budapest in 1992, has provided post-communist countries with the required technical assistance to establish European-type industrial relations. The UNICEF has proposed the maintenance of traditional European types of universal benefits and services in the region.

On the other hand, the European-based bodies did not necessarily play such a role (with the exception of the Council of Europe). The EU directed the Pologne, Hongrie, Aide à la Reconstruction Economique (PHARE) programs and imparted advice on the social security policy (Fagin, 1999, p. 189); however, its policy advice to post-communist countries did not have a systematic orientation toward *Social Europe*, as the next section of this paper reveals. Initially, the European Bank for Reconstruction and Development (EBRD) attempted to play a role in the sphere of social security in post-communist countries. However, in order to avoid overlapping with the role of the World Bank, it was limited to providing assistance to the private sector in the region.

While the European-based bodies such as the EU and EBRD did not exert direct influence on the Europeanization of the welfare system that occurred in the initial stage of system change in Central Europe, the World Bank had the strongest influence on the restructuring of the ex-communist welfare system, particularly since the mid-1990s, as revealed below.

Permeation of neo-liberalism into the Central European welfare system, with the World Bank as promoter

Widespread neo-liberalism was one of the remarkable phenomena that occurred in the post-communist region. Neo-liberalism was observed to a greater extent in the economic policy than in social policy in the initial stage of system change.

However, around the mid-1990s, the neo-liberal approach to social policy became more apparent than before in the region. It occurred in the environment of a rapidly deteriorating state budget and external balance both in Hungary and Poland. Even in the Czech Republic, which did not face a severe imbalance, social policy shifted toward neo-liberalism by the mid-1990s.

The core of the neo-liberal social policy inspired by the World Bank comprised the following two elements: first, limiting the provision of welfare benefits to the 'truly needy', thus reducing the social expenditure; and second, privatization of the pension system (Deacon, 2000, p. 154).

Around the mid-1990s in Hungary, universal benefits and services such as family allowance and paid childcare leave were converted into means-tested benefits, and the principle of free education and health care was eroded by the introduction of co-payments for dental care and university tuition. Similarly, in Poland and the Czech Republic the universal family allowance was converted into a means-tested benefit around the-mid 1990s.

In Hungary, the length of entitlement of unemployment benefits was gradually reduced from two years to one year in 1993 and then to nine months in 2000. The case of Czech Republic was similar. In this country, unemployment benefits were paid for one year in 1991: 90 percent of the salary for the first six months and 60 percent of the salary for the next six months. Later in 1999, the length of entitlement of benefits was reduced to six months: Only 50 percent of the salary was paid for the first three months and 40 percent for the next three months (Potůček, 2001, p. 90).

Pension reforms were carried out with a paradigm shift in Hungary in 1998 and in Poland in 1999. The reform process was led by each country's Ministry of Finance, which cooperated with the World Bank. The main concern for the World Bank was to limit the public Pay As You Go (PAYG) scheme to a minimum scale (first pillar), to introduce the mandatory and individually funded, privately managed and non-solidaristic second pillar, and to establish the additional voluntary third pillar as well. Hungary introduced this new type of pension system comprising three pillars in 1998; however, the proportion of the second pillar to total contributions was smaller than initially proposed by the Ministry of Finance. The new Polish pension system that was introduced in 1999 was essentially similar to the Hungarian one; however, it included more insurance elements because in addition to having an individually funded second pillar, the 'notional defined contribution' (NDC) plan was also arranged in the first pillar in order to enhance the contribution-benefit link.

In contrast to the Hungarian and Polish cases, the Czech Republic maintained its public PAYG scheme, although voluntary pension funds were permitted after 1993. In 2004, among other new member states of the EU, Latvia (2001) and Estonia (2002) implemented partial privatization following Hungary and Poland (Fultz, 2004, p. 10).

The ILO-CEET, gathering research on pension reform, has opposed partial privatization of the pension system and supported pension reform within a PAYG structure. (Cichon, Hagemejer and Ruck, 1997; Fultz, 2002a; 2002b). On the other hand, the EU did not oppose partial privatization of the pension system in the CEE countries.

