

Economic globalization and the role of the EU social policy as challenge (not only) for Central and Eastern Europe¹

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1 Europe is a cradle of universalistic public systems of social welfare

Despite technical differences in the ways these systems operate, they play an indispensable role in legitimizing the capitalist mode of production and social regime (Dahrendorf 1985) in all EU member states alike. By the end of World War II, two conflicting theories about the future development of capitalism had crystallized – one by Schumpeter and another one by Polanyi:

“These approaches contrast the view that capitalism develops through a chaotic and fitful process of creative destruction, led by entrepreneurial risk-takers, who require minimal interference from government and other social institutions to be able to pursue innovations and invest resources where they can best be used” (Schumpeter) with another perspective, namely “that free market systems may create rapid growth, but in doing so destroy the human and social fabric on which they depend, and that economic institutions must be embedded in a social and cultural framework in order to operate in a way that promotes human welfare. The implication is that state welfare is essential to sustain the framework that civilizes the market” (Polanyi) (Taylor-Gooby 2003).

The European Union is, too, faced with a choice between these two concepts and split between two dominant political attitudes. The first attitude understands the European project as a primarily non-regulative one, while the other one regards the common market as a first step in the building of European-level institutions: “Pressures for both liberalism and for a stronger interventionist role exist, and whether the balance between the two will shift in the future is at present unclear” (Taylor-Gooby 2003).

2 What roles and competences does the European Union have in social affairs?

There are several types of instruments European Union bodies have at their disposal to shape the social welfare of European citizens in member countries (Fritz, Vannahme 2008):

1. Regulation through European law: Among the important areas of application of European law are minimum social standards and fundamental laws. Primary law regulates gender equality at work, antidiscrimination, free movement of workers, workers’ right to workplace safety and health, collective negotiation. It coordinates social security benefits (e.g., calculation of pensions from employment in different member states) or the provision of emergency health care to citizens of other member states.

¹ This is an updated version of Potůček (2014).

2. Regulation by the European Court of Justice case law: Economic liberalization (common European market) tends to be prioritized over workers' rights codified in national laws (Höpner 2011).
3. Policy of fiscal redistribution to developmentally and economically weaker member states, regions or individuals. Examples include structural and cohesion policies represented by programs of the European Social Fund, the recently established European Globalisation Adjustment Fund, or the Community Programme for Employment and Social Solidarity. The Common Agricultural Policy, albeit often rightfully criticized, has its effects on social welfare as well (for farmers and the rural population). Nonetheless, the overall EU redistribution is negligible in comparison with the fiscal redistribution mediated by individual member states.
4. Member states are coordinated also by "soft law", but the EU does not have the power to enforce common actions of this type. These include, above all, programming at the general and departmental levels. At the general level, there is the Lisbon Strategy (applicable from 2000 to 2010) or Europe 2020 (prepared for the 2011–2020 time period). At the departmental level, there is a diversity of particular strategies, policies, action plans, green (discussion) papers and white (strategic) papers. Among the most important are, for instance, the European Employment Strategy, the Social Inclusion Strategy (covering fight against poverty), strategic reform documents in the fields of social security (including pensions), education, youth (with a recent specific focus on youth unemployment), active ageing. A common programme now under preparation will tackle the timely issue of migration. Specific "soft" instruments of European policies also include the so-called open method of coordination (especially popular under the Lisbon Strategy 2000–2010) or comparison of more successful member states (benchmarking) with less successful ones (blaming and shaming).
5. Through social dialogue: Discussions, consultations, negotiations and common measures taken and implemented by social partners (workers and employers) in collaboration with other stakeholders of European and national public policies.

However, a quick inspection of the competences and possibilities of member states, on one hand, and European Union bodies, on the other hand, reveals that social security as a source of political legitimacy has been and continues to be supplied primarily by member states, while the European Union's offer is limited and sporadic.

The European integration project represents a unique experiment, but it is starting to eat itself. This is because Europe cannot effectively resist the most important destabilizing trend of contemporary civilization: the primacy of profit motives over social (and environmental) concerns. The European Union's roles competences in social affairs, characterized above, are powerless vis-à-vis global supranational corporations. They dispose of, by and large, more power than national and European political representations. Socially divisive forces and rising inequalities are turning into political dynamite, threatening, by comeback of national egoisms, the very construction of European integration.

