Project Information

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Executive summary

This paper looks at the interplay of processes of transformation and integration in the post-communist region in an attempt to assess whether accession to the European Union (EU) is finally pushing the central and eastern European (CEE) countries towards “capitalism by design,” and in particular towards the western European social-market model, a “Social Europe”; or whether the CEE’s “return to Europe” is more complicated, imprinted foremost by legacies of state socialism and transformation. The paper finds that while the road to capitalism was initially shaped by a variety of factors – legacies of state socialism, diverse international influences, and, most important, the internal logic of transformation – with the speed-up of the accession process, the CEE countries’ return to capitalism has become predominantly shaped by their urgent efforts to fulfill the EU’s accession criteria in the areas of political democratization, economic restructuring and legislative and administrative capacity. As a result, processes of European integration and eastward enlargement of the European Union have “unified” emerging diverse capitalist trends in the region, gradually putting the western European social market and corporatist model in the forefront. The EU's comprehensive blueprints on accession have thus gained new, pivotal importance in shaping the direction of the unfinished post-communist extrications from state socialism. They confirm the gradual shift in the region from a “path-” and “transformation-dependent” capitalism to “capitalism by EU design.”
With the collapse of state socialism in 1989, capitalism appeared to have triumphed in the global arena, a development some observers called the "end of history." The formerly communist countries of central and eastern Europe (hereafter CEE) had no choice but to shake off their deeply ingrained Cold War mentality and try to take their place in a world characterized by globalization and increased regional integration within three economic blocs – the U.S., Europe, and Japan/Asia. By 1999, the nations of CEE were enjoying a successful "return" to democratic capitalism and were actively preparing for membership in the European Union (EU). Accession negotiations for the "fast-track" countries (Poland, Hungary, the Czech Republic, Slovenia, and Estonia) started in spring 1998, and those for the "slow-track" countries (Bulgaria, Slovakia, Romania, Latvia, and Lithuania) were expected to open in early 2000. From their earnest efforts to reform their crisis-driven economies and to democratize their polities in line with the European Union's accession criteria, it is evident that these countries have cast their lots with what they hope will be an enlarged and integrated Europe.

The accelerated preparations for accession to full EU membership are cause for reflection on some old questions and consideration of some completely new ones. What conditions shape emerging capitalism in CEE? Are EU policy and institutional transfers in the region, together with strong domestic efforts to fulfill the EU's accession criteria and comply with the Europe agreements and the accession partnerships, finally pushing these countries towards "capitalism by design," and in particular towards the western European social-market model, a "Social Europe"? Or is the CEE's "return to Europe" more complicated, imprinted foremost by legacies of state socialism and transformation?

This paper looks at the interplay of processes of transformation and integration in the region. The road to capitalism was initially shaped by a variety of factors – legacies of state socialism, diverse international influences, and the internal logic of transformation. The paper argues, however, that with the speed-up of the accession process after 1997, the CEE countries' return to capitalism has become predominantly shaped by their urgent efforts to qualify for admittance to the EU by fully adopting the EU's common law, \textit{acquis communautaire}, and fulfilling the EU's accession criteria in the areas of political democratization, economic restructuring and legislative and administrative capacity.

As a result, processes of European integration and eastward enlargement of the EU have "unified" emerging diverse capitalist trends in the region, gradually putting the western European social market and corporatist model in the forefront. The EU's comprehensive blueprints have thus gained
new, pivotal importance in shaping the direction of the unfinished post-communist extrications from state socialism. They confirm the gradual shift in the region from a “path-” and “transformation-dependent” capitalism to “capitalism by EU design.”

The paper details first the emergence of competing models of capitalism in the post-communist region – neo-liberal, social-market/corporatist, and statist – and their subordination to the corporatist model, as a broad societal response to legacies of state socialism and a consensual domestic effort to alleviate as much as possible the negative impacts of economic crisis and economic restructuring. It then shows that, with the gradual unfolding of the accession process since 1990, and especially after the EU’s commitment to accession in 1993 and the opening of accession negotiations in 1998, processes of post-communist restructuring have become increasingly shaped by the CEE governments’ efforts to qualify for admittance to the EU. The paper finally identifies two areas of the accession agenda as the most important ones for the transfer of the western European variant of capitalism to the CEE region: (1) the accession requirement for full implementation of the EU’s common law, acquis communautaire; and (2) the pre-accession commitment to Economic and Monetary Union (EMU) that will lead, sooner or later, to full post-accession convergence within a new unified Europe.

Competing Capitalisms and Accession to the European Union

After 1989, European integration developed as a top political and foreign policy priority all over the CEE region, based on a vision of Europe as an anchor of security and democracy. Another strong incentive for joining the EU was the issue of national and regional identity. Post-communist Europe was eager to establish a new, non-communist identity, and joining the EU would also secure a legitimate regional identity in an increasingly globalized world. As a result, the potential negative implications of accession for the fragile transitional economies were overlooked or deliberately underestimated.

The EU, faced with the challenges of reforming the welfare state, especially labor markets, and carrying through its grand single market project (officially launched in 1991), has failed to develop a well-conceived strategic approach to the dramatic changes in the East, and has been slow to integrate CEE into the mainstream of European development. The severe recessions that hit most countries of CEE in the early transition, and the high economic costs of admitting much poorer countries to the EU, have exacerbated this situation. While exporting stability to less favored nations in Europe, the EU was
thus afraid that it might import political and economic instability into its own ranks. Besides, EU member states were concerned that enlargement would be unpopular with their voters, or that the new relatively poor entrants from CEE would monopolize EU spending.

As a result, while providing financial assistance for the ongoing transformations, the EU has increasingly applied protectionist policies in its economic and trade relations with the CEE countries. Still, the initial political euphoria from the collapse of state socialism, the hard domestic efforts to build new societies resting on the principles of a market economy and liberal democracy, and the EU-channeled financial assistance from a broader international community have successfully launched CEE on a path away from state socialism, and have compensated for the lack of a viable EU Ostpolitik. So, the road to capitalism was initially shaped by a variety of factors – legacies of state socialism, diverse international influences, and, most important, the internal logic of transformation.

Similar to Spain's political democratization in the 1970s, which witnessed the emergence of forums for social dialogue between the government and social groups just when similar corporatist arrangements were under increased strain all over western Europe, post-communist Europe's approach to global capitalism was by way of a corporatist mechanism: that is, specifically, the political inclusion of labor and emerging business in processes of political and economic restructuring. As the historical experience shows so far, corporatist “social peace” structures have flourished in situations of economic and social crises, depressions and other social disasters, as a viable way of alleviating uncertainty and mobilizing broad social consensus for the resolution of problems. Surprisingly early in their transitions, when integration into the EU was by no means a foregone conclusion, the formerly communist countries developed tripartite forums for social dialogue. These efforts were large-scale and occurred at both national and subnational levels.

