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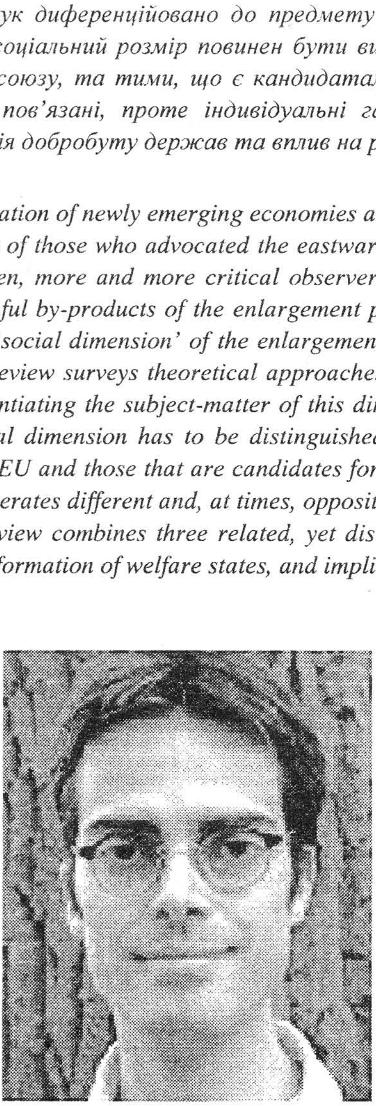
Achim Kemmerling, Jean Monnet Centre of Excellence Free University of Berlin

The Eastward Enlargement of the Eurozone The Social Dimension

У напрямку даного дослідження висвітлено теоретичні підходи економічної та політичної наук диференційовано до предмету дослідження по двох аспектах. З одного боку, соціальний розмір повинен бути визначеним між країнами, які вже є членами Євросоюзу, та тими, що є кандидатами до вступу. З іншого боку, огляд поєднує три пов'язані, проте індивідуальні галузі: зміни фактора розміщення, трансформація добробуту держав та вплив на рівні Євросоюзу.

The stabilisation of newly emerging economies and democracies is the primordial strategic argument of those who advocated the eastward enlargement of the EU shortly after 1989. Since then, more and more critical observers have pointed out potential political risks and harmful by-products of the enlargement process. This debate has triggered research on the 'social dimension' of the enlargement process. In the line of this research, the following review surveys theoretical approaches of both economics and political science by differentiating the subject-matter of this dimension into two aspects: On the one hand, the social dimension has to be distinguished between countries that are already member of the EU and those that are candidates for accession. The logic of factor market integration generates different and, at times, opposite effects for both groups. On the other hand, the overview combines three related, yet distinct fields: changes in factor allocations, the transformation of welfare states, and implications for the EU-level.



Achim Kemmerling – співробітник Берлінського Вільного університету. Коло наукових інтересів – соціально-економічні проблеми країн Євросоюзу.

The stabilisation of newly emerging economies and democracies is the primordial strategic argument of those who advocated the eastward enlargement of the EU shortly after 1989. Since then, more and more critical observers have pointed out potential political risks and harmful by-products of the enlargement process. This debate has triggered research on the 'social dimension' of the enlargement process. In the line of this research, the following review surveys theoretical approaches of both economics and political science by differentiating the subject-matter of this dimension into two aspects: On the one hand, the social dimension has to be distinguished between countries that are already member of the EU and those that are candidates for accession. The logic of factor market integration generates different and, at times, opposite effects for both groups. On the other hand, the overview combines three related, yet distinct fields: changes in factor allocations, the transformation of welfare states, and implications for the EU-level.

The first section of this review probes into the political economy of factor allocation, which is likely to be changed by the enlargement process. It analyses the problems of sectoral change triggered or, at least, accelerated by regional integration. For the social dimension, the factor of highest relevance is labour. Here, questions arise such as who potential winners and losers of enlargement are, in terms of employment and income. In turn, unemployment, income inequality and poverty are the three most sensitive issues for political debates touched in this section. How do these societal changes transform political responses of voters, parties and interest organisations? The nexus of socio-economic outcomes of the enlargement and the political stimulus generated by these is one of the prime questions of this review.

