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## **Economic Liberalism, Migration, and Illiberal Democracies: What Happened to the Promise of Liberal Democracy in Europe after 1989?**

Jay Rowell

**Abstract:** 35 years after the fall of the Berlin Wall in 1989, the current political context in Europe is marked by a rise in nationalist far-right political movements and a general tendency to restrict free travel and many fundamental rights. This paper seeks to explore reasons why the optimism of the early 1990s has disappeared, both in the old and new member States of the EU. It links together the complex interplay of economic and political liberalism as they have unfolded over the past 35 years and what the migration of workers from the East to the West has meant for countries of emigration and immigration and how a model of economic governance based on generalised competition has fed frustrations on both sides.

**Keywords:** economic liberalism, migration, far-right parties, models of capitalism, demography

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Studying the impact and uses of walls and borders is not only timely because of the 35 year anniversary of the fall of the Berlin Wall, but because of a series of recent events and political dynamics which seem to mark a return to attempts to hermetically seal off political territories. This is the case for the United States, where the recent election of Donald Trump and his America-first agenda promises the sealing off of the southern (and possibly northern) border and the deportation of migrants, new tariffs aiming to reduce dependency on imports and reverse decades of global economic integration, and a general retreat from international treaties, accords, and engagements. This is also the case in the Middle East and Europe, where physical barriers have been erected to stem the flow of migrants from the global South or physically demarcate territories and more strictly control mobilities and the composition of populations. For Europe, the election of Donald Trump has reinforced the idea that the days of a benevolent hegemon and protector are definitively over. While phases of internationalization and renationalization appear to be global phenomena, this paper will focus on the EU and its close neighbours.

The central hypothesis of the paper is that we have to look within Europe to understand some of the specific forces favouring illiberal renationalization, not only in the new EU member states, but also increasingly in the old member states, where far right populist parties govern, are in government coalitions, or are a major political force in nearly all countries. We will try to unpack the relations between models of capitalism, democracy, and migration by symmetrically observing Western Europe on the one hand and Central and South East Europe on the other. This will be a key to understanding the misunderstandings, frustrations, and contradictions within the EU which can help explain how the optimism and internationalization in the first years following the 1989 revolutions evaporated. In the space of thirty-five years, Europe has moved from a logic of tearing down walls and barriers to one where new borders and protections are electorally rewarded. Many of the underlying tensions can be linked back to decisions made in the early 1990s that generated misunderstandings that put the EU onto a path in which resentments and mutual fears could only prosper, in the East as well as the West, as power asymmetries and the unleashed forces of capitalism set into motion economic and social dynamics which have pitted Europeans against each other.

The freedom of movement is undoubtedly one of the great conquests of the fall of the Berlin Wall and subsequent European integration. This great physical boundary has, however, been more subtly replaced by other types of filters and boundaries, physical, but also legal and economic, which are more or less porous depending on the passport one holds or the skills one possesses. Borders into and out of the Schengen area have gradually hardened over the past

decade. Subtle, yet structural limitations to mobility also hinder mobility. For example, travel between Sofia or Bucharest and one of the West European economic hubs is much easier and economical than between these two capital cities, where there are no direct flights and train travel takes dozens of hours. This is but one example of the effects of the asymmetric economic clout which structures the EU today and distorts the space-time continuum. But we also see these asymmetries in a wide array of other areas. Worldwide media coverage of Western States is much more common than for Central Europe, where news outlets often have no permanent correspondents and news is often limited to election results every few years, seen uniquely through the filters of a competition between pro-European and Eurosceptic (or pro-Russian) political forces. Languages is another area: Western elites who speak Romanian, Polish, or Bulgarian are few and far between, while elites from Central Europe all speak at least English, if not French and German as well. Structurally, Central Europe remains on the geographic and economic edges of the EU. Only in the past two and a half years have these countries played a more central role in European affairs due to their proximity to the war in the Ukraine, stocks of Soviet era munitions, and absorption of Ukrainian refugees.

Even more worrying is the slide into illiberalism which can be observed in old and new member States. Around 2010, many in the West considered that it was a mistake to have allowed Central European countries into the EU so quickly. For Federalists, the increased heterogeneity and difficulties in coordinating policies for 27 States seemed to be an obstacle to a deepening of EU integration. For others, the authoritarian turn in Hungary and Poland was interpreted as a sign of ingratitude, a sort of stab in the back with the rejection of parts of the democratic “*acquis communautaire*.” For others still, for example during the intense debates in France during the 2005 referendum on the European Constitutional treaty, the figure of the “Polish plumber,” or migrant worker undercutting French workers, became a central issue which framed enlargement as unfair competition and a threat to livelihoods. However, for the past five to 10 years, there has been an equivalent turn to more illiberal policies in the West. The Brexit campaign run by the Tories, calling into question budgetary solidarity and the free movement of Eastern European workers, is a prime example. But the curtailment of rights went further and extended to the deportation and processing of asylum seekers in Rwanda, for example. Other countries, such as Italy, Holland, or Austria, are governed by coalitions including far-right parties, and nearly everywhere laws curtailing many basic freedoms have been voted on. In France, emergency laws passed after the terror attacks of 2015 have been written into law; in Italy, pressure has been put on the media, and Germany has partially re-established border controls and has begun deporting asylum seekers with rejected claims to

countries considered unsafe. This drift has, of course, many different and interconnected reasons. The terrorist attacks on September 11, 2001, was undoubtedly a watershed, which brought turmoil and instability to much of the Middle East, North Africa, and Afghanistan, resulting in increased migratory pressures, terrorist attacks in Europe, and increased and often legitimate criticisms of “universal” western values as being unilaterally applied and therefore hypocritical. Shifting geopolitical and economic power dynamics with the rise of China, coupled with erratic and increasingly unilateral US American leadership, have also both marginalized Europe and left it vulnerable. Buffeted by these developments, the European Union has been overtaken, both politically and economically, and been unable to reposition itself or create an attractive alternative social, economic, or political model. The dualization of the economy with its winners and losers and anxieties about immigration from the global south have provided fertile ground for calls to retreat back into national cultures behind protective borders and Nation States, thereby putting liberal internationalism on its back foot.

