

Neoliberal hegemony, transnational capital and the terms of the EU's eastward expansion

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Informed by a neo-Gramscian framework of analysis, this paper investigates the nature of neoliberal hegemony in the EU, and its consequences for the terms of enlargement. It will argue that both the deepening and enlargement of the EU are promoted by a historical bloc that seeks to establish the hegemony of transnational capital. In western Europe, social-democratic political forces, organised labour and the political forces of the peripheral countries have been incorporated into the historical bloc, albeit in a subordinated position. As a result, a precarious hegemonic constellation of 'embedded neoliberalism' has emerged. In contrast, the EU has exported a more 'market-radical' variant of neoliberalism to its new member states. This best serves the interests of transnational capital, and helps to preserve the order of 'embedded neoliberalism' within the old EU. Eastern European societies have not been in a position to question the unequal terms of enlargement. This can be explained by their specific legacies, which have led to their incorporation into the transnational historical bloc through passive revolution.

Introduction

As of May 2004, ten new countries have entered the European Union (EU), eight of them from eastern Europe.¹ Thus, after more than a decade, the period of hesitation, insecurities and drawbacks so characteristic of the relations between the EU and its eastern neighbours drew to a close. However, even following enlargement, the signals

being given to the new members remain mixed. Most importantly, it has become clear that the EU is not prepared to grant the new members equal social and economic rights in the near future. The transition period with regard to the free movement of labour denies the nationals of the new member states a crucial aspect of EU citizenship; and the financial arrangements leave them with significantly fewer resources per capita than the old members.

These concrete terms of enlargement invite a more general assessment of the relationship between the EU and the central and eastern European countries (CEECS). How to explain the unequal treatment of the new members? Is it likely to be transitory, or are we witnessing the emergence of a durable, second-class membership? Why have the new member states accepted the conditions of enlargement? These are the questions that inform this essay.

Mainstream approaches to eastward enlargement are not well-equipped to answer these questions. This article seeks to advance a critical understanding of the new European constellation based on neo-Gramscian perspectives of European integration. My main proposition is that the concrete form and problematic outcome of the EU's eastward expansion can be explained by the composition of a new, transnational historical bloc, which emerged in the EU in the mid-1980s and spread towards the CEECS shortly after. In what follows, I will first briefly introduce the mainstream understanding of the eastern enlargement of the EU. Second, I will present the concepts that form the building blocks of a neo-Gramscian theory of international hegemony; and third, present recent insights into the new, neoliberal path of European integration provided by neo-Gramscian approaches. It will be argued that the relaunch of European integration could develop into a precarious hegemonic constellation. In contrast to the 'embedded neo-liberalism' (van Appeldoorn, 2002) shaping the deepening of the EU, the mode of incorporating eastern Europe, up to now, has resulted in the export of a much more 'market-radical' variant of neoliberalism. The fourth part of the paper will expand the neo-Gramscian analysis to the pattern of the EU's eastward expansion, and explain the reasons for the somewhat selective nature of the CEECS' integration. The last part of the paper asks why central and eastern European (CEE) actors have been rushing for inclusion despite the unequal terms.

Enlarging the European Union eastwards: Mainstream debates

Studies of the EU's eastward enlargement are not well-equipped to address the unequal pattern in which social and economic rights are distributed in a united Europe. The theoretical discussion has mostly focused on the question of whether EU enlargement policies and decisions can better be explained by rationalist or constructivist approaches. The question that has dominated the debate is that of why the EU decided to open enlargement negotiations. Constructivists argue that this decision does not confirm rationalist expectations, since for a number of member states, the costs of enlargement are higher than the benefits; and enlargement seems, in many ways, a less advantageous solution than alternative strategies like association agreements (e.g. Schimmelfennig, 2001). The decision to enlarge, therefore, points to the significance of norms and collective identities that allow the EU to accommodate the preferences of the CEECs (Sedelmeier, 2001; Schimmelfennig, 2001; Sjursen, 2002). Constructivist research on distinct policy areas and the major policy decisions taken in the second half of the 1990s in the context of enlargement has largely confirmed that, despite clear material interests expressed by EU member states or interest groups, norms, identities, or principles have been equally important in explaining the policy outcome, and have generally led to a stronger accommodation of CEEC's interests than a purely rationalist account would predict (Sedelmeier, 2002). Given that the tendency of this kind of research is to focus on the accommodation of CEEC's interests, rather than on their violation, the question of unequal treatment of the new member states has not been at centre-stage in the inquiry.

Rationalist approaches, on the other hand, argue that both the enlargement decision and the result of the entry negotiations can be explained by national interests and the differences in state power (Moravcsik & Vachudova, 2003). According to these authors, EU members promote the current accessions—just as they did the previous ones—because they perceive them as being in their long-term geopolitical and economic interests. The applicant countries accept the unfavourable conditions of enlargement because of the tremendous advantages of membership. The disproportionate concessions they make in order to become members can be

explained on the basis of bargaining theory: those countries that gain most through international cooperation have the most intense preference for agreement, and therefore are willing to compromise the most (Moravcsik & Vachudova, 2003: 44). Moravcsik and Vachudova explicitly acknowledge the costs of enlargement for the applicant countries, which stem from the huge task of ‘transposing’ the *acquis communautaire* [the body of EU law], the humiliation of having to go through evaluation procedures, the EU interference and double standards in core policy areas, and the fact that resources are oriented away from social policy and towards economic goals. They argue, however, that these costs will be more than outweighed by the long-term benefits of membership, such as access to major markets and to foreign direct investment, the stabilisation of the new democracies and the strengthening of their administrative capacities.

