EMU, EU enlargement, and the European Social Model: trends, challenges, and questions

Kittel, Bernhard

MAX-PLANCK-INSTITUT FÜR GESELLSCHAFTSFORSCHUNG
MAX PLANCK INSTITUTE FOR THE STUDY OF SOCIETIES

MPIfG Working Paper 02/1, February 2002

EMU, EU Enlargement, and the European Social Model: Trends, Challenges, and Questions

by Bernhard Kittel

This paper was presented as a keynote lecture at the Conference of the Central European Political Science Association on "The European Enlargement Process: Between 'Western Acculturation' and Regional Differences" in Vienna, October 19–20, 2001. The paper has profited from suggestions that I received from various participants at the CEPSA conference. I thank Peter Biegelbauer, Henrik Enderlein, Gerda Falkner, Achim Kemmerling, Pavel Ovseiko, Susanne Schmidt, and Patrick Ziltener for their useful comments.

Bernhard Kittel is a research fellow at the Max Planck Institute for the Study of Societies, Cologne.

Abstract

The paper discusses the possible implications of the challenges facing the "European Social Model" (ESM) caused by the European Monetary Union (EMU) and the enlargement of the EU to include central and eastern European countries. The strains produced by the two challenges on the European welfare states and industrial relation systems are regarded as considerable, adding to the wide variety of country-specific solutions and leading to increased inequality both across and within member countries. However, there are no signs indicating that the two challenges lead to the abolition of welfare standards, despite the need for "recalibration," or that labor market institutions are being dismantled. On the contrary, the need to search for viable alternatives to the status quo appears to strengthen attempts to improve the long-term sustainability of welfare states and to improve the performance of established labor market institutions. Moreover, the challenges foster new European policy approaches like the "open coordination" mechanism.

Zusammenfassung

Der Aufsatz diskutiert mögliche Folgewirkungen der gleichzeitigen Herausforderung des „Europäischen Sozialmodells" durch die Europäische Währungsunion und die Erweiterung der EU um mittel- und osteuropäische Länder. Die Belastungen, denen die europäischen Sozial- und Lohnverhandlungssysteme durch diese Herausforderungen ausgesetzt werden, sind beachtlich und verstärken sowohl die derzeitige große Varianz länderspezifischer Problemlösungen als auch die zwischen- und innerstaatliche Ungleichheit. Allerdings gibt es keine Anzeichen, daß die Herausforderungen zur Abschaffung wohlfahrtsstaatlicher Standards oder zur Demontage von Arbeitsmarktinstitutionen führen. Im Gegenteil scheint die Notwendigkeit der Suche nach tragfähigen Alternativen zum Status Quo Versuchen zur Verbesserung der langfristigen Nachhaltigkeit der Wohlfahrtsstaaten und der Leistungsfähigkeit etablierter Arbeitsmarktinstitutionen Nachdruck zu verleihen. Darüber hinaus fördern die Herausforderungen neue europäische Politikansätze wie den Mechanismus der „offenen Koordinierung".

Contents

1 Introduction

After five decades in which supranational integration has progressed sometimes in small stepts and sometimes in great leaps, European societies reached a new level of integration during the last decade. The full realization of the internal market and the monetary union mark the extent to which integration has deepened. And the upcoming enlargement of the European Union to include central and eastern European countries (CEEC) to the European Union signifies another step toward the realization of the vision of a united Europe already laid down in principle in the original EEC treaties.

While this acceleration of the integration process has indisputable merits, in particular with regard to the original intention of European integration to create an area of enduring peace, some reservations are expressed concerning the implications of this rapid development. One prominent issue put forward as a possible negative implication is the expectation that the effects of macroeconomic growth from integration may be accompanied by an increase in individual risks regarding social security and income maintenance in the current EU member states. This development might well lead to a redesign of the concept of welfare in Europe, a vision which Wolfgang Streeck (2000) has captured in the term "competitive solidarity".

In this paper, I will discuss the current state of research concerning the welfare implications of European Monetary Union and EU enlargement. In the following, I will consider the effect that these two choices made by the EU member states may have on the European Social Model. Drawing from and summarizing the current literature, I will briefly outline the main effects of the monetary union and then present some propositions on the possible impacts of the enlargement process. I will conclude with some reflections on the directions in which solutions are sought. I would like to mention here that the literature dealing with each of these subjects is rather loosely connected at present, and it will take considerable effort in the next few years to attain a more integrated perspective. Since I am talking about future developments, my inferences are drawn from projections, forecasts, and expectations. Hence, these inferences are -at best- only as good as the assumptions on which these projections are based.

2 The European Social Model

Does the European Social Model (ESM) exist? Given the bewildering variety of welfare state systems and labor market coordination modes that we find in the member states of the European Union, we might despair and give up the search for a common European framework. There have been important attempts at developing a typology of welfare state systems, beginning with the contributions first by Esping-Andersen (1990) and later by Castles and Mitchell (1993). They have been extended and modified in various ways (e.g., Obinger and Wagschal 1998; Kraus 2000), but all approaches end up dividing Western Europe into three or four, more or less homogeneous groups of countries representing particular "families of nations": an "Anglo-Saxon," a "Scandinavian," a "Southern," and a "Continental" family. While there remains disagreement about the exact classification of borderline cases, family membership tends to be stable over time, indicating the difficulty of changing an incrementally grown and heavily institutionalized system (Pierson 1996).

However, other authors have pointed out a couple of common traits that can be regarded as an undisputed acquis of all Western European countries and that differentiate these countries from other parts of the world. In this perspective, the concept of a social model is highly abstract and refers to the basic approach to organizing societal redistribution, which consists of several dimensions. The common traits of the "European Social Model" can be summarized as being

- an extensive basic social security cover for all citizens,
- a high degree of interest organization and coordinated wage bargaining,
- a relatively egalitarian wage and income distribution (Ferrera, Hemerijck, and Rhodes 2000a: 13).

These elements, which should be regarded as principles rather than as a real-world description, are certainly implemented in different ways and to different degrees in the member states of the European Union. Also, different approaches, legacies, traditions, and social framework conditions influence the empirically observable solutions to the social model. It is this variety that fosters the debate on the future of the European Social Model.

I will argue that pressures on the ESM come from two important developments that can be regarded as inherently political in nature although they exert their pressure via economic and social channels. In part, the impact on the welfare state may be an unintended consequence of otherwise well-intended policies directed at extending welfare to a greater number of people. But jointly, they may well endanger the acquis of the ESM, putting in particular the economically disadvantaged into an even worse situation. The first development is the creation of the Economic Monetary Union (EMU) as the final stage of economic integration of the European Union (EU), the second is the upcoming enlargement of the EU.

