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## Europe (Almost) Whole and Free: EU Enlargement and Its Implications

By Radek Sikorski

*The first issue of this new bimonthly publication devoted to European affairs and their bearing on transatlantic policy issues discusses the incorporation of ten more countries into a formally united Europe. After many years of negotiation, on May 1 the European Union will finally expand its membership to the East. By reaching deep across the former Iron Curtain, the European Union can now fairly claim to represent all of Europe, not just its Western regions. The inclusion of countries that were isolated, impoverished, and politically transformed by half a century of Nazi and Communist totalitarianism will change Europe—economically, politically, and above all culturally—in ways its politicians have not yet begun to comprehend. Fortunately for the United States, enlargement might arrest the slide of the European Union into anti-Americanism just at a time when, as a result of the war in Iraq, pro-Atlantic sentiment is in retreat.*

### A Spur to Competitiveness

The ten new EU members<sup>1</sup> will add a combined population of 75 million people to the existing 290 million but will add a mere €400 billion (4.5 percent) to the current €9.3 trillion EU economy, lowering the average per capita income in the European Union from €25,000 to €23,000. Western Europe will not gain much market share either because it has already secured such gains over the preceding decade. Typically, between 60 and 70 percent of trade of the new EU members has been conducted with the current European Union for some years now.

But although Central Europe's contribution to the enlarged European Union's wealth seems small, the impact of enlargement on competitiveness will be enormous because the size of the market is irrelevant to the sharpness of the challenge. Freeing trade with Mexico within NAFTA has put downward pressure on U.S. manufacturing

wages, despite the disparity in the sizes of the two economies. Small Ireland's low corporate taxes have forced all European governments into tax competition that has resulted in lower average corporate tax rates in Europe than in the United States. Central Europe has both lower wage rates<sup>2</sup> and lower corporate taxes<sup>3</sup> than existing EU members, and the region is being integrated at a time when Europe's largest economies are stagnant. Given that labor mobility between the older members (EU-15) and the accession countries (AC-10) has been stymied, capital is likely to move from west to east.

The net flow of investment and jobs does not have to be big to change relations between labor and capital in the rest of the continent. The very knowledge that enterprises have the option of relocating to the East and paying lower wages is changing attitudes. Trade unions in Western Europe know this all too well, which is why enlargement would never have taken place had it been put to a popular vote. What they fail to acknowledge is that the ten new member countries have been running an annual trade deficit

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with EU-15 of almost €30 billion, thereby financing over a million jobs in Western Europe.<sup>4</sup>

Unlike capital, economic ideas are likely to flow from east to west in the next few years. Several of the new members have adopted the flat tax and have experimented with bold welfare reforms as well; Poland, for instance, has privatized its pension system with Chilean-style personal retirement accounts, a policy that Western Europe will one day have to adopt in order to stave off budgetary collapse.

If the East is allowed to compete, it will not only work itself out of poverty but may prove the salvation of moribund Western economies. Enlargement may do for them what the dustmen's strike did for Britain in 1979—spur long-delayed reforms that liberate labor markets, adjust welfare policies, and lead to long-term dynamism. The adjustment will surely not be popular, but it may be cushioned by the likely boom in some sectors of West European industry as EU money jump-starts large infrastructure projects in the East.

The key question for the next few years is this: will the new members infuse the current fifteen countries with their dynamism, or will they yield to pan-European rules that will mean succumbing to the Byzantine torpor of the current arrangements? Both German chancellor Gerhard Schroeder and Bavarian prime minister Edmund Stoiber have complained that taxes in accession countries are too low. Whether the newcomers are forced to raise theirs or Germany at last lowers its own will be a good indicator of things to come.

## **Agriculture: A Comedy of Errors**

Most press reports on the effects of enlargement in agriculture—usually accompanied by the classic photograph of a subsistence farmer with a horse and a plough—get the story back to front. The usual mistake is to juxtapose an industrial farm in the West with a small family-held farm in the East. It is comparing apples with oranges. In fact, large-scale farming is doing increasingly well in Central Europe, and it will benefit from the abolition of export subsidies and import quotas in the West, as well as from production subsidies. The tragedy is not that Eastern farms will be unable to compete—actually, now that the playing field is more even, food exports from new member countries are set to rise—but that the last swaths of European farmland where wholesome, tasty food has been produced without poisoning the earth are being

subsumed under the ludicrous Common Agricultural Policy (CAP).

