

The European Social Model and Enlargement. (level 1)

Maarten Keune

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Introduction (level 2)

In May 2004, after a long period of preparation, eight former state-socialist countries joined the European Union (EU). The entry of these new member states (NMS) raises a number of questions concerning the relationship between the enlargement of the EU and the European Social Model (ESM). For some, enlargement is a threat to the ESM. It is argued that, in combination with the restrictive conditions set by EMU, enlargement may shift the balance of power on the labour market to the employers, lead to higher income inequality and result in a partial dismantling of the welfare state to the detriment of the poor (Kittel, 2002). According to others, the ESM may be undermined because of the weakness of social policy in the NMS and their inclination towards neo-liberalism (Vaughan-Whitehead, 2003). If one accepts Scharpf's assertion that, in social policy terms, the EU has been incapable of effective action because of the diverging interests of the EU15 in this area (Scharpf, 1997), then enlargement is bound to diminish this effectiveness still further. For many actors in the NMS, accession to the EU has been considered the 'telos of transition' (Orenstein, 1998: 480), the final step in breaking with the state-socialist past and in joining the modern democratic-capitalist world, a step expected to bring both economic *and* social benefits, stemming from, among other things, the ESM.

Assessment of the relationship between enlargement and the ESM depends first of all, however, on the definition of what the ESM is all about, and different definitions will lead to different perspectives. In chapter one of this volume, Jepsen and Serrano Pascual identify two major ways of understanding the ESM: (i) a historical *acquis*, characterised by specific common institutions, values and outcomes; and (ii) a European political project, aiming to solve shared problems and working towards a distinctive trans-national model, including common goals, rules, and standards, and a certain degree of trans-national cohesion.

The historical *acquis* approach leads to two sets of questions. The first is whether the NMS are part of the ESM, whether, that is, they sufficiently resemble the EU15 in this respect, and, if so, how this has come about. Have these countries become part of the ESM through their preparation for membership of the EU? Have they been part of the ESM for a longer historical period (and is enlargement hence irrelevant)? Or can they become part of the ESM only in the future? The second set of questions concerns the effect of enlargement on the ESM: will the entry of the new members have a significant effect on the social model of the EU15 and therefore on the ESM?

The political project approach gives rise to questions concerning europeanisation and governance. Has the EU imposed a social model upon the NMS and has accession to the EU brought particular social rights and outcomes to the NMS? Will the ESM project change because of a different social orientation of the NMS, or will it be blocked because of decision-making difficulties?

This chapter aims to contribute to the further clarification of the relationship between enlargement and the ESM through a discussion of welfare state reform and performance in the NMS. Instead of starting out from a single conception of the ESM, the chapter will tackle this question from two different perspectives. Section 2 – more in keeping with the historical *acquis* approach – will consider the question of the extent to which the NMS welfare states resemble, and to what extent they differ from, the EU15 welfare states.

Section 3 – more in keeping with the political project approach – will examine to what extent the EU has imposed upon the NMS, in particular in the run-up to membership, institutional and policy innovations that stemmed from the ESM. In particular, following the focus of most of the contributions to this volume, Section 3 will review the role of the EU in shaping employment policy and labour legislation in the NMS. Section 4, finally, will present conclusions.

The historical *acquis* perspective: NMS welfare states and their performance (level 2)

This section will discuss the relationship between enlargement and the ESM from the historical *acquis* perspective. According to this perspective, the countries belonging to the ESM share common values, institutions and outcomes. Here the focus of the analysis will be on institutions and outcomes, whereas values will not be dealt with. First a brief account of the historical development of NMS welfare states will be provided, as well as of the direction in which they have been changing over the last

fifteen years. The next step will be to examine the performance of these welfare states in recent years, considering to what extent this is divergent among the NMS themselves as well as between the group of NMS and the EU15. On the basis of this examination, the question of whether the NMS fit the ESM will be discussed.

Historical continuity and discontinuity (level 3)

Welfare states in the EU15 are generally grouped into four welfare families which, while dealing with welfare issues in quite diverse ways, each show a great deal of historical continuity (Esping-Andersen, 1990; Ferrera, 1996). The NMS welfare states have experienced much less continuity. In the past 65 years, they have undergone two fundamental, systemic changes, from capitalism to state-socialism in the 1940s and back to capitalism after 1989 (Hemerijck and Keune, forthcoming). On both occasions, the complete array of social and economic institutions, as well as the normative and cognitive frames underpinning them, were called into question and the resulting institutional innovations were indeed radical.

