The European Social Model and eastern enlargement

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The European Social Model (ESM) is increasingly becoming a model of integration policy. The idea is based on a combination of economic efficiency, in the sense of high productivity, competition and economic growth, and a high level of employment on the one hand together with social cohesion on the other hand. At the same time the ESM is understood as a dynamic model in evolution, whose development is influenced by global, European and national processes, including eastern enlargement. With the accession of the eight Central and Eastern European countries to the European Union, the economic and social disparities between the now 25 EU Member States have grown considerably. On the basis of theoretical and empirical literature this paper develops answers to the following questions in particular: will there be a gradual erosion of the ESM, are there prospects of convergence or are new vectors developing in the enlarged field of power? The authors reach the conclusion that the old and the new Member States, starting out from different historical experiences in the past decades and different levels of production and productivity, will have to withstand structurally similar challenges in the foreseeable future if they wish to achieve economic efficiency and social cohesion simultaneously. From the perspective of the new Member States, which come from an egalitarian tradition, there is every reason to believe that the majority of the population desires social cohesion and will demand it. Together with the diverse integration advantages of enlargement, a successful catching-up process in the new Member States provides good preconditions for the preservation and productive development of the ESM.

Contents

1 Introduction

2 The European Social Model: diversity in unity

2.1 On the development of the ESM

2.2 Unity yet diversity?

3. Eastern enlargement: the economic catching-up process and changes in welfare-state institutions

3.1 Economy and labour market in the new member states

3.2 Social-policy framework in the new member states

4. Effects of eastern enlargement on the European Social Model: who is changing whom?

4.1 Stress factors and governance problems not associated with enlargement

4.2 Distinctly liberal reforms in the new member states?

4.3 The European agenda after enlargement

References

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1 Introduction

The existence of a 'European Social Model' (ESM) seems to be far less controversial in the meantime than its exact description. The term was used by Jacques Delors in the mid-1990s to set a European alternative against the US American market capitalism. The original idea was to combine economic growth with social progress and social cohesion. In the meantime the term is used in very different contexts and the concept behind the term is frequently defined differently. According to Hay/Watson/Wincott (1999) and Jepsen/Pascual (2004) it is possible to distinguish different definition categories or "reference dimensions" (Platzer 2003) in more recent literature. Most frequently reference is made to certain common characteristics and features (fundamental values, principles, institutions) that have developed in western European countries since the second world war in contrast to large parts of the "Anglo-Saxon" world (cf. Ferrera/Hemerijck/Rhodes 2001 and Servais 2001). In view of the diversity of nation-state social systems in Europe, however, this approach, which refers to fundamental values, remains rather abstract and difficult to analyse. Elsewhere, typologies of national social models are offered, some of which are emphasised as being particularly pioneering (cf. Esping-Anderson 1990 and 1998, Ebbinghaus1999 and Hicks and Kenworthy 2003).

Since the end of the 1990s the ESM has been increasingly regarded as an official EU project and a model of integration policy (Platzer 2003). In this connection the common normative basis is combined with the different political-institutional conditions at national and European level (Vaughan-Whitehead 2003), whereby great significance is attached to the common employment and social policy. "The EU adds value by setting minimum social standards at the workplace and beyond, and by providing political and technical 'back-up' for national efforts to reform work and welfare." (Diamantopoulou 2003). The European Council describes the ESM as an important instrument of renewal and adjustment to changing socio-economic conditions, in which high productivity, competition and economic growth as well as a high level of employment are regarded as the necessary basis. It is therefore an integrated economic and social model.

At the same time the ESM is understood as a dynamic model in evolution, whose development is influenced by global, European and national forces and processes (cf. Jepsen/Pascual 2004). Three developments are repeatedly emphasised in this context. Firstly, the response of the ESM to changes in socio-economic conditions such as the changing international production systems, the ageing of the population, high levels of unemployment and changing family structures (Esping-Andersen 2002). Secondly, the implications of the European monetary union and the associated Stability and Growth Pact for the leeway in shaping national social policy; and thirdly, the aspect which is of particular interest here: the impact of eastern enlargement on the European Social Model.

With the accession of the eight Central and Eastern European countries to the European Union, the economic and social disparities between the now 25 EU Member states have grown considerably. The greater variance of incomes and living standards in the expanded community is observed with scepticism by many. It is feared that lower wage costs and social standards lead to unfair competition or social dumping ("race to the bottom" and social-policy "freeriding") and put the labour markets and the social policy of the old Member states under considerable pressure to adjust. At the same time, according to the impression of some observers (cf. e.g. Vaughan-Whitehead 2003), in the course of liberal reforms, institutional welfare state structures have developed in the new Member states which show considerable differences from those of the EU15. As a result, orchestrated policy that is aimed at cohesion in the Europe of 25 may well become considerably more complex.

If that is the case, the question arises as to whether and to what extent the eastern enlargement of the EU can affect the development of the ESM. Will there be a successive erosion of the model, are there prospects of convergence or are new vectors developing in the enlarged field of power? What central demands does enlargement make on the political management of the Community?

On the basis of theoretical and empirical literature, this paper attempts to provide answers to those questions.

In the following chapter the origin, the concept and the stage of development of the European Social Model is first explained. In connection with this, the chapter deals in particular with the diversity in the unity of the European social systems and the fundamental differences from other social systems, especially from the Anglo-American model.

Chapter 3 examines the economic and social catching-up process of the new Central and Eastern European EU Member states and shows in which areas the new members have converged with the EU, in which areas there are larger differences and where they are developing their own solutions which extend the spectrum of the Community.

The concluding chapter analyses the stress factors to which the ESM finds itself exposed even without eastern enlargement. Then with regard to liberal reforms in the new Member states, potential repercussions of eastern enlargement on the European Social Model are discussed and development perspectives are offered.

2 The European Social Model: diversity in unity

2.1 On the development of the ESM

Where are the roots of the European Social Model, how has it developed and how is it best described today?

The ESM was not yet drawn up in the 1957 Treaties of Rome; at that time growth policy was considered the best social policy. That remains true until today in as far as the priorities of business development and profitable employment are addressed. The employment of the largest possible share of the labour force limits the resources to be raised for avoiding social risks and at the same time facilitates the funding of the social policy systems. This forms a bridge spanning from Rome to the Lisbon Strategy for 2010.

The ESM was not first of all the result of common European policy but of the parallel development, albeit plural and staggered in time, of the national social systems in western, northern and southern Europe in the second half of the 20th century. Significantly, common social policy first dealt with subjects that promoted additional social-policy measures concerning one of the four great freedoms of the common market, cross-border labour mobility (cf. for example the EEC regulation No. 1408/71 concerning the administrative and technical facilitation of the free movement of persons covered by social security). The more comprehensive idea of an "espace social européen", which followed tentative attempts at common social policy, was propagated with some success from the 1980s onwards by the then president of the European Commission, Jacques Delors. Nonetheless the principle of subsidiarity has remained decisive until today for the ratio of national and European social policies.

Thus it was essentially only in later treaties (on the establishment of the European Union in Maastricht in 1992), in Amsterdam in 1997 and Nice in 2001, in resolutions passed by the European Council, by the European Parliament and the Commission that the elements of the ESM which are the result of Community policy were gradually developed and implemented at national and European level (see 2.2.3). Basic social rights are proclaimed in declarations – from the European Social Charter of the European Council in 1961 to the European Charter of Basic Social Rights of the EU in 2000 – and are thus an essential part of the common core of values.

In the conclusions of the presidency of the Nice European Council in 2000 there is something like a first official definition: "the European Social Model, characterized in particular by systems that offer a high level of social protection, by the importance of social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of the Member states' social systems, on a common core of values". The *unitas* is therefore described by common values, the *diversitas in unitate* by the national social systems.

The Barcelona European Council in 2002 emphasised economic development and employment as being fundamental to the development and the scope of social policy: "The European Social Model is based on good economic performance, a high level of social protection and education and social dialogue."

The Draft Treaty establishing a Constitution for Europe, which was adopted by the European Council of the Heads of State and Government of the 25 EU Member states in Brussels in 2004, emphasises equality and solidarity as fundamental values in the Charter of Fundamental Rights (Part II) and, in the third chapter of Part III, comments on the co-ordinated employment strategy and on social policy. Article III-103 names as objectives "the promotion of employment, improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion" (The Constitution – edited by Jens-Peter Bonde, 19.05.2004, p. 110f.). Thus far the first document passed jointly after enlargement.

Partly because the ESM has changed in the course of time and in the process has been and is still being exposed to diverse and in some cases controversial trends, there is also a great variety of attempts at definition, as we mentioned in the introduction. Their historical dependence on processes is reflected upon quite accurately by Vaughan-Whitehead (2003, p. 4): "We could define the ESM as a set of European Community and member-state legal regulations, but also as a range of practices aimed at promoting a voluntaristic and comprehensive social policy in the European Union. Beyond this, for EU policy makers and a wide range of economic and social actors, the European Social Model also represents sharing common views and principles on different social issues and their importance within the EC construction".

In summary it is therefore possible today to set out three characteristic elements or levels of the ESM, which are not selective and are mutually dependent:

1. A common normative basis: what is meant here is first and foremost the declaration of belief in the core values of solidarity, social justice, social responsibility and social cohesion, which is shared by all continental European welfare states. Social cohesion, and thus the principle of social balance and social inclusion, is especially distinct in this connection and can sometimes be attributed to the Europeans' particular ideas regarding justice and freedom.[1]

2. The conviction that the social dimension described by the core values has a positive effect on economic development and long-term political stability. Social policy is therefore regarded as a productive factor which can promote economic growth, competitiveness and social welfare equally.