That is a triumph of French diplomacy. Under a deal that French president Jacques Chirac struck with Chancellor Schroeder (to the fury of British prime minister Tony Blair) on the financing of enlargement, farmers in the new member countries will be getting a quarter of the subsidies of those in EU-15, thus preserving France's preferential treatment under CAP. The brilliance of the move lies in the fact that, while Western farmers will continue to get fat subsidies, farmers in the East have to be grateful anyway because they will be getting a check through the mail for the first time. As in Western Europe, the beneficiaries will mostly be industrial farmers—those big enough to employ an accountant to fill out the complex application forms. They are likely to deploy political resources in support of CAP, thereby delaying its reform and stalling global trade liberalization for years.

The agriculture agreement for EU enlargement is a three-fold mistake: First, an opportunity is being missed to reform a policy that consumes about half of the EU budget, harms the environment, and contributes heavily to poverty in the Third World. Second, by giving farmers in the East only a quarter of the subsidy, the impression of second-rate membership is reinforced. Third, the future of farming in Europe is probably organic, high-value-added agriculture anyway—something that Central Europe has been doing without subsidies. The region will now be forced into agricultural industrialization, only to spend further billions to recreate later what is about to be destroyed.

## **Patronizing West, Resentful East**

“He who gives early, gives twice,” but the opposite is also true. The new democracies have waited fifteen years since the fall of Communism to be admitted to political membership, and it will be almost a generation before the various transition periods expire and they become members like all the others. Unlike previous entrants, those in the current bunch have opened their markets and adopted 80,000 pages of EU legislation into domestic law before entry, a wrenching process to say the least.

A look at the budget figures enhances the perception of mean-spiritedness. The total direct expenditure of the European Union will make a net contribution of €26 billion to the ten new members over the first three

years of their membership, or 0.05 percent of EU GDP.<sup>5</sup> This gives us the princely sum of €73 per EU citizen, compared with about €700 the European Union spends in annual subsidies on each cow.<sup>6</sup> It has not escaped attention that Germany has spent between €500 and €1200 billion on its new Eastern provinces, which are inhabited by only 15 million people. The Easterners suspect that the European Union would have dragged its feet even longer without the spur of NATO expansion pressed by the United States.<sup>7</sup>

Enlargement has already produced political shocks among the current EU members. Germany and France suffered first, when the newcomers refused to play their allotted role of apprentices and dared to have views on things such as the new EU constitution and transatlantic relations. President Chirac's famously sneering response to the Central Europeans' signing the "Letter of the Eight" in support of the U.S. stance toward Iraq was a genuine expression of incredulity. He actually did not know that they had independent foreign policy establishments at all. Germany, which had spent the previous decade advocating enlargement, was also mightily annoyed at countries whose proper position, they seemed to suggest, is that of deferential supplicants. It is likely no coincidence that France endorsed a draft of a EU constitution that doubles Germany's voting power at the time of conflict over Iraq. It was a way of bringing the prospective members to heel. Yielding primacy to Germany proved more tolerable than suffering undue influence of what she imagined would be America's Trojan horses.

France need not have panicked. The next to be disappointed in enlargement are likely to be those, particularly in Britain, who expected enlargement to dilute the European Union's federalist agenda and perhaps stop the project in its tracks. The idea in Britain was that countries that had just regained their sovereignty from the clutches of the Soviet empire would resist ceding it to another distant bureaucracy. Their ideological "backwardness"—patriotism, faith, and belief in elective democracy and the family—was supposed to put a check on the European Union's transnational progressivism. But there are two kinds of criticism in life—one sort motivated by wishes of success, the other by ill will—and Central Europeans want the European Union to succeed. They did not spend half a century aspiring to rejoin the European mainstream and fifteen years wrenching their societies to qualify for the European Union, only to wreck the project once they are allowed

to join in. They may not support the opaque EU constitutional treaty, but a more federalist, more democratic draft may well gain their neophyte enthusiasm, to the disappointment of Euroskeptics.