3 EMU and the European Social Model

While initially conceived as a political project aimed at securing a peaceful order, European integration has been, in practice, largely an economic process driven by political will (Ziltener 2001). As early observers have noted, it was hoped that economic integration would spill over into other societal dimensions (Lindberg and Scheingold 1970). In the course of the implementation of the latest and most encompassing step of economic integration, the European Monetary Union, it became apparent that the monetary union indeed had implications for societal dimensions hitherto scarcely covered at the European level. The decision to shift monetary policy to the European level led to a series of adjustment processes in the European countries during the 1990s, which not only induced strategic changes in fiscal and wage/incomes policies but also led to institutional change intended to improve the ability of the countries to adjust to asymmetric developments in the EMU (Enderlein 2002). At the same time, social policy was included in the agenda of the European institutions (Pierson and Leibfried 1995: 457-462). On the one hand, this development was a consequence of three things: the weakening of the unanimity rule in the Council that had made the Social Protocol possible; the Commission's ambitious search for extended areas of activity; and decisions of the European Court of Justice, which not only enforced free market principles undermining national social provisions but also became an important driving force of European social legislation in the 1990s. On the other hand, this development was also a -probably unintended- side effect of the pressure exerted on national policies by the consequences of adjustment policies to EMU.

These had implications for the European Social Model. Fears were expressed that enhanced economic integration would foster social dumping, characterized by a downward adjustment of social provisions, deregulation, and decentralization of wage bargaining institutions. As a result, income differentials would increase, thereby undermining the social base of societal solidarity. However, aggregate data on social expenditure (Castles 2001) and the available evidence on the development of bargaining institutions (Traxler, Blaschke and Kittel 2001) do not support these assertions. While the implications for the first two areas remain ambiguous (Leibfried and Pierson 1995: 70-74), it is evident that the egalitarian dimension of the European Social Model has suffered.

3.1 EMU and Social Security

The EMU contributes to the pressure on welfare systems mainly in two ways. First, the Maastricht convergence criteria for entry into the EMU concerning inflation (within 1.5 percentage points of the average of the three lowest rates in Europe), long-term interest rates (within 2 percentage points of the average of the three lowest inflation rates), exchange rates (within the normal band for at least 2 years), and in particular a sound fiscal position (ceilings at a debt/GDP ratio of 60 percent and a deficit/GDP ratio of 3 percent) forced the member states striving to qualify for the EMU to pursue severe austerity policies (see, e.g., Wyplosz 1997). Moreover, the "unholy trinity" of the Mundell-Fleming theorem -stating that under the condition of full capital mobility, a government cannot pursue an autonomous monetary policy and an autonomous exchange rate policy at the same time- made the policies pursued in the 1970s to boost economic performance impracticable (see, e.g., Obstfeld 1998; Scharpf 2000). Hence fiscal consolidation in order to prepare for the EMU became a major policy stance in the 1990s.

Second, the increasing competition for foreign investment between member countries -which is partly facilitated by decreasing transportation costs due to the removal of trade barriers- as a means for fighting soaring unemployment rates in the 1990s made the governments embark on corporate tax-cutting strategies. Governments thereby entered the so-called tax quadrilemma (Ganghof 2001), which states that governments must sacrifice either efficiency, comprehensiveness, or progressiveness of the tax system when competing for international capital. Although this neither implies a race to the bottom nor necessarily touches upon the total level of revenues because it is possible to close loopholes for tax evasion, it certainly makes it more difficult to simply match the rising costs of welfare (mainly due to pensions and health care, which jointly account for up to 80 percent of total social spending) by raising revenues.

I have to emphasize that other constraints of a more domestic nature play an important role in the current welfare state problems. Pressure on the pension systems is increasing because the percentage of the population receiving old-age pensions is growing. This growth is due in part to the aging of the population and in part to labor market policies that are sweeping older, less productive workers into early retirement. The aging of the population as well as medical progress strain the financial base of the health system. Improvements in productivity and outsourcing decrease the number of jobs in the secondary sector while high levels of both social security contributions and reserve wages, intended to facilitate the transformation of the economy by smoothening the reorientation of workers, limit the number of jobs created in the less productive parts of the service sector. Structural unemployment is the consequence. All these developments contribute to decreasing the tax base and to increasing social spending.

Although certainly not the only causes, the two mechanisms attributable to the EMU therefore also limit the ability of European countries to finance their commitments to social spending by putting an end to deficit accumulation and make it necessary for countries to “recalibrate” their welfare systems (Ferrera, Hemerijck, and Rhodes 2000b). Since a revival of the Thatcherite policy of outright welfare state retrenchment in Britain (Pierson 1994) seems neither publicly acceptable nor easily applicable in the other EU member countries, consolidation strategies are sought that nurture both the requirements for competitiveness and social security. Such a new policy orientation would include robust macroeconomic policies, wage moderation, employment-friendly and efficient taxation, labor-market flexibility combined with income stability, upgrading in education, training, and mobility, as well as strategies against poverty and social exclusion (Ferrera, Hemerijck, and Rhodes 2000b: 433-437). In short, welfare state “recalibration” would imply an increase in both flexibility and security at the same time.

3.2 EMU and Wage Coordination

A core element of the EMU is the creation of the European Central Bank (ECB), which is given maximum independence in its monetary policy and the prime task of maintaining monetary stability. This Europeanization of monetary policy reshuffles the actor constellation in wage bargaining in the EMU countries, in particular in those countries that relied on national wage coordination as a means to restrain wage pressure. From a formal point of view, the relocation of monetary policy shifts the reference area for coordination to the EU level, while neither trade unions nor employers associations have built up strong organizations at the EU level. Therefore, wage setting is moved from centralized, economy-wide bargaining to a territorially defined intermediate level (Soskice and Iversen 1998). A highly influential point of view, which has entered the literature as the “U-shape” hypothesis, argues that both highly centralized and highly decentralized wage-setting systems lead to less wage pressure than in intermediately centralized bargaining systems, thereby creating the labor market conditions for high economic growth and high employment. This results in a U-shaped curve if economic performance is plotted against the centralization of wage bargaining, because centralized wage setters internalize the inflationary or employment-reducing externalities of their wage policy while decentralized wage setters must follow market logic since they have rather limited power (Calmfors and Driffill 1988; Crouch 2000). Amendments to this view have proposed that wage policy depends on the constellation of either high or low levels of centralization and either independent or dependent central banks (Hall and Franzese 1998), and that the U-shape is reversed if it is made conditional on the policy of the central bank because of the allegedly stronger impact of non-accommodating policy in the case of sectoral bargaining (Iversen 1999). A further modification from a more empirically oriented perspective has proposed a hump shape in which pattern bargaining at the sectoral level outperforms other bargaining modes but with a fat tail at the centralized side of the scale. Sectoral coordination is argued to be superior in terms of performance because the bargaining agenda is not complicated by the intersectoral equality considerations with which central agreements have to deal. The performance effects of centralized bargaining modes are contingent on legal frameworks (enforceability of central agreements, peace clauses) that help make lower-level units more governable (Traxler and Kittel 2000; Traxler, Blaschke, and Kittel 2001).

