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Article

Europe after Enlargement

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EUROPE AFTER ENLARGEMENT

MUNICH ECONOMIC SUMMIT 7–8 JUNE 2002

DR. HORST TELTSCHIK,
Chairman of the Board of Directors,
Herbert Quandt Foundation, Munich

Minister-President Stoiber,
Excellencies,
Ladies and gentlemen,

I should like, on behalf of the Herbert Quandt Foundation, to welcome you most cordially to the first Munich Economic Summit in the Bavarian capital.

Both organisers, the Herbert Quandt Foundation and CESifo, purposely chose Munich as the permanent venue for this economic summit. Munich is the leading economic region of Germany for multinational companies, as well as for small and medium-sized businesses that are geared to international competition.

Moreover, in recent years, the Munich region has gained an international reputation as the home of trend-setting research and high technology.

That is why it has rightly acquired the name of “Isar Valley”. It is thus high time to underline its unique economic significance in an increasingly cohesive Europe with a conference with outstanding participants. We also hope, with the concentration of expertise gathered here, to provide fresh impetus.

Today’s conference forms the prelude to a series of events planned in Munich each year. Basically, it already unites all the important conceptual characteristics:

- The conference is geared to Europe’s future form, as announced in the title: “Europe after Enlargement”.
- The contents focus on economic issues. This can be seen both from the themes of the four panels and the choice of participants (more than 50% of them are leading European business representatives, while the fields of politics and academe-

mia account for a share of 20% each, and the media for 10%).

- The European Union is no longer understood in its old borders as the EU of the 15 member states but – looking to the future – as the EU of probably 25 nations. More than 100 participants from 19 countries are present, not only from Europe, but also from the United States of America and from Asia, underlining the importance of a view of Europe from outside.
- And, last but not least, the composition of the individual panels emphasises our efforts to intensify the frequently ailing dialogue between leading academics and experts on the one hand and decision-makers from the realms of politics and industry on the other.

All this should serve to establish an exclusive economic conference of high quality in Munich.

The first Munich Economic Summit is scheduled in 2002, a year that in many ways will shape the future of the European Union.

Since the beginning of the year, the “Convention on the Future of the European Union” has been working on drafts for its reform with the aim of creating more democracy in Brussels and making the EU fit for enlargement. Then, in the middle of next year, the draft of a European constitution should be completed.

The year 2002 also marks the beginning of the decisive phase of negotiations for admission to the EU. These will be completed by the Union’s expansion eastwards, currently expected in 2004.

Nor should we forget that the Prague Summit on Nato Enlargement is on the international agenda in the second half of 2002. Enlargement will permit closer cooperation in the field of security policy with the countries of Central and Eastern Europe. Finally, I should like to mention election year 2002 with many important elections throughout Europe. The forthcoming parliamentary elections in Germany and France are of special interest. When



they are over, the “engine” of the European Union is expected to run at higher speed again.

All these events in 2002 will, one way or another, influence today’s and tomorrow’s discussions on “Europe after Enlargement”. I hope that we shall all benefit from the Munich Economic Summit 2002, which I have the pleasure of opening with Professor Sinn, President of CESifo.

Permit me one final remark: Unfortunately, the Senior Minister of Singapore, Lee Kuan Yew, had to decline his participation in today’s Summit due to a severe bout of influenza. He conveys his best wishes for a successful conference sending us the manuscript of his speech.

PROF. DR. HANS-WERNER SINN,
Professor of Economics and Public Finance,
President, Ifo Institute for Economic Research and
Chief Executive Officer of CESifo, Munich

Royal Highness,
President Adamkus,
Minister President Stoiber,
Excellencies,
Ladies and gentlemen,

the title of our summit is *Europe after Enlargement*. The word “after” has been chosen intentionally. The organisers wanted to signal that they regard the decisions for enlargement as irrevocable. Only the number of countries involved is open. I would not be surprised if eight countries joined by 2004, namely Latvia, Lithuania, Estonia, Poland, the Czech Republic, Slovakia, Slovenia, and Hungary. Conceivably, Bulgaria, Romania, Malta and Cyprus could also be admitted by 2004. Günter Verheugen, the Commissioner for Enlargement, is certainly the most knowledgeable person here on this issue, and I am intrigued as to what he will share with us this afternoon.

If all these countries join, the European Union will comprise 27 member states and 482 million people, much more than the United States of America which has a population of “only” 282 million. Although Europe’s GDP even then will be 17% less than that of the US, Europe will be a huge economic area.

With the granting of the four liberties, namely the free movement of goods, people, services and capital, Europe will quickly close the gap to the US. The transfer of knowledge, the movement of capital and labour, and the specialisation through trade will boost economic growth in the currently backward countries and, with liberal economic policies, will also bring about gains from trade in the West. In my opinion, it will not take long for Europe to overtake the US in economic terms.

The European continent was divided by the Iron Curtain for nearly fifty years. Fortunately that peri-

od is over now. The unification of Europe is in progress. This is not only a relief for those who suffered under Communist dictatorship, but also for Western Europeans who enjoy more security and the opportunity to experience the rich and fascinating cultures of the accession countries firsthand.

In terms of relative magnitudes, European unification resembles German unification. German unification increased the population of the Federal Republic by 25%, European unification will increase the EU population by 28% or 106 million people.

But I am not sure whether I would want Europe to emulate the German experiment completely.

Yes, the political unification of Germany went extremely well. This could indeed serve as an example for the political unification of Europe.