3 What has been the situation in new Central and Eastern European member states?

Various authors agree on the fact that pre-accession efforts and subsequent membership in the European Union affected and changed the different countries' welfare systems. At the same time, most authors regard the role of the European Union in the shaping of social policy as

marginal. Orenstein-Haas (2003) thinks the EU at least prevented the overall social situation in these countries from worsening. Lendvai (2004) summarizes the findings of several other authors and argues that the social dimension of the accession and enlargement process was weak, compared to the economic one. Sengoku (2004, p. 239) specified the structural reasons as follows:

“the EU has not required any specific conditions or ‘hard laws’ as to the social policy of the accession countries”,

“the EU has no ‘model’ or ‘template’ concerning the welfare system of the candidate countries”

and thus could not apply one, and

“there are few concrete mechanisms that can be used by the European Commission to enforce the CEE countries to adopt the European standard of social policies”.

The history of candidate countries’ systematic preparations for accession to the European Union began with the codification of the Copenhagen accession criteria (1993). The criteria were designed as a technical (economic and political), top-to-bottom instrument, rather than a suitable tool for shaping the welfare situation of people living in the candidate countries. Legal, economic and political issues prevailed. The candidate countries were required to reform their national economies in order to converge and become competitive with existing member states’ market economies. They were expected to build robust and reliable institutions of political democracy. As one of the necessary conditions for adopting *acquis communautaire*, they had to adapt their national legal and administrative systems in order to not only absorb but also effectively implement the *acquis*. Being among the lowest priorities social welfare goals were limited to respect for individual human rights and to building a loosely-defined framework for policy making.

“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...” (Keune 2006, p. 18).

Issues like poverty, income inequality, workers’ rights, subsistence minimum and easing the lot of groups on the margins of society – in other words, fight against social exclusion – was not an explicit part of the Copenhagen reform agenda. The national social policies of most candidate countries in the 1990s actually focused on reducing the role of government and raising efficiency. They wanted to achieve this by privatizing services and transferring them to the market, and by decreasing the coverage and level of all social benefits which were often interpreted as dispensable relics of the communist regime.

This change coincided with the application of the “Washington Consensus”, a form of neoliberal orthodoxy pursued, above all, by the World Bank and the International Monetary Fund. As demonstrated by Deacon (2000), Ferge (2001), Orenstein-Haas (2003) and other authors, these international actors took advantage of their strong negotiation positions vis-à-vis some indebted national governments and inefficient national economies to push through their neoliberal plans for reforming social policies in Central and Eastern Europe. They focused primarily on privatizing national public social insurance schemes, transforming social welfare into a residue of itself and privatizing formerly public health care and education institutions. Deacon and Orenstein consider the World Bank as the main author of that time’s

economic and social policy agenda in the entire region. International financial institutions, namely the International Monetary Fund and the World Bank, strongly advised the Central and Eastern European countries to reform their pension systems by scaling down their public, pay-as-you-go pensions and established mandatory, privately managed individual investment pension funds. They were initially very successful as national political classes as they were both enamoured by neoliberal rhetoric and politically naïve. Detrimental effects on national public budgets did not wait long for themselves. (Fultz 2012) Thus, such retrenchment pension reforms experienced sooner or later partial or full withdrawal, with amounting social and economic losses...

Table: The establishment and retrenchment of second, compulsory, privately funded pension pillars in CEE countries

Country	Year of establishment	Initial percentage of channelled out of the public pension systems	Reduced percentage or withdrawal
Hungary	1998	6 to 8 %	0 % (2011)
Poland	1999	7,3 %	2,3 % (2011), 2,92 % (2014)
Latvia	2001	8 %	2 % (2009), 4 % (2013)
Estonia	2002	6 %	0 % (2009), 3 % (2011), 6 % (2012)
Lithuania	2004	5,5 %	2 % (2009)
Slovakia	2005	9 %	4 % (2013)
Romania	2008	6 %	2 %, periodical increase by 0,5 % (since 2011)

Source: Author

By contrast to other post-communist countries, the Czech Republic did not accept it until 2013, though only in its voluntary version. There were two main factors that could explain this difference:

The country was not in as deep fiscal crisis as some other Central and Eastern European countries so that it was less dependent on loans and advice provided by these organizations;

There were strong political opponents of this idea, namely the consecutive Social Democrat-led governments and the trade unions that stressed the risks of such a reform due to the fragility of financial markets and institutions and the huge demand for additional financial inputs from the state budget over a couple of decades after introducing such a reform. It was legally passed only under a right-wing coalition in 2011.

After the parliamentary elections in 2013, the new coalition government decided to annul it, so that the Czech “second pension pillar” was cancelled very soon after its establishment at the end of 2015 (Potůček & Rudolfová 2016, Potůček et al. 2017).