In the following section, the survey deals with a broad array of topics covered by the term 'welfare state'. The reallocation of factors of production automatically induces changes in the demands for individual welfare state policies and in the constraints imposed by the process of integration. In addition, the enlargement leads to problems of collective action between current and future EU welfare states. Among these issues, divergent social standards and social transfer systems with different degrees of redistribution raise concerns for the stability and efficiency of an enlarged EU. Another point in case is the issue of collective wage bargaining systems in European countries. The double task of adjusting to both the EMU and the eastward enlargement will lead to significant changes in the configuration of these systems and their outcomes.

The last section of this survey goes beyond the national level of analysis and investigates some of the implications for the EU-system. The first part of this section briefly discusses approaches of how to model the political decision-making process in the EU. It focuses on the political economy literature and, specifically, on the idea of a two-level game taking place in the EU. The second part analyses the formation of policy positions adopted by national governments. Interest groups and the public opinion have an important influence on a range of accession-specific policy areas such as migration or FDI. The third part looks at the EU-level of policy making. National preferences are mediated through bargaining institutions within the current EU and the negotiations in the verge of the enlargement process. This implies changes and re-distributive quarrels in EU policy areas such as budget and social policies. In addition, the very bargaining mechanism, for instance the voting rules in the European Council, are put under pressure by the enlargement process. Hence, a final feedback loop has to look at possible sources of political risks for the overall stability of EU and EMU institutions.

The Political Economy of Factor Allocation

The Eastward enlargement will induce clear distributive effects for various groups of factor owners. The shaping of goods and capital markets already triggers sectoral change in national economies and enhances flows between them. Both phenomena will have an impact on political actors and the demands for policy-making.

Winners and losers of goods market integration: The four freedoms of factor movements constitute the core of the Single European Act (SEA) adopted in 1986. Contrary to traditional models of trade theory, the abolition of trade barriers has led to comparatively small changes in the pattern of intra-EU trade flows (Bieling/ Deppe 1996). This is mainly due to relatively homogenous factor endowments and heterogeneous product specialisations that have led to significant proportions of intra-industrial trade. Moreover, sensitive sectors such as agriculture have been excluded from full competition to a considerable extent. Hence, so far the EC has tried to minimise the costs of sectoral change, a fact that has greatly alleviated the societal pressures from disadvantaged sectors (ibid.). Equally, most of the intra-European FDI is dedicated to the expansion into new markets rather than to genuine relocation of plants. Correspondingly, competition about scarce physical capital ('Standortwettbewerb') has – so far – been of minor importance.

The concomitant processes of monetary integration and eastward enlargement, however, might induce bigger changes. Factor endowments are much more diverse between EU-members and accession countries (Boeri 2000). Agriculture in Eastern Europe seems to be particularly prone to major transformations in the short, run due to low levels of productivity (Baldwin et al. 1997; Weise 2001). Additionally, transition economies typically show symptoms of a 'perverse' specialisation in trade patterns as they export homogenous, capital-intensive products of their industrial legacy (Boeri 2000). Public subsidies, incompatible with EU-norms of common market regulation, have sustained these trade patterns and have stirred complaints of producers in EU-countries.

In anticipation of these threats Polish farmers, among others, begin to show indications of militancy against EU-accession. In general, rising political unrest may lead to backlashes either against the process of enlargement in general or against trade liberalisation in particular. A recent study (Facchini and Willmann 2001) showed that up to a sixth of the population in OECD-countries is affected by changing trade patterns and acts as clientele for pro-protectionist political lobby groups. Although the degree of organisation of political veto power might be lower in Eastern Europe – import competing industries are weakened by the transformation process –, the large extent of people affected by trade integration and FDI-location could more than compensate this; the result would be even higher levels of political protest.