3. The political-institutional developments at national and European level.

In the second half of the 20th century, different welfare-state structures were developed in the countries of Europe on the basis of the named values and principles. Although clear differences can be seen between the individual countries or groups of countries as regards the development of welfare-state institutions, it is also possible to determine important common factors. What is especially characteristic in this connection is the high level of social protection against life risks for the entire population and a distinct tradition of social dialogue and social partnership. In addition to this, in the meantime the European Union has a growing number of political instruments with which the named fundamental social values and social convictions are propagated and supported and attempts made to implement them also at Community level.

However, especially the last of these three levels raises several questions simultaneously: What does the variance of the institutional form of national welfare states look like today? Can there still be any unity in this diversity? How can the growing variance of welfare-state structures be meaningfully distinguished from other models and concepts and what role is played in this by the community pillar of the ESM that has now been added?

2.2 Unity yet diversity?

2.2.1 Differences between the EU member states

A broad spectrum of different social systems can be found in today's European Community. A brief glance at the per capita expenditure on social protection is enough to show considerable disparities between the Member states. Measured in terms of purchasing power parities, the greatest deviations from the mean of the EU15 = 100 in 2001 were provided by Luxembourg with 165 and Portugal with 57 (Table 1). Even if these countries' different levels of affluence (measured in terms of per capita GDP) are taken into consideration, clear divergences can still be ascertained.

In the literature one can occasionally find attempts to differentiate between groups of countries representing different variants of the ESM, such as the Scandinavian countries, the southern European countries, continental central European countries representing different variants of the ESM, Anglo-Saxon countries and the Mediterranean variant (cf. Esping-Andersen, 1990, Castles and Mitchell 1993).

This can only be partially understood from the aggregate data of Table 1, and would require a more in-depth comparison of systems in order to obtain confirmation or refutation. This can be explained by taking Great Britain as an example. The social expenditure does not differ considerably from the EU15 average, but the social-policy conception does differ: the British conception gives individual responsibility regarding risks an important status, it avoids the term solidarity principle and where nec-

[1] „For Americans, freedom has long been associated with autonomy…. One is free by becoming self-reliant and an island unto oneself. With wealth comes exclusivity, and with exclusivity comes security… For Europeans freedom is not found in autonomy but in community. Being free means having access to many independent relationships… Here security comes from inclusivity – belonging, not belongings“. (Rifkin, 2004)

Table 1

Structure of social expenditure in 2001 (%)

Countries	Social expenditure per capita in PPP, EU15 = 100	Distribution of social expenditure by function (as %)					
		old-age/ survivors	sickness	family/ children	disability	unemployment	housing
Belgium	108	43.7	25	8.9	9	11.7	1.6
Denmark	122	38	20.3	13.3	12.5	10	6
Germany	114	42.4	28.8	10.4	7.7	8.2	2.5
Greece	62	51.3	25.8	6.9	5	6	5.1
Spain	60	45.3	30	2.6	7.6	12.9	1.7
France	113	43.7	29.2	9.5	6	7.1	4.4
Ireland	60	24.8	43.4	12.5	5.2	8.3	5.8
Italy	97	62.3	26.1	4	5.7	1.6	0.3
Luxembourg	165	39.4	25.4	16.8	14.2	2.5	1.6
Netherlands	115	41.8	30.4	4.4	11.6	5	2.1
Austria	117	49.5	24.7	10.6	8.1	5	2.1
Portugal	57	45.8	31.3	5.6	12.3	3.6	1.3
Finland	88	36.3	24.5	12.1	13.7	9.8	3.3
Sweden	110	39.1	29.2	9.6	12.4	5.6	4.3
United Kingdom	97	46.5	28.1	6.8	9.4	2.9	6.3
EU15	**100**	**46**	**28.2**	**8**	**8**	**6.2**	**3.6**
Norway	128	30.5	34.5	12.8	16.5	2.6	3.1
Iceland	78	30.6	38.5	13	13.6	1.5	2.9
Switzerland	119	51.7	24.9	5.1	12.8	2.4	3.1
EEA	**101**	**45.7**	**28.3**	**8.1**	**8.2**	**6.1**	**3.5**

Source: Eurostat (2004): European Social Protection Statistics, Social Protection – Expenditure and Receipts, Brussels.

essary speaks of cross-subsidisation, and it emphasises less the social-security entitlement in the sense of the insurance principle and more the assistance for particular target groups. In this respect it is right to speak of an Anglo-American model.

The structure of social benefits by function groups shows, with the exception of Ireland, that the expenditure on provision for old age is the top function, followed by expenditure on health (cf. Table 1). But here, too, the variance is considerable and the different priorities of the Member states become clear. Partly these priorities largely follow the common requirements of the ageing population, see for example the relatively small share of old-age provision in Ireland, with its young age structure; partly they follow different preferences, e.g. in family policy, and partly different strategies to deal with similar problems such as in the context of labour market policy, where, comparing Spain with Italy or Great Britain, unemployment rates and expenditure on the unemployed do not correlate at all (European Social Statistics, Social Protection, Expenditure and Receipts. Data 1992–2001, Eurostat 2004, p. 53).

The diversity of the social systems in the old EU Member states is therefore clear. In order to determine whether a common concept nonetheless underlies all of them it is necessary to look into the question (*ex negativo*) as to fundamental differences from other social systems.

2.2.2 Fundamental differences from other social systems

There are several different study methods available for differentiating from other social models or systems. Firstly it is possible once again to compare investments in social areas with objectives, in order to underline different content-related priorities and preferences and to distinguish them from one another (input side). Secondly it is possible to examine, with the aid of selected social indicators, to what extent the same priorities and objectives are also actually implemented or achieved (output side).

Table 2

Government spending ratios and structure of the public expenditure (as % of GDP)

Countries	Public expenditure rate (2003) (1)	Taxes and contrib's as % of GDP (2002) (2)	Social expenditure rate (2001) (3)	Expenditure on health (2001) (4)	Expenditure on education (2001) (5)
Belgium	51.1	46.6	27.5	8.9	3.1
Denmark	55.4	48.9	29.5	8.4	8.2
Germany	49.1	40.2	29.8	10.8	4.4
Greece	46.3	36.2	27.2	9.4	3
Spain	39.8	36.2	20.1	7.5	4.6
France	54.7	44.2	30	9.6	5.6
Ireland	34.8	28.6	14.6	6.5	5.5
Italy	48.5	41.7	25.6	8.4	4.7
Luxembourg	48	41.9	21.2	6	3.6
Netherlands	48.5	38.5	27.6	8.9	4.8
Austria	51.2	44.4	28.4	8	4.9
Portugal	47.1	36.3	23.9	9.2	5.6
Finland	50.9	45.9	25.8	7	7.1
Sweden	59	50.6	31.3	8.7	8.3
United Kingdom	42.8	35.8	27.2	7.6	5.4
EU15	**48,4**	**40.5**	**27.5**	**8.9**	**4.9**
Poland	45.6	39.1	29.9 **	6.1	7.5
Lithuania	37.8	28.8	15.8 **	6	5.3
Latvia	46	31.3	17.8 **	6.4	6.2
Estonia	41.1	35.2	14.7 **	5.5	6.3
Czech Republic	50,8	35.4	18.1 **	7.4	4.6
Slovakia	38,5	33	19.1	5.7	4.6
Slovenia	43,8	39.8	25.6	8.4	5.4
Hungary	48,6	38.8	19.9	6.8	4.3
Malta	46.6	31.3	19.8 **	8.8	4.9
Cyprus	40.6	32.5		8.1	4
EU25	**48.3**	**40.4**			
USA	**35.3**	**28.9***	**14.3**	**13.9**	**5.4**

*Notes: * Data from 2001 ** Data from 2000. The data are based on non-uniform demarcations of the national statistics. They are therefore only partly comparable.*

Sources: (1) European Commission (2004): European Economy, Statistical Appendix, (Spring 2004), Brussels. (2) Eurostat (2004): Structures of the taxation systems in the EU: 1995-2002, Luxemburg (taxes and social security contributions). (3) Eurostat (2004): European Social Protection Statistics, Social Protection – Expenditure and Receipts, Brussels. European Commission (2003), Social protection in the 13 candidate countries – a comparative analysis, Luxembourg, p.27. (Data on ESSPROS system).
(4) WHO (2004): WHOSIS – Statistical Database (public and private expenditure).
(5) Worldbank (2004): WDI-World Development Online Indicators.

If the public expenditure rates and the expenditure structure as percentages of the gross domestic product are compared (Table 2), then the difference between the public expenditure rate of the EU15 and that of the USA (48.4 and 35,3 respectively) is explained almost entirely by the difference in the social expenditure rates (27.5 and 14.3 respectively).

A look at the expenditure on health and education in the USA shows that the differences in the public expenditure rates do not necessarily indicate a lower preference for the corresponding goods and services, but point more to differences in their private and public provision and funding. This is also associated with different organisation principles. Market-like provision and contribution funding in line with social security law do not work without complete or partial equivalence; tax funding can place more emphasis on solidarity and the ability-to-pay principle. What is behind this are different ideas of justice and different concepts of social protection or individual provision against risk: compared with continental European ideas, US American ideas currently emphasise more individual provision than solidarity-related balancing of risks (a look back at the time of the New Deal shows that this was not always the case). Taking into consideration the principle of need, social welfare is aimed in particular at socially weak target groups, for which it holds ready a safety net (targeted social assistance), which is admittedly not based on entitlements according to social security law. High-income groups are expected to cover themselves against possible risks on the market or in the family. As a result the US American model permits far greater income disparities than what is considered desirable according to present European standards. The difference can be found in the normative assumptions about distinguishing between the tasks of social policy and those of the family and the market (Esping-Andersen 1998), in the interpretation of the term equality, equality of starting chances vs. similarity of working and living conditions and thus in the strategies for social cohesion, social balance and social inclusion.