In Hungary the tripartite National Council for Interest Reconciliation, set up at the end of 1988, was revived in 1990, and today it holds regular sessions on social, economic, and labor issues. In Bulgaria, social dialogue emerged in December 1989, and in March 1990 the National Commission for Coordination of Interests was set up, to be replaced in the beginning of 1993 by the National Council for Tripartite Cooperation, formed after the adoption of a new Labor Code. In Czechoslovakia the federal tripartite Council for Economic and Social Agreement was established in October 1990, and from the
beginning of 1993 the republican councils for economic and social agreement of the Czech Republic and
of Slovakia continued to function separately. In Poland, institutionalized social dialogue emerged in
February 1994, when the Tripartite Commission on Socio-Economic Issues was established as a continually
operating forum for government-labor-employer negotiations. Since December 1989, a tripartite central
Employment Council has served as a consultative organ to the Minister of Labor. Under the provisions of
a special Law on Employment, regional and provincial employment councils were also set up all over the
country. In Romania a joint government–trade union commission has existed since the end of 1990. In
Germany, the challenges of unification and instability in the East have brought neo-corporatism.

Similar tripartite negotiation bodies were also created in the states of the former Soviet Union.
In Russia a national tripartite commission for the regulation of social and labor relations was set up in
January 1992. National tripartite commissions appeared in Belarus, Moldova, Ukraine, and Latvia,
as well.

Inasmuch as these tripartite arrangements represent the essence of the corporatist model, the
emerging capitalist systems in the post-communist region point in the direction of traditionally
"corporatist" western Europe. The western European model of capitalism, "Social Europe," has at its
heart a collective societal effort to reduce social inequality through extensive government intervention,
with an active role played by "social partners" – interest groups representing labor and business – toward
that broad end. The model is said to be "corporatist" because its defining features are bargained
exchange, social partnership and dialogue between the state, labor, and business.

The legacies of heavy state intervention in economy and society, together with the state's central
role in processes of post-communist restructuring and a declining union influence, seemed to promise,
however, the emergence of systems akin to the statist model of Japan and the newly industrialized Asian
countries. Statism, similar to corporatism, emphasizes collective interest, equality, and the merits of
extensive government intervention, but not in tandem with employers' organizations and trade unions.
In addition, because of the powerful presence of neo-liberalism on the global scene and the eagerness of
post-communist democratic governments to embrace that doctrine to accelerate their economic
restructuring and their return to the capitalist market, post-communist capitalism acquired important neo-
liberal traits. The U.S. neo-liberal model of capitalism features individualism, rational self-interest, the
primacy of freedom over equality, a minimal state role in the economy, and marginalization of labor by powerful businesses.\textsuperscript{17}

A consideration of this particular typology of capitalist variants is an especially useful frame of reference for assessing the emerging new capitalist order in post-communist CEE. The typology does not capture the details of, for example, firm or bank organization, or the range of public/private property distributions within capitalist societies. Starting from the common, generic principles of a free market, private ownership of the means of production, and the accumulation of profit, the neo-liberal, statist, and corporatist variants of contemporary capitalism reflect different views of the relative importance of interventionist policies – the involvement of the state and social groups in the economy – and market processes. The neo-liberal, statist and corporatist typology of comparative capitalisms thus emphasizes the differing societal roles played by actors such as states, labor, and employers, and the varying importance each can have in state governance.

State socialism was a society built on the notion of the “dictatorship” of labor. This ideological framework led to large-scale nationalization of property, the liquidation of markets, the elimination of private employers and political opposition, and the pervasive presence of the party-state in the economy and all spheres of social life, through the mechanism of central planning. With the collapse of state socialist regimes, the underlying, path-dependent question of transition – the importance of which has been somewhat underestimated in the specialized literature\textsuperscript{18} – was not about the particular type of democracy, privatization, or markets, but about the particular roles and relative importance of the state, labor, and private employers in the emerging capitalist order.

The post-communist variant of capitalism grew out of the uncertainties of the transition away from state socialism as a dynamic, contradictory hybrid. It incorporated important traits of the neo-liberal (U.S., British), statist (Japanese), and social market (German and Western European) variants. Despite its hybrid nature, emerging post-communist capitalism has developed its own distinct identity, at least thus far in its development.\textsuperscript{19} At its heart is the social market, corporatist model.\textsuperscript{20} The post-communist corporatist arrangements of 1990-1994, however, were not a deliberate attempt of domestic elites to implement the west European model, even though a “return to Europe” may have become a vision for the future.
Social dialogue forums and post-communist corporatism developed as a domestic response of the society at large to the uncertainties of transformation. They were prompted foremost by the internal logic of transition – its numerous contradictions and uncertainties, which increased the need to maintain social peace. These forums performed the vital function of defusing explosive tensions and preventing mass social eruptions in the difficult years of rapidly falling living standards that followed the neo-liberal reforms. As such, they served – rather quietly – as the basis for successful political democratization and economic restructuring. They laid the foundations for building the new capitalist order with a minimum of social unrest and social costs.21

This vital political role has been overlooked or underestimated by some observers because they have viewed these forums in western European corporatist terms, that is, as bodies concerned mainly with economic issues such as maintaining low inflation and relatively secure employment through wage restraints.22 The corporatism in Spain’s political democratization process of the late 1970s was subject to much the same misinterpretation.23 In both cases, the corporatist arrangements were not an imitation of the western European model, but a comprehensive attempt to cope with the uncertainties of a major economic and regime change.

Meanwhile, the political benefits and strategic security gained by admitting much poorer countries as its members have given the EU a powerful motive to expand eastward. Strengthening liberal democracy, European unity, security for the region, and trading opportunities with the East would greatly enhance the EU’s relative position on the world stage. It is therefore not surprising that policies and criteria for inducting post-communist countries into the EU were formulated by 1993. The conjoining of post-communist Europe’s future with that of the EU was further assured when, in December 1997, the EU decided to open accession negotiations with Poland, Hungary, the Czech Republic, Slovenia, and Estonia, and to allow five more countries of the former Soviet bloc – Bulgaria, Romania, Slovakia, Latvia, and Lithuania – to follow close behind, in a second wave.

The EU’s evolving commitment to expand eastward marked the start of a second phase in the transformation of the post-communist countries of CEE. In that phase – which is hardly separable from the first one – the difficult effort to fulfill requirements for admission to the EU has been added to the post-communist countries’ unfinished struggle to extricate themselves from state socialism. The challenge is enormous, as these countries must bring their still fragile liberal markets into close
alignment and competition with the advanced economies of western Europe. If accession of all ten applicants occurred with no preparatory adjustments, it would boost the EU's population by a third, to 480 million, but the increase in the EU's gross domestic product would be a mere 5%. Although the five nations first in the lineup are much richer than the second five, even their per capita income is barely a third of the EU average, and agriculture plays a much greater role in their economies, especially Poland's, which has more dairy farmers than the 15 EU countries put together. Given the EU's rules of admission, which assign most of the burden of enlargement to the domestic actors and institutions of the applicant countries, the post-communist states obviously must continue to use their transformative institutions and mechanisms.

But more importantly, the accelerated accession process unquestionably clarified the focus of unfinished transitions in the region. Following four years of "undecided" transition with uncertain outcomes, by 1994 these countries had a plan that gave definite form to their capitalist future: a "return to Europe," through integration into the EU's economic and political structures. By beginning to harmonize their laws with the EU's common law, acquis communautaire – a complex set of rules ranging from minimum social and environmental standards to the single market – the ten EU applicant countries are already building a capitalist society that is acquiring the basic features of the west European social market model, with social dialogue as its cornerstone.

