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Social Solidarity in East Central Europe: Strong Welfare and Weak Labour?

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have acquired a substantial amount of 'working partners'. This may pose great threats to the future of solidarity at work in the EU.

The principle of subsidiarity which still strongly prevails in the arena of social policy, the lack of a formal European definition of the concepts of social dialogue and industrial relations, the lack of a formal definition of the role of social partners at both national and European level combined with the latest reform of the EES (GJS) to integrate economic and social demands, which we believe has resulted in a further dilution of the employment guidelines as well as of the understanding of the role of social partners, and the latest integration, in the EU, of countries with no real or rather weak traditions of social dialogue, are all elements which have led to create a situation in which the old western social standards are today highly threatened. In this context, the creation of a proper European solidarity might result to be more of a utopic goal than a concrete reality.

Social Solidarity in East Central Europe

Strong Welfare and Weak Labour?

Béla TOMKA

Introduction

The recent accession of several East Central European countries to the European Union was accompanied by an intense discourse on "social dumping" both in scholarship and in the wider public. It was argued that this was "not just another enlargement" since differences between incomes and social standards of the old and new members were much more pronounced than they were in the case of earlier enlargements. Moreover, the number and the population of the new member states in relation to the former members were considerably larger. Concerns were expressed that the new East Central European members would exert pressure on the well-established institutions of social protection in Western Europe, and that these institutions would consequently erode. In addition, these phenomena coincided with other major challenges of the European Union arising from globalization pressures. It was also argued that social dumping would harm East Central European employees' interests in the long run since lower social standards of Western Europe generate demonstration effects and influence levels of social benefits and wages in East Central Europe as well (Kvist 2004; Vaughan-Whitehead 2003; Alber and Standing 2002; Mosley 1995; Erickson and Kuruvilla 1994). Social dumping can be conceptualised as a practice undermining European social cohesion and solidarity.

Although most of the observers agree that, after two years of the accession worst-case scenarios of social dumping have not come to pass, even small changes might have large impact on Europe if they can be instrumentalised in a political debate. There are signs of such influences. The discourse on the "Polish plumber" in France, that is, the real or perceived threat of cheap labour competition from East Central Europe undoubtedly contributed to the failure or deadlock of the European Constitution; nevertheless the extent of the contribution can be a matter of debate. As a result, one can plausibly reason that the fear of East Central European "social dumping" has already had considerable consequences with regard to the process of European integration.

Even though the threat has not fully materialised yet, and a considerable stream in the research makes a point against the plausibility of the concept, we may not downplay the extent of the problem. Although evidences are mostly unsystematic, a long catalogue of relatively clear-cut cases proves the existence of dumping practices. Several of these cases appear in that volume, such as the Vaxholm case or the Viking case, in which companies from the new member states offered their services to former EU members making use of their lower wage levels and social standards. Even more often, however, Western European companies transfer production to East Central European countries since labour costs are considerably lower there.[1]

At the same time, it is necessary to distinguish different forms of dumping practices (Alber and Standing 2000). Dumping might be the consequence of government actions or might take place in markets without any direct government involvement. The first type can be subdivided into social security legislation and regulatory labour legislation. Social security dumping means the reduction of social insurance and related benefits or the shift of the burden of financing from the employers and the state to the employees or other insured persons. The social dumping exerted by regulatory labour legislation refers to the practice that governments cut back non-wage and non-social security labour costs of companies by new legislation or by lazy implementation or enforcement of existing laws.

In this paper we will argue that social dumping originating from East Central Europe can not only take various shapes but the extent or significance and the effects of the different forms could be diverging as well. It is also important to analyse what causes and dynamics the social dumping practices have, that is, whether they are resulting from past tendencies with a decreasing intensity, or the existing differences between East Central Europe and Western Europe are growing in the related areas. The extent, causes, and dynamics of dumping are all crucial because they determine the chances of escaping dumping and the possible strategies to avoid or lessen the consequences.

The significance and possibility of social dumping in different areas, such as social security, regulatory labour legislation and relative wage levels constitute the major interests of the paper along with the prospects of preventing dumping practices. We will consider the experience of four East Central European countries, the Czech Republic, Poland, Slovakia, and Hungary. First, we will analyse the consequences of

1 See relevant contributions to the volume, Niklas Bruun, The Vaxholm case and its "solidarity lessons" from a Swedish and European perspective; Thomas Fetzer, European Works Councils as carriers of European trade union solidarity? The cases of Ford and General Motors.

social dumping that emerge as a result of actions initiated by governments in the above countries. Both social security and labour legislation will be addressed. The next section will deal with dumping practices in markets that might not imply direct state intervention. The fourth part of the paper will elaborate on the possibilities of solidaristic action in East Central Europe followed by a summary of the results.

Dumping as a Consequence of Actions by Governments in East Central Europe

The written works on social dumping are dominated by analyses of social security programmes, regulatory labour legislation, and working conditions in general. The related pieces of research claim that, after the collapse of communism, a quick shift towards the liberal or residual welfare regime took place in East Central Europe resulting in much lower standards of social security than in Western Europe, together with a deterioration of working conditions.

Already at the beginning of the transformation process, most experts predicted the dominance of liberal welfare regimes in East Central Europe in the near future (Esping-Andersen 1996: 1-31; Ferge and Kolberg 1992: 220). These expectations were based on two factors. On the one hand, there was the consideration that international agencies, such as the IMF and the World Bank – preferring liberal welfare policies – might have a large impact on the transformation process, especially in countries with large foreign indebtedness. Those international agencies, first of all the ILO and the EU, that might have been expected to support an anti-retrenchment policy of welfare states, were fairly passive (Götting 1998: 261-284; Deacon 2000: 151). The passivity of the EU in this respect can be considered as remarkable, since it had effective political and economic means to influence the governments in the region (Deacon and Hulse 1997: 60). On the other hand, there was a line of political reasoning among experts, namely that the "most articulate and politically best-organised social forces" give preference to the liberal model (Ferge 1992: 219). Recent researches have also emphasised the shortcomings of East Central European social security systems as a potential source of social dumping (Vaughan-Whitehead 2003: 109-163).