In the first decades of the 20th century, the countries of Central and Eastern Europe (CEE) developed welfare states that largely followed the employment-related insurance-based Bismarckian or Continental welfare state model (see, for example, Potůček, 2004; Cerami, 2005). They differentiated strongly between occupational groups and generally favoured urban industrial workers over agricultural workers. Large welfare disparities could be observed across inter-war CEE, with the highly industrialised Czechoslovakia belonging to the more affluent European countries

while Poland or Hungary were far more agricultural and more deeply affected by poverty.

With the emergence of state-socialism in the 1940s, the CEE welfare states increasingly acquired a universal character. This was not so much because welfare entitlements became based on citizenship, as in the Nordic welfare model, but rather because the emergence of full employment led to universal coverage of welfare arrangements. Indeed, although centrally regulated by the state, the system remained firmly employment-based. This is further underlined by the fact that full employment was initially not an integral part of the state-socialist ideology. Rather, it emerged over time as a by-product of the rapid industrial growth and the resulting continuous demand for labour. Once established, however, full employment and the resulting universal coverage of welfare state arrangements increasingly became part of the state socialist discourse and became fundamental parts of the system as such (Baxandall, 2003; Róna-Tas, 1997). Furthermore, welfare entitlements were often provided through the state enterprise (Kornai, 1992), which further strengthened the link to employment.

As is true of any empirical case, the state-socialist welfare state was to some extent a mixed system. It included also certain non-employment-related, universal cash benefits like child and family benefits, covering the population under working age. In addition, the state subsidised food, housing, and transport, and maintained a formally free health system and education system, although some formally free services were not in fact entirely free (tipping of doctors, for example, was standard practice).

The state-socialist welfare state strongly reduced pre-war income inequalities, largely abolished extreme poverty and created high employment levels. This does not mean that everybody was equal: important differences prevailed between elites and non-elites, between priority sectors and non-priority sectors, and intra-enterprise differences between groups with more and less bargaining power. Also, although the state-socialist system, plagued by continuous labour shortages, facilitated female employment by providing childcare, extended maternity leave and child-raising benefits, little changed in the household responsibilities for women. Women suffered from a double burden, while the division of labour also remained sexist (Deacon, 2000). What is more, the state-socialist welfare state was strongly interventionist, offering mainly low-quality services, limited choice and a generally low standard of living, while also including widespread underemployment.

Institutional reforms after 1989 (level 3)

In the years 1989-1991, the state-socialist system was abandoned in favour of democratic capitalism. The first half of the 1990s was characterised by a deep economic crisis across the entire CEE region, although its depth varied substantially. By 1994, all NMS had seen their Gross Domestic Product (GDP) drop, with GDP losses ranging from 8% in Poland to close on 50% in Latvia, as compared to the 1989 level. Also, inflation had exploded (reaching up to 1000% in the Baltic countries in 1992) and full employment had come to an end, with employment losses ranging from some 10% in the Czech Republic to some 30% in Hungary (Keune, 2003).

The depth of the crisis of the early 1990s dampened the initial optimistic expectations of a speedy and unproblematic 'transition' to capitalism which would rapidly replace and outperform the obsolete state-socialist economy. Indeed, the new political elites feared that the high social costs of the initial crisis would undermine the support of the population for economic and political reform. Hence, radical economic reforms were accompanied by more cautious welfare state reforms. Indeed, in these initial years the welfare state was to an important extent used as a buffer aiming to absorb the most dramatic social effects of the economic crisis, in particular the loss of income through the loss of employment.

One important way of absorbing part of the employment and income losses was the widespread use of early retirement provisions and disability pensions for redundant workers (Fultz and Ruck, 2001; Müller, 2002). As a further means of reducing the impact of employment losses, unemployment benefit schemes were set up around the region (Nesporova, 1999). In addition, all CEE countries introduced a minimum wage to put a wage floor in the labour market. Finally, social assistance schemes were introduced to prevent those without other means of existence from falling into poverty.

This succeeded only partially. By the mid-1990s, the NMS had returned to economic growth and brought inflation under control but, in spite of the welfare state, poverty had been on the rise, while welfare schemes had come under increasing financial strain because of the dramatic increase in benefit recipients, unfavourable demographic developments and falling tax and social contributions (Hemerijck and Keune forthcoming).