However, I hope that European unification will not mimic German unification from an economic perspective. The economic unification of Germany has been fraught with unforeseen difficulties and has not been successful. The two parts of the country have been drifting apart since 1997 with no convergence in sight. East German GDP per person of working age was 60% of the respective west German figure in 1996, but is now only 58%. East German employment has been shrinking by two percentage points annually since 1994.

The main mistake was that east Germany tried to adopt west German wages too quickly and that German unification created not only a monetary and economic but also a social union. West German social aid, payments with no work requirement, was about seven times higher than the east German wage before unification. It created a wage floor that turned out too high for market wages and crippled most of east German industry. To this day, the east German economy has not recovered from this mistake, and I see no real solution in the near future.



I hope that Europe will not copy this approach. An economic and monetary union is fine. A social union would be a catastrophe, because the social standards of the West would push Eastern wages up and destroy Eastern Europe's competitiveness. There would be mass unemployment. The east German problems were ultimately mitigated, but not resolved, with money from the west. East Germany's current account deficit is nearly 50% of east German GDP, and west Germany transfers nearly 5% of its GDP to the east in terms of public funds of various kinds. A similar solution will not be available for European unification.

Speaking about monetary union. This is the year the euro had its tangible start. All of us have got used to the new currency in a remarkably short period of time. The euro is a symbol for European integration and a proof that political will can overcome many obstacles. It has also paved the way for a European capital market which will transport capital to the most remote corners of the continent and make sure that it goes where its productivity is highest. With the convergence of long-term interest rates the euro has begun to stimulate economic growth in the countries whose productivity is below average and to accelerate economic convergence. Panel 4, chaired by Albrecht Schmidt, Chairman of the Executive Board of HVB Group, will discuss the relevant issues, in particular the question of when and how the Eastern countries can be expected to join the euro area.

Before that, Europe needs a constitution. The first panel, chaired by Ralph Dahrendorf, will discuss the issues. We all remember the Nice Summit, which brought new voting rules for the Council of Ministers. Many Europeans were disappointed with this summit since the rules were not decided behind a veil of ignorance, as both Kantian and Rawlsian philosophy would have required, but with attitudes that reminded me of an oriental bazaar. We have to move beyond this phase of European history, and we have to prepare for a Europe of 23 or more countries. The current decision-making structures are unsuited for an enlarged Europe.

From a more practical side, we have to resolve issues like Europe's agricultural policy and the rules for labour migration. When Poland joins the EU, there will be 50% more people working in EU agriculture than before. It will not be easy to maintain the current level of agricultural subsidies

under these circumstances. Maintaining the old system would be expensive and lead to enormous overproduction.

Neither will it be easy to cope with the migration to be expected. Currently, the wages in Poland or the Czech Republic are less than 15% of west German wages, and even Western welfare levels are multiples of Eastern wages. Under these circumstances the Western countries have opted for transition periods, but the countries from the East seem to resent this solution. From an economic perspective, an alternative would be reforms that make Western labour markets flexible to cope more easily with the migration. I am curious as to what panel 2, chaired by John Major, will have to say on these issues.

Of greatest importance for Europe is a well-functioning economy, because the political unification of the continent will cost money, and that money will have to be earned by the private sector. Panel 3, which will be chaired by Edward Krubasik, member of the Siemens Corporate Executive Committee, will discuss this. What are the real consequences of the Lisbon Summit? Were the declarations of that summit merely words, or have deeds followed these words? What is the state of e-Europe, and what can the Eastern countries expect from the new technologies? Europe is leading in some technologies, but lagging behind in many others. What are the strategies and chances for defending leadership positions and attaining such positions in more technology fields? These are my questions to this panel.

Let me conclude by thanking the Herbert Quandt Foundation and Horst Teltschik, its Chairman of the Executive Board, for not only assuming the major financial responsibility for this congress but by also bearing more than the fair share in the organisation, in co-operation with the CESifo group. My particular thanks go to Kai Schellhorn and his crew. On the CESifo side I wish to single out Christian Kelders, who has done an excellent job in the organisation of this event.

I am pleased to welcome Johanna Quandt, widow of Herbert Quandt and member of the Board of Trustees, who is with us today.

It is a particular pleasure to welcome Eberhard von Kuenheim, former Chairman of the Executive Board and of the Supervisory Board of BMW who

is a special guest today. It was at a lunch that I had with him some years ago that the idea of this conference was born.

I also wish to thank the sponsoring institutions, in particular Siemens AG and HVB Group. The representatives of these companies in the Summit's advisory group, Bernd Stecher and Martin Hufner, have made valuable contributions. I also thank E.ON AG, Knorr-Bremse AG, the Bavarian Central Bank which is part of the Bundesbank and Walter-Bau-AG which has recently merged with DYWIDAG, our original partner. Without our sponsors' generosity and good advice this event would not have been possible.

This summit takes place in Munich, but it is an international event. The Munich business community is happy to host such a splendid group of international guests.

The summit has the adjective "economic", because we wanted to concentrate on political problems of economic content. The idea was to bring together economists, business leaders and politicians to discuss European economic issues. The economic problems of Eastern EU enlargement seemed the most topical issue for a start. Others will follow in the years to come. I welcome all of you, ladies and gentleman, and look forward to intensive, frank and illuminating discussions.

It is now my pleasure to yield the floor to Edmund Stoiber, Minister-President of the Free State of Bavaria, who, as you know, has very ambitious plans for this autumn.

I am very glad that Edmund Stoiber has agreed to be Patron of this summit and to give the keynote address. For the benefit of the German TV audience it will be in German. Simultaneous translation is available.

Herr Ministerpräsident, the floor is yours. We are eager to hear your address.