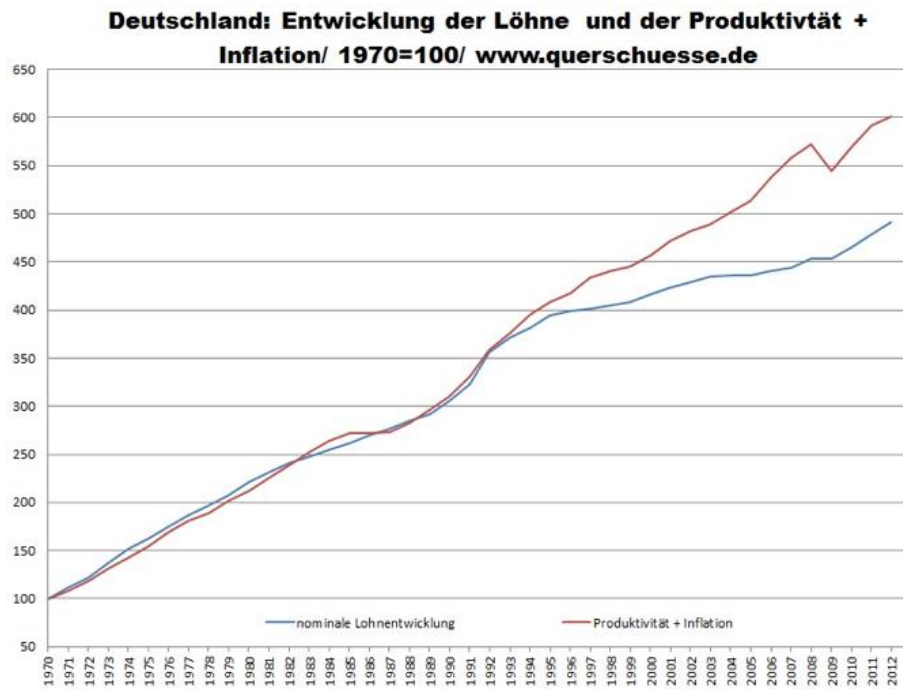
How did we get to the current state of affairs from the very optimistic early 1990s, marked by the fall of the Wall and the end of State Socialism, great strides in European integration through the Single European act, the treaty of Maastricht, the creation of a common currency, and hopes for a triumph of liberal democracies?

### **1) Did liberal free market capitalism overpower planned economies?**

The collapse of the Soviet empire is often portrayed as the result of the superior capacity of free markets to generate more wealth and innovation than planned economies. Despite the economic determinism of the argument, citizens of the Soviet Bloc indeed often faced shortages for basic consumer products and made comparisons with their more prosperous neighbours to the West. I argue, however, that it was not liberal free market capitalism which contributed to the defeat of Communism, but rather a form of capitalism tempered by State regulations, protective labour laws, high taxation, economic redistribution, and a high level of social welfare protections. The 1980s are remembered today as the key turning point of economic liberalization, symbolized by the Thatcher and Reagan supply-side “revolutions.” However, aside from the United Kingdom, with Thatcher’s offensive against labour unions and the 1984 “big bang” liberalization of financial markets, the historic post-World War II compromise between capital and highly organized and unionized labour was still largely intact in the rest of Europe. In Germany, Helmut Kohl had made a few minor liberalizing reforms in the 1980s; in France, François Mitterrand did come back on some of his electoral promises in 1983;

Scandinavian countries had extraordinarily powerful unions and highly redistributive taxation and welfare systems. For the most part, European economies in the 1980s were still ordered by post-war compromises and institutions. The balance of power between capital and labour and efforts made to include the working classes into prosperity ensured that the economic fruits of growth were to a large extent shared or redistributed. Capital was channelled and controlled by workforce regulations, progressive taxation, high capital gains taxes, high income tax rates, organized labour, and in the public ownership of utilities, railways, and some key economic sectors. This economic organization had four foundations which were showing signs of stress but were still largely intact. 1) Economic liberalism had shown its weaknesses during the Great Depression. In addition, big companies had compromised themselves during the war. Companies like Renault were nationalized, IG Farben was broken up, and banks, insurance companies and key industries were nationalized in many countries or strictly controlled. 2) Fear of communism and systemic competition made it important to integrate the working class into the post-war economic boom. After 1989, this fear no longer existed. 3) Unions and Communist parties were powerful in many countries and could engage conflicts and often win. 4) These arrangements relied on redistribution within the confines of national borders where solidarity between the old and the young, the sick and the healthy, the employed and unemployed were institutionalized in welfare state institutions which cemented the post-war consensus through redistribution and freeing vulnerable individuals from poverty. The decline of Communist parties in Western nations and the parallel decline of the industrial workforce, coupled with lower unionization rates in services, weakened these two counterweights on the interests of holders of capital.

The definitive collapse of socialism as an alternative or an ideal in 1989 shifted the ideological landscape. Combined with the creation of a European economic space with no restrictions on the flows of capital, goods, and services, the liberalization of European economies accelerated in the early 1990s. A good indicator of the effects of the post-war compromise and the subsequent economic liberalization is the relationship between salaries and productivity gains established by a team at Dresden University based on official German statistical data.



As one can see in the graph, it was only in the early 1990s that salaries no longer grew proportionally with productivity growth and were increasingly allocated to increasing profits. This came at a time when Germany was also confronted with the costs of Unification and rising unemployment, especially in the former GDR, where 40% of the salaried workforce was cut, bringing with it increasing wage restraints imposed by employers and accepted by unions in the fight to stave off job reductions. This graph clearly demonstrates that the change in the power balance between capital and labour occurred *after* the fall of the Berlin Wall.

Another metric, made famous through the work of Thomas Piketty,<sup>1</sup> shows that the steep rises in wealth inequalities only began in the 1980s and accelerated from the 1990s onwards. This also reflects the combined effects of the unfettering of capital markets, the relative decline of wage income, and a less progressive tax system. The essential point is that despite the crisis of the 1970s and some reforms in the 1980s, it was well after 1990 that there was a decisive move away from the post-war consensus, and the liberalization of Western economies began to significantly widen wealth and income gaps, with a relative decline in wealth and revenues of the bottom 50% of the population and a stagnation of revenues of the middle classes. While the fall of the Berlin Wall and the implementation of the Single European Act in 1992 is not the only explanation for the acceleration of economic reforms and competition resulting in an increase of inequalities, life became more difficult at the same time that European economic

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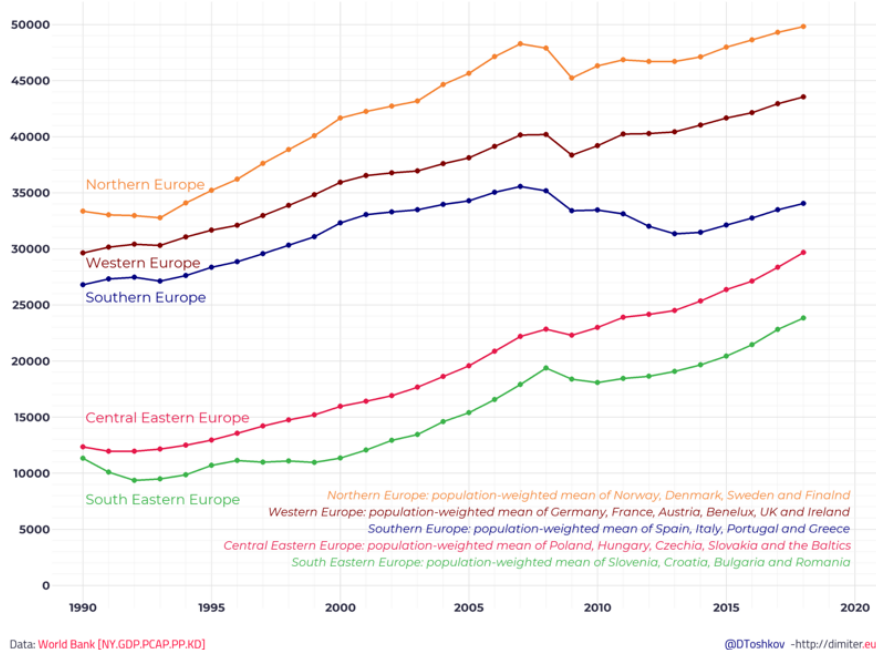
<sup>1</sup> Piketty, Thomas, *Capital in the Twenty-First Century*, Cambridge, Cambridge, Harvard University Press, 2014

