Hopes and Fears on the Eve of Eastern EU Expansion (April 26, 2004)

Abstract

The author of this article emphasizes the historical significance that the Eastern expansion of the EU held for the cultural and political integration of Europe. He also explains, however, that experts disagreed on the economic consequences for Germany. While some feared that jobs would move to countries with low wages, others saw the expansion of the European market primarily as an opportunity for the German economy.

Source

The Price of the New Europe

Eastern enlargement will fundamentally change the EU. With low wages and low taxes, the accession countries pose a challenge to the established club members. Germany needs to adjust to this – or it will be among the losers of new Europe.

Gelsenkirchen has seen better days, like back in the 1960s when coal offered thousands of supposedly secure jobs and the steel industry in the Ruhr Valley was flourishing. Today, many years and numerous mine closures later, the city has an unemployment rate of 17.7 percent, the highest in Western Germany. Still, the present seems virtually golden – compared with what is coming.

Two of the city's largest remaining employers, the boiler manufacturer Vaillant and the automotive supply company TRW, want to relocate or move a portion of their production to the Czech Republic or Slovakia, where wages are low and working hours are flexible. A total of nearly 1,000 jobs are at risk in a place once called the "city of 1,000 fires."

"People are being put out on the street like mangy dogs so that a few more Euros can be made somewhere else," said Mayor Oliver Wittke (CDU), attacking the plans. The city rose up, as it always did in the past – with human chains, vigils, and mother-child protests at the management headquarters. Some even chained themselves to TRW's factory gate.

The works council [*Betriebsrat*] of the auto supply company hired two consultants to analyze the actual labor cost savings associated with relocation and to make that figure as low as possible. But monthly wages equal to one-fifth of German wages are hard to get around, even with higher mathematics. "The report concluded that the move was justified," said Bernd Otto of the works council. The workforce now wants to offer to work forty hours a week.

Will that be enough? Or will they also have to lower wages? And if so, then how much? Down to the Czech, Polish, or Slovak level? But how is someone supposed to live on such wages in a country with German rents and German prices?

In these days and weeks, questions of this sort are worrying a great many people: workers who fear for their jobs, managers who are thinking about the competitiveness of their companies, and professors who are concerned about Germany as a location for manufacturing [*Standort*].

And the chancellor, who has a surprisingly simple answer to this complex question: Whoever moves jobs

out of the country is acting in an unpatriotic fashion. Period.

But the world isn't that simple, and it will get even more complicated on May 1. That is when ten new member states from Central, South, and Eastern Europe will be admitted into the European Union. Once Poland, the Czech and Slovak Republics, Hungary, Slovenia, Estonia, Latvia, Lithuania, and Malta and Cyprus are integrated, it will be the biggest round of enlargement in the history of the European Union. And also the boldest.

It will be the boldest because previous enlargements involved countries in which increasingly Western standards of living and value systems already prevailed. The eight Eastern European countries, on the other hand, were still caught in the grips of the socialist economic system only a decade and a half ago. Since then, these countries have almost entirely privatized their industry; they have liberalized their trade and capital transactions.

May 1, 2004, marks a historic turning point. European division is a thing of the past and so is the old Europe, with all its rituals and comfortable habits.

What belongs together – historically and culturally – can now grow together.[1] In one fell swoop, the EU will increase its number of residents from 380 million to more than 450 million. More people will live in the new Europe than in the United States and Japan combined.

But that which could hardly be more different – above all economically – is also supposed to come together now as well: the saturated welfare states of the old Europe and the young upward climbers who are still having trouble with the burden of their state capitalistic past. That opens up possibilities – and any number of dangers.

At any rate, the joy over an epochal occurrence that seemed unfathomable for so many decades is being dampened in many places by fear of the economic repercussions. Suddenly, the EU includes those countries that distinguished themselves in the past several years as Germany's fiercest rivals in the competition to woo manufacturers. Countries that use low wages, flexible workers, and tax dumping to lure businesses away, along with their jobs.

Starting May 1, we will see the removal of other hindrances that have made small and medium-sized companies, in particular, reluctant to follow the drive to the East [*Drang nach Osten*] thus far. Step by step, the same rights and standards will be introduced on the other side of the Oder River. The currencies should fluctuate within fixed limits around the Euro until – in two years at the earliest – the common European currency will gradually be introduced in Eastern Europe.

Legal certainty, currency stability, and (important for non-European investors) free access to the European market – all this, along with low wages and low taxes, makes the accession countries especially attractive to businesses. And that is especially dangerous for Germany as a site for manufacturing.

Will Germany, then, be among the losers of the great EU enlargement because jobs will migrate on a scale that hasn't been seen up to this point?

Yes, say pessimists such as Munich professor Hans-Werner Sinn, president of the Institute for Economic Research (Ifo); he predicts long-term low-wage competition. And that means lower incomes, less growth, and less affluence: the start of a downward spiral.

No, say optimists such as Dieter Hundt, president of the German Employers Federation (BDA). He predicts a win-win situation, that is, a development that benefits all, the accession countries and the established industrial countries, Germany first and foremost.

According to this theory, growth in Eastern Europe will spur the entire European economy: through increased exports to the up-and-coming countries and also through the relocation of jobs. By using foreign-made supplies, German businesses can ensure that the “made in Germany” products that are so desirable worldwide remain competitive in the first place.

Developments up to now support the optimists’ theory. Opening up Eastern Europe proved to be a stroke of luck for the German economy. It opened up new markets and tapped into cost-effective suppliers. Hundreds of thousands of jobs were thus created or secured – here in this country, that is.