Hence, welfare reform returned to the agenda but this time with a view to reducing costs and increasing efficiency, reducing welfare dependency and changing incentive structures and governance systems. However, while some dimensions of the welfare state were profoundly reformed, others have been changed only marginally. In addition, comparing the various countries, both converging and diverging elements can be observed in their reform paths.

Space does not allow for a comprehensive overview of welfare state reform in this chapter. Industrial relations and social dialogue are reviewed elsewhere in this volume. Here, a summary will be provided of reforms in the two areas that dominate social expenditure: old-age pensions and health care.

Old-age pensions (level 4)

State-socialist pension systems were largely financed on a PAYG basis through transfers from state firms to the state budget; direct contributions by workers were rare and retirement ages were low (Fultz and Ruck, 2001; Guardiancich, 2004). As of 1994, far-reaching reform of pension systems, taking up the largest share of social expenditure, was on the agenda. This was a result of budgetary and demographic pressures, but also because of strong reform advocacy by the World Bank, pushing for privatisation and individualisation of savings (World Bank, 1994).

While all NMS introduced adaptations to the traditional pension scheme – including the raising of the retirement age, the improvement of the collection of contributions, and the changing of benefit formulas – not all did this in the same way. Poland and

Latvia made pensions more individualised, more dependent on lifetime contributions and life expectancy, more earnings-related and less redistributive (Fultz, 2003). Hungary retained the traditional system but reduced redistribution to low-income workers, while the Czech Republic and Slovenia increased redistribution toward low-wage workers (Stanovik, 2002; Mácha, 2002).

Hungary, Poland, Latvia, Estonia and Slovakia went a step further and introduced, alongside the public pillar, mandatory, commercially managed, individual savings accounts, shifting pension risks from society to the individual and reducing risk pooling and redistribution (Müller, 2002; Fultz, 2003). Finally, all NMS introduced voluntary supplementary pensions. Hence, whereas pension reform has been ongoing throughout CEE, elements of convergence – a stronger relation of pensions to employment histories, an increasing pension age and the introduction of voluntary schemes – combine with elements of divergence in the form of mandatory private savings accounts (or not) and a greater or lesser degree of redistribution. Hence, a general Bismarckian trend is mixed with some egalitarian and market elements.

Health care (level 4)

Whereas, before World War II, most CEE countries had a Bismarckian system of health insurance, under the state-socialist system free universal health care was provided by the state. After the demise of state socialism, all NMS opted for a Bismarckian-type health insurance system under which the insured, in return for the payment of health insurance contributions, receive health care services (Cerami, 2005). However, this Bismarckian orientation, reaching back to pre-war traditions, is combined with the strong universal and egalitarian aspirations that were prevalent

during the state-socialist period. Today, the state largely continues to guarantee the provision of health services to the non-insured, while it also covers the deficits of the newly established health insurance funds (Cerami, 2005). Most systems also operate on the principle of solidarity whereby the premiums paid by the insured are not risk- but income-proportionate (see, for example, Hungarian Ministry of Health, Social and Family Affairs, 2004). These Bismarckian and universalist dimensions were subsequently further combined with market influence, including market-based services (Cerami, 2005).

Health care and pension reforms indicate the more general trend of welfare reform in the NMS. Most reforms have, first of all, a Bismarckian character, increasing the importance of insurance-based benefits as well as of employment-related factors in defining benefits. This is also true of, for instance, invalidity pensions (Fultz, 2002) and unemployment benefits. However, this does not mean that NMS welfare states are simply on a Bismarckian track, re-establishing pre-war traditions. Indeed, universalist legacies from the state-socialist era play an important role, while state and market are important governance mechanisms. Thus, as shown by Cerami (2005: 143-144), all NMS welfare states present their own mix of market-orientation, targeting and universality, combining their Bismarckian and state-socialist heritages with the market-dogmatism projected onto the region in the past 15 years. In such institutional terms, welfare states in the NMS do not easily seem to fit into the traditional welfare-families typology developed for the EU15; nor, however, are they dramatically different from these. Rather, they seem to represent their own peculiar combination of elements to be found in the four worlds of welfare. This seems quite compatible with the idea of their incorporation into the ESM.

Welfare financing and performance (level 3)

More clear-cut divergence within the NMS, as well as between the NMS and the EU15, can however be observed in welfare expenditure and, in particular, welfare performance. As far as finance is concerned, Table 1 provides the size and structure of social expenditure in the NMS as well as the average for the EU15. Two main observations can be made upon the basis of this table. First of all, among the NMS, there is a clear divide between low spenders (the Baltic countries), medium spenders (Slovakia, the Czech Republic and Hungary) and high spenders (Poland and Slovenia). These differences have been more or less stable since the mid-1990s (European Commission, 2003). Moreover, lower or higher social expenditure is not simply the result of budgetary pressures. With the exception of Slovenia, the NMS with medium or high social expenditure are also the ones with the highest fiscal deficits and the highest public debt, in other words, the ones that in theory could least afford such expenditure (Rhodes and Keune, forthcoming).

