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Neoliberalisation through depoliticisation: transnational governance and the political economy implications of eastwards enlargement of the EU

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This is a rough first draft but all comments appreciated

The aim of this paper is to understand the impact of transnational forms of governance (understood in the widest sense) in the political economy of Eastern Central Europe (ECE). Following the promises of membership made in 1993 the 2002 Copenhagen summit represented a fundamental breakthrough in ECE's relationship with the EU concerning the irreversibility of enlargement.[1] After almost a decade of hesitant flirting the EU finally appeared to be reconciled with the collapse of communism. Yet, what the accession process has clarified for the new members are the unequal terms of membership the EU core is prepared to grant the eastern neighbours. EU accession negotiations have not embedded the socially inclusionist features of the EU social model, instead this round of expansion is further reinforcing the original *first wave* transition process by embedding a radical variant of neoliberalism in what is in effect becoming a highly selective application of Europeanisation. Fundamental to the reestablishment of the relationship between the EU and ECE is an asymmetry of power. Politically and economically it is clear who the stronger 'partner' is and the EU has consistently used this asymmetry to either impose its will or encourage the ECE applicants to discipline themselves. There has been little choice whether to accept or reject the EU requirements and accession in ECE is characterised by the conditionality the EU imposes on the applicants. The EU insisted on bilateral treatment of each ECE applicants; clearly designed to foster a level of competition between the applicants and weaken any thoughts of collective bargaining.[2] The recent enlargement is then a highly selective form of integration. In what has rapidly become an *acquis*-configured new order in ECE, transnationally oriented social forces in the EU are exporting the core of the neoliberal deregulatory programme, while concurrently deferring extension of the inclusionist social features of EU policy like substantial financial aid, the free movement of labour, or the liberalisation of agricultural trade.

The ECE states of have at last returned to Europe, a return that invokes the EU to normalize; to return ECE to the 'European mainstream' of capitalism and democracy

[1] Indeed the newspapers of the region appeared to recognise this. Polish newspaper *Rzeczpospolita* declared 'Good morning, Europe!'; 'A new Europe is born', Czech daily *Lidove Noviny* celebrated, while Hungarian broadsheet *Magyar Hirlap* announced 'The end of divided Europe'.

[2] It is perhaps not entirely curious that this situation echoes the treatment of ECE following 1989 when the UK and US governments insisted on a transition process configured through bilateral relations (Shields, 2004).

following the cheerless interregnum of communism (Smith, 2002, 648). Simultaneously the EU has embarked on the widening and deepening of political and economic integration. Enlargement of the EU and transition for ECE therefore coincides with a period of unprecedented liberalisation and deregulation a development synonymous with the optimisation of the macroeconomic environment for transnational capital. The explicit aim has been to extend the impact of neoliberal reforms and the influence of European transnational capital (Bieler, 2002; Rosamund, 2002). In the EU, this 'internationalisation of austerity' (Holman, 1992) has resulted in a partial dismantling of the European social model while ECE has had to contend with a 'new social crisis' attempting to reconcile rigid adjustment policies with the necessity for a social safety net (Agh, 1998, 56-57). Enlargement has created an EU with a population of some 110 million people. This will clearly have an impact on Europe's institutions but also on the very existence of the European model of social capitalism (*inter alia* Albert, 1991; Streeck and Ymamura, 2001; van Apeldoorn & Rhodes, 1998).[3]

The paper therefore considers how we might characterise this inequity; interrogating where the states of ECE fit into the new political economy of synchronised enlargement and transition. The negotiation process of accession to the EU provides little scope for an approach that is, to put it bluntly, a one-way street, whereby the candidates have to adjust their legislation, institutions, and policy to that of the EU.[4] The paper argues for a re-politicization of the process in contradistinction to the thrust of the current literature which focuses on transition, enlargement and integration as an incremental and technocratic process (Dimitrova, 2004 Falkner and Nentwich, 2000). Such a focus conceals just as much it enlightens through the tendency to focus on the application of the *acquis communutaire* which by definition prohibits any meaningful debate. The EU strategy on enlargement has been based on the depoliticisation of the process and has therefore evaded debate,

[3] There is some evidence that there is a return to the varieties of capitalism debate amongst ECE analyst, see for example Lane 2000 and contributions to the Managing Economic Transition Network 13th Research Seminar - 'What type of capitalism in the post-communist economies?' Friday 12th March 2004 Jean Monnet Centre for Excellence, University of Cambridge online at http://www.business.mmu.ac.uk/research/met/programmes_13.htm

[4] For an excellent overview see Schimmelfennig and Sedelmeier (2002).

discussion and the political content of enlargement.[5] As Gough notes, "neoliberal strategy is centrally concerned with depoliticising economy and society by weakening or removing historically accumulated forms of socialisation. Existing forms of nonmarket coordination and state regulation are abandoned". (2002: 63). Instead, the political content has been substituted for technocratic evaluations which have in practice frustrated the aspirations of the ECE-10 to return to the European mainstream other than in accordance with the neoliberal "blueprint" and what debate exists is predominantly sterile. In strategic terms the additional disadvantage is the danger that by postponing political debate until it is too late, the default option for the ECE-10 is the neoliberal model even further entrenched in both east and west. In short, both the transition and enlargement are configuring a novel form of political economy that is poorly accommodated in the existing literature.