Although rationalist research on EU eastern enlargement is better equipped than its constructivist counterpart to address the divergence of socio-economic rights in the united Europe, it relies on a number of problematic assumptions and concepts. My first major objection relates to the basic assumption that the expected costs and benefits determine the applicant’s and member state’s enlargement preferences. Underlying this assumption is the understanding that costs and benefits, as well as national interests, can be determined in a quasi-scientific, objective manner. It is, however, by no means self-evident as to why and by whom certain consequences of enlargement are perceived as costs or benefits. Perceptions of costs and benefits are linked to the position of actors in the social, economic and political fields, and a common understanding of ‘national interests’ at the state level is the outcome of political struggles and choices. Thus, rather than taking for granted that ‘The applicants are forced into concessions precisely because the basic benefit offered to them—membership—is of such great value’ (Moravcsik & Vachudova, 2003: 49), critical inquiry would have to address the question of how this preference for membership came about in the first place.

A second problem with this approach is that it considers states as the most relevant actors in international relations, and thus neglects the role of trans- and supranational actors in shaping the enlargement process. Recent research on European integration and enlargement has shown, however, that these actors play an important role (van Apeldoorn, 2002;

Sedelmeier & Wallace, 2000). Thirdly, this approach concentrates uniquely on the *form* of international relations, and ignores the *social content* or purpose of enlargement (van Apeldoorn, 2002: 11-13). This allows the authors to stress the similarities between the current enlargement negotiations and the earlier ones: both have been characterised by asymmetrical interdependence, and consequently by concessions on the part of the applicant countries. Important differences—linked to changes in the social purpose of European integration—between earlier and the current round of enlargement are, however, ignored.

All in all, mainstream analyses of eastward enlargement tend to either neglect the consequences of enlargement for the new member states, or to provide an apologetic, panglossian account according to which everybody will be better off in the end—with the best off being those who initially lost the most. This article seeks to advance an alternative understanding of eastern enlargement by addressing the questions of how the EU's and CEEC's preferences came about and what role transnational actors have played in this; and by linking the unequal pattern of the new Europe to a shift in the social purpose of European integration. Ultimately, the aim is to advance a critical understanding, based on a neo-Gramscian framework of analysis, of the new European constellation.

Neo-Gramscian analysis of international hegemony

A critical account of the new European constellation that draws on the work of the Italian communist philosopher Antonio Gramsci (1971), and Robert Cox's (1981, 1983) interpretation of that work, takes as its main *problematique* the changing nature of global hegemony. In contrast with conventional analysis of hegemony, which equals it with dominance based on military and economic capabilities, neo-Gramscian analysis puts forward a broader concept. According to Cox,

International hegemony is not merely an order among states. It is an order within a world economy with a dominant mode of production which penetrates into all countries and links into other subordinate modes of productions. It is also a complex of international social relationships which connect the social classes of the

different countries. World hegemony is describable as a social structure, an economic structure, and a political structure. And it cannot be simply one of the things but must be all three. World hegemony, furthermore, is expressed in universal norms, institutions and mechanisms which lay down general rules of behaviour for states and for those forces of civil society that act across national boundaries—rules which support the dominant mode of production. (Cox, 1983: 172)

International hegemony thus has to be analysed on several interlinked levels. The first, fundamental level is that of the material sphere of production. 'Production' is understood in an encompassing sense, including the production of physical goods as well as of knowledge and social relations (Cox, 1989: 39). Different modes of production engender various forms of social relations by giving rise to different constellations of social forces. The latter are of crucial importance for the neo-Gramscian analysis of hegemony, since they constitute the power base within and across states. States form an institutionalised arena of class struggles and compromises (Cox, 1987: 19). Crucial for the relative stability of a certain configuration of class rule that underlies state power is the creation of a 'historical bloc'. This refers to the way in which a leading class builds 'organic' alliances with subordinated classes within a specific national context. Class rule exercised through a historical bloc will not appear as particularistic. Its institutions and ideologies will extend to subordinate groups without, however, undermining the vital interests of the hegemonic class (Cox, 1983: 169). Although the concept is linked to specific national contexts, it can be internationalised: an international historical bloc refers to the relatively stable alliances of ruling classes that support the existing international order (Jacobitz, 1991: 11).

Also crucial for international hegemony are values, norms and ideas that are shared by ruling and subordinated classes. Similar to constructivist approaches, neo-Gramscian analysis stresses the role of ideas in shaping institutions and actions. In a Gramscian understanding, ideas and material conditions are, however, always bound together. In order for ideas to become meaningful, they must be articulated within a hegemonic project, i.e. a project that stems from the economic sphere, but which is broad enough to incorporate diverse and even partly antagonistic ideas. In the formulation of

such hegemonic projects, intellectuals linked to the ruling classes play a major role (Cox, 1983: 168).