Greater emphasis on the social aspects of European Union policy was strengthened as late as in 2000. The European Council adopted the Lisbon Strategy as a strategic outlook for the entire decade, and the social dimension of the European integration process became an important part of the Lisbon Strategy at the Nice Summit. This was probably also caused by growing power of The Party of European Socialist in the newly-elected European Parliament. This was a stream of new policy initiatives emphasizing the importance of human resources, quality of life and social cohesion, i.e. the social fabric of European societies. However, by

the Barcelona Summit of 2002 when the candidate countries were finally invited to Lisbon-related negotiations, their preparations for accession organized in line with the Copenhagen criteria were practically concluded. Full participation on the Lisbon Strategy began after their accession in May 2004. Thus, social policy assumed a more important role in the European Union's policy agenda ten years after the Copenhagen accession criteria were defined when all accession negotiations were concluded (Potůček 2008).

4 Is the European Social Model (ESM) a real political concept or a chimera?

The term is used frequently in scholarly and political discourses about the social dimension of European integration. Jepsen & Serrano (2006) identify two ways of understanding the term: first, as a historical *acquis* characterized by specific common institutions, values and results, and second, as a common political project for solving common problems which aims at a strong supranational model with common goals, rules, norms and a certain level of supranational cohesion. Keune (2006) concludes as follows:

“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 [new member] 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”.

5 What are the European Union's successes and failures in social affairs?

The competences and effects of the European Union in the shaping and implementation of the social dimension of member states' policies depend both on the political will of European and national political representations and on the instruments the EU has at its disposal. Even a brief recapitulation of historic development and the European institutional framework demonstrates that the EU can only rely on a rudimentary form of just two “hard” instruments in order to pursue robust social policies: through European law, and by redistribution of resources through fiscal policy. ECJ case law works in the opposite direction, by prioritizing liberalization of the European market at the expense of protection of workers' welfare, typically when employees of businesses from poorer member states work in states with better-developed employment law (cases such as Viking, Laval or Rüffert). Thus, political leaders and officials are mostly left with instruments that are not binding and cannot be enforced, i.e. the so-called “soft law” in the form of recommendations, more softly, by programmatic documents such as White Books, or by persuasion through social dialogue. Otto et al. (2018) call attention to a recent example of such programmatic documents – Towards Social Investment for Growth and Cohesion (2013), which prioritizes capacitating strategies based on the concept of social services offered conditionally to actively participating societal groups. Existing governance structures implemented in the EU framework prefer negative integration (removal of barriers, deregulation), lacking in reliable mechanisms for promoting positive integration (pursuit of social goals) (Scharpf 2009).

Of course, the lack of direct EU influence on welfare state transformation should not obscure less visible streams of cultural changes arising from European integration. Such streams changed national discourses, helped introduce new concepts and agendas, and facilitated more open ways of formulating and implementing public and social policies and applying policy instruments. This process had and continues to have a long-term yet rather indiscernible impact on welfare state transformation. It should be neither underestimated nor overestimated.

The global crisis which primarily arose out of the financialization of an under-regulated global economy revealed and deepened many burning social issues in European Union member countries. Social tensions are escalating and the legitimacy of both European and national political representations is shaking as a result of efforts to save the common European currency at the price of draconian cuts in public expenditure on welfare, high unemployment and illegal employment, uncontrolled migration, poverty and growing risk of poverty. This fully exposed the Janusian character of the European Union. One face continues to promote economic liberalization (e.g., when the European Commission proposed a directive to privatize services of general interest – however, it did not pass through the European Parliament), fiscal discipline, labour market flexibility, pension reforms and a more competitive European economy. The other face talks about social justice, social rights, active ageing, and fight against poverty and social exclusion. It is increasingly clear to European Union citizens that the latter face is losing in the duel against the former and that it might even get knocked out.

Returning to the beginning of this contribution, we may conclude that both political attitudes derived from Schumpeter and Polanyi's concepts continue to be influential in the EU. The former understands the European project as a primarily non-regulative one, while the latter views market integration as a first step in the building of European-level institutions: from a monetary Union to a fiscal Union to a political Union (Rodrigues 2013).

Nation-welfare states are exposed to growing pressures of economic globalization and their political representations are increasingly powerless vis-à-vis them. And the European Union still has not invented an efficient tool to balance the market with social affairs like they were balanced in the golden age of nation-welfare states in the 1960s and 1970s. As I documented above, social security reforms in post-communist countries proved how toothless the European Union's existing institutional character was because the Union relinquished initiative to institutions like the World Bank or the International Monetary Fund. The latter undermined the very foundations of what had become known under the vague term European Social Model. The EU opened its doors to the invasion of a foreign element that may further exacerbate the politically explosive social differences between and within its member states.