This connection is also confirmed by output analyses. In a corresponding study, Witte (2004) refers to three relevant social indicators that provide information about the extent of social cohesion in European and Anglo-Saxon countries. These indicators are the income disparities mentioned earlier (Gini coefficient), the number of violent crimes and the number of people in prison. He compares these indicators with other social indicators in the areas of the satisfaction of material needs (incl. GDP per capita and life expectation) and social participation (incl. reading competence and election turn-out). The comparison shows that the Anglo-Saxon countries only diverge clearly from the general picture of the particular group of countries examined (in relation to the other two indicators) with regard to social cohesion.

The results therefore largely confirm the assumption that a European Social Model does exist, whereby the essential difference from the Anglo-Saxon industrial countries including Great Britain is in the pursuit and practical implementation of the objective of social cohesion.

2.2.3 The community pillar of the ESM: instruments of community policy developed so far

The Community-institutional side of the ESM has developed in progressive steps especially in the last 15–20 years. In the meantime the EU has at its disposal several forms of social-policy instruments: legislation, the social dialogue, financial instruments (structural funds), the open method of co-ordination and “mainstreaming”:

(1) The common legislation, which has so far found expression in some 70 directives and other acts of legislation on the subjects of the mobility of labour, regulations at work, equal rights for men and women, and health and safety at the workplace. The results of the common legislation form the *acquis communautaire*, which is a set of minimum standards that new Member states have to adopt entirely in the context of preparation for accession.

(2) The European Structural Funds – first and foremost the European Social Fund (ESF) and the PROGRESS programme, which are aimed at breaking down differences in the living and working conditions in the Member states.
During the period 2000–2006 the old Member states receive EUR 213 billion from the Structural Funds including the Cohesion Fund. In the period 2004–2006 at total of EUR 24.5 billion will be made available to the new Member states from the Structural Funds, including EUR 3.3 billion for the ESF (European Commission 2004, Structural Funds Strategies for the new Member states).

(3) The open method of co-ordination was developed in the context of common employment policy and has been applied to subjects of social policy too since the Lisbon European Council. It is an indicative interaction of common objectives,

national action plans for implementation, and a common system of indicators and observation for evaluation. Open co-ordination makes it possible to determine strategic objectives with regard to social inclusion, permits a variety of options for achieving the objectives and backs increasing coherence through mutual learning. There is a broad range of literature on what it can and can not achieve (cf. Scharpf 2002 for a summary).

(4) The Treaty of Amsterdam (Art. 138) opened up to the social partners rights of initiative and other possibilities of participation in the field of employment and social affairs. The fundamental idea of the social dialogue, which *mutatis mutandis* corresponds to the corporatist tripartite organisation of a variety of social protection institutions in the Member states and in the International Labour Organisation plus their extension by other elements of civil society, is the supplementing of parliamentary democracy by participatory elements on condition that the participants themselves satisfy the criteria of representativeness and internal democratic order. Social dialogue intends to make systematic use of specialist competence and consideration of the partners' interests. The balance of interests and the building up of trust act in combination and contribute to the reduction of transaction costs – even when taking into account the transaction costs of reaching agreement itself. This is typically the case with collective bargaining agreements.

Key subjects of common policy in the context of the ESM so far are (this lists makes no claim to be exhaustive): employees' rights, worker participation, employment and its quality, equal opportunities, social dialogue and collective negotiations, services of general interest, the non-discrimination principle, regional cohesion, social inclusion, fair wages, participation of the social partners and the civil society, fundamental social rights, cross-border social protection and transnational social policy (cf. Vaughan-Whitehead 2003, p. 6).

As the above list shows, Community policy in the context of the ESM is factually restricted so far. A look at the function groups of social protection, which are extensive in financial terms in the Member states, in other words old-age and survivors' pensions, health care, family and children, disabilities and unemployment (cf. Table 1), makes clear the magnitude of the areas that are essentially organised on a national basis. Community social policy, however, seeks further possibilities for development on the way to open co-ordination and provides support through social dialogue wherever the development of the Single European Market compels countries to break up gradually the principle of social-law territoriality, and suggests joint solutions with the aid of one of the four instruments or new ones.

Social policy essentially remains a national task, but understanding where additional Community action is necessary and what form this action should take is subject to change. Subsidiarity is not a static concept (Terwey 2004). Social policy in the EU is gaining new dynamics due to eastern enlargement, which has resulted in an increase in economic and social disparities between and within the Member states.

3 Eastern enlargement: the economic catching-up process and changes in welfare-state institutions

3.1 Economy and labour market in the new member states

The enlargement of 1 May 2004 presents a large new economic and social challenge to the European Union. Countries have joined that still lag far behind the EU15 in economic terms. This means that economic and social differentials will continue to exist within the EU25 for a long time.

The success of the advancing European integration can initially be measured by how the necessary catching-up process gets off the ground and then gathers momentum. Thus, in a first step, the accomplishments already made are appraised and development trends are outlined on the basis of meaningful – internationally comparable – indicators for the performance of the economy and employment.

An appropriate social-policy framework is inextricably linked with the new Member states' catching-up process. In this respect, it has to be determined which welfare-state structures are developing within the new EU Member states, and whether their institutional structures already show any similarities to the EU15.

The ten new Member states are characterized by development levels that lag significantly behind the EU15. Thus, the gross domestic product per capita of the new Member states, measured in terms of purchasing power parities, is all in all less than 50 %

of the EU15 average. In addition, there are considerable economic differences between the new Member states. In the following the disparities between the new Member states and in particular the gap between the new States and the EU15 are outlined on the basis of key economic and labour market indicators. The examination focuses on the period from 1995 to 2003. The year 1995 marks a turning point with regard to the economy. Following the severe adjustment crisis at the beginning of the 1990s with a massive decline in gross domestic product in some cases, the Central and Eastern European economies consolidated at a low level in the mid-1990s, and a more or less strong upward development started. The catching-up process in the economy and the labour market that has continued since then is first to be examined empirically. In addition, development trends are outlined.

3.1.1 Status of the catching-up process and its prospects

The economic situation of the new EU Member states still differs considerably from that of the EU15. The first column of Table 3 shows that when measured in terms of purchasing power parities, none of the new Member states reached the average gross domestic product of the EU15 in 2003. However, two countries, the Mediterranean state of Cyprus and South-eastern European Slovenia, surpassed the economic level of the least developed state of the former EU15, namely Portugal. While Malta, the second new Mediterranean EU Member State, showed only a slightly lower gross domestic product per capita than Portugal, what stands out in the case of the remaining seven Central and Eastern European states is that there is a considerable difference between the Baltic States and Poland and western Europe.

With regard to the development of the gross domestic product in real terms, the second column of Table 3 shows that especially the new Central and Eastern European Member states have finally begun a more or less rapid catching-up process – after the significant decline in their economic activities at the beginning of the 1990s, which was caused by transformation. In the period between 1995, a year which was already marked by a strong economic rebound following the political change in the Central and Eastern European countries, and 2003 the economies grew more strongly than those in the western part of the Union, with the exception of the Czech Republic. The highest growth rates were achieved by the Baltic States, precisely those countries with the lowest per capita income.

Table 3
Gross domestic product per capita and development of GDP in real terms in the ten new EU member states (1995–2003)

Countries	GDP 2003 ** (in € and PPP per head)	Growth of GDP in real terms per capita 1995–2003 (1995 = 100)
Ø AC10	11,300	139.5*
Estonia	10,410	168.2
Latvia	9,670	170.9
Lithuania	9,790	159.3
Malta	15,640	–
Poland	9,860	137.9
Slovakia	10,910	134.7
Slovenia	16,410	133.5
Czech Republic	14,650	116.4
Hungary	12,960	137.6
Cyprus	17,760	118.4**
Ø EU15	23,270	115.2
EU15 max.	44,440 (L)	166.8 (IRL)
EU15 min.	15,970 (P)	109.2 (D)

*Notes: * Ø AC9 (without Malta); estimated value ** estimated values.*
Source: Eurostat (2004), Newcronos; own analysis.

According to available estimates, in the next 10 years the new Member states will participate considerably more strongly than the EU15 in the growth effects of the intensified division of labour in Europe, which has been furthered by integration (European Commission 2001; Breuss 2001). Estimates assume that in the next decade the gross domestic product in the new Member states will increase by between 8 % and 18 % more than would have been possible without their accession to the Union. Based on these model calculations, the integration effect for the previous EU15 would be significantly lower, at 1 % to 2 % for the following decade.

The EU Commission's forecasts until 2005 indicate that the catching-up process of the new Member states could continue in a similar way (Eurostat 2004). In the next two years economic growth in the Baltic States is expected to be twice as high as in the previous EU15. However, the positive expectations should not obscure the fact that there are considerable risks for the catching-up process and that the adjustment could take an extremely long time. On the one hand, the risks for the catching-up process lie in managing the structural change, which is highly necessary, especially the long overdue modernisation of industry, the development of an efficient services sector as well as the restructuring of agriculture, which is still by far too labour-intensive.

In addition, in some countries there are obvious macroeconomic problems that have to be countered by economic policy sooner or later (cf. Borbely/Gern 2003; Brügelmann/Fuest 2004). Thus, Hungary, Slovenia and Slovakia still show inflation rates of 4 % and more, not least because of the economic transformation. Another problem is the sometimes considerable level of national debt. In Poland, Slovakia, the Czech Republic and Hungary the state financing deficit clearly exceeds 3 % of the gross domestic product. Solving these macroeconomic problems might lead to contractive effects and may slow down the catching-up process, at least in the short term.

