SYSTEM CHANGE
AND EUROPEAN INTEGRATION

ABSTRACT

The author states that the EU will have to adapt to the demands of deregulation caused by globalization which is seen as a return to the domination of a pure economic logic. The crisis of welfare state and the emerging of conflicts over distribution could endanger the legitimacy of EU. The system change in the center and at the periphery of the EU may lead to a political mobilization from below and - consequently - to a stronger need for legitimization of its institutions and decision-making bodies by elections.

Key words: globalization, deregulation, transition, system change, legitimacy, modernization

When addressing the topic of system changes as a frame in which European integration in the sense of EU enlargement is taking place, we have to differentiate between three levels:

First, there is the „transition from the authoritarian rule", to use the terminology of O’Donnell and Schmitter (1986), which initially transpired in Southern Europe and subsequently in Eastern Europe. On the second level, the Western (and Northern) EU countries, which include the core countries of the Union - Germany, France and Italy - are also undergoing a system change as a result of the requirement to bring their welfare-oriented social order in line with the neoliberal demands of the globalized economy. The term „globalization“ already gives us the name of the third comprehensive process of system change in which the former two developments are embedded.

When we look at the structural „imperatives“ of the processes described by the term „globalization“ in the perspective of the long run (longue durée) in the sense of Braudel (1962), they appear as the advancement of a liberal period in the ever changing cycle of etatist and liberal models of order in the course of modernization of industrial societies (Sombart 1934, Bornschier 1988, Srubar 1996). The measures which are urgently recommended today as reforms for deregulating the economy, trimming down public administration, privatizing state-run enterprises and services, as well as for re-privatizing
employment and health related risks in order to raise achievement motivation are well-known. We encounter these kinds of reforms in the „old liberal“ models of „industrial society“ or the „civil society“ as presented for example in the works of Herbert Spencer (1889), John Stuart Mill (1859, 1861) or William G. Sumner (1906). The structural demand of global accumulation of capital for human labor, which has to be always available but does not have to be paid permanently, which results today in so-called „outsourcing“ or „downsizing,“ did Karl Marx already analyzed in depth for early industrialization (1962, 640 ff.), although under different living conditions.

The attempts to cope with class conflicts resulting from this constellation, as described by Marx, which marked the development of European societies during the 19th and the greater part of the first half of the 20th century, yielded different solutions, which I would briefly like to call to mind here: Only a minority of European societies was able to resolve the transformation of their social structures brought on by industrialization, in the sense of sociological modernization theories, that is, by integrating the population into a stable democratic order (Great Britain, partly France, Czechoslovakia, Switzerland and the Scandinavian and Benelux countries). The majority of the societies in Southern, Eastern and Central Europe reacted to the pull of modernization with authoritarian regimes of rightist. As a rule, these regimes followed a short phase of liberalization and democratization, during which the traditional elite, ruling in more or less constitutional monarchies, were superseded or temporarily replaced. In such “liberal” phases, the emerging left-wing movements concerned with class struggle were opposed by radical right-wing or conservative authoritarian forces, that then came to form the backbone of the authoritarian regime. The opposite outcome of the Russian Revolution can be seen as the left-wing orientated inversion of this configuration.

