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Article — Published Version

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Intereconomics

Suggested Citation: Hefeker, Carsten (2004) : Europe after enlargement: what's next?, Intereconomics, ISSN 0020-5346, Springer, Heidelberg, Vol. 39, Iss. 3, pp. 114-115

This Version is available at:

<https://hdl.handle.net/10419/41775>

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Europe After Enlargement: What's Next?

On May 1, ten new members joined the European Union. This is the largest group that has so far been admitted to the Union at one go and it is a landmark achievement because it seals the end of the division of the continent. But all the joy should not distract from the fact that the differences in per capita income between old members and new members have never been so large before, implying that the difficulties of integration have also never been so large before. This begins with the common Constitution that the members of the European Union will have to agree to. It is far from certain that the population will accept the proposal if referenda are held, so that in particular the British decision to hold a referendum could lead to quite an embarrassing result. It is unlikely that the EU could then simply follow the Irish example and keep voting until the desired result is produced. So far it is not clear how the EU could deal with such a blow.

Apart from this fundamental question, the list of unresolved issues that need to be tackled soon is daunting. The ongoing negotiations in the Doha Round of the World Trade Organisation, and the required changes to the system of agricultural support for European farmers that will have to follow if those negotiations are really to be a “development round”, will certainly result in tremendous political problems. (Already, the modest proposal that Commissioners Lamy and Fischler have presented was vigorously rejected by French politicians.) Even apart from the WTO round, the EU will have to find a way of fundamentally reforming the Common Agricultural Policy once new members are fully “phased in”. The unwillingness to increase transfers to Brussels on the one hand and the increase in the number of farmers on the other will be hard to reconcile without structural changes to the CAP. But not only the CAP needs reform, Europe will at the same time have to find a way to deal with the tensions between old and new members concerning the Structural and Cohesion Funds where old recipients are unwilling to give up transfers in order to benefit new members.

In general, it is no longer possible to buy the support of certain members for certain policy measures by generously increasing support funds, and it is no longer possible to support the agricultural sector as before, while at the same time increasing the official funds for new and necessary policy fields. A common external and security policy will need more centralisation and more funds being allocated in this direction. This requires that other policy fields will be less generously treated in the future. These tensions will become ever more pressing given the demographic changes Europe faces in the coming decades. An older population means that social expenditures will increase strongly. Taking this implicit public debt into account, Germany's debt is estimated to stand at some 270 per cent of GDP, and the situation in other member states is not much better. This will not only have implications for domestic policy (which is why the Stability Pact should be more restrictive than it currently is – not for the sake of the common currency but for the sake of pending pension obligations), it will imply that redistribution between European states will become less possible politically and financially. But since all countries have some areas where they are unwilling to make concessions, it is not clear how these heightened tensions can be solved in the larger EU.

The other side of the fiscal coin is that Europe has to decide what to do with the Stability and Growth Pact, which is continuously, and meanwhile quite openly and aggressively, violated by the larger governments. If it is to be worth the paper it is written on, its rules will have to be binding and larger members will have to be forced to adhere to them. The issue is not only the credibility of the Pact but the general need to come to fiscal terms with the

structural changes in ageing societies. The Pact is an indicator of whether European governments are able to respond to these challenges or not. If not, debt crises and financial collapses will no longer characterise only emerging markets and developing countries but the core of the international financial system.

Smaller, but no less pressing, problems are that Europe needs to find a way to an efficient policy-making process, including the reduction of the number of commissioners to a workable one. It will have to decide how to design the transition of the new members to the European Monetary Union, and in particular what regulation concerning the exchange-rate bands will apply. And the EU will have to decide how to treat new applicants, what to do with Turkey, and where the boundaries of the EU should lie, and to deal with possible resistance from old and new members vis-à-vis the next round in the enlargement process (such as the tensions between Hungary and Romania). It will, last but not least, need to make a constructive decision on how to deal with migration pressures from within and from outside the Union.

This partial list of unresolved conflicts is of no small order. What is disturbing is the fact that the EU has not been able in recent years to get its act together and to implement even some of the necessary changes before enlargement. After enlargement, all the problems have only become more difficult. More members that have veto power in certain policy areas will make a decision more difficult to reach and strengthen the tendency to reach minimalist decisions. And more members means more possibilities for coalition building and pork barrelling, further hindering reform.

So there are basically two scenarios as to how the European Union could develop from here. One scenario is that Europe continues to try to solve the structural challenges by making slight changes to the current system which are acceptable to everyone and thus mostly ineffective. This will likely lead to a new type of "Eurosclerosis" in the sense that the European Union will lose its ability to make decisions and to deal with its internal problems and its increasing external problems, such as security policy, its relations with the USA, its policy towards developing countries and the terrorist challenge. This will ultimately lead some countries to exempt themselves from certain policy measures, to opt out of some fields of common policy, and finally lead some to use the exit option that the new Constitution will contain.

In the alternative scenario, Europe finds a way to adjust the fundamentals of its policy. It recognises that more harmonisation cannot be the answer to more competition within and between the countries of the Union. It is able to reach clear political decisions as to which policy fields should be common ones (these should not include agriculture), and how much "solidarity" or redistribution there should be between member states. It gives countries the power to decide in which areas they would like to cooperate instead of increasing the "acquis communautaire" ever more. Mutual recognition is then the basic principle instead of harmonising everything in an ever growing union.

While the second scenario is more desirable, and a condition if Europe is really to be able to fulfil the "Lisbon agenda", it is an open question whether Europe will be able to go down this path. It has missed the opportunity to do so when it was comparatively easy, although this does not mean it is impossible now. Hopefully, the new members will bring more pressure for reform to bear on the older members. If the new members realise that the current system will not be tenable for much longer, they may be able to force "old Europe" to accept and find ways to deal with the challenges mentioned above. They should force the larger European Union to recognise the challenges and address them soon and comprehensively.

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