Managing Enlargement

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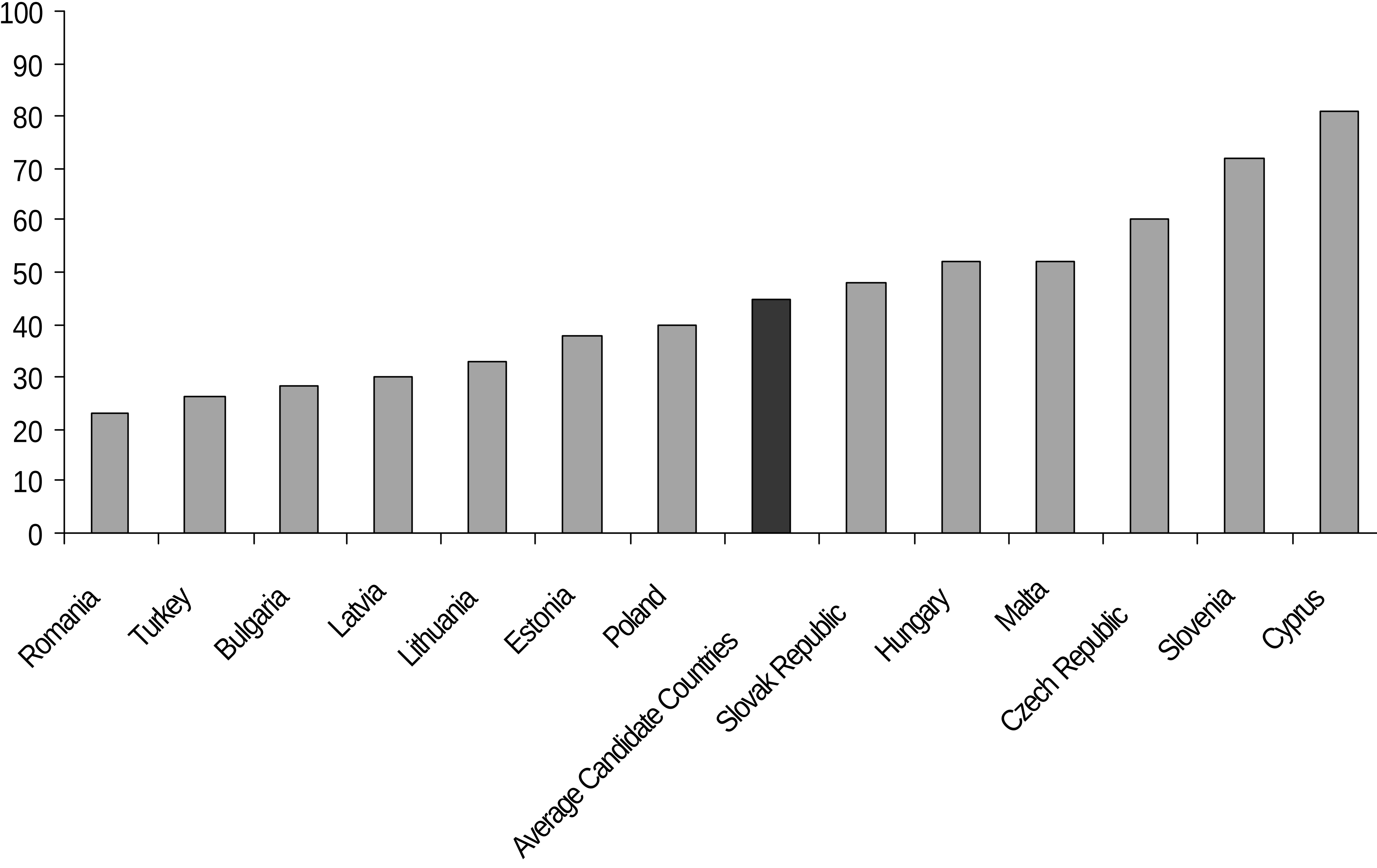
Outline

- Enlargement is a win-win game at the aggregate level; make sure that *everybody* benefits from it. Still unprepared for the Enlargement
- Lack of information
- Lack of coordination on migration policy
- Unreformed structural, mildly reformed CAP
- Unjustified fears about “euroisation”
- Convention: longer horizon is required