integration made great strides and that cheap and skilled east-European labour became integrated into the strategies of multinational corporations.

Germany, famous for its economic miracle of the 1950s to the 1970s, was undoubtedly the most well-known economy to ordinary Central European citizens in the 1980s, mediated in part through family relations stretching across the Iron Curtain (packages, letters, visits to the GDR...). In addition, German industrial workers vacationed in places like Yugoslavia or on the Black Sea, driving down to the Dalmatian coast, where they stood out with powerful cars and lots of money to spend. However, it was not the West European or West German economic model with generalized prosperity which was “sold” to Central and East-European countries after they had freed themselves from Communist dictatorships, but rather a low tax, low wage, and low regulations economic model. The experts and advisors who flooded into the region had two central tenets which mixed political and economic considerations and objectives. First, speed should be of essence in order to wrestle control away from state bureaucrats and make regime change irreversible by privatizing as rapidly as possible and reducing the size of the state and its ability to control economic resources. The idea was to rapidly create an economic counter-elite capable of resisting old elites. The fact that it was very often insiders, Communist Party *apparatchiks*, who had a fast track to privately capturing public resources didn’t seem to be a major concern at the time. The “shock therapies” were seen to be the best way to make political liberalization irreversible. Second, experts and advisors were predominantly neo-liberal in their ideological orientations, were often frustrated by the resistances in Western nations to market strengthening reforms, and acted as if Central Europe were a tabula rasa in which reforms could be pushed through after the collapse of organized labour and weakened state bureaucracies. Central Europeans were made to believe that after an initial shock, the low tax environment, skilled workforce, and attractive investment environment would quickly bring prosperity. What of course followed was a steep decline in GDP and employment levels, before they bounced back at various rates.

## Economic Wealth in Europe, per geographic region (1990-2018)

Gross Domestic Product (GDP) per capita, based on purchasing power parity (PPP), in constant 2011 international dollars

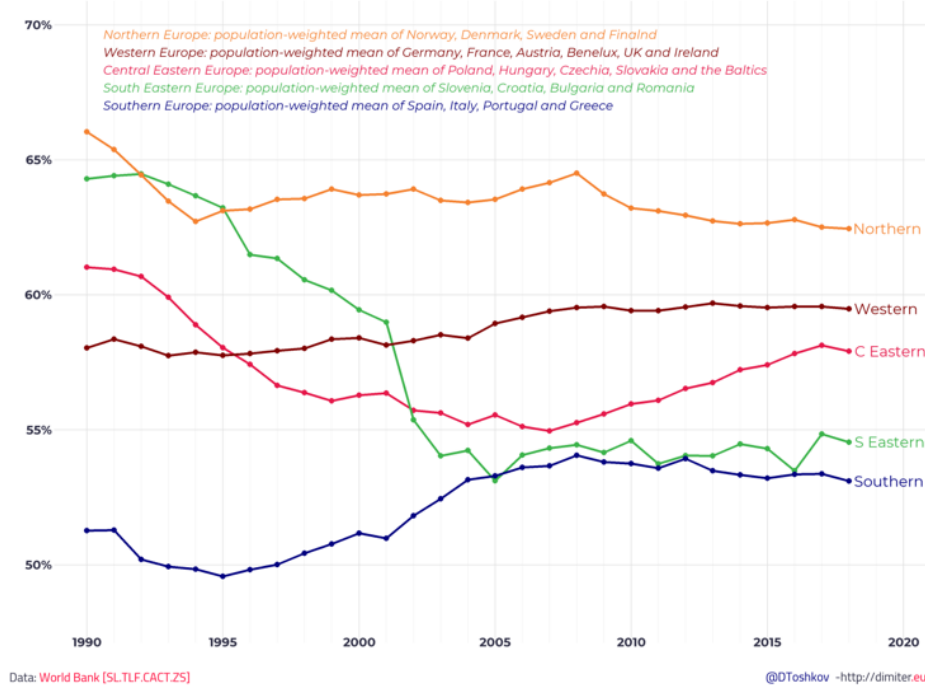


As the graph shows, Central and to a lesser extent South Eastern Europe have somewhat closed the gap, but this is in large part to extremely sluggish growth in Western or even negative growth in Southern Europe following the 2008 economic crisis. Still, it took about 10 years for South Eastern Europe to get back to the GDP of 1990, a few years less in Central Europe. While Poland, the Baltic States, Slovenia and the Czech Republic have nearly reached South European levels in terms of per capita GDP, 35 years after the fall of the wall there is still a huge wealth gap with little hope of attaining the same per capita GDP for the decades to come.

GDP is a homogenizing and rather blunt indicator which provides little information on the profound shifts in the types of employment, employment levels, or regional disparities. The transition has had its share of winners and losers, with great divides according to geographic zone, education levels, and gender. What is perhaps most remarkable is the huge decline in employment rates, particularly in South East Europe, and, as we will see below, a massive emigration of workers, which has had considerable demographic, economic, and political effects. Just to recall, the targets of the Lisbon treaty of the early 2000s were to reach an average labour participation rate of 70% in Europe by 2010.

## Employment in Europe, per geographic region (1990-2018)

Labor force participation rate, total (% of total population ages 15+) (modeled ILO estimate)



It is worth briefly mentioning the economic crisis of 2008 to 2011, when the American sub-prime mortgage crisis became a European banking crisis, then a sovereign debt and morphed into a Euro crisis as banks were bailed out and public debts soared. For several years, all eyes were focused on Greece and the attempts to save the Euro. What many Western observers missed was the severe effects of the crisis on Central and South East Europe, which drew little attention. In Hungary in particular, many households had bank credits labelled in Euros; the banking turmoil and the devaluations striking many currencies in the new member states caused many defaults for homeowners with a mortgage and a general feeling of being at the mercy of events which they were not responsible for and which were entirely beyond their control. Despite this, attention was focused on Greece, the country which had profited the most from European structural funds over the decades and which monopolized attention and financial solidarity. These episodes and structural evolutions reinforced the idea of a two-class system in European Countries and a lack of solidarity between the richer West European countries and Central European citizens struggling without benefitting from the same levels of European solidarity and lacking a robust social safety net.