Within this rough pattern, it is certainly necessary to make further differentiations. For our purposes, we must differentiate between three kinds of authoritarian regimes. One which establishes itself as the consequence of immense social changes resulting from a quick and intensive industrialization, and another which develops as a reaction by the - for the most part - traditional upper class and its allies to the social results of the beginning modernization of society. Characteristically we encounter the first type of authoritarian regime described in Italy and Germany, whose fascist or national socialist supporters react to the already developed class conflict in these societies with attempts to economic regulation and with welfare measures, as well as with a corresponding rhetoric. The second type mentioned above can be found at the Southern and Eastern periphery of Europe, i.e. in Greece, Portugal, Spain, as well as in Hungary, Romania, Bulgaria, Yugoslavia and partly in Poland etc. The attempt to radically overcome class conflict by means of expropriation and by establishing a centralistic state - as was the case during the Bolshevik regime in Russia - signifies a third type of such regime. Each of these three types of authoritarian adaptation to the socio-structural results of modernization can therefore be regarded as an etatist reaction to the consequences of the liberal world economic system.
It would be wrong, however, to connect this growing etatism merely with authoritarian regimes or with the peripheral situation of certain countries. The development of laissez-faire capitalism in the industrial core countries made the necessity apparent of state-financed compensation for employment risks caused by the market as a means of political stabilization. This was also taken into account by the industrial countries of Europe by introducing systems of social security in the period between 1880 and 1920 (Ritter 1991). The attempt to master the economic living conditions by politic measures from above, meant to prevent the politic mobilization from below which were adverse to the system. Apart from the social issue, other factors surfaced which were working towards the submission of laissez-faire capitalism to the „primacy of the politics.” Of substantial significance were, above all, the efforts made by the government to master the consequences of the crises of 1929, as well as the concentration of capital which required planned production coordination of large industrial empires. From this perspective, combining market economy and planning seemed quite feasible, and in view of the existence of competing authoritarian systems which threatened parliamentary democracy, it was even highly desirable. „Planning for freedom and democracy“ (Mannheim 1950) could be the motto for the welfare programs developing in this case which represents the fourth type of etatism in our context.

The socio-political techniques used here, i.e. clientelization of social groups and their linking to the redistributing all-providing state, have already been in part highly developed in totalitarian industrial countries, that is, mainly in Germany and the Soviet Union. Their use in the context of democratic, free-enterprise societies especially after World War II naturally pursued different purposes: The national product was redistributed to balance the insecurities of the market and thus bind the population to the democratic political system as well as to strengthen the acceptance of the market economy, which could now legitimately become a target of state promotion. This relief mechanism of the welfare state, oscillating from economy to society, became - as Habermas (1973) has shown - the general method to legitimize pluralistic, late-capitalistic industrial societies after World War II. The real-socialistic radical variant of the welfare state however expanded throughout Eastern Europe under Soviet hegemony while the South of Europe was still governed by right autoritarian regimes. The etatist period of the European modernization process thus reached its peak during the first decades following World War II.

It is therefore not astonishing, that the European Union, in its post-war development, has taken on characteristic traits of the etatist construction of a redistributing and intervening welfare state. The creation of a common market with equal conditions for all members, maintained upright by centralistic interventions, was combined with the creation of social and investment funds from which unbalanced economic structures and social consequences of dysfunctional development of the same market are leveled out. Since its beginnings in the rudimentary form of the European Coal and Steel Community, the EU has pursued economic as well as welfare aims, such as full employment, higher standards of living, guaranteed minimum wage etc. and has financed projects (until the 80s) to insure the realization of these goals (Krämer 1974, 40 ff.;
Weinfeld/Wessels 1991, 145 ff., 296 ff.). Its agrarian politics can serve as an excellent example for the clientelization of a sector of the population in this context. The equality measures taken in order to establish the Common Market, that is, to serve „deregulation,” brought about a complex net of economic regulations, which now have supranational effects. 80% of national economic legislation is now influenced by the European Union. Therefore it is not astonishing that along with the increasing crisis of the welfare state order experienced by EU members also the European Union itself is put under pressure and finds it difficult to be able to fulfill its redistributive functions.

This mainly takes place because the core members of the Union, who have to fight economic stagnation and are burdened with high social contributions, seem to have reached the limits of their ability to pay for common funds. In the individual national economies, these difficulties are nowadays attributed to their etatist-regulating character. The question is, however, whether the causes of these difficulties do not also apply to the supranational set of rules of the European Union as a whole. We thus have to ask to what extent and with which consequences the European Union will change under the pressure of globalization not only in its individual members, but also as an institution.