Irrespective of the differences in approach, all contributions to this debate expect that the EMU will make economy-wide coordination of wage bargaining more difficult. The question is whether this will result in greater or lesser wage restraint. If the inflation rate is set by the ECB, monetary policy cannot respond to all national wage agreements. Although national bargaining units may agree on wage restraint, sub-national (sectoral) units, which are even further from the European level, may be more tempted to embark on wage hikes because increasing costs in their domain have a more limited impact on the policy of the central bank. Therefore, some suspect that the inability to coordinate wage bargaining at the European level might lead to further deregulation and decentralization (Calmfors et al. 2001).

However, one has to note that despite of the shift of monetary policy to the European level, there remains “room to move” (Mosley 2000) at the national level. If non-centralized wage coordination via pattern bargaining is well-suited to moderating wages (Kittel and Traxler 2001) and national governments are able to adjust to the exigencies of monetary restrictiveness at least partly via fiscal, structural, and related policies, then the impact of shifting monetary policy to the EU level on the capacity to restrict excessive wage claims may be limited.

Despite the basic consensus in the literature concerning the difficulty of economy-wide coordination, there is disagreement over which bargaining systems are expected to fail to contribute to wage moderation. Those who start from the proposition that Europeanization implies a shift of the relevant macroeconomic domain, thus making central coordination impossible, expect the previously highly centralized bargaining systems to fail, most notably in Germany (Soskice and Iversen 1998). However, given the restrictive policy provision of the ECB -if the modified view holds that the policy of the central bank has the strongest impact on intermediately centralized wage bargainers (Iversen 1999)- one would expect a constellation of sectoral coordination to lead to a stable policy of wage moderation. This suggests that deliberate attempts at sectoral coordination may be undertaken. Indeed, efforts by trade unions to coordinate their wage policy, if not at the European level then at the sectoral level, have been observed and related to the EMU (Gollbach and Schulten 2000), but these processes do not seem to develop at a quick pace.

Finally, those emphasizing the importance of the governability of bargaining for successful macroeconomic coordination expect the countries that currently rely on singular efforts to meet the EMU criteria to be most susceptible to wage pressure. The 1990s witnessed the unexpected resurgence of corporatist-style concertation in the form of social pacts concluded in those countries that were least expected to be able to do so because they lacked the institutional framework for stable concertation (Schmitter and Grote 1997;

Ebbinghaus and Hassel 2000). We can view these pacts as manifestations of the concerted efforts to meet the convergence criteria in these countries. By addressing both labor market and social security issues at the same time, they attempted to smooth the adjustment. However, because they lacked the means to contain lower-level wage pressure on which these pacts crucially hinge, the pacts may well fall apart as soon as the immediate need for moderation has passed after the successful and irreversible transition to the monetary union. This is most notably the case for Ireland, Italy, Portugal, and Spain (Kittel and Traxler 2001; see also Crouch 2000: 216-217).

In other countries some efforts have been made toward dismantling bargaining institutions. Some of the hitherto highly coordinated countries have decentralized their coordination mode at least in part. But these processes started well before the EMU was even conceived, and they are better explained by economic crises, be they domestic (Sweden, the Netherlands), due to the collapse of the Soviet Union (Finland), or due to German re-unification. Organized decentralization in Austria can be attributed to the smooth functioning of the system during the 1980s and 1990s. The 1990s also witnessed increased EU activity in the field of labor law that relies on cooperation by the social partners. The interpretation of these developments is mixed. While one thread of thought in the literature sees the explicit involvement of the social partners in EU decision making as an indication of an ongoing process toward corporatist concertation (Falkner 1998), others are more skeptical with regard to the real impact of these processes (Streeck 1994, 1998; Ziltener 1999). We can contend, however, that -together with the swing back from a conservative majority in the European Council to social democratic one- this upgrading of the role of the interest association has helped to gradually undermine the dominant ideology of a pure free market economy. As a result, the social dialogue is now regarded as a legitimate alternative to commission proposals and has become part of the ‘acquis’ of the EU (Vaughan-Whitehead 2000).

Although we have seen that to date the EMU has challenged coordinated wage bargaining, it has until now at best only shaken the coordinated systems while at the same time helped increase the efforts at coordination in countries hitherto mired in serious labor conflicts. However, we cannot rule out the possibility that the real test for the existing wage bargaining systems is still to come once the adjustment process to the single currency has been concluded.

3.3 EMU and Income Equality

Both of the above-mentioned developments have implications for income equality. Income equality in the EU is relevant in two dimensions, within a country and between countries. First, income equality within each country in Europe is among the highest in the world. Wage coordination, in particular top-level agreements, has an equalizing effect on wages. And the relatively high levels of reserve wages in Europe make employment at wages below these levels impossible, thereby cutting off the lower end of the wage distribution. Second, the variation in living standards between countries is still considerable, since the southern countries, in particular Spain, Portugal, and Greece, trail behind. However, convergence is occurring, and we have observed rapid upward developments in these countries.

To the extent that EMU will, in the medium term, increase decentralization of wage bargaining, in particular in those countries currently characterized by economy-wide agreements, it will help widen the variation in incomes. One reason for the above-average performance of sectoral pattern setting as compared to centralized bargaining is that negotiations at the sectoral level are hardly effected by economy-wide wage equality (Traxler and Kittel 2000). To the extent that the EMU contributes to recasting welfare systems, by putting pressure on reserve wages because governments are forced to find ways to consolidate their budget by cutting costs and increasing employment, it will also contribute to increasing income inequality. However, neither is the EMU the only force pushing in that direction nor is widening income inequality the only possibility of adjustment, albeit an important one (Scharpf 2000).

4 Enlargement and the European Social Model

4.1 Economic Effects of Enlargement

The upcoming admittance into the EU of the central and eastern European countries (CEEC) is considered to be a precondition for the economic, social, and political development of these countries. Stable democratic political systems, economic growth, and social inclusion are mutually enforcing dimensions of societal development that are believed by many to be much easier to maintain and to fortify inside the European Union than outside of it. Also from the perspective of the EU, the chances for growth due to the inclusion are regarded as considerable. However, the factor probably much more important in the drive for enlargement is the hope for and prospect of peaceful co-evolution and development, the core of the European idea. There is, therefore, ample reason to support enlargement. Yet, enlargement also poses challenges to the acquis of the EU, ranging from the adaptation of decision-making rules in the Council to the redesign of the common agricultural policy (CAP) and the Cohesion Fund.

Among these challenges, the viability of the European Social Model is a prominent object of concern. The immense increase in the variation of living standards within the EU upon the entry of the CEE countries is expected by some to undermine social standards in the EU. Table 1 presents some key indicators on living standards.