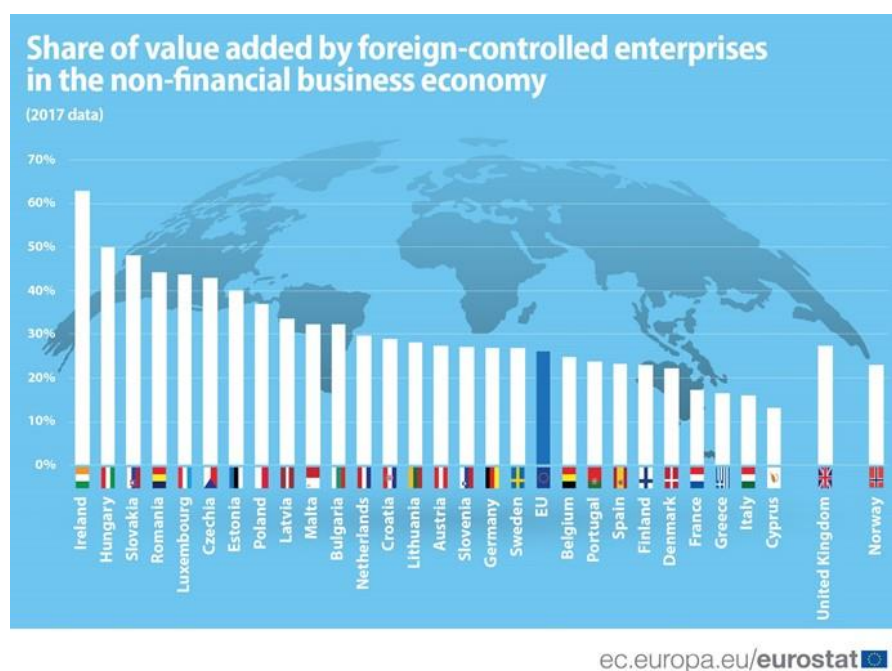
## **2) How the free movement of capital, goods, and services impacted Western Europe**

The fall of the Berlin Wall was followed closely by the implementation of the Single European Act (SEA), signed in 1986 and going into force in 1992. The SEA had been negotiated in a context of 15 European countries, where disparities between the North and South were compensated by an ambitious structural funds program mainly directed to Greece, Portugal, Spain, and the southern half of Italy. With enlargement to the East, the GDP differential would be much greater and the challenge monumental, but conducted in a context where the EU budget remained capped at just over 1% of the European GDP and with the common agricultural policy still absorbing around 40% of the budget. In the early 1990s, Commission President Jacques Delors wanted to proceed to a new phase of European integration, a “Social Europe,” to rebalance the liberalized economic integration with protective measures. However, despite some hopes in the mid to late 1990s, no consensus on a breakthrough could be found as the UK and Netherlands (among others) slowed down the process, and more general fears of relinquishing control on taxation and social policy arose. In most countries, social spending represents around 25% of the GDP and more than half of public expenditures, and this was one step too far, as public opinion in many countries became more sceptical of further integration.

What came instead was the introduction of the Euro, which definitively stopped nations from devaluing currency to re-establish the competitiveness of their national economies. In addition, strict competition policy enforcement meant the end to state subsidies as market distorting factors, the introduction of mandated competition in utilities or rail services, and caps on deficits and debts meant that convergence between economies entering the Euro was left to unfettered market forces with the free movements of capital, goods and services, and workers. These rules, tailored for the Eurozone, also applied to the countries who didn't opt into the Euro, thereby making industrial policy, subsidies, or deficit spending more difficult and giving elected governments few instruments to weigh in on economic trajectories. The idea was that with a common currency or fixed exchange rates the generalized competition would rapidly cause the poorer countries to attract investment and employment, bringing wage raises and a market-based mechanism for economic convergence and dynamic growth. However, this failed to account for market specialization, infrastructure advantages, industrial relations, and other more indirect factors, and countries such as Germany, the Netherlands, and Scandinavia actually became more competitive, while Greece and other economies in Southern Europe failed to benefit from lower labour costs.

From a West European perspective, European Integration provided many opportunities for investors and multinational firms but placed states into a generalized framework of competition. This proved to place strains on welfare systems, as social contributions and taxation is an important cost factor. It also had serious drawbacks for salaried workers. As Fritz Scharpf noted, “Globalization produces economic pressure. But it is the European integration process which has restricted or even taken away all legal means to react to globalization. Moreover, the Eastern Enlargement has brought low-wage locations and their economic pressure inside the EU.”<sup>2</sup>

As Eurostat compilations of value added by foreign controlled enterprises show, all new Central European EU member states are well above the European averages, with Hungary, Slovakia, and Romania occupying three of the top four places. Supply chain diversification, outsourcing and delocalization, mainly centred on component parts, helped reindustrialize Central Europe while at the same time accelerating deindustrialization pressures in the original 15 member States of the EU<sup>3</sup>.



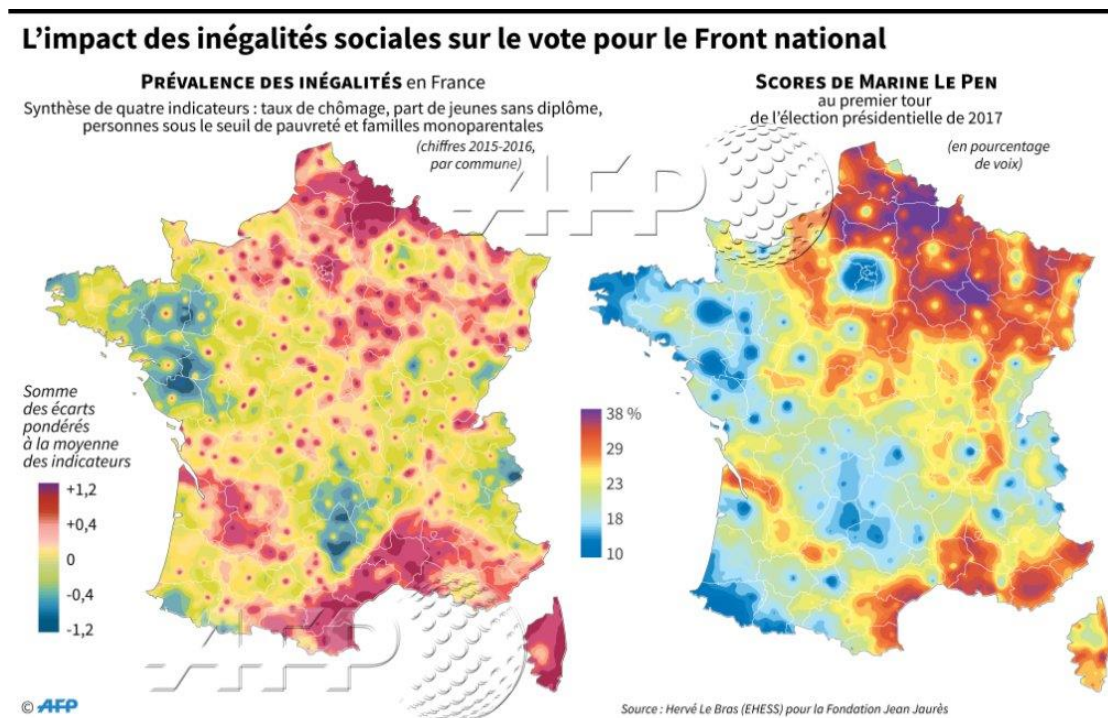
<sup>2</sup> Scharpf, Fritz, “Der einzige Weg ist, dem EuGH nicht zu folgen”, Interview in *Mitbestimmung*, 54, n°7, 2008, 18–23.