On the Road to Europe

In a globalized world with increased regional integration, accession to the structures of the European Union had become the second leg of CEE's return to capitalism, as necessary as the first one – domestic political, economic, and social restructuring. Not until 1993, however, did the European Union commit itself to eastward expansion, and not until 1997–98 did it formulate clear accession strategies with enough financial support to enable the post-communist countries to adopt the desired model of capitalism. The Europe agreements (1991–94), the Copenhagen accession criteria (1993), the Commission's Agenda 2000, and the explicit decision of the EU to expand eastward (1997), as well as the formal launch of accession negotiations and the elaboration of a reinforced pre-accession strategy (1998), were major steps in the EU accession process that established a legal and institutional relationship, raised accession as a primary objective, and formulated a strategy for its accomplishment.
They were milestones in the hesitant, gradual move toward greater commitments by the EU to the East, and they have given accession a steadily increasing influence on domestic restructuring.26

The first step: multilateral financial assistance

The West’s first response to the revolutions in the East was broad, coordinated support. Significant resources were mobilized by the establishment of the G24 coordination process in 1989; the creation of the European Bank for Reconstruction and Development and the PHARE grant program specifically to serve the region; increasing loans to the region by the International Monetary Fund, the World Bank (International Bank for Reconstruction and Development) and the European Investment Bank; and the establishment of significant bilateral aid programs in the U.S., Germany, the U.K., and France. The largest pure grant donor has been the EU, mainly through its PHARE program. The aim of the Program was to lay the foundations of the market economy by encouraging structural adjustment and economic reform. In total, the EU and its member states have provided slightly over ECU 46 billion, or 53% of the total G24 assistance; the non-European G24, ECU 18.8 billion, or roughly 22%; and the international financial organizations (including the EBRD), ECU 21.4 billion, or 25%.27

Foreign financial aid, however, while viewed as crucial for the adjustment periods, has proven marginal to the needs of the transition process. Whereas the U.S. transferred 1.3% of its GNP to western Europe between 1948 and 1952, western annual aid commitments to CEE (excluding East Germany and the former U.S.S.R.) amounted to only $20–25 billion in 1991 and 1992, or under 0.3% of the EC’s annual GDP. As Bideleux wrote, “Compared to Eastern Europe’s external financing needs or the $70–90 billion annual transfer payments from Western to Eastern Germany or the $500 billion that the Group of Seven (G–7) leading industrial countries spent on defense in 1990, Western aid commitments to Eastern Europe were niggardly.”28 Moreover, while 80% of Marshall Aid had been in the form of non-repayable grants, most of western aid to CEE in the early 1990s took the form of loans. A total of ECU 86 billion was donated to the countries of CEE in the six years 1990–95, of which only 29.4% was in grant form.29 Western aid also took the form of trade credits and guarantees to western firms aimed at promoting western exports to the region, which retarded economic recovery and the development of private enterprise by driving many eastern producers of similar products out of business.30
Establishing a legal and institutional relationship: The Europe Agreements

An important breakthrough in relations between the two parts of Europe was initiated with the signing of the so-called "Association" or "Europe" agreements, between December 1991 and spring 1993. The association agreements introduced bilateral cooperation with the Union, and had both political and economic dimensions. They were designed to maintain the newly founded liberal democracies in post-communist Europe based on the rule of law, human rights and fundamental freedoms, and a multi-party system involving free and democratic relations. The agreements were also designed to assist economic restructuring – to reaffirm the commitment of these countries to the principles of the market economy and social justice as the basis for association, and to make their economies competitive with the western European economies.

While the Europe agreements became an important anchor for the consolidation of democracy in CEE, in terms of pure economic and trade content they seem to have been designed to restrict the access of the countries of CEE to key western markets rather than to integrate them. The agreements were intended to establish a free trade area on an asymmetric basis, with faster import liberalization on the European Community (EC) side than on the CEE side. The EC had to abolish all quantitative restrictions and customs duties on products coming from these countries. The degree of market opening in sensitive sectors such as textiles, iron, steel, coal, and agriculture – which provided the bulk of the East's exports to the EC – was limited, however. For these sectors, the EU imposed "safeguards," "anti-dumping" provisions, and import restrictions. Three factors contributing to the EC's half-heartedness on free trade were the deep recession it was experiencing at the end of 1991, the problem of the Treaty on European Union (or the Maastricht Treaty, intended to launch economic and monetary union and the European single currency, the Euro), and the general reluctance of the West to render financial aid to the former Soviet bloc countries after the fall of the Iron Curtain.

As surely as the Europe agreements were not meant to regulate accession, they had no distinct dimension broadly prescribing the European social model of capitalism. Social issues were sporadically included in the chapters on the free movement of workers, the approximation of laws, and economic cooperation. They concentrated on three broad areas: health and safety, employment, and social security. In particular, the agreements envisaged improving the level of protection of worker health and safety, taking as a reference the level of protection existing in the EC; upgrading job-finding and career-advice
services; and adapting the social security systems of the candidate countries to the new economic and social situation. The Europe agreements also placed considerable emphasis on cooperation in education and training. Although the workforce in CEE had a high level of vocational qualifications, additional training was deemed necessary in information and communication technologies, modern production techniques, and market economies.

The Europe agreements explicitly recognized the economic and social disparities between the EC and CEE and stated that support would be provided for coping with the social consequences of the reform process. They made no reference, however, to social dialogue, even in the chapter on social cooperation. The regulation of a tripartite institution enabling the social partners to codetermine the path to democracy would have brought them closer to the European social model and would have allowed them to participate in the creation of the European Social Space – a goal continuously emphasized by the western European social partners.

The absence of any commitment to accession in the agreements and the EC’s clear intent to impose protectionist policies have irritated, confused, and discouraged the applicants, and also reduced the credibility of the reformers in all the countries, especially Hungary and Poland. Nonetheless, in general, policymakers and the public in the countries of CEE heralded the association agreements as an act of high politics, “a dictate of the times,” and a political acknowledgment of the end of the Cold War. The agreements facilitated the consolidation of democracy and trade liberalization, and had important repercussions for the establishment and functioning of the market economy. Through the provisions on competition policy, control of state aid, protection of intellectual property, movement of workers and capital, and trade in services, the EC encouraged the countries of CEE to implement rules that are essential for the functioning of the market economy. Even though the Europe agreements skirted the question of accession, they have provided a blueprint for the main elements of a business environment similar to that within the Union, with positive effects on investment and growth.

The objective of enlargement: accession criteria and pre-accession strategy

Within a few years, the progress of reforms in the East and enhanced integration among the EU countries reduced the tension between the EU’s security interests and its economic concerns. The Europe agreements were supplemented by a commitment to eastward expansion. The latter was manifest
in the Copenhagen Council decisions of June 1993, which stated that the Europe Agreement countries could become members of an enlarged EU as soon as they fulfilled certain general criteria for accession.