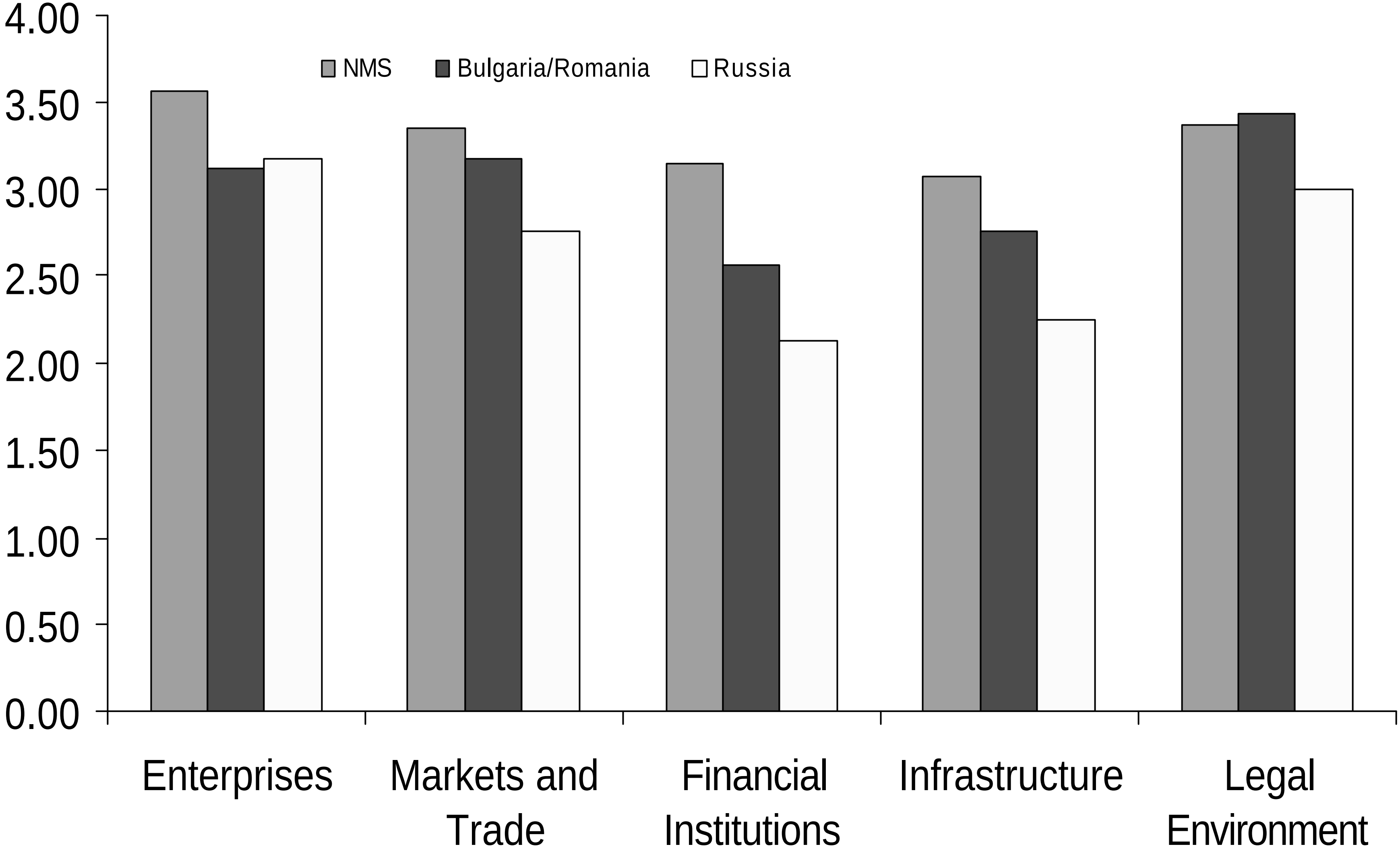
Main proposals

- EU-wide transitional migration quota from *any* NMS, at the levels predicted as ‘normal’ size of migration for the EU
- De-coupling of direct payments from production in the CAP and gradual reduction of CAP budget
- Structural funds should finance *countries* rather than *regions* and be funded based on income gaps
- NMS should not be discouraged to participate in the EMU

GDP per capita as % of EU15



Score of EU-15: 4,25



Information and Public Support to Enlargement

Spring 2002 Eurobarometer

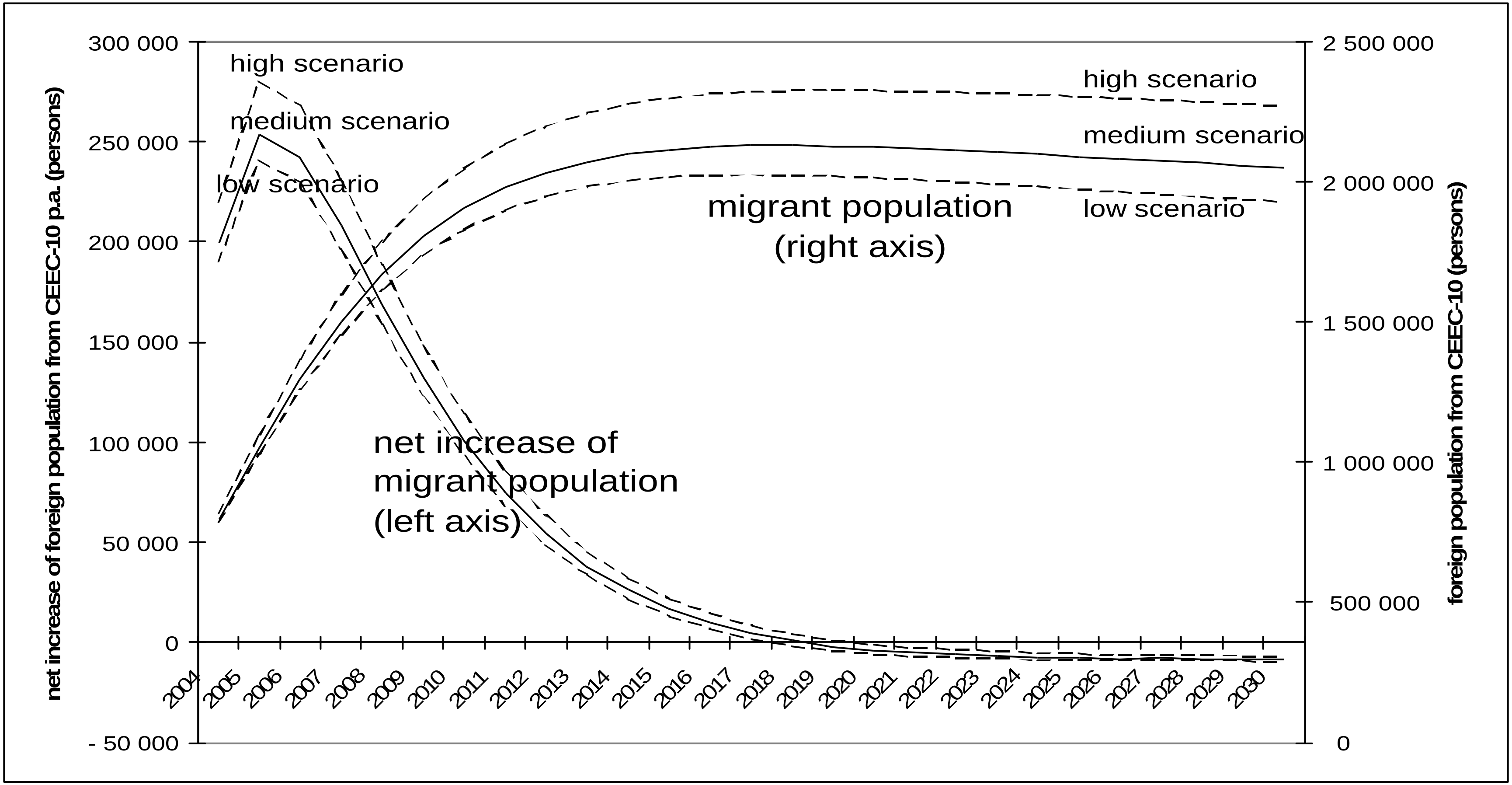
- 50% of EU citizens in favour, 30% against
- 21% for unlimited support (*any* country in) and 21 against *any* enlargement
- 40% for limited enlargement
- 41% for QMV after enlargement, 33% for keeping unanimity