Values, norms and ideas are crucial for integrating subordinated social classes into hegemonic projects. In addition, values, norms and ideas enable the interests of transnational hegemonic forces to penetrate those societies in which a dominant class has not been able to establish hegemony in the encompassing Gramscian sense. In these societies, new hegemonic projects spread in the form of 'passive revolution', i.e. a revolution where

The impetus to change does not arise out of a 'vast local economic development ... but is instead the reflection of international developments which transmit their ideological currents to the periphery'. The group which is the bearer of the new ideas, in such circumstances, is not an indigenous social group which is actively engaged in building a new economic base with a new structure of social relations. It is an intellectual stratum which picks up ideas originating from a prior foreign economic and social revolution. (Cox, 1983: 170; see also Gramsci, 1971: 116)

The ultimate aim of a neo-Gramscian analysis of international hegemony is to unearth the contradictions of existing power relations, and to look for ways of overcoming them. As a critical theory, it does not seek to provide an alternative description of the existing hegemonic order but, rather, to ask how this order came about, whose interests are served by it and what its major contradictions are, and thus to contribute to the development of counter-hegemonial projects (Cox, 1981: 129-30).

Cox developed his analytical framework in order to contribute to a critical understanding of the processes of international changes related to the erosion of the post-Second World War order and the emergence of globalisation. More recently, a number of authors have applied and further developed Cox's approach in order to analyse European integration in the context of global structural changes (van Apeldoorn, 2002; Bieler, 2000; Bieler & Morton, 2001; Bieling & Steinhilber, 2000b; Cafruny & Ryner, 2003; Gill, 1992; Röttger, 1997). Despite slightly diverse theoretical perspectives on European integration, these approaches have demonstrated that a qualitatively new, transnational neoliberal constellation has emerged over the last twenty

years. In the following section, I will summarise the findings of neo-Gramscian analysis of European integration.

The emergence of neoliberal hegemony in the EU

As argued above, international hegemony has to be analysed on several interlinked levels: that of the dominant mode of production, that of social relations, and that of politico-ideological relations. Major transformations at all three levels have, over the last decades, shifted hegemony in the EU towards a specific neoliberal form.

Basic characteristics of neoliberal hegemony

The mode of production has been characterised by the dissolution of Fordism. In its place, a new mode is emerging, centred on knowledge-based information and communication technologies. The emergence of the new mode of production is largely dependent on US capital, technologies and companies, and has not penetrated Europe as deeply as it has the US. European production is still characterised by traditional industrial sectors to a much larger extent than is US production (Beck et al., 2002: 25-75; Lüthje et al., 2002: 25-102). European integration since the mid-1980s has aimed at reducing its dependence and backwardness, and at restoring Europe's global competitiveness. 'Negative' integration—the elimination of national constraints on trade and competition—the transnationalisation of production, and the cross-border centralisation and concentration of economic power have led to an increasingly transnationally integrated European economic space (Ziltener, 2004: 962-4).

At the level of social relations, this process has engendered a truly *transnational* historical bloc, which seeks to create the conditions for the hegemony of transnational capital.² A major forum of the bloc's leading class is the European Round Table of Industrialists (ERT) (van Apeldoorn, 2002: 183-190). The ERT was founded in 1983, on the initiative of Pehr Gyllenhammar, the chief executive of Volvo, with the support of Etienne Davignon, then a European Commissioner. Today, the ERT consists of forty-five CEOs and chairmen from Europe's largest and most transnational corporations. Through intense lobbying activity at national and supranational levels, regular official meetings with the highest representatives of the EU,

and strategic reports on the burning issues of European integration, the ERT has developed privileged influence on European policy-making (van Apeldoorn, 2002; Holman & van der Pijl, 2003).

Whereas nationally based, export-oriented capital has frequently allied itself with transnational capital, the influence of domestic-oriented and import-competing capital in the new European constellation has largely diminished. Forces of labour have also been pushed onto the defensive. Trade unions are integrated in a subordinate position in the neoliberal bloc.

Through the institutions of 'competitive corporatism' (Rhodes, 1998), trade unions participate in neoliberal restructuring by accepting wage restraint, reform of the welfare states and the increasing flexibilisation of labour markets (Bieling, 2001: 107-8). Bieler (2005) argues that even if labour as a whole is in a defensive situation compared to that of the post-war constellation, it cannot be conceptualised as a homogenous force. Rather, labour in export-oriented and transnational sectors is more likely to develop supranational activities and to support some of the policy initiatives at the European level. In contrast, labour in sheltered sectors is more likely to take a defensive stance towards neoliberalism and European integration.

The shift in the mode of production and the emergence of a new, transnational historical bloc has led to the institutionalisation of a new form of relations between European and national institutions. Since the 1980s, the European mode of integration has aimed at enhancing competitiveness at all levels of European societies. Partly through directly taking over and 'Europeanising' certain state functions (e.g. monetary policy), and partly through significantly reshaping the framework in which nation states operate, the EU has developed into an interface that enhances regime competition between different national systems of governance. Most of the burden of the adaptation process to this new competitive environment rests upon the nation state and national institutions (Ziltener, 2000: 88-96). States have transformed from Keynesian welfare states into 'national competition states' (Hirsch, 1995; see also Jessop, 2002), whose main function is to mobilise society in the aim of competitiveness.