At the same time, social expenditure in all NMS remains below the average for the EU15, which stood at 27.6% of GDP in 2001. Only two NMS come anywhere near this average, with the rest remaining far behind. In fact, the Baltic countries, together with Ireland, have the lowest social expenditure of the entire EU, followed by the Czech Republic, Hungary and Slovakia. The NMS with the highest social expenditure, that is, Slovenia, falls in the same range as Italy and Finland and outperforms four of the EU15 countries. Hence, most NMS remain inside the social expenditure range defined by the highest (31.4%) and lowest (15.3%) level of

expenditure in the EU15. The Baltic countries are below the lowest level, but the differences with Ireland are small. At the same time, the NMS are clearly (among) the countries with the lowest social expenditure as a percentage of GDP and so they clearly pull down the EU average. Indeed, they belong to the minimal welfare states of the EU, where social transfers are lowest.

Insert Table 1 around here

As far as welfare state performance is concerned, Table 2 presents some of the main indicators for the NMS as well as the average and minimum-maximum range for the EU15. Of prime importance is the average level of income, expressed by GDP per capita. Differences within the NMS are large: GDP per capita in Latvia is only 53.2% of that of Slovenia. The Baltic countries together with Poland make up the poorer group of the NMS, while the richer group consists of Hungary, the Czech Republic and Slovenia, with Slovakia in between the two groups. In recent years, however, differences between NMS have diminished as the poorer Baltic countries as well as Slovakia have been growing much faster in 2001-2004 than the richer NMS. The exception to this trend is Poland, which has seen its relative position worsen recently.

In comparison with the EU15, GDP per capita is far below the average for the EU15 in all NMS. Only Slovenia has a per capita GDP very slightly above that of the poorest old member state (Portugal). Clearly, the NMS as a group make up the poorer part of the enlarged EU and half of the NMS have a GDP per capita below 50% of the EU15 average. Hence, there is much less social cohesion in the enlarged EU than was the case before May 2004. Nonetheless, the differences are getting smaller. Whereas in the EU15 average yearly GDP growth in 2001-2004 was 1.3%, in all NMS growth

was much higher, ranging from double the EU15 figure in the Czech Republic to 5.6 times that figure in Lithuania.

Insert Table 2 around here

In terms of relative poverty, however, the situation is different. In the richer NMS, poverty after social transfers, as well as income inequality, is much lower than in the poorer NMS. Differences in income inequality are further confirmed when comparing the Gini coefficient for the NMS: in 2002, this ranged from 0.234 in the Czech Republic and 0.244 in Slovenia, to between 0.353 and 0.393 for Poland and the Baltic countries (UNICEF, 2004). Within the enlarged EU, the NMS can be found at the two extremes: the Baltic countries and Slovakia, together with the UK, Spain, Portugal and Greece are the EU countries with the highest income inequality, while Hungary, the Czech Republic and Slovenia are, together with Denmark and Sweden, the ones with the most income equality (European Commission, 2004: 69). Hence where absolute poverty is much higher in the NMS than in the rest of the EU, relative poverty and income inequality in the NMS are located at the two extremes of the enlarged EU, spanning largely the same range as in the EU15.

The NMS employment rates differ again substantially, ranging from 51.2% in Poland to 64.7% in the Czech Republic. Poland has by far the lowest employment rate in the enlarged EU, five percentage points below the worst performer of the EU15 (Italy), and some six percentage points below Hungary and Slovakia. The Czech Republic is the only NMS with an employment rate above the EU15 average. In particular

Hungary, Slovakia and Poland belong to the worst performers in the enlarged EU, but the latter alone falls below all EU15 countries.

Finally, the old-age dependency ratio in the NMS varies once again quite considerably, from 16.5 in Slovakia to 23.5 in Estonia. In the Baltic countries and Hungary, in the short term, providing income for the elderly is more of a challenge, although this will change in the future. Projections suggest that by 2020 the old-age dependency ratio will be highest in Slovenia and the Czech Republic and as a longer-term challenge the ageing of the population weighs more on these countries (Rhodes and Keune, forthcoming). In comparison with the EU15, the situation is more favourable in the NMS since all these countries remain below the EU15 average.

