GUNTAR KRASTS
Former Prime Minister, Republic of Latvia
Chariman, European Affairs Committee,
Latvian Parliament (Saeima)
Member of the European Parliament

Excellencies, ladies and gentlemen,

The largest EU expansion in history has caused extensive debates about the need for EU reform. The most significant reflection of these efforts has been the preparation of the Constitutional Treaty and the discussions surrounding it. Less attention has been paid to making the socioeconomic effects a success both for the EU-15 and the new Member States.

Countries with a different level of economic and, consequently, a different level of social development have joined the EU, which means the enlargement requires new ways of thinking of how to ensure the development of the EU's social policies. The Common Market was founded with a view to facilitating the competitiveness of the Member States and it is based on four fundamental freedoms. Almost all EU-15 Member States have introduced transition periods for the free movement of labour. The only exceptions are the United Kingdom, Ireland and Sweden. Moreover, the Swedish parliament has voted against a government proposal to introduce such restrictions.

There have been voices from some quarters, especially in Germany, raising the issue of "tax dumping" and "unfair tax competition", which are supposedly being implemented by the new Member States. The idea of tax harmonisation is still in the air, despite the fact that the European Convention has repudiated it. These are concerns about the movement of capital to the new Member States causing possible losses of jobs in the old EU countries with less attractive corporate tax policies. What is the most adequate tax level in each country and in each socioeconomic situation? These are questions which keep inciting debates among economic analysts and will continue to do so. As far as I know, only Austria has reacted in an adequate manner to the possible movement of jobs to the new Member States – it intends to reduce corporate tax levels.

It seems to me that the decisions taken by the Swedish, British, Irish and Austrian policy-makers reflect a healthy attitude to the challenges posed by enlargement. Only in that way will the expansion of the European Union open up unique possibilities of unification.

We should be looking at these things realistically. I highly appreciate the financial support extended from EU funds to the new Member States. Although it is well intended and has multiplier effects, it cannot be the only "tool" to overcome the existing social and economic differences with the old Member States.

Restrictions of the free movement of labour, tax harmonisation, extension of qualified majority voting to social policy are ideas raised by short-term policy considerations. These "instruments" serve only to postpone the problems. Such decisions would substantially diminish the effective utilisation of resources provided by the Common Market, as only new jobs and the following increase in the level of incomes would boost the imports of the new Member States, creating jobs in the old Member States.

EU policy-makers should more seriously consider what trade theory suggests on the economic merits of the movement of labour and capital across borders, instead of speculating about possible political implications. Our common goal should be to move labour and capital quickly into productive sectors, not to defend labour allocations and industrial structures that are no longer appropriate. In the framework of EU social and economic construction possibilities we have to create highly flexible labour markets, closely linked with the educational system, and we must be able to listen to the signals coming from the market. Social welfare systems have to be endowed with sustainability. That is going to cause painful reforms in the welfare states. EU enlargement is the right time for substantial reforms not only in the new Member States, but also in the EU-15.

This is the most appropriate time! The Common Market is the "instrument" that will help the Member States find the solutions for the implementation of reforms. Our ability to utilise EU enlargement and the synergy effects it will provide to generate dynamism in the EU will, to a large extent, determine the future of the European Welfare State in the countries where it has existed for decades, and EU social policies will be postulated among the new Member States.