At the level of economic ideas, a major shift from Keynesianism to neoliberalism has taken place. Neoliberalism has

to be understood as both an economic and a political programme. As an economic programme, it aims at reducing state intervention in the economy and 'freeing market forces'. As a political programme, neoliberalism is most clearly defined by its *opposition* to state socialism and to the Keynesian welfare state (von Hayek, 1990, 1991). In terms of its 'positive' political programme, neoliberalism may be combined either with authoritarian, right-wing political forces or with centrist ones, be they conservative, liberal or new social-democratic. Think tanks and networks of experts actively popularised the main ideas legitimising neoliberalism (Plehwe & Walpen, 1999; Cockett, 1995).

Political projects of European integration

The above elements constitute, in a nutshell, the basic traits of the new, neoliberal European constellation. It is a matter of debate as to whether neoliberalism has become hegemonic. Gill (1995: 400, 402, 412), for instance, argues that the transnational bloc has a position of supremacy rather than of hegemony. While it cannot organise consent, it nevertheless rules over a fragmented opposition.

Bieling and Steinhilber (2000a, 2002) opt for a more nuanced approach to the question of neoliberal hegemony in the EU. Rather than offering a 'grand narrative', they prefer to focus on concrete political projects of European integration. This perspective stresses the different phases, concrete steps and partly contradictory strategies of the neoliberal restructuring of the EU. Bieling and Steinhilber are particularly interested in the interplay of material interests and discursive interactions in the different projects. Only if these two dimensions reinforce each other can the project be considered as hegemonic.

These authors identify three particular projects that have resulted in neoliberal hegemony in western Europe: the European monetary system (EMS), the internal market, and economic and monetary union (EMU).³

The EMS proved to be the starting signal for neoliberal restructuring, as it forced the member states to impose budgetary discipline and restrictive monetary policy (Bieling & Steinhilber, 2000a: 112). The project was promoted in an extremely technocratic manner, which allowed the public, by and large, to ignore it.

This changed, however, with the second project of neoliberal restructuring—the internal market. This project emerged against a background of economic stagnation and the perceived loss of European competitiveness vis-à-vis the US and Japan. A transnational coalition of actors, forged under the leadership of the European Commission and transnational capital, supported the project (Sandholtz & Zysman, 1989: 114-8). Despite its economic character, it became a broadly popularised symbol of the relaunch of European integration. This was due, on the one hand, to a publicity campaign about the advantages of the internal market, which sought to legitimise the project through the expected economic success. On the other hand, Jacques Delors, the then-president of the European Commission, linked the internal market with a far-reaching vision of integration progress in the monetary, technological and social fields. This vision spoke to a number of social forces, including more defensive, internal-market-oriented business groups; and trade unions, which became actively engaged in the construction of ‘social Europe’ (Ross, 1995: 43-45, 150-3; van Apeldoorn, 2002: 115-58, 169-84).

EMU, the third central project, initially still profited from the ‘Europhoria’ triggered by the internal market. A number of actors considered the core functions of EMU—strengthening the EU in the global currency competition, reducing transaction costs, and strengthening the culture of stability—as a logical consequence of previous integration steps. EMU received additional legitimacy because it promised to tie the united Germany into European structures and to break the dictate of the Bundesbank (Bieling & Steinhilber, 2000a: 115). The consensus over EMU did not hold, however. As argued by Gill (1998), EMU displays—much more than does the internal market—the disciplinary character of European neoliberalism. The convergence criteria of Maastricht and the stability and growth pact ‘depoliticise’ central policy fields, leaving little room for manoeuvre for generous wages and social policies. At the same time, the reinforced stability culture offers no solution to Europe’s burning problems of high unemployment and slow growth. As a result, European integration has become increasingly contested. It has triggered waves of social protest, especially in France but also in other European countries. At a pan-European level, resistance is being articulated at the European Social Forums, where intellectuals, trade unions

and new social movements interact (Bieling & Steinhilber, 2000a: 122-8).

Whether these movements and coalitions are giving rise to counter-hegemonic projects is still in question. For the time being at least, Bieling and Steinhilber do not see major challenges to neoliberal hegemony in Europe. They argue that, despite continuous and even growing socio-economic problems and sporadic political protest, European integration is consolidating along neoliberal lines (Bieling & Steinhilber, 2000a: 120). Through the 1990s, the ruling classes were flexible enough, moreover, to incorporate the demands of other social forces into their projects. This is reflected in a number of policies and initiatives—in the upgrading of structural and social funds, in elements of social regulation on the European level, and in the European employment policy. Thus we may speak of a precarious hegemony of *embedded neoliberalism* that has emerged in the EU. According to van Apeldoorn (2002), who coined the term, this ‘embeddedness’ addresses the concerns of European labour and social democracy, but ‘this incorporation is done in such a way that these concerns are, in the end, subordinated to the overriding objective of neoliberal competitiveness’ (ibid: 181). It is against this background that eastward enlargement has to be analysed.

The political project of eastward enlargement

The neoliberal nature of the enlargement project

After EMU, the EU did not delve into a new deepening project during the 1990s. Rather, it was the issue of enlargement that became the engine for further development (Bieler, 2002: 575). The first enlargement, which brought in Sweden, Finland and Austria, has not constituted a major source of conflict. Eastward enlargement is different. It has been much more contested because of the large number of countries, their specific legacies, and their comparatively poor and backward economies. This is reflected in EU policy towards its eastern neighbours. Although EU actors have repeatedly stressed their solidarity with eastern Europe and their commitment towards enlargement, the concrete terms evolved only gradually and hesitantly over the 1990s. The decision for enlargement was only taken in 1993. Even after this, the EU was very reluctant to announce an accession date, and

postponed crucial agricultural, structural and institutional reforms that were initially considered central to enlargement.⁴ Despite the fact that the commitment to, and the framework for, enlargement evolved only gradually from the early 1990s onwards, relations with the eastern countries have, however, been in line with the neoliberal integration projects discussed above.