Do the NMS fit the ESM? (level 3)

The main interpretation of what the ESM is all about claims that the countries belonging to the ESM share a historical *acquis*, including common institutions, values and outcomes. The adherents to this interpretation have long assumed that the ESM was made up of the EU15, although some exclude the Anglo-Saxon countries with their liberal welfare states and emphasis on market coordination (Jepsen and Serrano Pascual, this volume). But do the New Member States belong to the ESM as well? Following the historical *acquis* approach, this would be the case if they share these same institutions, values and outcomes. Assessing whether this is indeed the case gives rise, however, to serious problems. As argued by Jepsen and Serrano Pascual, these common factors are generally defined only in fairly abstract and vague terms. For example, the ESM is often regarded as encompassing generous welfare state

transfers, but it is not specified what level of transfers this entails or what degree of income inequality is or is not acceptable. The closest one comes to specification is often in terms of a comparison with the United States, the claim being that the ESM provides greater equality and more generous social benefits. What is more, across the EU there is wide diversity of both welfare institutions and outcomes, which further complicates a more precise identification of the factors common to the countries belonging to the ESM.

Here no attempt will be made to define the common denominators of the ESM. Rather, it is assumed that the institutions, values and outcomes that can be observed in EU15 countries are in correspondence with the ESM. As to the relationship between enlargement and the ESM, the question then becomes whether the institutions, values and outcomes prevalent in the NMS can plausibly be considered sufficiently similar to any of those found in the EU15.

What does the above analysis of welfare state institutions and outcomes tell us about this question? Are NMS welfare state institutions and outcomes like any of those found in the EU15? In a historical perspective this does not seem to be the case. During the state-socialist era the welfare state was indeed substantially different from any of the EU15, both in institutional terms and in outcomes. Institutionally, the extreme dominance of the state, the key role of the state-enterprise, extended maternity leave entitlements, the obligation to work, and many other elements combined to form a system that would be hard to fit into the ESM. In terms of outcomes, income equality was much higher than in any of the EU15, there was full

employment (combined with widespread underemployment), and the standard of living in most CEE countries was much lower than in any of the EU15.

After 1989 this picture changed. As it was argued above, in recent years, after a period of deep reform, although in institutional terms welfare states in the NMS do not correspond to any one of the four traditional EU15 welfare families, neither do they dramatically differ. They seem to represent peculiar combinations of elements that are also to be found in the four worlds of welfare and which do not seem to contradict the shared *acquis* view of the ESM. This is not to say that NMS welfare states resemble EU15 welfare states. Rather, the range of welfare state arrangements in the EU15 is so broad that those found in the NMS largely fit within the range. Indeed, they are not sufficiently different to claim they would not fit the ESM. The only slight exception to this general claim might seem to be the very low social expenditure in Estonia and Latvia, which, in terms of the percentage of GDP, falls below the lowest level in the EU15. And yet the difference is only one percentage point, which hardly seems decisive. Equally, if Ireland with social expenditure of 15.3% of GDP belongs to the ESM, it seems exaggerated to claim that Estonia and Latvia with 14.3% of GDP do not! Rather, the conclusion would be that most NMS belong to the EU countries that spend a minimal amount on social expenditure.

Where welfare state outcomes are concerned, it was shown that most of these fall into the range defined by the minimum and maximum prevalent in the EU15. There is one major exception, however, which is the level of income as expressed in GDP per capita. Only one NMS has a slightly higher GDP per capita than the poorest EU15 country. How to interpret this? Can the ESM apply to countries that are simply much

poorer than the EU15? It is left to the reader to answer this question. However, if there is one welfare-related factor that sets the NMS apart from the EU15, it is clearly the huge differences in income. Hence, if the NMS have become part of the ESM, this means that both the empirical diversity as well as the social disparities covered by the ESM concept have increased since May 2004.

**The political project perspective: the social *acquis* and its impact on the NMS.
(level 2)**

The weight of Social Europe (level 3)

The second perspective towards enlargement and the ESM taken in this chapter is that of the ESM as a political project. The main question here is to what extent enlargement has been a process of 'coercive isomorphism' (DiMaggio and Powell, 1983), in other words, to what extent has the EU put pressure on the NMS with the aim of imposing a 'social model', in particular in the run-up to membership? Or: how important has the social dimension of the accession process been? Indeed, if one starts out from the assumption that the ESM is a political project working towards a distinctive trans-national model, including common goals, rules, and standards, one could expect the elements of this model to be part and parcel of the conditions imposed in exchange for EU membership.