Article 237 of the founding Treaty of Rome (1957), creating the European Economic Community, and Article O of the Maastricht Treaty specify that “any European State may apply to become a member.” In April 1978, with an eye to the EU’s southern expansion (which would take place in the 1980s), the European Council added some conditions. It declared that “respect for and maintenance of representative democracy and human rights in each Member State are essential elements of membership in the European Communities.” For Greece, Spain, and Portugal, however, which were undergoing democratization, specific membership requirements were not spelled out. A long negotiation period allowed the Community time to ensure that democracy was being consolidated in those three states. In the 1995 enlargement, all three new entrants (Austria, Finland, and Sweden) were democratic countries and respected human rights, and again there were no specific accession criteria.

Given the conditions in the countries of CEE, the EU set three main criteria for beginning accession talks with them: stable political institutions guaranteeing democracy, the rule of law, human rights, and the protection of minorities; a functioning market economy that can withstand competitive pressure from other EU countries; and the ability to take on the obligations of membership, including adherence to the aims of political, economic, and monetary union, implementation of the EU’s common law or acquis communitaire, and administrative and judicial capacity.

Although the Copenhagen summit made important commitments to enlargement, the three main conditions for membership were extremely broad, did not provide any clear timetable for accession, and were subject to varying interpretation. The EU did not clearly define the factors that had to be taken into consideration when judging whether or not an associate fulfilled the democracy and economic conditions. Moreover, the macroeconomic criteria have not yet been fully met by all current EU member states, a fact that has spurred debates. The third criterion – the obligations of membership – was also open to interpretation, given the fact that new members have never taken on the full acquis at the time of their admittance, and many waivers have been granted to old member states at various times. The U.K. was even allowed to opt out of the Social Charter. Moreover, the acquis has expanded considerably over time, to include such crucial issues as the single market, the common foreign and security policy, economic and monetary union, and justice and home affairs.
The accession criteria were silent about the interplay between, on the one hand, economic and political factors, and, on the other, cultural and social factors, including employment issues. As the latter form the basis of the European social model and point to a distinct European identity, their absence from the Copenhagen criteria did not work directly in favor of adherence to the European model of capitalism. Social market issues, such as a social security system, were included in the economic acquis, as part of a “functioning market economy.” However, as V. Curzon Price concludes after thoroughly evaluating the economic criteria for accession, in the economic sphere “the EU is quite clearly trying to impose its particular model of the economy” and “life-style” in the name of Community “homogeneity,” the sacred bonding which is supposed to keep the Community pure. The economic acquis increase the level of regulation of business considerably, as other researchers also note, thus definitely “blueprinting” the European social market model of capitalism to the region as early as 1993.

It is another question, though, to what extent the CEE applicants – with levels of economic development which barely rise above 20 percent of the EU average – are ready and can afford to introduce new levels of taxation and regulation, in order to equalize standards with the West. And, as Curzon Price further argues, it is still another question to what extent trade protectionism is hidden behind absurdly high and costly levels of accession criteria and acquis that have to be transposed into domestic legislation before accession.

The Essen European Council in December 1994 formally launched a so-called pre-accession strategy, addressing four major issues of accession: (1) how to implement the structured dialogue; (2) how to accelerate economic growth in CEE; (3) how to help the countries of CEE adopt the acquis communitaire; and (4) how to change existing Community policies to make accession possible. However, the credibility of the Community’s commitment to accession was still compromised by remaining protectionist barriers in trade, agriculture, and other sensitive sectors, as well as by the lack of any clear timetable for accession.

Embracing enlargement: Agenda 2000, the reinforced pre-accession strategy, and financial assistance

Responding to the Copenhagen and Essen initiatives, ten countries of CEE applied for EU membership between 1994 and 1996. The EC’s blueprint for enlargement, “Agenda 2000,” and the
Commission’s opinions (avis) of the ten CEE applicants for EU membership, issued in July 1997, further paved the way for the accession of CEE to the EU.

Of the ten CEE applicants, the Czech Republic, Estonia, Hungary, Poland, and Slovenia were regarded as capable of meeting the accession criteria in the mid-term, while Bulgaria, Latvia, Lithuania, Romania, and Slovakia were not. The Commission hence recommended that the eastward enlargement be conducted in two waves: accession negotiations would begin in spring 1998 for five east European countries – Poland, Hungary, the Czech Republic, Slovenia, and Estonia; and the remaining five countries were to follow at some unspecified date. Bulgaria, Latvia, Lithuania, and Romania were assigned to the second wave on the grounds of insufficient economic progress, and Slovakia because of its poor human rights record.

The future of post-communist CEE was finally tied to that of the EU with the formal decision of the Luxembourg European Council in December 1997 to open accession negotiations with the five first-wave nations and to allow the other five to follow close behind. Some pessimists saw danger in the potential creation of new divisions through this EU enlargement. In an attempt to soften the impact of accession and differentiation, the Commission has drawn up contracts for EU membership known as “accession partnerships,” which propose further strengthening the pre-accession strategy for each applicant country, whatever stage it has reached in the transition process. The agreements are structured the same way for all applicants, irrespective of whether they are in negotiations.

The reinforced pre-accession strategy has two main objectives. The first is to channel some portion of financial assistance funds from all available sources – that is, from PHARE and international financial institutions – into the implementation of national programs to prepare the applicant nations to meet the requirements for membership. Among the objectives and necessary commitments are reinforcement of democracy and the rule of law; protection of minorities; macroeconomic stabilization; enhancement of institutional and administrative capacity; preparation for full participation in the internal market; attention to justice and home affairs, agriculture, the environment, transport, employment, and social affairs; adjustment, as necessary, of regional policy and cohesion; adherence to nuclear safety guidelines; and the adoption of the acquis communautaire within a precise timetable, focusing on the priority areas identified in each opinion. The second broad aim of the strategy is to familiarize the applicants with EU policies and procedures by inviting them to participate in Community programs.
The reinforced pre-accession strategy marked an important breakthrough in the accession process because it also focused on the social dimension of accession. As a medium-term goal, the partnerships emphasized such elements of accession as the development of employment and social policies in harmony with the European social model, further development of active, autonomous social dialogue, and further development of social protection.34

Actually, under the PHARE “Social Dialogue” Project, the EU was helping the social partners since the early 1990s to reform, strengthen, and extend the structures and processes of social dialogue at various levels. The Project aimed at professionalizing the structures of the social partners in order to ensure the adequate functioning of social dialogue; developing an arbitration and conciliation service and strengthening the structures and processes of the industrial court; and establishing an information and resource base to meet the social partners’ needs. A major emphasis was put on training the trainers, with expert assistance from western Europe. Arrangements were made for representatives of the social partners and governments in both western and eastern Europe to visit one another. The study trips were expected to engender twinning arrangements. A series of policy seminars was also organized.

To develop social dialogue at branch and regional levels, training became the crucial element of the project. Different courses were set up at different levels, covering the major areas of skill the social partners needed, such as the structure of the market economy and industrial relations, labor and social welfare legislation, privatization and employment contracts, negotiation skills, development of a local economy, employer and trade union structures and organizations, conflict management, and general technical skills for use at the base organization. The “Social Dialogue” project within the EU’s PHARE program has thus significantly strengthened corporatist institutions in post-communist Europe. It points to the EU’s political commitment to create socially embedded markets.

The accession partnerships now serve to mobilize all available resources to prepare the applicant countries for accession. Financial aid comes in part from a renewed PHARE program, the European Investment Bank, and the European Bank for Reconstruction and Development, as well as from international financial institutions and foreign direct investments.

