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I. Introduction

The authors of a recent European Commission staff study of the economic impact of the 2004 enlargement – from the Bureau of European Policy Advisers and the Directorate-General for Economic and Financial Affairs – have come up with unreservedly optimistic conclusions. Thus, they suggest that enlargement has continued and accelerated the process of wealth creation and income convergence which had been under way for over a decade, instead of giving rise to economic and absorption problems for the EU and to massive East-West migration flows and increased labour market instability in the old member states, as some had feared. And they argue that enlargement has brought about efficiency gains associated with the geographical expansion of the internal market, stemming, in particular, from the spatial relocation of production according to comparative advantage and, also, arising from economic restructuring and modernization in both the old EU members and the acceding member states. Furthermore, they also argue that the latter's good economic performance may to a fair extent be attributed to appropriate institutional reforms and improved governance structures which have, in turn, been stimulated by the prospect for EU membership and linked to the fulfillment of membership criteria (Commission EC, 2006a).

However, the perceptions of European citizens are only partially, if at all, shaped by objective economic indicators and research findings. Indeed, European public opinion, according to the most recent Eurobarometer poll, seems to be divided on the issue of the economic and social consequences of EU enlargement, in general, with citizens' worries being primarily related to employment, especially the impact of labour mobility and job relocation on domestic labour markets. Although the political benefits of enlargement are widely acknowledged, economic anxieties tend to prevail in the shaping of public perceptions, weighing heavily in countries such as Germany, France, Austria, Luxembourg and Finland, where the majority of citizens disapprove of EU enlargement. Yet, negative attitudes are very likely to reflect the lack of sufficient knowledge and accurate information on the economics of EU enlargement, as evidenced, inter alia, in the survey of public opinion and citizens' perceptions in regard to the 2004 enlargement process (Commission EC, 2006b). No wonder, then, that future enlargement processes are viewed with increased public skepticism and, occasionally, outright hostility.

National governments – to put it precisely certain national governments - have added to their citizens' anxieties about enlargement. Not only have they failed to respond to public informational needs, but they have often attempted to (causally) link domestic economic and social ills to pressures emanating, *inter alia*, from enlargement and to blame EU policies and

institutions for inadequately mediating those pressures on member states and poorly reacting to their Community-wide impact. Nowhere are those remarks more relevant than in the domain of social (and labour market) policy. In spite of implementing transitional arrangements restricting access to their labour markets by workers from the new member states – with the exception of Malta and Cyprus – certain national governments have been raising worries about the consequences of enlargement for the sustainability of domestic labour market regimes and social protection systems and, in particular, have been pointing to the risk of social dumping. Presumably, they have also been unable to foresee their citizens' reactions.

Arguments of this sort are hardly new in European political debate. As a matter of fact, academic and political perceptions of a dilemma between widening and deepening of the EU have been widespread. But equally widespread are perceptions of a mutually reinforcing relationship, whereby the process of enlargement is both made smoother by and takes forward the process of EU institutional reform – presumably allowing for deeper policy coordination. Yet, as the present paper argues, neither of those alternative approaches may necessarily be the case. In fact, interrelation between widening and deepening may hardly be present under certain circumstances pertaining to potential membership and/or particular policy areas. This is theoretically discussed, albeit very briefly, in the first section. And it is empirically analyzed in the second section, in regard to social and labour market policy. The last section concludes.

II. Can deepening and widening be separate processes? A theoretical hypothesis (briefly made)

Theoretical accounts of the interrelation between EU deepening and widening have, so far, been anything but comprehensive (Schimmelpfennig and Sedemeier, 2002; Faber, 2006). The issue has only been treated incompletely and, at times, indirectly by economists and political integration theorists alike. Besides, the former have mainly placed emphasis on the widening part, in other words on the geographical expansion of a preferential trade agreement, as reflected in the customs union theory or the theory of the optimum currency areas. The latter have primarily been concerned with deepening, that is with the gradual rise in the scope and the level of European integration and, thus, with further institutionalization of European policy coordination, notwithstanding changing definitions of the term, especially in regard to its inherent normative dimension. Being so, the views of political integration theorists have often been in conflict. (For a critical assessment of the state-of-the-art of research on enlargement by political integration analysts, see Schimmelpfennig and Sedemeier, 2002). On the one hand, neofunctionalist, as well as those still inspired by neofunctionalism, theorists of unity conceive

of a mutually reinforcing relation between widening and deepening.[1] On the other hand, intergovernmentalist logicians of diversity detect a negative relation, whereby an increase in EU membership makes institutionalized policy coordination harder to attain.[2] Surprisingly, perhaps, few seem to contemplate - instead relying on *prima facie* reasoning - lack of a systematic, causal, unidirectional or two-way, relation between widening and deepening.

Yet, this may well be the case so long as European integration is thought of as a growth and adjustment strategy of member (welfare) states (as in Milward, 1992), albeit evolving in a second-best environment and, therefore, being implemented by less than (fully) benevolent national governments (as in Pelkmans, 1982, Begg *et al.,* 1993; and also as in Moravcsik, 1993 and 1998). Thus, briefly, EU enlargement, generally enlargement of a regional economic union, and, for that matter, an increase in the size and internal diversity of the common market, confers welfare benefits and accelerates economic growth in both old and new members – of course, subject to trade diversion effects being smaller than trade creation effects. Furthermore, Community institution building is deliberately pursued by governments aiming at inserting credibility in European market integration processes, including geographical expansion of the common market, thereby increasing cross-border trade and factor mobility and, therefore, allowing for the realization of bigger welfare and growth effects (see Eichengreen, 1996). In addition, Community institution building facilitates intergovernmental bargaining, thus making Pareto efficient outcomes easier to outline and, eventually, conclude. More importantly, though, national governments engage in Community institution building and, occasionally, even seek to share sovereignty, in order to provide for credible policy coordination whenever national policy autonomy is effectively – for various reasons - weakened. But, they also seek to institutionalize policy coordination in order to avail of the option – in fact various options of different intensity and credibility - of two-level game politics (Putnam, 1988), thereby softening domestic policy constraints and improving the prospects for welfare state reform and adjustment. Conceivably, motivations for institution building may considerably differ across policy sectors.