Table 1 Living Standards: CEEC-10 and EU-15

	GNP per capita	PPP-GNP per capita	gross wages and salaries
		in % of EU-15	
Bulgaria	6	21	6
Czech Republic	15	28	14
Estonia	15	28	14
Hungary	20	40	15
Latvia	11	26	10
Lithuania	12	24	13
Poland	16	33	17
Romania	7	42	14
Slovak Republic	17	42	14
Slovenia	42	64	46

CEEC-10	**15**	**32**	**15**
Austria	124	113	102
Belgium	117	116	115
Denmark	154	118	157
Finland	112	100	107
France	115	111	101
Germany	120	103	151
Greece	54	64	51
Ireland	85	91	97
Italy	94	100	75
Luxembourg	202	185	133
Netherlands	115	107	110
Portugal	49	71	39
Spain	65	80	72
Sweden	119	97	145
United Kingdom	99	102	107
EU-15	**100**	**100**	**100**
Coefficient of variation EU-15	0,34	0,26	0,32
Coefficient of variation EU-15 + CEEC-10	0,75	0,53	0,73

Source: Boeri and Brücker 2001, Table 1; own calculations

In 1998, average per-capita GDP and gross wages and salaries in the CEEC were estimated to be at 15 percent of the EU average, with only Slovenia reaching levels that were comparable to those of the EU laggards (Portugal, Spain, and Greece). Measured in purchasing power parities, the differences in economic development were still large, with the CEEC average reaching only 32 percent of the EU average. Variation within the EU-15, measured in poorest-to-richest ratios, is considerable: leaving Luxembourg aside, Portuguese per-capita income equals 32 percent of Danish income, and the gross earnings of the average Portuguese wage earner reach about 25 percent of those of his Danish colleague. The respective ratios for Bulgaria are slightly below 4 percent. More generally, the size of this challenge is illustrated by the observation that the USA and the EU-15 currently have similar coefficients of variation of approximately 0.3[1] in state and national GDP, respectively, while adding the CEEC-10 to the EU-15 increases the coefficient of variation by more than 100 percent to 0.75. Extrapolations based somewhat arbitrarily on a convergence rate of 2 percent per annum predict that in 2037 the CEEC-10 will achieve an average GDP per capita of about 65 percent of the EU-15 (Weise et al. 2001: Annex 4).

Hence, enlargement will considerably increase heterogeneity in the EU, not only in sociocultural terms but also economically and institutionally. But how significant are these effects with regard to the viability of the European Social Model? An answer to this depends on the expected implications for trade and foreign direct investment (FDI).

Enlargement may challenge the European welfare states in several ways in terms of coverage and financing, but also with regard to the development of social structures at the EU level. More specifically, the admission of countries with substantially lower labor costs may give the fears of social dumping new impetus. On the one hand, it is expected that these countries may attract substantial foreign direct investment, thereby increasing the pressure exerted on the social security systems of the rich EU countries by the lower-income member countries and making the two groups of countries immediate competitors. On the other hand, the huge differences in living standards are expected to induce labor migration, thereby increasing the pressure in particular on the more generous welfare systems.

While the large differences in labor costs may indeed be regarded as an impetus for relocating plants to the CEEC, the real effects are expected to be minor. The current, largely interindustrial, trade structure will only slowly adapt (with the EU exporting mainly specialized-supplier, scale-intensive, and knowledge-based goods and importing mainly labor- and resource-intensive goods) and depend on the speed of convergence (Schumacher and Trübswetter 2000: 21). Intra-industrial trade is expected to increase only in the longer term.

The FDI from the EU to the CEEC, equaling 0.8 percent of gross fixed investment in the EU in 1998, is "too small to matter" for the EU as a whole[2], while the same volume accounts for 25 percent of gross fixed investment in the CEEC, highlighting the asymmetry of the trade relationship. Also, analyses of branch structures give little evidence of ongoing relocation processes, as market access continues to be the main motive of investment (Boeri and Brücker 2001: 9-10). From this perspective, the CEEC countries are better characterized not as being a danger to European employment but as being the competitors of far-eastern economies that will profit from their proximity to the rich EU core countries. By contrast, economic forecasts tend to suggest that rising trade between the EU and the CEEC should increase employment opportunities in both groups of countries (Schumacher and Trübswetter 2000: 21). The only problem zones expected to arise are in low-wage industries in the eastern border regions of Germany and, in particular, of Austria, although the forecasts tend to emphasize the overall increase in employment also in those regions. On the whole, these studies suggest that we should not expect extensive relocation processes by firms seeking to lower labor costs.

However, findings from qualitative research are inconsistent with these forecasts. In location decisions of industries with relatively high labor costs, like the automobile industry, the combination of a low wage level and a relatively high level of qualification of the workforce, combined with tax exemptions granted by the governments, make the CEE countries rather attractive alternatives to EU locations (Stumpf-Fekete 2001: 435). In addition, the lower labor standards in these countries make them candidates for regime shopping (Streeck 1992) by transnational enterprises, thereby undermining the growth perspectives of lower-income EU members. As soon as the last barriers to market entry fall with EU admission, current reservations against investment in CEE countries may become obsolete and predictions based on current levels of FDI may only indicate the minimum level of actual development. In addition, the low transport costs from the CEEC to the EU due to market proximity may make it profitable for a larger set of goods to be relocated to cheaper production sites.

The long-term inequality of living standards is expected to lead to substantial labor migration from the CEEC to the EU. Although the total of foreign residents who have immigrated from the CEEC is estimated to have been the practically negligible number of

850,000 (0.2 percent of the European population) in 1998, their distribution is highly unequal with 80 percent residing in Germany and Austria (Boeri and Brücker 2001: 11). Unrestricted labor mobility is expected to lead to an inflow of about 220,000 individuals to Germany and 40,000 to Austria per year in the first couple of years. Further, surveys suggest that about 11 percent of all citizens of CEE countries (or about 11 million people if all ten applicants are admitted) are likely to leave their country as soon as free movement of labor is permitted (Sinn 2000: 5). This amounts to 2.3 percent of the combined population of the EU and the CEEC. These migrants will mainly offer blue-collar work in manufacturing and unskilled labor in the service sector. Although they will compete with the native labor force in these sectors, the pressure exerted on the employment opportunities of natives will be mitigated by the tendency of the migrants to move to the more prosperous regions. Over time, migrants are expected to adapt their skill profile also to higher-skilled professions (Boeri and Brücker 2001: 13).

The migration effects of the upcoming round of enlargement cannot be compared to previous admissions of lower-income countries to the EU because of the considerably larger gap in living standards and the much closer proximity of centers of very high living standards in current EU countries and regions of comparatively lower living standards in the candidate countries. Perhaps a more realistic comparison might be the experiences at the border between the USA and Mexico after the NAFTA agreement. However, this comparison has not yet been explored in depth.