Initially PHARE was concerned with helping countries through the economic and political transformation process, and in this respect the program has been a success. On the recipients’ side, so far Poland has received 35% of total PHARE assistance; Hungary, 14.7%; the Czech and Slovak republics
12.9%; Romania, 9.5%; Bulgaria, 4.6%; the three Baltic countries together, 5%; and Albania, 2.35. The allocation pattern is determined by many factors including geography, and the smaller countries have tended to receive proportionately more than the larger countries. In terms of the sectoral distribution of commitments, the countries of CEE have received much more financial assistance to carry out economic reforms than to satisfy the political or social restructuring requirements for accession. Up to 1997, the largest share of PHARE financing went toward infrastructure development (22.1%), reflecting the large shift toward investment in 1993–96. The second-largest share has gone to private sector development (18.3%). Education, training, and research have claimed the third largest sectoral allocation (14.9%). Agricultural reform (5.7%), and the environment and nuclear safety (5.5%) were among the early priorities of the program. Through its Democracy Program, PHARE has also helped to build institutions and civil society in the countries of CEE, but the amount has been relatively small: only 0.4% of total PHARE assistance to CEE.36

Since 1997 the PHARE program has adapted to changing circumstances in its partner countries and has changed from a “demand-driven” program (based on projects introduced by the candidate countries in a wide range of areas) to an “accession-driven” program (concentrating on the priority needs of these countries related to EU accession, as they are formulated in the respective accession partnership agreements). PHARE is now focusing its efforts on helping the ten candidate countries meet EU membership requirements. With the reinforced pre-accession strategy, the Commission also attached strict conditions to its financial support: financial aid depends now on each country’s success in meeting the objectives set out in the partnership agreements, as evaluated annually by the Commission.

PHARE’s main priority has become institution building (30% of its allocation), to help the countries of CEE strengthen their democratic institutions and public administrations. These activities will enable national and regional administrations to familiarize themselves with the objectives and procedures of the EU and to participate in EU programs such as Leonardo, Socrates, and Media. PHARE will use the remaining 70% of its resources to finance investments aimed at helping candidate countries improve their enterprises and infrastructures, especially those vital to meeting the requirements of the single market. PHARE is expected to concentrate investments in areas in which the acquis is more and more demanding, such as the environment, transport, product quality, and working conditions. In addition, PHARE will participate in the financing and co-financing of large infrastructural projects, such
as the Trans European Networks, environmental protection, the modernization of industry, and regional cooperation.

Overall, from its establishment in 1990 to the end of 1997, PHARE committed funds totaling Euro 7,756.1 million, and total contracts signed were worth Euro 5,437.3 million, while the total paid out was Euro 4,546.4 million. By the year 2000 the EU’s annual assistance to the ten countries of CEE will be ECU 3.2 billion, about double the rate as of October 1997, and the total amount of aid to the new member states for the period 2000–06 will be around ECU 53.8 billion. Starting in 2000, finance will also be available from the EU structural funds, mainly for infrastructure projects, in the fields of environment and transport. Significant further investments will be needed however by governments and the private sector alike if the infrastructure and industry in the ten candidate countries are to be brought up to EU standards.

For those countries not in the first wave of EU enlargement, the European Commission announced the creation of a special Catch-up Facility, to help them overcome their specific problems and join the negotiations as soon as possible, underlining in this way the inclusive nature of the EU enlargement process. The five countries were offered benefits of ECU 100 million over a two-year period, 1998–99, which is above the already established allocations under the PHARE program, to help them address three priority areas – the fight against corruption, completion of the privatization process, and promotion of foreign direct investments through creation of an investment- and business-friendly legal climate and the provision of risk guarantees.

The EU’s Copenhagen accession criteria of 1993 and accession partnership agreements from the summer of 1998 have become a benchmark not only for the states in CEE but also for other international institutions and corporate investors with long-term interests in the region. In view of the limited resources available from PHARE, the EU envisaged close cooperation with the European Investment Bank, the European Bank for Reconstruction and Development, and the World Bank. In October 1997, the EU set up a joint working group to determine how the four institutions can best coordinate their interventions in the candidate countries. A Memorandum of Understanding spelling out the modus operandi among these institutions was signed in March 1998. And the World Bank had already held discussions with most of the candidate countries to determine what type of assistance would best help them meet membership requirements.
Harmonization and differentiation: the accession negotiations

The accession partnerships became the key feature of the accession process when it was launched on March 30, 1998, in Brussels. Because none of the applicant countries had fulfilled all membership conditions, the Commission decided further to draw up annual reports on each country's progress in meeting the partnership objectives, or, in the case of the five slower-track countries, to assess their readiness to begin accession negotiations. These annual reports, the first of which was released in November 1998, and the second in October 1999, commit both sides to action: the EU to providing assistance, and applicants to implementing changes.

The first phase of negotiations, the so-called screening exercise, designed to review finance and budget issues and determine how far the applicant countries comply with the EU acquis, is expected to run to December 1999. The most difficult and controversial issues during accession negotiations are the single market acquis, which concerns agriculture, state aids, the environment, the free movement of people, and the structural funds.

In October 1999, together with its second annual reports on progress towards accession by each of the candidate countries, the Commission announced a radically new approach to the process of eastward enlargement. At its core is the decision to recommend the start of negotiations with the second group of applicants, on the basis of their meeting only the political criteria for accession. Thus the EU will no longer distinguish between first-wave and second-class candidates. In order to balance speed of accession and quality of preparation, the EU embraced a principle called “differentiation”: in the new negotiations that will open in early 2000, each country will progress towards meeting membership requirements at its own individual pace. In order to ensure that the negotiations proceed in parallel with the candidates' progress in preparing for membership, the EU will discontinue the practice of opening an equal number of chapters (from a total of 31) for all candidates. The accession process has been broadened to include accomplishment of the screening exercise and setting priorities for the candidate countries, providing them with financial aid and expert assistance, involving them in Community programs and agencies, and closely monitoring their progress toward meeting the membership requirements.
As part of the measures for fostering economic integration for the “construction of Europe,” the Commission has outlined in its October 1999 Composite Paper on Progress Towards Accession that the candidate countries need to continue targeted reform of the existing regulatory environment, “including through close contacts with the business community and enhanced social dialogue.” The Commission has further strengthened its blueprint on the implementation of a European social market model through the emphasis it put on candidates stepping up their efforts in the area of the social acquis and particularly in the development of social dialogue, “in view of the negative consequences” the slow pace of social reform “could have for social cohesion.”

The fast-track applicants for accession to the EU have already set up an ambitious target of 2002 for full EU membership readiness. The EU has also set the year 2000 as a target date to accomplish its institutional reform in order to absorb smoothly new members. Given the history of previous EU expansions that admitted poorer countries and countries coping with political democratization, however, the accession timetable for CEE might turn into a much lengthier one. In the case of Spain and Portugal, for example, accession only took place ten years after emergence from dictatorship. The countries of CEE have to surmount high domestic hurdles to reach their goal of becoming full EU members, including the achievement of large-scale economic, political, and social transformation.

