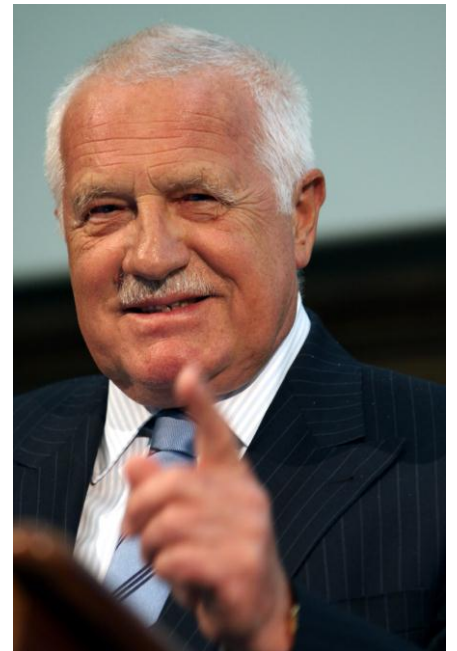


Speech to the Bruges Group on Europe

by Václav Klaus, the President of the Czech Republic

Many thanks for your invitation and for giving me the opportunity to say a few words about Europe here, in London, in this very special period of time. I am aware of your Group's continuing interest in this topic and suppose I will not be blowing against the wind in front of this audience. Europe, or perhaps better to say the European Union, has been also my interest and topic for many years. In my views I was also influenced by Margaret Thatcher and by her fight for freedom and against ever closer, which means undemocratic Europe.

Many people in Europe – not the Bruges Group people – have not paid sufficient attention to the developments on our continent until very recently or have not dared look at them critically and analytically. Some of them started to pay closer attention to the European problems two years ago – in the moment of the explicit, visible and undeniable **Eurozone debt crisis**, but most of them still do not want to know that this crisis **is only the tip of a much bigger iceberg**. They – together with their politicians and most of economists – considered even the 2008-09 crisis a global phenomenon, which Europe innocently imported from outside, even though it was evident that this was a European and North American crisis, not a global one. **The long lasting problems in Europe have been widely underestimated** and that is the reason why we should put it into the proper historical perspective.



European integration was originally based on a rational idea **to liberalise Europe, to open it up, to eliminate various kinds of barriers which existed at the borders of European countries**, to expand trade by establishing a free-trade zone and a customs union and by building a common market and a large, interconnected economic space. It is probably necessary to say explicitly that the idea was not to liberalize the economic and social system in individual countries. This liberalization activity more or less characterized the first decades of the European integration process. This brought positive results, especially as compared to the 1930s. Nevertheless, I suppose most of you would agree that the current era is different.

European integration moved to a different stage. The overall liberalization and removal of inter-country barriers were replaced

- **by a massive shift of competencies from individual member states to the European Union's 'commanding heights' in Brussels;**
- **by the radical switch from intergovernmentalism to supranationalism;**
- **by the intentional and carefully organized weakening of the meaning and cohesion of the original building blocks of European integration, of individual European countries;**

- **by an overall, wide-ranging shift towards European governance;**
- **by large-scale centralisation, additional anti-market regulation, standardization and harmonization of the whole continent.**

In the past a spontaneously created, highly heterogeneous European continent flourished due to its diversity, to its non-uniformity, and to the existing and healthy systemic competition among countries. **This changed when Europe became unified and artificially made uniform by a centrally organized governance and legislation.** It led to the very disturbing economic outcomes we see around and to what is called a democratic deficit (or a lack of democratic accountability). I call it post-democracy.



The present-day institutional uniformity turned into a straitjacket which keeps blocking all kinds of positive human activities. The most important moment in this process was **the establishment of the European Monetary Union** and the introduction of one currency in a group of originally 12, now 17 countries that evidently do not form what the economists call an optimal currency area. **The undergoing Eurozone sovereign debt crisis is an inevitable consequence of one**

currency, one exchange rate, and one interest rate for countries with very diverse economic parameters. The political decision, and it was a strictly and exclusively political decision, in favour of this arrangement was taken without almost any attention being paid to the existing economic fundamentals.