However

Citizens uninformed:

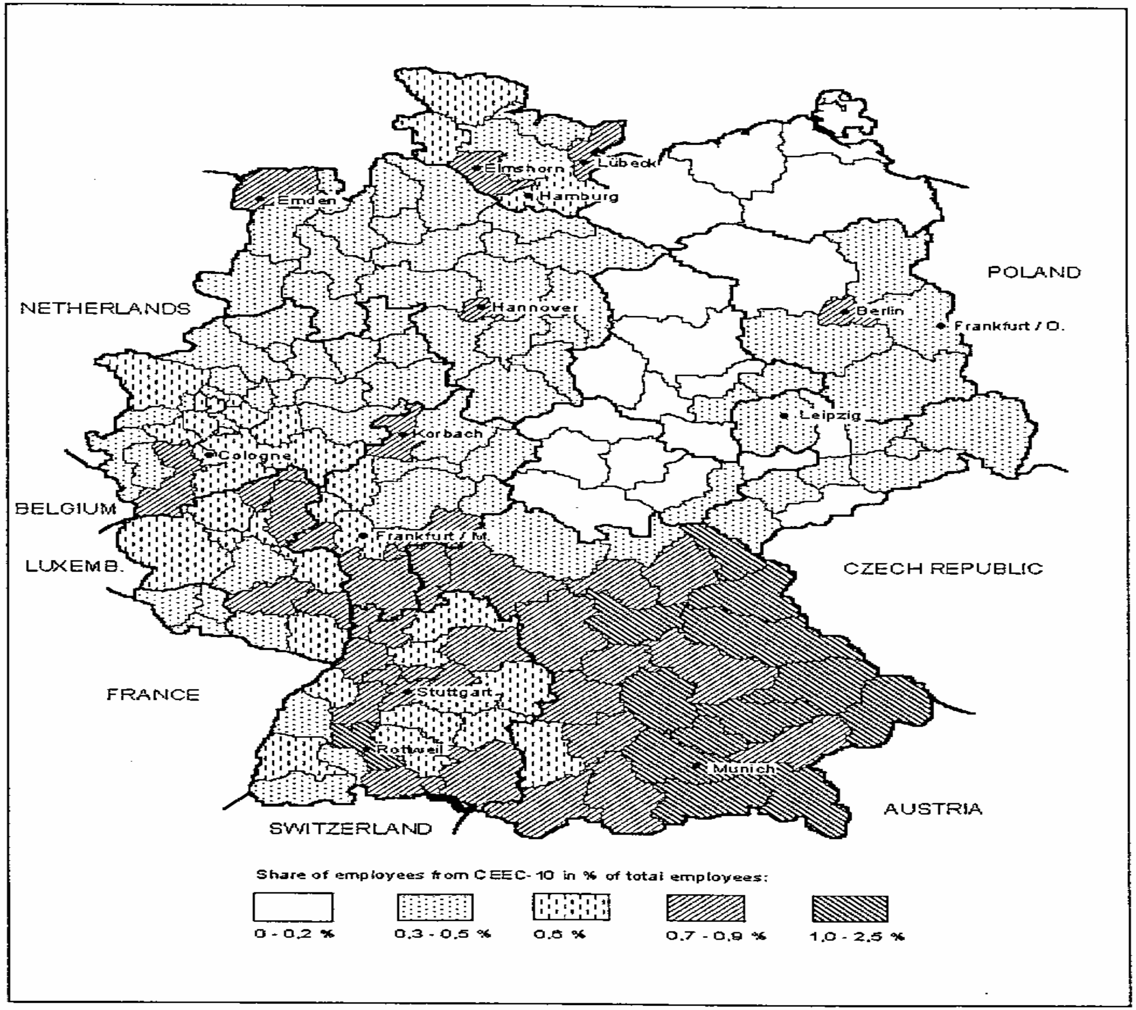
- many “don’t know”, only 21% feel well informed about Enlargement
- more than 50% does not know who will be the New Members
- when asked specifically majority against Slovakia,Estonia,Latvia,Lithuania,Bulgaria,Slovenia,Romania and Turkey