This becomes evident if the policy requirements for the candidate countries are considered. The EU clearly uses its influence in the region in order to *export the core of its deregulatory programme*. Ever since the Europe Agreements⁵ and the Single Market White Paper (1995), the main thrust of EU policy was to secure the liberalisation and deregulation of CEEC's political economies. Already, in this early phase of accession, the EU could establish a far-reaching influence on the emerging 'models' of capitalism, and especially on the competition and sectoral policies and industrial standards. With the 'accession partnerships' that were concluded with the candidate countries from 1997 onwards, EU requirements became central engines for domestic reforms. The 'accession partnerships' were very all-encompassing, affecting, amongst other things, macroeconomic, budgetary and monetary policies, and administrative, regional, industrial and welfare reforms (Grabbe, 1998: 12-8). Furthermore, in contrast with the southern enlargement, where the new member states were required to 'liberalize domestic markets at the moment of entering the EU, in many cases with temporary exemptions ... [t]he associated countries are being required to open their markets *before* membership, without any linkage between liberalization and membership' (Inotai, 1999: 7).

At the same time, the EU has been very reluctant to extend the policy areas that would make CEEC's transition and adaptation easier—like substantial financial aid, free movement of labour, or liberalisation of agricultural trade. The earliest example of this attitude is the selective protectionism incorporated in the trade agreements in the Europe Agreements, where the EU conceived of a battery of protectionist instruments targeting exactly those sectors in which CEE had a competitive advantage: steel, textile, apparel, chemicals and agricultural products (Gowan, 1995: 25-8). Similarly, in the 'pre-accession strategy', which 'is primarily concerned with liberalisation of external economic relations and creating the conditions for free movement of industrial goods, services and, to some extent capital' (Grabbe, 1998:

11), labour and also agricultural policy were excluded from liberalisation. Finally, in terms of financial aid, the EU has supported its own members much more strongly than it has its poor eastern neighbours.

For a long time, the assumption was widely held that these asymmetries would disappear with full membership. However, the negotiation agreements reached in Copenhagen in December 2002 indicate that, at least in the near future, the new members will be relegated to a second-class membership. Most old member states have restricted the rights of the east European workers to move freely within the EU for up to seven years. The free movement of persons implies not only an economic dimension but also constitutes an essential part of EU citizenship rights, which are thus withheld from the nationals of the new member states (Maas, 2002).

In financial terms, the transfers per capita for the eastern European newcomers will be significantly lower than those for the old member states, despite (or because of) the fact that these countries are comparatively poor and backward (Mayhew, 2003: 16-30; Debbaut, 2003). The struggle over the new EU budget, which started in July 2005, reveals once more that the old member states are not ready to grant the east European newcomers equal financial support.

All in all, through a mixture of power and conditionality and the promise of 'membership perspectives', the EU managed, during the 1990s, to push the CEECs towards adopting a specific, neoliberal reform model. In its consequences, this model is more radical than the western European one.

Not only are the regulatory reforms of the internal market at its centre, but additional reform requirements have been presented that are not part of the *acquis*. At the same time, the EU has been very reluctant to extend towards CEECs all the policy areas that would make their transition easier, and has severely limited its financial transfers to those countries. These requirements have been presented as being self-evident, and there is little debate within the EU (or CEE for that matter) as to whether they are appropriate for economically backward countries with huge restructuring problems.

How can this result, which prescribes a more market-radical variant of neoliberalism to the CEECs, be explained? My main argument is that it is the composition of the new

transnational historical bloc that can explain both the expansion of the EU to the east, and its selective features.

Transnational capital and the project of enlargement

At first glance, transnational capital's preferences seem to confirm the constructivist argument that the decision *to offer the membership perspective* that was taken in 1993 cannot easily be traced to the material interests of central EU actors. The prospect of membership, once offered, had to be sustained and eventually realised, however. A major shortcoming of constructivist analysis is that it does not take into account the way the material interests of central EU actors—and thus their interests in enlargement—changed during the 1990s.

Taking the position of the ERT (European Round Table of Industrialists) as an indicator for the politics of transnational capital within the EU, it is true that it stated as early as 1991 that the EU should take 'immediate action' in response to the 'new challenge' and 'the window of opportunity' offered by 'the astonishing developments in Eastern Europe' (ERT, cited in Holman, 2001: 174). It took several years, however, for the ERT to concretise its position on enlargement.⁶ Since 1997, it has actively lobbied for the speeding-up of enlargement. In a message to the heads of the states of the EU in 1997, it invited the EU to reform its institutional structure in order to facilitate enlargement, and urged it to start closer cooperation with the applicant countries. In 1999, the ERT published its first report dealing exclusively with enlargement. It stressed that 'enlargement offers a golden opportunity to improve the competitiveness and prosperity of the whole European economy (existing EU members and new candidates alike)' (ERT, 1999: 5). This report also reveals the significant degree to which individual members of the ERT have been engaged in CEE. In its most recent report, the ERT stresses once more that 'of the crucial issues that have dominated the ERT's agenda since its formation in 1983, eastwards enlargement is on a par with the creation of the single market in the 1980s, and the single currency in the 1990s' (ERT, 2001: 4).