Now, depending on its underlying motivation, institution building is very likely to be unaffected by size and heterogeneity of EU membership, as, for instance, when credibility of market integration processes or the option of two-level game politics is sought. Otherwise, it may only be influenced conditionally or remotely. Again, matters may considerably differ among policy sectors. Similarly, institution building may only affect the pace of

[1] As implied by the spillover hypothesis. Thus, the various facets of the spillover mechanism, functional, political and geographical, may only analytically be separated, but in reality they simultaneously, indeed inextricably, operate. Therefore, neofunctionalists may think of enlargement as a proof for the relevance of the spillover hypothesis, but, also, as a measure of the success of the incremental integration process (see also Faber, 2006).

[2] Obviously, a trade-off between widening and deepening arises by virtue of the increased heterogeneity of EU membership.

widening, in the sense that a growing EU *acquis* takes longer to be complied with. But it has little, if any, bearing on the structurally sourced and democratically constructed preferences for common market expansion or for joining the regional block on the part of incumbent and would-be members respectively (for a more qualified, constructivism-sensitive view, Jachtenfuchs, 2002).[3] Hence, widening and deepening are separately determined and their relation, or lack thereof, does not evolve independently and unconditionally.

In other words, whether widening and deepening are jointly pursued, or, instead, a certain sequence is followed, or, even, no association is actually envisaged, depends on how that would impact on national growth and adjustment strategies. And the same argument does certainly apply also to the quantitative and qualitative dimensions of widening and deepening. Thus, it applies to the (enlargement) round-specific questions of size and heterogeneity of EU membership, i.e. the number and identity of would-be member states. And it also pertains to the issues of scope and degree of further institutionalization of European policy coordination, themselves entailing a procedural and a substantive dimension and being resolved through major EU political changes and institutional reforms, usually embodied in Treaty revisions, but also being shaped by day to day EU policy negotiation and decision-making.

Following this very brief (and admittedly tentative) theoretical account, a historical perspective of the politics of the social dimension in an (ever) enlarging Community may conceptually be informed, hopefully in a useful way for comparative purposes. Furthermore, in regard to method, developments may better be identified and assessed by looking at periods of integration which include major episodes of widening and deepening. Besides, this may also better serve comparative purposes and allow for multidimensional approaches. As suggested in Faber (2006), four periods of integration are delineated, namely 1957-1974, 1974/5-1986, 1986/7-1997 and 1997/8-2004.

III. Wider but neither deeper nor looser: The true story of social Europe

a. 1957-1974: The reign of the (national) welfare state

The first period of European integration (1957-1974) was marked by the 1969 Hague summit and the 1973 Northern enlargement round, which brought the United Kingdom, Ireland and Denmark into the European Economic

[3] Explicit reference to the democratic criterion is here meant to denote (democratic and) less than benevolent governments' commitment to increasing average welfare, if primarily for electoral purposes, and thus to imply that governments are unlikely to discount the economic gains form common market expansion (Mattli and Plűmper, 2002). Besides, in practice, fulfillment of the democratic criterion is *conditio sine qua non* for a state to be assigned the EU candidacy status.

Community (EEC), (January 1st, 1973). Prior to the 1969 Hague summit, national governments had fervently defended their prerogatives in matters of social and labour market policy and furiously resisted Commission initiatives (Gold, 1993). Although those initiatives had been anything but institutionally ambitious, partly owing to poor and weak Treaty provisions which, for the most part, limited the social role of the Community to delivering opinions, they had still been guided by the principle of upward harmonization, thus raising widespread opposition among and within the member states, even by those who were supposed to benefit (see Haas, 1958: 223, where reference is made to the position of German trade unions). Besides, encouraged by the success of the (newly embedded and expanding) welfare state, or its then perceived success, in delivering fast and uninterrupted economic growth, full employment and income redistribution, national governments could hardly have thought of compromising their management of a general welfare increasing *cum* vote winning mechanism.

Nevertheless, the 1969 Hague summit called for an increased Community focus on social policy, as part of a strategy aiming at reviving European integration and, particularly, entailing completion, widening and deepening of the integration process. One might reasonably associate those calls with concerns about competitiveness in the founding six member states. The prospective membership of countries with social protection systems and labour market policies which little relied on payroll taxes and labour market regulation would likely inflict a competitive disadvantage on the six member states featuring social protection systems and labour market policies which were much relied on social security contributions and labour market regulation and, therefore, led to increased labour costs. Containment of cross-border labour cost differentials within an enlarged Community would, thus, most likely come about by Community-level coordination of national social and labour market policies, entailing approximation, not to say harmonization, of national provisions.

However, it was only in 1974 that the Council adopted a social action programme, on the basis of a Commission proposal and, of course, the United Kingdom, Ireland and Denmark actively took part in Council deliberations. Nothing had, thus, gone ahead prior to the formal accession of the United Kingdom, Ireland and Denmark, nothing that would have added to the social *acquis* and would have increased their cost of compliance and affected the development of their own welfare systems. Obviously, the six member states had felt little reason to moderate their welfare state optimism and, consequently, to think of their neglect of social Europe – or social dimension (further discussed later) –[4] as being no longer benign (see Mosley, 1990). Summing up, during the first period of European integration, widening of the Community had virtually been unrelated with developments, or lack thereof, in regard to social policy.

[4] Both concepts have customarily, albeit arbitrarily been likened to centralization, or, at any rate, binding coordination of social policy at the Community level.

b. 1974/5-1986: The hype of social activism

The increased size and diversity of EEC membership, following the Northern enlargement, did not frustrate Community social policy making during the second period of European integration (1974/5-1986), not unjustifiably considered as a period of increased, albeit sometimes unproductive, (Community) social activism (see Mosley, 1990). A reversal in the continent's economic outlook, associated with declining growth rates, rising unemployment and accelerating inflation rates, along with an increase in domestic social tensions, made national welfare state institutions look vulnerable and, no doubt, lent little support to national governments' former complacently uncompromising stance towards Commission social initiatives. Yet, a change, however minor, in national preferences for Community social policy, was also made possible by the Commission's abandonment of its former commitment to the principle of upward harmonization. The Commission's abandonment of the (*stricto sensu*) harmonization principle, though, was only partly, if at all, dictated by wider intra-Community diversities in regard to social protection systems and labour market institutions. In fact, it largely was a calculated response to the (recently noticed) deficiencies of the welfare state and, consequently, to the lack of a clear benchmark and it was also an embrace, however qualified, hesitant and undeclared, of the policy competition rationale – and of the spirit of subsidiarity.