As far as Austria is concerned, the expectations are less concerned with migration per se than with a considerable extension of the practice of commuting between the border regions of the new member states and economic centers like Vienna, but also within the border regions. This may exert pressures on incomes and job competition in these regions, although the net effect is expected to be positive (Breuss 2001; Huber 2001; Mayerhofer and Palme 2001b).

4.2 Enlargement and Social Security

I will now discuss the implications of enlargement for the three dimensions of the ESM in more detail. Although there are rather clear trends, the actual size of the effects depends on the accuracy of the forecasts.

If the quantitative forecasts on trade and FDI are correct, the amount of additional pressure placed on the social security systems by the admission of the CEE countries to the EU seems to be minor, in particular in comparison to the volume of social redistribution. To the extent that rising trade indeed implies rising employment in both the EU and the CEEC, the pressure on unemployment insurance funds may even decline. However, if the caveats mentioned above are relevant and relocation becomes a major issue, unemployment may strike the industries affected in EU countries at least for a transitory period, thereby increasing the need for a social cushion under the condition of limited budgets.

While the migration of workers to the EU is not expected to result in direct challenges to the social security system per se because eligibility is dependent on a certain period of paid employment, at least in the countries currently most affected by migration, the low-wage orientation of the immigrants is argued to pose a challenge to the welfare systems. Assuming that the essence of the welfare state is redistribution from the rich to the poor, low-wage workers are expected to benefit most from welfare transfers. While contributing comparatively little to taxes and social insurance systems, low-income workers profit from supplementary support, free schooling, full health care at lower rates, public housing, and tax-financed infrastructure. Hence, it is argued, the size of net social transfers to low-income workers will become a prime determinant when migrants choose their country of destination, thereby placing pressure on these transfers. "Systems competition in the presence of free migration will take the form of lowering the net transfers of resources to low-income workers, and this means at least a partial dismantling of the social welfare state" (Sinn 2000: 7). According to this logic, low-income migrants are thought to prefer countries with comparatively generous systems of redistribution, while those who are called upon to finance the transfer payments will leave those countries, thereby threatening the funding of the transfer system. Since preventing migration will harm the potential welfare gains induced by an improved factor allocation, this perspective argues that excessive migration incentives must be removed. The harmonization of social systems would remove the incentive but eastern standards would be unacceptable to the EU and western standards unaffordable to the CEEC. If selection criteria for migrants are also ruled out by the free movement principle, the application of the home country principle is regarded as the only means by which "access to the benefits of the western social systems can be limited" (Sinn 2000: 11).

Apart from the lack of both normative and political tenability of this rationale, its real-world relevance may be limited or offset by other factors affecting the choice of destination. Among these are the proximity to the home country, labor market opportunities, or the existence of ethnic colonies. Hence, the practical relevance of this challenge is less definite than the economic logic suggests. In addition, it remains questionable whether the average migrant's behavior is well-captured by the assumed benefit-maximizing function. However, the issue does have a political dimension that may be much more important. Even the potential of net benefits for immigrants may increase resistance to the redistributionist element in welfare state arrangements already visible in the social stigmatization of the unemployed and people depending on welfare transfers. Such sentiments may be expressed in increasing popularity not only of parties rallying against welfare redistribution but also of xenophobic movements and parties fighting against immigration as such. But again, existing evidence does not necessarily support such a prediction. Although the northeastern districts of Austria are expected to be most strongly affected by the admission of the CEE countries (and this process is already visible), the popularity of the FPÖ in that region is clearly below its nationwide average[3]. Experience has also shown that a number of guest workers in Germany and Austria move back to their home countries once they retire. So it is not at all clear that the net balance between contributions and benefits should turn out to be negative for current EU members.

All in all, the effects of enlargement on the financing of European welfare states seem to be limited by the relatively small size of the expected shifts given the current size of the western European welfare states. But even small shifts may have a large impact if they can be instrumentalized in a political controversy. In particular, the coverage of welfare systems may be negatively affected, and the redistributionist element of the welfare state may be reduced to the detriment of those most economically disadvantaged. One might expect that such effects will be larger if conservative and xenophobic parties jointly push for welfare state retrenchment. Current developments in the Austrian welfare state underline the potential impact of such a redesign (Tálos 2001), although the upcoming EU enlargement does not seem to be receiving a great deal of consideration. Therefore it is important to acknowledge the politically disrupting potential of this challenge, particularly in those countries that are currently the preferred destination of migrants, even though the real significance of migration is open to doubt and its current impact limited.

What impact might enlargement have on the development of EU-level social policy? One might argue that enlargement will increase the differences in social law and policy to such extent that it will become impossible to agree either on a common framework or on common standards at a level acceptable to the countries endowed with a well-developed welfare state.

However, there is less disparity between the traditions and legacies than one might think. Like the EU countries, CEE countries are characterized by more or less encompassing state intervention in the areas of welfare, but also in many policy areas connected to social policy. During communist rule, most CEE countries developed social security systems that cushioned practically all risks from the cradle to the grave for the large majority of their citizens. These systems were functional within the framework of a planned economy, but soon reached their limits during the transformation to the principles of market economies. One core problem is a shortage of funds, aggravated by austerity measures and a growing shadow economy as well as by widespread tax evasion that reduces social security contributions and tax receipts. Other core problems are unclear responsibilities in the administration, and an overcapacity of facilities and personnel that limit efficiency and quality, particularly in health care (European Parliament 1998: 39-44). Thus, the welfare states of the CEE countries face the consequences of underfunding and the ensuing development of welfare provision via informal means.

Although all CEEC governments are working to adjust their welfare systems to the exigencies of the market system, it remains to be seen how successful these varying reform efforts will be (Deacon 2000; European Parliament 1998; Heller and Keller 2001). Despite the efforts of the CEE countries to attract FDI by low capital taxation, none of them seem to be headed toward a deliberate strategy of social dumping. This is manifest in the reliance on payroll taxes to an extent similar to the EU countries (Deacon 2000: 158).

Admission to the EU, which implies entry into the EMU, will certainly not relieve the CEEC governments from austerity policies, even if they do meet the Maastricht convergence criteria. The budgetary restraints will remain while these countries adjust to the acquis of the EU, including EU social standards. This is a major challenge for these countries and has led to a considerable reorientation of policies (Tóth and Langewiesche 2000). But given the existing EU standards, the ambivalent scenario for improving welfare provision in the CEEC suggested by the tension between ongoing budgetary restraints and the need to attain EU standards will affect the current state of EU social policy less than future developments. Given, too, that the transfer of social policy to the European level is most advanced in particular areas of labor law (Falkner 1998), adjustment needs are most pressing in these areas that do not directly affect government budgets.