Even when being optimistic and assuming that the mentioned macroeconomic risks will be dealt with successfully and that the countermeasures will not result in lasting frictions, it will be a very long time before it will be possible to speak of an equality of living conditions in the enlarged European Union. However, it should pointed out here that significant welfare differentials continue to exist even among the EU15. Assuming that income disparities will remain for some time and on a certain scale in the EU15 as well, it is possible that the new Member states can achieve the western European welfare corridor in the not too distant future if their economies grow steadily and strongly. Realistically, in the foreseeable future it will therefore be less a matter of alignment and more of convergence of living conditions in the enlarged European Union.

3.1.2 Employment and unemployment

Similar to the economic situation, there are considerable differences in the employment situation in the new states of the European Union (cf. Table 4).

Table 4

EU Labour market indicators 2003

Countries	Employment rate (as % of the respective population)					Unemployment rate (acc. to ILO; as % of the labour force)				Employment in the economic sectors (as % of overall employment)			Employment form (as % of all employees)			
													self-empl.*		Part-time mp.	Fixed-term-contracts
	Total (15-64)	Youth (15-24)	aged 25-54	Older (55.64)	Women (15-64)	Total	Youth (15-24)	Women	Long-term	Services sector	Manufacturing	Primary sector	total	excl. agric.		
Ø AC-10	**55.8**	**24.3**	**72.6**	**31.7**	**50.2**	**14.3**	**–**		**–**	**56.3**	**31.3**	**12.4**	**17.7**	**9.0**	**–**	**–**
Estonia	62.9	29.3	77.8	52.3	59.0	10.1	22.9	10.0	4.6	61.5	32.3	6.1	8.1	6.4	8.5	2.5
Latvia	61.8	31.5	77.7	44.1	57.9	10.5	17.6	10.7	4.3	60.8	25.8	13.4	9.5	5.0	10.3	11.1
Lithuania	61.1	22.5	78.9	44.7	58.4	12.7	27.2	13.3	6.1	54.1	28.0	17.8	17.1	6.2	9.6	7.2
Malta	54.2	47.2	61.8	32.5	33.6	8.2	19.8	11.3	3.5	–	–	–	13.8	12.5	–	–
Poland	51.2	21.2	67.5	26.9	46.0	19.2	41.1	20.0	10.7	53.0	28.6	18.4	21.7	9.9	10.5	19.4
Slovakia	57.7	27.4	76.0	24.6	52.2	17.1	32.9	17.4	11.1	61.5	34.1	4.4	9.4	9.0	2.4	4.9
Slovenia	62.6	29.1	82.5	23.5	57.6	6.5	15.9	7.1	3.4	52.3	36.9	10.9	9.8	6.6	6.2	13.7
Czech Rep.	64.7	30.0	81.7	42.3	56.3	7.8	18.6	9.9	3.8	56.1	39.4	4.5	16.7	15.9	5.0	9.2
Hungary	57.0	26.8	73.7	28.9	50.9	5.8	13.1	5.5	2.4	62.3	31.9	5.8	12.8	11.2	4.4	7.5
Cyprus	69.2	37.6	82.6	50.4	60.4	4.4	10.6	5.1	1.1	–	–	–	20.2	17.6	–	–
Ø EU-15	64.4	39.9	77.2	41.7	56.0	8.1	15.6	9.0	3.3	71.0	25.0	4.0	14.2**	12.1**	18.6	12.8
Germany	65.0	44.5	78.1	39.5	59.0	9.6	10.1	9.2	4.6	70.3	27.2	2.4	10.4	9.6	22.3	12.2
EU-15 max.	75.1 (DK)	67.9 (NL)	84.5 (A)	68.6 (S)	71.5 (S)	11.3 (E)	27.0 (I)	15.9	5.1 (GR)	80.0 (UK)	33.8 (P)	16.1 (GR)	32.4 (GR)	21.5 (GR)	45.0 (NL)	30.6 (E)
EU-15 min.	56.1 (I)	25.2 (I)	70.7 (I)	28.1 (B)	42.7 (I)	3.7 (L)	6.8 (NL)	4.0	0.9 (L)	53.8 (P)	19.0 (UK)	0.9 (UK)	8.4 (DK)	6.7 (DK)	4.3 (GR)	4.5 (L)

*Notes: * working people of all age groups ** without the Netherlands.*
Source: Eurostat, NewCronos; Eurostat, labour force survey 2003; own analysis and calculations.

Overall, the employment rate for the average of the new EU countries was 8.6 percentage points lower in 2003 than that of the previous EU15. The employment rates for younger workers aged between 15 and 24 showed an extremely large difference of more than 15 percentage points. There was also a considerable difference of 10 percentage points as regards the employment rates for older workers (aged 54 to 64). In contrast, there were smaller differences concerning the employment rates of women, which particularly in Central and Eastern Europe had already been high in the socialist era.

As expected, the unemployment rates are mirror images of the employment rates. The mean value of the new EU states is clearly above the EU15 average. Of the Central and Eastern European countries Hungary, Slovenia and the Czech Republic have the lowest unemployment rates. In contrast, Slovakia and again Poland have especially high rates.

The information on employment by economic sector provided in Table 4 shows that manufacturing and agriculture still play a far greater role in the new Member states than in the EU15. This is especially true of manufacturing in the Czech Republic and Slovenia, and regarding agriculture in Poland and Lithuania. Thus, the economic structure of the new EU States shows potential for productivity increases in the primary and secondary sectors and for the development of business and personal services.

The new EU States also show a differentiated picture concerning the distribution of certain employment forms. Part-time work is far less common in the new EU countries than in the EU15. This corresponds to the pattern that can also be observed in the EU15, according to which workers in less developed countries show a lower preference for this employment form, not least because of the lower income associated with it. While there are less distinct differences between the new and the old EU States concerning fixed-term employment, the self-employment rate in the new States is usually higher than in the western European countries. However, if the self-employment rate is calculated without agriculture a completely different picture emerges: the average value for the new Member states (for Poland as well) is then below the mean of the EU15.

In summary, firms and workers in the new member countries have demonstrated high levels of flexibility and innovative potential in the transformation process, which nonetheless has an underside: "Alongside this adaptation process, however, a number of abuses have been identified, with adverse working conditions especially with regard to occupational health and safety, excessive recourse to self-employment status and civil contracts, long working time, massive unpaid overtime, under-reporting of wages, stress at work and in life in general with difficulties reconciling work and family life" (Vaughan-Whitehead 2005, p. 42).

In contrast to economic growth, an upward trend in the development of the labour markets in the new EU countries is not visible despite the generally less favourable levels compared with the EU15. On the contrary: the average of the eight new Eastern European EU countries showed a negative employment trend between 1995 and 2003 in spite of generally high GDP growth (cf. Table 5). The only exceptions were Slovenia and Latvia, which showed a small growth in employment, and Hungary, whose employment growth was the same level as the EU15 average. Similarly to the situation in the new *Bundesländer* after reunification, this development is caused by an economic growth, which was mostly based on productivity increases (jobless growth). The increase in employment in growing sectors is obviously still far less dynamic than the labour displacement in shrinking sectors. It is likely, if everything else remains as it is, that the employment problems will not decrease but instead will tend to grow in the near future despite the expected strong growth.

Table 5

Development of gross domestic product, employment until 2003

	Change in GDP (1995 = 100)	Change in employment (all employed, 1995 = 100)	Change in GDP per worker (1995 = 100)
Ø AC8**	**132.9**	**95.6**	**136.8**
Estonia	150.4	93.5	160.8
Latvia	159.1	102.8	154.8
Lithuania	151.9	87.7	173.2
Poland	136.5	92.1	148.2
Slovakia	135.3	97.8	138.3
Slovenia	133.9	102.3	130.9
Czech Rep.	114.9	95.4	120.5
Hungary	134.7	109.6	122.9
Ø EU15	**118.0***	**109.3**	**108.0***
Germany	110.3	102.3	107.9
Ireland	183.9	141.0	130.4

*Notes: * estimated values ** Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, Czech Republic, Hungary.*
Source: Eurostat (2004) Newcronos, own analysis.

3.1.3 Demography and migration

What is of particular importance for long-term economic and employment development as well as for the migration potential in the enlarged Union is not least the demographic development of the new Member states. Birth rates, life expectancy and migration behaviour are crucial here. The population of the new Member states is on average younger than that of the previous EU15 (Dickmann 2004). This can be put down to the fact that until the 1980s the birth rates were higher than those in western Europe. After that, in the course of the political change in systems at the beginning of the 1990s, the so-called "total fertility rates" declined during the following decade to between 1.1 and 1.4, the lowest value worldwide (EU: 1.5).[2] It will not be possible until 2020 to judge whether family plans have only been postponed or have perhaps even been cancelled. By then it will have become clear whether the women of these age-groups actually have clearly fewer children than their predecessors or whether they just have them at a later stage in their lives.

Eastern Europe also differs from the west with regard to life expectancy. Whereas in the west it has been increasing steadily and will probably continue to increase, it has stagnated in most of the new Member states. These two factors together (birth rates and life expectancy) inevitably lead to a decline in the population of the new Member states just as in western Europe, even if it comes into effect in the new Member states a little later. The development of the population segment aged between 15 and 64, which is important for the labour market, is already showing a declining tendency in nearly all of the new Member states. Poland and Slovakia will follow this trend from 2010 and 2015 respectively (cf. also United Nations Population Division 2003).