Albeit to a lesser extent, similar processes are possible in current member states, especially in those that share borders with accession countries. Although the overall extent of trade and FDI re-direction may be small, some sectors such as textile and metal industries are already exposed to high levels of eastern competition (cf. e.g. Quaisser et al. 2000), whereas producers of chemicals and machinery are – so far – beneficiaries of increasing trade with Eastern Europe. Saksen and Sørensen (2001) discuss the question under which circumstances trade unions and employees may find foreign direct investment beneficial for themselves. They conclude that this depends mainly on the kind of task that is performed abroad. If this task is highly complementary (substitutionary) to the production at home, workers will accept (oppose) FDI. Correspondingly, political reactions of trade unions follow this pattern: as long as FDI in CEECs is clearly market-expanding, resistance will be low. The more attractive CEECs become for the core business of western European enterprises, the more likely 'Standortwettbewerb' becomes a political issue.

The general economic framework to discuss distributive effects of goods market liberalisation is the specific factors model (e.g. Krugman and Obstfeld 1997). According to the static version, owners of factors that are specific to exports – owners of capital in Western Europe and owners of land and primary resources in Eastern Europe – gain from increasing trade whereas import-specific factors will yield less returns for their owners. In a dynamic version, Fischer (2001) shows that land-abundant countries will experience higher levels of inequality in the short run, but an immediate liberalisation of the capital account can counteract this distributive effect partially. Frieden (1991), however, argues that there is a crucial difference between long- and short-run consequences of goods and capital market integration. In the short run, liberalisation of capital accounts favours owners of unspecific assets and disfavours owners of specific assets. This approach recurs to the idea of 'asset specificity' developed by Williamson (1981) and shows that there are clear distributive consequences within factors of production such as capital and labour. Industry-specific knowledge of workers in those sectors that are declining is an important example of specific assets and generates political responses such as lobbying (Alt et al. 1999). Given the fact that most transition economies start from perverse specialisation trade amplifies the distributive and political effects.

Finally, the dynamic approach is completed by the incorporation of factor price evolutions. The accession (or alignment) to the EMU gradually erodes two main sources of competitiveness for Eastern European countries – low exchange rates and low unit labour costs (Boeri 2000). In this respect, the mobility and flexibility of labour markets is a prime concern for an enlarged EMU in a double sense: on the one hand flexibility is necessary to stabilise the gains of a common currency (e.g. DeGrauwe 1997; Bolle and Neugart 2000); on the other hand flexibility and labour mobility will lead to changes in factor prices. The latter point implies that comparative advantages and the division of labour between West and East will change and that this induces new waves of structural change in an enlarged union.

The Politics of Labour Markets: *Migration, Unemployment and Poverty*: Unemployment, poverty and migration are key issues for labour market politics. In relative terms, the impact of capital and trade flows on Western Europe seems to be rather small. For example, aggregate FDI outflows of EU-countries to CEECs account for less than one per cent of total outflows. However, as far as labour markets are concerned, Eastern Europe is no 'quantité negligable' (Boeri and Brücker 2001). The population of CEEC-10 countries adds up to 28 per cent of the people currently inhabiting the EU. In addition, although factor price equalisation may be feasible in the long run, there is consensus in the academic community that in the short- to medium-run high differences between real wages in Western and Eastern Europe will persist (Boeri and Brücker 2001; Sinn 2001). Hence considerable amounts of labour migration will be a likely consequence. Once again, the overall effect of migration on Western European labour markets may be small, but some regions and economic sectors will more likely be hit than others (ibid.).

Due to labour market asymmetries, immigration may be beneficial for some sectors as in the case of German farmers that highly welcome Polish and Czech seasonal workers. For sectors such as the construction industries (illegal) migration of workers produces adverse consequences for the native work force and creates political pressures from sector-specific trade unions.

In more general terms, given the assumptions of classical trade theory, skilled workers are the beneficiaries of immigration of low skilled workers to Western Europe, whereas the situation in Eastern Europe is vice versa (Söllner 1999). The problems of insiders and outsiders in European labour markets could further aggravate the situation (Bolle and Jacobsen 2001): less wage flexibility is bought with higher unemployment ratios for unskilled workers.

From the perspective of voters and the public opinion, the issues of immigration and national unemployment seem to be contradictory. At least in current member states, inflows of Eastern workers are perceived to be unduly stressful for tight labour markets. Hence, the political response to immigration in Western Europe might be much bigger than the actual economic effect on labour markets. In candidate countries, west-bound migration is ambiguous. On the one hand, emigration constitutes an example of 'human brain drain' and could lower the rate of skill-driven growth in these countries. On the other hand, national governments in candidate countries may be tempted to solve national labour market problems by exporting labour force.