The growing interest of transnational corporations in enlargement can be explained by their shifting patterns of involvement in CEE. Initially, transnational corporations organised sub-contracting relations with eastern European

firms rather than investing directly. Moreover, they engaged mostly in sectors that allowed for an easy exit option (apparel, furniture, textiles) (Bohle, 2002: 165-176). This type of foreign-led activity does not need a stable institutional framework—the provisions offered in the association agreements were sufficient. However, since the mid-1990s, direct investment in more heavy industries has taken off,⁷ and foreign investors exert increasing control over strategic sectors of the CEE economies. In most accession countries, the leading export sectors are operated almost exclusively by foreign firms. Moreover, strategic services like finance and telecommunications are predominantly in foreign hands. Transnational corporations have increasingly used eastern European production facilities and their comparatively cheap and skilled labour as an opportunity to reorganise their production chains, and thus increase their competitiveness in the European and global markets (Faust et al., 2004). As a consequence, a new pan-European division of labour is emerging in which the east specialises in the lower end of transnational production chains (Bohle & Greskovits, 2006). With this involvement, questions of politico-institutional stability and the regulatory alignment of CEECs have become more salient. Transnational capital has come to see enlargement as a guarantee for its investment projects, and expects a significant reinforcement of the business opportunities after accession (ERT, 2001: 10).

In addition, neoliberal restructuring within the EU has led to a change in the relation of forces by changing the dominant orientation of import-sensitive industries. The steel industry is an example. For a long time, steel was one of the EU's most import-sensitive and protectionist sectors. Neoliberal restructuring however, which started in the 1980s, changed the politics of the industry. The western European steel industry, as a whole, has not turned into an active supporter of trade liberalisation with the east, or of enlargement; and it took until 1996 to liberalise the steel trade between east and west (Sedelmeier, 2002: 637-639; Jacobson, 1997: 7). The process of neoliberal restructuring, however, can explain the decreasing opposition to, and even partial support of, enlargement among the western European steel producers. Privatisation, a significant economic concentration process, a major reduction in employment levels and growing specialisation in high-tech steel products led to the emergence of a few powerful and highly competitive

actors. For these actors, eastern European steel production, typically specialising in basic steel, does not constitute serious competition. Rather, they profit from the CEEC's increasing demand for high-quality steel, and from relocation possibilities (Schabbel & Wolter, 2004: 23-24). These actors actually came to support the neoliberal policy paradigm (Schabbel & Wolter, 2004: 22-24; Dudley & Richardson, 1999: 236-44).⁸

Thus, all in all, while we cannot attribute a causal relationship to transnational capital's preferences and the initial decision to offer membership perspectives to CEECs, the fact that the EU—despite many conflicts—stayed on course after that decision reflects the priorities of transnational capital. At the same time, transnational capital has not lobbied equally strongly for the extension of the more inclusionist features of the EU system. For those forces of capital that are actively engaged in CEE, *exploring the differences* in terms of wages, fiscal, social and environmental standards is a significant incentive for investment. Other producers that rely on trade relations with the east, like the steel industry, are more concerned with ensuring fair competition in a united Europe, and thus with a harmonisation of basic standards (EUROFER, *no year given*). While these different interests may constitute a source of conflict, both factions of the transnational bloc are, however, united in their lack of support for a more solidaristic expansion of the EU.

The lack of support for extending embedded neoliberalism eastwards

If transnational capital is not lobbying for the extension of the more inclusionist features of the EU polity, what about other EU actors? The weaker actors—the elites of the peripheral EU states, the social-democratic forces and trade unions—have not offered the strongest support for enlargement.

Thus, the southern EU states have repeatedly stressed that they are not ready to foot the bill for enlargement. Trade-union support has been at best lukewarm, and at both the EU and the national level, labour has lobbied strongly against the free movement of people—a position that has been embraced by several social-democratic governments, and which has become official EU policy (Bohle & Husz, 2005).

Labour's reaction to enlargement demonstrates the difficulties of transnational solidarity under the competitive environment of neoliberalism. Enlargement is seen as threatening to undermine the compromise of embedded neoliberalism in western Europe, and to weaken labour's bargaining power. Against this threat, labour tries to defend its achieved rights. This position sometimes even turns labour into a close ally of nationalistic and xenophobic forces. The Austrian trade-union confederation ÖGB, for instance, proposed an income criterion as a condition of free labour migration: CEE average wages were to reach 80 per cent of the Austrian average before labour migration should be considered. Even if the ÖGB has meanwhile abandoned this extremist proposal, Jörg Haider later picked it up (Bohle & Husz, 2005:103).

Thus, whereas the aim of integrating eastern Europe is shared by a limited but rather powerful number of actors, who are mainly interested in exploring CEE's economic potential, the idea of an equal inclusion of the CEECs and of genuine (financial) solidarity enjoys virtually *no support*.

On the contrary, labour and political forces from the peripheral EU countries, unable to prevent the neoliberal enlargement, used their power in a defensive way by protecting their own interests against the newcomers. What are the consequences for CEECs, and why have these countries accepted the unfavourable terms of enlargement?