This section will briefly examine to what extent this has been the case in the area of employment policy and labour legislation. Prior to this, however, two broader questions need to be considered: (i) is there a coherent ESM in place at the European level, and (ii) to what extent were social policy issues priority issues for the EU in the run up to the enlargement of May 2004?

The first question is answered by Goetschy in this volume. She shows that no coherent ESM is enshrined in the Community social provisions, not even a minimalist one. Employment, social protection and industrial relations policies remain largely matters of national responsibility and European-level regulations are largely complementary in nature. This is not to say that European regulations are insignificant. As argued by Goetschy, Social Europe today comprises several elements of an ESM: social values and principles enshrined in the Charter of Fundamental Rights; Community social law consisting of a fragmentary set of directives; and a variety of modes of regulation on which Europe's political and social players can draw (legislation, European-level social dialogue, the open method of coordination in a series of policy areas, redistributive structural funds).

As to the importance given by the EU to social policy issues in the run up to the entry of the NMS, Lendvai (2004) shows that there is a widespread consensus in the literature that the social dimension of accession and enlargement has been weak, that the EU has been a weak transnational actor where social policy is concerned and that economic issues have had clear primacy over social issues. Indeed, of the 29 thematic chapters that made up the Regular Reports that yearly reviewed the 'progress' made by the then candidate countries in their preparation for accession, only one chapter

dealt with employment and social policy, while there were individual chapters on taxation policy, monetary policy, competition policy, company law, transport policy, the free movement of goods, etc., giving the assessment a strongly economic character. Indeed, many authors argue that the International Financial Institutions, notably the World Bank, have exercised much greater influence on the reform of social policy in the NMS than the EU (e.g. Müller, 2003; Ferge and Juhász, 2004).

The social acquis and the labour market(level 3)

At the EU level there is no coherent ESM in place, and in the enlargement process social issues had a secondary status in comparison with economic issues. This does not mean, however, that no coercive isomorphism occurred between the EU and the then candidate countries in the social field. A social *acquis* does exist as part of the larger *acquis communautaire* and the candidate countries were indeed required to adopt this social *acquis*. The social *acquis* is justified on normative grounds, that is, as incorporating social values. At the same time, increasingly, and reflecting the primacy of the economic dimension of the EU project, the social *acquis* is justified using cognitive, economic arguments: ‘good social policy is good economic policy (Diamantopoulou, 2001).’ The social *acquis* consists, first of all, of the EU social directives covering health and safety issues, labour legislation, gender equality, and the free movement of labour (Goetschy, this volume). These directives could be considered the ‘hard’ *acquis*, in other words, their incorporation into national

regulations is compulsory. There is also a ‘soft’ *acquis*, referring to the adoption of practices common in the EU as well as the (preparation for) participation in EU processes. This relates, first of all, to social dialogue: the EU expects applicant countries to practise meaningful social dialogue and to prepare the social partners for participation in European-level social dialogue (Vaughan-Whitehead, 2000). Another example is the capacity to participate in the Open Method of Co-ordination (OMC) governing a number of social policy areas, including pensions, employment, social inclusion, social protection, and others. During the years previous to accession, the NMS were gradually incorporated into these OMCs, but these processes are essentially voluntaristic in character and do not impose specific regulations. They do have importance in terms of agenda-setting and the spreading of certain discourses as will be demonstrated below.

In the field of employment policy and labour legislation, the hard *acquis* consists of a set of directives regulating, among other things, the freedom of movement for workers and the portability of social security rights across borders; equal treatment of men and women; some elements of working time regulations; some elements of workers’ participation rights; posted workers; workers’ rights in case of collective redundancy or transfer of undertakings; and aspects of part-time employment. The EU regulations on these issues had to be transposed by the NMS into their domestic legislation as part of the accession process. This is a clear example of coercive isomorphism and of a direct impact of EU requirements on domestic regulations. At the same time, the body of labour regulations is indeed not comprehensive and does not have a decisive impact upon most aspects of individual and collective labour relations or employment policy. For example, it has little or no impact on employment protection regulations,

industrial relations and collective bargaining, wage regulations, labour market policies, etc. Hence, no clear model is imposed on the NMS.