However, one should not be overly pessimistic. The development of social policy in the 1980s and 1990s has shown a remarkable extension of activity at the EU level despite the fact that one important member country, the UK, resisted many attempts at integrating social policy (Pierson and Leibfried 1995: 452). As a result, the EU has started to develop mechanisms to deal with the variety of interests and standards, among which “open coordination” has become a major and promising component (Falkner 2002). Open coordination consists of a system of coordination and monitoring that involves the submission of reports to the European Commission and their discussion in the Council, which creates peer pressure on the social laggards. The EU issues guidance principles that are intended to induce reform processes in the member countries. Although little can be said about the success and future potential of this approach, it is most likely to be the one best suited to dealing with the variety of standards already existing in the EU. The admission of the CEE countries adds further variation to an already high degree of variation. Since the prospects for progress via regulation or financial incentives are dim, an optimistic perspective would be to claim that this increased variation might well help advance the further development of open coordination because few other alternatives, if any, are available. A more pessimistic view, however, might interpret the same observation as an indication that tension will increase within the still fragile polity of the EU.

Although not considered part of the ESM and therefore not included in this review, the EU financial support distributed via the CAP and the Cohesion Fund can be regarded as elements of a broad concept of EU social policy since these payments either support the living standard of the agrarian population or help improve economic development in peripheral regions (see, e.g., Rieger 1996). Since enlargement will certainly increase the number of eligible regions, the EU has the options of either increasing the budgets, changing the eligibility rules to the advantage of the new member countries, or redesigning the whole system of redistribution within the EU. Since increasing the budgets is limited by the unwillingness of the net payers and changing the eligibility rules will be vetoed by the net recipients, challenges for adjustment in these policy areas certainly add a further dimension to the complexity of social policy in the enlarged EU (see, e.g., Weise et al. 2001).

4.3 Enlargement and Wage Coordination

To what extent does enlargement have an impact on wage coordination in European countries? Challenges come from market integration and from migration. The admission of CEE countries to the EU integrates a high wage region and a low wage region into a single market. The removal of restrictions to imports from the CEEC increases the plausibility that firms may relocate to the CEEC if social standards including wages are set at a level that equalizes the overall utility assessment. While important aspects of this assessment are market access, political risks, and unit labor costs, labor market and production regimes become relevant aspects as soon as these factors are accounted for (Stumpf-Fekete 2001). In particular, CEE countries may attempt to attract investment by containing union power and by offering additional incentives like tax exemptions.

The challenge to industrial relations posed by enlargement-induced relocation is not directly related to the amount of actual relocation. It is the larger plausibility of the relocation option due to the integration of the CEEC that shifts the current wage bargaining equilibrium to the advantage of employers. Evidence from large German corporations suggests that internal competition from plants of the same firm located in other countries has massively increased the occurrence of pacts for employment and competitiveness in Germany (Rehder 2001). These pacts often tend to undermine collective agreements and are regarded as indicative of an ongoing redesign of the German collective bargaining system toward a more market-oriented regime.

Nevertheless, it remains unclear to what extent enlargement adds to the existing pressure on the bargaining system. One might speculate that the option of relocation to the CEEC gives additional impetus to the competition between plants. This may not only undermine the high labor standards in the core EU countries, but also slow down the improvement of labor standards in more peripheral countries where trade unions face even more credible relocation threats, because the lower labor costs and more permissive labor standards in these countries originally contributed to the decision to locate there in the first place (Stumpf-Fekete 2001: 435).

Migration from the CEEC to the EU will increase the supply for blue-collar work and unskilled employment in the service sector. Hence these workers will lose bargaining power to the extent that labor supply increases. This may threaten to pull wages down and worsen labor conditions in such professions. Unlike the current situation, the supply of relatively well-educated migrants will increase the pressure also at higher skill levels. But since the employment of migrants in the host countries is subject to the same set of rules as the employment of native employees, there is little additional reason to believe that migration might undermine labor standards to a greater degree (Sinn 2000: 9).

In addition, if population forecasts for the EU countries are correct, the EU might in the medium term witness a shortage of labor. Yet the effects of migration might be at least partially offset by the decrease in the native labor supply (see Feld 2000).

With regard to the variety of wage coordination systems within the EU, the admission of CEE countries implies an increase in the number of rather weak coordination systems (see Schienstock, Thompson, and Traxler 1997; Kohl, Lecher, and Platzer 2000). Although the trade unions in all CEE countries have made attempts at both increasing worker organization and integrating different factions, they have been only partially successful. Also, employers associations are highly differentiated. Even though these institutional characteristics limit the ability of peak associations to engage in tripartite negotiations, such efforts are paramount in the CEEC and seem to be capable at least to a certain extent of helping to solve conflictual issues in the course of the transformation process. At the macro level, differences between wage coordination modes in the EU countries, in particular those of the more peripheral ones, and the CEEC are minor (Kohl, Lecher, and Platzer 2000: 413) and do not substantively add to the existing problems of EU wage coordination.

4.4 Enlargement and Income Equality

Contingent on the trends described in the previous two sections, we have to expect a considerable increase in income inequality in Europe. In terms of vertical income distribution, the increase in the supply of cheap labor within the EU willing to take on jobs at the lower end of the skill pyramid -achieved either by triggering FDI to CEE countries or by increasing the number of job applicants in the current EU countries- will pressure wages to drop, especially at the lower end of the scale. In terms of sectoral wage differentiation, it is to be expected that workers in those sectors particularly exposed to competition from the CEE countries will experience more pressure to decrease their income than those in sectors profiting from the increase in exports to these countries. Enlargement may not be regarded as the prime cause of both developments. But it certainly makes the challenge more severe.

5 Conclusions

I have presented an overview of the literature relating to the challenges to the European Social Model posed by EMU and the admission of the CEE countries and discussed the possible implications of these contributions to the deepening and the widening of the EU for the ESM. Since it is widely expected that the implications should be far-reaching, the findings are somewhat startling.

First, instead of the expected push toward the abolition of welfare standards, the EMU has to date accelerated and intensified the search for a recalibration of the welfare systems, which tended to be subject to pressure anyway due to the aging of the population and the increased speed of economic restructuring.

Second, enlargement has been expected to increase the variation in social standards in the EU. But the only breaking news in this respect is that the size of the already rather large spectrum of variation will increase. EU policy makers have demonstrated remarkable inventiveness in circumventing previous attempts at halting integration of social policy.

Third, instead of the expected final strike of EMU on collective bargaining and labor market regulation, the astonished public has witnessed the reinvention of social pacts as a means to achieve the EMU. These pacts have contributed to the search for a new power equilibrium in the labor market. In addition, these pacts have helped the trade unions steady their position in countries hitherto characterized by organizational fragmentation and hefty disputes.

Fourth, enlargement will further shift the balance of power on the labor market toward the employers, which might imply some deterioration of employment conditions in the EU, most notably in incomes at lower skill levels. It may also add to the pressure on collective bargaining regimes.

