

Keck, Wolfgang; Krause, Peter

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How Does EU Enlargement Affect Social Cohesion?

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Discussion Papers

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German Institute
for Economic Research

601

**Wolfgang Keck
Peter Krause**

**How Does EU Enlargement Affect
Social Cohesion?**

Berlin, June 2006

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German Institute for Economic Research
Königin-Luise-Str. 5
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Tel. +49 (30) 897 89-0
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Discussion Papers 601

Wolfgang Keck*

Peter Krause**

How does EU enlargement affect social cohesion?

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* Social Science Research Center, Berlin (WZB), keck@wz-berlin.de

** DIW Berlin, SOEP, pkrause@diw.de

Abstract

The enlargement of the European Union in May 2004 by ten new member states bear increasing challenges in creating social cohesion among its citizens and regions. Social cohesion is understood here in a broad sense as a coalescence of European societies in such a way that living conditions and quality of life of its citizens converge. This paper's empirical focus is on the two core life domains that are currently taking center stage in EU policy debates: (1) employment and working conditions and (2) economic resources and social exclusion. The analyses show that the 15 former member states are converging in terms of living and working conditions and the situation has improved in all of these countries during the 1990s. With the enlargement the situation becomes more diverse in the enlarged EU. In particular the post-socialist countries have to make great efforts to catch up with their EU counterparts. We can identify three emerging clusters of countries that share empirically very similar living standards. The first, wealthy cluster consists of the old northern European member states. The second, intermediary country group contains the most well-off accession countries and the old Mediterranean member countries with a lower living standard. The third, less developed cluster embraces new member states that were former post-communist countries.

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1 Introduction

With the enlargement of the EU in May 2004 to include ten new member states, the social situation in the New Member States (NMS) has become more closely entwined than ever before with the social situation in the older member states (EU 15). This means on the one hand that the policy strategies and institutional regulations guiding EU and national policy decisions and activities now are being applied to the NMS as well. On the other, this process of social integration creates new frames of reference for people to compare their living conditions. The growing interconnectedness and integration within the EU widens the scope of both mobility and comparability.

To avoid negative effects such as brain drain from poorer to richer countries and growing frictions between regions of the EU, the European Commission has attempted to reduce disparities in the social situation between countries and social groups, or at least to prevent a widening of the existing gaps in living conditions and quality of life. The debate on these issues coalesces around the term “social cohesion”. Although the notion of social cohesion leads a shadowy existence in the social sciences¹, the term is attractive in policy making. The World Bank, the Club of Rome, the OECD, several governmental and NGO initiatives and the European Commission use the term social cohesion as a central policy objective and a measure for the success of policy outcomes (Jenson 1998: 4ff).

Social cohesion has also become a central term for EU social policy (European Commission 1996, 2001a & 2004, “Cohesion reports”). It is understood here in a broad sense as a form of solidarity and mutual support, referring to the “harmonious development” mentioned in Article 130a of the Treaty of the European Union. However, policy approaches to the issue of social cohesion tend to concentrate on objective living conditions and to ignore the aspect of shared values, which forms an integral part of other conceptualizations of social cohesion (Jameson 1998, Berger-Schmitt 2000). Therefore, we propose that the concept of social cohesion be integrated into the multidimensional concept of quality of life, which is currently “probably the most prominent and widely used theoretical framework for assisting the living

¹ The notion of social cohesion has no distinct and broadly accepted definition (Jenson 1998: 4). In most of the standard encyclopedias, “social cohesion” does not appear at all. And the term cohesion itself refers to a rather vague concept of integrity of a social entity. Historical roots date back to the work of Émile Durkheim. For him, cohesion as an outcome of the different forms of solidarity is a core factor in creating social order and clarifying what makes it possible for people live together peacefully in a society (Durkheim 1995 (orig. 1912), Jones 1986).

conditions in a society” (Berger-Schmitt 2000: 2). The quality of life approach defines a basic framework of life domains in which social inequalities play an important role. A broader framework that covers people’s life situations in several life domains should thus be adopted to give also a more comprehensive account of social cohesion (see Fahey et al. 2003).

In this paper we deal with cross-country inequalities and degrees of deprivation in the EU on the eve of EU enlargement using indicators from the “EurLife” database (European Foundation 2005). We understand social cohesion as part of an integrated concept embracing qualitative as well as quantitative aspects of quality of life under the normative assumption that a certain degree of social inequality endangers the social order and counteracts integration processes. Our empirical focus is on the two core life domains that also take center stage in EU policy debates: (1) employment and working conditions and (2) economic resources and social exclusion.

Our empirical analysis goes beyond the mere objective description of living conditions by EU bodies, adding a range of subjective indicators that provide a more comprehensive picture of the cohesiveness of the enlarged EU. We use macro indicators as the basis for addressing three questions. On a descriptive level, we illustrate the extent of (positive) cohesion in (1) the processes of convergence that has taken place since 1990 and (2) the convergence within the EU member states on the eve of enlargement (2000-2003). While it is rational to distinguish between the EU-15 and the NMS in terms of their very different historical processes and political developments, these same countries frequently show strong similarities in social situation. Hence, we conduct a cluster analysis to determine which of the EU countries show close similarities in their social situations. The cluster analysis provides a somewhat different picture compared to the old/ new member states distinction.

2 The concept of social cohesion

The term social cohesion can be adapted to different concepts that highlight social disparities and social inequalities, such as social in-/exclusion, belonging/isolation, participation/non-involvement, recognition/rejection (Jenson 1998, Maxwell 1999). Hence, the concept of social cohesion is used to identify and combat disparities in different areas of society. This is one reason why the concept has become so fashionable in political discourse: on the one hand it offers an umbrella term for different kinds of social inequalities, and on the other, it contains a clear normative distinction, asserting that inequalities should at least not increase further (Bernard 1999).

For the European Commission, the concept of social cohesion is used mainly in the context of reducing disparities—unequal access to employment opportunities, income inequalities, etc. (European Commission 1996: 14)—within the various regions of the member states. But it also is used in the context of social exclusion, which should be combated as well in order to reduce the inequalities between social groups. The semantic of equality is accompanied by a concept of efficiency (positive convergence) in improving the working and living conditions of the citizens of the member countries and increasing economic growth (European Commission 1996: 15). In this sense, the EU approach conceptualizes social cohesion as the convergence and improvement of living conditions between and within countries. However, the EU objective of achieving social cohesion entails not only supporting each individual country in its own economic and social policy but also developing a benchmarking strategy to promote mutual learning processes and closer integration among the member states (European Commission 1996, Delhey 2004). Thus, the first cohesion report evaluates social cohesion in practical terms as “any narrowing of differences in individual access to employment and a reduction of poverty ...” (European Commission 1996: 38).

Reduction of economic and social disparities does not necessarily contradict the diversity of European societies, each with its own unique course of development. Taking into account the differences in the welfare systems of the EU countries, the European Commission developed an open method of co-ordination. This makes the implementation of social cohesion a national task to be adapted to the specific national situation, and to be defined and evaluated by the national action plans (NAP) (see Silva 2003). At a European level, only a guiding frame-

work of general policy goals and a monitoring tool, including a framework of common indicators, have been developed to define a standard for comparing the effects of the national activities (Atkinson et al. 2002, Social Protection Committee 2001). In addition, the European Commission has established a second means of policy intervention on a transnational level to obtain social cohesion: the EU structural funds, which provide the means for economic advancement in a wide range of social, infrastructural and economic fields. Much of this support is provided to less-developed regions of the EU. Disparities in economic performance between a region and the EU average are one of the main benchmarks for determining where to direct subsidies.

The Commission's usage of social cohesion focused mainly on the idea of convergence and similarity is criticized as too narrow. As Jan Delhey (2004) pointed out, convergence and similarity between regions and citizens does not give any information about their degree of inter-relatedness. "Even very similar countries can co-exist without taking any notice of each other and without any 'we-feeling'" (ibid: 8). Analogously to the terms "integration" and "social capital", cohesion refers to the connection among elements in a social entity. These interrelations and their measurement should be a central part of the social cohesion concept. Moreover, social cohesion inherently implies the idea of equalization. Equality, stability, and consensus are the underlying ideas that lead to continuity and predictability (OECD 1997:7). The normative bias contained in the idea of making things equal is opposed to increases in social inequality through rising income disparities, widespread social exclusion and high levels of unemployment. However, the notion of equalization within the concept of social cohesion becomes questionable if the objective of convergence is understood as leveling things of an unequal nature (see Cohen 1989, Krebs 2000).