The labour forces of Central and Eastern Europe have good levels of formal qualifications despite the low productivity of labour when compared with the EU15 (Plünnecke/Werner 2004). The proportion of workers who have an upper secondary school qualification is significantly larger than in the EU15. However, in comparison with western Europe, the new Member states have a smaller proportion of workers with tertiary education such as e.g. university, master craftsmen's college and technical colleges (Schäfer 2004). Due to the continuing high unemployment and the massive structural change, however, it is to be feared that in the course of the transformation human capital has already been devaluated to a considerable extent and might continue to do be devaluated.

Concerning migration movements, the new EU Member states are confronted with two developments. Firstly, there is possible emigration to the western parts of the European Union, and, secondly, there is possible immigration from other Eastern European countries.

Relevant studies estimate the maximum emigration from the new EU Member states at a magnitude of 1 to 1.5 million people over a period of 15 years (EIC 2000; Dustmann et al. 2003; Krieger 2004). It has to be taken into account here however, that in contrast to the assumptions made in the research, the free movement of labour will have been introduced only in stages by 2011, and that the effects are more likely to be only of regional importance (Germany, Austria and Finland). In line with the developments in the EU15, it can be assumed that the more highly qualified will show an increased willingness to be mobile. Therefore, emigration should be less of a problem for the countries of destination in western Europe, and more of a problem for the countries of origin in Central and Eastern Europe. For these countries could lose valuable human capital, which they need so desperately for a successful catching-up process.

Table 6 shows that immigration is also a topic when seen from the perspective of the new Member states. Whereas at the beginning of the 1990s especially the Baltic States showed a negative migration balance, most of the new EU countries (exceptions: Latvia, Lithuania, Poland) have a positive migration balance in the meantime. This can be put down to increased migration from countries such as Russia, Belarus, Ukraine and Moldova. Migrants from these states use access to the new EU States as a stepping stone to the western part of the EU.

3.2 Social-policy framework in the new member states

The new Member states will participate especially strongly in the growing European integration.[3]

[2] The total fertility rate indicates the cross-section of the age-specific birth rates of all women aged between 15 and 45. It illustrates the number of children a woman would have, if she constantly behaved in the same way as the women at the time of consideration.

[3] Cf. IAB-Kurzbericht Nr. 12/2004 "Erweiterung der Europäischen Union. Aufholprozess mit Chancen und Risiken".

Table 6

Net migration rates* of the new EU member states (1991–2002)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Czech Rep.	–5.5	1.1	0.5	1.0	1.0	1.0	1.2	0.9	0.9	0.6	–0.8	1.2
Estonia	–8.1	–27.1	–18.9	–14.2	–10.9	–9.5	–4.9	–4.8	–0.8	0.2	0.1	0.1
Cyprus	19.2	17.7	13.9	11.0	10.3	9.1	8.2	6.2	6.1	5.7	6.6	9.7
Lithuania	–5.7	–20.5	–12.6	–9.0	–5.5	–4.1	–3.9	–2.4	–1.7	–2.3	–2.2	–0.8
Latvia	–2.9	–6.6	–6.5	–6.6	–6.5	–6.5	–6.3	–6.2	–5.9	–5.8	–0.7	–0.6
Hungary	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.0	0.3
Malta	3.4	2.5	2.7	2.4	–0.5	1.6	1.6	1.1	23.7	3.4	5.9	4.7
Poland	–0.4	–0.3	–0.4	–0.5	–0.5	–0.3	–0.3	–0.3	–0.4	–0.5	–0.4	–0.3
Slovenia	–1.7	–2.8	–2.3	0.0	0.4	–1.7	–0.7	–2.7	5.4	1.4	2.5	1.1
Slovakia	0.0	–0.5	0.3	0.9	0.5	0.4	0.3	0.2	0.3	0.3	0.2	0.2

*Note: * = annual average migration balance per 1000 inhabitants.*
Source: Eurostat.

However, considerable economic disparities will continue to exist for some time in the enlarged Union. This will presumably be associated with a constant social gap in the EU25. One question that arises in particular in this respect is whether and to what extent the present social-policy framework in the new EU countries will prove to be a help or a hindrance for the catching-up process that is needed there.

Changes in welfare-state institutions are necessary in the new Member states for various reasons. Despite unmistakeable economic progress, the consequences of the political transformation have not yet been overcome. In the Central and Eastern European countries, a radical change of system is taking place, which cancels out the usual path dependence of social regimes. In addition to this the organising of the particular welfare-state apparatus has to be harmonised with the economic catching-up efforts and coping with existing labour market problems. But that is not all. In addition, when organising their welfare-state the new Member states, just like the old ones, have to face the trends that are also valid for Western Europe. These include falling birth rates, a change to a service economy, increasing demands regarding qualifications in the new employment opportunities and a greater demand for internal and external flexibility of labour input.

On the basis of key elements of welfare-state systems, the following section shows what level of development the new Member states have reached so far and what chances and opportunities could arise for the catching-up process as a result.

3.2.1 Labour market legislation and labour relations

Due to the growing employment problems in the new EU countries, which were mentioned earlier, the ability of their labour markets to work deserves particular attention. In the area of individual labour law, the new Member states have extensive arrangement possibilities. In economic and political debate, great importance is attached to employment protection in this respect. Employment protection legislation brings together the regulations on individual dismissal protection, collective dismissals and forms of temporary employment such as fixed-term employment and temporary work via employment agencies. A current comparison of legislation, which was conducted by the OECD, shows that Central and Eastern European countries such as Hungary, Poland, the Czech Republic and Slovakia have less strict regulations than many continental European countries (cf. Table 7).[4]

The labour markets of the new Member states have become more flexible in the course of the transformation. In the course of the structural change, labour turnover – measured in rates of hirings and layoffs – increased and the average duration of employment in a firm decreased. However, the new

[4] Comparable indicators for Slovenia and the three Baltic states are only available for the late 1990s. According to this data, employment protection legislation there, with an overall value of 2.3–2.7 (as a comparison: Germany 2.5), was somewhat stricter than in the Central and Eastern European countries included in the OECD comparison, which at the time had a range of 1.3–2.4.

countries have, at least so far, shown a different pattern of response to the economic situation from that seen in western European countries: whilst the course of labour turnover has been counter-cyclical, the development of the duration of employment was more pro-cyclical (cf. Cazes/Nesporova 2003). This can probably be put down to the transformation crisis, which is still continuing, since unlike in western Europe, the still high level of employment insecurity in the new Member states induces fewer workers to change their jobs even during especially good times. According to internationally comparative studies, less stringent employment protection increases the permeability of the labour markets in the transformation countries, too, and thus counteracts the persistence of unemployment (cf. ebd.). In connection with rather more decentralised wage-determination, which is explained below, the new Member states would therefore have the possibility to use the options of high labour market flexibility in order to combat their employment problems. This requires, however, that the workers do not experience the necessary change as a threat but understand it to be an opportunity. The chances of realisation and success of such an approach would increase if high labour market flexibility were accompanied by labour market and social policy aimed at activation (cf. Auer and Cazes 2003).

Another important element of the changes in welfare-state institutions concerns the development of productive labour relations. Agreements on wages and other employment-contract standards have a decisive influence on the ability of the labour market to adjust. In the Central and Eastern European countries the transition to labour relations that are consistent with the free market economy has not yet been concluded (cf. Lecher 2000). Nevertheless they have already forged quite a long way ahead in this respect. Trade unions and firms are allowed to organise and reach agreements (cf. Funk/Lesch 2004). Union density in the new Member states is approximately as high as the average of the previous EU15. Nevertheless there are differences: countries such as Hungary, Slovenia and Slovakia show higher union density, whereas fewer workers are members of a trade union in Poland (cf. Cazes/Nesporova 2003; Funk/Lesch 2004). It must be pointed out, however, that the trade union movement is demonstrating fragmentation tendencies in some of these countries. As a result the latter aspect means that the ability of the social partners to negotiate can be impaired from time to time.

Table 7

Indicators of employment protection legislation in the enlarged EU

Countries	Employment protection	Temporary employment	Collective dismissals	Overall indicator
Ireland	1.6	0.6	2.4	1.3
Hungary	1.9	1.1	2.9	1.7
Denmark	1.5	1.4	3.9	1.8
Czech Republic	3.3	0.5	2.1	1.9
Slovakia	3.5	0.4	2.5	2.0
Finland	2.2	1.9	2.6	2.1
Poland	2.2	1.3	4.1	2.1
Austria	2.4	1.8	3.3	2.3
Italy	1.8	2.1	4.9	2.4
Belgium	1.7	2.6	4.1	2.5
Germany	2.7	1.8	3.8	2.5
Sweden	2.9	1.6	4.5	2.6
France	2.5	3.6	2.1	2.9
Greece	2.4	3.3	3.3	2.9
Spain	2.6	3.5	3.1	3.1
Portugal	4.3	3.0	3.6	3.7

Notes: Scores range from 0 to 6 (a high value represents heavy restriction) 1 The indicator is made up of three components: the regulations on individual dismissal protection, on temporary employment forms and on collective dismissals.
Source: OECD 2004.

Whereas the proportion of firms bound by collective agreements is comparatively large in the new Member states, with over 50 % almost throughout, the degree of centralisation of the wage negotiations on the other hand is decreasing steadily (cf. Cazes/Nesporova 2003). There are several reasons for the more decentralised form of wage agreements. Thus a collective labour law of western European style either does not exist or if it does, then at best in a rudimentary form. In addition to this is the fact that firms are often not particularly active as regards trade unions and trade associations, and works councils are rarely important (with the exception of Hungary). There are therefore indications that labour relations in the new Member states are heading in the direction of the Anglo-Saxon model and away from the continental European model. This allows the new Member states to be able to take into account the specific needs of firms in the difficult catching-up process. Irrespective of this, in many of these countries the state also continues to influence labour relations. The state still acts firstly as an important employer, and secondly as a key partner in the context of national social and employment pacts. What is also worth mentioning are the minimum wages that are in force in most of the new Member states, which are between 28 % and 43 % of the average gross pay (Funk/Lesch 2004).