The Conditionality of Accession: A Reinforced Corporatism?

Just as corporatism performed a vital function in the early months of the post-communist transition, helping countries cope with uncertainties and successfully carry out their political and economic transformation, it may play an important role in the socially painful adjustment to EU accession. Corporatist institutions and arrangements – which in many countries decreased in importance with the advancement of the transformation – may, as a result, gain strength. But more importantly, as the previous section demonstrated, the maintenance of such arrangements is already a precondition for EU entry, thus accomplishing the EU’s comprehensive design of a pro-European social market capitalism in the post-communist region.

Countries with greater commitments to neo-liberalism and a free market economy, however, such as the Czech Republic, the Baltic states, and Slovenia, as well as prominent CEE neo-liberals such as Poland’s Leszek Balcerowicz and the Freedom Union, have been slightly more reserved toward the
In their public debates on accession, they have raised some concerns about the European "social model" and the social-democratic elements of its policies. In this regard the EU social legislation, namely the European Social Charter, has sparked most debates.

The Czech Republic did not ratify the Social Charter until early 1999. Twice, the European Commission criticized the Czech Republic for its apparent reluctance to sign: in a 1997 report on the progress made by the Czech Republic in preparing for EU membership, and in the Commission's regular report in 1998. Debates in the Czech Chamber of Deputies and the Senate indicated that the Charter was supported by the ruling Social Democrats (CSSD) but not by right-wing parties such as the Civic Democratic Party (ODS) of former premier Vaclav Klaus.

In Poland, Balcerowicz has opposed the "unclear and weak conditionality" which the EU is "trying to impose on the region," meaning not only that the West protects its markets from competition from CEE firms in sensitive sectors, encouraging them to do the same. He is mostly concerned by "the equalizing of social security standards between East and West," and the increasing importance that the EU attaches to the social side of integration.

The persistent eagerness of the CEE governments to qualify as quickly as possible (preferably by the year 2002) for EU membership, despite the high economic costs, social hardships, and varying degrees of domestic commitment to the social market model, is an indicator that the CEE countries are supplanting their unfinished capitalist design with "capitalism by EU design." The difficulty with this project however comes from a dual challenge. On the one hand, the EU's 80,000 pages of acquis that broadly prescribe the European social market model are a moving target. It has recently expanded to such an extent that Timothy Garton Ash has characterized its potential full implementation into CEE domestic legislation as a "Sisyphean effort."

On the other hand, the European social market model as practiced in most of continental western Europe, is also a moving target, as EU member states are earnestly searching for "Social Europe's" vitally needed adjustments to the pressures of global neo-liberalism. From the early 1980s, the rise of neo-liberalism and the decline of Keynesian economic policies led to a decade of "decentralization," "flexibilization," and "segmentation and fragmentation," or, in more general terms, "reorganization" and "transformation" of western European corporatism. In the 1990s, western European corporatism resurfaced as a means of adjustment to global pressures for more flexible markets and production
patterns. Further pressure for structural readjustment of the western European model has accompanied the move toward economic and monetary union (EMU). The primary “growth potential” for European corporatism thus lies in the efforts of national governments to comply with EU directives, meet product and professional standards, and satisfy the convergence criteria for EMU.50

To fully join Europe, the CEE applicants have to link the restructuring of their social and employment sectors with the European social model and also with EU social and employment reforms that are currently underway. The double task that the European governments face now is to reform the model and to adjust social policies across Europe in such a way that they can boost employment without removing the generous safety nets, financed by social welfare spending that in 1997 claimed an average of 28% of GDP in EU member countries.51 Toward this end, in December 1998 Germany and France – the most powerful member states of the EU – urged strengthening and harmonization of the “European Social Model.”

The applicant countries have thus to take into consideration not only the existing acquis in the social sphere, especially the Social Charter, but also the new European social and employment strategy that emerged as a response to the rise of neo-liberalism on the global scene. The strategy looks at a technology-led workplace and skills revolution as essential to economic success, and involves raising productivity and increasing workforce flexibility.52 The applicant countries’ restructuring of their social and employment policies has to conform to the four pillars of the EU Employment Strategy – employability, adaptability, entrepreneurship, and equal opportunities.53 The governments of the applicant countries share with their western European counterparts the challenge, against a backdrop of two-digit unemployment rates, of creating the economic conditions for new jobs while, at the same time, building the support benefit systems that have formed the backbone of Social Europe for several decades.

The Acquis Communautaire

The full adoption and implementation of the acquis communautaire by CEE applicants, as a precondition for entry, leaves little variation in continuing domestic restructuring, other than the promotion of “capitalism by EU design.” The acquis however – even with the granting of some derogations and transition periods to the applicants – is perhaps the greatest challenge for CEE countries and it is unclear when they can actually transpose and implement it.
The **acquis**, especially the economic **acquis**, is a far greater challenge than it has been in earlier enlargements of the EU. The EU rules were designed for rich social democracies with extensive social security systems and are unlikely to be appropriate for rapidly growing but poor countries of CEE. In the 1995 enlargement, the new members, as participants in the European Economic Area with highly developed economies, had already taken on large parts of the **acquis**. Such is not the case for the new applicants. Moreover, Community legislation has expanded considerably in recent years; new obligations have arisen regarding the single market, common foreign and security policy, EMU, and justice and home affairs. The applicant countries have to transpose into their national legislation thousands of laws. 20,000 measures are pursuant to the EU **acquis communautaire**. Of these 20,000, over 1,290 were singled out by the European Commission in its 1995 White Paper as being of crucial importance in regulating the single market – the economic backbone of the EU.54

In terms of the economic **acquis**, the applicants have made remarkable progress in transforming their economies. They have embraced privatization, deregulation, and open markets with a vigor that provokes envy among some EU member states. Poland has cultivated one of the fastest-growing economies in Europe, and Estonia has one of the world’s most open trading regimes. The European Commission’s autumn 1997 economic forecast predicted further acceleration of GDP growth in 1999 to 4.5% in the applicant countries, on average. In 1998 economic growth rates in CEE remained higher than in the EU, averaging around 3%, with annual GDP growth in Estonia, Latvia, Lithuania, Poland, and Slovakia even exceeding 5%. Inflation has dropped and is now under 10% in Slovenia, the Czech republic, Slovakia, Latvia, Lithuania, and Poland.55

The Commission’s **avis** made clear, however, that none of the ten applicant countries, as of 1997, had fully met the economic criteria for accession – a functioning market economy and the ability to withstand competitive pressures from the single market. The applicants are still relatively poor, with per capita incomes barely one-third the EU average. Figures for 1993 show a much lower average GNP per capita ratio for these countries than for the EU: Slovenia had 50% of the EU’s average; the Czech Republic, 42%; Estonia, 38%; Hungary, 36%; Slovakia, 34%; Bulgaria, 33%; Poland, 32%; Latvia, 29%; Lithuania, 18%; and Romania, 16%.

This situation seems less striking, however, when previous accessions are considered. For example, Ireland joined in 1973 with a per capita GNP 53% of the EC average; Greece (1981) with 44%;
Spain (1986) with 55%; and Portugal (1986) with 27%.

