

Zdeněk Tůma: Consolidation before expansion

Summary of a speech by Mr Zdeněk Tůma, Governor of the Czech National Bank, for the conference on "Modernising Germany - Gaining Competitiveness for Europe", Berlin, 1 June 2006.

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Do we really face the dilemma of choosing between consolidation and expansion? We should look at the integration process from both the political and economic perspectives. From the economic point of view, deepening and enlarging are both primarily spontaneous processes, but this does not necessarily hold for the political aspect. Unfortunately, these two perspectives are often confused, which can lead to misleading conclusions.

Let me consider the economic perspective first. As a recent EU newcomer I can confirm that we observed spontaneous integration with the EU well before the timing of our accession had even been mentioned. Therefore, I do not expect the expansion of the EU to end just because there is a lack of political will for enlargement. Market forces will keep the surrounding countries "in the game". The political and institutional framework can encourage or discourage this process, but it can hardly stop it.

On similar ground, the deepening of the already integrated area is quite spontaneous from the economic point of view. For instance, we are seeing dynamic integration of the financial architecture and a growing number of cross-border mergers in both the financial and non-financial sectors. Here, too, an appropriate institutional framework would help, but the consolidation process is going on even without it.

Therefore, my first conclusion is that from the economic perspective the dilemma between deepening and enlarging is rather imaginary. In fact, both these processes are going on around us at every moment, and the authorities have a limited ability to choose between these two aspects of integration.

The political dimension makes the question much more complex. Despite the aforementioned conclusion that economic integration is relatively independent of political will, an appropriate institutional framework is undoubtedly important for the pace of integration and the future shape of European markets. But politicians are caught between their vision of an integrated Europe and pressure from many of their voters to defend their current positions. Their inability to explain the benefits of integration to the electorate is a source of frustration and puts limits on any further political deepening and enlarging of the more and more economically integrated area.

This may lead to a temptation to use the argument of an imaginary choice between deepening and enlarging. But businesses will not ask politicians for permission to move to Balkan countries or Turkey, or to continue concentrating their activities inside the present EU. The role of the authorities is to support, not hamper these processes.

Therefore, my second conclusion is that frustration with the inability to politically consolidate the existing area should not become a reason for constraining its political expansion. In the end, business would find its way through, but Europe would lose.