Migration: the option value of waiting



Migrants “grease the wheels” of European labour markets

Germany: Regional Distribution of Employees from the CEECs

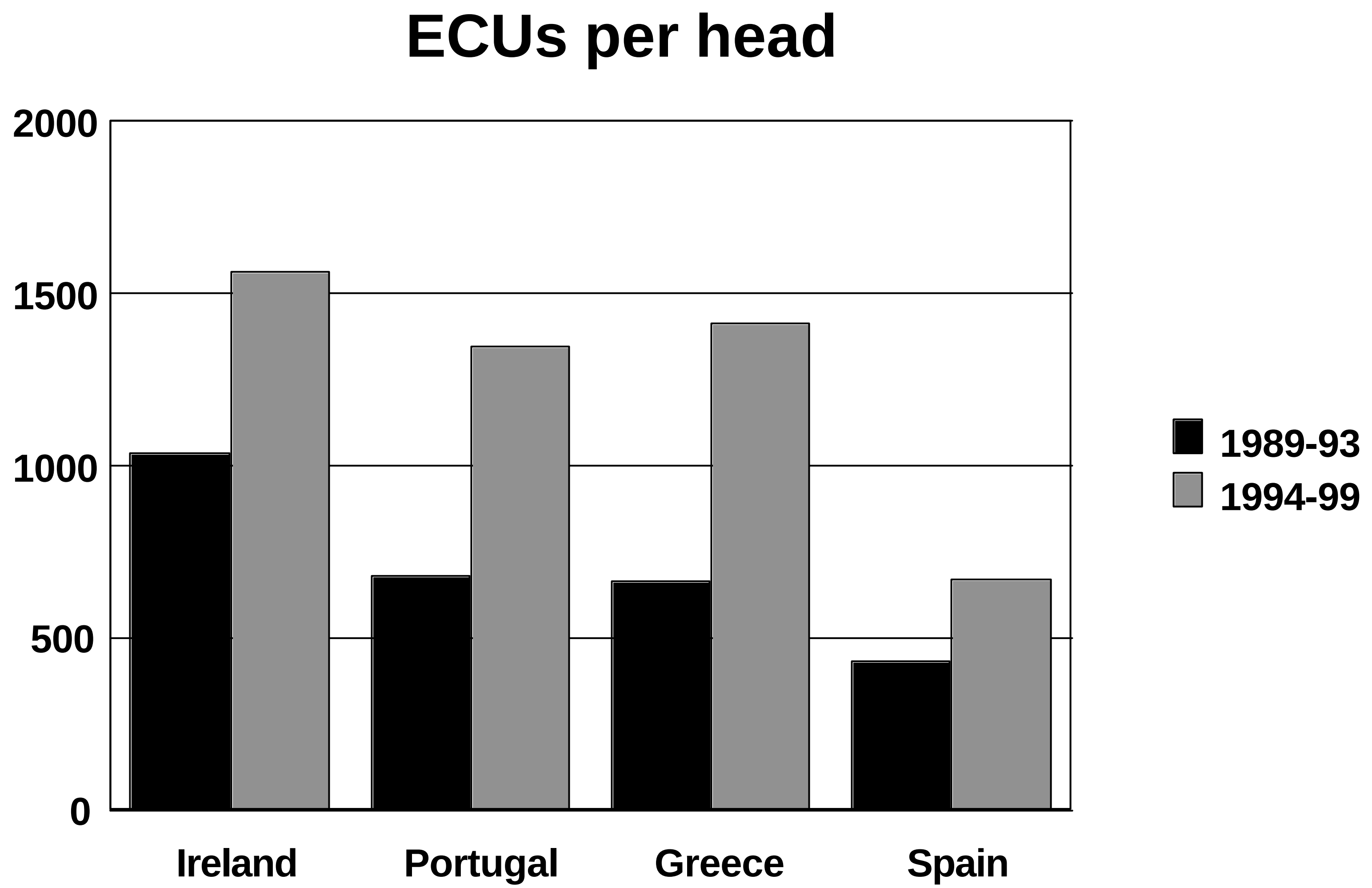


Source: Federal employment services, authors' calculations.