In 1999 national unemployment rates ranged between 4.7 per cent in the Czech Republic and 10.5 per cent in Poland. These figures do not seem to be excessively high in comparison with the average EU-rate of unemployment of 8.8 per cent. (Rosenberg 2000). A number of caveats, however, are in order. First, these statistics are not always reliable and probably underestimate the true values. Second, systems of unemployment benefits are much less benevolent than those of EU-countries (cf. European Parliament 1998). Thus, unemployment is a bigger poverty risk than in the current member states. Third, unemployment rates have been criticised as a vague indicator of true labour market performance (e.g. Scharpf 2000). A closer look at the employment rates (as per cent of working-age population) reveals a decreasing capacity of Eastern economies to generate jobs. The rates of labour force participation before transition have been continuously declining so that, in some Eastern countries, they are now way below the EU-average of 69.9 per cent. Moreover, reduction of labour force participation hits some segments of the population more heavily than others. For instance, more and more women experience a trade-off between work and family, which had not been the case before transition set in.

All things considered, there are good reasons to emphasise the links between employment and poverty, above all in Eastern European countries. The political problem of poverty, in turn, is related to the issue of income distribution of rapidly growing economies and between these economies (Kittel 2001). In the intra-societal dimension, traditional approaches to income inequality are not viable given Eastern transformation experiences. 'Leading' transformation economies do not show the seminal inverse (Kuznets) relationship between growth and inequality (Brezinski 2001). The so-called 'transatlantic consensus' (cf. e.g. Hölscher 2001) explains rising inequality in OECD-countries with demand shifts from unskilled to skilled workers. Exogenous shocks such as growth in trade or technology changes raise the wage premium of highly qualified workers. This model excludes significant determinates of inequality such as institutional settings of wage bargaining and the role of human capital. Moreover, it assumes that wages are the driving force of income distribution and neglects other sources of income (Hölscher 2001). Similarly, other approaches of modelling the link between growth and income distribution show serious shortcomings. One of the most important issues for income inequality, the accumulation of human capital, and its link to the emergence of capital markets in transition economies is still under-theorised (Hölscher 2001). Yet the proliferation of education and other 'trickle-down' mechanisms are of crucial importance for the legitimacy of the enlargement-cum-transformation process in the CEECs.

Viewed through a 'political lense', internal distribution of income is, on first sight, not conspicuously unequal when measured against EU standards (Bolle and Jacobsen 2001). In 1999, Gini-coefficients settled around the EU-average 0.29. In none of the CEECs inequality grew excessively during the last decade (Brezinski 2001). However, a relatively equal income distribution at the on-set of the decline in output (early 90s) means that a big proportion of the population has been exposed to poverty in the transition period (cf. Przeworski 1999). This suggests that not only more but also *less* inequality could be a source of social unrest in the future if shocks force major proportions of the population below the poverty line.

The Transformation of the Welfare State

The transformation of welfare states is the second main issue for the social dimension of eastward enlargement. It is directly linked to changes in factor allocations through the channels of the labour market and the funding of the welfare state. In the following, three different forms of regulation are differentiated. First, differences in social security standards will be discussed. Such standards may include classical working place safety regulations as well as other non-monetary social standards. Second, social security may be regulated in terms of direct or indirect social transfers to (targeted) segments of the population. These regulations automatically imply a certain level of redistribution of the national product on a quantitative level. Third, regulation may be directed to the labour market and, more specifically, to the procedure how wages are negotiated. In this respect, the level of bargaining and the degree of state intervention are important institutional features determining macroeconomic outcomes such as unemployment and wages.

At times, these three forms may be fused, but for the analytic purpose of detecting the consequences of eastward enlargement, it is essential to keep them separated in the following sections (Sinn 2001).