Legacies of the communist era in post-communist welfare systems

Although neo-liberalism has become a notable element in the post-communist social policy, particularly since the mid-1990s, it has failed to permeate deeply into society due to the legacies of the communist era. Esping-Andersen provides the following description:

'East and Central Europe is clearly the most under-defined region, a virtual laboratory of experimentation. If it is at all possible to generalize, there is at least clear one trend: where neo-liberal welfare policies (often inspired by the Chilean model) were pursued most vigorously, they were punished in subsequent democratic elections… [S]o neo-liberal welfare policies in Eastern Europe seem to revitalize socialism' (Esping-Andersen, 1996, p. 267).

Neo-liberal economic policies undoubtedly 'revitalized' socialism and aided ex-communist (presently the Social Democratic or Socialist) parties to regain office in Poland (1993) and Hungary (1994). However, the Social Democratic and Socialist Party-led coalition governments were also punished by people in subsequent elections in 1997 (Poland) and 1998 (Hungary) as these governments lost their majorities because they adopted policies for reducing welfare expenditures.

In Hungary, the subsequent conservative government revived the universalized family allowance in order to maintain its popularity among the electorate. Nevertheless, the Socialist Party, in coalition with a liberal party—Alliance of Free Democrats—defeated the conservative parties in the 2002 general election. The Socialist Party promised the electorate a number of welfare measures such as an extra provision for pensions and an increase in wages for public employees, including underpaid schoolteachers and health care providers (the Socialist Party also won in the 2006 general election).

As in Hungary, the social democratic party (officially, Democratic Left Alliance) regained office in 2001 in Poland (although it was defeated again in the 2005 general and presidential elections; see below). In the Czech Republic, the Social Democratic Party, which is more generous with welfare expenditures than conservative parties, has remained in power since 1998 (Potůček, 2004, p. 254).

All the examples provided above reveal that the majority of the population in the region expects a deep commitment from the state with regard to social protection. This attitude could be considered to be a legacy from the communist era.

Likewise, the weak movement toward privatization of health care and education in the region could be considered as a 'legacy effect'. For example, the central and local governments in the region have predominantly managed the hospitals, although the primary care (GP) facilities are almost exclusively privatized. From 1996 to 1997, the percentage of secondary school students enrolled in private schools remained at 8 percent in Hungary, 7 percent in the Czech Republic and 4 percent in Poland from 1996 to 1997, while privatization of education was mostly concentrated at the tertiary level (Deacon, 2000, p. 155).

It is also likely a 'legacy effect' that public social expenditure as a percentage of GDP in 2001 is higher in the three CEE countries (20.1 in the Czech Republic; 20.1 in Hungary; and 23.0 in Poland) than in the Anglo-Saxon welfare states (14.8 in USA; 18.0 in Australia; 17.8 in Canada; and 18.5 in New Zealand). However, it should be noted that public social expenditure as a percentage of GDP is lower in each Central European country than the average of the EU15, which was 24.0 percent in 2001 (*OECD Social Expenditure Database*, 2004).

3.3. Characteristics of the current welfare system in Central Europe

What type of welfare system has appeared or is appearing in Central Europe? There could be several answers to this question. The ILO-CEET suggests that the welfare systems of Central European countries have come to resemble traditional welfare systems in Western Europe (Cichon, Hagemejer and Ruck, 1997). On the other hand, some experts on social policy, such as Ferge and Standing, maintain that neo-liberalism has largely influenced social policy-making in the region (Ferge, 1997a; Standing, 1996). Ringold and Kornai emphasize the considerable effect of the legacies of the communist era on post-communist welfare systems (Ringold, 1999; Kornai, 1997).

Yet, it should be kept in mind that the welfare systems in Central Europe are still in the formative stage and it is too early to define their type. The author of this paper agrees with Deacon's description of the CEE welfare system in the post-communist period; Deacon's description is provided below:

'[S]ome of the countries were slowly reforming their social policies in the direction of one or other variant of Western welfare policy. A conflict between the aspiration towards a European-style social market economy (or conservative corporatism) and a budget-induced and IMF-World Bank-backed residualism was evident and continuing in the late 1990s. There was remarkable continuity and stability in the provision of state social security, health and education services, although in some countries some private provision was appearing at the margins' (Deacon, 2000, p. 156).