In other words, it was, at any rate implicitly, recognized that social policy and the welfare state might likely be confronted with a growth vs. equity trade-off, which could, certainly, only be settled at the national level, via the democratic political process. It, thus, was realized, at least practically, that Community social policy should almost exclusively aim at improving the terms of national trade-offs, while refraining from measures that would worsen the terms of those trade-offs or, indeed, challenge national choices. To put it otherwise (by employing the metaphor of Bean *et al.,* 1888: 30), it was understood that Community social initiatives should only consist of measures that might shift the national growth-equity frontiers upwards and to the right, instead of entailing measures that would likely push national economies inside their growth-equity frontiers or force them to shift along their frontiers. Therefore, the fate of Community social policy initiatives was conditioned on their being justified on economic efficiency considerations, however substantiated, rather than equity concerns. No matter how much uninspired it might sound, Community social policy would be politically infeasible and institutionally unattainable, unless it enhanced economic efficiency. Only then could Community initiatives pass through the Council's needle eye - very much narrowed down by unanimity.

Increased social activism was, thus, confined to efficiency-related legislative measures. In particular, five directives in the area of gender equality were adopted during that period, all complementing and, occasionally, updating

(e.g. when addressing indirect discrimination) existing national legislation, itself aiming at addressing labour market failures and tackling discrimination, thus allowing for increased female employment. In fact, despite their positive labour market effects, gender equality policies, including legislation, were, at least initially, met with misgivings, owing to socio-cultural tradition and, often, outright prejudice. Community legislation could, in such cases, substitute for politically expensive initiatives on the part of national governments (for a historical review of Community equality legislation, Cox, 1993, and Ostner and Lewis, 1995, where the politics of Community equality legislation is also discussed). [5] Furthermore, seven directives were adopted in relation to health and safety at the workplace, all featuring improved specification of risks, also complementing national legislation. Indeed, the structure of Community law-making in the area of health and safety at work made sure that, at least from a technical point of view, Community directives were adding value to – increasing the relevance of – national regulatory schemes. That should primarily be attributed to the preparatory work of the Advisory Committee on Safety, Hygiene and Health Protection, established in 1974, within which national scientific resources could productively be pooled. Besides, setting up health and safety standards by means of legislation is a (much needed) government response to the harmful labour market consequences of imperfect information, allowing for increased labour productivity – primarily at the firm-level - while reducing the burden on social security and health care systems (for a discussion of early Community actions in the area of health and safety at work, James, 1993).

On the other hand, though, Community legislative initiatives in the area of labour law were hard to get through the Council. In fact, Community action in that area was bound to be controversial, lacking both a sufficient justification for its being imposed on national regulatory systems and an unequivocally expected positive impact on labour market efficiency – though it could, in principle, increase protection of workers and serve equity objectives. Thus, during that period only three directives were successfully negotiated, all dealing with collective displacements of employees – thus covering the cases of collective dismissals, transfer of undertakings and insolvency of the employer – [6] and largely reflecting the contemporary political economy of domestic labour markets (for instance, see Saint-Paul, 1997). However, those directives little affected national regulatory preferences and levels of employee protection, merely establishing Community standards closely tied to the lowest common denominator and/or placing emphasis on procedural issues alone (e.g. information of employee representatives in cases of collective dismissals).

[5] It is true that gender equality legislation gave rise to intensified ECJ activism. Often, ECJ rulings much surprised national authorities, their implications sometimes reaching beyond the area of gender equality. Yet, more often than not ECJ rulings reinforced the favourable effects of (initial) Community legislation on labour market efficiency, especially in relation to female employment (Koutsiaras, 2003)

[6] Directive 75/129/EEC, Directive 77/187/EEC and Directive 80/987/EEC respectively

Interestingly, though, those directives were all adopted during the second half of the '70s, whilst consequently, i.e. during the first half of the '80s, no Commission proposal in the domain of labour law was agreed upon in the Council. Arguably, increased unemployment, coupled with persistent inflationary pressures, as well as failure of Keynesian demand management policies, most notably in France (Sachs and Wyplosz, 1986), made a turn towards supply-side policies almost inevitable, thereby also advancing the case for labour market deregulation. The newly (1979) elected UK conservative government expressed the most radical economically and most aggressive politically version of the supply-side *cum* labour market deregulation programme and fought hard - and successfully - against reinforcement of domestic constraints on labour supply by means of Community legislation. Owing to the unanimity rule, the other governments did not need to oppose Community social initiatives, nor did they have to risk confrontation with domestic labour interests - and the trade unions - in order to prevent Community-driven reinforcement of domestic labour market rigidities and supply constraints. All they had to do was simply to watch the UK conservative government blocking the Commission legislative proposals – whereas they might perhaps hypocritically accuse it of anti-social behaviour.

Hence, however increased, albeit unevenly distributed, social activism during the second half of the '70s and the first half of the '80s did not really make its own impact much felt. In other words, Community social policy was only indirectly and unintentionally related to equity purposes and redistribution, thus bearing little resemblance to (national) social policy proper. Social and labour market policy coordination was, instead, principally associated with economic purposes and efficiency considerations, thus squarely being grouped with other market-building *cum* market-improving policies rather than with state-building *cum* market-correcting ones.