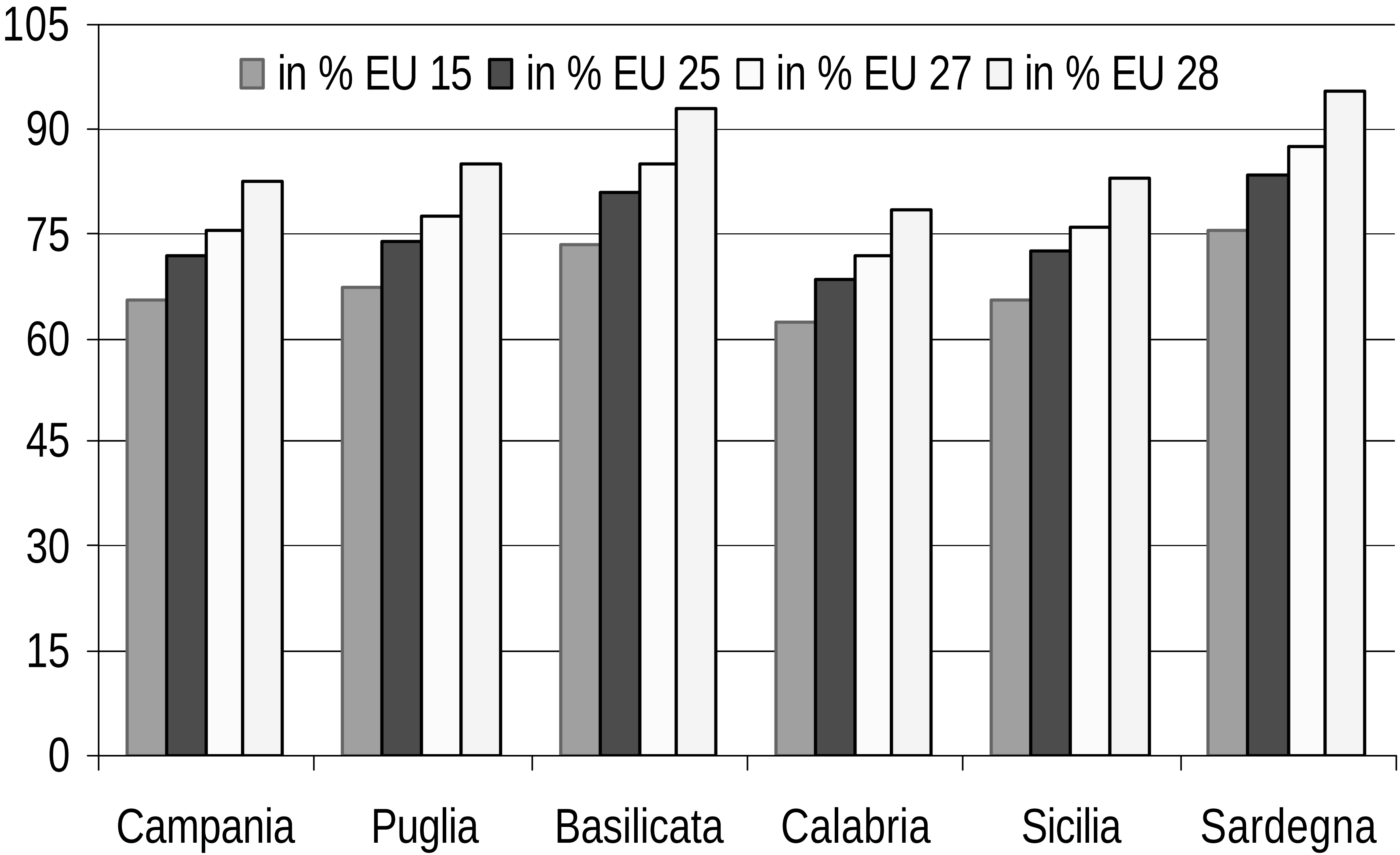
Transitional period

- 2 + 3 + 2 scheme
- risk of distorsions in the allocation of migrants
- at odds with the idea of developing a common EU migration policy
- better a EU-wide quota at the level of baseline estimates (roughly 400,000 per year)

Economic Convergence should be supported by ***Structural Funds*** as in previous Enlargements



GDP per-capita, 2000, PPS



Net transfers in 2013

Table 1. Net transfers in 2013 (millions of Euro, at 1999 prices)

	No enlargement	Enlargement	Difference
Belgium	-659	-1250	-591
Denmark	16	-425	-441
Germany	-6421	-12828	-6407
Greece	3261	2143	-1118
Spain	6308	1151	-5157
France	444	-3609	-4053
Ireland	1377	1201	-176
Italy	-242	-6121	-5879
Luxembourg	-83	-125	-42
The Netherlands	-908	-1757	-849
Austria	-165	-736	-571
Portugal	2172	353	-1819
Finland	-13	-356	-343
Sweden	-724	-1299	-575
UK	-4366	-8398	-4032

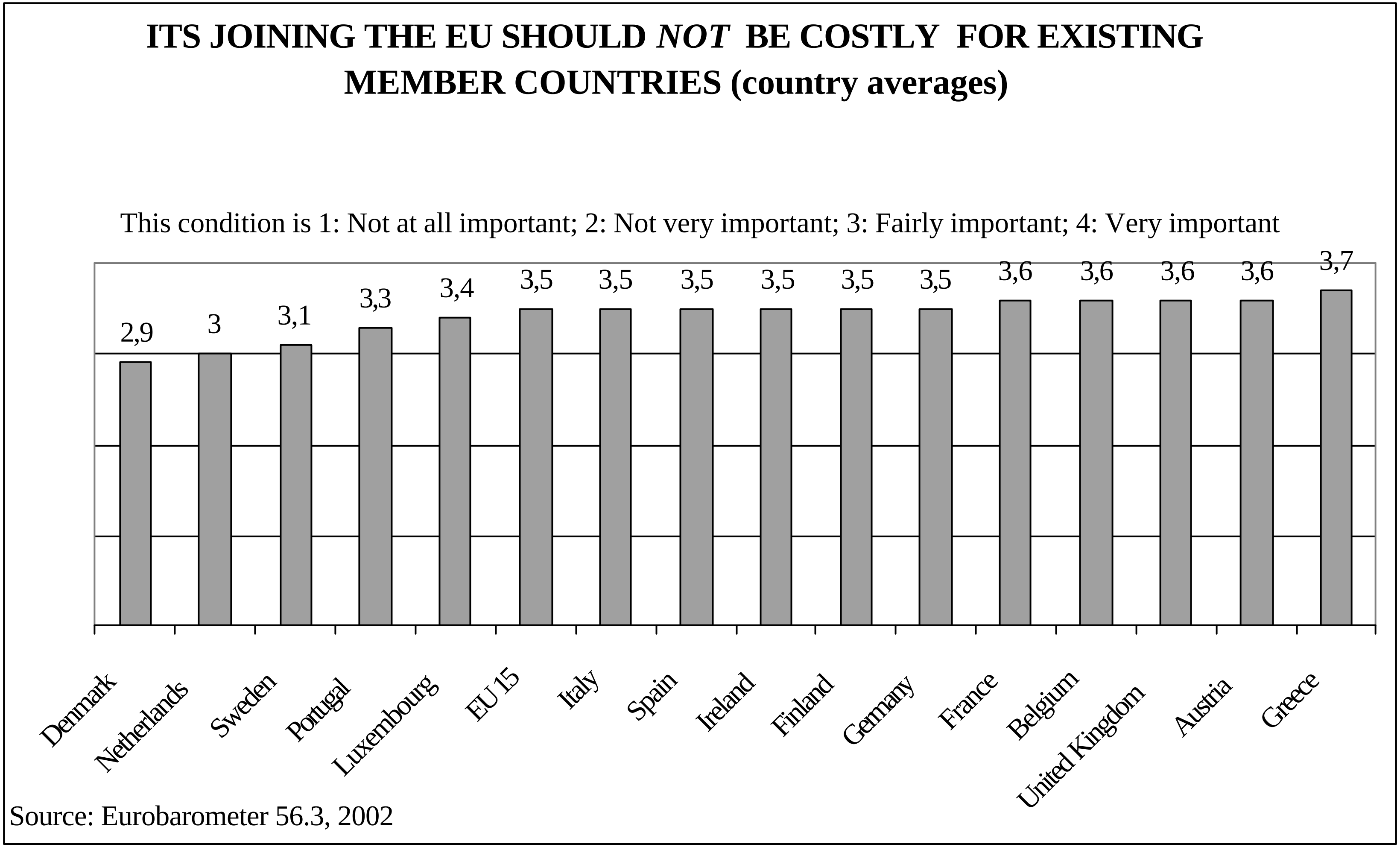
Better way to share the "Enlargement tax" among current members?