Social cohesion remains a vague concept as long as it is not applied to distinct social fields. There have been some attempts to relate the social cohesion concept to more specific debates on social inequality. Regina Berger-Schmitt, for example, discusses social cohesion in the context of social exclusion and social capital (2000: 3ff). Considering that social exclusion is itself a multidimensional concept covering deprived life circumstances in several life domains, it can easily be applied in a more general approach. The quality of life approach may thus offer a framework to situate the social cohesion concept. There are at least two aspects which make a combination of quality of life and social cohesion fruitful.

1. Social cohesion shifts the perspective from mere discrepancies in quality of life to an understanding of inequality. This is not entirely new. Since researchers are generally aware of the social consequences of such discrepancies and understand them as inequalities, they inquire into their emergence and impact. But the normative connotation of social cohesion, which sees inequalities as a source of social cleavages, focuses on inequalities between high and low levels of quality of life measures.
2. The quality of life approach sets distinct standards in two dimensions. It enhances the orientation toward (material) resources by including capabilities and outcomes as crucial levels of quality of life. And it promotes subjective measures besides the standard set of indicators on objective living conditions.

This article maintains the Commission's perspective on convergence as social cohesion, although the authors are aware of its limits. However the Commission's approach is broadened in a threefold manner. Firstly, social cohesion is not seen as differences between countries and regions but as differences between people in countries. Therefore, all national figures are weighted by the population size of the countries to calculate cross-national measures. Secondly, the social cohesion framework will be enhanced conceptually by referring to the quality of life approach. Thirdly, the link to the quality of life approach widens the narrow perspective on objective resource-orientated indicators to include subjective outcome-orientated measures (see Cummins 2000, Sen 1999).

The following analysis applies this understanding of social cohesion within a quality of life approach to inquire into the cross-national inequalities between the current EU member states. It presents a balance sheet on social cohesion in the enlarged European Union, comparing the developments since 1990 using three time periods (1990-1992, 1995-1997, and 2000-2003). In addition, the situation on the eve of EU enlargement will be highlighted. The emphasis is placed on two core domains – employment and working conditions, economic resources and poverty – which take center stage in the EU social cohesion reports and have a strong impact on quality of life and life satisfaction (Delhey 2003, Alber/ Fahey 2003). Considering only two domains means leaving aside various other important aspects like family, social participation, health, housing and environment, etc. However, the analysis has to rely on comparative data for almost all of the 25 member states. There are still huge gaps in social reporting over time, data collection, and data comparability, particularly in the new EU member states which limit the spectrum of comparable aspects.

3 Database and methods

The data used here are from the EurLife database on which the authors provided to the European Foundation for the Improvement of Living and Working Conditions (European Foundation 2005). The concept of the database is geared toward a conceptual framework on monitoring quality of life (Fahey et al. 2002). Twelve life domains have been defined with reference to recent national or Europe-wide indicator systems (Noll 2002, Cummins 1996, Erikson 1993). In each domain, up to 15 key indicators illustrate objective living conditions, their subjective assessment or perceptions about them, and context information on social structures. The database combines a comprehensive, multidimensional account of quality of life together with the focused approach of a limited portfolio of indicators to provide clear, policy-oriented insights (see Atkinson et al. 2002). The indicators are taken from comparative surveying and reporting enterprises. On the one hand, standard indicators from transnational bodies (European Union, United Nations, OECD) were adopted. On the other hand around two-thirds of the indicators were generated from international micro datasets like the European Community Household Panel, Eurobarometer Surveys, and the European Quality of Life Survey. The data are provided on three standard subcategories: sex, age, and income quintiles, if the information is available.

Taking into account that quality of life refers to both objective living conditions and subjective well-being, the analysis broadens the standard set of structural indicators constantly reported by the European Commission. In each domain, subjective assessments complement and contrast the objective living conditions² (tab. 1).

On the basis of these macro-indicators the extent of (positive) cohesion will be illustrated in two dimensions: (1) processes of convergence that has taken place since 1990 and (2) convergence within the EU member states on the eve of enlargement (2000-2003).

² The term "objective" might be misleading because although it implies tangible facts that can be formally employed, it is often based on individual criteria and is to some extent open to the interpretation of the respondent.

Table 1
Selected Indicators

Domain	Labor market		Resources	
Section	Employment	Working Conditions	Living standard	Poverty and deprivation
Objective indicators	Employment rate, Unemployment rate	Working hours	GDP per capita Gini S80/S20 ratio	At poverty risk
Subjective indicators	Likelihood of losing job	Job is demanding and stressful Work under tight deadlines Partner/ family gets fed up with job pressure Job prevents giving time to family	Satisfaction with standard of living	Risk of falling into poverty Difficulties making ends meet Unable to pay scheduled bills

All indicators are population-weighted. The reason is that the figures should represent the situation of individuals in the European Union. Therefore, population weights describe a more detailed picture of how many people are affected by a specific circumstance, instead of comparing the mere number of countries. On the other hand, the weighting procedure leads to a dominant role of population-rich countries. Poland has more than half of the entire population of all new member states and influences the measures heavily. These influences should be kept in mind when interpreting the data.

4 Employment and working conditions

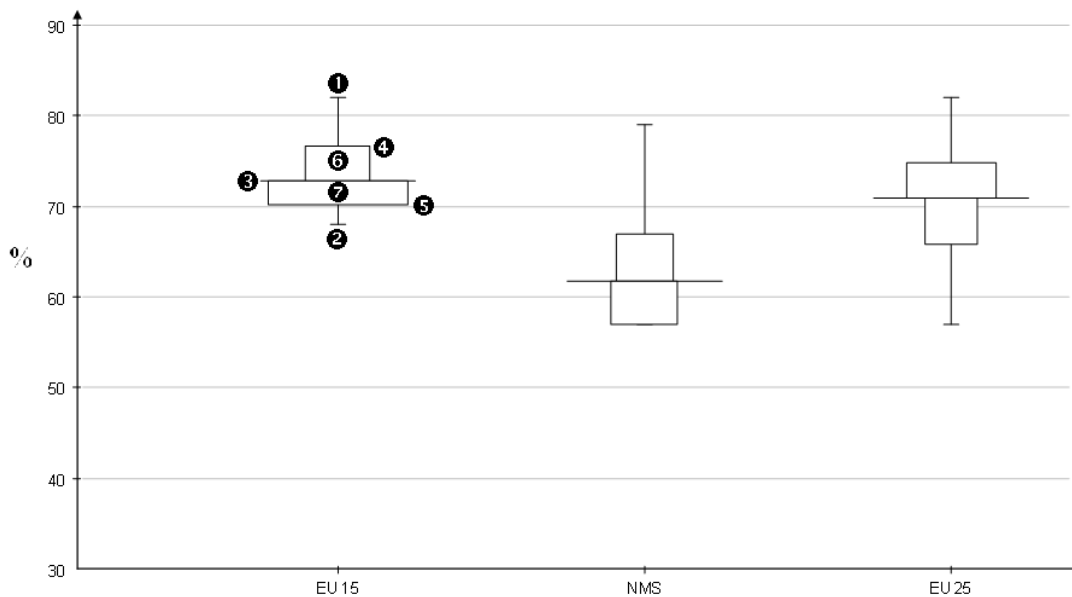
The EU employment guidelines (Council of the EU 2002) as well as the social policy agenda (European Commission 2001b) designate more and better jobs as an important policy objective. More jobs should reduce unemployment and empower women to participate more on the labor market. The European Commission set a benchmark of a 70% employment rate which countries should aspire to. Better jobs means reducing dangerous and unhealthy working conditions as well as supporting a better balance between work and family life.