Among the many facets of the meaning of globalization, I would like to consider it here as the beginning of a liberalistic phase of modernization which follows an etatist period. It stands for the opening of the global economic area to streams of goods and capital which make a qualitatively new international division of labor possible because of a fast global infrastructure for communication and transport. This infrastructure frees producers, for the most part, from the restrictions due to singular national governments. Thus one of the important conditions characteristic to the functioning of the welfare state is invalid: the primacy of politics over the economy. Within the world economic system the economy is able to win back its leading position, which has already been attested by Marx when he called it the anatomy of the bourgeois society. The national states or their organizations can only tempt and compete as favorable industrial locations by deregulating the conditions of the economy in the sense of capital, that is by loosening the employers obligations to their employees, reducing the government interventions in the economy, relieving the economy in regard to taxes, etc. Employers, however, are also under pressure from rationalization in the context of global competition, which forces them to reduce staff and to change over from labor-intensive to knowledge-intensive production. This and the quick pace of innovation require highly qualified employees who are willing to adapt and have a multifunctional scope of activity, therefore the demand for these qualified employees is rising, while the chances for just “usual” qualified workers of finding a well paid job are diminishing. Even though the perpetually increasing service sector absorbs part of the unemployed workers, the number of jobs in one sector does not always rise as fast as it diminishes in other sectors at the same time.

At the moment, we can distinguish between two strategies for the labor market which are reactions to the structural demands of globalized economy. One is the possibility of making the frame conditions of employment more „flexible,” meaning that
protection against unlawful dismissal, collective wage agreements and social obligations are loosened or diminished resulting in a high differentiation of occupations and salaries with easily obtainable but poorly paid jobs at the lower periphery. In the second strategy, there is no deregulation of working conditions which results in laid-off workers ending up on state unemployment programs.

This typology, which appears in the analyses of the International Monetary Fund (World Economic Outlook, May 1997) is certainly quite simplified. But it may prove useful when trying to understand the system changes taking place in European societies which are important for the integration of Europe as changes in the context of globalization. Let us first take a look at some of the societies which were most consequent in carrying out deregulation, as for example the United States, Great Britain or Sweden. Here we can observe an extreme differentiation of salaries in all areas; whereas the salaries for less qualified jobs decrease and the income for highly-qualified workers increase considerably (IMF 1997, 56). Looking at this development from a general point of view it means a decrease in real salaries on average. The example of „downsizing“ in businesses in the United States at the beginning of the 1990s, however, shows us that qualified employees can also be effected by income loss. Once released from their jobs they had to accept jobs with salaries below their usual salary level (Johnson 1997). This strategy generally launches a trend which divides the labor market in two parts. As the number of jobs could increase in the qualified sector as well as in the non-qualified sector, this strategy supports the development of a stabilized lower class which is quite separated from the rest of the society by status. The socio-structural results of economic and welfare deregulation can thus be seen in the vertical stretching of the stratification as well as in the fast increasing difference in income. Contrary to this, the stratification of a classic welfare society tends to horizontal expansion and depicts the form of a potbellied onion. This is true for the West, for example, the FRG, as well as for the East, that is, for the real-socialistic countries (Mateju 1995, Figure 1 and 3).

If we now were to project these two strategies and their ideal typical socio-structural results onto the societies of the European Union or its candidates for future membership, we would get a quite peculiar picture, which is oposist to the usual scheme of the process of European modernization: It appears as if the core countries of the European Union - with the exception of Great Britain - because of their previous preference of a welfare and etatist strategy of adaptation remain in a static state, while the deregulating strategy of adaptation is more likely to be seen at the periphery of the Union. The core countries of the Union have to cope with two-digit and continually increasing unemployment and low economic growth. Spain, on the other hand, has succeeded in reducing the enormous unemployment rate at least by 2% to about 23% and in maintaining modest economic growth, which is still higher than that of the core countries. Portugal also has succeeded in limiting its unemployment rate and keeping it at a for German terms fantastic level of 7%, while having an economic growth of 3%. The Eastern candidates for membership (Poland, Czechoslovakia, Hungary, Slovenia, and Estonia) are also showing signs of positive dynamics of adaptation: decreasing or even low unemployment rates, renewed economic growth, and a differentiation of in-
come along with a vertical stretching of the stratification are characteristic here. These
dynamics can clearly be seen in the changing social stratification and structures of
income of these societies, a development which has been going on since 1989 (Mateju
1995, Figure 2).

