

Editorial



Dr. Wolfram Schrettl,
head of the "Central and Eastern Europe"
department, asks:

"A line across Europe?"

Not so long ago, Germany was supposedly pressing its EU partners to pledge that the Czech Republic, Hungary and Poland will be in the first wave of the next round of EU enlargement (Financial Times headline: "Kohl draws a line across Europe"). Germany was quick to deny the existence of such a short-list ("complete nonsense"), while other countries claimed victory in having gained an assurance that all applicant countries will be treated on an equal footing.

The EU members' commitment to treating all applicants equally is clearly preferable to an early short-list. The latter would have risked an unnecessary disincentive to economic reforms for the associated countries not included. At the same time, it would be a mistake to infer that other EU members are pushing for even wider and faster membership of associated countries. Because EU policies redistribute wealth from the richer to the poorer members, the accession of the Central and East European countries may unduly strain the EU's finances. As Britain's John Major put it: "We will bust the bank unless we have quite significant policy reform." Obviously, "policy reform" is a euphemism for scaling back the scope of redistributive policies, and represents one of the two ways of reducing the costs of enlargement. The other is to make the new members richer faster, i.e., to ensure more economic growth there.

Faster growth in the enlargement region would undoubtedly result in some cost reduction. However, the amounts involved are likely to be much less significant than those achievable from resolute policy reform. Moreover, the savings from policy reform would be certain to accrue, whereas the savings from accelerated economic growth in the new member countries, in addition to being rather small, may also turn out to be elusive. Thus, any risk-averse enlargement strategy should rely on significant policy reform.

If the EU implements such reform, will talk concerning "a new line across Europe" cease? With policy reform complete, the EU should eventually be able to admit all of the associated candidates. Of course, there may be two or more waves of enlargement. However, any line across Europe due to such "accession sequencing" will be only temporary.

For the foreseeable future the most significant line across Europe will be that between the enlarged EU and those countries likely to be left outside, notably Russia, the Ukraine and Belarus. In many ways it is in the latter region that the crucial decisions will be taken.

How deep an economic gulf will be associated with that line? The past year again witnessed a deepening of that gulf. Much will depend on whether the CIS economies are merely trailing behind the associated countries or whether they will follow a fundamentally different path. Notwithstanding the prevailing optimism, the empirical evidence is as yet inconclusive. On the political front, the Russian Duma's recent decision to denounce the dissolution of the USSR cannot but accelerate the rush of the associated countries into both the EU and NATO, thus in all likelihood further deepening the economic gulf.