Britain should nevertheless gain from enlargement. It is already clear that two countries, France and Germany, will no longer be able to set the agenda in a European Union of twenty-five as they have in the past. The jury is still out on whether the EU directorate will consist of three (France, Germany, United Kingdom) or six members (those three plus Italy, Spain, Poland). Either way, there will be changes in EU foreign policy.

At least initially, the Central Europeans will blunt the anti-American edge of the existing European establishment. On the other hand, they will force the European Union to rethink its policies toward the post-Soviet East. Poland's borders with Ukraine, Belarus, and Russia are already making the European Union confront issues it would rather duck: dictatorship in Belarus, Ukraine's uncertain geopolitical orientation, and Russia's slide toward autocracy. In return for supporting the EU Mediterranean strategy, the Central Europeans will insist on support for democracy in the East and the financing of infrastructure links to the region. Such initiatives, in addition to being worthwhile in their own right, are in line with U.S. policies and will tend to pacify transatlantic relations. They might even give Europe and the United States a new sense of common purpose.

## A Cultural Convergence

Perhaps the biggest change that awaits Western Europeans is neither political nor economic but cultural. The two halves of Europe lived apart for so long that they have developed prejudices against each other, even learning different versions of history. Earlier layers of civilization are there to draw upon: the two halves of Europe have had a common experience of Christendom, Reformation, and Enlightenment. However, in the nineteenth century the newcomers were mostly colonies rather than colonizers and were late in joining the Industrial Revolution. In the twentieth century, they went through both Nazi occupation and the meat-grinder of Communist anti-civilization.

There is no agreement even on the relatively recent events of the latter part of the twentieth century. While the betrayal of Czechoslovakia at Munich in 1938 belongs to the canon of the Allied history of the

Second World War, how many in Western Europe regretted the Soviet annexation of the Baltic states? Britons and Frenchmen are convinced that their countries nobly entered the Second World War against Hitler on behalf of Poland. They invariably resent being reminded that in fact they only declared war in 1939 and that many of the subsequent disasters can be traced back to their treacherous inactivity in the months that followed.

Whereas for the Western Europeans the second half of the twentieth century is the longest stretch of peace and prosperity the continent has ever enjoyed, Easterners remember it as a forced descent into dictatorship and poverty. While the horrors of Nazism are well internalized as evil by all, the Westerners' response to the horrors of Communism illustrates La Rochefoucauld's dictum that we are always strong enough to bear the suffering of others. In typical fashion, a recent speech by the Latvian foreign minister Sandra Kalniete at the Lipsk Book Fair, in which she compared the crimes of the two totalitarianisms side by side, drew an avalanche of criticism from the mainstream German press. Writers whose greatest suffering in life was the lack of funds for a new Mercedes, ignored the fact that Kalniete, herself born in a Soviet labor camp in Siberia, might know a thing or two about suffering under totalitarianism.

Whereas Westerners do not remember new member countries as anything but poor and peripheral, Easterners will insist on their story being acknowledged as equally legitimate and even instructive.<sup>8</sup> The Polish-Lithuanian Commonwealth (from the Union of Krewo in 1385 until the third partition of the commonwealth in 1795), for example, once spanned the continent from the Baltic to the Black Sea, gave that part of Europe parliamentary rule, religious tolerance, and federalism, and lasted longer than the union of England and Scotland has so far (from the Act of Union in 1707 until today). Central Europeans will cite such episodes—completely obscure to Westerners—as their own claims to making a worthwhile contribution in the debate on European federalism. If the different memories of the American Civil War in the South and North of the United States are anything to go by, it is safe to assume that some generations will pass before a common European narrative emerges.

