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Europe

# EU enlargement: from poverty to misery

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**The enlargement of the European Union to include the Central and Eastern European countries (CEECs) has now reached the decisive moment. The European Council meeting in Gothenburg confirmed that it was an "irreversible" process and adopted a final schedule for the negotiations, which are to conclude by the end of 2002, thus enabling the applicant states to participate in the elections to the European Parliament in 2004.**

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The European Council at Laeken in turn agreed that EU enlargement will include all applicant states with the exception of Rumania, Bulgaria and Turkey. For years now EU membership has characterised and conditioned the political horizon of the CEECs, justifying the neo-liberal adjustment policies as the mechanism for systemic change. In the remaining twelve months – and in the distinct transitional periods that have been arranged – they will be required to pursue a definitive deep economic and administrative restructuring with, as its consequence, a sharpening of conflicts of interests. Because later, when full membership is a fact, the single market will act on the correlation of forces established in each of the states in question, determining who are the winners and who are the losers in this major social transformation.

After ten years of systemic change, public opinion in the CEECs views the membership process as the light at the end of the tunnel: they are distrustful of present sacrifices and hopeful that they will be of some use. The question is of some importance because when the negotiations are over each applicant state will have to hold referendums. And in recent years the situation has become somewhat clouded, with a majority of the electorate opposed to membership in such countries as Estonia and Latvia. But the latest survey by Eurobarometer shows a slight increase in support, with the potential yes vote hovering around 60%, although in some countries, such as Poland, 44% think the government is making too many concessions to the EU in the negotiations. [1]

Where do the negotiations stand? Of the 372 chapters (12 countries, 31 chapters to negotiate), 334 have been opened for negotiation and 249 have now been provisionally closed. And of the 38 chapters yet to be opened, 24 have to do with chapters 30 ("Institutions") and 31 ("Other"). [2] But the numbers are deceptive, for the 14 remaining chapters refer to the key issues and the hardest ones: agriculture, regional assistance policy, restructuring of heavy industry and state assistance, and post-enlargement financial provisions and budgets.

The negotiations are being held against an extremely complicated panorama of the differences between the CEEC standard of living and the EU average, the low agricultural productivity and the high percentage of the labour force in the rural sector, the continuing high number of workers in heavy industry, including the iron and steel industry with its barely disguised state subsidies, combined with unemployment rates as high as 16.5% in Poland. The CEECs – above all Poland, which by its size is a special case – are being told to drastically reduce their farming population and transfer them to other areas of production, while at the same time restructuring heavy industry and the traditional iron and steel complexes, with a social welfare system that is extremely weak and a fiscal crisis that puts paid to any increase in social spending. And all this in three years, haggling over the structural support and subsidies of the Common Agricultural Policy (CAP).

Not surprisingly, the actual process of negotiations and adaptation to the harsh dictates of the community has created a series of reactions within the CEECs, and above all in Poland. The recently elected coalition Social Democratic-Peasant Party government in that country faces a parliamentary opposition composed of more radical peasant parties and the anti-European Catholic far right. Now it is being forced to back down on the first point it had intended to negotiate with Brussels – the transitional period for the purchase of land by Community citizens following enlargement – amidst a major political scandal. [3]

All of this - the policy decision made at Laeken concerning the members of the initial enlargement group, the political situation in Poland and other CEECs, and the social consequences of the negotiating items - makes much less likely the advances that had been anticipated under the chairmanship of Spain, a country, moreover, that is itself one of the more reluctant member states about enlargement since the process will lead to it losing out in terms of aid.