Considering the aim of more jobs, employment rates differ markedly between men and women and between the old and new member states. For men in the EU 15, employment rates remain nearly constant at around 72% between 1992 and 2002 with a light interim decrease caused mainly by a 4% decline in employed men in (East-) Germany between 1992 and 1997. In the NMS, the situation is strongly influenced by Poland, where the employment rate of men decreased by ten percentage points since 1997 to 57% in 2002. This leads to an overall shrinking of the average of all NMS from 67% to 62%. In general the distribution between the countries is quite homogenous and the range is around 15% in the EU 15 and 20% in the NMS. However, comparing all 25 EU countries the variance remains relatively low but there is a vast distance between the highest employment rate in the Netherlands (82%) and the lowest in Poland (57%).

Figure 1 illustrates these social cohesion patterns for male employment rates. It summarizes seven measures for each country cluster. The first two are the figures for the maximum and the minimum within a country cluster (①②), symbolized by the upper and lower cross. The third measure displays the population-weighted mean of the country cluster as the wide line in the center (③). The fourth and fifth measures explain the variation within the country cluster below and above the mean (④⑤). The variation is calculated as the average, population-weighted deviation of all countries which are above/below the cross-country mean. It is displayed as the upper and lower line of the boxes above and below the mean. The sixth and seventh measures indicate the population shares in percent which are below/above the country cluster mean (⑥⑦). This is expressed by the area of the two boxes below and above the mean. Population shares can only be compared within country clusters but not between EU 15,

NMS and EU 25 because the maximum width is fixed within the chart and depends on the population share and the variation.

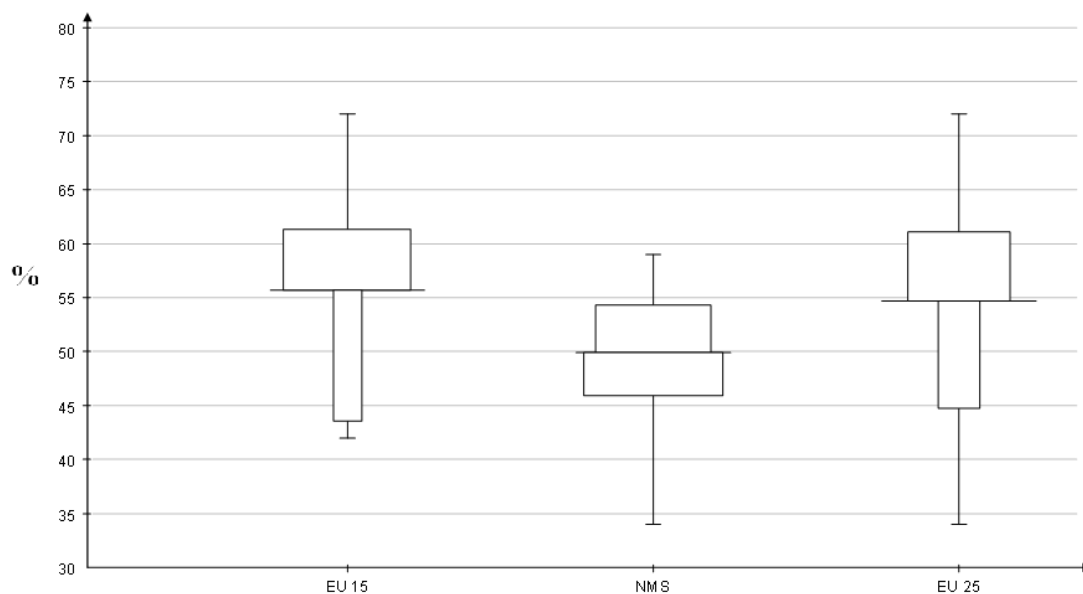
Figure 1
Employment Rates – Men 2002



Source: European Foundation: EurLife, 2005, data source: Labour Force Survey

The situation is different for women. In the EU 15 there is a constant rise of women's employment during the last 10 years from 50 to 56 percent. However, the proportion of women's employment rates between the countries did not change much. Greece, Italy and Spain show low employment rates for the whole period and determine the rather huge variance below the mean value. Only the employment rate of women in Ireland rose drastically in one decade from 37% in 1992 to 56% in 2002. The opposite picture can be seen in the NMS. Particularly the former communist countries had high female labor participation, but these figures, which were above the average of the EU 15, have been decreasing constantly during the 1990s and reached around 50% in 2002. But besides the outlier Malta, the situation is more homogenous than in the EU 15. Most of the accession countries cluster together between 45 and 55 percent (fig. 2).

Figure 2
Employment Rates – Women 2002



Source: European Foundation: EurLife, 2005, data source: Labour Force Survey

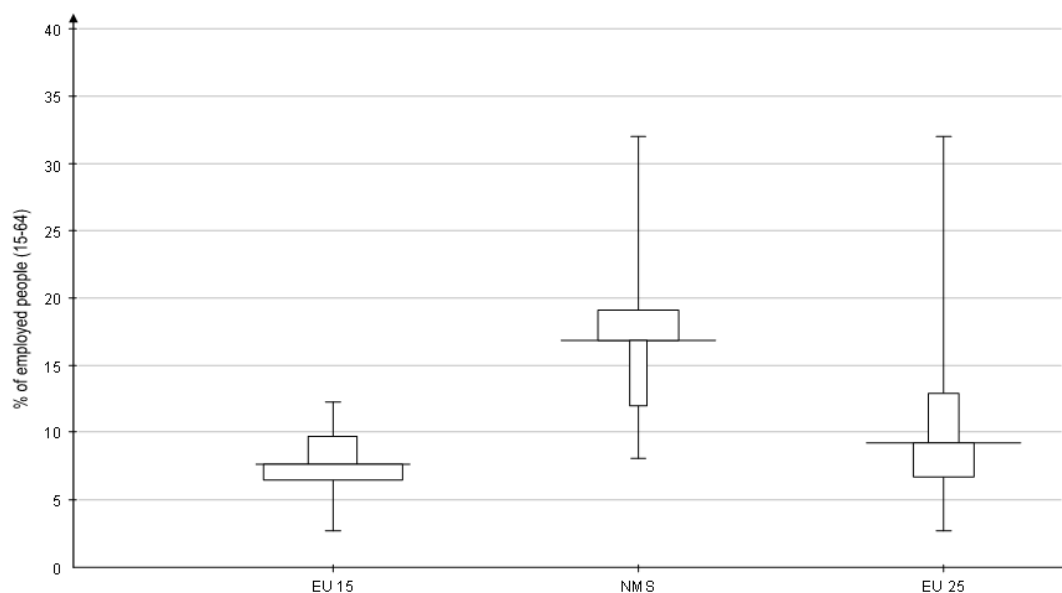
Again the picture becomes more diverse if the enlarged EU is considered. There is a great gap between Malta, where only 34% of women are employed, and Denmark or Sweden, where over 70% of women have a paid job. Unlike the situation for men, the differences in female employment in the old and new member states are higher. There is an important discrepancy between female labor force participation in the EU 15 and in the NMS. A substantial proportion of female workers in the EU 15 hold part-time contracts, with the exception of the southern European countries. In contrast to many EU 15 countries, almost all women in the former communist countries are employed full-time. In these countries, there is a clear distinction between women who work full-time and women who do not work at all (European Foundation 2004). This offers some potential to increase employment rates by establishing more flexible working time arrangements.

Employment rates differ markedly between the old and the new member states and the difference became even more accentuated during the transformation process in the 1990s, in particular for women. However, for the post-communist countries, there are two factors which indicate good prospects that these countries might catch up in the next years if the economic situation develops positively. First, these countries have formerly (subsidized) full-employment. From the perspective of path dependency, there are no traditional institutional

obstacles like in the Mediterranean countries to enhancing labor force participation, although attitudes on gender equality tend to the male breadwinner model (Gerhards/ Hölscher 2003). Second, working time arrangements are rather inelastic, even if the legal frameworks offer more flexibility. If these potentials are utilized, it might improve the employment situation in the NMS and foster social cohesion in the enlarged EU.