One must also take existing economic divergence within the EU into consideration. Thus, the disparity in levels of development and modernization in the present EU in 1995 (based on an average of 100) ranged from 67 for Greece and 116 for Denmark. Adding only the fast-track CEE applicants, would increase this disparity from 31 for Poland and 116 for Denmark.

Such disparities raise considerable fears of social dumping. Despite the rapid growth of the post-communist countries, the income disparity between them and existing EU member states will probably take years to eliminate. A study carried out by Baldwin (1994) estimated that with an annual growth rate of 5%, Poland will need 22 years to reach a per capita income level 75% of the EU average; Hungary, 18 years; the Czech Republic, 14 years; Slovenia, 8 years; and Slovakia, 26 years. This relative poverty plus the large proportion of people employed in agriculture – nearly 27% in Poland, compared with an EU average of 5.3% – will pose the greatest difficulties in the accession process.

As a result, in order to avoid the risk of social dumping, the underlying emphasis of the EU in its eastward enlargement has shifted to the restructuring of the applicant countries' social policies and making them compatible with the European social model. Overall, however, as the President of the EBRD recently observed, accession should not be about a convergence in income levels, but rather about convergence in the structure of national economies. Convergence in income levels is expected to come in a post-accession environment.

EU accession, in a normative sense, must trigger above all structural convergence – a growing capability of CEE firms to wage constructive competition in the single market, given their factor endowment and cultural, historical and social specificities. The key question facing the countries of CEE is thus whether they can withstand the rigors of the single market. The EU has become a more competitive economic bloc with the establishment of the single market in 1992. It is now a giant free zone of 372 million consumers that spurs efficiency and international competitiveness, but at the same time threatens to undermine previously protected industries. Even EU countries like Spain, Portugal, and Greece have been given extra time to open up sensitive markets, because they were judged to be too weak to withstand competition from the richer northern member states.

The Europe agreements committed the countries of CEE to adopting competition policies compatible with those of the Community, and this objective was underscored in the 1995 White Paper.
The situation faced by the ten applicants is stark, given the recency of their state-aid-dependent economic policies. Because the legacy of central planning has left a concentrated structure of production, and privatization of state enterprises has often not been accompanied by adequate measures of demonopolization, the introduction of effective anti-trust measures is an urgent priority in these countries.

Demonopolization, however, often clashes with the objectives of various producer interests, which pressure their governments for protectionist measures and other forms of state assistance to enterprises. Researchers have already observed numerous instances in which governments have used the various protective clauses of the agreements. The applicant countries seem to be united in their fear that with the removal of trade barriers, many of their firms whose output was mainly for the domestic market or former Council for Mutual Economic Assistance (CMEA) markets will be unable to survive in an enlarged EU market. Concern focuses particularly on sensitive sectors such as agriculture, textiles, clothing, coal, footwear, steel, and chemicals, which continue to play an important role in the domestic economies of the applicant countries. These sectors tend to be characterized by overproduction at a world level, and EU members are committed to reducing capacities in some of them, notably steel and agriculture. Nor are structural inefficiencies of industries alone in creating important barriers to competitiveness; pressures for wage increases also play a part. Governments in CEE are making concession deals with unions on wage and income increases even as they reduce subsidies to heavy industry and mining, banking on their ability to negotiate with the EU, prior to accession, implicit tradeoffs between restrictions on state aid and receipt of EU transfers from the structural funds.

None of the applicants has yet been able to transpose into national legislation a large proportion of community laws governing the single market. Although the EU has established a 24-staff Technical Assistance Information Exchange Office to guide the applicant countries through the maze of Community law, and Poland has created a special commission with 200 workers studying all rules to ensure the country passes the EU test, as of 1997 less than a fifth of Polish law coincided with EU law. To meet the various obligations required for accession, most of the applicants will have to make significant and far-reaching adaptations in key single market areas, as well as with respect to the environment, energy, agriculture, heavy industry, telecommunications, transport, social affairs, customs administration, and justice and home affairs.
While normative convergence with Europe based primarily on nominal convergence (such as for budgets, exchange and interest rates, and inflation) is potentially guaranteed by the transposition of Union legislation into CEE national law, real convergence – which narrows the dispersion of countries on the scale of economic development – is dependent on the ability of the applicant countries’ administrations to implement and enforce the *acquis*. In the formerly communist countries there is no strong tradition of obeying the law. In state socialist times, the focus was on planning, and legislation was of secondary importance. Putting markets and legislation in the forefront is thus a major shift. It is institutional change that actually promotes real convergence, and it will necessarily take time because there is a lag between adopting new laws and regulations, and their implementation, let alone ensuring their smooth functioning. Accession to the EU will thus probably occur before the CEE applicants can bridge this gap, despite the principal requirement of the adoption of the entire *acquis* upon accession. Both institutions and citizens of the applicant countries will need time to reinforce their administrative and judicial capacity for the adoption, implementation, and enforcement of the *acquis* and for the efficient use of financial support, in particular from the EU structural funds.

**Economic and Monetary Union**

Participation in EMU is not required of the EU applicant countries of CEE. In the original negotiations leading to the Treaty on European Union (the Maastricht Treaty), Britain and Denmark obtained the right to stay out of the monetary union if they so wished. Sweden was granted the option of staying out of the monetary union after its accession to the EU. However, in applying for membership, the countries of CEE accepted the objectives of the Treaty, including political, economic, and monetary union. Hence, the Maastricht criteria, given their connection with the ultimate objective of economic and monetary union, cannot be ignored.

The process of European monetary integration, or deepening of the processes of integration to including the establishment of a single European currency (the Euro), is unprecedented in European history. Western European economic and monetary integration was required primarily by growing internationalization and globalization of markets, including dramatic new factors such as increasingly competitive Japanese export industries. A turning point was reached in 1985, when the 12 member states of the European Community reached an agreement (the Single European Act, ratified in 1987) to remove
all barriers to free exchange of goods, services, capital, and people by 1992 – creating an internal market that would make Europe the largest single economy in the world, stimulate renewed economic growth, and provide new opportunities for European firms to restructure, rationalize, and compete in world markets.63

To complete the single market and fully explore its benefits, the member states needed to introduce economic and monetary union (EMU). The Delors Report (1989) recommended EMU in three stages,64 moving from closer economic and monetary coordination to a single currency and the European Central Bank. The Maastricht European Council in December 1991 decided that by the end of this century, Europe would have a single currency. The Treaty on European Union provided a sound and clearly defined foundation for economic and monetary union.65 The Maastricht convergence criteria66 were introduced in an attempt to ensure that the constraints on policy implied by EMU are acceptable to the country concerned. Their aim is to avoid destabilizing EMU by the premature admission of countries whose underlying economic performance is not yet compatible with permanently fixed exchange rates.

It is unlikely that the objectives and rules of EMU will be modified for the new members from CEE. If EMU proceeds according to the timetable set out in the Maastricht Treaty, most probably the fast-track countries will join in Stage III and Phase 3 (to start in January 2002). By that time, new member states will have to have adopted the acquis of Stage II of EMU. Even as non-participating countries during Stage III, those countries will be obliged to follow rules relating to fiscal discipline, liberalization of capital movements, and the coordination of economic policy. Hence, compared with EU membership, EMU can guarantee quicker convergence with western European capitalism.