As far as the present overview suggests, both the EMU and enlargement alone do not seem to challenge the ESM to a degree that might endanger its basic layout. Their joint effect, however, may be more significant. The EMU limits deficit spending strategies for the EU countries and imposes additional austerity demands on fiscal policy of the CEE countries wishing to enter the EU. Enlargement is likely to increase competition in particular in the lower and middle strata of the incomes scale, thereby increasing the demand for welfare provision. Since the reform of welfare states is likely to confront both popular resistance and opposition by vested interests, these two pressures may add up to a partial dismantling of the welfare state to the detriment of the poor. Given the pressures on the collective bargaining systems to open wage scales at the lower end -due both to the increased power of employers as a result of enlargement and to a government strategy to fight unemployment- the number of low-income workers may considerably increase. Hence, the most likely result of the combined impact of the EMU and enlargement is an increase in inequality in the countries hitherto attempting to maximize equity.

With regard to the CEE countries, the implications of the EMU for fiscal policy may aggravate the the problems already present in these countries to raise social standards to the EU level because of the restrictions imposed by the global financial markets. In addition, these problems may undermine attempts to counter corruption and the growing shadow economy, major problems hindering the integration of the CEEC economies into the EU (despite similar problems in at least some of the EU countries).

To what extent these implications will materialize cannot be finally assessed at this point. The EMU and enlargement certainly add even more pressure on the ESM than already exists as the result of formershortsighted policy reforms, economic restructuring and cyclical downturns, mismanagement, and population trends. The likelihood of thorough reform is increased by these projects. This means that, despite the considerable efforts necessary for adjustment, there are currently no clear and unambiguous signs that the fears of those expecting a serious deterioration of the welfare state and the collective bargaining system will come true. However, the danger is present and an inventive approach will be needed to combat it.

The extent to which the concept of the EU gradually expanded from a means of peacekeeping to a project of market liberalization and then to a particular concept of a social model is impressive. All the more impressive is that this process is better characterized as “muddling through” than as the result of a clear-cut strategy. Although the challenges of the enlargement process should not be underestimated, the ability of the EU to adjust without sacrificing its acquis should not be underestimated either. Who would have thought only a couple of years ago that social policy could ever be regarded as a concern of EU policy making? The challenge is one of political will and inventiveness, not an economic imperative.

6 References

Boeri, T. and H. Brücker (2001). Eastern Enlargement and EU-Labour Markets: Perceptions, Challenges and Opportunities. IZA Discussion Paper 256.

Breuss, F. (2001). Makroökonomische Auswirkungen der EU-Erweiterung auf alte und neue Mitglieder. WIFO Monatsbericht 11/2001: 655-666.

Calmfors, L. and J. Driffill (1988). Bargaining Structure, Corporatism and Macroeconomic Performance. Economic Policy 6: 13-61.

Calmfors, L., Booth, A., Burda, M., Checci, D., Naylor, R., and Visser, J. (2001). The Future of Collective Bargaining in Europe. The Role of Unions in the Twenty-First Century. T. Boeri, A. Brugiavini, and L. Calmfors. Oxford: Oxford University Press.

Castles, F. and D. Mitchell (1993). Worlds of Welfare and Families of Nations. Families of Nations. Patterns of Public Policy in Western Europe. F. Castles. Aldershot, Dartmouth.

Crouch, C. (2000). National Wage Determination and European Monetary Union. After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union. C. Crouch. Oxford, Oxford University Press: 203–227.

Deacon, B. (2000). Eastern European Welfare States: The Impact of the Politics of Globalization. Journal of European Social Policy 10(2): 146–161.

Ebbinghaus, B. and A. Hassel (2000). Striking Deals: Concertation in the Reform of Continental European Welfare States. Journal of European Public Policy 7(1): 44–62.

Enderlein, Henrik (2002). Wirtschaftspolitik in der Währungsunion: Die Auswirkung des Beitritts zur Europäischen Wirtschafts- und Währungsunion auf Konjunkturzyklen und die wirtschaftspolitischen Institutionen der Mitgliedsländer. Dissertation. Cologne, Max Planck Institute for the Study of Societies.

Esping-Andersen, G. (1990). The Three Worlds of Welfare Capitalism. Cambridge, Polity Press.

European Parliament (1998). The Social Dimension of Enlargement. Social Law and Policy in the Czech Republic, Estonia, Hungary, Poland and Slovenia. Social Affairs Series SOCI 100 EN. Luxembourg.

Falkner, G. (1998). EU Social Policy in the 1990s. Towards a Corporatist Policy Community. London, Routledge.

Falkner, G. (2002). Zwischen Gestaltungslücke und integrativen Kooperationseffekten: Wohlfahrtsstaat und Integration aus Sicht des historischen Institutionalismus. Europäische Integration. M. Jachtenfuchs and B. Kohler-Koch. Forthcoming.

Feld, S. (2000). Active Population Growth and Immigration. European Journal of Population 16: 3–40.

Ferrera, M., A. Hemerijck, et al. (2000). The Future of Social Europe. Recasting Work and Welfare in the New Economy. Report for the Portuguese Presidency of the European Union.

Ferrera, M., A. Hemerijck, et al. (2000). Recasting European Welfare States for the 21st Century. European Review 8(3): 427–446.

Ganghof, S. (2001). Global Markets, National Tax Systems, and Domestic Politics: Re-balancing Efficiency and Equity in Open States' Income Taxation. MPIfG Discussion Paper01/9. Cologne, Max Planck Institute for the Study of Societies.

Gollbach, J. and T. Schulten (2000). Cross-Border Collective Bargaining Networks in Europe. European Journal of Industrial Relations 6(2): 161–179.

Hall, P. A. and R. J. Franzese (1998). Mixed Signals – Central Bank Independence, Coordinated Wage Bargaining, and European Monetary Union. International Organization 52(3): 505–535.

Heller, P.S. and C. Keller (2001). Social Sector Reform in Transition Countries. IMF Working Paper 01/35. Washington.

Huber, P. (2001). Regionale Arbeitsmarktwirkungen der Osterweiterung. WIFO Monatsbericht 11/2001: 667–676.

Iversen, T. (1999). Contested Economic Institutions: The Politics of Macroeconomics and Wage Bargaining in Advanced Democracies. Cambridge, Cambridge University Press.

Kittel, B. and F. Traxler (2001). Lohnverhandlungssysteme und Geldpolitik.. Wirtschaft und Gesellschaft 27(1): 11–40.

Kohl, H., W. Lecher, and H.-W. Platzer (2000). Transformation, EU Membership and Labour Relations in Central Eastern Europe: Poland – Czech Republic – Hungary – Slovenia. Transfer 6(3): 399–415.

Kraus, M. (2000). Social Security and Redistributive Effects in European Social Transfer Systems. ZEW Discussion Paper 00-40. Mannheim.

Leibfried, S., and P. Pierson (1995). Semisouvereign Welfare States: Social Policy in a Multitiered Europe. European Social Policy. Between Fragmentation and Integration. S. Leibfried and P. Pierson (eds.). Washington D.C., The Brookings Institution: 432–466.

