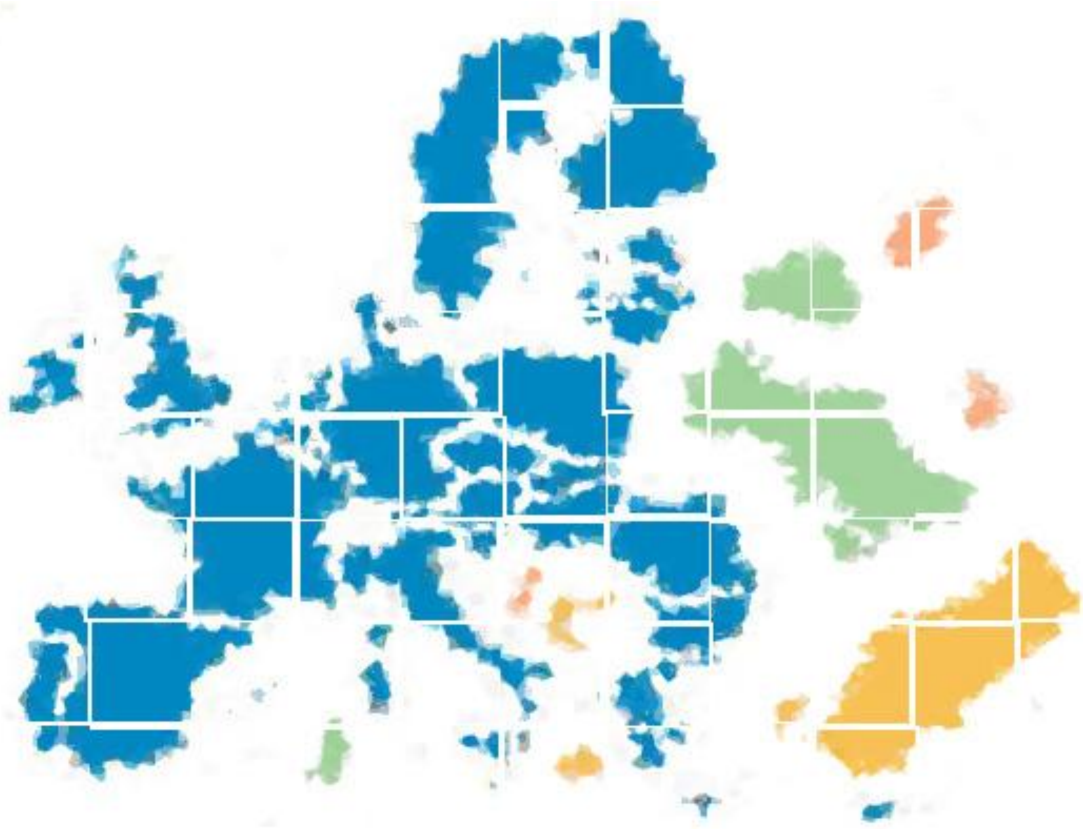
EU Frontiers

Policy Brief

Is the Central European cohesion in danger?

András Deák



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EU Frontiers

The 'EU Frontiers' publication series aims to provide an account of actors and developments along the enlargement frontiers of Europe. It fills an academic gap by monitoring and analyzing EU related policies of the broad Central – and Eastern European region, studying the past and evaluating the prospects of the future. Furthermore, it follows and gives regular account of the EU Enlargement process both from an inside and an applicant perspective.

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Is the Central European cohesion in danger?

The current economic hardships of many PIIGS countries, most of which joined the European Communities during the 1970s and 1980s, raise some inconvenient questions with regards to the economic prospects of Central and Eastern Europe (CEE). Past development of the PIIGS group, especially that of its more peripheral members like Ireland or Portugal, were often presented to the CEE public as the examples their countries can follow. The successful integration on the Southern and Western rim of the EU was an important evidence for the possibility of catching up with Western Europe.

