

ACCESSION IS, ABOVE ALL, ABOUT BENEFITS

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Abstract. *Accession is about prosperity and, in this context, all candidate countries should be confident in their opportunities in the process of becoming full members of the European Union. It is crucial that decision makers of such countries dispose of profound and analytically respectable 'impact studies' on horizontal and sectoral subjects. Such studies should aim to clarify analytically what the acquis implies for sectors or broader themes and attempt to build models or scenarios helping to understand the nature and magnitude of short term and longer term effects of adjusting to the acquis or indeed exploiting its opportunities to the full.*

1. The importance of EU impact studies

Romania has made great progress in getting ready for membership of the European Union. The European Commission has recognized this in its October 2004 Regular Report on Romania. The country's strategy with respect to European integration is, of course, to an important extent politically determined. Nevertheless, the main focus is bound to be on economic integration. As I have noted on a number of occasions¹⁾, the processes of pre-accession and early years of EU membership are tantamount to very deep, long term reform programmes which in ordinary circumstances no country with three or four successive governments could bring off consistently and with such speed and depth, even less so when coming out of 'transition' with its social shocks and transformations. For Romania this is no different than in the cases of other recent or present candidate countries. Nevertheless, the market processes and adjustments bringing about these very long run benefits of sustained "catch-up growth" over several decades are to some degree

dependent on context, economic structures at the outset and local endowments that differ from country to country. Moreover, national government policies, regulations and consistency do matter a great deal, even if the EU 's systemic influence becomes more and more intrusive in all kinds of markets. Thus, the credibility and quality of national public administrations and the design of policies at the national level remain an important factor for the nature and speed of catch-up growth.

Therefore, it is crucial that the country at large, and the decision makers first of all, dispose of profound and analytically respectable 'impact studies' on horizontal and sectoral subjects. Such studies should aim to clarify analytically what the acquis implies for sectors or broader themes and attempt to build models or scenarios helping us to understand the nature and magnitudes of short term and longer term effects of adjusting to the acquis or indeed exploiting its opportunities to the full. The considerable room for national policy making that exists under the acquis, dependent from case to case of course, can be used best when a good insight exists in the expected impacts of alternative policy scenarios for the short and

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¹⁾ Pelkmans, 2001; Pelkmans, 2002; Pelkmans & Casey, 2003.

the long run, under the accepted constraint of the *acquis* in the relevant area. In such impact studies one may introduce, as well, lessons from other 'new' Member States, whether negative or positive. Impact studies and debates on them have the further advantage that information and knowledge spreads throughout the country, facilitating higher quality debates while helping to debunk simplistic and often instinctive popularism.

Like in many accession countries (and sometimes old Member States), the public debate is often superficial, if not twisted by very incomplete or biased information. It is also routine to observe, in a number of countries of Central Europe, a curious combination of a blind confidence in the heavenly 'goodies' which will fall like 'manna from heaven' once EU membership is accomplished, and a deeper grassroot sense of scepticism that the EU is there for the elite, or for big business but not for the ordinary people in the street, desperately seeking a better life, more certainty, a better working market economy and properly working institutions. Impact studies and the day-to-day painstaking progress of pre-accession will make clear that, of course, the EU does not bring heavenly goodies (but if you are very poor and observe the prosperity in the western part of the Union, this is perhaps what you might be led to believe) and, of course, the EU does not deserve the cynicism so rampant in Central Europe, more often than not borne out of frustration with their own politicians and hence projected onto the 'imported' democracy and *acquis* of the EU which leaders advocate in speeches.