The functionality of labour relations will be of great importance in the catching-up process of the new Member states. Associations and representations of interests have still to be set up. In so doing they have still to prove their usefulness. This will also include preparing their members and also the public for a long adjustment process. An extension of national or regional employment pacts, also including the government, would benefit the development of the labour market and contribute to the development of a productive social dialogue.

3.2.2 Wages and income inequalities

In 2002 the labour costs per hour worked in the manufacturing industry of the Central and Eastern European EU states were only a fraction of the corresponding costs in the western neighbouring countries (cf. Table 8). The labour cost differentials reflect by and large the differences in the level of economic development and in productivity, so that the level of unit labour costs of the new Member states and those of the old members of the EU15 differ far less considerably than the absolute labour costs. Irrespective of this, the existing considerable differentials will keep wage pressure high for a long time in the enlarged European Union, will encourage the relocation of labour-intensive productions from the west to the east and will intensify the competition of otherwise non-tradable or hardly tradable services immediately along the new borders in the EU.

In addition to the considerable income disparities between the new Member states and the previous

Table 8

Labour costs in the manufacturing industry in 2002 – new member states[1] and Germany

	Labour costs of the workers[2]	Of which:	
		Direct remuneration	Non-wage labour costs
	per hour in Euros		
Slovenia	9.01	5.38	3.63
Czech Republic	5.03	2.75	2.28
Hungary	5.03	2.82	2.21
Poland	4.49	2.82	1.67
Slovakia	3.46	2.02	1.44
Estonia	3.19	2.09	1.11
Lithuania	2.83	1.86	0.96
Latvia	2.29	1.59	0.69
Western Germany	31.67	17.84	13.83
Eastern Germany	19.09	11.65	7.44

Notes: 1 excluding Malta and Cyprus. 2 Blue and white-collar workers.
Source: Schröder (2003 and 2004).

EU15, ten years after the and of Communism the income inequalities in the countries are more pronounced on average than they are in Western Europe. A comparison of the Gini coefficients for the distribution of income shows that the inequalities have grown clearly in all of the new Member states (cf. Table 9). The income disparities correlate with low union density, small shares of firms bound by collective agreements and little centralisation and co-ordination of wage bargaining (cf. OECD 2004). The question as to whether the greater income inequality will only be a temporary phenomenon in the course of the catching-up process remains open, for a reduction of the disparities is conceivable if the positive development continues (cf. EEAG 2004).

One way to counteract the income disparities in the primary distribution is by state redistribution. However, because of their development backlog the potential of the Central and Eastern European economies for substantial social-policy intervention is exceptionally limited.

3.2.3 Social protection and labour market policy

For financing their social security systems, the new Member states in Central and Eastern Europe tend to lean more heavily on social security contributions than the average of the EU-15.[5] This represents a heavy burden for the difficult labour market situation in these countries. For high non-wage labour costs slow down employment, especially at the lower end of the wage scale, thus strengthening the persistence of unemployment. Whether or not social security contributions can be lowered depends on what alternative financing possibilities there are via direct or indirect taxes, or whether more benefits can be left to private provision. In view of the economic development backlog of the new Member states neither of the options are easy to realise, however, as they both lead first to a shifting of the burden.

Table 9

Gini coefficients for the distribution of income in the EU15 and in the new member states

Countries	1978–1990	2000–2001
Hungary*	21	39
Lithuania*	23	38
Estonia*	24	38
Latvia*	24	33
Slovenia*	22	31
Poland*	28	31
Czech Republic*	19	27
Slovakia	19.5 (1992)**	25.8 (1996)***
EU15 (1999)****	29	
EU15 range	23–34	

*Notes: * Balcerowicz, National Bank of Poland, March 2005, based on World Bank 2002, World Development Report 2005, UNICEF Trans MONEE, 2003. ** Eurostat Data Shop Zurich / EEAG 2004. *** World Bank, World Development Report, 2005. **** average weighted by population, Eurostat Data Shop Zurich / EEAG 2004.*

The problems involved in arranging the systems of social protection in the new Member states show clear parallels to the countries of Western Europe. What is of outstanding importance in this respect is the pressure on the pension scheme, due to the demographic development, and the pressure on the unemployment insurance, due to the employment problems.[6]

In the Central and Eastern European countries pension schemes are in a phase of radical change. Income-related pensions from contributory systems – some in connection with means-tested minimum pensions such as in Latvia and Slovakia – formed the basis for the pension system in the new Member states during the transition to a market economy (cf. Pimpertz 2004). Like in western countries of the EU15 with predominantly contributory pension schemes, in the course of the transformation there were reforms with three key elements (cf. Fultz 2003):

- Firstly the benefit parameters of the contributory systems were changed. Thus almost all the countries raised the retirement age and reduced the value of years of coverage for the future pension entitlement.
- Secondly four of the ten new Member states (Hungary in 1998, Poland in 1999, Latvia in 2001 and Estonia in 2002) supplemented their contributory systems with funded elements. This consti-

[5] According to OECD figures, in 2001 these social security contributions as a percentage of the gross domestic product were 17.4 percent in the Czech Republic, 14.7 percent in Slovakia, 11.5 percent in Hungary and 10.0 percent in Poland. In 2001 the EU15 average was 11.7 percent, with the highest value of 15.9 percent in Sweden and the lowest value of 2.2 percent in Denmark.

[6] Health insurance is not intended as a detailed subject in this paper. It should only be pointed out here that with regard to health insurance, social protection systems funded largely from employer and employee contributions exist in the meantime in the central and eastern European countries.

tuted a particular burden for countries with still poorly developed economies because considerable transition costs are incurred. Firstly funds currently have to flow into setting up capital in favour of the current working generation, secondly at the same time funds have to be found from the social security systems for benefits in favour of the older generation.

- Thirdly, in almost all of the new countries incentives in favour of a voluntary pension insurance were put in place. Here tax relief on private savings and on the setting up of company pension schemes was prominent.

The emerging problems for the pension systems in the new Member states are obvious, as they are in western Europe. The risks of their longer-term financing are prominent. Life expectancy, which unlike in western countries is currently stagnating in the new Member states (with the exception of Slovenia), will presumably increase again soon and, in combination with a shrinking population (as a result of declining birth rates), will generate large financial burdens for the active part of the population. However, funded methods alone are not a solution to the problems of ageing and a shrinking population, since the active generation ultimately always has to bear the costs of the passive generation, whether directly in the contributory system, or indirectly in the funded system, the method of saving for one's future pension. The introduction of funded methods and the support of voluntary forms of old-age pension schemes are, however, a way to relieve the burden of non-wage labour costs, or at least to stop the increase.

With regard to the type of unemployment benefits, most of the new Member states have already adapted to the EU15 to a large extent. Thus there are already earnings-replacement benefits in the form of unemployment benefit and diverse reintegration measures everywhere. The main difference from western Europe, however, is the degree of coverage, i.e. as a rule fewer risks for fewer people are covered at a lower level and for a shorter period of time. Measured as a proportion of the gross domestic product, expenditure on labour market policy (earnings-replacement benefits plus measures) amounted to a total of 0.30 to 1.25 percent maximum in the new Member states, which is only just half of the (unweighted) average of the EU14 excluding Luxembourg (cf. Table 10).

Especially when they are paid for long periods, high earnings-replacement benefits can function as a reservation wage, thus reducing the incentive to work and contributing to the persistence of unemployment. There can be no question of "generous" transfer payments in the new Member states, however (cf. Social Security Administration 2002). These states have contributory unemployment benefit systems, with the exception of Estonia, in which the duration of unemployment benefit is generally comparatively short, e.g. 180 days in the Czech Republic, Slovakia, Estonia and Lithuania, and 270 days in Hungary and Latvia. Longer durations of benefit are possible in exceptions, if contributions were paid

Table 10

Public expenditure of central and eastern European EU states on employment schemes in 2002 (as % of GDP)

Countries	Active measures[1] (total)	Passive measures[2] (total)	Overall expenditure
Poland	0.11	1.14	1.25
Slovakia	0.46	0.48	0.94
Czech Republic	0.17	0.27	0.45
Hungary	0.52	0.37	0.90
Estonia	0.08	0.22	0.30
Latvia	0.14	0.50	0.64
Lithuania	0.21	0.15	0.36
Slovenia	0.44	0.58	1.00
EU 14*	**1.01**	**1.43**	**2.44**

*Notes: Differences in the totals due to rounding up/down the figures 1 Total of all data revealed 2 Unemployment benefit and early retirement for labour-market reasons * excluding Luxembourg; unweighted.*
Source: Employment Outlook 2004, ILO 2004.

for a longer period (Latvia, Slovenia), if unemployment is high in certain regions (Poland) or if older workers are affected by unemployment (Slovenia). The wage replacement rates are not generous, either, and amount to between 50 percent and 65 percent of the previous net wage at the start of benefit entitlement.

Analogous to the low level of expenditure on passive benefits, expenditure on employment and training schemes is also comparatively low in the Central and Eastern European countries. In 2002 the percentages determined for the Central and Eastern European EU states ranged between 0.08 percent and 0.52 percent. These percentages were clearly below the unweighted average of the EU14, which was 1.01 percent of the gross domestic product. The main emphasis of these measures is on wage subsidies, measures aimed at particular target groups and in some cases also job-creation measures. In view of the far-reaching structural changes and the emerging need for mobility between firms, regions and fields of work, especially the limited expenditure on further training needs to be questioned.