The paper begins to address some of these concerns by contextualising the two apparently divergent processes of transition and enlargement in the structural and historical conditions of globalisation, understood here as the transnationalisation of production and finance and the spread of neoliberal economic rationality as the dominant paradigm of social organisation (*inter alia* Bieler 2000; Bieler and Morton 2001; Cafruny and Ryner 2003; van Apeldoorn 2002). Far from contradicting one another, transition and enlargement are both in fact part of the same process of intensified neoliberal restructuring of the European social relations of production (Bieler, 2002, 576), a process that is depoliticised by design; designed to engender a process of *neoliberalisation by depoliticisation*. The term 'depoliticisation', is used to describe a process whereby important functions of economic management, functions deemed vital to the more interventionist post-war era of state management of the economy (monetary policy, trade policy, etc), become removed from centralised state control and placed in the remit of 'objective' institutions, technocrats, or juridical frameworks, thereby insulating policymakers from political pressures and 'locking in' key reforms by making the

[5] This is based on three inter-related processes: first, the EU wishes to see the market reform process advanced to the point of completion in the ECE 10; second, enlargement discourses reify capitalist institutions - and especially the market - so as to close down the categories of political economy and deny their contradictory social constitution, whilst neglecting due consideration of the historicity and contingency of market reform processes; and, third, the EU is engaged in shoring up the hegemony of neoliberal 'common sense' amongst powerful transnational epistemic communities of experts, policymakers and capitalists, thereby delimiting the space for counter-hegemonic ideologies and limiting the debate on possible alternatives to the market.

future reversal of reforms unlikely or, often, illegal (Gill) . I would also emphasise a further political economy dimension which emerges when one considers depoliticisation as a process of the recomposition of the state, the opposite of incorporation as a state management strategy, and a means of dispelling political confrontation from within the ambit of state institutions.

In the next section, the paper introduces a critical political economy perspective informed based on a form of (transnational) historical materialism. This perspective is then first applied to the reformulation of the transition state in favour of transnational capital during the initial 'first wave' of transition. I draw particularly on evidence form the Polish experience in this section. The investigation then turns to the current enlargement of the EU and the imposition of the *acquis communitaire* and the enlargement criteria. The third section of the article outlines the response of national social forces in ECE and how this might be problematic for the European social model as traditional notions of capital and labour and East-West interlock in different ways in ECE. Taking this reinforced neoliberalisation through depoliticisation threat into the final section assesses the possibilities for enlargement noting that current strategies and interests should not be taken for granted.

The political economy of Eastern Central Europe: A transnational historical materialist perspective[6]

Much of the literature regarding post-communism refers to the transition of ECE as a simple journey along a path leading straight from a command to a market economy (see, for example, World Bank, 1995: 13-14; 2002). Notwithstanding specific differences between the details of particular national transition strategies, ECE has embraced the major components of the neoliberal agenda. By embedding transition within an uncompromising anti-communist and pro-Western normative framework the neoliberal blueprint for rapid transition supplies a clear set of definitions and uncontroversial set of goals while simultaneously offering expertise for means of implementation (Buroway, 1996, 1106). The outcome was that it was considered better to undertake all the changes concurrently and as

[6] Since Robert Cox's neo-Gramscian work in the early 1980s (1981; 1983), a whole range of related, yet different, transnational historical materialist perspectives have been developed. For an overview, see Bieler and Morton (2004) and Overbeek's particularly accessible chapter 'Transnational Historical Materialism', in Palan, R. (2000) (ed.) Global Political Economy: Contemporary Theories, London: Routledge, pp.168-83.

rapidly as possible because of the threat that the 'losers' would feel the social costs and uncertainties pushed through by the 'shocks' of institutional change a lot quicker than the 'winners' would experience success (Sachs, 1993) a message that continues to persists even now (World Bank 2002).

Not unsurprisingly given the contemporary hegemony of neoliberalism; the orthodox paradigms of transition analysis have four essential components, the depoliticisation of ownership, the depoliticisation of allocative mechanisms, the marketisation of the economy and the imposition of hard budget constraints. In short, though the neoliberal, evolutionary and institutional approaches appear to differ, they all accept the 'off the peg' application of the Washington Consensus as previously applied in the Third World and Latin America: liberalisation, stabilisation, privatisation and internationalisation (Lipton and Sachs, 1990; Gowan, 1996). Orthodox theories have contributed to the depoliticisation of neoliberalisation by constituting a stylised form of transition treating it as an axiomatically linear process and offering a pragmatic, one-dimensional 'toolkit' to solve the problems of ECE. This has, at best, provided a set of misguided signposts for transition states to follow and, at worse, contributed to the wholesale impoverishment of large proportions of the population of ECE (see Milanovic's sobering 1998 assessment). However, despite the many mistakes made, this orthodox continues to hold sway in the most crucial areas like the international financial institutions, the EU and the finance ministries of ECE. In short, what we have witnessed in ECE is not merely the transformation from *homo Sovieticus* to *homo economicus* but the further construction of *homo neoliberal.*

Thinking about transition from a transnational historical materialist perspective offers four significant reorientations for traditional approaches with substantive and methodological implications for 'transitology' (Pickel, 2002; Pickles and Smith, 1998; Seliger, 2002; Sokol, 2001) First, it aims to be sensitive to historical analysis of the development of social forces, the interrelationship of economics, politics, institutions and ideology and sees neoliberalism as the result of the development of transnational social forces and a concomitant capitalist class (Overbeek, 1993). This transcends the statecentrism and domestic/international dichotomy of orthodox approaches by isolating the actors that play a pivotal role in configuring cohesion among the different local, national, supranational and transnational forces in ECE. Put simply, those social forces that are *inter alia* manifested in the ECE transition connected to a transnational class configuration (Holman, 2001). States

remain internally focused but also learn to mediate adherence to the logic of transnational capital within the state (Panitch, 1996, 93; Baker, 1999). The relationship between the *national* and the *global* necessitates an appreciation of the dialectical interplay of these realms, rather than the artificial separation evident in orthodox formulations of change. Globalisation is as much *authored by social forces operating through the state as anything else* and the state remains at the heart of the issue (Panitch, 2000). One way out of these contradictions is a conception of the state as the institutionalisation of class relations around a particular configuration of production.