The transition to a market economy deeply affected and challenged the East Central European welfare systems in the early 1990s. Not only did the former practice of guaranteed employment, subsidised prices on basic necessities – major features of communist welfare – diminish, but the basis of a new social security structure compatible with market economy was also shaken. First of all, the social costs of the transition increased demand for welfare services, while the number of contributors significantly decreased as a result of mass unemployment, growing informal economy, and the easy availability of early retirement and disability pension.

In many respects, the development of Hungary can be regarded as symptomatic for other East Central European countries. Here, despite the economic recession – and liberal scenarios – the first years of economic transition did not witness a significant decrease in social expenditures. In relative terms, the spending even increased since the governments introduced costly programs, such as unemployment benefits and new social assistance schemes, in order to meet the social needs created by the emergence of mass unemployment and the rise in poverty. The entitlements for the already existing major social security benefits remained unchanged for several years, though coupled with the erosion of real values (Ferge and Tausz 2002).

At the same time, we can see a significant degree of volatility of the welfare system. The year of 1995 marked a watershed in that respect when – as part of an austerity program – a significant curtailment of social benefits was carried out by the new ex-communist (socialist) government, followed by similar measures in the next years. In the first two years of the new policy course (in 1995 and 1996) the loss in social expenditures totalled to 5% of the GDP – a fall from 29.5% to 24.3% (Lelkes 2000: 94). Both of the two biggest cash welfare schemes – pension and family allowance – were affected by liberal reforms. As to the pension system, the government curtailed social rights in 1995, for example, by raising retirement ages from 55 and 60 years for women and men, respectively, to a uniform 62 years until 2009. The new system was modelled after Chilean and Argentinean precedents favoured by international agencies, such as the IMF and the World Bank, and was made up of three pillars: a basic state pension, a compulsory private pension, and a voluntary private pension. Joining the new pension scheme became compulsory for new entrants of social security, and optional for employees under 47. One fourth of the total contribution of employers and insured persons was scheduled to go to the second pillar, that is, to private pension funds (Janky 2000). In 1995/1997 the universality of family allowance, initiated quite recently, in 1990, was also abolished and a means-test procedure was introduced (Förster and Tóth 1999: 26; Gábos 2000: 107-112).

All the same, there was no consensus about the direction of welfare reforms in the political elites. After the 1998 elections, the new government, usually and falsely labelled as conservative, cancelled most of the liberal measures and reintroduced solidaristic principles and universal entitlements. It revised the pension law and reset the contributions going to private insurance companies to a lower level to ensure more revenues for the public pension fund. The new government reinitiated the universal rights based on citizenship for family allowance and maternity benefits as well. This turn meant a rehabilitation of the citizenship principle as a source of rights in the welfare system, therefore, the means-test principle was forced into the defensive (Gábos 2000: 112). Until recently, there has been no indication of a liberal transformation in other major areas of welfare either. Other schemes of social security also remained universal, the most important of which being the cash and in-kind benefits of health insurance. It might seem now that the year 2006 will bring another major change in welfare policy. The re-elected socialist (ex-communist)-liberal government suddenly set aside the election programme that promised not simply the maintenance but the extension of existing welfare arrangements as well, and embarked on a neo-liberal transformation of the welfare system. Instead of universalism, the direction is selectivity, and measures include the abolition of free health care as a citizen's right, dismantling laws on labour protection of public employees, privatisation of hospitals, introduction of tuition at universities, and several other steps. This move along with ongoing corruption and other scandals of the government led to serious popular unrest and – for the first time in decades – even street violence in Hungary.

Although differences between the welfare systems of East Central European countries increased somewhat as compared to that of the 1980s, the general pattern of development in other East Central European countries was fairly similar (Müller 2002: 2, 159). In Poland, the economic shock therapy went together with the slow transformation of the welfare system, but the pension reform received relatively extensive support from the political elite – unlike in Hungary (Inglot 2003: 243). In the Czech Republic, despite the prevailing liberal economic phraseology, a surprisingly solid subsidizing of social security was experienced in the first half of the 1990s. Here, the most profound reforms were made in the area of health care, where a system of competing public health insurance funds was established, while benefits, based on the principle of citizenship and universalism, remained intact (Deacon 2000: 2, 151). What made Slovakia unique was the even slower pace of changes throughout the 1990s, gathering momentum in recent years (Hurcíková and Pekník 2002). In this country, the health care system also underwent a major reform which consisted of, first of all, dividing the unified national health care service into several independent, but not necessarily private health insurance funds. Nevertheless, the newly elected government, which took office in 2006, promised to reverse the changes. In compliance with this, the co-payment has been abolished since – another sign of volatility.

Outside, political agencies and observers were, depending on their ideals, either disillusioned (IMF, World Bank) or satisfied (EU) by the realization that the fast, liberal transformation of the welfare systems, according to the US-model, has not been carried out in the region so far. To cite an example with regard to the reforms of the region's health care system, an EU publication maintained that "all health care financing reforms are in the mainstream of Western European tradition" (European Commission, Consensus Programme 1998).