Impact studies are part and parcel of the complex processes that pre-accession brings about. The EU is no joke. One has to be well-

prepared and not merely transpose the *acquis* but truly "own" it in domestic rules, enforcement, market conduct and accompanying domestic policies or additional liberalisation. Only then will the *acquis* engender its longer run effect of accelerating and propelling catch-up growth, via market dynamics, better policies and institutions, and, more generally, the imposition of the rule of law for the economy. This overall, intricate process based on credible implementation and well-working markets and rules is the main gateway for the ordinary people in the streets of Romania to reap the long run benefits of European economic integration. The scepticism about one's own politicians may or may not be justified, and the credibility of their policies does matter (as noted above), but it is equally important for Romanians to realize that the EU mechanisms to discipline and stimulate Romanian policies and good rule making and, to some extent even institutions and public sector reform, are very deep, and multitudinous. The Union does not accept fake responses and too easy rebuttals. Once a country is inside the Union, a government can even be disciplined by business or individuals in local court cases, and in some cases with damage compensation, too. Before that happens, a series of informal and formal monitoring and disciplinary mechanisms can be and are used, dependent on sectors or issues. The upshot of all this is perhaps insufficiently explained in Romania: your compliance, voluntary or eventually enforced, is, in general and ignoring a few exceptions, highly beneficial for the Romanian economy as a whole. Indeed, it is very largely the Romanians themselves who harvest the long-run benefits of their EU membership.

2. Accession is largely about domestic benefits

European integration is far more 'domestic' than is often realized. It is worthwhile to elaborate on this point with the help of the Impact Studies published today by the European Institute of Romania.

For perhaps as many as ten out of the twelve Impact Studies²⁾, a striking feature of the studies is the emphasis on and elaborate treatment of domestic aspects. And rightly so. European integration is not solely, indeed not even primarily anymore, about the peculiarities of foreign trade. Romania may be out of transition, what pre-accession and EU membership prompt the country to do is to assume the full consequences of organizing itself as an advanced market economy, with social and democratic institutions. The Union has a very large number of processes and channels of influence that put these matters forward, in ways and with a vigour and consistency, Romania could hardly be expected to bring off, with due respect to the government and its citizens. The Union does that via public and private law enforcement, via market incentives (especially, liberalisation), pro-competitive prohibitions to Member States, pro-competitive policies at EU and national level, via subsidies, via free external trade in industry and (too high) protection in agriculture (but, at least, with powerful productivity incentives), via direct laws, via coordination, soft and hard. However, this is not the only set of mechanisms. Another series of mechanisms could presumably be characterized as an 'undercurrent' of European integration, yet a highly influential one. The EU also stands for the ways their countries live, their civil societies work (and

interact with other ones in the 'Brussels circuit'), for the press and its effectiveness and factual independence, the NGOs, the routine comparisons between Member States – literally, every day on almost every imaginable topic - , their policies, successes and failures, as well as political and ethical standards. This invisible yet real aspect of European integration need not be regarded as a threat to one's identity. Quite the contrary, the EU is not Brussels and the 'Brussels' circuit must always include all its tentacles in national capitals, and perhaps beyond! The Union consists of its Member States and its citizens, its businesses, the national (and not only the EU) institutions, formal and informal. The Member States and the many cultures they harbour are diverse in size, style, history, language, traditions, mentality, and nevertheless their unspoken, hard-to-define degree of commonness would appear to gradually augment over time. Diversity in the Union is fascinating as well as enjoyable, and it can constitute a source of strength, unique identity and, sometimes, competitiveness based on specific qualities. However, not all and everything a country has been doing or avoiding is automatically to be protected or maintained, and not all of it is benign or productive. European integration tends to intensify learning processes amongst the peoples, opinion leaders and policy-makers of its constituent members. The do's and don't's of countries get gradually exposed, via business contacts, exchanges, cooperation and in numerous other modes as well as in the Council and the European Parliament when it comes to harmonisation or liberalisation.

Ordinary Romanians, pre-occupied with day-to-day 'trivial' issues which matter most to them, may not easily be convinced of the innumerable