No doubt, then, social Europe – in the sense of deeper coordination of redistributive social and labour market policy at the Community level – was not going to be part of the internal market programme, nor would it be an important constituent of the Single European Act (SEA). And the southern enlargement(s) had almost nothing to do with that whatsoever. After all, Mrs. Thatcher was adamant that qualified majority voting, SEA's major reform, would not apply to workers' rights, the only exception being, unsurprisingly, health and safety at work. However, Greece, which had joined in 1981, and Spain and Portugal, which became formal members on January 1st 1986, had little reason to worry about the likely impact of future Community health and safety legislation, in view of their own regulatory deficits. Firstly, not only would (technically) refined health and safety legislation confer productivity gains at the firm level, but it would also ease cost pressures on their financially constrained, institutionally divergent and relatively less developed social protection systems (for the southern European welfare states Ferrera, 1996; Rhodes, 1997). Secondly, cost competitiveness of their numerous, and in certain industries arithmetically predominant, small and medium-sized enterprises would not suffer as a result of Community health and safety

directives. The new Treaty Article 118 A explicitly precluded imposition of disproportionate, Community legislation-induced financial and administrative burden on the small and medium-sized companies.

c. 1986/7-1997: Political (two-level) games and the primacy of economics

However minor, SEA- driven relaxation of institutional constraints on Community social policy was going to be fully exploited by the Delors' Commission. As a matter of fact, Community social and, especially, labour market legislation was, still, thought of as an indispensable means towards establishing a social dimension. Besides, the social dimension objective had readily found its way to the top of the policy agenda of the Delors' Commission, along with regional policy, from the moment the SEA came into effect. It was also going to shape demands for deeper institutional reforms that were, subsequently, going to be somewhat met, initially, through the social protocol of the Maastricht Treaty and, later, with the social chapter of the Amsterdam Treaty. Indeed, during the third period of European integration (1986/87-1997), marked by the (Maastricht) Treaty on the European Union and the Treaty of Amsterdam and, also, by the EFTA enlargement of the European Union, social and labour market policy was going to be well placed at the centre of the European debate, whilst causing controversies and giving rise to various legal and political disputes. Nevertheless, in spite of the renewed social activism of this (third) period of integration, Community social policy did not cease being heavy on symbolism, but light on substance (to use the aphorism in Tsoukalis, 1993: 157-164). That was not in any way brought about by increased intra-Community diversity, associated with its southern enlargement, and was certainly not going to influence the future enlargement of the European Union.

Thus, analytically, drawing on the idea of President Mitterrand for a European social space, originally introduced in 1981,[7] the Delors' Commission put forward the concept of social dimension and even embraced it as a policy objective, having firstly attempted to specify its content and make it operationally relevant, though failing to effectively remove its ambiguity (for a historical review, Teague, 1989). Hence, the social dimension (of European integration) would, following the Commission's approach, be realized provided that a bundle of fundamental social rights was defined and accordingly enforced via Community legislation and dialogue amongst the social partners at both the national and the Community level acquired an instrumental role in social and employment policy making. Social dialogue, therefore, would support and at times substitute direct legislative action on the part of national governments and the Community, thereby allowing for better coordination of

[7] In operational terms, President Mitterrand had then thought of a Community action plan to combat unemployment via coordinated fiscal activism/ expansion. This brainchild of him, though, never found its way to the Council.

national social and labour market policies (Lodge, 1990). Besides, following the SEA, Treaty Article 118 B stipulated that Community level social dialogue could result in collective agreements, should the social partners have so wished. However ambitious it might, or, might not seem, the social dimension proposal was, nonetheless, much less interventionist and centralizing than the early period harmonization ideas.

It could certainly not be more ambitious – interventionist and centralizing. After all, despite a remarkable improvement in growth rates and a substantial reduction in rates of inflation in the member states, during the second half of the '80s,[8] labour market performance was still marked by persistently high rates of unemployment.[9] Thus, it was made evident that unemployment was largely structural in character and, also, that labour market (real wage) rigidities made disinflation costlier to achieve – i.e. they increased the so-called sacrifice ratio. Therefore, instead of aiming at aligning their social and labour market policies, thereby leaving regulatory failures untouched and rigidities entrenched, national governments should rather have opted for policy reforms that would have allowed for speedier labour market adjustment to structural economic changes, the most pressing amongst the latter being European market liberalization and integration. Yet, policy reform was strongly opposed by trade unions mostly representing labour market insiders, whilst protectionist assurances were often sought by business, especially in richer member states where the impact of low cost competition from southern member states would likely be felt most. Hence, it should have caused little surprise that governments from richer member states lent their support to the Commission's social policy – social dimension – initiatives. In fact, those governments were claiming, sometimes vociferously, that in the absence of Community-wide (minimum) social and labour standards, their (generous) welfare systems would grievously be challenged by social dumping policies followed by the low cost southern member states and the UK in order to increase their own trade shares, investment and jobs (for a discussion of social dumping allegations in Germany, Eichener, 1992). In effect, richer member state governments were claiming that, on social welfare grounds, enlargement of the Community should be followed by deeper coordination of national social and labour market policies, associated with increased Community powers.

The social dumping thesis – firstly espoused by the French during negotiations for the Rome Treaty but with little effect - was largely dismissed by the southern member states and was even ridiculed in the UK for reasons that obviously went far beyond poor economic justification. In fact, economic analysis – by labour economists and trade economists alike – lends very little, if any, support to the race-to-the-bottom *cum* social dumping sort of

[8] Based on OECD data, during 1986-90 average annual economic growth for the EC-12 reached 3.1% and the average annual rate of inflation fell to 4.4%. The relative rates during 1980-85 had been 1.5% and 9.8% respectively.

[9] During 1980-85, the average annual rate of unemployment in EC-12 was 8.4%, but it rose to 9.1% during the second half of the '80s (OECD data).

pessimism. Instead, it praises the virtues of market integration and policy competition linked to specialization according to comparative advantage, efficient allocation of production factors and mitigation of (unemployment increasing) domestic social and labour market policy failures (on the economics of social dumping, Bean *et al.,* 1998, Begg *et al.,* 1993, and Koutsiaras, 2003). Furthermore, following its refutation of social dumping, economic analysis leaves no doubt as to the harmful effects of (Community-wide) harmonized social and labour market regulation on Community trade and welfare, in general, and on southern member states' economic growth and jobs, in particular.

Nevertheless, southern member state governments, primarily the Greek and the Spanish socialist governments, did offer their (almost) unqualified support to the Commission social policy initiatives, effectively joining hands with richer member state governments, whilst the UK conservative government remained fiercely opposed to centralizing tendencies in the area of social and labour market policy. Thus, the Community Charter of Fundamental Social Rights of Workers was endorsed by the Strasbourg European Council, in December 1989, having taken the form of a solemn political declaration from which the UK abstained. And a Commission action plan for implementing the Charter was subsequently put forward, but it gave rise to various controversies and made slow progress, the UK government having always been at the forefront of opposition to the Commission (legislative) proposals. Interestingly, governments from both richer and southern member states stood by the Commission and, even, gave their support to its imaginative – and at times arbitrary – legal strategy, the so-called Treaty-base game (Rhodes, 1995), aiming at extending the effective reach of qualified majority voting in regard to social legislation and, thus, making the UK veto inoperative.