All in all, despite the liberal tendencies and the volatility of development, social security systems had been fairly comprehensive in East Central Europe until recent years. These countries do not stand out as laggards in the European Union either. In addition, East Central European welfare systems are still compatible with the existing welfare regimes of most of the EU members (Tomka 2006). Public social expenditure in a percentage of GDP is lower in East Central Europe than the EU15 average, however, there are several countries with similar or lower expenditures, such as the Netherlands, Portugal, Spain, or Ireland. In other words, the region is well within the range of expenditures of the former EU members.

Several factors account for the persistence of relatively comprehensive social security systems in East Central Europe that are highly relevant for the assessment of prospects as well. First of all, a peculiar mix of welfare arrangements emerged in post-WWII East Central Europe, consisting of not only specific communist characteristics (For the communist welfare system, see Deacon 1983; Dixon and Macarov (eds.) 1992; Novak 2001), but also features found in other – conservative and social democratic – regimes, that is, different elements of welfare arrangements, prevalent in Western Europe (Sik and Svetlik 1990). East Central European countries equally adopted the Bismarckian principles of social security at an early stage. Bismarckian traditions found their ways to the new welfare systems of the communist countries since they were consistent with important goals of the regimes, such as labour force mobilisation (Minkoff and Turgeon 1977: 178-180; De Deken 1994: 137).

In the 1960s and 1970s, changes in the area of qualifying conditions paired with the rapid increase of the coverage can be regarded as moves toward universality – a major feature of social democratic welfare regimes. As a result, in East Central Europe, the whole population was covered by social insurance sooner than it was in most Western European countries. Obviously, the relative level of benefits did not turn out to be so favourable as compared to Western Europe. These similarities to different types of Western European welfare regimes suggest that by the 1980s, the East Central European social insurance systems applied a combination of elements customary in Western Europe.

We might consider the region as a whole due to the fact that the decades after WWII saw the uniformity of the East Central European region increase in terms of welfare policy. Internal uniformisation manifests itself among others in the level of social security expenditure. In the first part of the communist period, Czechoslovakia had an exceptionally high social security expenditure/national income ratio. In 1965 the ratio in this country was almost double of that in either Poland or Hungary – the two countries already spending similarly at this stage –, however, by 1980, differences mostly disappeared in the region. The same stands for the existing gaps between the three East Central European countries in terms of social rights. It was primarily Poland that differed from the other two countries due to the high number of private farmers who had not been eligible for pension insurance for quite a long time (Zukowski 1994). By the 1980s, however, disparities within the region decreased since universalism gained ground in all three countries. In Hungary as well as in Czechoslovakia, the turning point was the mid 1970s, when universal coverage became the underlying concept in social security (1975). In Poland this development took place somewhat later, at the end of the 1970s (Okrasa 1987: 14).

Another major factor which stabilises social welfare is the preference of public. According to the findings of several opinion polls, the majority of the electorate has favoured a combination of universalistic welfare arrangements – especially in health care – and work-related benefits – cash benefits –, or, as an observer put it: "the majority of Central and Eastern European citizens are indeed very much in favour of the fully-fledged 'European Model" (Ferge 1992: 151).

The existing but relatively moderate differences in social security systems between East Central European and the former EU countries do not validate that this area is a major source of social dumping. Not only are institutions of social security deeply rooted in East Central Europe but public attitudes are also supportive. In a political arena characterised by fierce competition, there is not much room for a whole scale liberal transformation that limits the possibilities of social dumping in the future. However, the future development in the region is also determined by the EU itself, including those countries that are confronted with the risk of social dumping. A more active EU with a clearly communicated vision on social welfare, that would apply not only soft methods, such as the OMC, but also hard law, could consolidate existing welfare arrangements in the region that are continuously challenged by neo-liberal reform pressures, thus, causing a considerable volatility of the welfare systems.

Compared to social security, the assessment of regulatory labour legislation and working conditions in general – security at work, conditions of labour contracts, health and safety, and those other conditions at work that improve the working environment –, shows much more pronounced differences between the practice of new East Central European members and the EU standards.

The differences in these areas can be demonstrated by the patterns of working time and employment as well as the standards of health and safety protection. Employees of the region are working significantly longer hours than their counterparts in Western Europe. Working hours are the longest in the Czech Republic (43.6 hours a week) and Slovakia (42.6) while somewhat shorter in Hungary (41.2). The EU15 average is considerably lower (37.8), even though, the UK reported 45 hours and Greece 43.2 hours a week. In reality, however, working hours can be even longer in East Central Europe than reported by statistical offices. Underreporting is almost inherent in the system because the informal economy is much more extensive in the region in comparison to the former EU members. In that segment of the economy, working hours are unregulated and difficult to estimate. In addition, not only "best practice", but also "worst practice" can have an effect on the way working conditions are regulated. The longer working hours that emerged in the informal sector influence the formal sector of the economy since they keep it under pressure. As a result, employers in the formal economy also tend to underreport the total number of working hours as a strategy to minimise taxes and social security contributions by which they create a "grey area" between the formal and black economy.

The gap between the EU and East Central European standards is even wider in occupational health and safety. As an indicator, the number of accidents is much higher than in the EU countries, even if we take the official data. Advancement in these areas would require investments that most companies – especially small and medium-size ones – are not able and not willing to finance because they fear that higher standards would increase their production costs and harm competitiveness.

East Central European countries have to face the often unfavourable legacies of communism as far as working conditions are concerned even these days. There is an area, however, where the transition even brought deterioration in working conditions. The 1990s witnessed a profound change in the patterns of employment, a move from long-term – often even life-long – employment patterns towards less secure jobs and atypical forms of work contracts, that is work becoming more and more casual in East Central Europe during the transition period. One major form of evasion of labour law became self-employment. The proportion of self-employed people has increased well above the EU15 average (11.3% in 2000) in Poland (33.5% in 2001) but it is also higher in Hungary (17.4% in 2001), and the Czech Republic (14.5% in 2000). In the EU we can only find comparable figures in Greece (32.4%) and Spain (18.2%) (Paoli *et al.* 2002).