Considering subjective indicators, this evaluation is called into doubt. On average more than twice the number of employed persons in the NMS (17%) fears that they might lose their job in the next six months than in the EU 15 (8%). Only in Hungary, Malta and Cyprus is the share close to the mean of the old member states, whereas the Baltic States show by far the highest values. In Latvia and Lithuania around every third employee reports that he or she is very or quite likely to lose his/her job in the near future (fig. 3). Astonishingly there is no relation between the fear of losing a job and unemployment rate developments over the past six years ($R^2=0.04$). However, the concern about job insecurity is correlated with the current unemployment rate of men ($R^2=0.58$) and women ($R^2=0.50$) but the current labor market situation does not fully reflect negative employment prospects. This may indicate that transformation is pending. There is still a strong public influence on several economic sectors (agriculture, heavy industry, public sector) with the tendency toward over-employment. Thus, potentials to enhance labor participation are counteracted by workplace cutbacks due to transnational competition and balancing of public expenditures.

Figure 3
Likelihood to Lose Job in 2003



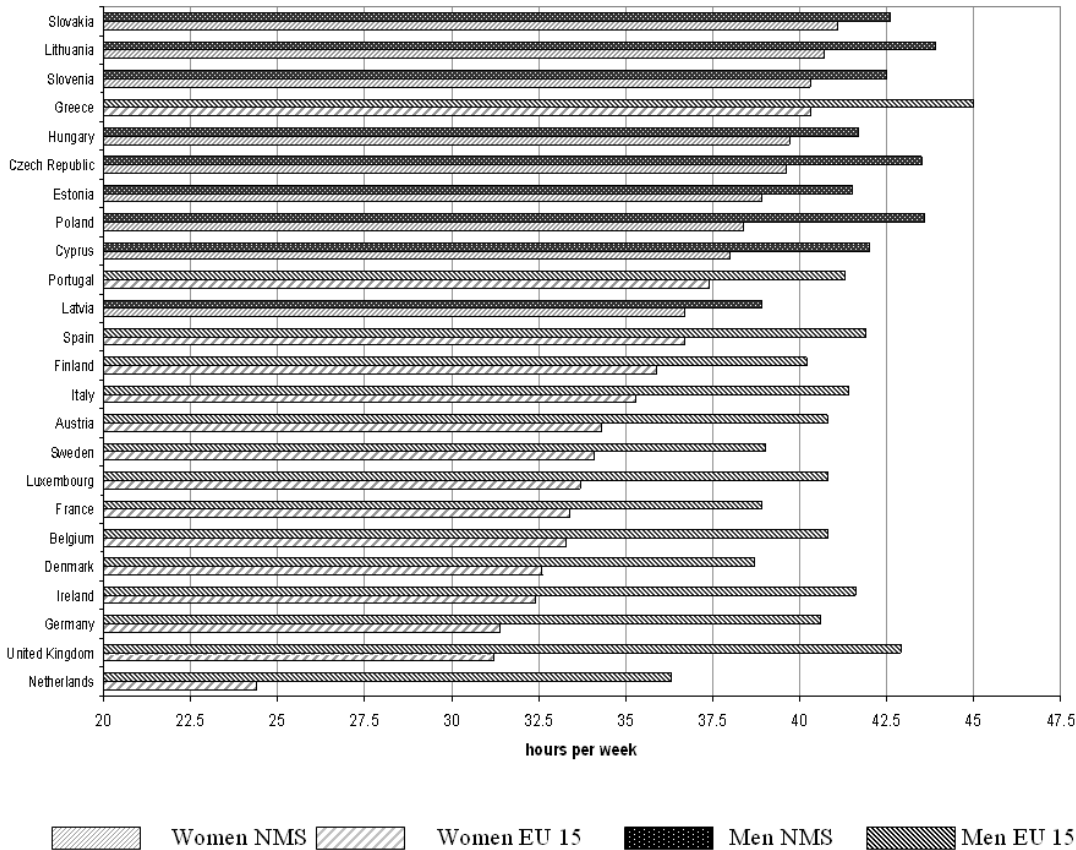
Source: European Foundation: EurLife, 2005, data source: European Quality of Life Survey 2003

Employment is the main way to earn one's living, but employment data gives mainly structural or context information. Although people are employed, job insecurity may hinder them from realizing future plans, e.g. family formation, or from investing savings, which affects the quality of life. Furthermore, being employed is a means of forming a personal identity, and the period of employment covers a large part of one's lifetime. Therefore, good working conditions are a key to improving the quality of life.

In almost all countries except Denmark and Lithuania, there are decreasing effective weekly working hours, mainly caused by the growing share of part-time contracts and collective agreements on work time reductions in some countries³. Although there are notable differences between the countries, on average the deviance between the EU 15 and the NMS is only slightly lower. In the NMS, employees have a longer working week on average. The difference is most substantial for women (fig. 4). In almost all the NMS, women work longer than in the old member states with the largest gap between Slovakia (41 hours) and the Netherlands (24 hours). As mentioned above, this is mainly caused by the lower prevalence of part time contracts in the NMS. In addition the share of employees working extended full time (48

hour a week and more) is for both – men and women – much higher in the NMS. Since 1995, only two countries – Denmark and Lithuania – out of 22 countries had increased working time. However there is no general gender or country-group pattern in the change of working time.

Figure 4
Weekly Working Hours by Gender and Country, 2002, Sorted by Women’s Working Hours



Source: European Foundation: EurLife, 2005, data source: Labour Force Survey.

Working time arrangements are one factor that influences the work-life balance. Not surprisingly, the percentage of people who report difficulties in reconciling work and family responsibilities is higher in most of the NMS than in the EU 15 (European Foundation 2004). Working time as an objective measure gives little information about the density of work that might cause stress and affect the quality of work. Hence, subjective assessments of working conditions provide a more detailed picture about the perceived quality of working time arran-

³ For Cyprus, Malta and Poland no data on working hours is available for 1995. Therefore, these countries are not included in the comparison.

gements. Table 2 illustrates four indicators on time pressure and time constraints for all EU member states. Two things are striking: First, country deviations are much more distinctive than the division between the old and new member states. Second, indicators on the work-family balance correspond with the longer working hours in the NMS such that long working hours increase the likelihood that people will have more problems in reconciling work and family life. Indicators on work under tight deadlines and stress indicate that a shorter working time in the EU 15 is accompanied by a higher work load.