Here we can see how the onion-like form, which is characteristic for welfare states,
stretches, becomes more narrow, and at the same time signals a relative impoverish-
ment of the lower strata.

From a structural point of view, the tasks which the European countries have to
solve result from the same facts: they all belonged to one of the mentioned etatist types
of order, while of course we have to regard the specific differences concerning the
extent of the etatist rules within the individual types. Generally, all of these countries
have to solve the same tasks, although each to a different extent. These tasks comprise
the privatization of state-run enterprises, the regression of bureaucratic regulations in
economic matters, the deregulation of the labor market, as well as the reduction of state
redistribution, i.e. the reduction of welfare protection of employment and living secu-

rity. The inhibition to take these measures is a result of two different causes. On one
hand, it is a result of what Pareto called the „persistence of aggregates,” meaning the
tendency of societies to adhere to traditionally institutionalized mechanisms of regula-
tion. On the other hand, the simple fact, that these „reforms“ will cause a decrease in
the standard of living of a considerable part of the population for an indefinite period of
time, certainly plays an important role.

In view of the established difference of the dynamics of adaptation between the core
countries and those at the periphery of the Union, one could venture to state that the
willingness to take these steps and to accept the results is related to the character of the
regime, that is to be deregulated. The functions of the state welfare which are to be cut
back, are connected to the regime virtually as well as symbolically. So, removing the social
techniques of authoritarian regimes in the course of democratization is obviously easier
than cutting back the welfare state which is connected to the strengthening of democracies.
We can also assume that it is more easily possible to legitimize the socio-structural results
and the social cost of „de-etatization“ in the process of transition from authoritarian rule
when these can be presented as results of the necessary overcoming of the old undesirable
regime. The entire transformational process can thus be based on the expectation of the
people who, as surveys conducted in the Eastern European countries show, take notice of
the deterioration of the present situation, but believe in the possibility that the situation will
become better in the foreseeable future (five years) (Rose/Seifert 1995). On the other hand,
politically it is more difficult to cut out the center piece from the legitimization mechanism
of the welfare state which enabled the political class of the core countries of the Union to
remain in power for 50 years. Furthermore, there is hardly any motivation in society for
accepting the social results of system changes which present a step backwards from previous
achievements, when seen from an everyday perspective. In accordance with this, the
expectations of the population regarding their future is quite negative, as can be seen for
example in the results for FRG (former West Germany).
It can be said, that system change made the countries on the periphery of the European Union more receptive to the demands of globalization, while the core countries only accept these demands slowly and under the pressure of growing difficulties in financing the welfare state (IMF 1997).

What are the consequences of these differences caused by the different types of system change for the scenario of the future membership of the post-socialist countries in the European Union, when also taking into consideration the experiences from Southern expansion?

1. Supposing that the nation states as economic locations are in competition with each other, which means that the individual socio-political systems and the systems regulating the labor market are competing as well. The greater willingness of the post-socialist countries towards deregulation would, on the one hand, offer an advantage for the investment of capital in this location, on the other hand, this location would be at a disadvantage for the employees, at least for a certain period of time, who will try to balance out this disadvantage by looking for work in countries with a higher wage level. Whereas, however, the free mobility of capital is mostly accepted without question, this is not the case with the mobility of employees. It is thus to be expected that a absolutely free mobility of employees between the countries who have applied to become EU members and the European Union will first be realized after a longer period of adaptation. (This was, for example, the case with Greece, when the Union decided during the membership negotiations to issue a period of adaptation of seven years.)