Second, this approach reaffirms that most unfashionable notion in ECE, the centrality of class in explaining transition. Fundamental to neoliberalism has been the intensification of commodification through the 1980s and 1990s (van der Pijl, 1999). Through increasing transnational ownership, finance and production capital have provided a material base for the emergence of a transnational capitalist class (TCC). In using the term TCC I mean a group with a common relationship to the process of social production and reproduction constituted relationally on the basis of the struggle over social power. This type of analysis has traditionally been applied to class opposites; however, I also use it to indicate the relationship *between* fractional interests *within* a class. Thus I do not necessarily conceive of the TCC as a unitary actor because significant ideological and strategic differences exist within capital (van Apeldoorn 2001; Robinson and Harris 2000). Rather, there are differences in concrete material factors and it is through political organisation that differences in the TCC can be temporarily transcended and a unity of purpose achieved to constitute an interest across competing groups, classes and class fractions (van Apeldoorn, 2001, 70). In this sense, these processes are transnational structures that reproduce and increase the inequitable distribution of income and resources, in this case in ECE's transition. There is therefore a move from abstract commodification and exploitation to concrete agenda setting and policy planning (van der Pijl, 1999; Cox, 1987).

Third, in providing an alternative framework for transition a transnational historical materialist perspective contests the notion that *national* economic interests lead to *national* preferences. Briefly, there are three problems with conceptualising transition as a purely national process. First, that economic interests shape ideas and preferences may well be the case, but this also works the other way round – ideas shape and structure economic (and political) interests. Second, that economic interests and ideas are formulated more

comprehensively than such issue-specific approaches hold. And third, economic ideas and interests are not confined to nation states – with the emergence of transnational capital and social space, there is the emergence of a transnational concept of control (Holman, 2001). The notion of a concept of control, following van der Pijl and Overbeek, is a comprehensive framework of thought and action that configures the 'limits of the possible' in a given social situation. It is integrated and organised to safeguard the interests of particular social groups or classes and as Overbeek stresses, it connotes a managerial and a power relationship (Overbeek, 1993). The concept of control is only successful or hegemonic when the particular concept is translated from a specific interest into a general interest. Therefore hegemony is the extent that a class (fraction) can articulate different visions of the world to ameliorate potential antagonisms. This is the expression of the structural/behavioural power of capital, what Gramsci termed the historical bloc originating from the socio-economic relationships between different fractions of the bourgeoisie and labour (Murphy, 1994, 26-7). The organisational and institutional framework for this is the state. To be effective, concepts of control are transmitted into domestic and foreign policy at the state level with the state acting as the political platform for the articulation of concepts of control and the general safeguarding of bourgeois hegemony. Concepts of control become hegemonic by expressing the general interest through the incorporation and neutralisation of competing visions.

The fourth reorientation for transitology is that the role of the state cannot therefore be confined to an exclusively national locus. With the transnationalisation of capital there is the "realisation of the political articulation of [transnationalisation] concepts of control at the national level" (Holman 2001: 169). The internalisation and internationalisation of concepts of control is dependent on the pre-existence of historically determined national, socio-economic and political structures. As Gramsci notes:

> It is in the concept of hegemony that those exigencies which are national in character are knotted together … A class that is international in character has – in as much as it guides social strata which are narrowly national … and indeed frequently even less than national: particularistic and municipalistic … to nationalise itself in a certain sense (Gramsci, 1971, 241)

It is thus the state that is the political framework for the transnational operation of concepts of control, where these can be synthesised with national political cultures, attitudes, constitutional arrangements etc. Put simply the state is itself the very medium for the articulation of transnational hegemonic concepts of control (Panitch, 1996, 113). Thus for Holman, the TCC is an unfolding system of multi-level decision-making, an emergent, novel

form of bourgeois domination that supports and strengthens a genuinely transnational class society. It is an increasingly cohesive transnational class of capital owners embedded in a transnational structure of political elites, bureaucracies and think tanks (Holman, 2001, 173). Extrapolating from Gramsci then, the development of a TCC is the advance of a universal political class-consciousness. Economic and material interests become a comprehensive worldview in the moment of class formation. Where the economic, social and political, join as an organic whole there is "the decisive passage from the structure to the sphere of complex superstructures" whereby the formulation of the best economic policy is most concretely linked to social, educational and foreign policy (Gramsci, 1971, 181-2).[7] In the following section, the paper explores the restructuring of the state in ECE.