In that case, employers do not hire workers in the traditional way based on individual labour contracts, instead, they sign a "contract by assignment" which is less binding for the employer since it is based on the civil code and not on the labour code. Thus, employers can avoid paying taxes and social security contributions. Due to the fact that the contracts are usually of a short-term nature, the transaction costs of hiring and firing are the lowest in that case. Therefore, the highest possible flexibility is attained by the employers. These "entrepreneurs" do not possess the same rights and protection as regular employees in other respects either: they cannot unionise themselves, they have no right to strike and social security benefits; more exactly, they have to rely on self-help, mostly in the form of private pension and other private insurance schemes (Vaughan and Whitehead 2003: 56-81). These contracts, by definition, do not include either the regulation of working time, or the length and the patterns of working hours.

Several causes account for the considerable differences between East Central Europe and Western Europe in the area of working conditions. First of all, bad working conditions – such as safety hazards – constitute a historical legacy of communism. The mortality crises which have set in from the mid 1960s in communist countries, primarily affected middle-aged men and reflected patterns of work to a great extent. Even though, the number of accidents, especially fatal accidents had significantly decreased during the years of the transition, it resulted mostly from the fall in industrial employment and not from the general improvement of safety standards.

There is no lack of legislation on occupational health and safety in East Central Europe. The European Commission was already aware of the fact during accession negotiations that the problem was not the incorporation of the *acquis* into domestic law, so much the more the implementation of these laws. Governments of the region, overburdened with difficult tasks of economic reconstruction during the transition years, did not feel obliged to interfere in working conditions. They believed that strict regulation in that area would harm competitiveness, and, in the end, increase unemployment. As a sign of weak governance, labour inspection is clearly lacking staff and financial resources in most of the East Central European countries. Labour courts are either non-existent – in the Czech Republic – or overburdened by work.

Enforcement is difficult in that area since both employers and workers tend to resist the implementation of laws. They both share the view that these measures are too costly. Rather, they are willing to share the savings companies accumulate by avoiding the proper implementation.

Companies pay a kind of premium to employees in exchange of the non-implementation of related laws, even though, in the end, these practices disadvantage the employees in terms of accidents and health hazards.

Although unemployment and tense labour market situation restrict the bargaining power of employees, there are also incentives that urge employees to opt for less regulated employment, such as the self-employed status. They are allowed to deduct expenditures from their income tax. They can also minimise taxes by declaring their income at the lowest possible level – the sum that allows them to be covered by social security. Consequently, this practice again is closely related to the extensive informal economy which constitutes a major obstacle to the reorganisation and implementation of safety standards and better working conditions in general. As we indicated earlier, this sector is deeply embedded in economy and society, so far as the relationship to the informal economy has been ambiguous in the transition countries. Especially liberal politicians as well as many experts have argued that the black economy functions as a sort of "safety net" for many segments of the society. This view clearly reflected an ideological bias: informal economy was tolerated since it was regarded as a means to roll back the state sector. Organisational weakness, of labour addressed separately later, is a further important factor preventing the realization of workers' rights.

In contrast to social security, the EU engaged in significant and permanent legislation in some areas of working conditions from the Treaty of Rome. These areas include the protection of worker's rights, equal opportunities for men and women, and occupational health and safety, but do not include other equally important aspects of working conditions, such as the length and pattern of working hours. This clearly limits the scope of an EU's intervention in these areas. In addition, regulatory labour legislation and especially the implementation of relevant laws in East Central Europe have lagged behind Western Europe much more than it is the case in the area of social security. The causes underlying the poor working conditions in East Central Europe also indicate that chances for real harmonization with the EU standards are even more moderate.

Dumping Practices in Markets without State Action

In the areas addressed in the study, the single most significant difference between the former EU states and the new East Central European members appears to be in wage levels. Wages also represent the most important component of labour costs, and thus create the greatest potential of social dumping. However, low wages are often regarded to be the result of low level of productivity and economic performance in general and are seen as a source of comparative advantage, which might be used to improve the country's competitiveness (Sinn 2003). In accordance with this, there is no compulsory EU instrument that regulates the level of wages in any form. Thus, low wages do not fall in the same category of social dumping as illegal practices such as informal employment or neglecting safety measures. Nevertheless, if we consider the impact of the enlargement on the social standards of the EU, the inclusion of wages into the study seems to be necessary (For an historical perspective on wage differences in the EU, see Flanagan 1993).

Wage differences between European regions are overwhelming: the range of average gross hourly earnings of manual workers in the industry or average gross monthly earnings of non-manual workers in the four East Central European countries is between some 12 and 18% of the German level, and even Greek employees get four times higher wages than their counterparts in the region. The gap is even wider if we consider the level of minimum wages. The excessive growth in wage inequality experienced by many post-communist states was kept in check by East Central European countries as a result of the introduction of minimum wages. Still, they make up about 40% of the average wage, less than the EU15 average of 50 to 60% (Rashid, Rutkowski and Fretwell 2005: 67).

These gaps can be partly explained by the differences in price level. The contrast is considerably smaller if we consider incomes at purchasing power parity, but even in that case East Central European wages and salaries are dramatically lagging behind the Western European levels, even much more than GDP levels. The impact of the informal economy also plays a significant role, since, as we suggested earlier, in some sectors official wages are supplemented by employers "under the table". Similarly, income levels reflect the wage policies of governments carried out in the first one and a half decades of transition. Research on that issue demonstrated that East Central European governments were committed to restrictive wage policies in the first phases of transition to damp down inflationary pressures, while they were more permissive as far as prices were concerned, prices which were allowed to be determined by market forces (Vaughan-Whitehead 2003: 46). Still, the fact that wages and salaries are in the long run primarily determined by the level of economic output requires the analysis of the process and prospects of economic convergence. The exact assessment of the prospects of economic convergence is not possible, but the past experience of East Central European and other EU members might give us some guidance about possible future scenarios in that area.