Social Security and Labour Standards: The issue of labour and social security standards across Europe is a controversial one and leads to diverging policy conclusions. The European Commission (1999), for example, favours the maintenance of comparatively high standards in incumbent member states. However, the variation of these standards is quite high even within Europe, and to many observers the level is excessive for the future economic integration of the EMU (Bolle and Neugart 2000; OECD 2000; but see Nickell 1999). Hence, even on the side of current member states it is not quite clear to which level common standards should finally converge. Moreover, there are obvious strategic interests of wealthier states vis-à-vis poorer member states (Scharpf 1996). Whereas poorer states favour low levels and the non-coordination of these policies, wealthier countries, given that they indeed share higher standards, fear a deregulatory downward spiral.

The accession of transition economies complicates the picture further. Sinn (2001) rejects the fear of social dumping – East vs. West – on the basis of two assumptions. First, factor price equalisation will eventually erode competitive advantages of CEECs. Second, levels of social security regulation are evolving across time as an increasing proportion of national income, i.e. wealthier countries share higher social standards. Unfortunately, both assumptions are rather strong. As mentioned before, the convergence of factor prices in an enlarged EU will take quite some time. Moreover, cross-national comparisons of welfare states show a diverse pattern of levels of social security regulation even between states with similar levels of income (Esping-Andersen 1990; Scharpf 1997). Policy conclusions are thus, so far, very contradictory. Sinn (2000; 2001) argues against harmonisation and standardisation of social security between countries with different levels of national income. A paradigmatic worst case is, in his eyes, the German unification, as Germany has spread social security standards too fast over Eastern Germany. This has had detrimental impacts on the productive basis of the whole region and has made it necessary to transfer major social payments towards Eastern Germany. In general, a premature adoption of the social acquis is seen as an obstacle to further economic growth. Advocates of harmonisation in both academia and politics, however, fear that less social regulation in Eastern Europe will lead to enduring, but unjustified, competitive advantages for these economies.

Social Security Systems: Sinn (2001) carefully distinguishes between non-monetary social security provision and social transfers. As the latter show a redistributive component, social dumping is even possible in the case of an incentives-compatible social security system (Sinn 2000). Correspondingly, most observers assume high non-wage labour costs to be a serious problem for relatively benevolent welfare states. This is due to the fact that capital owners or wealthy individuals would choose low levels of social security whereas poor people would opt for bigger social spending. Comparative statics shows that increasing pressure on western social security systems is, prima facie, not a necessary consequence. For example, higher inflows of young labour into aging Western societies can contribute to the stabilisation of pension and health care systems (Weise et al. 2001). A dynamic perspective would argue for more than less pressure on social expenditures as integrating capital markets will lead to increased risk premiums for the funding of welfare states (Bolle and Neugart 2000; Garrett 1998; Mosley 2000).

The previous remarks imply that the enlargement process aggravates welfare state problems on the revenue side. In that respect, it will interact with the consequences of increasing monetary integration on fiscal policies (De Grauwe 1997). As long as common tax policies remain unachievable given the bargaining mechanism of the EU (e.g. Genschel and Pluemper 1997), the opportunity costs of social spending will rise in current EU-countries.

In addition, the economic transition in Eastern Europe affects 'emerging' welfare states profoundly. Structural changes and the vanishing of entire industries raise the demand for additional social transfers, whereas most countries face increasing problems of financing their systems. Among other things, this is due to intrinsic problems of the transition process, for example imperfect systems of tax collection (Schaffer and Turley 2000). The economic integration of mature and benevolent welfare states in Western Europe with recently transformed pendants in Eastern Europe will create new problems. On a macroeconomic level, budget constraints of the EMU will impose severe restrictions on the reorganisation of social security in Eastern Europe. On a microeconomic level, competition could lead – among other things – to 'tourism' for social security provision, e.g. health care (Sinn 2001).

From a political economy perspective, the function of a welfare state is more than its material transfer of wealth and security. The fact that most welfare states focus their re-distributive system on the middle classes - these are generally the main contributors *and* beneficiaries of social transfers – illustrates the important role of social security systems as a source of political legitimacy. This has been observed for both Western and Eastern European welfare states (Korpi and Palme 1998; Heller and Keller 2001). Hence, political repercussions of welfare retrenchment could have a bigger impact than expected. The literature of the new political economy has, so far, little to say about the phenomenon of intra-personal redistribution. Standard approaches to the explanation of social expenditures in advanced economies mainly deal with the issue of inter-personal or, at most, inter-temporal redistribution (e.g. Meltzer and Richard 1991). An interesting point of departure is – once more – the concept of asset specificity. Iversen (2001) shows that workers with relatively high levels of firm- or industry specific human capital favour higher levels of taxation and social spending as they want to avoid major losses in income once they become unemployed. In general, a prime concern when dealing with the social dimension is to find appropriate models for the political demand for welfare policies.