CEECS' incorporation in the transnational historical bloc

The CEECs' 'return to Europe' has become a much more ambiguous experience than had been expected. Not only do these countries face the prospect of second-class membership—even if it is only transitory—but in addition, integration has so far not produced the desired economic gains. Rather, the CEECs have developed the characteristics of a semi-periphery: dualistic economic structures, high unemployment and precarious growth perspectives.⁹

Nevertheless, until very recently, no CEEC government has challenged the strategic goal of EU membership or the requirements it had to meet. On the contrary, EU membership has enjoyed broad support among policy-makers, major

social forces and the wider public. In order to understand the uncontested nature of the CEECs return to Europe, the form of their incorporation in the transnational historical bloc through passive revolution has to be analysed.¹⁰

Passive revolution in CEE

As argued above, passive revolution denotes a situation of radical change pushed by elites whose ideas do not stem from the domestic context, but rather reflect international developments. Gramsci argues further that ‘The concept of “passive revolution” must be rigorously derived from the two fundamental principles of political science: 1) that no social formation disappears as long as the productive forces which have developed in it still find room for further forward movement; 2) that a society does not set itself tasks for whose solution the necessary conditions have not already been incubated’ (Gramsci, 1971: 106).

Gramsci’s concept of passive revolution is indeed helpful for analysing eastern European transformations. The breakdown of state socialism was of crucial importance for making CEE societies particularly receptive to western ideas and projects. After the crisis of Fordism in the West and the end of import-substituting industrialisation in the South, eastern state socialism was the last attempt to organise and sustain a development project within the framework of the nation state, which ultimately failed. Whereas the West underwent restructuring on a large scale and finally replaced the old Fordist model of development with a new, transnationally organised neoliberal one, eastern Europe stagnated over the 1980s, and experienced the total breakdown of its system. It is partly due to this uneven timing of crisis and restructuring that western forces could extend their ideas, rules, norms and institutions, and thus their interests, to the CEECs. Economic liberalism as an ideology became very attractive for these societies because it constituted the most radical alternative to the existing socialist system (Szacki, 1995). However, neoliberalism could neither be based on established societal groups, nor based around a specific national hegemonic project. The revolutions in eastern Europe, as often stated, were bourgeois revolutions without a bourgeoisie. Instead of powerful economic groups, it was intellectuals and elites within the state who became respons-

ible for the neoliberal reforms (Eyal et al., 1998; Bohle, 2002; Shields, 2003).

The weak societal embeddedness of the reform elites and the equally weak transformation states are two of the reasons why eastern European reformers were eager to secure external assistance early on. Initially, the IMF and the World Bank were of crucial importance (Greskovits, 1998: 19-68). EU membership, which emerged only later as an option, serves as a further external anchoring of neoliberal reforms in the region.

Moreover, the EU represents exactly what the eastern European societies have not reached over the last decades: economic wealth, stable democracies, and a form of international integration that seems to rely on the equal participation of all member states. The 'return to Europe', therefore, not only helped the reform elites to strengthen their project, but it was at the same time the ideology for the mobilisation of the eastern societies, which helped in enduring the hardship of transformation (Greskovits & Bohle, 2001: 16-17).

Societal consequences of the neoliberal reforms

The passive revolution was the condition for the gradual incorporation of CEE actors into the transnational historical bloc. Transnational class formation in CEE started initially with the reform elites (Bohle, 2002: 83-124; Shields, 2003: 228-37).

Later, as a result of the neoliberal reforms and the rapprochement with the EU, domestic social relations were restructured and have created a new social base for the Europeanisation project. One important result of the reform process in the CEECs is—at least in the case of the most 'advanced' countries—a very high degree of foreign penetration in important segments of the economy, which compensates for the lack of a domestic bourgeoisie. Otto Holman argues that

It is foreign capital—and the quasi-state structures and cadres at the supranational level organically related to it—which plays an essential role in the process of *transnational* class formation in CEE. The ownership and control of economically-relevant assets, and the income generating nature of it, are increasingly transnational phenomena, while the growing inequality in the

distribution of these assets is defended—that is, presented as the ‘general interest’—by the ‘new power elites’. (Holman 2001: 177)

The importance of foreign investors in the region does not manifest itself only in their control and ownership of economic assets, but also in their political influence on government positions. Foreign investors have been involved directly, on a bilateral basis and via their lobby organisations, in the governments’ reforms of social and labour laws, tax and competition policies, and the preparations for EU accession. They have successfully watered down Slovakian labour protection, introduced a competitive race to the bottom in the CEEC’s tax regimes, and lobbied for generous tax exemption schemes in these countries (AmCham Slovakia, 2002, 2004; Bohle & Husz, 2005: 87-96).

Simultaneously, neoliberal restructuring and the return to Europe have ‘contributed to the deterioration of the collective action capacities of its losers and opponents—mainly labor, labor unions, leftist parties’ (Greskovits, 1997: 206). Labour weakened tremendously during the 1990s. Unionisation levels have fallen dramatically, and the mobilisation capacities both at the national and the workplace level have been seriously undermined.

The newly emerging private sector is almost union-free (Crowley, 2004; Bohle & Greskovits, 2004). Ideologically, labour has not managed to define a counter-position to the dominant project of Europeanisation and neoliberal restructuring. According to David Ost, as a legacy of both communism and anti-communism, ‘East European workers and unionists eschew class identities. They do not think of themselves as a separate class requiring separate organisations to defend their interests. Rather, they embrace the neoliberal project in the hope that “the market” will ultimately serve their interests as well’ (Ost, 2000: 520).