The Central European welfare system in the initial stage of system change resembled that of continental Europe, and since the mid-1990s it has developed into a (neo-) liberal model. However, it has not become a residualist welfare system yet due to resistance from the majority of society, which continues to be influenced by the legacy of the communist era. The conflict between a 'European-style social market' and an 'IMF-World Bank-backed residualism' has been expressed in the conflict between 'budget-induced' austerity plans by the governments and resistance of the people to these plans, which results in repeated power (governmental) alternations (see Horibayashi (2006) for further elaboration on the Central European welfare system).

It appears that the transformation in the welfare system in the three countries discussed above is, in varying degrees, also valid for other post-communist countries in Europe.

As described above, the post-communist welfare system has not become a residualist one, but on the other hand, it should be stressed that further enhancement of a neo-liberal tendency in the region will almost certainly decrease social standards. Further, it widens the already existing social gap between old and new members of the EU that is likely to lead to 'social dumping'.

For example, in 1996, the difference in the unit labour cost between the CEE countries (new members of the EU as well as Romania and Bulgaria) and the EU15 was between one and three (Vaugham-Whitehead, 2003, p. 339). Moreover, in 2001, the working time in all 10 new and candidate countries (8 new members in 2004 as well as Bulgaria and Romania) was more than the average of the EU15, which was 37.8 hours per week. For example, in the Czech Republic the rate was 43.6 hours and in Slovakia it was just under 42.6 hours (*ibid.*, p. 57). If such a social gap remains or expands, allocation of funds from the EU15 to the new members will increase and an influx of migrants from the East to West may become a more serious problem within the enlarged EU. Capital reallocation of the firms of the EU15 for the purpose of seeking cheaper labour costs has already threatened jobs in home countries, although a massive migration from the East to the West has not occurred yet and is considered unlikely by a number of experts (see below).

As revealed above, the World Bank has been rather active and the ILO has also been committed to the transformation of the CEE welfare system. However, in the 1990s, the impact of the EU on this welfare system was weak and not in accordance with the discourse related to *Social Europe*. On the other hand, the EU15 enhanced economic relations with the CEE countries. The next section examines the relation of the EU institutions and EU15 to new member states of the CEE.

4. Process and implications of eastern enlargement of the EU from the perspective of 'Social Europe'

In April 1994, Hungary submitted its application for accession to the EU Council as the first country of the CEE. Nine other countries followed suit by the mid-1990s. Ten years later, in May 2004, eight of these countries became EU members. In the process of the Eastern enlargement of the EU, the complex relationship between the EU institutions (as well as EU15) and new member states (CEE countries) was characterized by a strong relation in the economy and a weak relation in social policy. Further, it was the European Agreements that enhanced the economic relation between the EU15 and CEE countries.

4.1. Enhancement of economic links: the European Agreements

From 1989 onwards, the process of normalization was accelerated and economic relations between the EU (and its members) and the CEE was enhanced. The Paris Summit of the most developed countries decided to launch the PHARE program, which aimed at encouraging political democratization and socio-economic transformation of the most reform-oriented countries in the CEE: Poland and Hungary. From April 1990 onwards, the PHARE program was gradually extended to other CEE countries. The EC commission coordinated and directed this program, which included financial assistance.

The Dublin Summit of the EC in April 1990 offered association to the CEE countries, and in December 1991 the EC signed the 'European Agreements' with three CEE countries: Poland, Hungary and the Czech Republic. By 1996, the EU had signed similar agreements with Bulgaria, Romania, the three Baltic countries (Estonia, Lithuania and Latvia) and Slovenia.

Like other traditional associations, the European Agreements aimed at free trade and, in the long term, four broader freedoms of movement with respect to goods, services, labour and capital. However, the European Agreements undertook concrete obligations with regard to only two freedoms: the movement of goods and the movement of capital. They determined free movement of services and labour as a long-term goal. Moreover, they limited free trade of agricultural products. It is important to note that no financial protocols were provided in the European Agreements and, in practice, financial assistance was implemented in the PHARE framework until Agenda 2000 (see below) created a new financial framework.

Palánkai indicates the positive effects as well as the deficiencies of the European Agreements from the perspective of economic development and modernization of the CEE as follows (Palánkai, 2003; 2004).