Furthermore, a few years later, at Maastricht, both richer and southern member state governments signed – more reluctantly than publicly acknowledged - to the "social agreement eleven", attached to the protocol on social policy which, in turn, was annexed to the Treaty on European Union (TEU). In so doing, the agreement signatories availed of a twin-track social and labour market policy making (Rhodes, 1995), whereby failure to legislate within existing Treaty arrangements – i.e. within the social chapter which remained unrevised by the TEU – did not need to cause stalemate, of course provided that the UK government was chiefly responsible for that failure. The social protocol excluded the UK and enabled the eleven governments to deepen coordination of their social and labour market policies and, accordingly, to adopt Community legislation on the basis of the "social agreement eleven", whereby Community competences in the area of social policy were increased, qualified majority voting – adjusted for eleven member states - applied over a wider range of issues and social dialogue was further institutionalized in regard to policy making, including so-called law by collective agreement, and implementation.

Yet, some issues do, at first sight, look puzzling, the least important probably being inconsistency in southern member state governments' behaviour, on the one hand dismissing the relevance of social dumping and on the other hand endorsing and, often, enthusiastically promoting its policy implications (for instance, the Greek Presidency of the Council, during the second half of 1988, put the issue of social space/social dimension to the top of its list of priorities). Indeed, it makes one wonder whether and how could richer member states' indirectly protectionist policy preferences, at any rate their declared policy preferences, be reconciled with southern member states' economic interests, which were, then, partly associated with low-cost production and trade specialization. How, in other words, could southern member state governments give their assent to a Community social policy that would effectively (and largely unjustifiably) trigger exportation of unemployment from richer to southern member states. Also, it certainly is puzzling that, in spite of their condemnation of UK social and labour market policies and, especially, in spite of their anxieties in regard to negative cross-border policy spillovers undermining their own welfare regimes, richer member state governments, along with their southern member state counterparts, formally acknowledged and upheld the UK government's right of (following a strategy aiming at) raising its rivals' costs (Vaubel, 1995).

Of course, neither did southern member state governments make their richer member state peers a favour,[10] nor were the Maastricht social agreement eleven signatories eager to indirectly, to say the least, contribute to increased UK competitiveness. After all, both southern and richer member state governments had, in each and every occasion, good, institutionally sourced reasons to consider their choices *ex-ante* appropriate – in the sense of satisfying national preferences. (And, by the same token, the analyst's confusion and puzzlement may all but reflect inadequate appreciation of the Community social policy regime.) Thus, following the SEA and prior to the TEU, southern member state governments could certainly count on the UK government's explicit opposition to the Commission social initiatives in order to avert social policy-induced competitiveness loses. In fact, the UK government's veto was all but sufficient to effectively neutralize the impact of Community measures on national welfare systems. However, it is far from clear that southern member state governments were actually exposed to the risk of social policy-induced competitiveness loses. So long as Community

[10] It has been said that southern member state governments agreed to Community social policy initiatives and, even, supported Treaty-incorporated institutional reforms because they were offered generous side- payments, in the form of (vastly increased) regional transfers (Lange, 1993). However, this argument fails to provide a consistent explanation of governments' behaviour. As a matter of fact, it may – just may - be relevant in regard to the social dimension and social charter initiatives in late 80's, so long as the decision to double the amount of financial resources going to the structural funds had already been taken in 1988. It may, nevertheless, hardly explain the Maastricht arrangements. A package deal entailing social and regional policy was never made at Maastricht, for the very simple reason that the regional policy part (what was later called Delors' second package) was not – and could not be – financially specified at that time.

social policy was largely confined to labour market regulation, the aforementioned risk was anything but considerable. Labour market regulation in southern member states had not been lighter than in the richer member states, even being stricter in relation to core issues. Thus, more importantly for the discussion at hand, diversities amongst national labour market regulatory regimes were, with the exception of the UK and to a lesser extent Ireland, not really sizeable. Hence, southern member state governments were not the only potential free riders on the UK government's back.

Furthermore, the eleven signatories to the Maastricht social agreement were careful to secure an institutionally balanced set of arrangements that would not unnecessarily challenge national welfare states, while being cost sensitive. Thus, besides inclusion of Treaty Article 3B on the principle of subsidiarity, the "social agreement eleven" stated explicitly (article 1) that both Community and national social and labour market policies should take into account, *inter alia,* the need to maintain competitiveness. In addition, further institutionalization of the social dialogue in regard to Community social policy making and implementation, including legislation by collective agreements, could hardly cause national anxieties. As a matter of fact, social dialogue would likely become the dominant mode of Community social policy making, because European-level social partners were each faced with a threat. On the one hand, employers' organizations, especially UNICE, were threatened by direct legislative action which had been made easier following the "social agreement eleven". On the other hand, employees' organizations, especially the ETUC, were threatened by deliberate Council inaction (Falkner, 1996). Yet, substantive policy outcomes were unlikely to prove burdensome and costly for national regulatory systems. Social partners were not equally threatened, or, to put it precisely, they were not faced with equally credible threats. Obviously, the eleven governments were unlikely to adopt legislation that would weaken their economies' competitiveness *vis-à-vis* the UK, economy, thereby increasing the likelihood of deliberate Council inaction. Thus, faced with the credible threat of legislative inaction – at any rate more credible than the threat of direct legislative action faced by employers – workers' organizations would certainly prefer collective agreements, which, consequently, would most likely reflect (the effectively empowered) employers' demands, hence entailing little by way of market intervention and, also, little affecting national regulatory systems, if at all.

Being *ex-ante* conducive to national preferences' fulfillment, governments' choices were, unsurprisingly, going to be *ex-post* efficient too, as amply demonstrated by Community labour market legislation during the third period of European integration (1986/87-1997). Thus, leaving aside the relatively uncontroversial legislation in regard to health and safety at work and gender equality, as well as (legislative) acts updating and amending legislation already in force, six new directives in the area of labour law were adopted.