One of the most prominent political problems is the question of portability of social rights. Although some convergence in the levels of social transfers will be achieved in the next years, institutional differences are too large to be completely harmonised. A perfect portability of social rights could lead to an increase of competitive pressures on relatively benevolent welfare states. Therefore, Sinn (2000), for example, favours a home-country principle that would allow for maintaining different standards while achieving high levels of labour mobility. Another suggestion is to harmonise social security on a European level according to relative national wealth (Scharpf 1997). Both ideas have not been without critique, but they epitomise the contemporaneous debate about a common 'European social model' (e.g. Abraham 2000; Kittel 2001).

Social Dialogue and Income Policy: The bargaining process of the industrial partners is the third aspect of relevance for European welfare states. In general, the EMU has broad implications for the industrial relations in member countries. In particular, income policy in a monetary union is a 'double-edged sword' (Abraham 2000): strategic interaction might induce excessive wage moderation or wage acceleration depending on the institutional context of fiscal and monetary policies as well as the underlying economic assumptions (e.g. Soskice 1999). Whereas differences in wage moderation across countries lead to 'wage dumping', strategic coordination failures lead to wage drift and inflation.

The macroeconomic outcome of industrial relations across an enlarged EU will be contingent on the relative bargaining power of trade unions and employers' associations. In most accession countries organised industrial relations and trade unions in particular are rather weak. There are, however, important exceptions such as Poland where the two main unions as well as the sector of public employees are traditionally very influential (European Parliament 1998). Moreover, the state looms large into wage negotiations in some CEECs and impedes a clear-cut division of labour between governments and social partners (Gruber and Höpfl 2000).

Even within the current EMU, collective bargaining systems are highly diverse (e.g. Traxler 1998; Iversen 1999). Differences not only occur in terms of outcomes such as wage moderation and compression, but also in terms of the institutional structure: the level of wage bargaining, its 'encompassingness' of relevant actors etc. There is a rapidly growing literature on the economic consequences of different institutional features of wage coordination. Calmfors and Driffils (1988) build a model that includes external effects and product market competition. They conclude that system with industry-wide wage coordination leads to the highest wage pressure, whereas both decentralised and centralised systems perform better. Other approaches make the link between wage bargaining institutions and economic performance contingent on the role of the central bank and its monetary policy (Hall and Franzese 1998; Iversen 1999; Scharpf 1987).

Hence, the specific nature of how to organise social dialogue on the European level is a contested issue. Such diversity notwithstanding, the strategic importance of social partners in most welfare states, makes their participation in the process of Eastward enlargement essential. At the same time, the eastward enlargement increases the credibility of relocation threats of employers vis-à-vis trade unions. Correspondingly, the impact of Eastward enlargement exceeds the actual level of plant relocation, i.e. FDI, and weakens the position of Western European trade unions (Kittel 2001).

All things considered, the concomitant evolutions of the EMU and the Eastward enlargement leads to a decentralisation of wage bargaining and an increase in wage inequality both within and between national economies. Coordination and the reform of wage bargaining systems are key issues for both incumbent member states and accession candidates. It is commonly assumed that high unemployment rates are the key source of instability for a future enlarged EMU (Bolle/ Neugart 2000). The specific roots of unemployment are, however, multiple. Hence, the reduction of so-called labour market rigidities seems to be necessary, but the successful implementation hinges on the political support of broad segments of the population. Moreover, there are several 'roads' that lead to reduced rigidities, some of them already practiced in EU-member states. Dutch and Danish versions of 'flexicurity', for instance, combine higher labour market turnover and less job and wage security with social policy 'cushions' (e.g. Wilthagen 1998). In general, the interlocking of social transfers and taxation with labour market regulation will be a principal area of future investigation and policy advice in order to guarantee the Commission goals of 'employability' and 'social cohesion'.