The imbalance in European integration caused by the underdeveloped social pillar was identified by some politicians as well as scholars even before the outbreak of the global crisis in late 2000s. Not only was the European Union unable to prevent the negative social impacts of that crisis but it kept deepening the crisis through some of its fiscal measures and recommendations. Today, neither the Union's proponents nor its opponents doubt that its political legitimacy is at stake. People who do not doubt the essential historic role of European integration and its benefits are beating their brains trying to avert this negative trend. Such an exercise cannot be solved without a substantial expansion of the European Union's social competences in order to design a common European social policy and bring it to life – in other words, without a clearly defined and clearly implemented European Social Model. If EU citizens have good reasons to believe that the Union can help them in life's difficulties just like they are helped (sometimes better, sometimes worse) by national welfare systems, then this ambitious political project will lose the necessary minimum of public support and in turn political legitimacy.

The most ambitious, radical but also internally coherent proposal was to introduce a basic (minimum) income for all European Union citizens. It is defined as a benefit for which every citizen is eligible without testing of his/her income and independently of his/her prior or

existing employment activity. It is defined as his/her social right. The history of this idea goes back to the distant past. In the institutional framework of the EU, it has been elaborated, above all, by Atkinson (2004, 2009) and supported and developed further by various European authorities and networks, namely the European Minimum Income Network (EMIN). (European Parliament 2017) The level of the benefit would vary between member states, depending on their living standards, and the benefit would be co-financed by the EU and its member states. Its implementation would not preclude other, more traditional forms of public welfare and social assistance at the national level (Atkinson et al. 2005). As a parallel proposal, a similar benefit at the European level would cover dependent children only. Both versions of the benefit are expected to underline the role of the EU as an institutional guarantee of basic income.

The EU might also better convince the public of its political legitimacy by guaranteeing universal provision of public social services as they are perceived as a condition of quality of life. Such a guarantee would certainly start with universal provision of health care and social services and then continue to include education. Its scope might further broaden, but rather in the very long term. Thus, as far as health care and social services are concerned, let us recall the recent battle for services of general interest waged between the European Parliament and the European Commission. The battle suggested a trend of strengthening the EU's social legitimacy by adopting sectoral directives for health care and social services to guarantee these sectors are not undermined by market competition. Logically, these measures would be complemented by a coordinated approach to corporate taxation in order to restrict "social dumping" on the basis of labour cost differences between member states.

The recent acceptance of the European Pillar on Social Rights has, once again, only limited, symbolic meaning. (European Commission 2017) These and other political initiatives can only become materialized provided the necessary legislative changes are passed (in order to remove the constitutional imbalance between European economic and social policies) and consistent strategies and policies are designed and implemented at the European Union and by the national administrations alike. This, however, would depend on the enhanced redistribution at the European level, preferably aiming at targeting individual citizens in need at the national level (Potůček 2014). Nevertheless, this idea is for the foreseeable future, due to the lack of political will of national representations, politically impassable.

Today we can only have a very vague idea about the future situation of the European Union. It is going to be shaped both by its advantages and by the burdens of history it has to carry. Whether it will meet the challenges it is facing today will largely depend on the quality of governance. However, the capacities of governance in the entire world (including the EU) stand in sharp disproportion to the requirements of development (Dror 2001).

"There is the obvious difference in the perspective of Western and Eastern Europe. In the East, more basic material needs, as well as feelings about unjust and sharp social inequalities, are the source of social tensions." (Musil 2000).

But this difference is just one of many apparent cleavages endangering the fabric of the European integration. All the EU Member States have been exposed to pressures of economic globalization, which undermined the very foundations of what had become known under the vague term European Social Model. The European Union still has not invented an efficient tool to balance the market with social affairs like they were balanced in the golden age Western European welfare states in the 1960s and 1970s. Thus, the victory of Schumpeter

over Polanyi in the EU's institutional architecture exacerbates the politically explosive social differences between and within its Member States.

Let's put on the agenda - and submit for further research – the validity of a following political equation: The less direct care of the EU authorities about living conditions of citizens = the more ideological influence and political power in hands of anti-EU and populist political forces + the less legitimacy (and public support) for the whole project of European integration. Not exclusively, but perhaps even more profoundly, in Central and Eastern Europe.

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