The transnational restructuring of the post-communist state

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[7] Recent attempts to apply this perspective to ECE have remained wedded to examining the efforts of predominantly external agents like the European Round Table of Industrialists (ERT) in formulating concepts of control (Holman, 2001) or comparing ECE to earlier examples of enlargement suggesting that the EU has systematically propelled ECE towards adopting neoliberal policies (Bieler, 2002) rather than extracting the pre-existing, historically determined national, socio-economic and political structures. Both are clearly invaluable, indicating the necessity for such an analysis. The ERT formed a series of enlargement councils to act as the link between 'government, the ERT Enlargement Working Group and the EU Commission officials in Brussels', encouraging regular contact to ensure ECE's 'fast and smooth accession to the European Union' (ERT, 2001, 4), and Bieler's comparison between the 1995 enlargement and 2004 is helpful in analysing the attendant reconfiguration of the social relations of production and uncovering the broad terrain of the problematic. Yet neither have really historicised the social relations of production in ECE, nor addressed the problem of the difference in the trajectory of class relations emerging from communism, (Eyal, *et al* 1997; 1998) and the distinctive characteristics of the new capitalism in ECE where there was the absence of a prevailing capitalist class (Eyal, *et al*, 1997, 60; Shields, 2003, 137). Post-communism differs significantly from both western models of capitalism and the rapacious 'klepto-capitalism' emerging in the former USSR (Frydman, Murphy and Rapaczynski, 1998; Gustafson, 1999). In Western Europe large-property owners created the institutions of the market economy, capitalism with capitalists; contemporary Russia has powerful property-owning oligarchs without meaningful market institutions, capitalists without capitalism; but ECE has market institutions without an attendant class of property owners, capitalism without capitalists. Rather than real capitalists, ECE transition has generated networks of cross-ownership, self-ownership and ineffective small shareholding via investment funds connected with state-owned banks (Stark, 1996). This is a new form of European political economy built not on the ruins of socialism but with the ruins of socialism; not capitalism by design but a new economic system constructed from elements of the old (Buroway, 1996, 1109-1111).

While state socialism was economically unsustainable it has left an important footprint on the former state socialist societies. The state monopolization of civil society has meant that there is limited historical memory of civil society in the transition states. Before 1989 civil society was skewed towards the needs of state socialism, so, for example, while ECE and FSU education systems produced high levels of literacy and the fabled well educated state socialist citizen, allegedly so useful for transition foreign investors, (Estrin, 1994), education was decidedly vocational and bureaucratic, designed to manage the "administrative–command economy" (Gregory, 2003: 1), a very different set of requirements than solving the problems of post-state socialist marketisation and preparing the labour force for a post-industrial, knowledge-based economy. The state socialist educational system was designed to produce manpower for a form of Fordist manufacturing industry the west had transferred to the developing world during the 1970s. Social security and the provisions of the welfare state were all filtered through the lenses of state socialism whereby leisure and medical provision, for example, were all coagulated around single enterprise towns and villages. Along with differing degrees of urbanization and agricultural collectivization these issues configure a complex set of post-communist social, political and economic arrangements after 1989 as state socialist legacies interact with the imperatives of globalization. While the interaction is mediated through the domestic institutions of state and labour (Pollert, 1999) this mediation is not necessarily symmetrical as organised labour has suffered from intense disorientation and weakening and the reshaping of employment relations in ECE has on the whole been undertaken by 'unorganized' labour (Thirkell, Petkov and Vickerstaff, 1998; Vickerstaff. and Thirkell, 2000) as ECE attempts to escape the European periphery and transnational social forces continue to intensify implementation of neoliberalisation through depoliticisation.

As Gerschenkron (1962) and Berend (1994), have separately exposed, ECE has always been a 'backwards' part of Europe; part of the European periphery. For Berend (1994: 78), the Soviets could not halt the erosion of the system from the mid-1970s, so that state socialism in the FSU had "lost all its previous advantages and modernizing dynamism". Therefore it became clear that partial reform would not suffice but real change was delayed until the late 1980s and early 1990s (Ericson, 1991: 25). However in ECE the story is slightly different, by the late 1980s discussions in Poland and Hungary were of entire systemic change despite earlier piecemeal and half-hearted attempts at reform (Korbonski, 1989;

Szacki, 1995). One rationale for this is that the Stalinist form of economic model was only imposed after 1945 in contrast to the FSU (Nove, 1982; Gregory, 2003). Reforms were repeatedly attempted so ECE has an historical 'memory' of capitalism, the market and an autonomous political reality.

Various provisions have had the effect of restructuring the state in ECE and its relation with capital to establish and guarantee the operation of transnational capital. This is not something imposed on the state by transnational capital as if by an external force. Rather it reflects the role adopted by the ECE state in representing the interests of a nascent bourgeoisie and bureaucracy as they are increasingly penetrated by transnational capital and the impact of *administration* through emerging forms of transnational governance. The transnationalisation process is adjusting national policies and practices to the exigencies of the global economy with particular state apparatus buttressing the changes in the spheres of production and finance (Cox, 1987). This has been most apparent in the more industrialized states but is increasingly evident in other states in the ministries and institutions that are most closely linked to the global economy. Such a formulation of this relationship recognises that transformations in the European (indeed the global) governance structures are not just a case of the state withdrawing (Panitch, 2000). The role of the state has not necessarily diminished but the nature of state intervention has changed (Panitch, 1996; Poulantzas, 1975: 70-88). The intensification of the power of capital, has not necessarily removed power from the state. Rather, the state intervenes in this intensification, as in the transnationalisation process, with states themselves taking charge of the interest of the dominant capital in its development within the "national" social formation (Poulantzas, 1975: 73). Our attention needs to be directed to the relations and struggles among social forces with the state understood in the context of its role in organizing, sanctioning and legitimizing class domination within capitalism (Panitch, 1996). Rather than a loss of power, transnationalisation is restructuring state apparatus and hierarchies. Agencies with direct links to the "national" economy, such as ministries of labour and industry, have not been displaced, but they are progressively subordinated to finance ministries, treasuries and central banks. Thus the "national" has become the transmitter of policy through those agencies most closely linked to the global economy (Cox, 1987: 214-81).