2. Assuming that the dynamics of deregulation make up important conditions for improving competitiveness on the world market, the following question comes up: What will the consequences of the adoption of the complex European economic regulations by the future Eastern European EU members for this dynamics be? The example of Eastern Germany shows, that even a rigorous sell-out privatization and radical reduction of labor power has no starting effects for the dynamics of economy when at the same time an etatist regulating regime is implemented - even if designed as welfare state order. Attention must be paid that in taking on the *acquis communautaire* that the already deregulated areas in the postsocialist countries do not to end up being „re-regulated“ anew. This could happen most of all in the case of the rural economy, but, seen from the perspective of the transforming countries, regulations for safety provisions for workers or propositions for social policy could just as well have the these consequences if they are not sufficiently balanced out with financial assistance from the European Union, as was possible in the case of the Southern expansion. This kind of financial support involves at the same time the risk of structural dependency, which might well constitute an impairment to the desired subsidiarity here.

3. The fact that the countries of Eastern Central Europe are more willing to adapt, of course does not mean that they are already like „little tiger states.” The volume of capital, the technological infrastructure and the productivity of the core countries of the Union have a potential, with which the future members can only compete with in part.
The trade balance deficit of the future EU members in Eastern Europe, which favors the core countries of the Union, will most likely turn into a flood of imports, as was also the case with the Southern European countries (Axt 1992). The difficulties of further strengthening the country's own economic structure under the pressure of competition could - in the case of the Southern European countries - only be reduced through financial support from the European Union as well. Without these measures, a permanently unstable trade balance could result in the devaluation of currency and consequently leading to inflation and price increase. Conversely, it could effect defensive measures in the sense of higher interest rates putting local investors at a disadvantage. Both developments depict so-called „transformational traps“ which may result in a reduction of the acceptance of transformational dynamics and in the call for protective measures (Altvater/Mahnkopf 1996).

4. Although many of the essential structural problems connected with the future membership of the Central Eastern European countries had already surfaced during the Southern expansion, it is obvious that the position of the European Union today is quite different from what it was at that time. We have seen that the European Union itself is undergoing a system change, which diminishes its financial means and thus its ability to absorb structurally weak members. This applies most of all to the core countries (notably Germany) which have up to now paid the highest contributions to the European household. The core countries' ability to pay is limited by budgetary demands of the Monetary Union, the cost of high unemployment rates and by the transfer payments resulting from German reunification. Furthermore, it could be the case that if the core countries realize the imperative of globalization and deregulate the economy, the labor market and the social areas accordingly, they may want to draw on the funds of the European Union themselves, as is already the case in Eastern Germany. Even if we can not decide today to what extent the Monetary Union and the Eastern expansion of the Common Market will contribute to economic growth in the future, we can be sure, from today's point of view, that not only Southern and Eastern European countries, but also the core countries will be competing in the distribution of the financial means of the European Union.

5. Under these conditions, the present construction of the European Union could become uncertain. My thesis was that - in the given historic context - the European Union adopted essential elements of the welfare state on a supranational level during its development. Like the welfare state, it is based on a social contract in which social or, in this context, national participants limit their exercising of power to a certain degree. On the one hand, this facilitates the course of the market without national hindrances, on the other hand, it balances the existing or arising asymmetric structures or dysfunctions of economic development with the resulting surplus. In this sense, the Common Market as well as the Union as a whole is a political creation with an etatist character. On the contrary we have the globalized world market, which represents an unplanned creation of actors taking part in it, which cannot be politically regulated, neither on a national nor on a supra-national level. As a political construct, the Common Market is dependent on the fact that the European Union has the authority for
political decisions. The EU was adequate as a power of authority as long as the economic and redistributing mechanism initiated by it were working and were able to serve their clientele. Institutions of political representation on an EU level were actually not necessary as legitimization for the function of the Union. The European Union was always able to rely on its status as an economic community. It allowed the European Commission to work as a body guided by technocratic as well as bureaucratic rationality without any democratic legitimacy.

