

Mojmír Hampl: European integration – a critical economist’s view

Speech by Mr Mojmír Hampl, Vice-Governor of the Czech National Bank, at the Europe at Sixty: 1949–2009, Metropolitan University, Prague, 20 November 2009.

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Ladies and gentlemen,

Let me first express my deep gratitude to the organisers for inviting me to give this keynote speech today. And do not take it as a standard, politically correct opening sentence. I really mean it. For me it is quite a rare opportunity to speak frankly and openly on such an important topic, which the process of European integration certainly is, and to speak more as a scholar than a policy-maker. So I will try to do my best and to be outspoken enough to provoke questions and comments after I finish. Therefore, the usual disclaimer is more relevant than ever this time: my opinions are not necessarily the opinions of my employer.

I think European integration is a process that provides a lot of food for thought for many social scientists. I will try to approach the topic from the point of view of an economist, but also a citizen and a mere mortal, sharing with you some of my concerns as to how the process of European integration has been evolving so far and where it is most likely heading. These concerns are supported by the fact that as a member of the EU’s Economic and Financial Committee, I can watch the integration process every day on-line as an insider, so to say.

The title of this conference stresses the fact that European integration started 60 years ago. You know that exactly 60 years ago a completely different project, originally aimed to build up something “brand new”, also appeared quite far away from Europe – in China. What irony of fate that after these sixty years it is now the Chinese who seem to be on their way up, running fast, while the European Union is stagnating or even descending economically. What bitterness, when one realises that on its way up, China is still a desperate and crazy communist regime that has just allowed its citizens a bit more freedom in the area of economic life. Of course, a part of the explanation lies in the fact of simple economic convergence. But without any doubt, the EU is losing its momentum. Not just now, in the crisis; this is a longer process. In the EU it seems to me that we have started concentrating more on conservation or preservation of the existing wealth, rather than on wealth creation.

The question of why the European Union is not as economically powerful and efficient as it would like to be, is certainly complex. However, my suspicion is that one of the answers is that the EU has started concentrating too much – and in many areas almost exclusively – on the process of deeper and deeper political integration. It is almost a mainstream ideology which states that the answer or solution to virtually any problem in the EU is more integration. Whenever we discuss problems with colleagues in Brussels, the mainstream view typically argues: we need more EU integration to solve this. And if integration has not brought what we hoped for, it means we need even more integration. We probably did not have enough of it.

Well, I have some doubts about this approach, at least as regards the impact of political integration on the economy. The concept is based on a simple idea that the bigger the state, or the bigger the economy, the bigger also the wealth of the citizens of such a state or economy. This idea fails terribly when compared with simple statistics and facts. If you take a look at the correlation between the size of an economy and a measure of well-being such as GDP per capita, you will see that on average the bigger, or more populous, economies in the world are not generally richer economies. Rather, it is small open economies (including those in Europe) that tend to be richer, the only exception to this rule being the United States. So bigger does not mean richer.

My own hypothesis is that instead of integration of jurisdictions, competition between them might sometimes be more beneficial to economic growth. Countries should compete for investors, capital and labour force by making their tax systems, legal frameworks and other conditions as efficient and friendly as possible. Competition is sometimes useful not only on the markets, but also among jurisdictions and states. Political integration can, at some point, become an obstacle to competition, sometimes even intentionally. I think that the EU is, unfortunately, right now at this stage. What a shame.

And why is that? Well, when we choose the path of political integration, we have to watch out carefully for certain pitfalls – and I am not sure we have been careful enough in this respect. A major pitfall is the effect that we can observe whenever a group of people or institutions hires someone else to do a job for them. In economics, we call it the principal-agent model, or we say that a group of principals hires an agent. The idea is that the agent will follow the directions of the principals. A simple example: the shareholders of a company choose a manager to run their company. But sometimes it happens in this model that the agent tries to turn the power structure around and to switch from one who simply follows directions to one who deliberately sets the agenda. This effort can often be successful because the agent is a relatively small group of people who hold all the relevant information and share very similar motivation, while principals tend to be much more numerous and less informed and their objectives are often highly differentiated.

And so, corporate managers are often able to push through their will even if it goes against the interests of many shareholders; international organisations often take steps that their founding members do not like to see; and by the same token the EU administration is able to shape the integration process in ways that differ from what many member states previously intended.

To give you just one banal illustration of this process: the remuneration of employees of international organisations and of Eurocrats is invariably higher than the remuneration they would be able to earn in similar positions at home. Therefore, the principals watch – with little joy, of course – a brain-drain in favour of their agent. Thus, an agent gets dominance over its principals and principals even contribute to this dominance.

The observation that agents try to become more powerful than their principals is usually considered to be beyond the boundaries of political correctness, so we rarely hear about it. The same holds for another hindrance to proper execution of the European integration idea, namely the asymmetry among different principals, that is, among different member states of the EU. In itself, a difference in the weight of a small state and a large state may make sense; but if certain EU member states have a much bigger informal impact than others on the positions that the EU takes in international political or economic forums, the big-impact states may be tempted to “nationalise” the voice of the EU.

Many attempts at nationalisation of EU positions are due to what might be called the “French complex”: Some leaders of bigger countries still have not fully absorbed the fact that their country is no longer the superpower it used to be and no longer leads the world, so they often try to abuse their EU-wide voice to support their national interests, positions and agenda. When they call for Europe to speak with “one voice”, they often seem to expect that the single voice of 500 million EU citizens will be the voice of their national leaders, articulating their national tastes and priorities. Of course, the agent, the European Commission as an executive arm of the EU, also sometimes has this temptation to define or steal the voice of the EU.

Needless to say, the risk that proper integration will be derailed is particularly high when the two effects mentioned above are combined – when the EU administration ceases to behave as an agent of the less powerful principals but remains under the spell of a few very strong principals. It is fairly understandable that certain EU member states support the current, rather non-transparent way of modifying the institutional set-up: it is the only way for them to maintain or even strengthen the draconian mix I just described.

Given that European integration is taking place in this “European” way (in the bad sense of the word), it is no wonder that standard democratic politics has not left the national level: all formally EU-wide ideas are always translated in each individual member state into the local political context; there are no true EU-wide political parties, no true EU-wide politicians, no true EU-wide media. The debate in EU institutions rarely follows the lines that we are used to in standard political debates, such as whether we want more freedom or more redistribution. Instead, most time is spent, as I said, on procedures and institutions. The official efforts at gradual political integration thus give the impression of squaring the circle.

These awkward traits in politics at the EU level then lead to some perverse implications. On the one hand, measures which would help Europe to retain a strong economic position – and here I mean especially liberalisation of markets and trade – take years or even decades to implement: the single market for services still does not exist and even the single market for labour still has fundamental exemptions. The celebrated Lisbon Strategy has turned into a farce; many of the structural reforms that it outlined would be beneficial economically, but few of them have been realised or at least enforced by the agent, the European Commission. On the other hand, the EU institutions have repeatedly shown an ability to produce bizarre pieces of legislation that would hardly ever be passed at the national level in any given member state. The famous Czech writer Milan Kundera would probably call it the “unbearable lightness of legislating”. So my suspicion is that the EU is now in a position where it is easier to integrate than to liberalise. And these are two different things in terms of long-term economic growth, as I have argued. What a shame for the EU and for us.

Thank you for your attention.