The transnationalisation of any state though is still determined by struggle among social forces located within each social formation. Even though these social forces are

'implicated by multiple tiers of dependence in an international division of labour and in the international concentration of capital' and although struggle may be 'more than ever developing in conjunctures determined on a world basis', the specific national form still prevails in these struggles due to the specificity of each social formation (Poulantzas, 1975, 78). ECE is only one such site of transnational processes integrating and subordinating national and regional economies and class restructuring. Certain *transnationalised* domestic classes and fractions linked to the global economy have emerged and become dominant. This is not a spontaneous process though, as class formation necessitates a constant stream of ideological and material forces to synthesise a long-term framework for political and economic interests (Gill, 1990, 45). ECE capitalism did not just appear fully formed overnight in 1989; 'class hegemony does not simply happen as if by magic', the capitalist class, its transnational members and ECE's nascent junior partners, 'expend much time, energy and resources to make it happen and to ensure that it keeps happening' (Sklair: 1997, 520), despite what policy makers might have expected. It is this process that the article now turns to.

National responses to the 'Europeanisation' of transition

To begin to more comprehensively expose the relation between ECE transition and EU enlargement, we need to be cognisant of an incipient transnational class and its political agenda. The economic component of the project is the installation of neoliberalism to ensure macroeconomic stability as the prerequisite for the activities of transnational capital and the social reproduction of the right form of capitalism. This is harmonising fiscal, monetary, industrial and commercial policies among different countries to enable the fullest functioning of transnationally mobile capital. Put differently, the provision of 'mechanisms for intra-elite compromise and accommodation … to legitimate the political authority of dominant groups and to achieve the political stability necessary for global capitalism to operate' (Robinson, 1998, 471). In ECE this has previously occurred through Shock Therapy but is now part of the further entrenchment of neoliberalism through EU enlargement.

Certain key components characterised the embedding of ECE into the TCC concept of control around 1989 and I propose four distinctive methods for ensuring that the interests of transnational capital remained intact during transition and persist into EU

membership primarily because the enlargement criteria have focused on economic reform. First, there is the re-imposition of the original transition hub and spoke relationship. Second, ECE remains stuck playing a game of economic catch up with the EU while inequality levels soar. Third, while there have been notable successes in particular sectors, ECE development trajectories remain, at best, uneven. And fourth, transnational social forces are coming to dominate the more strategically important sectors in the region through FDI. I will address each in turn.

A particular formulation of the appropriate policy choice for successful transition inculcated transition states into the correct framework of transnational governance, and transition can be understood as part of the politico-juridical dimensions of neoliberalism through depoliticisation that has aimed to secure: property rights, investor freedom, and market discipline on the state and labour in order to maintain credibility for private investors. ECE states had to conform to the following schema of transition. First, the break-up of Comecon was intended to foster the detachment of ECE from the USSR. The precondition for normal relations was the imposition of a hub and spokes structure on the states of ECE with regard to their relationship with the West, to weaken regional ties. In 1989, Western states dealt with the most politically sympathetic governments of individual states, rather than with the region as a whole encouraging particular forms of domestic political arrangement and discouraging others. By focusing the revival of economic activity on FDI and trade the West not only compensated for the collapse of Comecon but the more sympathetic and co-operative states of ECE were offered the incentives of EU market access, FDI, economic assistance and eventual EU membership. In terms of trade policy the EU has continued this pattern with each state in the region relating to the others mediated through their relationship with the EU hub. As a consequence, traditional regional economic patterns in ECE have collapsed, to be replaced by a form of dependency as evidenced by increasing trade deficits with the EU, and in particular Germany (Gowan, 1995).

As far as economic development is concerned, despite the decade and a half of hardship that has been endured since the collapse of Soviet hegemony, ECE remains in a precarious position and the successes in transition have been pitiful in their extent. By 2001 five of the ECE 10 applicants had failed to exceed their 1989 state socialist level of GDP. Indeed, what we might term the lost decade of the 1990s throughout ECE has been marked

by recurring recession. Put simply, transition has led to severe hardship that is being further compounded by EU enlargement (see table 1).

Table 1: ECE's lost decade: % GDP change from previous year and final column is 1999 as a percentage of % of 1989

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	%
Croatia	-9.3	-28.7	-11.7	-8.0	5.9	6.8	6.0	6.5	2.5	1.0	79
Czech R	-1.2	-14.2	-3.3	0.6	3.2	6.4	3.9	1.0	-2.7	0.0	95
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.4	5.0	4.2	99
Poland	-8.0	-7.6	2.6	3.8	5.2	7.0	6.1	6.9	4.8	3.0	121
Slovakia	-2.5	-14.5	-6.5	-3.7	4.9	6.9	6.6	6.5	4.4	1.0	101
Slovenia	-4.7	-9.3	-5.5	2.8	5.3	4.1	3.3	3.8	4.0	3.8	107

WWIW (1995), EBRD (1999)

For example, in Poland, even though there are increased goods and services available, there is also escalating job insecurity, decreases in real wages with particular sections of the population worst hit, for example, the elderly, single company towns and rural communities. Unemployment initially peaked at 16% after Shock Therapy and from 1994 to 1997 it dropped to around 10%. Since then it has been rising steadily towards 20%. However bad these figures might appear, the reality of transition is actually far worse. Up to one third of the unemployed simply do not bother to register as such. Poles lack of interest in registering as unemployed is partly explained by the fact that only one fifth of registered unemployed actually receive any state benefits. In some regions this figure is as low as 2%. High unemployment is rapidly becoming Poland's biggest social problem and is exacerbating an already high rate of poverty in a state characterised by high-income inequalities and one of the highest Gini coefficients in Europe. There is also a distinctly gendered component to this situation. Women have gained little from transition with deteriorating gender equality and as LaFont contends the winners in post-communism are the elite group of entrepreneurs and the grey economy; the rest are losers (LaFont, 2001; also True, 1999) In 1995 the bottom 10% of Polish households received only 2% of national income.