## A little background

The neoliberal "shock therapies" that have jump-started the transition to capitalism since the fall of the Berlin Wall in 1989 have involved a sharp drop in GNP, impoverished a large sector of the population and produced structural unemployment ranging between 10 and 16% in all the CEECs. [4] There was no growth in most of these countries until 1999 and positive growth for the group as a whole only in 2000. [5]

In 1993, on the basis of article 49 of the EU Treaty, the European Council, meeting in Copenhagen, established the political and economic criteria for CEEC membership. Following the presentation of their candidacy in 1994-95, the EU negotiated and signed with them the European Accords, a transitional mechanism to prepare for the membership negotiations, with a series of limited support measures, in particular the PHARE [Action plan for coordinated aid to Poland and Hungary], ISPA [Instrument for Structural Policies for Pre-Accession] and SAPARD [Special Accession Programme for Agriculture and Rural Development] programmes. The Committees and annual Association Councils have encouraged and supervised the CEECs' progress toward rapprochement with the harsh Community regime. By 1994, as a result of the policy of disconnecting the old regional division of labour in the CMEA (Council for Mutual Economic Assistance, a.k.a. COMECON), the EU had become the largest market for the CEECs, and accounted for 60% of their exports in 2000, although the EU has a trade surplus of 17,000 million Euros. [6]

The Madrid European Council of 1995 asked the Commission for a study of the financial consequences of enlargement. The result, Agenda 2000, produced some extremely hard bargaining that ended only with the Extraordinary Council meeting in Berlin in 1999, which established some financial forecasts for up to December 31, 2006. During the transitional period, the criteria for distributing agricultural, regional and structural assistance will be the same for new and old members of the EU. In accordance with the calculations by the Commission in its day, these estimates should help to cover the transfers to the new members until 2007, when a new EU budget is to be approved. Concretely, 3,120 million Euros have been budgeted annually for the pre-accession programs and a total of 58,000 million Euros for the structural and agricultural assistance of the new members. [7]

## The basic problem

Enlargement will add 75 million people to the 375 million citizens of the EU, a 23% increase, but will increase the EU's GDP by only 4.5%. As The Economist warns, with more than a tinge of Malthusianism, "they are many and they are poor". [8] For a comparison, the EU's enlargement to include Spain, Portugal and Greece increased its population by 22% and its GDP by 10%.

The difference in income levels is enormous. The per capita GDP of the three Mediterranean applicants in 1980 was 66% of the Community average, but in the case of the CEECs the per capita GDP is only 38%, which will effectively reduce the per capita GDP of the expanded EU (with the CEECs) by 15%, which under the present rules entails some major transfers. While the population of Poland is equivalent to 10% of the total EU population, that country accounts for only 2% of the EU's total GDP. The respective figures for Spain in 1980 were 14% and 8%. The problem is that in the relatively sophisticated model developed up to now for Commission services, assuming that the present reforms continue "means that for the AC 8 [the Accession Candidates] and for the CEEC 10 as a whole [including

Romania and Bulgaria], an average growth rate of 3 per cent per year over the period 2000-09 would still be achievable, compared to a prudent assumption of 2.5 per cent average annual growth for the EU 15 over the same period. Thus, catching up would continue, albeit at a very slow rate." [9] While we don't want to rain on anyone's parade, it is necessary to point out that the model is based on the 1994-99 growth data. But the most recent data and forecasts on GDP growth clearly demonstrate the effects of the international recession and the drop in domestic and external demand, with declines ranging between 1% for Hungary and 3% for Poland from the forecast growth in GDP for 2002. [10] The consequences of enlargement for the present member states are, under the same model, "extremely small, with as many negatives as positives".

The political consequence of this perspective for the enlargement negotiations is a hardening of the respective positions of the EU and the applicant states up to the final moment.

With regard to the structural funds - 213,000 million Euros between 2000 and 2006, or 35% of the EU budget - the drop in regional per capita income through enlargement means that 11 of the 17 Spanish regions that now receive structural funding will lose it, and end up at around 75% of the Community average. Spanish Prime Minister Aznar attempted a kamikaze manoeuvre to reopen the discussion closed at the 1999 Berlin Summit and secure a minimal flow of structural funding after 2007 for Spain, threatening to block the German position of a seven-year transitional period for the movement of persons in the enlargement negotiations. We now know how the story ended, with the complete isolation of Aznar in the EU.