Also, contradicting a simplistic convergence thesis, the impact of EU regulations on national institutions varies because it is mediated by the varying degrees of compatibility between EU and national institutions as well as varying domestic responses to adaptive pressures (Martinsen, 2005). Moreover, the transposition of the *acquis communautaire* into domestic regulations may be symbolic rather than really affecting national practices (Jacoby, 2002). For example, the Czech Republic amended its Labour Code in 2000 to transpose a number of EU regulations, including providing the possibility to establish works councils, previously non-existent in the Czech Republic. However, the social-democratic government was also keen not to see the rights and position of trade unions negatively affected in any way. Hence, the amendment was made in such a way that it would satisfy the EU accession criteria but would not have a strong effect on industrial relations in general or on the role of unions at the enterprise level. Following the amendment, works councils can be established only in undertakings where no trade unions are present; they have no collective bargaining powers and cannot call strikes; and they can exercise information and consultation rights only within the meaning of the EU Directive. The works councils thus cannot replace trade unions or exercise their core functions. Clearly, the Czech version of works councils is aimed at satisfying the EU without changing national practice in any meaningful way.

To summarise, the hard *acquis* has had a limited impact on labour regulations because it covers only a limited number of labour aspects instead of imposing a model of some

kind. Also, in the areas it does cover it does not necessarily lead to convergence in domestic practices.

As to the soft *acquis*, the key issue is the role of the European Employment Strategy (EES). The soft *acquis* is soft in that it does not aim to impose specific regulations; it is not soft in that it does require participation of the prospective member states in EES processes. The EES is based on the OMC procedure and comprises ‘... a voluntary adaptation of national policies by involvement in a multi-level process of benchmarking multilateral surveillance, peer review, exchanges of information, cooperation and consultation’ (Schüttpelz, 2004: 2). It leaves detailed policy decisions to national authorities and rather promotes a cognitive model which aims to alter beliefs and expectations of national actors (*ibid.*). The EES is not a comprehensive full-employment strategy; rather it emphasises supply-side problems on the labour market, aiming at increasing flexibility, employability and activation of the labour force, and argues that labour market problems originate largely in the individual characteristics of the unemployed or inactive (Watt, 2004).

For the NMS, the preparation for EU accession included the incorporation into the EES processes. The then candidate countries started to ‘shadow’ the EES largely as of 1999. Most importantly, together with the European Commission, they started to elaborate their first joint assessment papers of employment policy priorities (JAPs), signed for most NMS in 2000-2001, and to evaluate implementation. As mentioned in the JAPs, they contain an ‘...agreed set of employment and labour market objectives necessary to advance the country’s labour market transformation, to make progress in adapting the employment system so as to be able to implement the European

Employment Strategy and to prepare for accession to the European Union.’ The JAPs present an analysis of labour market problems as well as a long list of (often vaguely formulated) commitments and tasks for the future. The EES is also clearly reflected in the NMS employment policy. For example, the Polish National Strategy of Employment Growth and Human Resource Developments 2000-2006 was modelled on the four pillars of the EES and owed much to the ideology of the strategy (Mailand, 2005), while Czech employment policy also was developed on the basis of EES principles (Schüttpelz, 2004). Indeed, the EES discourse, structure and objectives were adopted to a large extent in most NMS (Ferge and Juhász, 2004; Mailand, 2005; Schüttpelz, 2004). The EES was also used in the NMS to justify certain types of reform to labour legislation, in particular those aiming to increase labour market flexibility (for example, Keune 2003). Moreover, the NMS had a clear interest in adopting the EES discourse since this was a requirement for membership and because funding criteria for the European Social Funds were aligned upon the EES priorities.

It is less clear, however, to what extent the EES has really influenced the content of employment policy. Because of the relatively recent incorporation of the NMS in the EES process its real impact on policy is not yet easy to assess. Mailand (2005) suggests that in Poland the influence of the EES on policy content is much more limited than that on the way policy is framed and structured. Schüttpelz (2004), meanwhile, argues that, as in the EU15, there is a gap between strategic orientations and implementation. Finally, Ferge and Juhász (2004: 242) show that although the successive Hungarian governments follow the EES discourse on the importance of giving precedence to active instead of passive labour market policies, the funds spent on active measures are quite limited.

This latter point is underscored by the data provided in Table 3. Although all NMS acknowledge the crucial importance of labour market policies, expenditure on such policies as a percentage of GDP remains very low and far below the average for the EU15. In Slovenia alone such expenditure exceeds one percent of GDP, while in Estonia, Latvia and the Czech Republic it remains below the lowest level to be found in the EU15. More in line with the EU15 is that most NMS spend more on passive than on active labour policies. Hence, in the short term, the participation of the NMS in the EES has had more impact on discourse than on policy. This may well change as time goes on, however.