²⁾ *With the exceptions of the foreign policy study, and the compatibility with the EU acquis study.*

influences of European integration, especially not if the promises are further into the future and blended with many domestic processes, some of which are painful in the short run. The tale of deep and wide benefits will not be easy to communicate for leaders, academics and journalists. Yet, the Impact Studies entail a common message about European integration that is too rarely conveyed: the 'goodies' of EU membership are mostly to be found in countless "domestic" areas that are less recognizably "EU". Romanian pensions, bankruptcy practices, waste landfill practices, open-ended fiscal arrears and explicit state aids for non-viable companies, the widespread presence of zero-productivity agriculture, financial control systems, (properly functioning) regional institutions capable of developing sensible development plans and handling the large money flows correctly, a Central bank which cannot be at the mercy of vote-hungry politicians with a very short time horizon and taking refuge in 'inflation targeting', can all be seen as domestic issues Romania has to tackle anyway ! But these are exactly the very subjects of the Impact Studies. Indeed, the fact that the EU does a number of things in common, via soft and hard procedures, does not make your accession tasks less domestic, not less urgent, not less involving. What the EU does is (a) pre-empt disparate solutions if these would cause barriers in the internal market, or (b) seek the 'best-practice' solutions in view of overall growth, or high social standards in Europe, or, for the sake of the euro as an invaluable asset. This does not change the fact that the overwhelming part of European integration remains domestic. The Romanians have to do it and, for the most part, the Romanians will reap the benefits from it. That is why the EU begins and ends at home, and why Brussels serves

merely as a mid-way station with a relatively short stop. And this is how it should be. Of course, one cannot turn the proposition around: there are also many domestic issues that never reach Brussels because of subsidiarity, and that, too, is how it should be. But for those connected to Brussels, the true meaning lies largely at home.

3. The costs and benefits and their proper place

Impact studies should aim to incorporate benefit/cost analysis, not only for a fuller understanding for all involved but also for the appropriate sequencing of the measures to be taken over time. But it has to be realized that benefit/cost analysis is much better fitted for specific, well-identified measures or (say) single directives than for large subject areas, with a range of requirements under the *acquis* and a long time horizon. It is even less appropriate to apply benefit/cost analysis, in the strict sense, to the overall benefits and costs of EU membership at large. Impact studies are often based on terms-of-reference that ask exactly that. The advantage of imposing this on the researchers is that, even if the analysis is incomplete or shows the manifold problems of undertaking such an exercise, it may nevertheless help policy makers to grasp much better the implications and hidden questions of the implicit reforms or implied economic adjustments. In rigorous research, however, the problems will inevitably come to the fore and start dominating the exercise. One likely result is that the costs tend to attract more attention and analytical coverage than the sometimes elusive or (more) long run benefits. Indeed, some benefits are unpredictable (although one might speculate from experiences of other Member States) or become

apparent only from the later ingenuity of market players over time.

I do not suggest that the costs should not be identified and studied. Of course, they ought to. But costs must be given their proper place! And that is not what normally happens. Also, in the Impact Studies published today, one discerns a tendency to emphasize the costs while underrating or ignoring some of the manifold benefits. This is not just regrettable. Its effect may be magnified in the subsequent policy process that displays an unfortunate propensity to focus more on the costs than on the benefits anyway. Let me explain this briefly.

There is too much talk about **costs of** (pre)-accession, either without the benefits, or without enough emphasis on benefits or without the priority of benefits. For politicians or the Romanian negotiators, extra difficulties are created once costs rather than benefits are articulated in impact studies or other analytical work. In the everyday political economy, those concerned with costs already have the upperhand for at least five reasons (often, not in the overall public interest of Romania!):

- the loudest lobbies always scream about the costs *to them*;
- costs are usually identifiable more easily than benefits;
- costs are usually immediate (hence, politically sensitive) and benefits spread over the future;
- costs are articulated not only by lobbies but by general fears; such perceived costs have to be confronted with serious impact studies about identifiable costs, juxtaposed by careful and detailed

expositions of the benefits;

- beneficiaries never demonstrate in the streets and few spokesmen appear on the TV news on behalf of the benefits; decision-makers rarely meet the lobbyists for the 'benefits' unless the latter are very specific.

We know from theories of collective choice that beneficiaries often tend to be very large, diffuse parts of society who cannot organise effectively for the benefits.

That is why – in the overall public interest of Romania – politicians and negotiators have to be helped by benefit studies, with due but limited attention for the (often temporary) costs.