Overall though, the response of national social forces has been deeply disquieting. What Greskovits terms the "deterioration of the collective action capacities of [the] losers and opponents – mainly labor, labor unions, leftist parties" driven primarily because

obviously labour has borne the brunt of the neoliberal attack since the commencement of transition. Union membership levels have fallen drastically (Kubicek, 1998) and their capacity for mobilisation has been substantially diluted at both national and individual enterprise levels. As Greskovits formulates it, there has been "massive exit from the formal economy" (1998: 87) that has dominated the pattern of social responses in ECE and the most frequent response has been not strikes but a "shift to the informal economy" (1998, 17). As contributors to Crowley and Ost (2001) reveal the "new" private sector is predominantly union-free and labour increasingly embraces the neoliberal project. On the whole the social forces that do offer resistance to the current neoliberal variant of EU enlargement are nationalist and xenophobic (Böhle 2002), for example the September 2001 elections in Poland introduced two outspoken nationalist, xenophobic and anti EU-parties, Samoobrona (Self Defence) and the League of Polish Families into the Polish Parliament. Their constituency is those who have lost most in the transition: the agricultural and heavy industrial sectors. The strength of nationalism and xenophobia reflects a broader weakness of dominant social forces to offer solutions to the key social problems of high unemployment and social polarisation in an ever widening gap between the winners and losers of transition societies. Recession is often *wittingly* brought about by governments wishing to decompose labour into a more readily exploitable source of labour power through the imposition of scarcity through austerity – decomposition also having the effect of undermining class consciousness and solidarity. Mechanisms within the EU (such as the ERM) help national states to discipline workers and a large pool of cheap, educated labour in the new members further disciplines western EU workers. Therefore, recession is not simply an unfortunate outcome of neoliberal restructuring in transition and enlargement but an integral part of it the strategy.

Transition to where? EU membership and the legacies of transition

The Nice Treaty formally eliminated the main institutional obstacles on the way to EU enlargement. The political economy implications are less clear, will enlargement affect 'social Europe'? The notion of 'social Europe' remains highly contested (Streeck, 1994), where common policy goals are gradually replaced by much less ambitious 'policy coordination'

resting on subsidiarity, benchmarking and 'best practices'.[8] Enlargement will severely test the 'possibilities' of such a model. Enlargement will make governance issues within the EU more difficult merely by increasing the number and variety of member states but it also threatens the reappearance of a familiar situation, the emergence of another iron curtain or ideological border in the EU. On a whole raft of issues (privatization, pensions systems, taxation, working time, the welfare state, wage differentials), the ECE states are more closely aligned to an 'Anglo-American' (read neoliberal) form of capitalism rather than the European social market economy.

One of the crucial mechanisms for integrating ECE states into this form of capitalism has been the dominance of particular social forces in the initial transition process (Shields 2004). Ignoring this threat neglects recent developments in the global political economy of deeper neoliberalisation. TNCs have helped to construct these macro-level trends; the flexible environment of the ECE is a form of 'laboratory' for new production arrangements to be exported to the western parts of the EU at a later date. These transnational neoliberal, processes have been explained by some as the result of pressure from western agencies such as the IMF and the World Bank (Pollert, 1999). Although certainly weighty, these pressures cannot explain the 'excess of zeal' in ECE where post-communist states have been even more keen on deregulating and privatizing than suggested by those agencies. Indeed there is competition between the ECE states to see who can be top of the (post) Washington Consensus class. For instance, not only the EU, but even the World Bank criticized the Polish health-care reform for being too market oriented. Polish monetary policy was criticized by the IMF, in April 2001, for being too restrictive, not too generous. Influential politicians in the region, such as Klaus in the Czech Republic or Olechowski and Balcerowicz in Poland, have made explicit that they do not aspire to a European social model. In spite of the fact that the candidate countries quickly signed the Social Charter the actual outcome of this may increase EU fears of ECE as a 'Trojan horse' of deregulation (Meardi, 2002, 78).[9] Enlargement represents the threat of another means to discipline (Western) European labour through the competitive pressures brought to bear

[8] One might then say that EU enlargement eastward cannot have destructive effects on the European social model, for the simple reason that that model does not exist.

[9] It is worth considering how the 'new; Europeans sided with the US over Iraq rather than with the Franco-German core. And of course the first western leader to advocate immediate inclusion of ECE into the EU in 1990 was Mrs Thatcher.

through the threat of an ECE industrial reserve army of labour. What this suggests is the success of the neoliberalisation by depoliticisation process in reducing awareness of the possible dangers that might be articulated in an enlarged EU.[10]

For academics engaged in analysis of ECE the *celebrations* of ten years of transition in ECE has instigated an excessive amount of performance evaluations, progress reports and general soul searching on the first decade of transition. [11] These assessments have not only been an exercise in taking stock of where ECE is now but have also attempted to answer the vexed question of why, despite the implementation of neoliberal transition policies, has so much gone wrong in the transition process and where might ECE head in the future.[12] What is also necessary is the consideration of the legacies of the first wave of changes, and how this has been extended into the process of negotiating EU membership and the second generation of reforms (*inter alia*: Bieler, 2002; Grabbe, 2001; Hay and Rosamund, 2002;

[10] A few examples of problematic social issues include the following. First, the role of cohesion funds, while the EU may well be accurate in stating that cross-border redistributive flows within the EU are negligible this ignores the political implications of these funds administered by local political agents and becoming important resources in local political exchange, for example, in the development of so-called ‘micro-corporatism’. Second, massive relocations to ECE by TNCs may be unlikely, but increasing flexibility could make ECE more frequent and compelling as a ‘coercive comparison’ within companies, undermining existing arrangements. Third, despite the limited geographical mobility of ECE populations, the movement of people and the transfer of workers are delicate political issues already exploited by the right, particularly in the states that border the ECE 10, (e.g. VU, FPÖ, and Lega Nord), see for example Barros, (2001); Sinn (2002); Kupiszewski, (2002); Favell & Hansen (2002). And fourth, significant cultural discrepancies exist in areas like equal opportunities, a pillars of EU social policy and employment strategy but with an entirely different meaning in the post-communist states (e.g. ECE experienced full female employment and full child care provision).