Four of them were legally based on the Treaty social chapter,[11] one directive was adopted via the direct legislative channel provided for by the "social agreement eleven",[12] and another one was produced via the social dialogue/collective agreement route to Community legislation.[13] However, their impact on national regulations and regulatory systems, in general, was going to be rather negligible. As a matter of fact, minimum labour standards established by Community legislation seldom differed from the lowest common denominator and, even in cases they somewhat did, relatively long gestation periods, derogations and concessionary clauses (as, for instance, with the directive on the organization of working time) sufficed to offset the impact of (the relatively more ambitious) minimum standards. Therefore, in effect, national (un)employment - wage (in)equality trade-offs were virtually left untouched (Koutsiaras, 2003).

However dismal it might read, the record of Community social and labour market policy was very much aligned with an equally dismal contemporary political economy. Following the rapid increase in European economic growth, during the second half of the '80s, albeit little impinging on persistently high rates of unemployment, the performance of European economies during the first half of the '90s was disappointing and unemployment rates, in particular, climbed to their highest post-war levels.[14] By that time, though, little doubt was left as to the structural causes of European economic malaise and the Commission forcefully made the case for reforming the European economic and social model, including labour market institutional reform (Commission EC, 1993). Hence, never before had the case for (meaningful) Community-level labour market regulation been weaker than in those adverse circumstances, particularly in regard to European labour markets. Genuine deepening of Community-level coordination of social and labour market policy was, thus, effectively deterred by domestic regulatory failures calling for institutional labour market reform, entailing *inter alia* revision of (un)employment – wage (in)equality trade-offs. It was certainly not hindered by intra-Community regulatory diversity, the latter actually being lesser than commonly perceived. Neither, of course, was deeper Community-level coordination of social and labour market policy compelled by regulatory diversity, as earlier argued.

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[11] Directive 91/533/EEC on the employer's obligation to inform employees of the conditions applicable to the contract of employment relationship, Directive 93/104/EC on the organization of working time, Directive 94/33/EC on the protection of young people at work and Directive 96/71/EC concerning the posting of workers in the framework of the provision of services.

[12] Directive 94/45/EC on the establishment of a European Works Council or a procedure for information and consultation of employees in Community-level undertakings and groups of undertakings.

[13] Directive 97/81/EC concerning the framework agreement on part-time work concluded by the social partners (UNICE, CEEP and the ETUC).

[14] Based on OECD data, annual average growth in the EC-12 was 1.2% during 1991-94, compared to 3.1% during 1986-90, and the average annual rate of unemployment in the EC-12 climbed to 10.2% during 1991-95, compared to 9.1% during 1986-90.

Being largely – and wisely - symbolic, Community-level coordination of social and labour market policy did, nonetheless, assist national governments – with the exception of the UK conservative government – in carrying forward their plans, initially, for liberalized market integration and, subsequently, for monetary union. Thus, southern member state governments, especially the socialist governments in Spain and Greece, could politically legitimize their Europe-led *cum* liberalization-driven development strategies via their constant support, let alone active promotion of social Europe, thereby also diluting left-wing opposition to European integration. For richer member state governments, though, failure to successfully negotiate deep(er) institutional reforms and enact (more) ambitious Community social and labour market policy could often be conveniently blamed on unfair competition intentions and social dumping practices on the part of southern member state governments and, of course, the UK government. The need for domestic welfare and labour market reform would, then, appear both exogenously dictated and inescapable. However inescapable it might appear, though, labour market reform was confronted with uncertain and/or politically unfavourable redistributive implications (for instance, Fernandez and Rodrik, 1993), thereby being often confined to piecemeal measures and changes at the margin and, occasionally, comprising contradictory policies (Boeri, 2000; OECD, 1997).

Community social policy was, in any case, not going to have any effect on the 1995 EFTA enlargement. Enjoying high living standards and combining liberal trade preferences, generous welfare systems and well endowed active labour market policies, Sweden, Finland and, to a lesser extent, (neo-corporatist) Austria had no obvious reason to feel the social dumping sort of anxieties. And they, certainly, could cause no such anxieties in incumbent member states. Yet, following severe, partly permanent, economic shocks, labour market performance in Sweden and Finland had, at the time of their accession, markedly deteriorated and unemployment rates reached formerly unknown levels (in 1994, the rate of unemployment was 17.4% in Finland and 9.8% in Sweden, according to OECD data). Economic research brought to the fore welfare and labour market institutional failures (e.g. Rosen, 1996; Lindbeck, 1997) and reforms did find their way to the top of governments' policy agendas. If anything, then, the recently agreed, at the 1994 Essen European Council, European employment strategy, placing emphasis *inter alia* on active labour market policies, would all but enthusiastically be endorsed by the acceding former EFTA member states.

As a matter of fact, coordination of member states' employment policies, albeit of the soft type, thus fully respecting the member states' competencies and, therefore, entailing no binding rules or sanctions, was formally institutionalized via incorporation in the Treaty, following the latter's revision by the 1997 Amsterdam European Council. In addition to inserting a separate employment chapter, including establishment of the Employment Committee, the revised Treaty also put an end to the twin-track mode of Community social policy making, by abolishing the Maastricht social protocol and

incorporating the social agreement into the revised Treaty's (unremarkably amended) social chapter. Abolition of the social protocol was obviously made possible following the 1997 change of government in the UK. Indeed, having endorsed a model of industrial relations based on social partnership and fairness at work, *inter alia* entailing establishment of workplace rights by law, the new Labour government had gone some (third, albeit little) way towards convergence with the continental model, arguably on efficiency grounds. Yet, had there been uncertainty about the future direction of Community social and labour market policy, or, in other words, had there been a risk of Community social legislation preventing (UK) labour market flexibility,[15] the new Labour government would certainly not have contemplated an end to the UK social opt-out.

d. 1997/8-2004: The winds of change?