Table 2

Perceived time pressure at work and time constraints because of work

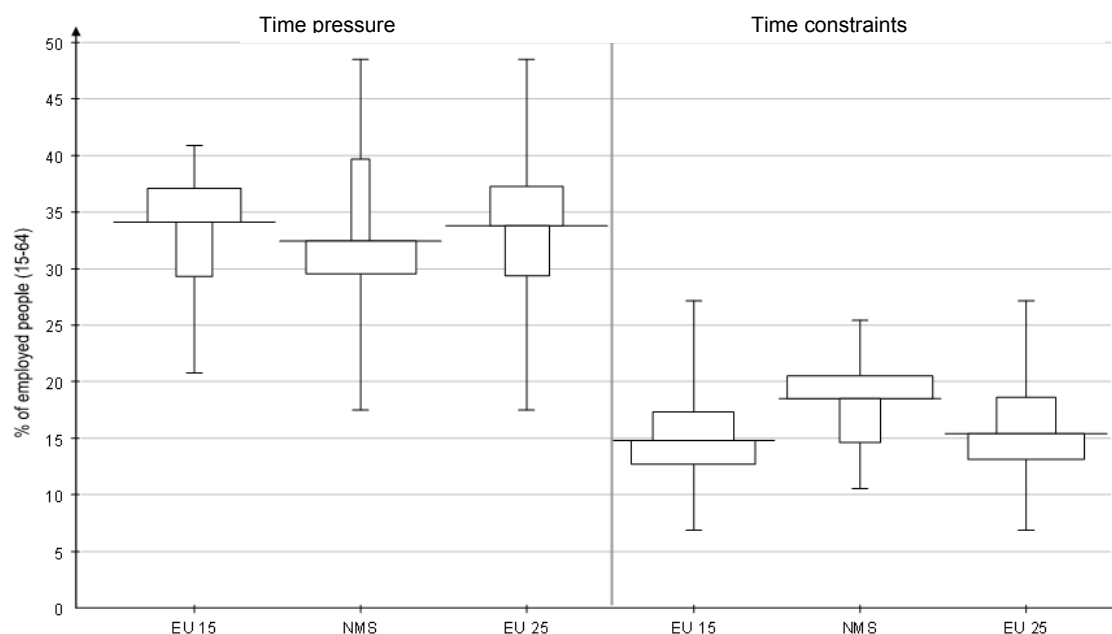
	Find job stressful		Work under tight deadlines		Partner/ family gets fed up with job pressure		Job prevents giving time to family	
	% 2001	Change 1995-2001	% 2001	Change 1995-2001	% 2001	Change 1995-2001	% 2001	Change 1995-2001
Austria	33	-5.6	44	-18.5	7	-10.1	14	-10.9
Belgium	26	-1.1	31	7.0	8	2.2	12	-0.2
Denmark	29	0.5	29	-1.1	7	-4.7	12	-5.6
Finland	33	0.8	41	-2.3	9	-3.1	17	-1.2
France	35	-1.3	37	3.7	11	-3.5	24	-2.7
Germany	31	-3.9	39	0.2	11	0.0	17	-1.6
Greece	48	-9.6	34	3.5	21	4.2	33	-8.9
Ireland	21	-5.3	42	6.0	7	-1.6	10	-12.0
Italy	37	-3.8	29	8.0	11	3.0	22	1.5
Luxembourg	39	-1.5	30	2.5	9	-6.4	22	-6.2
Netherlands	21	-2.2	35	3.0	6	-0.5	9	-3.9
Portugal	25	-9.2	16	-4.8	10	-5.6	13	-13.1
Spain	28	4.0	25	0.0	9	-3.5	22	-10.8
Sweden	41	0.8	39	3.9	7	-5.5	19	-3.3
United Kingdom	28	-14.5	53	0.2	12	-3.7	16	-4.7
Cyprus	46		51		6		17	
Czech Republic	33		48		10		16	
Estonia	31		26		10		24	
Hungary	39		37		15		36	
Latvia	31		25		12		19	
Lithuania	20		15		9		23	
Malta	38		48		6		15	
Poland	37		24		14		24	
Slovakia	33		29		16		20	
Slovenia	32		27		8		16	

Source: European Foundation: EurLife, 2005, data source: European Foundation Working Condition Surveys 1995, 2000/2001

The percentage of people who perceive time pressure and time constraints is heterogeneous across the countries but follows no clear EU 15/ NMS distinction. Portugal and Lithuania

have on average the lowest population shares, Greece and Hungary the highest. It is hard to get a deeper understanding of these differences on this macroscopic basis. Flexibility of work-time regulations, accessibility to public social services, the role of family support and the gender differences in the family-work system, different labor productivity and work loads as well as different cultural understandings might foster the country deviations. Regarding the EU 15, there is declining trend in time constraints, whereas perceived time pressure shows no common cross-country pattern⁴. Italy is the only country where time constraints increase markedly. In all other EU-15 states, a lower share of people report time constraints in reconciling work and family life in 2001 than six years before. This is in line with reduced weekly working time and with a range of policy initiatives in the field of work-family balance (see OECD 2002, 2003).

Figure 5
Share of Employed People Experiencing Time Pressure or Time Constraints



Source: European Foundation: EurLife, 2005, data source: European Foundation Working Condition Surveys 2000/2001

Figure 5 reveals that the cross-country differences between the 25 EU member states are more marked than the difference between the EU 15 and the NMS. For the indicators on time pressure at work, the variation is higher in the NMS than in the EU 15. A smaller percentage of

⁴ Unfortunately, there are no time series available for the new EU member states.

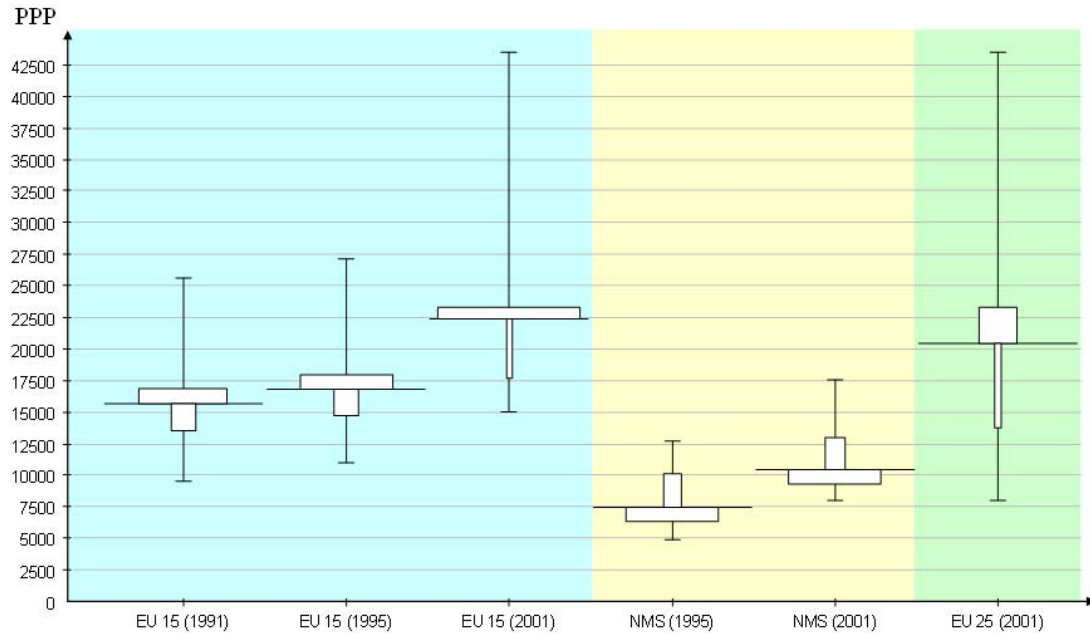
the population is clearly above the NMS average, with Cyprus ranking at the top (48.5%). Time constraints are more frequent in the NMS. This corresponds to the longer weekly working time in particular for women, which has a clear impact on difficulties reconciling work and family life (European Foundation 2004, Webster 2001).

5 Standard of living

The material standard of living plays a key role in subjective well-being, at least when people have difficulties ensuring that their basic needs are met (Delhey 2003, Fahey/ Smyth 2004).

Figure 6 illustrates the different developments in GDP during the 1990s. For the EU 15 member states, there is a substantive increase in GDP per capita after the economically depressed years in the early 1990s. This increase also promoted convergence between most of the member states. Luxembourg on the upper end, with its high increase, is an exception but has little influence on the EU 15 mean because of its small population. Most of the countries cluster very close together within the range of 22000-25000 PPS. It is noteworthy that the rank order of the EU 15 has changed significantly. Austria, Denmark, the Netherlands, and in particular Ireland experienced a rapid increase in GDP per capita and overtook most of the former wealthier countries, including Belgium, France and Germany. Otherwise, at the lower end, Greece, Portugal and to some extent Spain cannot follow this rapid pace. Even though GDP per capita grew steadily in these countries, the distance in GDP between the EU 15 mean and these countries increased slightly. Turning to the new member states, the picture is similar to that for the least prosperous countries of the EU 15. After most of the former socialist countries turned around economically in the mid-1990s, when the aftereffects of system breakdown had waned and new markets segments were beginning to develop, GDP per capita also began to increase and continues to do so to this day. But even though growth rates are high in percentages, the absolute distance between the NMS and the EU 15 has increased. The NMS mean is still far lower than the EU 15 minimum held by Greece (2001). In contrast to the EU 15, the rank order within the new member countries did not change much. Malta, Cyprus, and Slovenia have the highest GDP per capita rates, the Baltic States and Poland are still below the threshold of 10000 PPS per capita. As a consequence, the diversity in GDP increases sharply in the enlarged European Union compared to the former EU 15, with Luxembourg, which has more than twice the GDP per capita, and the Baltic States, which have less than half of the EU 25 average GDP per capita.