4. The impressive economic benefits of accession

The benefits of EU integration are many, and they are impressive. Unfortunately, more often than not, the benefits are claimed in highly general terms, with the specific costs arising up-front. Let me remind you of how rich and long the menu of economic benefits of accession is, without having any illusion of being anywhere near complete.

- i. Benefits are both economic and non-economic.
- ii. The economic benefits, in turn, are numerous, and it is by no means sufficient to present the EU as yielding only marginal static welfare benefits in a simple, partial equilibrium in a microeconomic graph. I gladly refer to Impact Study n° 12.
- iii. Indeed, the analytical hurdles for appropriate benefit analysis of EU pre-accession and membership are truly enormous. If politicians want a single figure for the 8 o'clock news, please be

responsible and disappoint them; a single figure can never represent the nature, diversity, different time frames and quality aspects of European integration, and even (narrow) model results cannot be understood by means of single figures.

- iv. The economic benefits of EU accession are numerous and many of them can be cumulative. Static benefits (trade creation over trade diversion, economies of scale; X-efficiency gains, so important for Romania); dynamic, pro-competitive effects (variety & competition; combining optimal firm size, competition in the Internal Market and its deepening), other dynamic effects (R&D competition, investment; mergers and acquisitions and their synergy effects and the menace effect to management); induced policy effects (no or less state aids; less shelter in services and public utilities; free foreign direct investment and capital flows; common intellectual property rights over more than 25 countries, etc..) and free external industrial trade (hence, exposure to world quality and price effects, to innovation elsewhere, to the challenge of meeting world standards for your own exports, etc..).
- v. One should also focus on EU regulation which in and by itself induces beneficial impacts, benefits which precede the emphasis on costs. Regulation must imply ranking the benefits first, why otherwise do it??

So, EU environmental rules are often costly, but for a good reason. NOT having them has hidden, undisclosed costs – either as immediate externalities or costs to future generations - and that is exactly why an open, democratic society does not want to forego environmental laws! Such a responsible, free

society should set a standard, based on cost/benefit impact assessment, and then pass the law.

In so doing, the benefits ought to be **explicit**, the regulation is “owned” by society, and justified by democratic legitimacy, and hence the benefits will be dear to us.

- vi. Many other forms of harmonisation or joint EU regulation have to be judged on the basis of their benefits first. If benefits are trivial or absent, there is regulatory failure and we should do away with the regulation. EU regulation is often justified by substantial benefits in overcoming costly market failure, although the means of pursuing the objectives are not always least-cost (e.g. the so-called ‘old’ approach). Nowadays, there is much more EU attention for cost minimisation, without touching the benefits! So, health & safety rules (20 % of the acquis, if not more), consumer protection rules, rules overcoming asymmetry of information in services markets, are only there because they have two types of benefits

→ the economic and non-economic benefits of overcoming market failures and other undesirable consequences of free markets

→ the joint benefit of doing it together so that no barriers emerge in the Internal Market, or, so that existing barriers, caused by such laws, disappear.

As the work of the old 1988 Cecchini report³⁾, the more recent 1996/1997 Monti reports⁴⁾, and many specialised papers show, it is not easy to demonstrate and quantify such benefits, with

³⁾ See, especially, *European Economy, 1988, n° 35, The Economics of EC-1992, and Cecchini, 1988.*

⁴⁾ See, especially, *European Economy, 1996, December, on The Single Market Review, and Monti, 1996.*

reasonable degrees of certainty. Still, these benefits ought to be considered, and presented as precisely as possible. Furthermore, the recent emphasis on regulatory impact assessment is a forceful recognition that EU regulation is about (net) benefits to the European Society³⁹.

vii. Yet, other benefits exist, most prominently in the **macro-economic** field. If you wish to appreciate such benefits, just remember the monetary ‘mess’ in the 1970s/ first half of the 1980s in the EU, and the high costs of exchange rate crises, much too high interest rates, protectionist and highly restrictive measures by authorities to protect their currencies (with barriers in the Internal Market), etc...