## EU-25 and the United States

From America's point of view, one of the most important side effects of enlargement will be an even more

self-absorbed Europe. Rather than awaken Europe from its navel gazing, new terrorist outrages will likely lead to the same response as previous shocks—namely, demands for more integration. The United States is likely to confront a frustrating state of affairs in which Europe's nation-states have almost given up the will and the capability to act offensively, while the European Union is nowhere near to acquiring it.

The accession of Central Europe to the European Union will soak up anti-American sentiment emanating from the core, but not forever. Brussels is already pressing Central Europe to its ample bosom. European think tanks spend millions shaping public opinion all over the region. Thousands of journalists and scientists receive stipends in Western Europe. Tens of thousands of ambitious young people are sitting for exams for jobs in the various Brussels bureaucracies where quotas for them have opened up. Millions of ordinary folk will soon see placards with the EU logo over new bridges, bypasses, railway lines, and water treatment plants. Given that U.S. public diplomacy has died in the last decade, and that fewer Central Europeans visit the United States on scholarships now than did in Communist times, it cannot be long before attitudes change.

The worst response the United States could take would be to start opposing European integration. British Tories have traditionally underestimated the determination of the Continent to press ahead with integration, and the United States would be unwise to repeat their error. If the United States opted for "disaggregating" Europe into its component nation-states and made countries choose between their European vocation and transatlantic links, most EU countries, including all new members, would opt for the European Union. If the gambit was tried and failed, the United States would lose remaining influence in Europe and unite the continent against itself. Conversely, however, most European countries do not want to be forced to choose between the European Union and the United States by those who would want to construct an anti-American, European Europe. They want to be both good Europeans and good Atlanticists.

Herein lies the opportunity. Without forcing dramatic choices, the United States can maintain its influence on the continent by fostering links in the one area where it enjoys unique credibility—namely, defense. The United States should respond to EU enlargement by concluding bilateral military defense agreements with those European countries that have proved helpful

in recent emergencies. Five years after the first NATO enlargement to reach into the former Soviet bloc, it is clear that new member countries, although willing to fight, simply do not have the economic base from which to modernize their militaries to the level of compatibility with U.S. forces in the field. For the billion dollars or two per year that such a modernization program would cost, United States would strengthen NATO, acquire allies willing and more able to take part in foreign operations, solidify pro-Atlanticist attitudes in that part of the Europe, and neutralize the mischief potential of both French Gaullists and a neo-imperialist Russia. Provided the United States responds, the European Union's enlargement will have been the best thing to happen in the Euro-Atlantic area this decade.

## Notes

1. Moving roughly from north to south, the new members are Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Cyprus, and Malta.

2. If you hire a white-collar temp, you will pay €25 per hour in the Netherlands and €2.50 in Budapest (Merrill Lynch EU Enlargement Global Strategy Paper, March 19, 2004).

3. Estonia's corporate tax rate is actually 0 percent unless profits are repatriated. The difference in the average corporate

rate in the older member countries versus the new ones is a whopping 12 percent.

4. The deficit has been covered by inflows of capital to purchase mostly former state-owned enterprises in the region, with obvious implications for their productivity but also those economies' ownership structure.

5. Source: Eurostat, Statistical Office of the European Communities.

6. Oxfam Briefing Paper, *Milking the CAP: How Europe's Dairy Regime Is Devastating Livelihood in the Developing World*, December 2002.

7. It was partly in gratitude for the greater American openness that the new members supported the United States over Iraq, a store of goodwill that is being depleted.

8. In fact, Easterners feel that their poverty was largely the outcome of communism and therefore would not have occurred without the Second World War. Poland and Spain, countries of comparable size and cultural makeup, had similar per capita income as late as 1950—despite the fact that half of Poland's national wealth went up in smoke during World War II, whereas Spain profited from the war. Poland's per capita income rose under Communism: from \$775 in 1955 to \$1,860 in 1988. Spain's rose too, from \$561 to \$7,740 in the same period. From parity, Spain became four times as rich, even though it was a dictatorship for much of the period. It was, however, a free-market dictatorship, which illustrates the impact of collectivism on growth. These figures are taken from Robert Skidelsky's *The World after Communism* (New York: Macmillan, 1995).