

VÁCLAV KLAUS

President of the Czech Republic*

Implications of this year's EU enlargement: A preliminary analysis

In recent weeks we could hear and read hundreds of comments on the historical significance of the enlargement of the European Union by ten new, mostly former communist countries of Central and East Europe. We could hear many words, but I fear hardly any serious, well founded analyses. It was the a priori position of almost all speakers that it was a clearly positive and productive change for all concerned. Any indication to think about this statement, any indication of criticism, question mark or comments regarding the costs involved in enlargement were considered short-sighted or ill-intentioned.

Appearing here today, and I must emphasise that it is not a political declaration of the president of one of the new Member States, but the academic appearance of a president in an academic environment, I can neither present an in-depth scientific analysis of the effects of this year's EU enlargement nor an empirical analysis. This remains a long-term task for other people, even though it will not be an easy task for them either for lack of a simple scientific methodology and tested instruments. Today, I would like to make at least an effort at an elementary structuring of the problem, based on the difference of the effects of enlargement on the new Member States, on the old Member States, and on the EU as a whole, as an institution.

Effects of formal membership on the new Member States

At the moment of accession – whether accession with many exceptions and restrictions (that are of advantage to the existing members) – the new Member States gain certain, for them very important, political recognition, For them it is a formal confirmation of the level of their present political,

economic and general civil maturity achieved, a confirmation of their present state of development and their stability. Through EU membership they are again counted among the normal European countries after half a century of abnormality, after half a century under communism. This recognition is very important for these countries and their citizens. That is also the major benefit derived from EU membership, although not everyone knows that there is such a benefit that is rather symbolic and without concrete effects. These countries have striven for this recognition for fifteen years. In a certain sense their EU membership is for them – and for the entire rest of the world – a signal that the era of post-communist transformation has definitely come to an end and that they are countries that are institutionally comparable with the other countries of Western Europe, i.e. with countries that had the fortune of not being objects of the communist experiment.

I don't see any other indirect (or direct) effects. There is frequently mention of the effect of the opening, of the effect of the liberalisation of the movement of people, goods, capital and ideas. However, the extent of the opening of these countries vis-à-vis the EU countries and vice versa, the opening of the EU countries vis-à-vis these countries, did not change on May 1st, 2004. Effects derived from the mutual intensive relationships, have already grown stepwise since the fall of the Berlin Wall, since the barbed wires of the Iron Curtain were cut in November 1989, and these effects had already been "consumed" a long time before May 1st, 2004. The residual effect of formal membership will be relatively small from the point of view of these countries and their individual subjects.

Equally marginal will be the direct financial effect, especially for the more developed countries among the new members. Everything points to the fact that the Czech Republic will become a net payer, but not a net recipient of EU funds in the near future, which is quite different from the state of EU accession of such countries like Greece, Ireland, Spain or Portugal. That is why it is incorrect to mention these countries as examples. Many citizens of the new



* Presentation at the Annual Meeting of the Ifo Institute for Economic Research, University of Munich, June 22, 2004.

Member States did, however, believe the experiences of these, at the time less developed, countries and expect the same. But this will not happen.

I also do not see an important effect in the fact that the new Member States will obtain the possibility of influencing decision processes within the EU. They are ill prepared for this (and will remain in the role of “junior members” for a long time), they are small countries and their effective participation in decisions is in fact made impossible by the big brake exerted by the democratic deficit of the EU and the present extent of bureaucracy in the EU.

The new Member States already accepted EU legislation, the so-called *Acquis Communautaire*, during the time before EU accession and thereby also accepted the European (and originally German) model of a corporatist state, the model of a social market economy that is unambiguously connected with the low competitiveness of the firms, with the rigidity of the entire economy, with high unemployment and low economic growth. This will not lead these countries, whose level of development is lower than the European average, to real economic convergence. There is even the risk that, quite to the contrary, nominal convergence (the assumption of the EU legislative) will become the brake on real convergence. It should not be necessary to stress this in a country that experienced unification, in which the effects of unification (or rapid nominal convergence) are well known. It is necessary, however, to say that, in this sense, May 1st, 2004 did not usher in fundamental change, as EU legislation had already been accepted by the countries several years ago, or that, respectively, their acceptance was a prerequisite, not a consequence of accession.

This sketch of positive, neutral or negative effects is certainly neither complete nor sufficiently founded empirically, but it is my opinion that it may present an inspiration and guide for deeper analyses. I must emphasise that they are based on the experience of an active participant in the era before accession. It is by no means the view of an independent observer.

Effects of EU enlargement on the old Member States

Even if the effects of the asymmetric liberalisation and of the guileless opening of the new Member States vis-à-vis the more developed, older Member States was unambiguously of advantage for the old

Member States before accession, I must state clearly that formal membership of the new states does not imply a true advantage for the old Member States. Even if during the entire era before enlargement, the benefits derived from the contacts with these countries exceeded the costs of the old Member States spent on them, after formal membership of the new states, the cost-benefit ratio will worsen.

