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Ten Years After

Eastward enlargement of the European Union has become a fact of history by now. The Central and East European members of the EU – with Croatia altogether nine – no longer qualify for the *epitheton ornans* "new member states". They behave and act as if they had always been part of the Community.

This is both good and bad news – good news since accession has not triggered the shocks feared by many. No mass migration from East to West occurred, and Western products and service providers have not crowded out domestic production in the region. The "integration shock", intensively theorised in the academe and the popular press alike, has not materialised. Membership has become effective, from the very outset. Post-communist countries could and did fight for their – perceived or real – material and ideational interests. Conversely, the transfers from Community coffers have contributed to building up a major pro-EU constituency, and not only among traditionally reserved nationalist farmers.

However, Central and East European members behaving like "normal members" was also bad news. The decade following 2004 was marked by the declining lure of the European project, in the East and West alike. In the West, the attempt to create a European Constitution was watered down following the failed 2005 Dutch and French referenda. Later, the Irish referendum in 2008 helped further limit the EU's ambitions. Last but not at all least, the union's poor crisis management in response to the global financial crisis has uncovered a number of weaknesses of integration and especially in its intergovernmental governance structure.

In the latter process, the post-communist states behaved exactly like the old members – first and foremost in a selfish manner, reminding the old Community of Baroness Thatcher, who wanted "her money back". The newcomers refrained from initiating new projects or joining any of the more radical ideas of re-tailoring the existing patterns of redistribution, the existing mechanisms of decision-making or the historically determined bargains. This was a problem, insofar as the latter are known to be the outcome of ad hoc deals rather than of any broader considerations. The "coalition of the nasty", i.e. of those who were prepared to thwart any attempt to streamline existing patterns of redistribution or decision-making, could always count on the post-communist countries, irrespective of the colour of their governments. Reform proposals as diverse as Romano Prodi's plan to cut back the number of Commissioners to six and the overhaul of the Common Agricultural Policy, as advocated by the UK, Sweden and the Netherlands, were invariably resisted by the Eastern partners.

On balance, the new members benefitted enormously from accession, and so did the old Community. The newcomers' gains are not properly measured by the net transfer balance, although this did indeed tend to be in their favour. Lithuania, Poland and Hungary count among the biggest net recipients in per capita terms. The real gain was, however, geostrategic. Becoming part and parcel of the common market – and in the case of some of the smaller states, also of the single currency – helped instil investor confidence in relatively new and still forming market economies. Foreign and domestic players were reassured, and a self-propelling and self-fulfilling cycle of favourable expectations helped galvanise economic growth, especially in 2000-2008, i.e. even before actual entry.

Old members also benefitted from enlargement, although the distribution of those gains was fairly uneven, with Germany, Austria and the UK profiting more than Mediterranean member states. In terms of the banking and insurance industry, Italy, Austria and Germany were the major beneficiaries, conquering new and robustly growing markets where financial services are still underdeveloped. In terms of both the brain gain as well as attracting less skilled labour to perform low prestige jobs, France, Spain and Italy benefitted just as much as Britain and Ireland. All in all, the 2000-2008 period witnessed unprecedented real convergence, which led to a lasting pacification of a formerly restive and potentially explosive neighbourhood. The sudden and unexpected collapse of Ukraine or the ongoing stagnation and decay in Bosnia-Herzegovina, Kosovo and Macedonia, let alone the ongoing tremors of the "Arab Spring", may make it clear even for laymen that the consolidation of the Eastern European neighbourhood within an expanded European Union has indeed been an unprecedented historic accomplishment. It completed the original vision of the EU's founding fathers of a unified and peaceful continent.

It is perhaps yet another sign of normalcy to observe that euroscepticism in post-communist states is just as much on the rise as it is in the EU15. A full explanation of this trend is beyond the scope of this Editorial, but some factors are quite common. First, the split between a public which mostly relies on infotainment and short pieces on the web for orientation and the elites, who are regularly involved in complex and untransparent sets of bargains, has become manifest in the new member states. Second, the temptation for simple solutions which can be presented in 40-second clips has increased. The lure of populism is thus hard to resist even in mainstream parties. Third, "Brussels" and its vices present an easy scapegoat when unpopular measures need to be sold to the electorate.

Crisis management in the EU has repeatedly followed short-term political logic, such as minimising immediate risks, even at the cost of longer-term gains or in disregard of economic rationality. Repeated bailouts of banks and countries that were not undergoing major restructuring but were brazenly asking for yet more good money to be thrown after bad are perhaps a textbook case of moral hazard. The inability of the Community to enforce its rules has led to a crisis of confidence. While the Lisbon Treaty, for better or worse, opted for enhanced intergovernmentalism, crisis management on the ground has triggered more and more supranational solutions. In short, the mismatch between legal foundations and economic exigencies has become pronounced.

It is perhaps important to underscore that the post-communist EU members, on the whole, have weathered the storm of the crisis more effectively than many old members, in terms of financial and growth indicators alike. Latvia and Estonia have managed to join the single currency, while Poland was able to endure the crisis without entering recession. Bulgarian and Romanian public debt figures for 2013, at a mere 17.3 and 38.9 per cent of GDP respectively, are far superior to both the overall eurozone average of 92.7 per cent as well as to individual figures of the large member states generally seen as economically healthy. The trouble spots of the Community of 28 are not in the East. Each of those countries that had to resort to a major bailout package has since found a solution, unlike the never-ending story of the Club Med countries. Latvia has shown robust growth ever since the collapse of output in 2009, regaining and surpassing pre-crisis levels. Romanian growth is back on track and the Prime Minister recently spoke about potentially introducing the euro in the near future. And Hungary, where the views on EMU have become more sceptical, has never had to exit the capital markets – a quality Portugal and Ireland only regained in December 2013.

What does the second decade of EU membership hold? While the dreams of the EU9 becoming a growth engine for the entire Community seem exaggerated at best, goals such as the consolidation of public finances and growth, improved unemployment rates, increased exports, ever closer integration within inter-firm networks, and a steady climb up the value added ladder all seem realistic. This allows for a modestly optimistic baseline scenario. On the one hand, exaggerated hopes, including those related to robust real convergence, are unlikely to materialise. The growth potential of the East has weakened, and the expansion of EU15 markets is likely to be constrained by the debt burden, both public and private. On the other hand, the crisis scenarios that continue to unfold throughout the entire EU neighbourhood are also unlikely to be replicated in consolidated democracies and increasingly mature market economies.

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