The positive effects include

(1) Development of trade between EU15 and the CEE countries

The European Agreements contributed to an enhancement of East-West trade. After the collapse of the Council for Mutual Economic Assistance (COMECON), the CEE countries attempted to reorient their trade towards Western European countries and EU15 proved capable of replacing the declining COMECON trade relations. Trade between the EU15 and CEE associates (10 countries) increased dramatically, and by 2002, it was approximately 10 times higher than in 1989. Thus, the share of the EU in the CEE trade (10 countries) increased in 10 years, by 2002, from approximately 33 percent to 67 percent in exports, and to 64 percent in imports.

(2) Improvement of the international status of the CEE

For the CEE, the European Agreements served as a condition of membership to the OECD and NATO. They were also a necessary condition for the flow of foreign direct investment (FDI) from Western countries to CEE countries, although FDI has been mainly concentrated in three countries: the Czech Republic, Hungary and Poland.

(3) Modernization of the economies of the CEE countries

As described above, the European Agreements promoted foreign trade between the EU15 and CEE and FDI from the former to the latter were the major factors of technological and structural modernization in the region and spurred export-led growth for some countries. Hungary is a typical example in which 70 percent of the industrial exports are derived from the multinationals that are operating in the country.

(4) The development of market institutions in the CEE

The European Agreements emphasized the necessity for promoting the process of transformation in the CEE. In addition to these agreements, the 'Copenhagen Criteria' (see below) promoted a functioning market economy, the privatization and development of market institutions in the region.

The negative effects include

(1) A deterioration in the trade balance of the CEE

Although the European Agreements promoted trade between the EU15 and the CEE, the CEE had a trade deficit. The trade surplus in the EU15 grew rapidly between 1992 and 1997 and in this period, they achieved a surplus of over 64 billion European Currency Units (ECUs) in trade with the 10 associate countries (CEE). Further, the CEE deficit exceeded 72 billion euro between 1998 and 2001.

(2) Insufficient financial assistance from the EU to the CEE

As noted above, there were no financial protocols in the European Agreements. In fact, financial assistance from the EU to CEE was rather modest. Palánkai describes this as follows:

'In the PHARE framework, between 1990 and 2000, Hungary received 1 billion ECUs (100 million ECUs a year) in financial support, and more than 1 billion ECUs from the European Investment Bank (EIB) and the EBRD for infrastructure investment and the support of small enterprises. These transfers represented less than 0.5 per cent of Hungary's GDP, and only one-tenth of the support given to Greece and Portugal' (Palánkai, 2003, p. 437).

In summary, the European Agreements prepared the CEE countries for their membership to the EU by promoting the transformation towards market economies in the region and enhancing the economic relations between the CEE and the EU15. However, it was the latter that gained more from trade liberalization (see Palánkai, 2003, pp. 429–442; 2004, pp. 352–362).

4.2. The attitude of the EU towards eastern enlargement: a deficit of mutual benefits

Although the EU attempted to enhance economic relations with the CEE through the European Agreements, it was very cautious with regard to providing the CEE countries with complete membership of the CEE. Palánkai describes this as follows:

'Many were of the opinion that with Eastward enlargement the EU would 'import' security threats and jeopardize the process of deepening integration. The situation changed only at the end of the 1990s, when with the culmination of the Yugoslav crisis it became clear that security of the continent could be consolidated only by admitting the eastern regions to closer integration with the EU' (Palánkai, 2003, pp. 446–447).

Thus, it was not until the end of the 1990s that real accession negotiations between the EU and some CEE countries began in earnest. However, before then at the Copenhagen Summit in 1994, the EU had defined the criteria of membership for the members of the CEE (the so-called Copenhagen Criteria): 1) democracy, the rule of law and stability of the institutions guaranteeing human and minority rights; 2) a functioning market economy capable of withstanding the keen competition typical in the EU and pressures of market forces; and 3) fulfilment of the obligations of membership and acceptance of the aim of political as well as economic and monetary union. It should be noted that the Copenhagen Criteria did not include any social requirements from the perspective of *Social Europe*.