The old Member States know this and therefore they were in no hurry to agree to EU enlargement. I cannot blame them for this position, as I respect authentic human interests. It is not surprising either that the Brussels bureaucracy pushed enlargement much more than the old Member States (a bureaucracy is always interested in increasing its scope of action). I repeat, from the point of view of the old Member States I consider this rational and therefore there is no reason to deny it. In view of the unwarranted but often repeated identification of the EU with Europe, the old member countries could no longer maintain the exclusive nature of the EU club. That is why enlargement happened – without consideration of the actual interests of these countries.

Analytically it is very difficult to separate the effects of the very close relationships of the old and the new Member States, which existed for more than a decade, from the new effects that will come into being following enlargement. Competition for EU funds will certainly intensify. There will also be an increase – though less than expected – of the migration of workers (and also students) to the richer countries, only few more cautious west Europeans “dare” go to the new Member States, coming as tourists, as businessmen, as investors for the first time. I am sure that cultural exchange will increase, but these phenomena are difficult to quantify. That is why I don’t dare a quantitative estimate of these effects. But there should also be no cheap propaganda in the other direction.

In summary, I can say that the direct effect of this year’s enlargement on the old Member States will not be large and only difficult to quantify.

Effects of EU enlargement on the EU

The increase in the number of members from 15 to 25 implies an enlargement of the EU as an institution. By stressing the word institution, I want to express that this is not just a significant increase in

the size of the single market, as this already happened a long time before the moment of the formal enlargement. At the same time it is also true that the low mobility of labour, the rigidity of business relations and the administrative complications so typical for the EU did not end or change on May 1st, 2004. Therefore the quality of the single market did not change either.

The strength of the EU does also not change significantly, but this year's enlargement causes an increase in the illusions of those who have a block view, a continental view of the world, that is of those who assume that a Europe that is larger and more compact will have a bigger chance of standing up to the hegemony of the United States and the big ambitions of Asia. This block view of the world, which emerged so clearly in the draft of the EU constitution, is a fatal error. Europe is only a conglomeration of countries (and will hopefully remain so) and there is by no means an authentic European "people". There is also no proof that "big is beautiful". The so-called competitiveness of Europe is also nothing but a statistical artefact, as only firms can be competitive. There is no such thing as the competitiveness of a continent. A continent (not even the EU) is not an economic subject, it does not produce, trade, innovate, invest, save, rationalise production or lower costs. This way of looking at things, so widespread in politics and the media, stands in sharp contrast not only to the political, economic and demographic realities of present Europe, but also to the dominant globalisation trends.

EU enlargement to 25 members does significantly affect the decision processes in the EU. There will be an increase in transaction costs for the functioning of this institution, as ten countries are added to the existing mechanism without any change therein (corresponding to a 40 percent increase). This is a well known price of enlargement, but its size cannot be easily quantified. That is why it is rarely understood or seriously discussed. The volume of policies, of activities and interventions in the EU does not decline (acceptance of the constitution in its present form would rather increase it radically) and that has the consequence of non-zero costs, given the increase in the number of participating subjects. This is true of any centralised and hierarchically organised system. It is a law that cannot be entirely circumvented.

There is, however, a method to lower these transaction costs (or to slow their increase). It consists of an increase of the democratic deficit in decision-mak-

ing, a reduction of the extent of democratic procedures, an increase of the role of the inner core of the Union, an increase in the number of areas in which majority voting within the EU is allowed. Without any doubt, it also includes an increase in the anonymity of decisions, a further increase in the distance of the citizens from the EU centre, a further depersonalisation of the EU. In any case, these are the negative effects of the last EU enlargement. Unfortunately they cannot be changed by well intentioned politicians and civil servants.

In order to be understood correctly I am repeating the argument. There are three variables – the number of member countries, the volume of EU policies and the mechanism of decision-making. These are not and cannot be compatible, only a trade-off. The increase in one variable (number of member countries), given an unchanged second variable (EU activities), necessarily has effects on the third variable (decision-making mechanism). I must insist that expressing this trivial conclusion is not euro-scepticism but logical thinking. And to do so is our duty.

With this I am drawing to a close. Formal EU enlargement is no radical change. But it can be the starting point for a strengthening of the processes that occurred in varying intensity during the past decade. Some of these were positive, some were negative. That will continue. The principal problem lies somewhere else. It lies in the necessary change of the basic model of the European social order. A year ago Europe was divided into new and old. I do not consider this a useful and fair division. But we ought to make use of the term "New Europe". This term should be given a different meaning – the meaning of a Europe of economic freedom, a Europe of a small and not expanding state, a Europe without state paternalism, a Europe without pseudo-moralising political correctness, a Europe without intellectual snobbism and elitism, a Europe without super-national, continental ambitions, a Europe without an ideology of Europeanism. If somebody were to call (or characterise) such a Europe on the other side of the ocean the "New Europe", that would be so much for the better. Unfortunately I must stress that the last EU enlargement by ten states does not and will not have such an implication.