<sup>3</sup> Krzywdzinski, Martin, “How the EU’s Eastern Enlargement Changed the German Productive Model. The Case of the Automotive industry,” *Revue de la régulation* [En ligne], Vol.15, n°1 (Spring 2014), (Online)

While this has been a great driver of growth in East and Central Europe, it symbolically underscores the dominant position of Western-based companies, retail chains, supermarkets, and distributors.

All through the 1990s and 2000s in countries like France, Germany, or Belgium the leverage that workers could exert in wages, working conditions, or factory closure conflicts with ownership were severely hampered. Companies used the threat of relocation to Asia or Eastern Europe as a “nuclear weapon” to negotiate wage restraint or more flexible working conditions in a macroeconomic context where unemployment rates were around 10% in most countries. Well-paid workers in Western Europe were constantly reminded that workers in Poland, Romania, or Asia could do the same work for a fraction of the cost. The lower hourly wages were compounded by lower social welfare contributions and taxes which reforms to reduce social contributions could never hope to compensate. Rather than an opportunity, or a rejoicing in the new enlarged European Union, workers were made to feel over-privileged, spoiled, dispensable, and vulnerable. West European workers were thus pitted against East Europeans for three decades. This vulnerability was redoubled in the 2000s and 2010s and became a tangible reality by the increased recourse to post workers from abroad, who could work for months on construction sites, in shipyards, in transportation or agriculture and be paid wages with social contribution levels of their home country. In France for example, most long-distance trucking is done by Bulgarians, Poles, Portuguese, or Spaniards. The shipyards in St. Nazaire, one of the world’s leading constructors of cruise ships, mainly employ skilled Polish and other east European workers for a cost which excludes the local workforce faced with high unemployment. Many workers in the West felt threatened in their livelihoods, many indeed lost their jobs through delocalizations, and the constant reminder of the possibility of being displaced by cheaper labour created ripple effects throughout the electorate, generating discontent which many of the pro-European political parties who had been alternating in government coalitions never picked up on or chose to ignore. This has several possible causes. First, there didn’t seem to be any alternative to free trade or European economic arrangements based on competition in a globalized economy. Voters who questioned the direction of the EU were labelled as xenophobic, nationalists, or backward looking, but there was little done to listen to voters, thereby providing opportunities for Eurosceptic or anti-system parties to prosper electorally. Second, parties had lost much of their militant base, especially those tied to unions. They had fewer ordinary people working through their ranks into positions of leadership, had become more professionalized and more concentrated in urban areas. Established parties got little feedback from small cities, rural areas, and regions left behind.

This explains part of the success of the Front National/Rassemblement National or the Alternative für Deutschland, who addressed some of these structural fears and increased inequalities, largely through xenophobic scapegoating, but also by denouncing a cosmopolitan urban elite which had turned its back on ordinary people, preferred Europe to the well-being of ordinary citizens, and blamed European rules for the inability of national political elites to take back control over issues affecting the well-being and security of its citizenry. The following graphic compares the score of Marine Le Pen in the first round of the 2017 presidential elections and a composite indicator for inequalities and clearly demonstrates the strong correlation between social, educational, and income inequalities and voting for the far-right espousing illiberal political orientations.

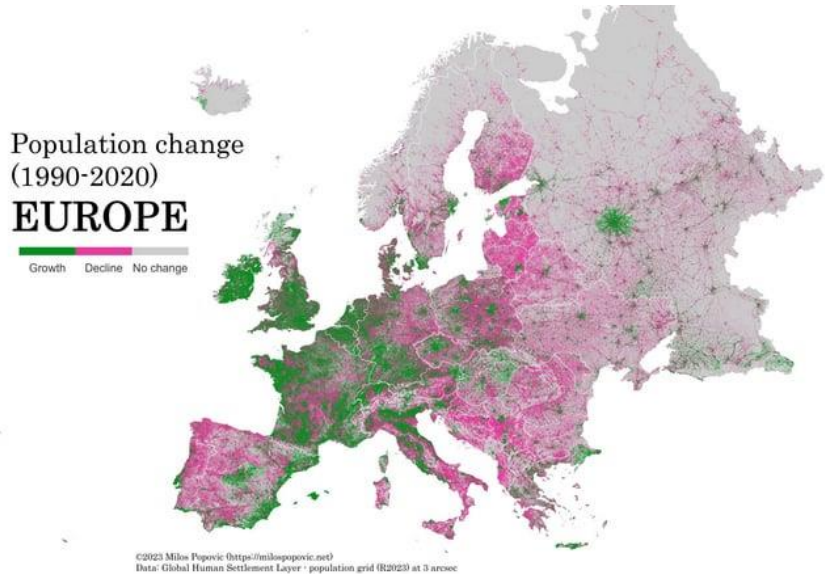


Coming back to Germany, which was the country with the greatest economic reach in Central Europe, but also one of the countries in Europe which managed to maintain its industrial base intact and generate an export surplus. Much of this success was based on the division of labour between Germany and its eastern neighbours. Outsourcing to these countries allowed German manufacturing to continue to shine by outsourcing part of the value added chain to the East and build in cost competitive components, while still obtaining premium prices for the “Made in Germany” or “engineered in Germany” commodities. An Audi car whose engine comes from Hungary is calculated with its full value in the German export statistics. Appliances

from Bosch or Siemens are similarly credited to German export statistics, but “Made in Germany” is increasingly becoming deceptive labelling. Only the final assembly takes place in Germany. The value-adding parts of production increasingly come from Eastern Europe. At the same time, the high paying jobs in engineering, research, marketing, finance, and corporate headquarters remain in Germany along with most of the profits. In sum, the division of labour within Europe has been a motor for some prosperity in the East, but also an essential ingredient to the success of German Industry, which took fuller advantage of opportunities in Central and South East Europe. This dynamic remained largely to the advantage of Western corporations and white-collar employees, while feeding part of the increasing inequalities in the West, through the disciplining effects of wage and labour competition affecting primarily blue collar workers.