Going back to the late 19th century, in 1870, the level of GDP *per capita* in the region showed moderate internal diversity, and amounted to about the half of the Western European average, lagging behind all the countries in Western Europe. In the next decades the region slightly converged to the Western European average, and this process reached its peak before WWI.

WWI and its economic consequences caused deeper recession in East Central Europe than in most of the Western European countries surfacing in the output data as well. The recovery was comparatively fast in Czechoslovakia, more moderate in Hungary, while Poland clearly lagged behind. By 1929, Hungary caught up with 57.1% of the Western European average, and this level was even slightly exceeded by the advent of WWII, almost achieving the pre-WWI level of relative economic development. At that time the region's level of economic development equalled that of the Southern European countries, or even surpassed it. As an example, by the outbreak of WWII, Czechoslovakia exceeded the GDP level of Portugal by some 64% and of Hungary by 51% (Maddison 2003).

The inter-war performance of the region is even better in case we compare the East Central European countries to Austria, a country with similar war legacies. The gap between the neighbouring Austria and Hungary considerably narrowed in the interwar years, to such an extent that Hungary came closest to Austria with 74.6% of its GDP *per capita* just before WWII.

However surprising it might seem from the perspective of the collapse of communism, the relative economic performance of post-war East Central Europe has remained the subject of conflicting interpretations – not only in the public discourse of the post-communist societies but also in international scholarly studies. Several widely acclaimed historical surveys on post-WWII Europe argue – sometimes implicitly – for a "parallel" or in certain periods, convergent social and economic development between East and West (Therborn 1995; Hobsbawm 1995). This claim has not been supported by recent empirical research (Maddison 2001 and 2003). If there is a turning point in the relationship of corresponding East Central European and Western European GDP levels, it must be WWII. While in previous decades there have been periods of relative catch-up and lagging behind, in the second half of the 20th century a growing gap and the process of divergence can be observed which even accelerated in the last three decades of the century. The growth in East Central European countries was considerably inferior compared to that of Western and Southern European countries in the period of 1950-1973. For example, Czechoslovakia performed about as well as Ireland, which was an unusually poorly growing country in the West. The strongly widening gap between Austrian and Czechoslovakian national income levels, as the post-war period unfolded, was a testimony to communist economic failure. Hungarian GDP *per capita* levels relative to Western European average were much lower between 1950 and 1965 than anytime in the previous one hundred years and they have practically stagnated at that level (46-47%). The post-war performance of East Central Europe has been even worse if we compare the region to Southern Europe. From the late 1970s, another considerable erosion of the relative position set in (Crafts and Toniolo 1996; Van Ark and Crafts (eds.) 1996; Maddison 1995).

The collapse of the communist regimes had an immediate effect on the economic output in the region, and resulted in the widest gap between East Central Europe and Western Europe ever recorded. The Hungarian GDP *per capita* level declined from 66.9% of the Austrian level in 1950 to hardly above 30% in the mid 1990s. By the mid 1990s the Portuguese *per capita* income considerably exceeded the Czech level and amounted twice as high as the Hungarian one.

Therefore, the initial diversity in economic performance across East Central Europe was significant. GDP *per capita* fell by some 20% in Hungary and Poland, by 15% in the Czech Republic and by some 30% in Slovakia in the first years of transition (Van Ark 2000). Diversity was partly due to different effects of macroeconomic and structural policies as well as different success rates of political reforms. For example, the relatively good performance of *per capita* income in the Czech Republic in the early years can be explained by the moderate fall in labour force participation. However, the restructuring of firms was slower than in Poland or Hungary. In the latter countries structural reforms caused a considerable decline in labour force participation, but then, from the mid and late 1990s, *per capita* income growth was faster than in the Czech Republic. As a result, if we take the whole transition period into consideration, the growth performance of the four countries was fairly similar.

We can see a recovery from the mid 1990s. Since then economic growth rates have been significantly higher in East Central Europe than in the EU15 area as a result of which all countries have converged to the EU average. Between 1995 and 2005 Hungary converged 12.2 percentage points to the EU15 average, Poland 9.9, Slovakia 8.9 and the Czech Republic 3.8 percentage points (Varlane and Vahter 2005; Economic Commission of Europe 2005). This meant a considerable achievement, even if we compare it to the post-accession performance of Spain, Portugal or Greece, although it must be stressed that the convergence followed a period of dramatic divergence from Western Europe and the growth can be interpreted as a recovery of the former level.

The idea that reconstruction was an important factor in post-war growth in Western Europe can be useful for the interpretation of recent growth in ECE and the prospects of the growth process as well. Jánossy, who formulated this thesis, argued that the post-war decades were an era of rapid recovery as part of a reconstruction, and meant a return to a long-run trend path of growth determined by such factors as technological change and the capabilities of societies to absorb innovations (Jánossy 1969). Countries can deviate from the trend, especially as a result of wars, crises and other major external influences causing disruption in economy and society. In the long run, however, the trend prevails. In the reconstruction phase growth accelerates until the trend path is achieved or approached. Then, growth rates slow down and return to the "normal" level, conditioned by the above factors. Even if we do not fully accept the deterministic concept of trend paths, we can plausibly argue that the possibility of further convergence between East Central Europe and Western Europe clearly exists. However, it also suggests that the fast convergence between East Central Europe and Western Europe we could observe for the last couple of years will not last up to the full catch-up. On the contrary, convergence can continue depending on the success of economic and social policies of individual countries, but the possibilities of catch-up growth significantly decreases (Abramovitz 1986). Presently, there are already signs of a slowdown in the productivity growth in East Central Europe.