The next important step in the Eastern enlargement of the EU was the Amsterdam Summit in 1997, which intended to conduct serious negotiations with Cyprus and five CEE countries: the Czech Republic, Estonia, Hungary, Poland and Slovenia. Further, in 1998 the enlargement process was formally initiated with a meeting among the foreign ministers of the 15 member states and those of the 11 candidate countries (the 10 CEE countries and Cyprus). The EU Berlin Summit in 1999 approved 'Agenda 2000' that determined the target budget figures for the period 2000–2006, including 'pre-accession funds' for the candidate countries at the time.

The Helsinki Summit in 1999 declared enlargement to be a strategic priority for the EU, and the Nice Summit in 2000 confirmed this. The Treaty of Nice decided on certain institutional measures that were made necessary due to enlargement (majority voting, the number of seats of the European Parliament etc.). The accession negotiations concluded in December 2002 in Copenhagen, and this opened the door for the entry of Cyprus, Malta and 8 CEE countries. The 'Accession Treaty' was signed between the EU and the above 10 countries in 2003, and it came into effect in 2004 (for details regarding the above process, see Palánkai, 2004, pp. 364–365).

As noted above, the process of Eastern enlargement of the EU accelerated from the end of the 1990s, and the security of Europe was the most important motive for the final decision (on the Eastern enlargement) of the EU15. For this reason, the old and new members compromised regarding other conflicting issues. Among them, two issues should receive attention: the labour movement from new to old members and the allocation of the EU funds to the new members.

The European Agreements had relegated the movement of labour across borders, previously left to bilateral treaties, to be concluded between the EU15 and CEE countries. Although the 'Accession Treaty' regulates, among other things, the free movement of labour, it provided the EU15 members the competence of restricting the free movement of labour from new member countries of the CEE for a transitional period of up to seven years. Currently, 13 countries among the EU15 impose restrictions on the free movement of labour; only Ireland and UK do not restrict access to their market (Kvist, 2004, p. 310).

Although most studies, including the European Commission, conclude that no massive migration from the East to West is expected from the Eastern enlargement of the EU, a majority of the EU15, particularly Germany and Austria, feared that a flood of migrants from the neighbouring countries would make the unemployment issue more serious. Further, they have also been anxious with regard to 'social dumping'—the replacement of domestic workers with a cheaper labour force from the East and a general decline of labour and social standards. Thus, the trade unions of the EU15 'has lobbied strongly against the free movement of people' from new EU members (Bohle, 2006, p. 73).

In practice, the capital allocation from EU15 to the new EU members states, i.e. capital mobility, proved to be a threat to the employment of labour in the EU15 rather than encourage labour mobility. Nevertheless, a majority of the EU15 did not restrict the outflow of capital, but the inflow of labour.

The allocation of EU funds to the new member states from EU15 was problematic, particularly in the area of the Common Agricultural Policy. While the total GDP of the CEE (eight new members as well as Bulgaria and Romania) is only six percent of the EU15, the Eastern enlargement increased the EU's agricultural production capacity and the size of its farming population by one-third and 55 percent, respectively (Palánkai, 2004, p. 371). Enlargement is a challenge for the Common Agricultural Policy potentially because without reforms it may lead to overproduction and could place an intolerable burden on the agricultural budget of the EU. For this reason, direct payments to the farmers of the new member states began at 25 percent of the applicable level in the EU and by 2013, these payments may reach 100 percent, although it depends on the financial changes that occur from 2006 to 2013 (*ibid.*, p. 378).

As described above, it was the new member countries of the CEE that made concessions on the problematic and delicate issues of free movement of labour and the allocation of the EU budget. It can be argued that the EU15 were not sufficiently tolerant in meeting the requirements of the new member countries, while they gained advantages from enhanced economic relations with the new member countries. As Csaba notes, the component of *mutual give and take* between the West and East had been excluded from the agenda during the process of Eastern enlargement (Csaba, 2005, p. 162). This is one reason why an outspoken Eurosceptic party, Law and Justice, emerged as the strongest party and the pro-EU Democratic Left Alliance was defeated in the Polish parliament elections of September 2005 (see Bohle for further elaboration on this issue, Bohle, 2006, pp. 77–78).

4.3. The stance of the EU with respect to the CEE in the area of social policy: a weak and ambiguous influence

As noted above, although the *Europeanization* of social policy and the welfare system occurred in the CEE during the initial stage of transformation, it was derived not from the direct influence of the EU, but rather from the people's desire for a 'return to Europe' and assistance from the ILO office located in Budapest. Further, the World Bank and, in an indirect manner, the IMF have played a major role in enhancing neo-liberal-oriented social policies in the region since the mid-1990s.