Thus, at least for the time being, the only forces in the east that offer resistance to the current path of western integration are nationalist and xenophobic forces. In the Polish elections of September 2001, for the first time two outspoken nationalist, xenophobic and anti-EU-parties, Samoobrona (‘self defence’) and the League of Polish Families entered parliament (Szczerbiak, 2002). In the parliamentary elections of September 2005, an outspoken

Eurosceptic party, Law and Justice, came out as the strongest party, and Samoobrona slightly improved its result from 2001. The league of Polish Families retained its position. Their support comes to a large degree from among the losers in the transformation in agriculture, traditional heavy industry and, partly, the public sector.

Poland is not the only country in which nationalism and xenophobia represent a challenge to the chosen path of Europeanisation. The strength of these discourses reflects the inability of the dominant forces to offer solutions to burning social problems: high unemployment, societal polarisation and continuous restructuring requirements that threaten to widen the gap within the societies further.

Conclusions

This contribution was aimed at investigating the nature of neoliberal hegemony in western Europe, and its consequences for CEE's return to Europe. Informed by a neo-Gramscian framework of analysis, I have argued that the political projects that have advanced European integration and enlargement are promoted by a historical bloc that seeks to establish the hegemony of transnational capital. In western Europe, social-democratic political forces, organised labour and political forces of the peripheral countries have been incorporated into the historical bloc, albeit in a subordinated position. As a result, a precarious hegemonic constellation of 'embedded neoliberalism' has emerged.

In contrast, the EU has exported a more market-radical variant of neoliberalism to its new member states. This is the result of struggles and compromises within the historical bloc: exporting the core of the EU's deregulatory programme serves the interests of transnational capital, whereas not extending the redistributive *acquis* and blocking labour mobility protects the existing bloc's weaker forces.

Eastern European societies have not been in a position to question the unequal terms of enlargement. This can be explained by their specific legacies, which resulted in their incorporation into the transnational historical bloc through passive revolution. In contrast to others—western, northern and southern European countries—their 'return to Europe' could not be based on established societal groups and around a specific hegemonic project at the national level. Lacking a

domestic bourgeoisie, weakly embedded intellectuals and state elites became responsible for the rapprochement with the EU, the latter serving as the external anchor for neoliberal reforms. The lack of a domestic bourgeoisie also explains the very high degree of transnational penetration of CEE's propertied classes.

If my analysis is correct, then the ties that most strongly unite eastern and western Europe are heavily dependent on the agenda of transnational capital. These ties are unlikely to be strong enough to sustain a stable and hegemonic constellation. The EMU project has already reduced the consensual nature of neoliberal hegemony. It has triggered social protest, and relies more on discipline than did earlier integration projects. Eastern enlargement opens a new line of conflict in Europe. It allows transnational capital to increase its room for manoeuvre. At the same time, the weaker forces of the western historical bloc are pitted against the east European newcomers. This constellation is unlikely to give rise to an encompassing counter-hegemonic project. Rather, it resembles a situation of neoliberal supremacy, in which the transnational bloc cannot organise consent but, nevertheless, rules over a fragmented opposition.

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Notes

1. These are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.
2. The emergence of a *transnational* historical bloc was first conceptualised by Stephen Gill (1990: 89-100).

3. More recently, Bieling and Steinhilber have identified the creation of an integrated financial market as a new political project (Bieling & Steinhilber, 2002).
4. For an overview of enlargement policy, see Sedelmeier and Wallace (2000).
5. The Europe Agreements were special association agreements with the CEECs. The first Europe Agreements were concluded with Poland and Hungary in 1991. Other CEECs followed over the course of the 1990s.
6. Keith Richardson, the general secretary of the ERT from 1988–1999, acknowledged in retrospect that this delay was a mistake: ‘EU enlargement was also a weak point. Reshaping Europe marshalled powerful arguments in favour of rapid integration leading to full membership just as soon as the candidate countries were ready. But the topic was not followed up and there was no specific ERT paper on enlargement until 1999 ... Perhaps we all underestimated how slowly the negotiations would move. Looking back it seems clear that the ERT could and should have done more to push and prod’ (Richardson, 2000: 27).
7. The stock of inward foreign direct investment as a percentage of GDP for the eight new EU members was 11.6 per cent in 1995 and 40 per cent in 2001, compared with 10.3 per cent and 22.5 per cent respectively for the world (UNCTAD, 2003: 61).
8. Gerhard Cromme from Thyssen Krupp, for instance, is the current chairman of the ERT.
9. In 2003, four of the CEECs had not yet or just barely reached the level of their GDP of 1989. Several countries *repeatedly* experienced economic recessions over the 1990s (EBRD, 2004: 38), and real wages in 2000 were lower than in 1989 in seven out of eight countries. Unemployment has increased significantly over the past decade (Bohle & Greskovits, 2006: 27).
10. The following draws on my empirical investigation of Poland’s ‘Europeanisation’ and its comparisons with the Hungarian development path (Bohle, 2002; Bohle & Neunhöffer, 2005; Greskovits & Bohle, 2001). Shields (2003, 2004) develops very similar arguments.

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