And consider what the EU has achieved today. All EU-15 countries have price stability, and the eurozone does not even remember what an exchange rate crisis is! Nevertheless, 30 years ago the recent fall of the US dollar would have prompted one or more exchange rate crises in the Union! The only thing that now makes headlines is the Stability and Growth Pact, but it is easy to show that, in fact, the Pact’s objective is not under threat at all. The Pact’s ultimate objective is to avoid undue political pressures on the ECB to loosen monetary policy. Such pressures might arise from high stocks of debt and the related heavy burden on annual budgets. Also, debt, once very high, may prompt negative spill-overs among euro countries. Both issues are simply not at stake in the debate on the Pact. Thus, the quarrelling is not essential to the mission, perhaps it is part and parcel of the **‘politics of fiscal discipline’**, whether domestic or European. Note that the financial markets do not react to the quarrelling at all!

viii. Would that end the long list of identified

benefits? By no means! There are also, what I want to call, the **neglected benefits**.

I shall provide three examples. First, pre-accession creates a preoccupation with the regulatory and institutional *acquis*, because the Commission’s Regular Report is about the scores in these areas. However, this tends to cause a neglect of benefits from the invisible *acquis*, namely, **free movement and establishment**. This creates the opportunities, but equally the competitive exposure! Free movement & establishment is the driver of European economic integration, NOT the regulatory *acquis*. A related example consists in the almost complete absence in Central Europe of a discussion on the benefits of ‘mutual recognition’! (see Pelkmans, 2002b)

A third example consists in the best practices and ‘peer review’ in the Lisbon process. Weak, yes, but working gradually via exposure of the rankings in domestic politics.

Mutual Recognition does not have a place in the famous 1995 White Paper on the internal market *acquis* for pre-accession (except a few lines in Ch. 11). This is a serious omission by the Commission. Consider briefly the ingenuity of mutual recognition:

- it does keep regulatory objectives;
- combined with free movement;
- but **without** EU directives.

Mutual Recognition is proving difficult for the new Member States and, for the old ones, it proves hard in **services**.

There are still enormous economic benefits to be reaped here!

ix. Finally, there are benefits-to-come. Even today, some dossiers are stuck, but sooner or later the EU will overcome the resistance of some in the Council. One painful example

³⁹ See EPC, 2001; European Commission, 2002; Pelkmans, Labory & Majone, 2000; Pelkmans, 2003; Radaelli, 2003.

consists in the EU patent, its absence being very costly for Europe, both in terms of transaction costs and in terms of a discouragement of innovation. Another cumbersome issue concerns the removal of obstacles to free intra EU labour migration! As Romanians you will think of the temporary bans or quotas for new Member States' workers but that is *not* what I refer to. I rather refer to obstacles such as cross-border portability of pensions, double tax problems, eligibility of health services, housing issues, diploma recognition, etc... A greater exposure of national labour markets to intra-EU competition of other EU-workers (but based on minimum regulatory standards) would be highly beneficial for the economy as a whole.

5. A final note on EU transfers as a 'benefit'

In Romania the Regional and Structural Funds are always placed on top of the benefit list! In Study n° 12, no less than 2,5 % growth every year is attributed to it. This would be higher than any cohesion country has experienced thus far. I contend, however, that you should not equate the

Funds with European integration for you!

I have tried to clarify why! It is the deep quality improvement of the Romanian market economy, with regulatory benefits, with macro stability, and political and legal trust, that engenders the benefits of EU integration. That is what it is all about!

On top of that, of course, there are the Funds, and they can help. I presume Romania is conscious of the tough requirements before such transfers work institutionally. But what is usually forgotten or ignored is that transfers also require 'deep' economic integration before their growth potential can be tapped. So the Romanian 'domestic' EU agenda is critical for the Funds to prompt the growth you hope for. Without good EU homework, the Funds are a complete waste.

Ireland shows this in the extreme. But even Greece does! Greek growth never took off despite huge funding from Brussels, until it changed domestically (around the mid-1990s) and Brussels became insistent on compliance. Look at Greece today, with growth rates for eight years consistently in 3%-5% range.

The EU is there for you to harvest a lot of benefits for decades to come. Thus, you **gain**, first of all at home, and this does imply some temporary **pain**. View it in this order, it is that plain.

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