The question now is, what will happen if the social contract, on which the European Union has been based on until now, cannot be maintained any longer? This possibility becomes apparent not only because the Union’s redistributive functions is experiencing a crisis. The Union as an institution will have to adapt to the demands of deregulation caused by globalization. This may well have consequences which will limit the governmental bureaucratic structures not only on the national but on the supranational level as well. Nearly all globalization analysts agree in this point (Albrow 1996; Giddens 1995; Crook et al. 1992). This kind of deregulation - together with the reduction of redistribution - could, to speak in terms of Habermas (1973), mean a rationality crisis for the European Union and result in a crisis of legitimacy. Furthermore it would interfere with the present prevention of politicizing the Union from below, which consisted in cushioning economically induced social conflicts by politic action from above. If the redistribution of means and thus the mechanism of clientelization no longer work, then the base legitimating the European Union will have to change. What are the alternatives to this?

Globalization analysts speak of the following tendencies which develop in the postmodern „global village“ as alternatives to etatist forms of regulation. The first tendency consists of the growing significance of international non-governmental organizations, as for example the International Monetary Fund or Amnesty International. The authority of these organizations is based on their professional or moral competence. Internationally divided and executed knowledge, supported by non-governmental professional organizations, represents an already recognizable type of non-etatist global integration, as in the perspective of Martin Albrow (1996,123). Its legitimacy lies in the professional competence of the organization members as well as in the independence of the organization itself. Another alternative tendency, as seen from a different - German - perspective, as for example by Ulrich Beck (1996), consists in undermining the etatist structures by democratization, that is, by politicizing and moralizing the society from below. This might be brought about by social movements. Can we somehow connect these trends with the present development of the European Union?

The German proposition of an independent European Bank as keeper of the Monetary Union would correspond the most with the first tendency. This would mean the installation of a supranational, professional and neutral mechanism of integration which could limit politic intervention from above as well politic mobilization from below in the case that the Monetary Union should actually be established. This would continue the tech-
nocratic style of integration without democratic legitimization presently practiced by the European Commission.

If an increase of distributional conflicts in the European Union is to be expected, the second alternative wins in plausibility accordingly. The legitimacy crisis of the European Union could become a "motivation crisis" of its citizens. We would then expect a politicialization of the Union from below with all the risks inherent to such a process. One way out of this would be to legitimize EU-bodies by election. The old liberal principle of "no taxation without representation" would replace authorization by redistribution and clientelization.

It remains to be seen whether the creation of a technocratic, neutral integration mechanism in the form of the Monetary Union will be able to avoid the politization of the European Union. The system change in the center and at the periphery of the European Union may well lead to a politic mobilization from below and - accordingly - to a stronger need for legitimization of its institutions and bodies by elections. This kind of increasing tendency towards a political union in no way means increased safety for the continued existence of the European Union under today's conditions. Hand in hand with a politic mobilization from below, the local political cultures and culture as a social code of orientation of actions in general would become increasingly important for European integration. The imponderables of the multitude of European public would take the place of the present integrative, technical-administrative set of rules of the European Commission. It is an open question whether we think this kind of development is desirable or not. The fact that system change in European societies implies this variant of development as well, tells us that the relation between the European Union as a supranational institution and the societies that are involved in it may become reversed quite in the sense of the alternation of etatist and liberal periods of modernization. The European Union would so no longer be the ruler of the member societies. Together with its institutions, it would rather be dependent on the social and cultural developments which characterize the societies of its constituting members. This would not necessarily facilitate the integration of Eastern European societies into the European Union. But the integration coming could trigger it off.

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