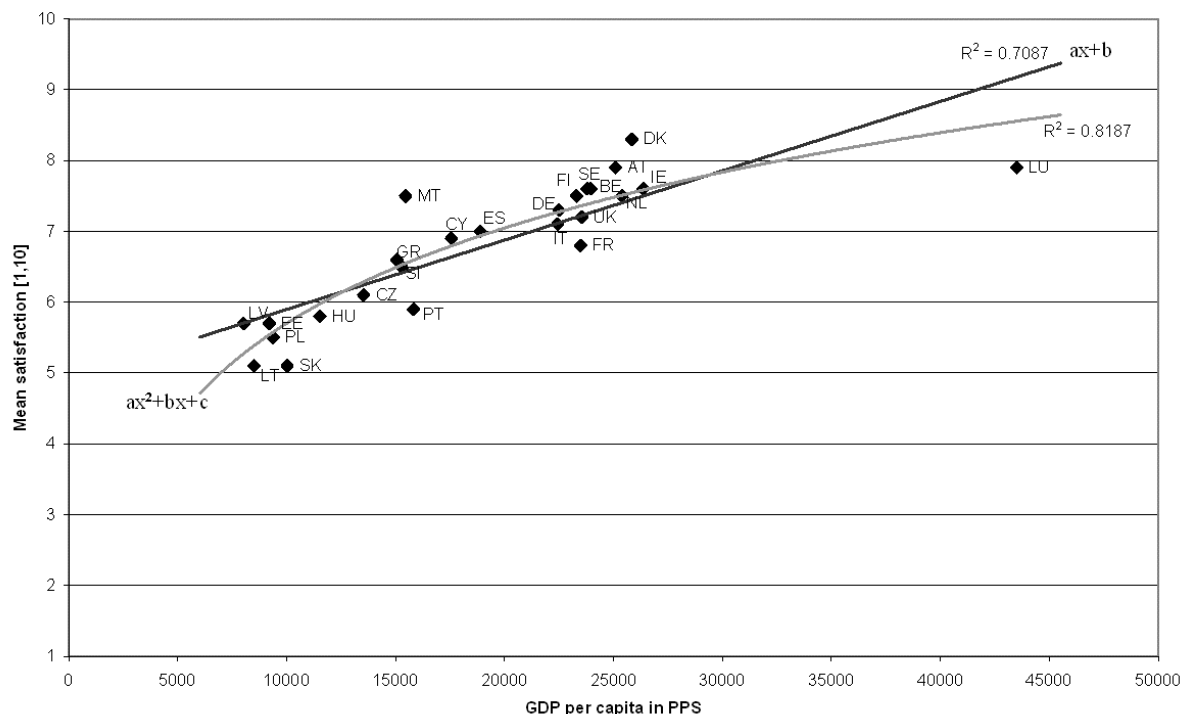
Figure 6
GDP Per Capita in PPP between 1991 and 2001



Source: European Commission, Structural Indicators

GDP is often criticized as uni-dimensional and resource-oriented. But nevertheless GDP per capita is – on a macro level – a good predictor for subjective perceptions of well-being measured by satisfaction with standard of living or general life satisfaction (Fahey/ Smyth 2004). Figure 7 shows that the mean satisfaction with standard of living is highly correlated with GDP per capita. There is a clear increase of satisfaction moving from the lower GDP level to higher levels. However, within the EU 15 and the NMS there is a more heterogeneous cluster which does not strictly follow the linear or curve-linear trends. Beside the methodological problem that the satisfaction scale has an upper bound and therefore cannot represent a linear trend, the results indicate that there seem to be a saturation effect. The lower the level of wealth at the outset, the more the same absolute increase of wealth will improve the satisfaction with standard of living.

Figure 7
GDP and Satisfaction with Standard of Living (period 2001-2003)



Source: European Commission, Structural Indicators; European Foundation: EurLife, 2005, date source: European Quality of Life Survey 2003

Macro indicators on wealth, subjectively or objectively defined, reveal little on the distribution of wealth within nations. Not surprisingly there are only weak relations between GDP per capita and measures of income inequality like the GINI-index ($R^2=0.15$) or the ratio between the median household equivalence income between the lower and upper quintile ($R^2=0.00$). In this respect, measures on poverty and deprivation give more detailed information about the prevalence of precarious living conditions in a country. There is a long and continuing debate as to how to assess poverty and deprivation adequately. In industrialized countries, relative poverty measures that compare the standard of living of an individual in relation to a national or regional average are used most often. Relative measures which are frequently reported by the EU Commission show no distinct differences in the percentage of people who live under the relative poverty line in the EU 15 compared to the NMS. Portugal, Ireland, Greece and the United Kingdom have even higher poverty rates than most of the NMS (see table 3).

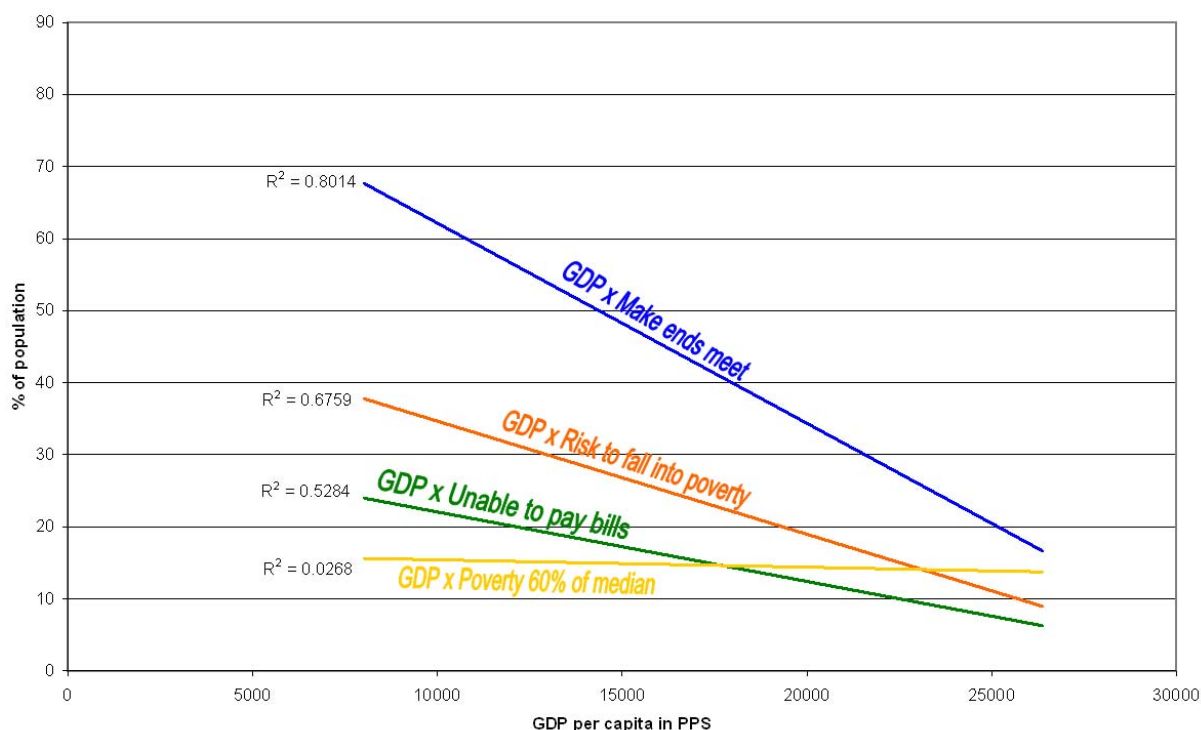
Table 3
Indicators on deprivation and economic strain (Period 2001-2003)