### 3) Effects of the free movements of labour and demographics on Central Europe

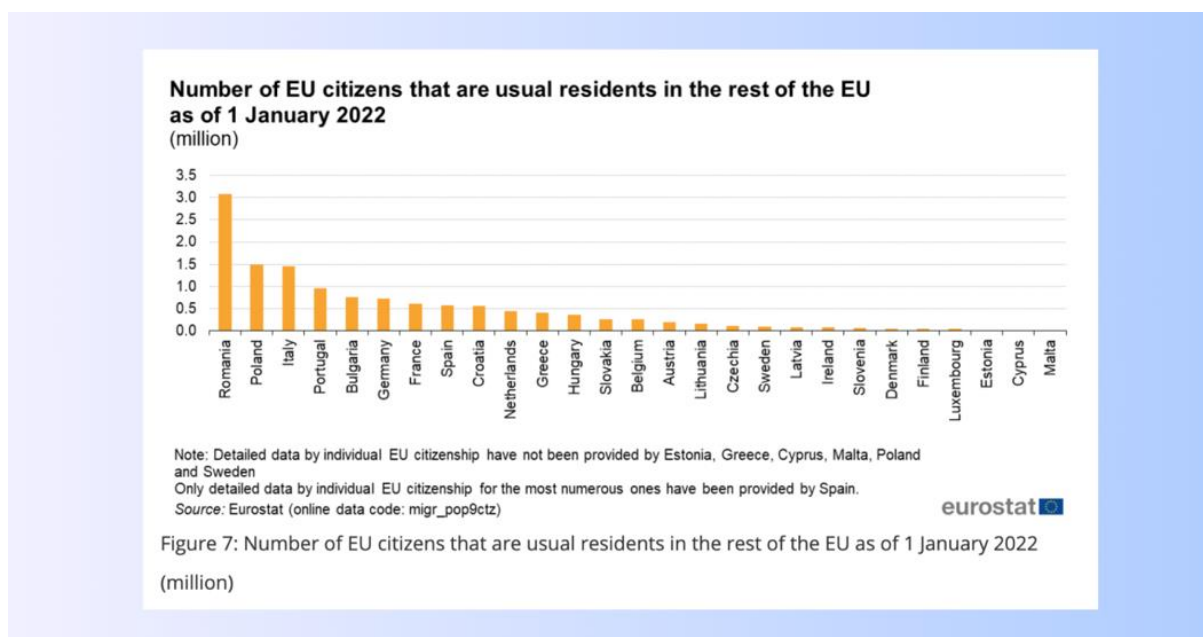
Given the deep and persistent East-West divide in income levels, it is unsurprising that the relocation of production and jobs from the West to the East also resulted in a migratory movement in the opposite direction. Some Central and South-Eastern European countries have seen a decline of 20% of their population since 1990; a few, such as Poland, have stagnated, while others are in a slow but steady decline. Demographic changes are, of course, complex questions, but the following graphic produced by Milos Popovich graphically represents some interesting patterns of population movements in Europe in the three decades after the fall of the Berlin Wall.



There are three factors at work. First, there is natural growth or decline in population. Much of the sharp decline in Spain, Italy, Finland, Poland, or the Baltic States is due to the low birth rates, but not all, as birth rates are very similar in the Netherlands, Belgium, or Germany. Second, urbanization is another important element. The power of attraction of Moscow, Warsaw and other Polish urban centres, Prague, Berlin, or Madrid is clearly visible and contrasts with a rapidly depopulating hinterland. Third, a demographic fault line generally following the contours of the Iron Curtain is starkly visible, with a few small exceptions. This is particularly visible between the former GDR and the Federal Republic, which saw an exodus of 1.5 million East Germans in the 1990s, looking for jobs in West Germany, and a continued differential in job creation and salaries over the next decades. In other Central European countries, there is a general decline in population, with the exception of a few urban centres in the countries which rebounded economically the fastest, such as Poland, Slovenia or the Czech Republic. South East Europe is particularly impacted, undoubtedly through the wars and turmoil in former Yugoslavia, but also in Rumania, Bulgaria, or the Baltic States. In the West, you can however also see stark contrasts. In France, the so-called empty diagonal runs from the deindustrializing North-East to the rural centre and South West. Spain has seen important population growth in the big cities and along the coasts but a generalized decline elsewhere, and the traditional divide between the North and South of Italy is clearly observable.

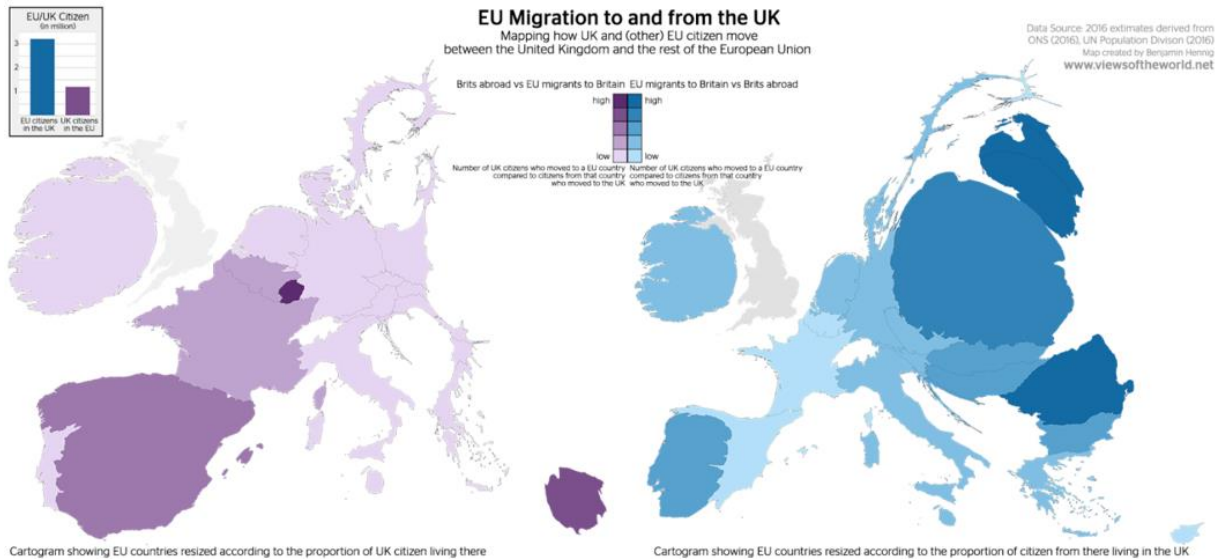
The depopulation of country sides and the demographic decline of East and Central European countries has been exploited by far-right political parties as a risk for the very existence of nation, especially when combined with new migration patterns and mobilizing the increasingly widespread “great replacement” theories. There are powerful and manipulatory political imaginaries at work here, but they are based on tangible realities and transformations of rural areas, small cities in decline, but also frustrations that it is impossible to get ahead, earn a decent living, or attain financial security without moving abroad.