- Applying to new members the degree of redistribution implicit in the 1998 EU budget, the net transfer from *current* to *new* members is estimated in **52 euros per head** (totalling 19.5 billion euros, 0,25% of the EU GDP)
- this "tax" should be funded depending on income levels of current EU members (redistribute also via the financing mechanism)

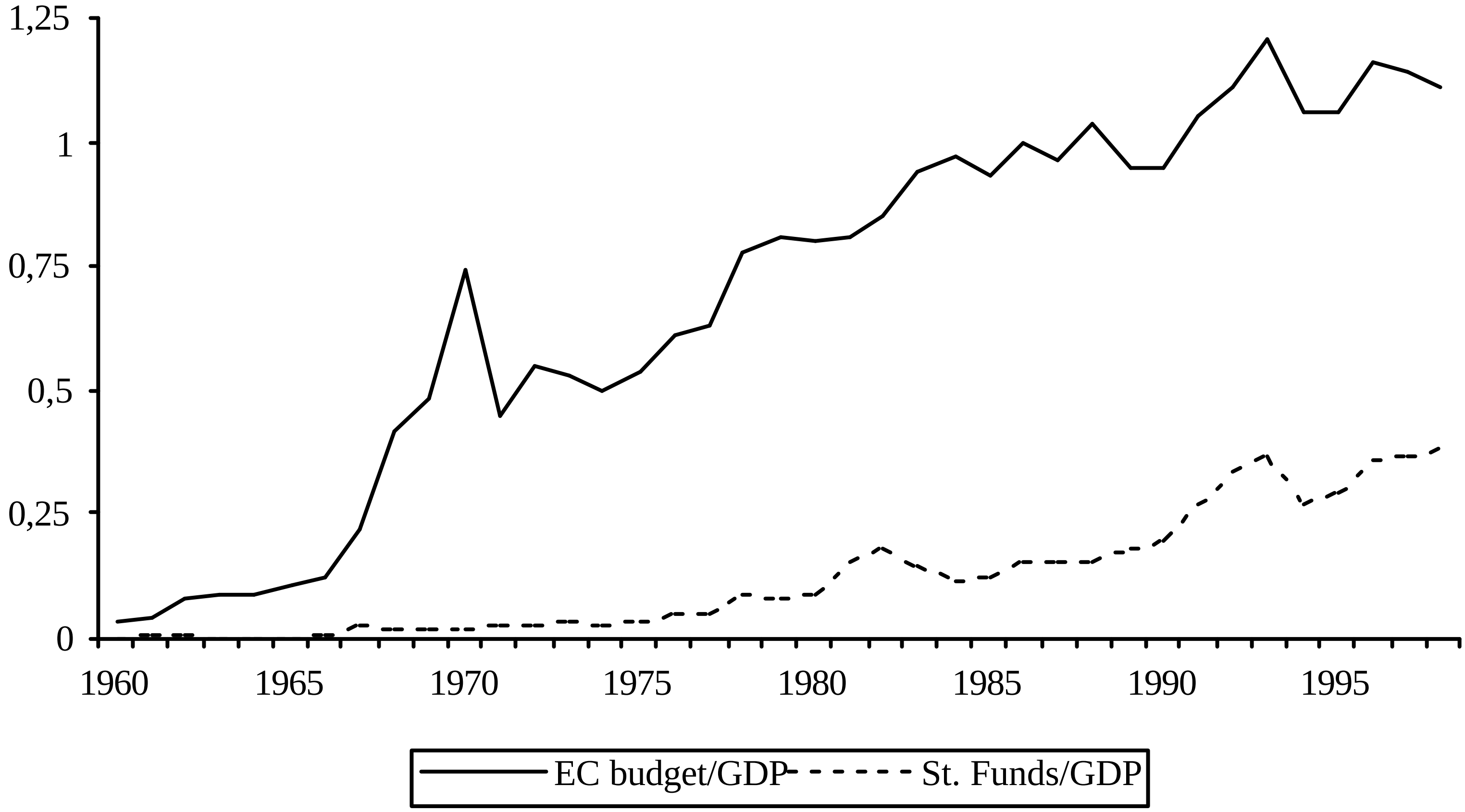
Benchmark allocation of the budget costs of enlargement among the EU-15 and 1998 excess balances of these countries

	per capita costs		total cost	excess	
	in pps	in euros	in Meuros	deficit 1998	difference
Belgium	52.1	50.7	518	-609	1,127
Denmark	52.1	64.0	340	-994	1,334
Germany	52.1	55.4	4,545	3,529	1,016
Greece	52.1	40.9	431	-1,267	1,698
Spain	52.1	42.7	1,682	1,369	313
France	52.1	56.9	3,356	-4,160	7,516
Ireland	52.1	50.6	189	-2,066	2,255
Italy	52.1	47.0	2,705	2,239	466
Luxembourg	52.1	56.8	24	-221	245
Netherlands	52.1	51.2	807	1,254	-447
Austria	52.1	53.6	433	-289	722
Portugal	52.1	34.3	342	-567	909
Finland	52.1	57.3	296	178	118
Sweden	52.1	60.9	539	1,137	-598
UK	52.1	54.9	3,261	467	2,794
EU-15			*19,468*	*0*	*19,468*