Country	GDP per capita <i>PPS</i>	At risk of poverty rate (60% median) %	Perceived risk of falling into poverty %	Difficulties making ends meet %	Unable to pay utility bills %	Satisfaction with standard of living <i>Mean [1,10]</i>
Austria	25090	12	13	18	4	7.9
Belgium	23960	13	10	28	9	7.6
Denmark	25840	11	13	16	3	8.3
Finland	23300	11	16	21	11	7.5
France	23480	16	11	38	12	6.8
Germany	22510	10	18	23	6	7.3
Greece	15050	20	27	59	24	6.6
Ireland	26370	20	19	20	13	7.6
Italy	22430	18	12	24	22	7.1
Luxembourg	43510	12	6	15	6	7.9
Netherlands	25390	10	8	27	7	7.5
Portugal	15820	21	29	37	12	5.9
Spain	18880	18	12	44	6	7.0
Sweden	23790	11	15	18	6	7.6
United Kingdom	23550	19	21	23	14	7.2
Cyprus	17560	-	18	50	15	6.9
Czech Republic	13530	8	30	47	8	6.1
Estonia	9200	18	41	64	25	5.7
Hungary	11530	9	27	63	20	5.8
Latvia	8029	16	37	71	33	5.7
Lithuania	8500	17	51	82	24	5.1
Malta	15460	15	11	21	9	7.5
Poland	9380	16	35	64	32	5.5
Slovakia	10020	-	43	54	18	5.1
Slovenia	15280	11	12	41	11	6.5

Source: European Commission, Structural Indicators; European Foundation: EurLife, 2005, data source: Eurobarometer, European Quality of Life Survey

As expected, this situation changes drastically when applying subjective indicators that are in some sense absolute measure. Figure 8 shows the linear regression lines between four indicators on economic strain and GDP per capita. In contrast to the above-mentioned relative poverty line, subjective assessment of economic strain is much more strongly correlated to GDP per capita. This indicates that large population shares in the economic less-well-off EU member states, and particularly in the Baltic States and Poland, face precarious living conditions and a lack of income resources to make ends meet.

Figure 8
 GDP Per Capita by Indicators on Economic Strain (period 2001-2003)



* 24 EU countries, Luxembourg is excluded as an outlier.

Source: European Commission, Structural Indicators; European Foundation: EurLife, 2005, data source: Eurobarometer, European Quality of Life Survey

Promoting social cohesion by lowering inequalities within nations taking a national reference like the 60% of median household income poverty line gives an incomplete illustration of the degree of deprivation in the EU member states as figure 8 above pinpoints. In addition to the national reference levels, there have to be further measures that use standards oriented toward an EU-wide reference level. Subjective measures - although they are sensible for interpretation and to some extent fuzzy - provide a more comprehensive insight in the difference of living conditions of Europeans.

In seven out of ten NMS countries, more than half of the population reports that they have great difficulties or difficulties making ends meet, whereas in the EU 15 only Greece has such a high population share with 59%. In five out of ten NMS countries, more than every third person perceives a risk that he or she could fall into poverty, whereas in the EU 15 only Portugal (29%) and Greece (27%) comes close to these figures. The same picture emerges for the percentage of people who are not able to pay utility bills on time. In five out of ten NMS countries, more than 20% of the population reports such difficulties; in the EU 15 only Italy

(22%) and again Greece (24%) show such high rates. With the NMS Malta and to some extent Cyprus, the Czech Republic and Slovenia have low rates of perceived economic strain. In contrast, in the Baltic States and Poland, huge shares of the population report that they have difficulties meeting their basic needs. In the EU 15, only in Greece do people perceive these problems in a similar way. In all other countries, the population shares which report economic strains are significantly lower than in the NMS. In Austria, Denmark, Luxembourg and Sweden, a lack of income or resources is only perceived by a quite a small part of the population (see table 3).

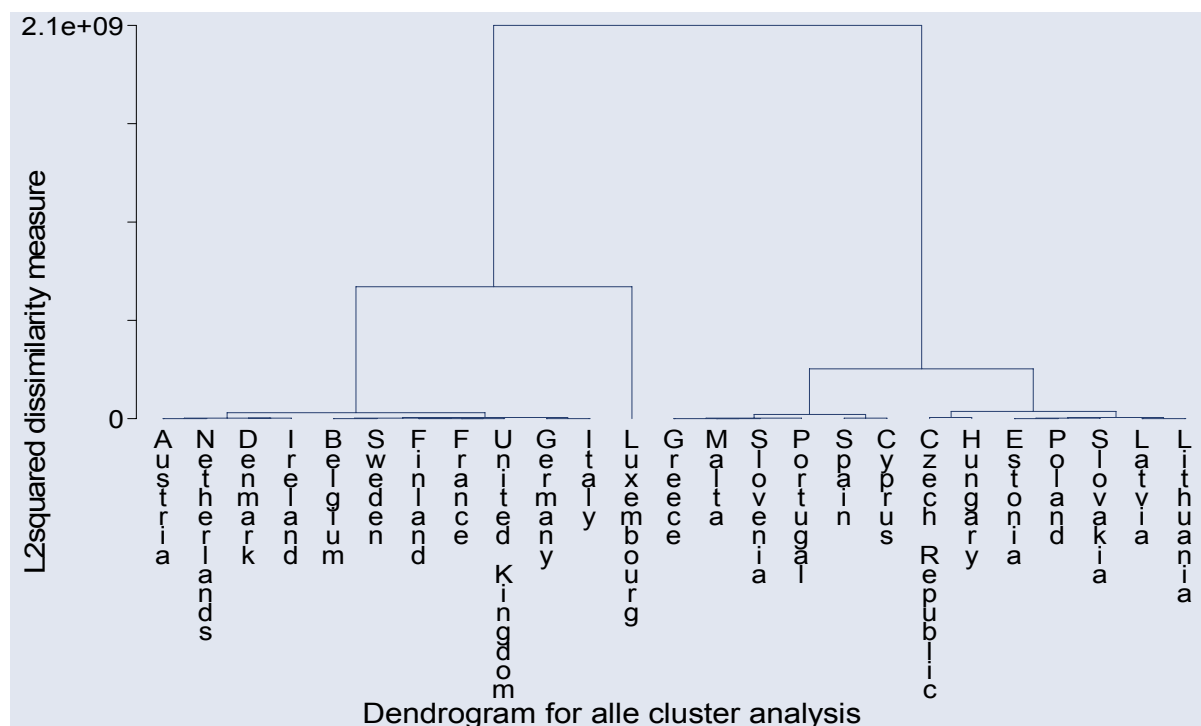
6 The new formation of the European Union

The former analysis illustrates that with EU enlargement, cross-national diversity will rise and the policy aim of social cohesion will be much more challenging in an EU with 25 members. Comparisons between the old and the new EU member states are rational in that they refer to a historical process of economic, social and political integration of an enlarged European Union. But from an analytical point of view, the comparison between the old and new member states conceals similarities between countries that are related to structural conditions and that run counter to the concept of comparing the former member states with the new ones.

Hence, culturally and historically, Malta and Cyprus have more in common with Italy and Greece than with the remaining accession countries with its former socialistic systems. Within the post-communist countries there is a wide range of diversity, too. The situation of the Baltic States, which were part of the Soviet Union for 50 years, is very different compared to Slovenia, which was part of the former Yugoslavia and is now one of the most liberal and prosperous regions of the former Eastern Bloc and was only barely affected by the Balkan conflict in the 1990s. But the situation in the new member states is quite heterogeneous not only in historical terms, but also in structural terms. The former Czechoslovakia was subdivided into the Czech Republic, with its core industrial regions and Prague as its prosperous capital, and Slovakia, with its low degree of industrialization and urbanization except for the Bratislava region.

Taking these historical and structural commonalities into account, it might foster the understanding of developments in the enlarged EU if the frame is shifted from the dichotomy between old and new member states to the relatedness within country clusters among countries that share similar conditions and historical roots. Figure 9 presents the cluster analysis of the set of indicators which are used to describe social cohesion in the field of employment and working conditions as well as for economic resources and economic strain. The results are in line with analysis, which covers a wider scope of life domains (see European Foundation 2004) and reflect the national distribution of general measures on well-being, e.g. life satisfaction and happiness.

Figure 9
Cluster Analyses: Period: 2000-2003, Wards Method



Source: European Foundation: EurLife, 2005, European Commission, Structural indicators. Indicators used: GDP, Poverty rate (60% median), risk to fall into poverty, difficulties to make ends meet, unable to pay scheduled bills, satisfaction with standard of living, male employment rate, female employment rate, likelihood to lose the job, time pressure, and time constraints.