3.2.4 Prospects for the social order

In the course of the transformation to a market economy, institutional structures have developed in the new Member states, which show similarities to the OECD countries and the EU15. The affinity can be seen in the systems of labour relations, in social protection and in the way that labour market regulations are arranged. There are considerable differences, however, with regard to the level of social benefits.

In the process of globalisation and the integration of economic areas (such as in Europe), welfare-state measures are also subject to competition as decisive location factors. Costs and benefits of social-policy intervention and its functionality thus help to decide whether an economy can develop dynamically. It must be taken into account here, however, that there are interdependences between economic growth and welfare-state intervention. On the one hand growth policy is the best social policy because social risks can be avoided in this way and a stable financing of social systems is possible. On the other had the welfare state can also encourage economic dynamics because planning certainty arises as a result of social protection: the individual can take on economic risks without immediately jeopardising his existence. The consequence of this is the precedence of business development accompanied by a welfare state aiming at activation, which focuses on the lifelong employability of the labour force.

Welfare-state measures do not necessarily have to be subject to competition in integrated economic areas such as the EU, however. They could be entirely or partly withdrawn from competition by means of binding, supranational standards. There are, however, practical and especially economic reasons for not harmonising social policy supranationally. One practical argument is that social systems have quite different historical backgrounds and harmonisation would not be easy to implement. What is of economic importance is the fact that possible transaction costs from a heterogeneous system are more than offset in the longer term by the dynamics resulting from independent economic areas competing with many of their basic economic conditions. Social models are therefore the result of national search processes, experiments and political decisions. If barriers to trade are removed, then the most efficient solution becomes visible and can be adopted by other countries. Furthermore, this provides incentives to seek and pursue new methods of social protection.

Another equally serious economic argument against harmonising social systems is that nation states demonstrate different levels of development. As they had economic starting levels that are not comparable and also therefore do not grow at the same speed, they can be affected by economic shocks to very different extents. If less well-developed countries such as the new EU Member states are not to be overtaxed, minimum standards could be orientated towards the possibilities and limits of these weaker countries. This need not be a problem for more developed countries, however, because they are in competition with their entire basic economic conditions. But in the case of the countries that are not yet so well developed a catching-up process should and can get under way in the social field, too, as a result of economic growth.

4 Effects of eastern enlargement on the European Social Modell: who is changing whom?

4.1 Stress factors and governance problems not associated with enlargement

In order to prevent developments of the ESM that are not caused by enlargement being erroneously put down to enlargement it is necessary to analyse stress factors which the ESM is exposed to by internal and external influences. Some of these factors, such as for instance the changes in international location conditions in the context of advancing globalisation, can of course by accentuated by the enlargement. However, not only globalisation, but also other influences that can in turn be intensified in the process of globalisation play a role: “Many studies consider other causes as more probable, such as de-industrialization, rising unemployment, an aging population, changing family structures, and, most important, institutional legacies and political priorities” (Dauderstädt 2003, S. 6). We emphasise in particular three of these influences as stress factors: changing production systems, the ageing of the population and a high level of structural unemployment.

(1) Changes in international production systems find expression in intensified transnational competition of location. Capital mobility and market integration make it possible to change location in order to take advantage of comparative cost advantages. Where low labour costs and good qualification levels can be found at the same time elsewhere, employment also comes under pressure in locations with high productivity in this process. Low standards of social protection and low levels of corporate taxation are used worldwide as instruments of competition of location in the race to the bottom. Inclusive strategies in the context of the ESM on the other hand back the public provision and quality of the workforce-related, material and institutional infrastructure in the Member states in order to allow these countries to stride ahead along the path of high productivity. Strategies of tax avoidance concerning mobile capital and other fiscal challenges which are caused among other things by the ageing of the population and the costs of unemployment impose limits on this, though.

(2) The ageing of the population, in so far as it is caused by growing life expectancy, is one of the indisputable achievements of humanity. In so far as it is due to a lack of young people this does not apply. Such unbalanced ageing hampers the development of productivity and puts the social protection systems under stress: fewer contributors, more benefit recipients. Furthermore, in view of high unemployment in a number of countries in the past years, early retirement models – also with the support of labour market policy – have helped to lower drastically the age at which one is considered “too old” on the labour market. Today the long-term structural consequences of this strategy to reduce the supply of labour are clear.

Young people have not been able to gain any recognisable advantage from the reduction of the labour supply of older people; jobs becoming vacant as a result of early retirement were dropped to a large extent in business adjustment processes. In many Member states, youth unemployment and the transition of young adults from training into occupation, which has become more difficult, are problems today more than ever before.

Internationally comparative studies on the other hand do not reveal that there is a positive connection between low labour force participation and low unemployment; on the contrary the example of Scandinavia shows a positive connection between high labour force participation and comparatively low unemployment. A strategy that used to be promising at least in the short term, the redistribution of dwindling employment opportunities by means of reductions in working hours, has reached a medium- and long-term impasse. The Lisbon Strategy is consequently aimed at a higher labour force participation of women, young adults and older workers in all the Member states, admittedly without having reached a breakthrough with weak growth and low employment intensity of growth in several Member states.

In the 1990s the pension reform debate was influenced in both the east and the west by the strategy represented in the World Bank study (Averting the Old Age Crisis, 1994) of privatising the old-age pension systems. Currently both here and in the east it is more a matter of options for the combination of public and private forms and a closer individual linking of contributions paid and pension income. What emerges is hybrid forms rather than pure types (Rein und Schmähl, 2004). The positions have converged: on the one hand the opinion has grown that funded pensions with defined contributions, but with payments dependent on market conditions require supplementation by the pay-as-you-go pillar; on the other hand the closer individual linking of contributions and pension income changes the incentive structures.

(3) High, and in view of large proportions of long-term unemployed, persistent unemployment is not only a challenge for economic and social policy in the context of the ESM, but because of its costs to the economy as a whole, it has itself become a stress factor which clearly limits several countries’ possibilities of action for making all efforts to reach the ambitious competition target of the Lisbon Strategy, e.g. in innovation policy by means of promoting education and technol-

ogy. The Member states respond differently to the challenge of unemployment. They either use earnings-replacement benefits from the unemployment insurance combined with measures of active labour market policy, or specific benefits for particularly low-income groups of the population, so-called in-work benefits. In any case, however, they have to pay considerable amounts to stem labour-market-related poverty, which can result in crowding-out effects. Crowding out occurs on the financing side via the tax burden or non-wage labour costs and on the administration side via the binding of processing capacities, which would otherwise be available to the employment service for improving labour market - allocation.

Earnings-replacement benefits and active labour market policy are frequently accused from a labour-economics viewpoint of causing disincentive effects on the willingness to take up employment (cf. z. B. Nickell, S. and Lazear, R. 1999 and Calmfors, L. 2004). Adverse incentives can lead to publicly funded benefits accentuating still further the structural persistence of unemployment.

The criticism of crowding-out effects and incentive effects has led in a number of Member states to labour-market-policy and social-policy measures aimed at lowering non-wage labour costs and boosting incentives to take up work. The Schröder/Blair paper presented in 1999 "Europe: The Third Way/ Die Neue Mitte" says: "Work was burdened with ever higher costs. The means of achieving social justice became identified with ever higher levels of public spending regardless of what they achieved or the impact of the taxes required to fund it on competitiveness, employment and living standards". Reorientations are therefore concerned with focussing on particular target groups, binding the payment of benefits to means testing, changes in the rules regarding the suitability of jobs, and reducing the level and duration of benefit payments in the case of long-term unemployment. With the aim of reducing non-wage labour costs, both structural reforms and benefit cuts in the protection against unemployment and the funding of the health service as well as a shift in funding towards general taxes are taken into consideration. If changing the financial basis leads to a net additional tax burden, then the crowding-out problem continues to exist, though possibly with different effective distribution effects.

Improved incentive structures are also the subject of proposals to combine the labour market flexibility that is required for dynamics and adaptability with the equally necessary stability and social security in such a way that people are prepared to take on risks while trusting in the possibility to shape the future and in the contracting parties. Generally the workers are credited with interest in stability and the firms with interest in flexibility, in fact both parties need both factors and that does not only apply on labour markets. Basically it concerns optimum allocation of risk, in the present context also taking into account competitiveness and social inclusion. If the burden of this allocation falls mainly on the firms, then this has consequences on their investment and employment strategies; if the burden falls mainly on the workers, this has consequences on the workers' identification with the firm, on their willingness to participate in further training and on their productivity. "Flexicurity" concepts (Auer and Cazes 2003) intend to take this into account for example by combining low levels of statutory dismissal protection with adequate social protection in the case of unemployment and improved assistance towards taking up employment, or by also providing reasonable social protection in non-standard employment relationships (cf. Kok Report 2003, p. 30ff. and ILO 2005).

Whereas the instruments that apply to the avoidance of crowding out and to incentive compatibility focus as a matter of priority on the supply side of the labour market, Keynesian-style macroeconomic demand policy has received no credit from the majority for 25 years. With the introduction of the European Monetary Union and the Stability and Growth Pact, the countries involved have bound their hands to a certain extent in macroeconomic terms. What is behind this is the empirically well-proven experience of the necessity of stable basic conditions for producers and consumers. Of course stability-oriented monetary and fiscal policy alone are not sufficient guarantors for a successful employment policy, as can be seen from the macroeconomic employment results after decades of concentration on stability policy and improving the supply conditions. It is necessary to raise employment and its quality to a priority policy objective again instead of expecting it to occur simply as a result of good labour market policy and stability-oriented macro-policy. For this it is not enough to give labour market policy top priority. Yet, the employment effects of labour market policy are frequently overrated by its advocates. *Mutatis mutandis* the same applies for many high expectations that its critics associate with changes in legislation. Necessary structural reforms have to be accompanied by measures to stabilise confidence and demand. The required funding can only be raised in the context of budgetary policy that is conscious of stability. Restructuring the budget in favour of strategies aimed at modernising the economic structure is suitable for boosting confidence in future competitiveness.