The reproduced Eurostat graphic gives an idea of the contribution of migration to the population losses. These figures don't include the more than two million EU citizens, mainly from Poland, Romania, Hungary, and the Baltic States, currently living and working in the UK. Around 10% of the population of countries such as Romania and Bulgaria, generally younger and better educated than the national averages, live and work in other EU countries.



These movements of population, which I will come back to, are unsurprising given the huge differences in wages within Europe. German wages are on average three times higher per hour than in Poland. The ratio is similar between Hungary and Austria and even greater between Romania or Bulgaria and the richest West European countries or the UK. These movements most often concern younger workers, workers with higher education levels and language skills, who very often take up jobs below their qualification levels, but still at a higher salary than in their own country. In the 2000s, a high percentage of workers involved in tourism (hotels, restaurants, car rental agencies, etc.) were East European, as they possessed far better language skills than British workers, and were young, ambitious, and extremely hard working. However, East European workers were also essential to the agricultural and healthcare sectors. Even if money was sent back home or used to start businesses in the home countries, the massive brain drain has weighed on the dynamism of Eastern economies.

The following graphic created by Benjamin Hennig allows us to visualize European migratory flows between the United Kingdom and the rest of Europe for 2016, the year of Brexit. One million UK citizens live on the continent, many of them retirees in France or Spain. Three million EU nationals lived in the UK in 2016, with most of them working. For historical reasons, many came from nearby Ireland, but an even greater proportion came from Poland, Romania, Bulgaria, and the Baltic States. Whole sectors of the UK economy were highly dependent on workers from these countries and have struggled since Brexit with the more restrictive immigration regime put into place for EU nationals.



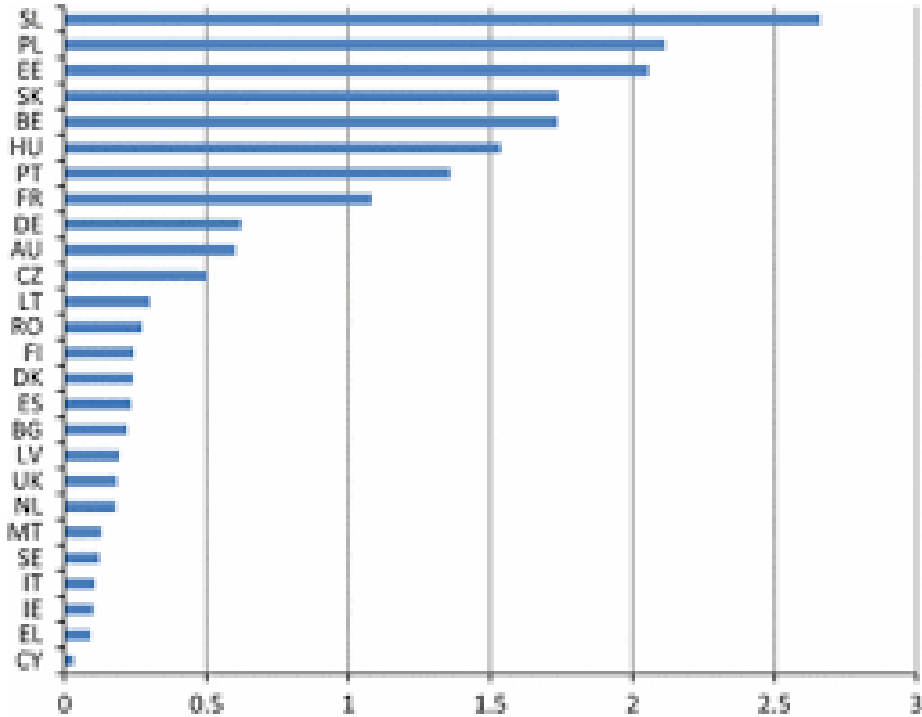
In Germany, the patterns are quite similar: According to the Federal Statistical Office, about 4.8 Million EU Nationals currently live and are officially registered in Germany, most of them coming to work. The two largest groups are Poles, with just over 1 million in 2023, and Romanians: 750,000, followed by the older guest worker generations and arrivals from Southern Europe: 650,000 Italians, just under 400,000 Croatians, and just over 350,000 Greek citizens. Between 2013 and 2019, the German economy added 900,000 workers from East and South Eastern Europe who today represent more than 5% of all salaried employees.<sup>4</sup> While there has been a lot of talk in Western countries about targeting work migration on employment sectors where there is a shortage of workers – health care professionals, information technologies, engineers – for the most part, migrants are employed in low skilled jobs: the care sector, construction sites, restaurants, cleaning personnel, harvesting or food processing, logistics, warehouse and transportation sectors, and so forth. In Germany, 47% of the migrants from Central Europe work in non-skilled positions, compared with 13% of Germans in the workforce.

The figure of 4.8 million EU migrants, already important, does not include two other even more invisible populations. The first are posted workers. In addition to the high percentage of the working age population from the East moving to the West and taking on jobs, companies have been exploiting the legal possibilities of having workers paid with salaries and social contributions in their home countries to work in the West on construction sites, shipyards, as drivers, and sometimes in higher valued sectors such as IT and services. While companies are

<sup>4</sup> <https://statistik.arbeitsagentur.de/Navigation/Statistik/Statistik-nach-Themen/Beschaeftigung/Beschaeftigung-Nav.html>, 03.02.2020.

expected to respect minimum national wage standards, this is often not the case. Here again, a substantial part of the qualified eastern workforce is posted abroad, depriving these countries of skills and energy, boosting western economies in some areas where there are labour shortages, but also displacing higher paid nationals, while also not paying into the national social welfare systems.

Posted workers as a % of Workforce in 2018 (Eurostat)



The second, even more invisible movement of workers is in the informal sector. The population of Germany is amongst the oldest in Europe and there are currently about 2 million Germans living at home with a high degree of dependency. In a recent book on elder care in Germany, Austria, and Switzerland, it was estimated that 450,000 live-in workers from abroad work in these situations.<sup>5</sup> About 90% are undeclared, and most of these come from Poland and, increasingly, from Ukraine, bringing the authors to write that “In Germany, the rule of ‘Anything goes’ seems to be the norm”<sup>6</sup> (p.12). These workers, mostly women, often spend two to three months as undeclared live-in carers taking care of Germany’s elderly population, go back home for several weeks, then return. Official statistics also underestimate the large

<sup>5</sup> Aulenbacher, Brigitte, Helma Lutz, Karin Schwiter, (ed.), *Gute Sorge ohne gute Arbeit? Live-In care in Deutschland, Österreich und die Schweiz*, Weinheim, Belz Juventa, 2021, p. 9.