Political Risks of Enlargement in the European Union

The eastward enlargement affects the production and distribution mechanisms in both member and candidate countries. So far, this review only mentioned the consequences of changing factor allocation for different segments of the population and their demand for welfare states. Therefore, the next step in the analysis has to proceed to the EU-level and to deal with possible feedback loops for the political process of enlargement. Models of modern political economy guide the analysis of the connections between political processes on different levels of the decision-making system and their socio-economic outcomes.

Modelling the EU bargaining system: According to modern political economy, the political decision-making process of the EU is frequently modelled as a two-level game (e.g. Putnam 1988). The first level of analysis takes place within nation states. National governments are conceived to be utility maximising and receive two sorts of supports: votes from the population and campaign contributions from interest organisations (e.g. Facchini/ Willmann 2001). Governments transform preferences – for instance, the preference for being re-elected – into national policies and bargaining positions on the EU-level.

The concomitant 'shocks' of the formation of the EMU and the eastward enlargement have already begun to reshape national markets and their respective societies. This transformation determines the economic and political performance in individual countries and thus influences the preferences of the nation states as the principals on the second level of analysis: the EU. A basic conceptualisation of the EU is to consider it as a negotiated framework for future negotiations between nation states that have given up – voluntarily – national sovereignty rights. For principal changes of common policy areas, principals themselves bargain according to defined voting procedures in the European countries (e.g. Tsebelis/ Garrett 2001). On the level of policy implementation, these principals deal with a couple of agents such as the Commission and the European Central Bank. Given this briefly sketched framework, the analysis turns to each level.

Endogenous Policies on the national level: On the national level of policy-making, political-economy models deal with the endogenisation of policy positions towards factor mobility between the EU and candidate countries. As previously mentioned, government behaviour is assumed to depend on bids from interest organisations for specific levels of protection (e.g. Facchini and Willmann 2001; Grossman and Helpman 1994). Governments optimise their pay-offs from these organisations and the level of political support from voters.

Empirical examples of processes subject to political pressures are manifold. German trade unions, for instance, lobbied heavily for the postponement of the freedom of settlements between the EU and the accession candidates. The mirror image of such a restriction is the delay of free investment of EU-citizens in CEEC-estates. Both policies are concessions to organised interests and the general public opinion that may be tilted against an (rapid) accession of candidate countries without such exemptions (Heinemann 2000; Weise et al. 2001). Package deals or compensation payments are another method how bargaining proceeds. As already happened in the case of EU-CEEC negotiations about migration, the current member states will face demands of monetary compensations from the accession countries (Lavenex 2001) and other member states to guarantee the support for exemptions. In more general terms, a high influx of labour into Western Europe could evoke xenophobic reactions and the rise of right-wing parties. Although so far no significant connection between voting behaviour and the Eastward enlargement is visible (Kittel 2001), governments include this possibility in their calculations and try to mitigate or absorb such tendencies once they threaten their re-election chances.

The bargaining between the EU and the CEECs is not conceivable without an account of asymmetries in the bargaining power of both sides. Oatley and Nabors (1998) show for the case of international banking regulation that international cooperation is not merely a process of how to acquire an international public good efficiently. International cooperation, which the enlargement negotiations are just a particular example of, also implies redistribution of private goods. Equivalently, current member states try to minimise the costs of accession and hence offer little willingness to concede major changes in the status quo: candidate countries have to accept the acquis without further amendments in the long run.

Endogenous Policies on the EU-level: Both the estimated changes in factor movements and the specific problems they pose for welfare states will automatically touch the level of the European Union in at least three different aspects: it will change the demand for and the supply of financial transfers across countries; it will change the requirements for a common European social policy; it will have implications for the institutional setting of EU and EMU.