With the break-up of the Soviet Union, the system competition between east and west, between socialism and capitalism as they exist in reality came to an end. Since then internationally comparative political science research has concentrated on variants of capitalism and welfare states (cf. Esping-Andersen 1990 and 1998, Hall and Soscice 2001, Hicks and Kenworthy 2003). In 1990 Esping-Andersen distinguished three “worlds” of welfare capitalism, a “liberal” one, a “conservative and strongly corporatist” one and a “social democratic” one. Hicks and Kenworthy compare two typical variants, a “progressively liberal” one and a “traditionally conservative” one; and in the spectrum of progressively liberal variants they identify two wings, a “liberal” one and a “social democratic” one. If one follows their terminology, then it is possible to show converging current trends in the latter spectrum: on the one hand social-democratic positions are taking up to a considerable extent arguments of the liberal economic critique with the aim of improving employment performance, on the other hand progressive liberalism is thinking more than before about social inequality. “Progressive liberalism seems to progressively redistribute income and reduce poverty. It is also associated with greater gender equality in the labour market….The principle consequence of traditional conservativism appears to be weakened employment performance. Much of the recent critique of the welfare state has centred on its purported job-reducing effects” (Hicks and Kenworthy, p. 53).

The reform initiatives in the context of labour market and social policy in the old Member states, which are described as examples of response to stress factors, are part of this current trend and not the result of eastern enlargement. Admittedly, they could be accentuated by enlargement in one direction or another. The first answer given in this section to the question as to who is changing whom, is as follows: the old Member states are changing their positions themselves in the context of the ESM under the influence of the stress factors according to policy-making decisions.

4.2 Distinctly liberal reforms in the new member states?

The reform programmes for the transformation countries in Central and Eastern Europe, which were drawn up by the international monetary institutions in the early 1990s, were orientated towards the Washington Consensus, according to which macroeconomic stability can be achieved most simply and most rapidly by means of speedy liberalisation and privatisation combined with restrictive monetary and fiscal policy. At the same time public expenditure should be reduced in order to prevent private initiatives being displaced. Privatisation was accompanied by elements of social protection that were previously provided by companies being shifted onto the state or the market. Vaughan-Whitehead (2003, p. 34) aptly describes the combination of external and internal influences: “The advisory work of international monetary institutions, combined with the emergence of a new generation of political leaders with a strong willingness to do whatever possible to promote real capitalist economies, has already had a major impact”.

After the years of socialism economic liberalisation has also been rightly welcomed as the political liberation from long-endured constraint. This contributed towards the acceptance of proposals made by the international monetary institutions at least at the outset of transformation. Old state-run or previously state-related institutions such as trade unions were disavowed, others such as federations of business enterprises were unknown. New tasks of social protection or the adaptation to international and European standards were not achievable by the traditional system of institutions and norms. Amongst the Eastern European and Baltic Member states, with all the differences in the development level of the social protection systems and in the structures of national, sectoral, regional and company social dialogue, there is therefore nothing to which the term “conservative corporatist” in Esping-Andersen’s terminology could apply. There is still a considerable unmet need for institutional infrastructure, without the meeting of these needs being likely to lead to a corporatist result in the foreseeable future. That is why this variant of capitalism can not be regarded as a likely future prospect for the new member states. In view of the more decentralised wage bargaining systems, Funk and Lesch (2004) conclude in addition that “labour relations in Central and Eastern Europe can be placed closer to the Anglo-Saxon model than to the continental European one”.

Our analysis of the economic catching-up process and the changes in welfare-state institutions (cf. especially 3.2.) does not fail to recognise the influence of definitely liberal policy-making decisions, but also draws attention to other influences:

(1) As explained above, the decline in employment during the transformation crisis put the systems

of social protection against the risks of old age and unemployment under pressure both from the payment side and the financing side. Facts that are of relevance for stability policy, such as inflation and national debt, set short- and medium-term limits; in the longer term it is necessary to secure the sustainability of the financing. The decision made by the governments of the transformation countries to cover fewer risks for fewer people at a lower level was therefore at best partly the expression of market-liberal definitions of position. Challenges, which are similar in structure to those in the older Member states were prominent and the new Member states of course have to face these challenges at their respective lower levels of production and productivity.

(2) As explained in the third section, the new Member states have set up labour market institutions which are in principle similar to those of the EU15, such as employment protection, whose degree of strictness or liberality differs little from the mean of the EU15, or which are comparable with the EU15 in their spectrum of benefits, such as active and passive labour market policy, albeit with a far lower expenditure level. With high levels of unemployment caused by transformation, high non-wage labour costs have not been sufficient to finance further benefits, even in comparison with the EU15. Benefit cuts have been accepted in order to reduce non-wage labour costs.

(3) For the prospects of economic and social policy in the new Member states it is not decisive that they can only finance an accordingly small social budget with their current level of production and productivity and that many social-policy institutions have not yet reached any comparable capacity to work in the catching-up process. What is more decisive is how forward-looking policy relates economic efficiency with the social dimension. Is the conviction gaining acceptance that the social dimension can be used as a productive factor for investment, growth and employment and has a positive effect on long-term economic development and political stability or is the relationship defined as a "first" and "later" process, growth first, social cohesion later?

(4) With regard to the relationship between the market and the state there are differences of interests, as there are in the old Member states. The trade-off between efficiency and cohesion implied in the "first"/"later" paradigm is assessed differently depending on the political conviction and expected participation. In addition to this, in the new member states the attitude of large parts of the population towards the market and the state is also quite ambivalent because of the transformation experience. The positive assessment of the political and economic freedom in the open society and economy, which was gained by overcoming the old system, stands opposite the need for an effective state that takes on the part of provision for existence that the individual does not feel able to do alone. The experiences made during the transformation crisis and the considerable income inequality, which may not only be a temporary phenomenon, support this need. In order for the productivity of the social dimension to be proved cognitively and with political conviction on the other hand, reform policy has to be fundable with a view to sustainability, i.e. it must avoid crowding out, while at the same time being arranged in such a way as to be incentive-compatible and promote social cohesion. These are once again the same challenges made of the reform agendas, of "good governance" instead of "deregulation" in the old and the new member states.

The second answer to the question as to who is changing whom, given in this section, is therefore: starting out from different historical experiences of the past decades and different levels of production and productivity, the old and the new Member states have to withstand structurally similar challenges if they want to achieve economic efficiency and social cohesion simultaneously. Coming from an egalitarian tradition, in the 1990s the new member states mainly experienced an income inequality exceeding the average of the old member states. The vast majority of the populations will call for social cohesion. Together with the integration advantages of enlargement, including assistance from the European Structural Funds from which the new Member states benefit with priority, the catching-up process, which began in the new Member states from the mid-1990s onwards, provides increasingly good conditions for the further strengthening of social cohesion. Of course other policy options and development scenarios with less social cohesion are also conceivable. Which of them will become established also depends on Community policy and the support of its objectives by the national players.

4.3 The European agenda after enlargement

Enlargement coincided with the realisation that the aims of the Lisbon Strategy can not be achieved at the speed with which reforms are being implemented that can be observed in the old member states. In the report of the High-Level Group of Independent Experts of the European Commission chaired by Wim Kok, “Facing the Challenge” of November 2004, reasons given for the disappointing implementation balance include the overloaded agenda, a lack of co-ordination of competing priorities and above all a lack of determined political action. The open method of co-ordination has not been pursued rigorously enough.

As a result the European Commission proposed focusing efforts on two key tasks in order to bring new life into the Lisbon Strategy: “Bringing about a stronger and sustainable growth and creating more and better jobs” (Delivering on Growth and Jobs, Communication to the Spring European Council, February 2005). The renewed action plan names new measures at European and national level for raising the attractiveness to investors and workers, for promoting knowledge and innovation for growth and for creating more and better jobs. The priority takes up the focus of the first Kok-report: “Jobs, jobs, jobs”. The criticism of the previous practice of the open method of co-ordination leads to demands to streamline the procedures and make them more binding and to set out clear responsibilities.

At the same time the European Commission presented its Communication on the Social Agenda. In this two main priorities are given: “moving towards full employment: making work a real option for all, increasing the quality and productivity of work, and anticipating and managing change” and “a more cohesive society: equal opportunities for all”. The explanation speaks of an integrated approach “guaranteeing a positive interplay between economic, social and employment policies” and it is proposed “to modernise systems of social protection by adapting them to the current requirements of our societies, on the basis of solidarity and by strengthening their role as a productive factor”. In brief: jobs, jobs, jobs and social policy as a productive factor. In his presentation before the Governing Body of the ILO in March 2005, the Commissioner for Employment and Social Affairs, Vladimir Spidla, made his position clear as to how the commission sees the balance between the two: “There is no first and later”.

If the answers given so far to the question “who is changing whom?” are summarised and put into the context of the most recent documents presented here, then one can conclude from this the clear intention to put the European Social Model into practice in its characteristic elements (cf. 2.1.) in the enlarged Europe. For this the market processes in the new member states will intensify the trends towards self-transformation in the old member states and the catching-up processes will increasingly enable the new member states to use social inclusion and productivity development for mutual reinforcement. Policy-making decisions both here and there will also be decisive for determining the position within the range of the ESM.

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