But in the new negotiations that will open after enlargement, in 2007, Spain's alliance with the CEECs by itself may manage to raise the bar to 90% of the Community average for the support programs or increase the proportion in the Community tech budget for structural assistance from 0.45% of the EU GDP to 0.66%, as a Commission study has suggested. In the first option, the CEECs gain nothing and, in the second, they will prefer an alliance with Germany, which in the end is the major contributor to the Community budget, in order to avoid the major EU powers definitively reforming the regional assistance system and drastically reducing such assistance as Schroeder has threatened. If Spain receives 1,000 Euros annually per capita in structural support, it is not hard to imagine what this can mean for countries like Poland or Slovakia.

## Agriculture

The most difficult of the sectors left to negotiate is also the one that reflects the most dramatic differences. Seventeen percent of the labour force in the CEECs is in this sector, which accounts for an average 8% of the GDP - comparable in importance to the figures for Spain, Portugal and Greece - but a long shot from the EU averages of 4% and 1.5% respectively.

Again, Poland's situation (like Romania's) is exceptional, with 21% of its labour force in agriculture, producing 4% of the GDP. (The figures for Romania are 40% and 15% respectively.) In both countries more than 80% of the land is distributed in small family operations with very low productivity, and the two countries combined have the same number of farmers, 7.3 million, as the entire EU. In all the CEECs with the exception of Rumania, rural employment has declined by 4% since 1994. Poland alone has lost 600,000 rural jobs in this period.

The Commission model cited earlier forecasts annual reductions in rural employment in excess of 1% in the eight applicant countries of the first phase, and reductions of 2% in the public sector. For Poland, with its particular rural structure, which differs from the seven other first-phase applicants in which there have been major agrarian reforms since the Second World War, this means uprooting more than one million people from their farms over the next five years while at the same time reform of the public sector and industrial restructuring are throwing a further 250,000

persons into the street. It is hard to imagine the social consequences of all this, given that real levels of consumption in the countryside have declined by 50% in the last ten years, with poverty rates of 29.9% compared with the national average of 16.5%. [\[11\]](#)

However, for the Commission the support programs linked to the CAP are incompatible with the necessary restructuring of the Polish countryside. It was the height of cynicism for Franz Fischler, European Commissioner for Agriculture, Rural Development and Fisheries, to state, on January 10 in Berlin, that "Structural change in the applicant countries will take time, and we also have to take that into account in the much talked-about question of direct payments. For what would happen if the system of direct payments were to be embraced in full on the very first day of joining the EU? First, this would be yet another incentive to retain existing structures, and second, we would run the risk of social upheaval, because at a stroke farmers would be earning considerably more than other workers in the same region." [\[12\]](#)

According to *The Economist*, "Under current plans, the CAP will not be fully extended to the Central Europeans because, Eurocrats claim, that would bankrupt the system, and there is no need for it anyway because prices for Poland's food will rise once it joins." [\[13\]](#) Unfortunately, the same Eurocrats state in their magazines that "Significant price increases with the accession should only be expected for beef, sugar, milk (and processed derivatives, butter and milk powder), and coarse grains (barley, maize, rye). ... Simulations indicate that, taking into account the combined effect of these factors, the impact of introducing the CAP in CEECs on agricultural prices in CEECs might be relatively small on average. It now appears that future developments of production in the CEECs, and the likelihood of a conflict with WTO constraints after accession, will largely be dominated by trends/changes in productivity, rather than by the introduction of the CAP." [\[14\]](#)

Spain has now proposed a five-year transitional period for direct CAP assistance, in which the farmers would directly get only 30% of the assistance and the rest, without further details, would go to a fund for restructuring the agricultural sector. "The EU seems to be saying that we will have the same obligations as existing members, but not the same rights," says Pawel Samecki, one of the Polish negotiators. [\[15\]](#)

## Conclusion

Add to this scenario the reduction in state assistance and the restructuring of the steel industry, which has so far been postponed in most of the CEECs. Throw in as well the overwhelming Polish budget deficit and the fiscal crisis that it has produced and the failure of the social welfare system, which is barely comparable in the CEECs to those existing in the EU. Karol Modzelewski warned back in 1995 of the negative consequences of enlargement. [\[16\]](#) The only expected safety valve is the emigration of some 900,000 people from the CEECs to Western Europe in the first five years of membership.