Do this and increase public goods provision without increasing the EU budget



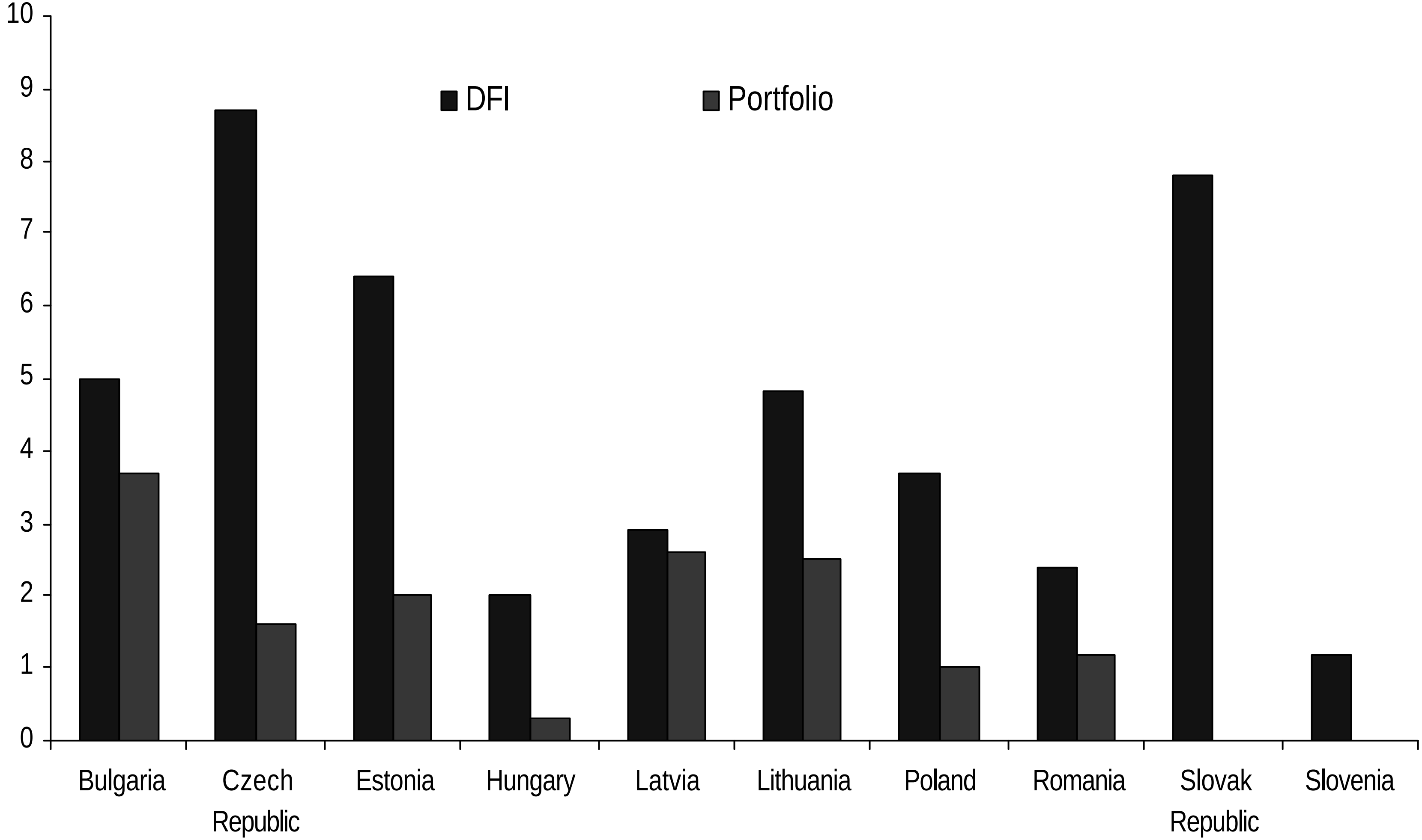
If CAP is reformed possible to be within the 1.27 EC budget/GDP cap