Five percent of all German foreign investments flow into the reforming countries of Eastern Europe: 33.6 billion Euros up to 2001. German businesses invested in privatized branches like telecommunications and energy, and German chain stores expanded. Local branches of Metro, Deichmann, Rossmann, and Lidl[2] line the access roads to major [Eastern European] cities. Publishing houses have also discovered the new market in the East. Springer Publishing House introduced a Polish edition of *Newsweek*, and its tabloid *Fakt* became the largest newspaper in Poland within just a few months.

As a group, the candidates for accession are already Germany’s most important trade partners –even ahead of France and the United States. Both imports and exports have increased continuously since the beginning of the 1990s; in some years the growth rate was as high as 16 percent.

Since 1993 the value of traded goods has increased fivefold, whereby Germans have usually exported more than they imported. In some years, the export surplus was more than six billion Euros. “Made in Germany” has a good ring to it in the East, and German cars and machinery are prized. The foreign trade balance has even reversed slightly in the meantime due to the expansion of industry there.

For example, the Schuler Corporation, located in Göppingen, Baden-Württemberg, is the leading manufacturer of metal presses worldwide. In 1999, the company set up an entire production hall for car bodies at the Skoda plant in the Czech Republic. At the beginning of the year, it also received orders to supply press machines for Peugeot in Slovakia and Renault in Slovenia. In the last fiscal year alone, the company, with a workforce of 4,000, received orders worth around 560 million Euros, a large part of which came from Eastern Europe.

Business in Eastern Europe is lucrative even for small and medium-sized family companies. C.H. Erbslöh, a distributor for specialty chemicals, opened its first sales office in Poland in 1997. “If the Eastern European economy wants to be competitive, it cannot avoid purchasing quality products in Germany,” said company director Carl Hugo Erbslöh.

Economists have predicted an outright boom in the countries of Eastern Europe once they join the European Union. Some even speak of a second economic miracle. But in fact it will take decades for the new countries to catch up with the old Europe economically.

The gap between West and East within the new European Union is correspondingly large. Whether one considers economic strength, social and economic standards, or infrastructure – the European Union now includes countries that differ dramatically from the established members.

Of all the Eastern accession countries, only Slovenia, the Czech Republic, and Hungary have a gross domestic product (GDP) that, based on purchasing power, is more than fifty percent of the previous EU average of roughly 24,000 Euros. In comparison: the new federal states in Germany, whose development fourteen years after reunification can certainly be regarded as a failure, have reached 70 percent of the EU average – but only with the help of the 1,250 billion Euros invested in Eastern Germany since unification.

These figures alone show the magnitude of efforts to develop Eastern Germany. The problems are

definitely comparable, but the method of finding a solution could hardly be more different. Eastern Germany not only received the Deutschmark at a 1:1 exchange rate, but also the West German social welfare system, while the economy abruptly collapsed, due in part to the rapid alignment of wages with those in the West. Eastern Germany has been getting infusions from the West ever since.

Initially, Eastern enlargement will also cause the EU to get weaker and poorer – from a statistical perspective – since the average GDP will drop dramatically. The established member states will presumably generate a GDP of 9,600 billion Euros this year, whereas the former Eastern Bloc countries will add barely 450 billion Euros. For all the new accession countries combined – including Slovenia, Cyprus, and Malta – the GDP will increase by roughly 9 percent. In terms of land area and population, on the other hand, the new European Union will increase by about one-third.

The countries that spent decades behind the Iron Curtain will need at least a generation before they even begin to approach the EU standard. The prosperity gap is enormous; in Poland and Slovakia, the unemployment rate is around 20 percent.

To be sure, the Eastern newcomers cannot expect to receive financial transfers like those that flowed into Eastern Germany after unification. But it also won’t work without some assistance from the old Europe – and without some conflict about how, and to which regions, future assistance will be given.

Between 2007 and 2013, the EU commission will spend a total of 336 billion Euros on the equalization of living standards within the EU. A full 80 percent of that will be used to support regions whose per capita income is less than 75 percent of the EU average.

The EU regional average will drop as a result of the Eastern enlargement from roughly 16,800 to 15,300 Euros. Based on the most recent data, 17 of the 50 EU regions that have received assistance in the past would no longer be funded as a result, including almost all parts of Eastern Germany – although living conditions there haven’t changed at all.

On the other hand, in the ten new countries, 36 of a total of 41 regions will be entitled to aid from Brussels. The total population in these areas is 69 million, making up 92 percent of the population in all of the accession countries.

[…]

NOTES

[1] This is a reference to the famous line uttered by Willy Brandt on November 10, 1989, one day after the fall of the Berlin Wall: “Jetzt wächst zusammen, was zusammen gehört”: “What belongs together can now grow together.” – trans.
[2] Metro is a German supermarket chain, Deichmann is a shoe store chain, Rossmann is a pharmacy chain, and Lidl is a low-cost supermarket chain – trans.

Source: Michael Fröhlingsdorf et al., “Der Preis des neuen Europa”, *Der Spiegel*, April 26, 2004, p. 100 ff.

Translation: Allison Brown

Recommended Citation: Hopes and Fears on the Eve of Eastern EU Expansion (April 26, 2004), published in: German History in Documents and Images, <https://germanhistorydocs.org/en/a-new-germany-1990-2023/ghdi:document-3749> [May 16, 2024].