<sup>6</sup> Ibid. p.12.

numbers of workers from farther East: from Ukraine, Moldova, Belarus, or Russia, who work undeclared through several pathways such as the obtaining of Schengen visas with falsified paperwork, which make workers accumulate debts that have to be paid off – on German construction sites, for example. There are also a range of provisions permitting German employers to hire East Europeans as fake independent workers, in food processing, seasonal harvest workers, care work, and so forth. A large portion of the homeless population in Berlin or other big cities is made up of East European workers who hold no rights to social protections. Some get into debt, are fired or get sick, some are under-paid or not paid. They fall through the social welfare net, as do the fake independent workers, who, in case of a problem, quickly lose their ability to house themselves and end up on the streets.

This is a prime example of the effects of semi permeable borders, the failure to apply existing laws or the multiplication of exemptions, for example for seasonal workers, which facilitate work migration based on the search for ever cheaper labour. As living standards and wages increased in Poland, German employers, but also Polish companies, themselves engaged in competition on world markets or with increasing energy or production costs, looked farther east for even cheaper labour. Borders can be crossed and are selectively permeable, but the combination of economic and wage disparities on the one side and the lack of legal protections, exemptions to social contributions (and protections), and a silent tolerance or even encouragement of the recourse to the cheapest labour possible on the other, creates and reinforces dramatic inequalities founded on a conspiracy of silence, as the cheap labour from Central, South East and Eastern Europe underpins the continued prosperity and profits in the West. To take the building sector in Germany as an example, a significant proportion of construction workers are either posted from Poland or illegals or semi-legals from further East or South East Europe, working, if they are lucky, at the minimum German hourly wage but deprived of any social benefits or guarantees. This situation favours all stakeholders other than workers themselves, whether they are German construction workers with high hourly wages and social contributions who cannot find work, or the exploited and precarious Central Europeans. It ensures profit margins for construction companies and holds spiralling costs in check for end users, such as families or companies owning or renting property. The bottom line is that much of the prosperity in Western Europe rests on the shoulders of cheap Central and East European labour, allowing corporations to ensure their profit margins and competitiveness. Despite this, there is little interest or scholarship on these migrants or workflows – as scholarship and political debates are more focused on asylum seekers or migrants from the Global South, countries such as Syria or Afghanistan. While this largely invisible Central

European labour is essential to prosperity and well-being in the West, it is also a factor undermining the financial solidity of welfare systems and contributing to wage stagnation, particular in lower paying sectors of the economy. From the perspectives of countries like Bulgaria, Romania, the Baltic States, or Poland, important outflows of younger and mobile workers seeking better pay, combined with the continuing huge gaps in wealth and salaries give the feeling of being peripheral, second class Europeans, thereby providing fertile ground for nationalist or even anti-Semitic and xenophobic “great replacement” theories.

## **Conclusion**

The Single European Act, negotiated before 1989, created an integrated economic space with free movements of capital, people, and goods and services. In a relatively homogeneous Europe, this could possibly have worked in a context where capitalist forces were still held in check by progressive taxation redistributive states and strong labour unions, labour laws, and welfare systems. The surprising fall of the Wall and the integration of the 11 new member states joining, with the SEA as an essential component of the *Acquis communautaire*, meant that the enormous differences in wealth and competitiveness could only have profound effects on the economic order of Europe. It placed competitive pressures on the West, and in the East, massive emigration. The increasingly *laissez-faire* style of capitalism was not flanked by a coordinated European social policy and by a sufficiently ambitious structural fund policy which was scaled down when compared with the efforts in Southern Europe in the 1980s and 1990s.

Central Europeans were told that free-wheeling capitalism, low taxation, and limited state regulation were the only way to rapidly grow their economies, which had largely collapsed in 1990 and 1991. There was an expectation, or rather hope, that something resembling the German “economic miracle” of the 1950s to 1970s could be replicated, or that capitalism would bring a society of abundance to all or at least a vast majority of the population. But the historic reference referred to another model of capitalism, that of the post-war decades based on a historic compromise between labour and capital. What Central and South East Europeans got instead was unfettered capitalism, and nothing that resembles the German economic miracle, except perhaps in some urban areas and with the possibility of moving to richer countries to occupy the lower rungs of the economic ladder, much like Greeks, Italians, and Turks who moved to Germany as “guest workers” in the 1960s. Western societies were subjected to the disciplining forces of capitalism and generalized competition, with little progress made to flank an economic Europe with minimal European standards and protections. The EU limited the

abilities of states to intervene in national economies, and Western states were actually proactive in dismantling labour laws and creating exceptions and loopholes in order to reduce the price of labour and (re)gain a competitive advantage. In this generalized competition and pressure on public budgets, many governments and companies saw cheap East European labour as a way to get a competitive edge, squeeze out more profits, or just survive when faced from the increasing global competition.

As the poor economy of post-Brexit Great Britain shows, it is in nobody's interest to cut back on the free movement of populations within the EU. At the same time, it is undoubtedly important to rethink the forms of illegal or semi-legal flows of workers that often result in the exploitation of workers from the East and the undermining of public confidence and the funding of welfare state arrangements in the West. This would require fixing the patchwork of exemptions, postings, and labour laws which create opportunities for abuses and be an important step in slowing the exodus of skilled workers whose absence compromises development in Central and south East Europe. Looking forward, this would also require an increase in European solidarity to close the gap between the poorer and richer parts of Europe as a means to overcome the feelings of being second-class citizens, which are easily exploited by the far-right parties.

Enlarging the scope, far-right parties present a coherent, if backward-looking message to electors, which is largely unopposed by political discourse promising only generalised global competition and a steady erosion of collective protections. Some sort of positive redefinition of the European social and economic model, last tried in the 1990s by Jacques Delors, appears more necessary than ever. Europe seems to be the only part of the world that still believes in free trade, proposes no serious industrial policy involving subsidies to reduce dependency on fragile supply chains, and is lagging in key emerging industries linked with the energy transition or artificial intelligence, as subsidies or protectionism would be contrary to the orthodoxy of long-established competition policy. This would also require the definition of a common societal model and a common strategy to confront security threats, climate change, and an increasingly polarized and divisive conduct of politics. After the Covid-19 pandemic, there was talk of reshoring the production of vital medications and medical equipment and supplies, but little actual action. The public investments required for the energy transition are monumental: the United States has devoted hundreds of billions of dollars to restart a microchip, a solar cell, and a battery industry. Why not imagine a European solution to these technological and societal challenges, something like Airbus, which could link together economies, provide hope for cleaner growth and provide an impetus for a more balanced project for Europe bringing

societies together rather than only competing with one another? Perhaps the Election of a US president who doesn't even pretend to care about Europe will give the EU a second chance after having squandered so much hope over the last three and a half decades.

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