

Yves Mersch: Bridge Forum Dialogue

Introduction by Mr Yves Mersch, Governor of the Central Bank of Luxembourg, to the speech by Vaclav Klaus, President of the Czech Republic, at the Bridge Forum Dialogue conference, Luxembourg, 8 March 2006.

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Mr. President,

Your Excellencies,

Ladies and gentlemen,

Dear Friends,

In the Bridge Forum Dialogue, we are most honoured to have with us, this evening, as guest speaker the Head of State of the Czech Republic. We, in Luxembourg, have a special place in our hearts for the Czech Republic dating back to the period when the House of Luxembourg and Bohemia were united between 1310 and 1437.

Vaclav Klaus is such an eminent figure that it is almost unnecessary to introduce him. So, just a minimum of facts to refresh our memories. His academic field is economics which he studied in Prague, and later, taking advantage of a period of relative liberalization, under Communist rule, in Italy and the United States. Later, he taught economics at the Charles University and the Prague University of Economics.

In his political career Mr. Klaus has been, successively, Finance Minister of the former Czechoslovakia and then Prime Minister, Chairman of the Parliament and, since February 2003, President of the Czech Republic. He played a leading role in the "Velvet separation" of the Czech and Slovak Republics.

President Klaus has written more than 20 books on political, economic and social themes and has received many prizes and honorary doctorates all over the world.

Mr. Klaus has chosen as the title of his speech "Some doubts about the EU's ever-closer future". He is known to be an excellent, even charismatic, speaker and he is fearless in expounding his own personal vision of Europe.

I have studied a number of recent speeches in which Mr. Klaus has set out his vision of Europe. The points I shall make are not aimed at contradicting our distinguished speaker but merely at stimulating the debate.

As a small country, Luxembourg is staunchly expressing its confidence in further European integration and is deeply attached to the welfare state. As such but also as a seat of the European institutions, we are following the debate about "our Europe" with great interest and the polls show that people in this spot of Europe are better informed about and more aware of European matters than elsewhere.

President Klaus has strong views on Europe and begs to differ from mainstream thinking, but on the European constitution he believes that "a new constitutional document will have to be created".

Reading through his most recent publications, it seems to me that President Klaus's views are anchored in a two-pillar philosophy (like the ECB policy strategy)

- the first pillar is the traditional divide between the individual and the collectivity, or the private sphere and the public sphere, and
- the second pillar is the appropriate level at which to deliver public goods, the European level or the national one.

On the first pillar he describes himself "as a conservative economist and politician... reading Mises, Hayek or Friedman and ... being their follower and true believer".

As such his views have been compared with those of former Prime Minister Margaret Thatcher who also opposed conservative liberalism to mainstream conservative ideas embedded in the idea of a social market economy. President Klaus considers that this latter thinking leads to "a European

paternalistic, overregulated welfare state" and that "extensive regulation of economic activities has structural similarities with the communist past".

He writes that "slow economic growth, high unemployment, loss of competitiveness, the aging of the European population, the crises of pension systems or of health-care systems, the insufficient quality of education, the problem of immigration and multiculturalism all have their roots in this freedom-constraining welfare system.

These views are more often reflected among economic observers. Martin Wolf recently wrote in the Financial Times: "There is something rotten in the welfare state of Europe. The time has come for Europeans to ask themselves the unthinkable: can their vaunted social model endure"? Wolf speaks of "the hypertrophy of the state" which is "maternal, protective, but also infantilising: its high taxes and benefits discourage anybody from doing too well, while ensuring that nobody does badly. Its services are available to all, but are also mediocre and inflexible." We are in the trap, Hayek denounced: the view that society can be rationally planned and directed.

Our question, as pragmatists, is: Can the system be mended? Is the Lisbon agenda not an appropriate response? Is there no middle ground between the invisible hand that creates very visible wounds and a stifling overregulation unable to deliver growth and jobs?

What about the Nordic model combining welfare state and growth? What does history teach us? Is communism not rooted in the excesses of unrestricted economic freedom? How do we best prevent economic, social and even political difficulties in this respect? But the same question is valid for the second pillar of President Klaus's thinking: what is the appropriate level of public intervention: the nation state or the European level?

President Klaus believes in culturally or ethnically homogenous societies as opposed to multiculturalism. Therefore a Parliament can only be legitimate at the level of a nation, which does not exist in Europe. As a consequence supranational institutions are not democratic. "The European preoccupation with Europe is connected with the fact that Europeans were made to believe that the era of nation states is over and that, because of omnipresent externalities and because of artificially built belief in the importance and inevitability of continental-wide public goods, Europe must be unified and therefore organized, constructed, controlled and regulated from above, said Mr. Klaus in a recent visit to India.

Giving more power to the European Parliament is an illusion. "Softening the rules and relying on the offer of variable geometry would be a mistake. Such procedures already exist (Euro, Schengen, defense, many temporary exceptions) and have always been something of a ratchet.

While the idea of European federalism certainly has followers in every European nation, at the level of decision-makers, the prevalence of nation states seems to be unquestioned in the present perspective. The long-term objectives are more open, and one has to admit that European integration is seen as a dynamic difficult to stop. In a speech "Small countries and Europe – 90 years after Masaryk", you quote Tomas Garregue Masaryk who stressed that "history is a process of integration, but at the same time of disintegration". In a globalised world are there really no common goods that are better delivered at a supranational level? Have education, security, health research, for example, not a European dimension? How can nation states react or accompany economic agents in activities which are less and less linked to the nation state?

Is the real debate not better encapsulated in a clearer consensus on subsidiarity?

Are the present boundaries in Europe representative of homogenous nation states? What do we do about emerging regionalism?

Again, as with the first pillar, what can we learn from the history of our continent which has experienced different models: domination of one nation state over Europe, more or less holy alliances among the biggest, stifling coalitions, anarchy of a myriad of small states etc.

The present model, based on fitting together certain areas of policy making, retaining others and giving a proportionally larger say in decision-making to smaller countries is two generations old. Did it serve us well or do we have to roll it back? The chief economist of the London based Centre for European Reform, Katinka Barysch, questions whether in the current political climate, EU member states would be ready to reaffirm their support for the "four freedoms of capital, goods, services and people, which President Klaus strongly endorses.

President Klaus, you said your vision is not about closing ourselves in.

Is protectionism not the most imminent danger? Barysch argues that "the nature of the single market and competition has changed since enlargement", pointing out that the much wider gulf between high-wage and low-wage countries has fuelled fears among workers in old Europe.

President Klaus, few have been able to stimulate our thinking about our socio-economic and political environment in a way you do. You abhor intellectual cosiness. We are eager to listen to you.

We have a fascinating evening before us, especially since President Klaus has kindly agreed to reply to questions at the end of his speech.

Mr. Klaus, you have the floor.