The neo-classical economic theory suggests that the principle of decreasing marginal return on capital generally makes poorer countries grow faster than rich economies (Barro and Sala-i-Martin 1995). Economic integration advances international mobility of capital and human resources and also technological spillovers, thus, leading to faster growth in the less developed regions. The theory seems to be supported by the history of former enlargements of the EU since comparative research puts forward that the growth of Greece, Spain, Portugal and Ireland was faster than it had been without EU membership, and they converged to the richer countries of the EU.

However, recent research also indicates that the faster economic convergence of the Southern European countries was due to special forms of redistribution policies within the EU and not to access to the internal market (Bornschier, Herkenrath and Ziltener 2004. For similar conclusions, see Gracia Solanes and María-Dolores 2002). If over-performance is to be exclusively attributable to the political logic of the integration, and not to the economic logic, the decisions about the future EU transfer system will decisively determine the chances of convergence between East Central European and Western European countries. Since regional, cohesion and other transfers within the EU will be less generous than in former enlargements, the prospects for fast convergence are more moderate as well.

Perspectives of Solidaristic Action

Several instruments were suggested and some measures were implemented in the former EU member states to prevent dumping practices and protect the social standards of Western European labour. Nevertheless, these measures and instruments are obviously insufficient to achieve the goals. The restrictions on the free movement of East Central European labour in the EU can only be temporary measures and can not address the problem of relocations etc. Legislation is probably the most powerful way of harmonization of social standards, however, the EU has been fairly passive in the harmonization of social policies so far, and it is increasingly difficult to reach consensus in an EU of 25 member states. Softer methods, such as the coordination of national legislation in relevant areas, have obvious limits as well. In addition, they can hardly address wage dumping.

This is why the transnational solidarity of organised labour was proposed as an important strategy to overcome social dumping. In this section we intend to consider social solidarity from an East Central European perspective. We are going to discuss those aspects of East Central European labour relations that have most often been neglected in the relevant debate on European social dumping so far. The main argument is that such features as organisational or associational weakness of East Central European labour have a profound impact on the prospects of transnational social solidarity in the new EU.

The research work identified several possible strategies for organised labour to promote transnational social solidarity. The "market option" promotes transnational collective bargaining. The "hierarchy option" means the formation of a European peak association of trade unions aiming at the integration of transnational sector organisations. Another possible way is the exchange of information by trade unions (Ebbinghaus and Visser 1994 and 1998).

There are several obstacles to the realization of these alternatives in Western Europe as well, such as the heterogeneity of labour relations, the weak regulatory capacity of the European Union in these areas, or the fragmentation of employers' associations and their disinterest in carrying out transnational collective bargaining. The analysis of East Central European labour relations and the comparison to Western European labour strength reveals even more profound obstacles to transnational social solidarity.

At the beginning of the transition to democracy and market economy in East Central Europe, many observers expected the emergence of a strong labour in the region. In fact, at this stage of transformation many of the liberal economists considered the possibility of labour unrest as the major impediment to economic reforms. The often heroic images of mass mobilisation in the final days of communism definitely contributed to these anticipations. The history of popular unrest in communist East Central Europe and the central role of the Solidarity movement in Poland – conceived as a trade union – in the collapse of communism delivered even more arguments for those expecting labour unrest. Although East Central European economies experienced a very strong decline and real incomes fell by some 20 to 30% during the first years of the 1990s, we can record a fairly moderate labour response and even declining labour mobilisation. It is not easy to decide, though, what we consider strong or weak labour or labour response. According to a definition, what matters is "the ability of unions to secure material rewards for its members and exercise a degree of authority in the workplace over national policy" (Crowley 2004: 3, 400). The conventional proxies to measure labour strength are union density, the capacity of collective bargaining, and strike rates (for these phenomena, see Pollert 2001; Tóth 2001; Ost 2001 and Frege 2002).

It is well known that union membership was exceptionally high during communism, not as a sign of labour strength, but because trade unions served as "transmission belts" and the party-state made membership practically compulsory and even attractive: several welfare programmes – holidays, social assistance etc. – were administered by the trade unions. With the loss of these functions, after the collapse of communism, union coverage sharply declined. ILO-data are not reliable in this respect because they are based on self-reported figures of the trade unions, but there are survey-data available on unionization according to which the Western European average is 33.7%, while in Slovakia 27.9%, in the Czech Republic 24.1%, in Hungary 17.5%, in Poland 12.7% of the non-agricultural labour force belongs to trade unions (average 20.6%). The trend is falling, and East Central European levels are not converging to, rather diverging from the Western European level. In addition, the state sector is highly overrepresented in the membership.

Labour disputes – strike intensity – constitute the next measure of labour strength. Comparative evidences are quite straightforward in that respect. The relative number of employees involved in strike activity is much lower in East Central Europe than in the Western part of the continent. The number of days not worked per thousand employees per year is around 11 in the four East Central European countries, while in Western Europe it is around 100. It is true that low strike activity can reflect both labour strength with the ability of unions to secure material rewards for its members and the weakness of labour to be organised. Since real income fell sharply during the first years of transition everywhere in ECE and relative income levels are still very low, the first line of argumentation seems to be implausible.

The ratio of employees included in collective bargaining agreements was practically 100% in communist times. These agreements were, however, formal. The coverage fell rapidly in the 1990s, well below the Western European level and amounted to some 43% as the average of three East Central European countries – we do not have data for Poland –, while the comparable Western European ratio was 75%. However, most of the agreements were reached not at the sectoral or at central, but at the company level, and were not negotiated "but either defined unilaterally by employers or, following state socialist traditions, simply repeat the law" (Neumann 2002: 1, 12). In addition, 37% of collective agreements in Hungary have no specifications of wages. The so-called wage premium for unionised workers – that is the wage margin these workers enjoy over their non-unionised fellow-workers – is 3 to 5%, almost negligible (Crowley 2004).