As Lendvai pointed out, there appears to be a consensus among experts on social policy that the social imperatives of the EU's Eastern enlargement process and accession into the EU from the standpoint of the CEE have been weak (Lendvai, 2004, p. 322). With regard to the PHARE programs directed by the EU commission, only 3.6 percent of the entire PHARE budget was spent for social development and employment between 1990 and 1998. The share of social programs in the total PHARE budget increased to 39 percent in 1999 and to 56 percent in 2000; however, this increase was not sufficient to meet the social requirements of the CEE (*ibid.*, p. 322).

On the other hand, in Hungary, the PHARE program contributed to strengthen the civic organizations by welcoming their participation in the projects. Ferge and Juhász provide the following description:

'Civic organization (especially those having been involved in previous PHARE projects) seem to be better prepared to apply for projects from the Structural Funds than local government' (Ferge and Juhász, 2004, p. 238).

The adaptation of the 'acquis communitaire', a Copenhagen Criterion, was a key issue for the process of Eastern enlargement of the EU. However, the Copenhagen Criteria did not include social matters, as noted above. The social legislation that was to be adopted (social 'acquis') was originally defined by the chapter on social policy of a 'White Paper' issued by the European Commission in 1995. This encompassed health and safety at work, labour law and working conditions, equal opportunities for men and women and coordination of social-security schemes for migrant workers. Since most of these requirements were already in place by the mid-1990s in Central Europe through the *Europeanization* of social policy, no major changes were formally required in these areas.

However, the social 'acquis' of the EU had a limited impact on the social legislation of the CEE. In Hungary, difficulties relating to the insolvency of the employers emerged in the initial stage of the economic transformation process that led to the establishment of a guarantee institution in 1994. This legislation did not reflect the requirements of the community; thus, it had to be amended for accession of Hungary to the EU. Moreover, the Hungarian government established a special unit within the Ministry of Welfare in 1996 in order to improve policies regarding gender equalities, and a minister who was not allocated a portfolio was made in charge of 'equal opportunities' shortly afterward. Similarly, Act 125 of 2003 passed by the Hungarian Parliament in December 2003 intended to transpose the 'acquis' and create the Authority of Equal Opportunities (Ferge and Juhász, 2004, p. 240).

At the same time, several social policy experts are critical of the EU's stance on social policy expressed in the regular reports that were the main instruments of annual evaluation of the progress towards the accession of the CEE countries to the EU. Ferge reviews the 10 'accession country reports' (regular reports) and argues that social policy receives very little attention, while it is possible to detect 'a hidden neo-liberal agenda'. The essence of Ferge's view on the Reports (Ferge, 2002) can be summed up as follows.

The Reports had a positive impact on certain social issues. Social rights as rights of minorities—gender equality, the rights of children, of ethnic minorities (as Roma in the CEE)—are taken seriously and social dialogue as a bipartite or tripartite issue is part of 'acquis' and is assigned due importance in the reports.

However, certain important elements continue to be missing from the reports or are not necessarily in keeping with the requirements of establishing *Social Europe*. The important issues of solidarity and social cohesion do not figure explicitly among the subjects of the reports. Social exclusion as a general issue, growing inequalities and low life expectancy as common problems in the CEE are not included. The main concern with social protection in the Reports is financial stability and the excessively high level of public expenditure; the main instrument proposed to assure financial stability is budget stringency, including suggestions to reduce the level of social protection. The reports also hinted at the necessity of changing the structure of social protection through privatization and marketization of assets or services, including former public services (Ferge, 2002, pp. 14–18). Thus, 'the suggestions made by commission for social reforms in accession countries has many elements close to what is usually termed neo-liberal agenda based on the 'Washington consensus" (*ibid.*, p. 20).

Rys also notes that '[t]o the extent that social criteria are not taken into account alongside the political and economic criteria, social protection questions are reduced to their economic aspects only' (Rys, 2001, p. 185). Guillén and Palier concur with Ferge and provide the following description;

'While Brussels was more oriented towards the development of public social policies in the 1980s, the discourse of the 'economically oriented' actors… who were partially in charge of the accession procedure for the CEE countries, has become more similar to the discourse of the international financial organizations' (i.e. the IMF and World Bank, Guillén and Palier, 2004, p. 206).

