The social consequences of European Union expansion

Markus Salzmann
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The accession of 10 Eastern European states to the European Union from May 1 will intensify the social crisis in these countries as well as in the rest of the EU. The population in Eastern Europe has already suffered an enormous rise in poverty and unemployment, wage cuts and the devastation of social provisions in order to fulfil the criteria for EU membership.

The introduction of free market conditions, the privatisation of former state enterprises and radical austerity measures have led to devastating economic and social conditions.

Wages in the accession countries are presently five to eight times lower than in the EU. Average per capita GDP in the current EU states (24,250 euros) is substantially higher than in Hungary (€7,080), for example, or Latvia (€3,740).

Unemployment, the main cause of poverty, rapidly rose in the accession countries in the last 15 years. In the Czech Republic it climbed from 0.7 percent in 1990 to 6.5 percent in 1998 and is now almost 11 percent. On average, it is twice as high as in the EU.

These figures are not truly representative, as there are strong regional differences. In Bratislava, the capital of Slovakia, just 60 kilometres from Vienna, unemployment is approximately 4 percent. It rises to 60 percent in rural areas 200 kilometres further east. The national average in Slovakia is 16.6 percent. A similar range can be seen in Hungary. While unemployment is minimal in the capital Budapest, in other regions it rises to 40-50 percent. Unemployment among those aged under 25 is constantly increasing. In some regions some 45 to 50 percent of this age group are affected.

An unparalleled decline can be witnessed in all areas of society. In Poland and Hungary, the child mortality rate has risen by over 5 percent since the end of the 1980s. It is estimated that 50 percent of the Hungarian population are currently worse off than 10 years ago.

At the same time, Eastern Europe is considered a paradise for Western European enterprises. In order to attract foreign capital, business taxes have been drastically reduced. In the Czech Republic, it has been decided to lower the business tax rate by 7 percent to 24 percent. Like Poland before, Slovakia this year introduced a uniform tax rate of 19 percent, which applies equally to the ordinary worker, the multimillionaire and big corporations. Last year, those with high private incomes were still being taxed up to 38 percent. In Hungary the tax rate is also below 20 percent and the country is seeking to lure enterprise with tax exemption schemes lasting many years.

The Baltic states have established even better conditions for those willing to invest. In Latvia, the poorest accession country, several special economic zones have been established in which corporations enjoy tax exemptions of over 80 percent. Estonia has completely exempted business profits from taxes.

These lower taxes and the enormous wage differentials mean corporations are increasingly shifting their production to Eastern Europe. It is forecast that in a few years Slovakia will be the world leader in car production when measured per head of the population. Service and IT jobs are also being shifted eastwards. The logistics enterprise DHL, for example, plans a project in the Czech Republic worth €500 million. As a result, production in Britain will be reduced. The number of call centres will rise in the Czech Republic by around 70 percent over the next years.

In the main, today’s business-friendly conditions were established in the 1990s by former Stalinist bureaucrats, who rapidly proved themselves the most eager advocates of capitalism.

A good example of this is the policy of the government in Hungary in the mid 1990s. The “Bokros package,” named after the finance minister at the time, implemented drastic cuts in pensions, health and education; a radical devaluation of the currency meant a loss in real wages of 10 percent. In parallel, state-owned industry was rapidly denationalized and an army of unemployed established.

A former production director of the Phillips electronics corporation recalled these years with satisfaction in a recent magazine interview. “At first, we did not want to believe it all,” he gushed, “we counted and counted again. Suddenly we were again competitive with Asian production locations.”

In the 1990s, Phillips increasingly shifted its production to Hungary, where wages are about five times lower than in Western Europe. Since 2001, the corporation has moved production further eastwards, to the Ukraine, where costs are even lower.

Many other Western European enterprises are doing the same, e.g., Siemens, which recently announced the transfer of between 5,000 and 10,000 jobs to cheap wage countries in Eastern European.

In order to attract international capital, the contest to see which country can offer the lowest taxes has spread to Western Europe. Austria, which for years has had the lowest taxes on wealth in the European Union, has decided to implement tax "reforms" in 2005, lowering corporation tax from 34 to 25 percent and offering further concessions for investors.

In this regard, tax experts are already warning that the radical austerity measures Vienna has imposed on the population over past years will no longer be sufficient to compensate for government revenue shortfalls resulting from this reform, meaning large holes will arise in the budget.

In part, this situation has already been achieved in the accession countries. According to economists, the budget and foreign trade deficits contain the potential for economic crises. Last year, for example, Estonia's budget deficit reached nearly 15 percent. This is five times higher than the Argentinean deficit which provoked a huge financial crisis in the country in 2001. In Hungary, the forint came under severe pressure this year because of the rising state deficit. The Hungarian foreign trade deficit is already 58 percent. In Latvia it is about 64 percent of GDP.

Contrary to everything said by Brussels, the accession of the East European countries in May will not improve the situation for working people there. All indicators point to the differences in wages between east and west continuing to remain in place for at least 10 years. Also, the "reforms" will not end with accession. The Czech government declared recently that further cuts were necessary in health and pensions provisions. Given the current condition of the welfare system this largely equates to privatisation.

It is more likely that conditions in Western Europe will be adapted to those of the accession countries. Even more comprehensive attacks on wages and social standards will be demanded in order to remain "competitive." At the beginning of the year, the Ifo Institute for Economic Research at Munich university proposed wages in East Germany should be cut, since after accession regional funds provided by Brussels would diminish and a rise in unemployment threatens.

As the German newsweekly *Der Spiegel* reported recently, a government commission—consisting of a number of business representatives under the leadership of the Klaus von Dohnanyi, the former chief of Treuhand (the institution responsible for denationalising East German state property during German reunification) submitted a proposal to establish special economic zones in East Germany. These would supposedly give Germany an "equal chance" against countries such as Poland, Hungary and others where such zones already exist. The central thrust of the proposals are tax exemptions for enterprises, the deregulation of labour and environmental law and the concentration of state aid on "economic centres"—which would deprive all other areas outside these zones of any aid at all.

None of the established parties in Eastern Europe represents the interests of the broad mass of the population, who are mainly confronted with choosing between ruthless market-oriented "neo-liberals" and retrogressive nationalist forces, who seek to direct justified indignation into reactionary channels.

This has resulted in a situation that is politically quite unstable. In Hungary, one government after another has been voted out at elections held since 1991. Recently in Poland the government party split and does not even register 10 percent in opinion polls. In Latvia, the twelfth government since 1991 has come into office. And in Lithuania, government head Rolandas Paksas was recently impeached because of his contacts with the mafia.

The advanced nature of the social crisis in the accession countries contains enormous potential for conflict, as was shown in the unrest in Slovakia in February. In the course of the European-wide demonstrations against welfare cuts on April 3 there were also many protests in Eastern European cities.

The progressive unification of Europe is possible only in the form of the United Socialist States of Europe. The EU is expanding eastwards in the interests of the European financial elite, which sees a reservoir of cheap labour and new markets in the accession countries. At the same time, they will try to impose a similar level of wages and social standards in Western Europe.

The expansion process means not only that social contradictions will increase; the conflicts between the European powers and between Europe and the USA will also be intensified. This is clearly shown by the distinction drawn by the American government between an "old" and "new" Europe, linked to support for the Iraq war, and conflicts over the creation of a common EU constitution.