[11] Among the many progress reports, major institutional contributions include comprehensive surveys by the European Bank for Reconstruction and Development (EBRD, 1999a), the United Nations Economic Commission for Europe (UNECE, 2000). Among individual evaluations see Gomulka, 2000, Kolodko, 2000, Stiglitz, 1999 and Wyplosz, 1999. However it is worth noting that Gomulka was advisor to the Polish government on the introduction of reforms, and Kolodko has moved between the Polish Finance Ministry and the World Bank with ease. On this is issue of observer/activists’ see Blazyca, G. and Rapacki, R. (eds.) Poland into the New Millennium, Cheltenham: Edward Elgar 2001, in particular the rather more circumspect assessment of transition in Kowalik’s chapter.

[12] It is worth reiterating briefly the increasing impact of the EU in ECE’s progress in transition. Agenda 2000, the Copenhagen criteria and the Lisbon strategy have all generated vast objectives for the future.

Papadimitrou and Phinnemore, 2004; Rosamund, 2002; Schimmelfennig, 2001; Schimmelfennig and Sedelmeier, 2002; Schusselbauer, 1999).

Recession has been experienced in all the transition states but those states geographically closer to the EU have emerged from recession more quickly and following a shallower decline than the other states further east. In at least six states, in the central region of ECE (Croatia, the Czech Republic, Hungary, Poland, Slovakia, and Slovenia) the market economy is functioning, economic decline has been arrested and the days of hyperinflation are over. The gap between the westernmost rim of ECE (or Central Europe) and the majority of the broader region (Eastern Europe) is also broadening with the Central European states in a better position to exploit the advantages of joining the EU and begin the long term task of striving to catch up with the West (Fischer *et al* 1998; Morita, 1999: 9) while in the east and FSU there remain sporadic indications at best of recovery. While the international institutions and many analysts still remain wedded to the relevance and importance of the link between recovery and the notion that "firm and persistent application of good policy yields large benefits" (World Bank, 1996: 5), for good policy read the core neoliberal policies of liberalization, privatization, stabilization and openness to the international economy, what clearly emerges from the spate of transition evaluations is that ECE and FSU are patently obviously involved in configuring a new economic structure after the collapse of Soviet hegemony and not just applying the transition neoliberal tool kit of deregulation, liberalisation, stabilisation, and structural reform. In terms of a critical political economy of transition there are four conclusions to draw from this.

First, that the parameters of the transition debate (Shock Therapy versus gradualism) are ultimately sterile and a deliberate over-simplification of the events and processes in ECE. As Orenstein (2001) has illustrated vacillating between the two extreme positions appears to have little impact on the success or failure of economic development. It is also worth emphasising at this juncture that there is little incontrovertible evidence of the link between liberalisation and successful transition. Second, that geography still matters. In broad terms, of the post-communist states, central Europe is rapidly becoming part of the EU mainstream. Yet, Southern Eastern Europe and other parts of the FSU have engaged in extensive ethnic conflicts, civil wars and inter-state conflicts; a form of political economy more reminiscent of parts of Africa than Europe. Third, that the inherited memory of the market and civil society in certain ECE states has left a deep sedimentation of economic

structures to draw on (not necessarily explicitly) in the post communist reconstruction. However, as Bradshaw and Stenning (2001) remark, there is no single variable to explain success and failure, progress or retreat in transition. Ironically the EBRD itself now acknowledges, 'the experience of the past decade has demonstrated that the process of transition from the command to the market economy is complex, difficult and lengthy … The upheavals can be profound and severe' (EBRD 1999, 11).

What we do need to acknowledge is that the changes invoked during ECE transition are also part of a wider series of neoliberal reforms being implemented around the world (Böhle, 2000). The reform programmes throughout ECE mimic the structural adjustment programmes of the third world, a point clearly illustrated in comparisons of Latin America and ECE (Greskovits, 1999; Bartlett and Hunter, 1997). There are two broad currents of thought as to where the transition states *fit* in the global political economy. First, many reject the idea entirely, singling out the particularity of ECE, contending that because ECE and FSU were a form of modern industrial economy they are experiencing transition from one advanced industrial economy to another. This is a unique set of circumstances, never before attempted (Sakwa, 1996) and makes comparisons with other states undergoing and contextualisation in neoliberal reforms irrelevant. A competing line of thought emphasises the characteristics that ECE shares with other states undergoing structural adjustment. However, ECE is on the whole an industrial economy rather than parts of the FSU which remain predominantly agricultural economies. Despite the clear geographical split between the central and eastern parts of ECE disparities in development are present but the ideological and policy environment for all transition states remains profoundly embedded in the technical application of neoliberalism. Therefore discussion of where transition fits in the emerging transnational governance structures remains vital. One further point to consider is whether the disintegration of parts of the FSU and ECE might fruitfully be interrogated as post-colonial experiences of conflict reminiscent of African tribalism, ethnic conflict, clientelism and corruption (Reno, 1998). What I think is clear though, is that the experience of transition in ECE might help consolidate our understandings of recent transformations of the state in an epoch of neoliberal globalisation.