Legislation was soon going to lose importance relative to other Community social policy instruments. That was readily made evident during the last period of European integration, 1997/98-2004, marked by the Nice Treaty, the Eastern enlargement and the (currently in limbo) Constitutional Treaty. So, leaving aside, again, the relatively uncontroversial legislation in regard to health and safety at work, gender equality and fight against other forms of discrimination, as well as legislative acts amending and extending the scope of legislation already in force,[16] four new directives were adopted in the area of labour law. One of them simply put in force the framework agreement on fixed-term work concluded by the social partners and would, conceivably, spell little cost – of any sort - for national regulatory systems.[17] The rest dealt with the issue of employee involvement in decision making within companies and their adoption brought a long period of acrimony – nearly thirty years – to an end.[18]

Unsurprisingly, though, adoption of the three directives concerning information, consultation and, occasionally, participation of employees was only made possible after the maximum degree of flexibility had been secured in regard to their provisions. Thus, building upon the precedent set by the European Works Council directive, it was stipulated that the mode and details of employee involvement could, in each case, voluntarily be agreed by the

[15] By setting minimum labour standards at a higher level than required for the efficient working of labour markets, or, to use the (new Keynesian) economist's jargon, standards imposing deeper rigidities than rationally demanded. Presumably, a liberal labour market policy, such as in Anlo-Saxon economies, would just impose – and in fact aim at enforcing – rational rigities.

[16] Thus, Directives 99/63/EC, 2000/34/EC and 2000/79/EC brought into the scope of the working time directive (93/104/EC) sectors that had hitherto been excluded.

[17] Directive 99/70/EC

[18] Directive 2001/86/EC supplementing the Statute for a European Company with regard to the involvement of employees, Directive 2002/14/EC establishing a general framework for informing and consulting employees in the European Community, and Directive 2003/72/EC supplementing the Statute for a European Cooperative Society with regard to the involvement of employees

company management and employee representatives, often, albeit not always, provided that certain minimum standards were met. In the absence of voluntarily agreed arrangements, the three directives provided, accordingly, for the introduction of so-called subsidiary requirements, which little differed from the aforementioned minimum standards. Needless to say, the impact of the three directives on national legislation and practices in the area of industrial relations was practically going to be minimal (but see the discussion in Streeck, 1997).

Abandonment of the regulatory approach, associated with the Community method, was undoubtedly justified, both on consequentialist – lack of real impact - and normative – the imperative of labour market flexibility, with or without EMU - grounds. Thus, formally beginning with the Treaty of Amsterdam, the regulatory approach gradually gave way to a new approach which was first (formally) applied in the area of employment policy,[19] following the refinement of norms, procedures, means and instruments of application by the extraordinary European Council of Luxembourg, in November 1997 – though neglect of the macroeconomic policy aspect left the focus concentrated, almost entirely, on labour market policy issues (Koutsiaras, 2001).

The European Council of Lisbon, in March 2000, placed modernization of the (so-called) European social model, including increased investment in human capital, at the top of EU policy priorities, thereby providing for reinforcing the role of social policy as a productive factor and, consequently, improving economic performance and preserving the European values of solidarity, justice and social cohesion. As a matter of fact, European (EU-15) long-term productivity, employment and growth trends had, on average, since the mid-90s, been failing to keep pace with U.S. trends, largely reflecting poor economic performance in large continental old member states and, in any case, raising serious doubts about the sustainability of the European welfare state. Success of the Lisbon strategy was, of course, strongly dependent on adequately reforming social protection systems and labour market policies and institutions, so that they could adjust to (adverse) demographic developments, increased competitive pressures, post-industrial employment patterns and new social preferences.

So, although the European employment strategy remained its institutionally thickest version, the open method of coordination – as the new approach was now called – was, also, applied in the area of social protection, though separately for each of the main sub-areas (social exclusion, pensions, health care).And the strategy's inherent optimism was very much reliant on the effectiveness of the open method of coordination in stimulating national reforms, by enriching their content, increasing their relevance and accelerating their pace. However, neither on normative and, certainly, not on consequentialist grounds, were the open method of coordination and the

[19] It had informally been going on since 1994, as noted a little earlier.

Lisbon strategy, at any rate the latter's procedural facet, uniformly conceived, let alone solidly justified – and, despite accumulation of experience and facts and data, they still are not (for a recent account see Armstrong, 2006; justice is certainly not made here to the vast literature).

Meanwhile, the Eastern enlargement of the European Union had already been set in process and, by the sheer (expected) increase in the size and diversity of EU membership, an overhaul of the Union's institutions was all but functionally required. The Treaty of Nice, concluded by the intergovernmental conference in December 2000, provided for the institutional changes necessary for the accession of new member states. At least, it was thus stated in the declaration on the future of the Union, which was annexed to the Treaty. The same declaration was also calling for the continuation of the process of institutional reform, albeit explicitly disassociating the enlargement process from that of further reform of Union institutions. Interestingly, in the area of social and labour market policy, the Treaty of Nice failed to make any remarkable changes, the most important being institutionalization of the (soft/open) process of coordinating member states' social protection policies, including (formal) establishment of the Social Protection Committee. Obviously, insertion of the so-called bridge clause, whereby the Council might unanimously decide to extend the scope of qualified majority voting to one or more issues hitherto subject to unanimity, was unlikely to have any bearing on Community social policy making, in particular labour law making.

However, any attempt to causally relate developments in Community social policy, *inter alia* including Treaty-incorporated institutional reforms, to the prospective Eastern enlargement could hardly be empirically validated. Thus, the Baltic and Central and Eastern European countries as well as Cyprus and Malta had to comply with the Community social *acquis* and, despite its being a gradual process, compliance would still imply costly adjustment of their own regulatory systems. Being so, the ten prospective member states would apparently have less – at any rate no immediate - reason to worry about future Community social legislation, so long as, eventually, they would also take part in decision making processes setting the pace and shaping the content of Community law. Besides, Community social legislation was clearly being subject to the law of diminishing returns – and diminishing cost of national adjustment – thus giving rise to rationally diminishing national concerns. To put it otherwise, the reason the Treaty of Nice did not increase the scope of qualified majority voting had obviously little to do, if at all, with (altruistically inspired) anticipation of the impact of likely Community legislation on would-be member states' economies. Neither did formal institutionalization and actual implementation of social and labour market policy coordination processes solely respond to would-be member states' reform needs and priorities. As a matter of fact, the gradual abandonment of the regulatory approach was compatible with appropriate (deregulatory) labour market policies and requirements for growth – and convergence – in both incumbent and would-be member states (for the Central and Eastern European countries see Sachs and Warner, 1996; also Snower, 2006). And, of

course, open coordination of employment and social protection policies might, by definition, accommodate divergent needs and preferences for policy and institutional reform. Summing up, developments in Community social and labour market policy had little, if at all, been shaped by would-be member states' demands. Yet, they had not defied those demands either.