Notwithstanding the greater challenge of EMU, with its establishment Europe becomes even more attractive to the applicant countries. Some of the “fast track” countries already aspire to simultaneously join the EU and EMU. For example, Slovenian Prime Minister Janez Drnovsek said at the Luxembourg summit on December 13, 1997 that Slovenia already meets the fiscal criteria for joining the EMU and that 70% of its trade is with the EU. Similarly, Estonian Foreign Minister Toomas Hendrik Ilves commented that Tallinn will be ready for the EMU by the time it joins the Union. According to Ilves, Estonia already meets “nearly all criteria” for joining the EMU, except the one on inflation.67

Despite enthusiasm for EMU, the applicants are quite far from meeting the convergence criteria of monetary union, and the policy mix required to achieve the fiscal and monetary criteria for EMU
would likely slow down economic growth in the transition economies, and thus prolong the reform
process required for accession. EMU also seems to represent a direct challenge to social restructuring
in CEE. The need to reduce inflation under the Maastricht criteria will impose large costs on output and
employment. Progress toward meeting the standards of a social Europe, the importance of which has
been repeatedly stressed by the European Parliament, may well be set back by EMU. The Euro–11's
recent experience suggests how serious may be the difficulties faced by the countries of CEE in
implementing EMU criteria. If France, Italy, and Germany can suffer major strikes in reaction to EMU,
certainly the same or worse can happen in the applicant countries. Moreover, the fundamentals, let alone
the particulars, of the target model/acquis that the countries of CEE are supposed to converge to, are not
clear. It is yet to be decided whether monetary union should be accompanied by more regional transfers,
as the vision of social Europe would imply, or, conversely, whether the fiscal criteria will cause a
decrease in aid, thus putting the burden of adjustment on national labor markets and wages.

Given the largely anticipated constraining effects of EMU during the adjustment periods, it is
becoming more and more clear that adherence to the aims of economic and monetary union will also
require widespread national consensus favoring low inflation and exchange rate stability against the
policy objectives of low unemployment and protection of domestic producers. Not only policy-makers,
but also the public at large must be convinced of the necessity of the painful adjustment periods before
accession to the EU. Events in western Europe have demonstrated the efficacy of newly invigorated
corporatist institutions in helping to meet the EMU criteria. CEE has yet to demonstrate the resiliency of
its transformative institutions.

Conclusions

With the Commission's release of its "opinions" on the ten CEE applicants for EU membership
in July 1997, together with its blueprint for the next century, Agenda 2000, EU members and EU
candidates have embarked on a new and more challenging future. The road to EU accession is open to
the countries of CEE, but they can travel its length only if they complete difficult processes of
transformation. The integration process that started in the early 1990s has thus turned into a fundamental
component of the political, economic, and social transformation in the applicant countries. Much of the
progress so far in CEE's transition has been driven by the prospect of an early eastern enlargement of the
EU. The need to meet the Copenhagen membership criteria and adopt the EU’s *acquis* has helped all central European governments. Not coincidentally, the candidates that are keenest on early EU membership are the ones that have pushed their transitions forward the fastest.

With the EU’s eastward expansion and the EMU project, curtains in Europe are being replaced by open doors as European countries’ economic, political, and social norms and values converge. Among the important elements increasingly knitting the region together is the European social model of capitalism, to which the countries of CEE have decisively subscribed by applying for EU membership.

Embarking on a new and challenging future, the countries of the new Europe have committed themselves to maintain, adjust, and further strengthen Europe’s social model and prevailing corporatist schemes in their global competition with American neo-liberalism and Japanese statism. The move toward EMU has already added pressures for structural readjustments of the European corporatist model. The European social market has to become more flexible in order to reduce anticipated mass unemployment in the era of the Euro. Wolfgang Streeck observes that the Maastricht Treaty charges national governments with creating the domestic conditions for a stable austerity policy and overcoming whatever political resistance may arise. In a number of countries this has led to more or less explicit alliances between the government, business, and labor aimed at “making the country fit for Monetary Union,” “with internationally instituted monetarism bringing about a surprising resurgence of national tripartite concertation.” From this point of view, it seems that the established transformative corporatist structures and mechanisms in the post-communist region after the 1989 historical breakthrough will continue to play a pivotal role in CEE’s “return to Europe,” and will be further strengthened with the shift from “path-” and “transformation-dependent” capitalism to “capitalism by EU design.”
Endnotes:

1 Heather Grabbe, “The Transfer of Policy Models from the EU to Central and Eastern Europe: Europeanization by Design?” Paper presented at the 1999 Meeting of the American Political Science Association, Atlanta, Georgia.


14 BBC Summary of World Broadcasts, 2 October 1993.


18 The existing literature on the post-communist transformations has focused extensively on political democratization and economic restructuring. Most of the mainstream political and economic analyses deal with the simultaneity and “appropriate” sequence of political and economic reforms, paying much less attention to the issues of actors and their new roles. The literature on post-communist industrial relations deals with actors’ restructuring in much greater detail, since industrial relations represent the core arena for actors involved in the production and distribution of wealth. Its analyses, however, offer a narrower, vision of these actors and their new roles, which has produced a confusingly broad variety of arguments – from pure neo-liberalism and pluralism to neo-statism and corporatism, with multiform mixtures.


21 Iankova, “Transformative Corporatism.”


26 The impact on domestic restructuring has even reached a point when some CEE governments have officially complained of the EU’s “dictatorship” and “blackmail” in regard to the insistence on strict implementation of the acquis. See, for example, interview of Bulgarian prime-minister Kostov for Reuters, March 1999; Milada Vachudova, “Partnerstwo dla Przyszlosci,” Unia-Polska, Vol. 1, No. 3 (December 1998), p.3 – in response to “Partnerships or Blackmail?”


29 Alan Mayhew, Recreating Europe, p. 134.

30 Bideleux, op. cit., 232.


32 Alan Mayhew, Recreating Europe, p. 207.

33 Curzon Price, ibid.


35 Mayhew, Recreating Europe, p. 135.


38 European Dialogue, November-December 1997/6, p. 2.


41 Speech by Mr. Romano Prodi, President of the European Commission, on Enlargement. European Parliament, Brussels, 13 October 1999.


45 See in The Economist, 27 October 1999.


The Maastricht Treaty provided for a phased transition to the single currency. Phase 1, in early 1998, included an assessment to determine which countries, based on 1997 data, met the criteria for monetary union, and the appointment of the executive board of the European Central Bank. Phase 2, which started in January 1999, involved reduced intervention in the exchange rate mechanism and development of the institutional mechanisms for EMU. The European System of Central Banks was to be gradually set up to assume control of national monetary policy. Finally, in Stage III, exchange rates were to be permanently fixed by the introduction of a single currency.

The Maastricht Treaty offered five criteria: (1) successful candidates must have inflation rates no more than 1.5% above the average of the three countries with the lowest inflation rate in the Community; (2) long-term interest rates must be no more than 2% above the average of that of the three lowest-inflation countries; (3) the country's exchange rate must, for two years, remain within the "normal" band of the exchange rate mechanism without tension and without initiating depreciation; (4) the public debt of the country must be less than 60% of GDP; and (5) the national budget deficit must be less than 3% of GDP.