Indeed, the previous decade, especially the years immediately after the EU accession, proved to be a Golden Era for Central and Eastern Europe. Political and institutional integration was completed, rampant nationalism seemed to be in retreat, and steady economic growth provided a strong base for sustaining these achievements. The Eastern enlargement became the showcase for other candidate countries all over the neighborhood. CEE countries' per capita GDP (PPP) in the share of the EU average has grown from 38% in 1995 to 45% in 2007. The Visegrad Four's "catch up" was the double: from 50% in 1995 to 66% in 2007. Not surprisingly, new members proudly presented their development and eagerly compared it to past catch ups in the EU. Slovakia for example became the "Tatra Tiger", obviously hinting at Ireland's (the "Celtic Tiger") fantastic growth in the same period.

Since the Greek crisis no one strives for such comparisons. The macroeconomic weaknesses in Greece, Ireland and Portugal imply a period of decline in these countries. Heavy budgetary cuts, tax raises, huge deficits in the balance of payments, weak consumption, high inflation, stagnating, or even decreasing GDP and accompanying social and political unrest will characterize these economies in the coming years. The glamour of PIIGS has faded away and every reasonable CEE decision maker would deny any similarities between him or her and the irresponsible leaders of these "bubble economies".

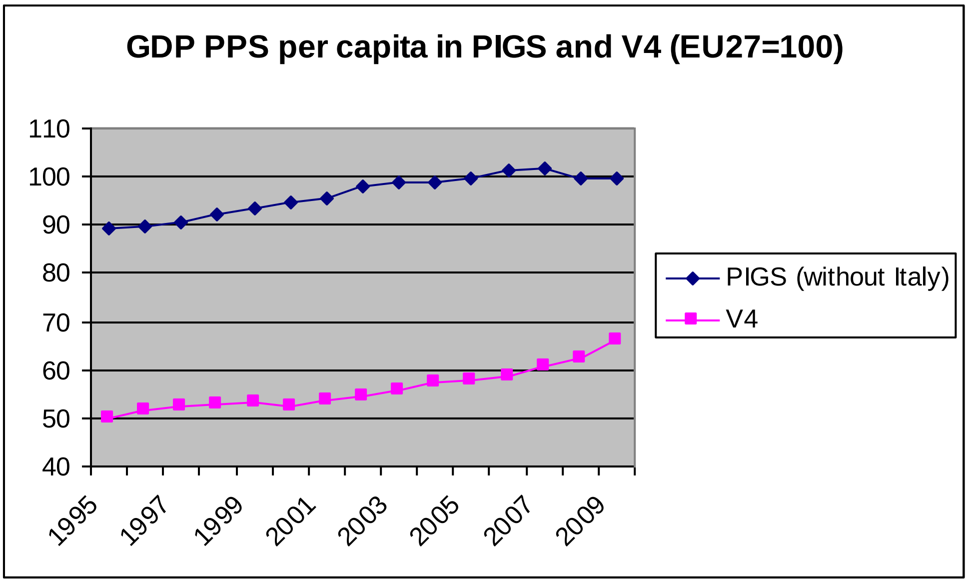
Do the CEE countries share the same problems? Not yet, but their economic trajectories have been very similar to that of Spain, Greece or Portugal. Growth was based on heavy inflow of cheap funds, propelling domestic consumption, national savings remained at low level coupled with growing public spending. Vulnerability to fluctuating exchange rates became the region's particular problem. However, these countries did not have the time to inflate the bubble to similar proportions – in most of the cases problems are still manageable without major EU intervention. CEE states have all the instruments at their disposal to avoid the fate of

PIIGS, unless the overall European economic situation deteriorates rapidly.

How to grow further? The existing development model obviously will not deliver the expected results any more. Past fundaments of growth, like excess capital on the international markets, favorable and stabile exchange rates, considerable growth on the export markets and relatively low energy prices are gone. Poland, the region's last economic powerhouse, has lost its impetus, suffering from a quickly increasing twin-deficit. Slovakia has experienced the dark side of its rapid growth in the past and has been gradually giving up its low-tax policy. Hungary and Romania are still trying to recover from the heavy hits of the 2008 crisis. Decision makers slowly understand that the past economic model will not work any more. But there is considerable uncertainty about what could take its place and provide a sustainable development path. As long as there is no alternative model, growth will surely be smaller and uncertain.