Lindberg, S.A., and S.A. Scheingold (1970). Europe's Would-Be Polity, Englewood Cliffs: Prentice Hall.

Mayerhofer, P. and G. Palme (2001a). Entwicklungschancen der EU-Erweiterung auf Branchenebene. WIFO Monatsbericht 11/2001: 677–688.

Mayerhofer, P. and G. Palme (2001b). Auswirkungen der EU-Osterweiterung auf Österreichs Regionen. WIFO Monatsbericht 11/2001: 689–698.

Mosley, Layna (2000). Room to Move: International Financial Markets and National Welfare States. International Organization 54, 4: 737–773.

Obinger, H. and U. Wagschal (1998). Drei Welten des Wohlfahrtsstaates? Das Stratifizierungskonzept in der clusteranalytischen Überprüfung. Welten des Wohlfahrtskapitalismus: Der Sozialstaat in vergleichender Perspektive. S. Lessenich and I. Ostner. Frankfurt/M., Campus: 109–136.

Obstfeld, M. (1998). The Global Capital Market: Benefactor or Menace? Journal of Economic Perspectives 12(4): 9–30.

Pierson, P. (1994). Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment. Cambridge: Cambridge University Press.

Pierson, P. (1996). The New Politics of the Welfare State. World Politics 48(2): 143–179.

Pierson, P., and S. Leibfried (1995). The Dynamics of Social Policy Integration. European Social Policy. Between Fragmentation and Integration. S. Leibfried and P. Pierson (eds.). Washington D.C., The Brookings Institution: 432–466.

Rehder, B. (2001). Wettbewerbskoalitionen statt Beschäftigungsinitiativen: Vereinbarungen zur Standort- und Beschäftigungssicherung in deutschen Großunternehmen. Beschäftigen statt Entlassen. H. Seifert. Berlin, Sigma.

Rieger, Elmar (1996). The Common Agricultural Policy. Policy-making in the European Union.. Helen Wallace and William Wallace (eds.). Oxford: Oxford University Press: 97–124.

Scharpf, F.W. (2000). Economic Changes, Vulnerabilities, and Institutional Capabilities. Welfare and Work in the Open Economy. F.W. Scharpf and V.A. Schmidt. Oxford, Oxford University Press: 21–125.

Schienstock, G., P. Thompson, and F. Traxler (1997). Industrial Relations between Command and Market. A Comparative Analysis of Eastern Europe and China.

Commack, Nova.
Schmitter, P. C. and J. R. Grote (1997). The Corporatist Sisyphus. Past, Present and Future. EUI Working Papers in Political and Social Sciences 1997, 4. Florence.
Schumacher, D. and P. Trübswetter (2000). Volume and Comparative Advantage in East-west Trade. DIW Discussion Paper 223. Berlin.
Sinn, H.-W. (2000). EU Enlargement and the Future of the Welfare State. CESifo Working Paper Series (307).
Soskice, D. and T. Iversen (1998). Multiple Wage-Bargaining Systems in the Single European Currency Area. Oxford Review of Economic Policy 14(3): 110–24.
Streeck, Wolfgang (1992). National Diversity, Regime Competition and Institutional Deadlock: Problems in Forming a European Industrial Relations System. Journal of Public Policy 12: 301–330.
Streeck, Wolfgang (1994). European Social Policy after Maastricht: The 'Social Dialogue' and 'Subsidiarity'. Economic and Industrial Democracy 15: 151–177.
Streeck, Wolfgang (1998). The Internationalization of Industrial Relations in Europe: Prospects and Problems. Politics and Society 26, 4: 429–459
Streeck, Wolfgang (2000). Competitive Solidarity: Rethinking the 'European Social Model'. Kontingenz und Krise: Institutionenpolitik in kapitalistischen und postsozialistischen Gesellschaften. Karl Hinrichs et al. (eds.). Frankfurt/M., Campus: 245–261.
Stumpf-Fekete, M. (2001). Mitbestimmung bei Investitionsentscheidungen. Fallstudien in deutschen multinationalen Konzernen. Industrielle Beziehungen 8(4): 430–444.
Tálos, E. (2001). Sozialpolitik zwischen konservativer Tradition und neoliberaler Orientierung. Eine Einjahresbilanz der ÖVP/FPÖ-Regierung. Kurswechsel 16: 17–29.
Tóth, A. and R. Langewiesche (2000). Introduction: Challenges of Transformation and Preparations for EU Accession. Transfer 6(3): 370–386.
Traxler, F., S. Blaschke, B. Kittel (2001). National Labour Relations in Internationalized Markets. A Comparative Study of Change, Institutions, and Performance. Oxford, Oxford University Press.
Vaughan-Whitehead, D. (2000). Social Dialogue in EU Enlargement: Acquis and Responsibilities. Transfer 6(3): 287–398.
Weise, C. et. al. (2001). Reformbedarf bei den EU-Politiken im Zuge der Osterweiterung der EU. Studie für das Bundesministerium der Finanzen (Forschungsauftrag Nr. 43/00).
Wyplosz, C. (1997). EMU: How it Might Happen. Journal of Economic Perspectives 11(4): 3–22.
Ziltener, Patrick (1999). Strukturwandel der europäischen Integration. Die Europäische Union und die Veränderung von Staatlichkeit, Münster: Westfälisches Dampfboot.
Ziltener, Patrick (2001). Wirtschaftliche Effekte der europäischen Integration – Theoriebildung und empirische Forschung. MPIfG Discussion Paper 01/7. Cologne, Max Planck Institute for the Study of Societies.

Endnotes

1 The coefficient of variation of GSP per capita in the USA is estimated from data from the US Census Bureau and the US Bureau of Economic Analysis and refers to 1995.

2 Nevertheless, some regions (notably in Germany and Austria) and labor-intensive industrial sectors (e.g., textiles) are already affected and may have considerably more need to adjust than the EU average. In particular, low-wage trades in the service sector in border regions will be exposed to considerable challenges (Mayerhofer and Palme 2001a: 682-686).

3 While the FPÖ attained 26.9% of all votes for the national assembly in 1999, the northern districts of Lower Austria (bordering the Czech Republic) reported between 19% and 21% and the eastern districts of that province (bordering the Slovak Republic) reported between 23% and 25%. In the province of Burgenland (bordering Hungary), the FPÖ reached an average of 21%. By contrast, in Carinthia, which borders Slovenia, the FPÖ attained 38.6%, followed by Vorarlberg with 30.2%. The deviant case of Carinthia could be explained by the combination of long-lasting, though mostly latent ethnic conflict and the charismatic, populist leadership of former FPÖ party leader and current head of the provincial government Jörg Haider

---

MPI für Gesellschaftsforschung, Paulstr. 3, 50676 Köln, Germany