

New wine into old bottles?

Now that the party is over and all the newcomers have taken their seats at the table, Helen Disney asks whether the EU is ready to take the shock of welcoming a group of countries that have a far more 'get-ahead' approach to public finance and economic reform

Amid much fanfare and flag-waving, 10 new countries, mostly from the former Communist bloc have joined the European Union. The bulk of the debate over this historic moment has focused on the impact of expansion on immigration, the economy, the Common Agricultural Policy or the proposed Constitution. But what of the likely effect on European welfare systems and public services? Will Europe's traditional model of a cradle to grave welfare state survive the impact of the 'new Europe'?

Despite unhelpful comments about the potential for migrants from the new states exploiting more generous welfare entitlements in the rest of the EU, a constructive view of the benefits of an enlarged Europe reveals a more interesting story. Instead of assuming that the citizens of eastern and central Europe will merely 'sponge' off the rest of us, we should perhaps be asking whether the West really knows best and seeing what we can learn from them.

All over Europe, demographic changes are forcing politicians and those who work in public services to face some harsh realities. It is anticipated that the over-65 population will rise from 15.4% of the EU population in 1995 to 22.4% by 2025, with overall population growth hitting record lows in the south of Europe.

At the same time, Europe's working-age population is shrinking and becoming more inclined to travel overseas for work - a process which will undoubtedly only be accelerated by EU expansion. The tax base is therefore shrinking at the very moment when additional funds for healthcare, pensions and long-term care are required. According to the Swedish consultancy Mapsec, losses to GDP could be as much as 6-10%. This figure alone should give politicians serious cause for concern.

Governments across Europe are slowly starting to recognise how hard it is going to be to square the circle of providing effective, consumer-driven public services while the tax base is shrinking. In the UK, the government is experimenting with more private provision of healthcare with the creation of Foundation Hospitals and there has been a heated debate about raising more private funds for higher education. Meanwhile in France and Germany, President Chirac and Chancellor Schroeder have been trying to emphasise the need for pension and labour market reforms via Agenda 2006 and 2010 respectively. Yet their efforts have proved spectacularly unpopular, despite the temerity of the proposals.

Public opinion appears to be aware of the need for change but reluctant to embrace it or to trust the political elite to get it right. For now, Europeans are clinging onto their beloved welfare state whilst at the same time looking for more information on what might replace it. This is where the new member states come in.

Slovakia, Estonia and Poland have all been undertaking radical reforms to their public sector, which provide a useful spur to the rest of Europe. Poland, for instance, has privatised its pension system with Chilean-style personal retirement accounts, a policy that Western Europe is likely to have to adopt if it wishes to stave off budgetary collapse in the future. Slovakia's rapid growth has already led it to be dubbed the 'tiger of eastern Europe' with a new wave of reformers working on market-oriented reforms of pensions, healthcare and education. Estonia and the Czech Republic, along with several others, have shifted towards a more market-based health system. Across the new member states, policymakers are experimenting with new ideas like Wisconsin-style welfare-to-work, which are beginning to bear fruit. In Slovakia, for example, such ideas are helping to find employment for the traditionally marginalised Gypsy population. And in countries use to the concept of full employment, reformers are finding the idea relatively easy to sell.

The resignation of premier, Leszek Miller, just a day after Poland's entry into the EU suggests that such reforms will not be painless, however, and it is likely to take years before we see such ideas entering the mainstream of public opinion.

Over the next few years though, these types of reform and the likely flow of capital from West to East, where wages and taxes are now lower, will begin to exert greater pressure on the original 15 member states. Whether they like it or not, France, Germany, Italy, Spain and others will have to start looking Eastwards for policy innovation, especially if Europe is ever to achieve the goals of the Lisbon agenda which aims to make our economy the most competitive in the world.

A new Europe is here - the question is not so much whether but for how long it will continue to be dominated by old-fashioned thinking.

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