The most striking result is that there are three country clusters that do not consistently reflect the division between old and new member states. The first cluster combines the old northern European member states. Luxembourg is, in this respect, an outlier because of its high standard of living, low unemployment rates and good health and working conditions. Nonetheless, Luxembourg is much more strongly related to the first country cluster than to the remaining ones. The second group comprises the Mediterranean countries Greece, Malta, Slovenia, Portugal, Spain and Cyprus. This intermediary group contains the most well-off accession countries and the old member with a lower living standard. The third group consists of new member states that were former post-communist countries (except Slovenia). Within this group there is the division between the Czech Republic and Hungary on the one hand and the Baltic States, Poland and Slovakia and the other, which reflects economic disparities in this country cluster (see also European Commission 2004: 11).

Comparing the dissimilarity measure, the clear gap between the first cluster, including Luxembourg, and the two other country clusters is striking. It marks a dividing line for social inequalities in the enlarged EU. This might point to serious challenges for further integration

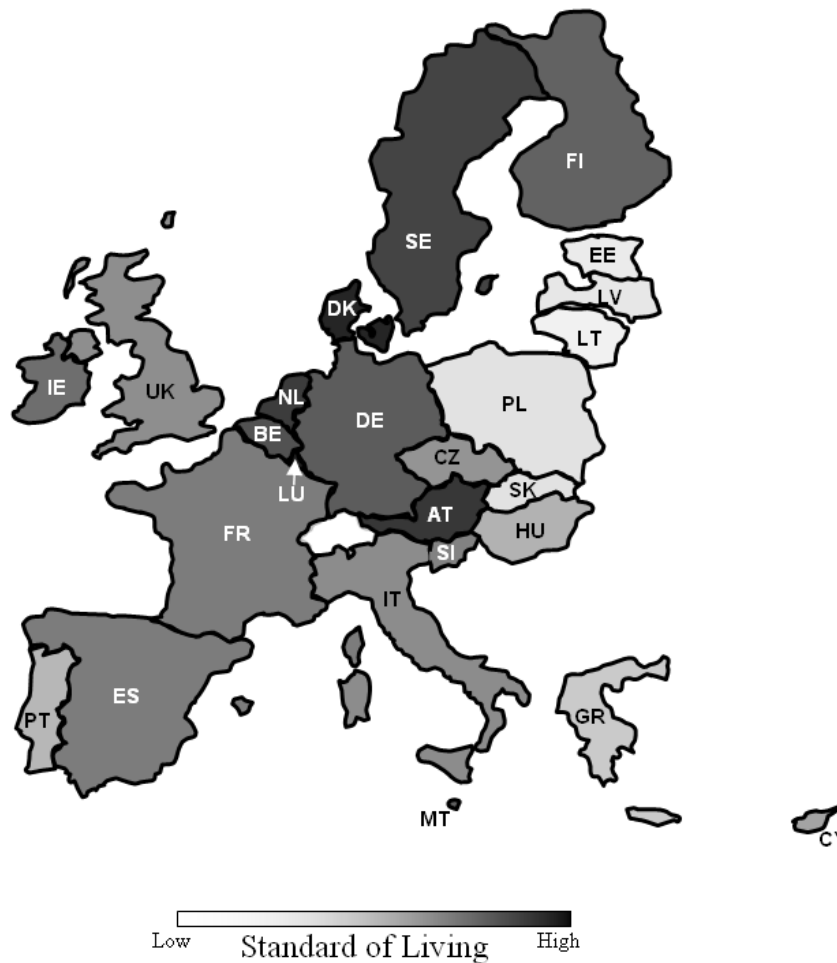
processes. On the one hand it could be argued that there are countries in the less well-off clusters that have been EU member states for 18 years or more and have not yet endangered the stability or integrity of the EU; even Greece, Portugal and Spain are members of the monetary union. Moreover, the example of Ireland demonstrates that a country has the opportunity to overcome the gaps in living standards, and can move into the more prosperous country cluster. Hence, this great divide between the clusters is not a clear borderline, although it takes time to catch up with the situation of the richer countries (see Bornschier 2000). On the other hand one might argue that although Greece, Portugal and Spain have been EU member states for a long time and made some progress in improving the social situation of the citizens, they still lag behind the EU 15 average in many respects. This may indicate that long-lasting structural conditions like low female employment rates are persistent and slow down modernization processes. Similar structural conditions could be found in the two new Mediterranean member states Cyprus and Malta. The post-communist countries have a very different heritage. They are still in the process of transformation (Deacon 2000). From an institutional perspective, this transformation has made fast progress, fostered by the guidelines of the Copenhagen criteria and the influence of the World Bank in the 1990s (Manning 2004). However, a generational gap remains between the elderly, who have to deal with the rapid social changes and severe breaks in their life biography, and the young, who are more optimistic and make great efforts to handle the difficulties and insecurity associated with new freedoms. Last but not least, the dividing line between poor and rich countries might be constant because the ratio of poor to rich countries changed significantly with EU enlargement, and because of the limited means of support due to fixed national budgets and the need to avoid debt. The question is whether the enlarged EU is capable of giving the necessary support to the new member states.

7 Resume: New challenges to promote social cohesion

With the 2004 EU enlargement incorporating ten new member states and the application of three further candidate countries to become members in the future, the EU faces substantial challenges. The Community become more diverse in cultural terms and comprises a much wider span of levels of living. Eight of the ten new member states are former communist countries which face enormous social and economic changes with the transition phase in the 1990s. Thus social cohesion is becoming increasingly important to deal with two overlapping phenomena in the enlarged EU: national transitions and global transitions.

The analysis here has revealed that the EU 15 countries are converging in terms of living standards and employment conditions and that the situation has improved in all countries for the most of the reported indicators. With the enlargement to include ten new member states, the situation becomes more diverse. All new member states have a lower standard of living than the EU 15 average; in both objectively and subjectively defined terms. However, the analysis shows that empirically, it makes more sense to move away from the old and new member states distinction and describe the social situation in the enlarged EU by three emerging country clusters. Great efforts have to been made in particular for the post-communist countries, which almost all stick together in the third, least well off cluster. This attempt to improve the situation might be of special relevance because of the regional gradients which arise between the nations. The differences in the standard of living between Finland and Estonia; Germany and Poland; Austria and Slovakia and Hungary are huge (fig. 10). Regional disparities are one important frame of reference to evaluate the individual life situation and to identify inequalities that might lead to discontent with the current situation. Thus from a policy point of view, one has to be aware that there is a difference in seeing social disparities, for example between Portugal and Germany compared to neighboring countries Poland and Germany, which have an impact on migration decisions and social and economic competition and might weaken social cohesion in this regions.

Figure 10
Disparities in Standard of Living in the EU



Rank index with following indicators: GDP, Poverty rate (60% median), risk of falling into poverty, difficulties making ends meet, unable to pay scheduled bills, satisfaction with standard of living

Source: European Foundation: EurLife, 2005, European Commission, Structural indicators.

Although the former communist countries are less well-off, there are some structural conditions and developments which give them good prospect of catching up in the long run.

First, labor force participation is not historically low, which means that there are no traditional barriers to increase labor force participation like exist in many of the southern European member states. Part-time contracts are fairly rare. There are more options for restructuring the employment sector – presuming economic growth – than in many of the old EU member states. Second, the share of population with high educational attainment in the post-communist countries is as high as in the northern EU 15 states. High education levels are a key precondition to build up a knowledge-based society. Third, there is the chance to modernize at a fast rate of speed. The introduction of new technologies does not have to follow a

protracted step-by-step implementation process but can instead be carried out in one step by renewing the social infrastructure. And last but not least with the EU membership these countries might benefit from a better market access and subsidies from structural funds. There is of course a lot of skepticism and general improvements of the living conditions may not conceal that in some areas, like the agricultural sector or in the heavy industry, there will be enormous structural changes in the next year which affect the life circumstances of many people in the new member states negatively.

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