As far as the causes of labour weakness in East Central Europe are concerned, there are three major lines of interpretation. The first, dealing with economic factors, argues that high unemployment and economic depression, in general, weaken the position of employees and create an unfavourable environment for strike activity or other forms of interest assertion. All this circumstances apply for East Central Europe during the years of transition. Some authors put forward that the sizeable and growing informal economy made room for individual strategies of survival (Geskovits 1998: 87). Politically centred explanations call attention to the role of corporatist institutions in the region. Most of the studies consider the institutionalised intermediation of the interests of labour, capital, and the state as ineffective and responsible for, among others, failures in regulatory labour legislation. Also along the political lines, some argue that union fragmentation is a major factor causing weakness because unions can not realise a "critical mass of members needed for mobilization" (Thirkell, Petrov and Vickerstaff 1998: 87). Path dependency, the institutional and ideological legacies of communism constitute the third major line of explanations (Kubicek 2004, 42-51). According to this, major trade unions everywhere in East Central Europe originate in communism with all the associated burdens, such as lack of legitimacy, ideological disorientation of their leaders and activists, old attitudes towards managers and membership, the strong relationship with the communist successor parties that are often more liberal than social democratic etc. In fact, several polls suggest that trade unions are among the least trusted institutions everywhere in East Central Europe.

As far as the validity of these interpretations is concerned, the dynamics of strikes and union formation in East Central Europe do not fit the economic theory of strikes/labour relations. By the mid 1990s the worst years of the transformation crises had been over, and economic recovery was underway with decreasing unemployment. This recovery had apparently no effect on the indicators of labour strength. The size of the informal economy reached its peak even somewhat earlier, around 1992. Since then, fall in its volume has not been reflected in the activity of trade unions either.

We can plausibly argue that the ineffectiveness of the participation of unions in corporatist institutions is mainly caused by the lack of support, in other words, labour weakness (Crowley 2004). The argument on union fragmentation in East Central Europe has been challenged by empirical studies. They proved that on the one hand, there is pluralism on the national level, but there are major federations dominating the union landscape (Crowley 2004). On the other hand, at the shopfloor level fragmentation and even pluralism is rare; low membership and disinterest of the members are thus the major problems the unions are facing.

The institutional and ideological legacy of communism is undoubtedly a major cause of weak labour. The communist past of the largest unions discredited trade unionism for a long period of time. These unions have inherited the membership, the infrastructure and in this way they exercised a crowding out effect on other potential unions. However, one and a half decades after the collapse of communism, institutional inertia alone can not convincingly explain why new unions have not been established, or, more exactly, why the emerging new unions remained marginal and have not been able to emancipate themselves to the old one and revive trade unionism. To sum up, whatever superficial this discussion of the mainstream interpretations of labour weakness in East Central Europe might have been, it intended to demonstrate that they alone could not fully explain the causes underlying labour weakness in East Central Europe.

Instead of this, we wish to suggest a complementary explanation here related to the weakness of civil society and such cultural characteristics of the population in East Central Europe as the low level of interpersonal trust, trust in social institutions in general, and the lack of social capabilities that allow effective cooperation among members of groups and society at large (Howard 2003. For a more optimistic assessment of the strength of some segments of civil society in East Central Europe, see Petrova and Tarrow, "Transactional and Participatory Activism in the Emerging European Polity" (forthcoming)).

Frameworks and even concepts to grasp these features of East Central European societies are at their beginning in social sciences. However, it is clear that due to the lasting efforts of communist regimes to prevent the evolution of civil society and the persistence of traditional communities, a massive social decapitalization took place in Hungary and in other East Central European countries, which constitutes one of the most significant social and cultural inheritances of communism (For social capital in East Central Europe, see Seligman and Füzér 1994; Delhey and Newton 2003; Uslaner 2003). This phenomenon is represented in the far lower level of trust and group membership in the former communist countries than in the West. In 1990, only 25% of the respondents in Hungary and 35% in Poland trusted fellow citizens unconditionally. In contrast, the level of interpersonal trust was considerably higher in most West European countries: the level of respondents trusting fellow citizens amounted to 65% in Norway, 66% in Sweden, 44% in Great Britain. Only Austria and some South-European countries came close to or slightly below the Polish level (Gabriel *et al.* 2002: 58). Since then the situation has even worsened. We can plausibly assume that these characteristics contribute to low level of social solidarity and to the inability of people to cooperate effectively and form trade unions. We believe that the resulting organisational weakness is a vital factor to explain why trade unions cannot effectively challenge business interests in the region (Offe 1993). Labour weakness in East Central Europe cannot be explained by short-term factors that might be reversed in the foreseeable future. This is a fact that also Western European labour has to take into account when looking for strategies to contain social dumping.

Summary

The accession of East Central European countries to the European Union generated an intense discourse on "social dumping" both in scholarship and in the wider public. In the paper we argued that social dumping originating from East Central Europe could be conceptualised as a practice undermining European social cohesion and solidarity and could not only take various forms but their significance and effects could be diverging as well. Accordingly, the social dumping in different areas, such as social security, regulatory labour legislation and relative wage levels, constituted the major interests of the paper along with the prospects of preventing dumping practices. We considered the experience of four East Central European countries, the Czech Republic, Poland, Slovakia, and Hungary in a historical perspective.