But the cards are now distributed and, notwithstanding the severity of the negotiations during 2002, the CEEC governments, whatever their political complexion, will give in, one by one, at the last moment. They are convinced that non-membership in the initial group would have much more dangerous electoral consequences for their political future than a bad deal. In the end there is always the consolation that, once inside the EU, they will hold a substantial number of votes in the European Council - if the Treaty of Nice is ratified after Ireland's NO - and they can participate fully in the forthcoming negotiation of the community budget.

But the ground rules are about to change in the debate on the future of the European Union. The leadership of the major powers (France, Germany and the United Kingdom) is not prepared for interminable haggling and negotiations in the enlarged EU. And many brand new citizens of the EU in Central and Eastern Europe may end up, as Marx

(Groucho) pointed out, "going from the most dreadful poverty to the most complete misery, thanks to their own efforts".

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[1] See "Initial results of Eurobarometer survey in candidate countries show broad support for accession" - [http://europa.eu.int/comm/public\\_opinion](http://europa.eu.int/comm/public_opinion).

[2] See Enlargement Weekly, January 7, 2002, with the full negotiating framework, country by country - <http://europa.eu.int/comm/enlargement/docs/newsletter>.

[3] See EU Observer, "Poland tightens up position in talks", 19-12-2001 - <http://www.euobserver.com>.

[4] For a summary of the social consequence of the transition and the social conflicts it has generated, see Agustín Maraver, "Trabajadores y Nomenclatura en la Transición", Cuadernos del Este nº 20, 1997.

[5] EBRD (2001) Transition Report, European Bank for Reconstruction and Development.

[6] For the evolution of the trading relationship after the European Agreements, see Joseph F. Francois and Machiel Rombout, "Trade Effects from the Integration of the Central and East European Countries into the EU", Sussex European Institute. The trend has been toward a balance in such industries as automobiles and automotive parts, electrical machinery, office equipment and telecommunications, as a result of the investments of European multinationals in those industries to take advantage of the differences in wages and other costs of production.

[7] EU Enlargement DG, Enlargement of the European Union: An historic opportunity - <http://europa.eu.int/comm/enlargement>.

[8] For the following data, see DG for Economic and Financial Affairs, "The economic impact of enlargement", Enlargement Papers - [http://europa.eu.int/economy\\_finance](http://europa.eu.int/economy_finance). The Economist, "The door creaks open", November 17, 2001.

[9] ("The economic impact of enlargement", op. cit., pp. 30-31.

[10] Consensus Economics, "Eastern Europe Consensus Forecasts", November 19, 2001 - <http://www.consensus-economics.com>.

[11] Gertruda Uscinka, "The social security system in Poland", special issue on social security in the CEECs, in the Belgian Review of Social Security, vol. 43, 2001, pp. 224-25.

[12] Enlargement Weekly, January 14, 2002, "Fishler goes further on agriculture thinking" - <http://europa.eu.int/comm/enlargement/docs/newsletter>

[13] The Economist, "Looking west, looking east", October 25, 2001.

[14] "The economic impact of enlargement" op. cit., p. 57.

[15] The Economist, "Looking west, looking east", October 25, 2001 and Michael Mann, "EU candidates may wait years for subsidies", Financial Times, January 8, 2002.

[16] Quoted by Catherine Samary in her interesting article, "Ampliación de la UE al Este: ¿Qué alternativas de izquierdas?", Viento Sur nº 55, March 2001.