Bohle provides a stronger opinion stating that in the process of Eastern enlargement, the EU has exported to its new members 'a more market-radical variant of neo-liberalism' than its own 'embedded neo-liberalism' (Bhole, 2006, p. 78).

In fact, the direct influence of the EU on social policy had been increasing for a number of years prior to the accession of the CEE. The CEE countries were requested to prepare a Joint Inclusion Memorandum related to social inclusion, and in 2004 each of the CEE countries had to prepare its first two-year National Action Plan for social inclusion in order to significantly reduce poverty by 2010 (Ferge and Juhász, 2004, p. 246).

The social policy of the CEE countries will be more influenced by the social policy of the EU after their accession to the EU in May 2004. However, three matters should be kept in mind in order to project future social policies of the CEE. First, there exists a genuine ambiguity in the present discourse of the EU between the social agenda of high social standards and quality of life (*Social Europe*) and the economic necessity for competitiveness (*Economic Europe*); although the discourse on *Economic Europe* outweighs the one on *Social Europe* in the recent EU. Second, the EU15 enhanced their relations with the CEE (the new member states and candidates of the EU) based on their own economic interests; the EU did not influence the CEE in accordance with the discourse related to *Social Europe* and even suggested neo-liberal social policies to the CEE. Third, financial transfers from the EU15 to the new members (CEE) were very low during the process of Eastern enlargement of the EU, although the Eastern enlargement increased economic and social disparities within the EU that made the issue of 'social dumping' rather controversial among older members. With regard to this issue, it should be noted that the level of economic development (in terms of per capita GDP) of the 10 new members (8 CEE countries as well as Southern Cyprus and Malta) currently amounts to only 44 percent of the average of the EC15 (Heidnreich, 2003, p. 314).

The discussion in this section indicates that in the process of Eastern enlargement, the EU15 did not display a genuine generosity and social solidarity to the new members, although they gained considerable number of benefits from the enhancement of economic relations with the new members.

5. Conclusion

This paper has examined the social dimension of the processes of European integration and Eastern enlargement. It has also characterized the changes in the post-communist (mainly, Central European) welfare system. The following conclusions can be drawn from this paper.

First, the social dimension of the process of European integration has been lesser priority importance as compared with economic considerations in spite of the incremental advancement of the European social policy. It is important to note that since the mid-1990s a new tendency has been observed in the EU that places an emphasis on the role of social policy as a 'productive factor'. Currently, the EU seeks social objectives, but in a manner that causes social policy to be subordinate to the objective of competitiveness.

Second, the Central European welfare system in the initial stage of system transformation resembled that of continental Europe; and since the mid-1990s, neo-liberal social policy was enhanced in the region by the World Bank, and the EU did not oppose it.

Although the Central European welfare system has not become a residual one yet due to the legacies of the communist era, the further enhancement of neo-liberalism in the post-communist region will widen the already existing social gap between the old and new members, which is likely to lead to 'social dumping'.

Third, in the process of Eastern enlargement, the impact of the EU on the social policy of the CEE was weak. It is important to note that the discourse of the EU for social reforms in the CEE was not in accordance with one related to *Social Europe* and was occasionally close to neo-liberal.

Thus, a newly *enlarged Europe* has not moved towards a *Social Europe*. As Herbermas indicates, neo-liberals (Euroliberals) have already achieved their objectives through the creation of the internal market and the EMU (Herbermas, 2005). In other words, there has been a great advancement in terms of *Economic Europe*. The EU continues to maintain the rhetoric of conflict between the transnational economy and social regulation as an essentially domestic matter (see Supiot, 2005, pp. 169–170). However, the outcomes of referenda in France and the Netherlands displayed not only a *deficit of democracy* but also an *insufficiency of Social Europe* in the current stage of the European construction, including problems related to the process of Eastern enlargement of the EU. The EU now stands at a crossroads. According to the author's viewpoint, the creation of a greater symmetry between *Economic Europe* and *Social Europe* is indispensable for the future of the EU.

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