The economists know that non-optimal, which means wrongly constructed monetary unions are costly and do not last long. Such arrangements may be – hypothetically – ‘saved’ by a high degree of solidarity among their members and by huge fiscal transfers, but

- there is no and there can't be any truly authentic feeling of solidarity in Europe (which existed, for example, in Germany after its unification at the beginning of the 1990's) and
- there is no – from heavens falling – large volume of funds in the hands of the supranational political authorities to compensate the countries which are – because of their economic parameters – the victims of such an arrangement.

Due to it there is no imminent solution to the Eurozone sovereign debt trap. There are only very unpleasant consequences: short term economic and budgetary problems and a long term stagnation.

Some people dream about the forthcoming acceleration of economic growth. It is **difficult, if not impossible to find any reason for such a magic acceleration of growth to occur in Europe.** On the contrary, most EU countries must make fiscal cuts, not fiscal expansions, and not only in the short term but at least in the medium term as well. (And in the long-run – as Keynes famously said – we are all dead.)

The current European unification construct (or model) is, however, only half of the whole problem. In addition to the difficulties resulting from the integration itself,

there is a huge problem with **the European economic and social system. The European 'soziale Marktwirtschaft,'** as it is aptly called in German, prefers social policy based on income redistribution to productive activities. It prefers leisure, free time, and long holidays to hard work. It prefers consumption to investments, debts to savings, and security to risk-taking. **It prefers socialdemocratism to capitalism.**

This economic and social model is part of a broader civilizational and cultural framework, which is already deeply rooted in Europe or in most of its countries. It can't be abandoned easily, it can't be corrected by painless or cosmetic palliative measures, it can't be changed as a result of one or another EU summit. To make Europe functional and productive again requires **a deep systemic change,** something structurally similar to the task we had to accomplish more than two decades ago in the Czech Republic when we tried to get rid of communism and its legacy.

The Czech Republic – as I suppose you know – still uses its own currency. We were – sufficiently and in advance – aware of the difficulties connected with the wrongly constructed model of a monetary union. We wanted to continue our much needed overall adjustment processes with sufficient adjustment capabilities, which requires our own flexible exchange rate, our own interest rates, and our own monetary policies. We do not find any advantage in using neither the German nor Greek exchange and interest rates. For the time being, we don't have any plans to enter the Eurozone. (Last week's opinion poll indicated that only 19 % of Czechs want to join the Eurozone sometimes in the future, 76 % say no, and 5 % don't know.)

As I said, the escaping from the current European crisis needs a fundamental systemic change, which means at least two things:

- **the transformation of the European social and economic system,** and
- **the restructuring of the European institutional or political arrangement** (in another terminology, the form of European integration).

Let me tentatively suggest the main components of such a change:

1. We have to get rid of the unproductive and paternalistic **soziale Marktwirtschaft,** "augmented" (which means further undermined) by the growing role of the green ideology.

2. We should accept that the economic adjustment processes take time and that **the impatient politicians and governments usually make things worse.** The politicians should not try to mastermind the market, to micromanage the economy, to "produce" growth by government stimuli and incentives.

3. We should start making **comprehensive reductions of government expenditures** and forget flirting with solutions based on tax increases. These reductions must dominantly deal with mandatory expenditures, because discretionary spending cuts are – as a long term solution – quantitatively more or less insignificant.

4. We should stop the creeping, but constantly expanding green legislation. **The Greens must be stopped from taking over much of our economy** under the banner of such flawed ideas as the global warming doctrine.

5. We should get rid of the centralization, harmonization, standardization of the European continent and after half a century of such measures start **decentralizing, deregulating and desubsidizing** our society and economy.

6. We should make it possible for countries which are the victims of the European monetary union to leave it and to return to their own monetary arrangements.

7. We should forget such plans as a European fiscal union, not to speak about ostentatively antidemocratic ambitions to politically unify Europe.

8. We should **return to democracy**, which can exist only at the level of nation-states, not at the level of the whole continent. It requires returning from supranationalism to intergovernmentalism.

I hope a serious discussion of these issues will finally begin.