PIIGS elites had to face the fact that they cannot keep their promises about "catching up". Similarly, CEE leaders – even if in a more moderate and hopefully less dramatic way – also have to cool down public expectations about future prospects in their countries. This is an extremely difficult task. These peoples tolerated the economic collapse in the early '90s, because of their good faith in the benefits of democracy and market economy. For the last 10-15 years these economies delivered the expected pace of growth and people took this welfare for granted in the future. Domestic elites fueled these expectations partly because of their political interests, partly because of their convictions of superb prospects. Now it is time to softly lower public expectations and adjust them to a lower level of growth, to more volatility in the economic environment and to turn the population towards a more responsible management of their finances.

Will the dreams of catching up to the West survive? Public support for Western norms rests on solid and wide fundaments in these societies. It was mere economic cost-benefit argument that brought these countries into the EU's harbor, but a conscious cultural and ideological choice. At the same time, after the consolidation of respective party systems and amid steady GDP-growth, economic justification for Western orientations became increasingly important in most of these countries. Many more elections were won by welfare rhetoric during the 2000s, than in the 1990s. Fico's election strategy, for example, was much more focused on social populism than Meciar's semi-authoritarian approach. The Socialist-Fidesz rivalry in Hungary was primarily dominated by issues of budgetary redistribution and social benefits. Only in Poland could the Kaczinsky-phenomenon sustain a relatively high level of cultural-ideological identification as the decisive factor in election campaigns. But even here, the current PO-campaign seems to be focused on economic issues.



If these countries do not want to get into a situation similar to that of many PIIGS, they also have to introduce and maintain responsible, restrictive budgetary policies. These policies are going to be underpinned – in more critical cases enforced – primarily by EU acquis, or perhaps the IMF. This is an ideal breeding ground for a renewed symbiosis of social populism and anti-Western rhetoric. Consequently, focus on economic issues may not favor any centrist party any more if it has to deal with radical and/or populist opposition. The crucial question is whether these parties can set agendas other than economic in upcoming elections. Or, if not, whether they can cool down public expectations about rapidly catching up to the West and put the question of "economic responsibility" in the campaigns' spotlight.

Central European social populism coupled with often assertive nationalism is not a long-term option for these countries. CEE is not PIIGS. Most of these countries did not join the Eurozone, and except for that of Poland, their economies are "small enough to fail". Arrogant attitudes, like those of Vaclav Klaus, Viktor Orbán or the Kaczinskys render dialogue with big Western powers even more difficult, than it is in the case of Ireland or Portugal. There are way too many reasons for Europe not to help one of these countries, would it share the PIIGS fate. CEE nations are ideal victims for EU powers that would like to teach a lesson to other members and to demonstrate what might happen to a country that pursues unsustainable economic policies. Europe can leave the most notorious capitals alone indeed, fixing the image of the "hostile West" for some generations again in that particular country, but avoiding an overall collapse of many others.

Even if a tsunami of populism is not likely in the region, some countries can still fall. An even more dangerous outcome might be if these nations are unable to find a new economic-political development strategy in the post-crisis environment. With the exception of the Czech Republic — maybe Slovenia— these countries have more or less reached frontiers they could not pass during their history. Domestic politics, premature social systems and increased but impossible expectations, short-sightedness and historical patterns always made these nations a bit underdeveloped, more corrupt and less reliable, than their Western counterparts. Stagnation is a fully realistic scenario once again. If elites cannot stimulate their population for renewed efforts and manage the public's disillusionment and disappointment because of the „shifting deadlines" of catching up to Europe, the region can slide back again. The Golden Era of Central Eastern Europe might be over. Prematurely, once again.

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