Insert Table 3 around here

Conclusions (level 2)

This chapter set out to contribute to the clarification of the relationship between enlargement and the European Social Model through a discussion of welfare state reform and performance in the NMS. It has discussed this relationship from two different perspectives, corresponding to the two major ways of understanding the ESM: the historical *acquis* perspective and the political project perspective. From the first perspective it was concluded that the NMS are not sufficiently different from the EU15 to conclude that they do not fit the ESM, the main exception being the level of income. Also, their inclusion in the ESM would mean that both the empirical diversity as well as the social disparities covered by the ESM concept would increase.

From the second perspective, it was shown that, at the European level, no coherent ESM is in place and also that no comprehensive social model was imposed on the NMS during the accession process. Clearly, from the side of the EU, enlargement was more about economic than about social integration and convergence. This does not mean that no coercive isomorphism has taken place, but that it has been limited in scope, has been mediated by domestic factors and EU influence has for the moment been stronger on domestic discourses than on policy content.

From neither perspective does the ESM emerge as a particularly well-defined concept or model. From the historical *acquis* perspective, it can quite easily incorporate a group of eight countries with a rather different history because the diversity covered by the ESM is already very wide. From the political project perspective, it does not place any particularly great demands on new members. In other words, the ESM,

viewed from either of the two perspectives examined, can incorporate an extremely wide spectrum of national-level diversity.

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Table 1: Social expenditure in NMS and EU15, 2001

	Total social expenditure (% GDP)	Structure of social expenditure (% of total)						
		Old age and survivor pensions	sickness	family benefits	disability pension	unemployment	social exclusion	housing
EE	14.3	42.6	31.0	14.6	7.8	1.3	2.2	0.6
LV	14.3	56.4	19.1	10.1	9.6	3.6	0.6	0.7
LT	15.2	47.5	30.0	8.3	8.8	1.9	2.3	1.2
SK	19.1	38.2	35.0	8.2	8.1	3.6	6.5	0.4
CZ	19.2	42.5	34.6	8.2	8.5	3.1	2.7	0.6
HU	19.8	42.4	27.5	12.9	10.3	3.4	1	2.5
PL	22.1	55.3	19.2	7.8	13.3	4.3	0.2	0.0
SI	25.5	45.5	31.4	8.9	8.7	3.7	1.8	0.0
Average	18.7	46.3	28.5	9.9	9.4	3.1	2.2	0.8
EU15	27.6	46.1	28.0	8.0	8.2	6.3	1.5	2.1
EU15 min-max	15.3-31.4	-	-	-	-	-	-	-
Source: EUROSTAT								

Table 2: Welfare state performance in the NMS and EU 15

	GDP per capita in PPS, EU25=100 (2003)	Average yearly GDP growth 2001-2004	Poverty after social transfers 2001 (%)*	Employment rate 2003	Old-age dependency ratio 2003
Latvia	41	6.9	16	61.8	23.3
Poland	46	2.7	15	51.2	18.4
Lithuania	46	7.3	17	61.1	22.0
Estonia	49	6.0	18	62.9	23.5
Slovakia	52	4.1	21	57.7	16.5
Hungary	61	3.3	10	57.0	22.4
Czech R.	69	2.5	8	64.7	19.7
Slovenia	77	2.9	11	62.6	21.0
EU15	109	1.3	15	64.3	25.0
EU15 min-max	74-215	0.4-4.6	9-21	56.1-75.1	16.4-26.9
* Relative poverty: population with income below 60 % of mean income					
Sources: Eurostat					

Table 3: Expenditure on labour market policies in the NMS, 2001

	Expenditure on labour market policies (% GDP)*	Passive**(% total)	Active** (% total)
Czech R.	0.44	56.8	43.2
Estonia	0.18	61.5	38.5
Hungary	0.85	43.0	57.0
Latvia	0.36	78.1	21.9
Lithuania	0.64	41.0	59.0
Poland	0.96	87.9	12.1
Slovakia	0.73	68.5	31.5
Slovenia	1.30	68.5	31.5
EU15	1.93	65.8	34.2
EU15 min-max	0.48-3.91	0.40-2.29	0.08-1.62
* EE: 2002; HU: 2003; PL: 2000 ** PL: 2004			
Sources: Eurostat; Ministries of Labour; Eamets et al. 2003.			