The EMU offers a very limited menu of policy options for dealing with (asymmetric) shocks on the national level. However, the accession of Eastern European economies will, more than anything else, increase the likelihood of potential asymmetries and disparities in the short run. Income levels, for example, are markedly lower in the candidate countries. In per cent of average EU-figures for 1999, per capita income ranges between 37 (Estonia) and 63 per cent (Czech republic) (Weise et al. 2001). Consequentially, increased political demand will penetrate the EU-level of policy making. Estimates of the absolute volume of budgetary costs of the Eastward enlargement still differ considerably (e.g. Baldwin et al. 1997; Weise et al. 2001) but do not seem to be excessive. However, dealing with the 'social dimension', the relative distribution of gains seems to be of more relevance than absolute cost measures. Specifically, enlargement induces a pork-barrel style of budget politics as old regions, so far subsidized via structural and cohesion funds, will compete with new regions with lower levels of income. The last EU-summits have already shown a considerable level of resistance coming from current net recipients of EU-cash (Weise et al. 2001). For instance, 27 out of 60 regions subsidised according to objective one for structural funds would rise above the 75 per cent ceiling of an EU-25 (ibid.). Thus, cohesion funds and CAP-cash are unlikely to be extended to accession candidates on a one-to-one basis, although the demand for funding the convergence process of an enlarged EMU may be even higher than in previous accession rounds.

The adoption of the qualified majority voting rule in the Maastricht Treaty has significantly affected future changes in an enlarged EU. New member countries could use their combined interests to shift European social policy towards their own specific needs. At the same time, an increase in labour mobility will add new demands to the traditionally heterogeneous European social policy (Geyer 2000). EU programmes such as anti-poverty measures and unemployment targets will have to be extended to specific problems of transition economies. In addition, some of the policy recommendations mentioned so far – for instance the home-country principle for social benefits – directly contradict the social acquis (European Parliament 1998; Sinn 2000).

Potential 'looser countries' of an EU-enlargement, namely current net beneficiaries will try to freeze the current status quo before newcomers will have their saying (Heinemann 2000). The result of the Nice summit may be interpreted along these lines. The establishment of multiple qualified majority rules, increases the number of 'veto players' in the bargaining system. This, in turn, reduces the chances of re-negotiating policies in an enlarged EU if the results contradict the preferences of current member states (ibid.). Hence, the anticipation of Eastward enlargement already constitutes a serious test for the bargaining mechanisms of member countries in the EU-Council (e.g. Kandogan 2000; Schröder 1998; Tsebelis and Garrett 2001).

In spite of the attractive growth perspectives of an enlargement, the Eastward integration bears some political risks on a systemic level. These risks can emanate in processes of destabilisation of EU institutions and the membership of individual countries in these institutions. Currently, a drastic example is Argentina, where a prolonged fiscal crisis in combination with a permanently fixed exchange rate has led to severe civil unrest that, in turn, threatens the viability of the Argentine currency board. Obstfeld's (1994) interpretation of the EMS crisis points in the same direction. In the early 1990s, growing public dissatisfaction with the economic conditions (unemployment) led to a reduced credibility of the EMS. More generally, postponing accession may lead to hostility towards enlargement in candidate countries and so does a rushed adoption of the acquis given that the latter induces higher adjustment costs. Last but not least, the fragile democracies in Eastern Europe might face problems of legitimacy once these countries will have transferred their barely experienced democratic sovereignty to the European Union, a supranational body notorious for its democratic deficits (e.g. Beyme 1994).

Conclusion

Without doubt, the Eastward enlargement offers major benefits for both current member states and accession candidates. In order to 'harvest' these benefits, an enlarging EU has to tackle some of the actual and potential social risks deriving from the integration process.

Three cardinal sources of these risks have been discussed in this review: consequences of changing patterns of factor allocation, the transformation of welfare states and new demands and problems on the European level. The mobility of labour will be of decisive importance for the stabilisation of an Ezoneplus and is, politically, a highly sensitive issue. Furthermore, processes of sectoral change will be accelerated by the accession process and will make measures of 'social correction' inevitable. The analysis of the transforming welfare states poses important questions about the coexistence of different standards and monetary levels of labour and social security. In addition, the changing role of income policies across the EMU suggests the consideration of industrial relations in the wake of integration. On a European level, candidate and member states may face new demands for protectionism. New conflicts about the distribution of EU-funds may emerge, and the demands for a common social policy will change. Finally, the interaction of political, social and economic sources of risks is the underpinning for the entire analysis of the social dimension in an enlarged EU.

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