Despite the liberal tendencies and the volatility of development since the early 1990s, social security systems had been fairly comprehensive in East Central Europe until recent years. As a result, these countries do not stand out as laggards in the European Union. The existing differences in social security systems between East Central European and the former EU countries do not validate that this area is a major source of social dumping. Not only are institutions of social security deeply rooted in East Central Europe but public attitudes are also supportive. In a political arena characterised by fierce competition, there is not much room for a whole scale liberal transformation that limits the possibilities of social dumping in the future. However, the future development in the region is also determined by the EU itself, including those countries that are confronted with the risk of social dumping. A more active EU with a clearly communicated vision on social welfare that would apply not only soft methods, such as the OMC, but also hard law, could consolidate existing welfare arrangements in the region that are continuously challenged by neo-liberal reform pressures, thus causing a considerable volatility of the welfare systems.

Compared to social security, the assessment of regulatory labour legislation and working conditions in general shows much more pronounced differences between the practice of new East Central European members and the EU standards as demonstrated by the patterns of working time and employment as well as the standards of health and safety protection. Employees of the region are working significantly longer hours than their counterparts in Western Europe and the casualization of work has made greater advance there. In contrast to social security, the EU engaged in significant and permanent legislation in some areas of working conditions from the Treaty of Rome. These areas include the protection of worker's rights, equal opportunities for men and women, and occupational health and safety, but do not include other equally important aspects of working conditions, such as the length and pattern of working hours. This clearly limits the scope of EU intervention in these areas. The causes underlying the poor working conditions in East Central Europe also indicate that chances for real harmonization with EU standards are moderate in the foreseeable future.

In the areas addressed in the study, the single most significant difference between the former EU states and the new East Central European members appears to be in wage levels. Wages also represent the most important component of labour costs, and thus create the greatest potential of social dumping. The turning point in the relationship of East Central European and Western European GDP levels was WWII. While in previous decades there had been periods of relative catch-up and lagging behind, in the second half of the 20th century the process of divergence has been observed and has even accelerated in the last three decades of the century. The collapse of the communist regimes also had an immediate effect on the economic output in the region, and resulted in the widest gap between East Central Europe and Western Europe ever recorded. However, we can see a recovery from the mid 1990s. Since then, economic growth rates have been significantly higher in East Central Europe than in the EU15 area as a result of which all East Central European countries have converged to the EU average.

The recovery can be interpreted as part of a reconstruction, and means a return to a long-run trend path of growth determined by such factors as technological change and the capabilities of societies to absorb innovations. We can plausibly argue that the possibility of further convergence between East Central Europe and Western Europe clearly exists. However, considering the process as part of a reconstruction phase also suggests that the fast convergence between East Central Europe and Western Europe observed the last couple of years will not last up to the full catch-up. Recent research also indicates that the fast economic convergence of the Southern European countries after the accession was due to special forms of redistribution policies within the EU and not to access to the internal market. If over-performance is to be exclusively attributable to the political logic of the integration, and not to the economic logic, the decisions about the future EU transfer system will decisively determine the chances of convergence between East Central European and Western European countries. Since regional cohesion and other transfers within the EU are less generous than in former enlargements, the prospects for fast convergence are more moderate as well.

Several instruments were suggested and some measures were implemented in the former EU member states to prevent dumping practices and protect the social standards of Western European labour. Nevertheless, these measures and instruments are obviously insufficient to achieve the goals. This is why the transnational solidarity of organised labour was proposed as an important strategy to overcome social dumping. The paper analysed East Central European labour relations by using conventional proxies to measure labour strength, such as union density, the capacity of collective bargaining and strike rates, and revealed profound obstacles to the emergence of transnational social solidarity.

It also addressed the causes of labour weakness in East Central Europe dealing with economic factors, politically centred explanations and path dependency, that is, the institutional and ideological legacies of communism. Among these, the institutional and ideological legacy of communism has undoubtedly the strongest explanatory power. However, one and a half decade after the collapse of communism, institutional inertia alone can not convincingly explain why new unions have not been established, or, more exactly, why the emerging new unions remain marginal and have not been able to emancipate themselves to the old one(s) and revive trade unionism. That is why we wished to suggest a complementary explanation related to the weakness of civil society and such cultural characteristics of the population in East Central Europe as the low level of interpersonal trust, trust in social institutions in general, and the lack of social capabilities that allow effective cooperation among members of groups and society at large. Frameworks and even concepts to grasp these features of East Central European societies are at their beginning in social sciences. However, we can plausibly assume that these characteristics contribute to the low level of social solidarity and to the inability of labour to cooperate effectively and form trade unions. We believe that the resulting organisational weakness is a vital factor explaining why the chances of transnational social solidarity involving East Central European labour can be assessed as remote.

When Europe was Western Europe and socially rather cohesive, the question of economic integration through free market exchanges for labour, commodities and services was not a major problem. The integration of markets was hardly recognised as a real threat to social cohesion.

Europe became EU27 and may become EU30: the economic market integration underpins the social problems because of the much bigger differences in Europe in terms of social standards. Capital looking for cheap labour could of course mitigate the differences over time. Job opportunities in low wage parts of Europe might imply unemployment in the high wage part, but in the long run standard differences will decrease. Hence the theory. However, such a scenario will include difficulties which affect the legitimacy of building a European polity.

What are – against the backdrop of these difficulties – the prospects of a European social polity where the growing European inequalities are confronted politically at a European level? This is the key question of this book.

The book discusses the tensions between a market Europe and a social Europe, between politics of social dumping and politics of social protectionism, and between Europe as a possibility and as a threat. It examines the tensions and contentions of the concepts of solidarity and social Europe against the backdrop of the perceptions of dramatically growing social differences after the enlargements to EU25 and 27. And it reflects on the prospects of political management of the European economy.

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