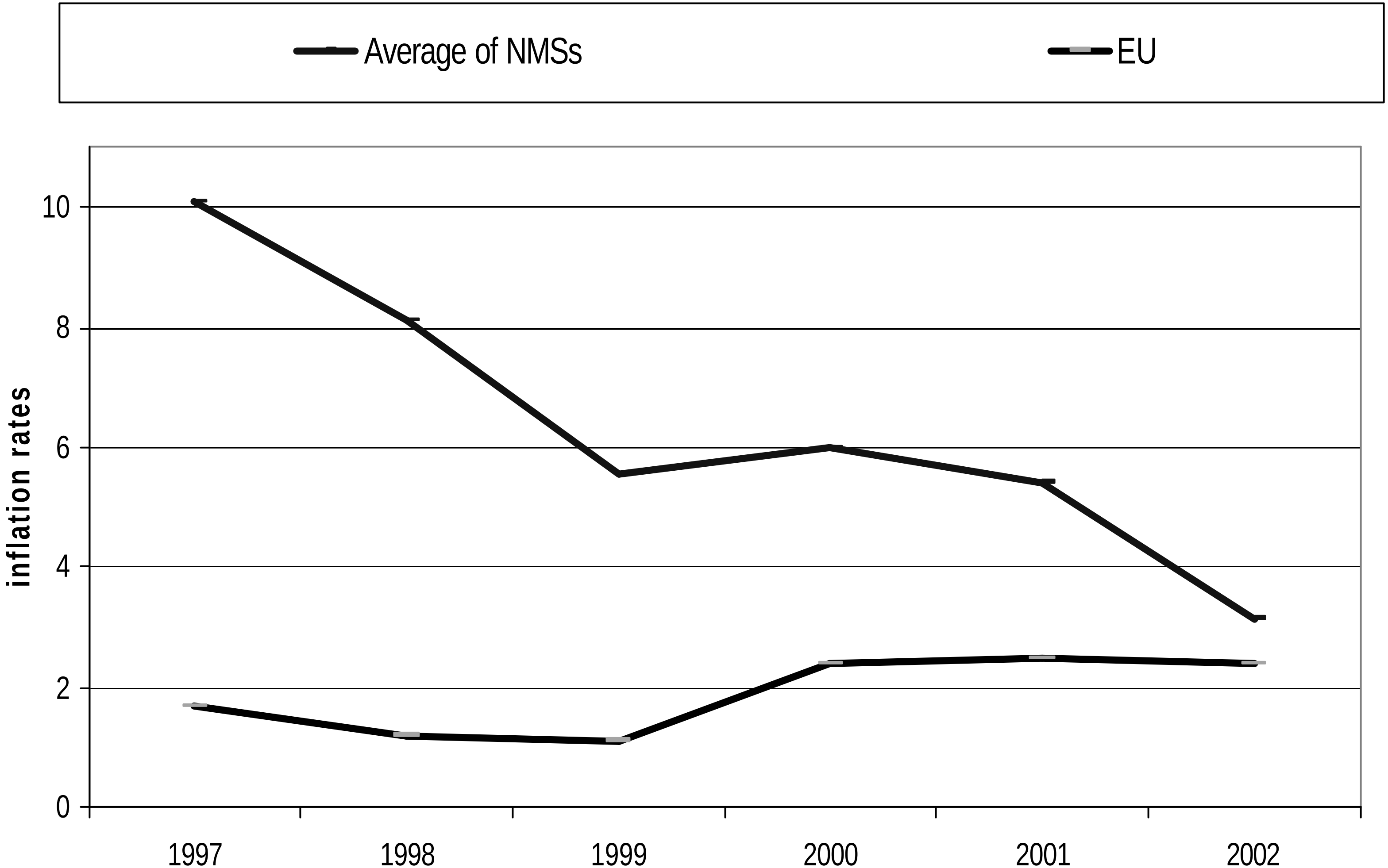
euroisation and income convergence

- Due to a lack of capital in these countries income convergence can be significantly speeded up by FDIs
- and FDIs greatly benefit from stable macroeconomic scenario
- Why discourage “euroisation” then?

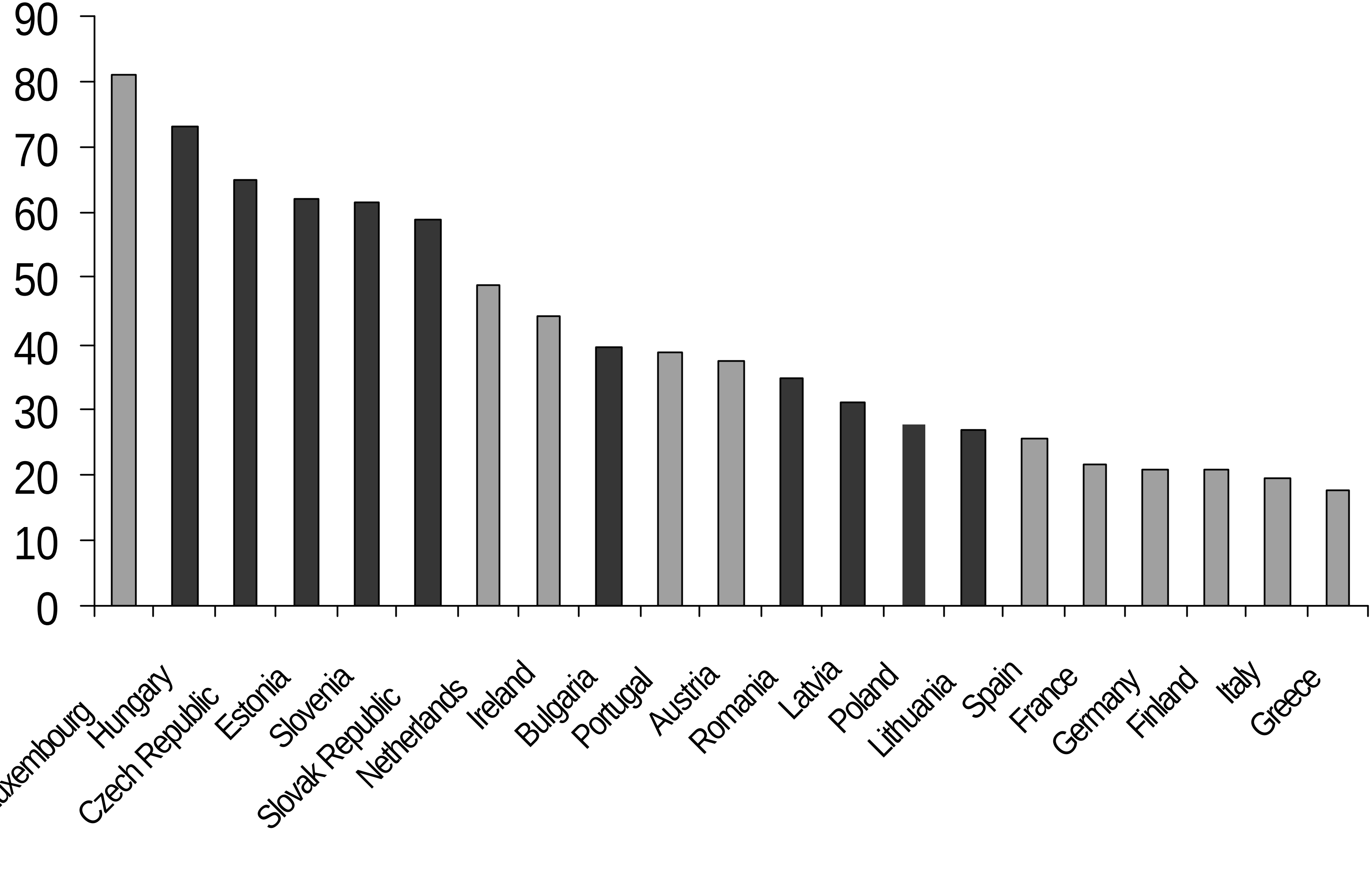
Capital inflows (% of GDP, 2001)



Inflation Convergence



Foreign trade with Euro-zone countries as % of GDP



Convention

- "Incremental-technical" approach to institutional reform may be ill-suited
- Would just make it steeper the tradeoff between size and scope of the EU
- Better to deal with fundamental political choices involved by Enlargement and by the political integration

Summarising

- Case for EU-wide transitional migration quota
- Structural funds should finance *countries* rather than *regions* and be funded based on income gaps
- Completing the reform of the CAP before it is too late
- NMS should not be discouraged to participate in the EMU
- Do not plan on incremental institutional reform