On the other hand, the Eastern enlargement was not going to disrupt domestic politico-economic equilibria in incumbent member states and was, therefore, not going to challenge the effectiveness of their social welfare and labour market policies, on the *ex-ante* plausible and *ex-post* corroborated assumption that East-West labour migration would not be massive in scale, nor would it be induced by differentials in welfare benefits (Kvist, 2004; Commission EC, 2006c). In other words, accession of the prospective member states would hardly set in motion a race-to-the-bottom in regard to social and labour market regulation, neither would it give rise to social dumping policies on the part of Central and Eastern European countries (but see Jouen and Papant, 2005). After all, not only was the economic desirability of social dumping questioned in this case (for instance, Barysch, 2005), but its political feasibility could also be gravely disputed.

As a matter of fact, preferences for social protection and redistribution in ex-socialist countries were often deeply rooted and hard to change (for instance Alesina and Fuchs-Schuendeln, 2005; for a qualified view with reference to the Baltic states see Chong and Grandstein, 2006). No wonder, then, that both quantitatively and qualitatively/institutionally social protection and labour market policies and reforms in certain Central and Eastern European countries – but much less so in the Baltic states – were closely anchored to the so-called European social model, often at the cost of jobless growth and unemployment (for instance, Adema, 2006, Boeri and Terrell, 2002, Mora, 2006). Hence, unsurprisingly, despite a general rising trend in income inequality in ex-socialist countries, following the collapse of socialist regimes, some Central and Eastern European countries – but not the Baltic states - managed to maintain comparatively low levels of inequality, thereby resembling Scandinavian countries (for a discussion based on comparative Gini coefficients, Bandelj and Mahutga, 2006).

Hence, the effectiveness – and long-term viability – of social policies in the incumbent – soon to be called old – member states was certainly not threatened by policy competition from would-be – soon to be called new – member states. However increased, diversities amongst incumbent and would-be member states' social policy preferences were arguably sustainable and would, thus, not ask for any sort of policy-induced containment. The open method of coordination, on the other hand, did fully respect national policy preferences, whilst providing for their adjustment to the real threats facing national welfare states, primarily via stimulating domestic social and labour market policy and institutional reform. Regardless of the academic opinion, the effectiveness of the open method of coordination had practically been associated with peer pressure. It had, consequently, been related to

national governments' sufficient use of two-level games, particularly via public acknowledgement of external constraints impinging on national policy making and, hence, relaxation of domestic constraints. Nevertheless, lack of formal (external) sanctions, desirable though as it might be, inevitably allowed national governments to play the simple politics of blame avoidance, albeit leaving domestic constraints almost intact and, therefore, often opting for politically convenient, yet socially inadequate reforms (for a brief but illuminating discussion of reforms, Debrun and Pisani-Ferry, 2006).

Negotiation of the Constitutional Treaty, concluded in October 2004, a few months after the new member states had formally entered the club, produced no changes in regard to the allocation of social and labour market policy competencies between the Community and its member states. Unsurprisingly and, indeed, wisely it might be added on normative and consequentialist grounds alike. Nevertheless, despite their being long underrated in the context of the European political debate, fears of social dumping resurfaced. Interestingly, though, this time they were not associated with (presumably weak) Community social policy but were, instead, directly linked to market integration, especially in regard to the proposed directive on services in the internal market.

Yet, this might readily be predictable, as it simply reflected the way domestic politics responds to Community-level constraints and opportunities and shapes national European integration preferences. And it also made evident that reform, or lack thereof, of Community institutions was similarly motivated rather than being mechanistically driven by other Community-level developments. Thus, powerful interest groups, for instance labour market insiders, opposing labour market reform had certainly realized that Community social policy could neither shelter, nor threaten them. They had, in other words, appreciated that Community labour law could hardly increase their level of protection, whilst the open method of coordination did little to effectively empower national governments and lessen their own influence on policy making. They also were probably aware that increased competition in product and service markets might reduce rents, thereby also reducing resistance to labour market reform (Blanchard, 2004, but see Saint-Paul, 2004). Thus, instead of demanding reform of the Community social regime, powerful interest groups urged national governments to push for directly protectionist policies, thus holding back market integration and stifling competition. And those demands, efficiently articulated and successfully negotiated by certain national governments, were indeed satisfied, as amply demonstrated in the case of the directive on services and, earlier, in the case of temporary restrictions on the free movement of workers. As for the unintended consequences, they were hardly imaginable, or were they?

IV. Concluding remarks

It has been argued in this paper that EU widening and deepening may not be causally related, instead being separately determined, yet similarly shaped by supply of and demand for geographically expanding the common market and Community institution building respectively. As a matter of fact, whether widening and deepening are jointly or independently pursued is an empirical issue. It obviously depends upon changes in the size and diversity of Community membership. Yet it may also depend, more subtly but often overwhelmingly, on specific motivations underlying Community institutional reform. Therefore, the issue becomes policy sector-specific.

Thus, modest institutional reform in the area of Community social policy has historically been weakly associated, if at all, with (Community) enlargement. After all, allocation of powers and competencies between the Community and its member states in regard to welfare and employment issues has, since the early days of European integration, been systematically related to the efficiency – equity classification of social policy objectives, the (vertical) equity objective being almost exclusively served by (democratically legitimized) national social and labour market policies. Being largely ascribed to divergent and, of course, fully respectable equity preferences, diversities amongst national social and labour market policies have, therefore, had virtually no bearing on Community enlargement(s). On the other hand, sustainability of national social policy diversities, however wide those diversities might have been, has barely been threatened by economic integration, for economic and political reasons alike, political agitation notwithstanding. Yet, realization of the equity objective has, since the mid-70s, been getting increasingly costlier in terms of jobs and growth and its prevailing conceptualization has, even, been cast in doubt. Reform of national welfare policies and institutions has, thus, been rendered inevitable. In the face of reform, governments as well as domestic interest groups have eagerly been investing in Community institutions, including social and labour market policy ones, in order to effectively increase their influence on domestic policy making. However, their strategies have often been unproductive and even backfired. Nevertheless, they are unlikely to be put aside.

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