So in practical terms where does this leave ECE as EU membership commences? One way of articulating this situation would be to assess how similar the ECE economies are to either the US or EU model. The endpoint of transition is clearly intended to be a

neoliberal, Washington Consensus approved, economy (Gowan, 1996). Yet as Stiglitz claims, none of the developed Western economies actually have a set of purely neoliberal arrangements either and the pressure for neoliberal change in non ECE states remains just as intense too. ECE is therefore left with three overriding concerns. First, there are the extant longer term problems endemic to the state socialist economies and the chronic macroeconomic problems that have repeatedly delayed change because the costs of transition have been too high to bear. Second, the weaknesses of central planning and the attendant socio-economic institutions during state socialism have been transferred into the contemporary period. One particular outcome from this has been that the governments of ECE are less effective and those states that indulged in partial reforms during the state socialist period, (Poland, and Hungary's New Economic Plan) have benefited enormously from what constitutes a type of transition first move advantage. Third, that despite the reform policies implemented, proximity to the EU remains a crucial issue. Regional integration into western trading networks, the demonstrative effects of proximity and ongoing political cooperation will further divide the post-communist states.[13]

The catch all solution to these problems has come to be the EU. However, rather like ECE, the EU has also taken its time to come to terms with the collapse of communism. Association agreements, which became the Europe Agreements, were signed in the early 1990s but while this represented the first opening up to ECE it simultaneously ensured access for EU enterprises to the new ECE markets. Full membership was repeatedly delayed and in 1993 the EU formalised its expectation of ECE in the Copenhagen criteria. The conditions set at Copenhagen exceed the requirements of any previous applicant, stating that not only do prospective members have to take on the obligations of membership, the whole body of EU legislation the *acquis communautaire* but they also have to be a functioning market economy and have the capacity to cope with competitive pressure and market forces within the Union. Since 1993, demands on the applicants have been defined more clearly as the Commission 1995 Single Market White Paper outlined the market regulation part of the

[13] Baldwin notes that bilateral arrangements between ECE states and the EU could damage economic growth, as ECE has reoriented trade to the EU but maintained barriers between themselves. (Baldwin, 1994, 129-36). For example between 1989 and 1994, Hungary's exports to the EU increased from 33.8 to 63.7 per cent, while its share of exports to Czechoslovakia, Poland, Bulgaria and Romania decreased from 10.4 to 7.4 per cent (UNECE,1996, 77).

acquis for adoption, building on the Europe Agreements. The 1998 Accession Partnerships were even more specific as conditionality for aid and other benefits has been related to meeting the criteria set out in them. This conditionality for accession patently extended EU influence "considerably further into domestic policy-making in [ECE] than it has done in the member states … [influencing] many policy areas beyond the reach of Community competence in the member states." according to Grabbe (1999, 5).

The EU's wider reach in economic reform, clearly demonstrated in the governance is clear in the Accession Partnerships means that the EU has taken over as the primary driver of transition. During the early 1990s the EU has relatively little impact on the fundamentals of transition, in comparison with domestic social forces, the IMF and the World Bank. The Accession Partnerships changed that with, for instance, the threat of conditionality linked to financial aid. And in recent years Agenda 2000 has been another attempt at readying the ECE states for membership. However, ECE still remains stuck playing catch up with the west; compare for instance levels of purchasing power parity (Galgoczi, 2002, 41). Using 2000 data at purchasing power parity, the World Bank sets Czech GDP per capita at $13,780. By comparison, the EU average according to the same World Bank purchasing power calculations is $23,550, with the GDP (in millions of dollars per year) capita of EU accession candidates Malta and Slovenia at $16,530 and $17,310, respectively. Czech GDP per capita, at 2002 purchasing-power parity, is only two-thirds of the 30 state OECD average. The differences between ECE and the EU remain colossal.

Conclusion

The aim of this paper was twofold. First, it provides an analysis of the political and ideological role played by emergent transnational social forces in the post-communist transition and EU enlargement. Second, it illustrates this by elaborating some of the implications of securing and embedding neoliberal reforms what I have termed here neoliberalisation through depoliticisation. Particular transnational social forces have played a vital role in influencing transition and enlargement, through the articulation and promotion of particular ideas of transition and through their material power. This has shaped the framework within which the transition process has taken place. As Böhle has noted, transnational capital may well be generally in favour of enlargement, but this does not preclude lobbying for specific exemptions of EU regulation, which are presented as official

government positions. Examples abound, the struggle for the extension of the special industrial zones both in Hungary and Poland, the Hungarian–EU conflict over Hungary's FDI regime, or the resistance of German Telecom, the majority owner of the Hungarian Telecommunication company MATAV, against the deregulation of the Hungarian telecommunication market, (Böhle, 2000, 128).

I want to suggest three possible future scenarios generated by this discussion. First, further Europeanisation along the lines of the European social model, however, as the paper shows, Europeanisation through enlargement is configuring intensified inter and intra class tensions. Second, re-nationalisation, as currently implied by the surfacing of disparate alliances between labour, capital and governments at the national level in the name of national competitiveness and the importance of national sovereignty. This is however, destructive rather than a progressive response and is not being effectively reinforced. This leaves a third option of deeper and wider neoliberalisation and depoliticisation, as enlargement appears not to foster neo-corporatist practices, but instead emphasises divergences between social forces on the future of European integration (Ost, 2000). The fragmentation of the new European political economy enhances neither national nor European-level alliances and is instead consistent with the latter neoliberal scenario.

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