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# What has the EU done for us? Taking stock of 60 years of European integration

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The European Union is facing its greatest challenge since its foundations were laid 60 years ago. Although much progress has been made, the consequences of the deepest economic crisis in Europe since World War II have still not been fully overcome. The EU has been fighting against a protracted phase of investment and growth weakness for almost 10 years now. Particularly affected countries are experiencing mass youth unemployment, high public debt which is limiting their governments' scope for action, and bank balance sheets that have come under pressure from bad loans. The refugee crisis has increased the tensions and led to growing scepticism towards globalisation and international cooperation among broad sectors of the population.

The EU's 60th anniversary provides a welcome occasion for us to remember that, despite all its current difficulties, it is the politically and economically most successful community of national states in the history of Europe. Democracy, human rights, social market economy, the European Single Market without borders and trade barriers, free movement of capital, free movement of workers, Europe-wide consumer and environmental protection, economic assistance for structurally weak regions – all of this has contributed to the high level of prosperity of the member states' inhabitants. The main achievement, however, is the peace dividend, for which the EU was awarded the Nobel Prize. The Union's defence savings alone are as high as EUR 2 trillion each year.

If we want to maintain and increase prosperity for all, we have to make the EU fit for the future. We need innovative enterprises, more investment, healthy public finances, a stable banking sector, sustainable energy supply and climate change mitigation – Herculean tasks which Europe can only master as a community. A further challenge consists in implementing an EU-wide regulation for controlled immigration from crisis regions and distributing the burdens of humanitarian measures more equitably. Here, too, international cooperation leads to better outcomes than unilateral, selfish action of national states.

In this study we have summed up the benefits which the EU has provided for its inhabitants and economies and the reasons for its success. The EU countries' levels of prosperity and economic performance are among the highest in the world. Their per capita GDP and labour productivity are more than twice as high on average as those of the world's economies in total. The EU states also occupy top ranks in income equality, education and life expectancy. This is impressive and historically unprecedented. According to our findings, seven points are key to the EU's success:

1. All member states have democracies based on the rule of law that have committed to protecting civil liberties and human rights and striving for peaceful cooperation to increase prosperity. In a world where 40 % of all states are still being governed by dictators or monarchs and where wars claim millions of lives and drive millions of people from their homes, such a community of stability and values is a precious good.

2. The EU acts as a community of solidarity. The EU budget provides the economically weaker regions in southern and eastern Europe in particular with substantial financial support for investment and expanding competitive economic structures. Eastern Germany has benefited from this as well. Economic support benefits not just the recipient states but all EU states. It strengthens their cohesion, helps to develop and safeguard democracies and social market economies, and opens up new sales and investment opportunities.

3. The EU acts as a community rooted in stability. Since the financial crisis it has stabilised particularly affected economies with guarantees and assistance loans which have staved off national insolvencies.

4. The EU provides businesses with the world's second largest domestic market worth EUR 14 trillion. It prevents tariffs and other trade and investment barriers from fragmenting Europe along economic lines. Uniform rules ensure fair competition. This reduces the costs and risks of trade and investment and increases growth and employment.

5. The free movement of workers across borders helps to raise incomes, prevent skills shortages and reduce unemployment. The European economies benefit from their workers' freedom to move to places where they find work and achieve higher incomes.

6. The EU provides its inhabitants with tangible advantages which we often mistakenly take for granted in our daily routines. Friendship among peoples instead of

hostility, freedom of movement, Europe-wide consumer and environmental protection, a wide variety of goods and services, and the euro as a single, stable currency are just some of them.

7. Cooperation within the EU is based on mutual give and take that is good for all. Not every country profits from every integration step in equal measure, but on balance, all benefit. Export-oriented economies benefit especially from free trade, others from capital inflows and broad economic assistance. Friendship among peoples and economic and political stability are of inestimable value for all.

### A vision for a shattered Europe

On 25 March 1957, six European states formed an alliance that sought to bring peace and prosperity to all of Europe. When the heads of government signed the Treaties of Rome in the Palazzo dei Conservatori on the Capitoline Hill, it was little more than a utopia inspired by hope. The Second World War sparked by the National Socialists had ended less than twelve years back. More than 60 million people had lost their lives. Infrastructure, production facilities and residential buildings were destroyed on a massive scale. And Europe was again disintegrating into two hostile camps: east of the Iron Curtain, the socialist dictatorships joined forces under the Warsaw Pact, and to the west an alliance formed between the mostly democratically governed, market-economy oriented Western powers.

With the treaties of Rome, Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands laid the foundation for the European Union. The Treaty establishing the European Economic Community (EEC) set out the most important goals. The governments declared their resolve by common action to

- ensure the economic and social progress of their countries and eliminate the barriers which divide Europe,
- make constant improvements of the living and working conditions of their peoples,
- guarantee balanced trade and fair competition,
- reduce the backwardness of the less-favoured regions,
- implement a common commercial policy to progressively abolish restrictions on international trade,
- and preserve and strengthen peace and liberty.

The 60th anniversary provides an opportunity to look back and reflect on how much of the utopia has become a reality and to show perspectives for the future.

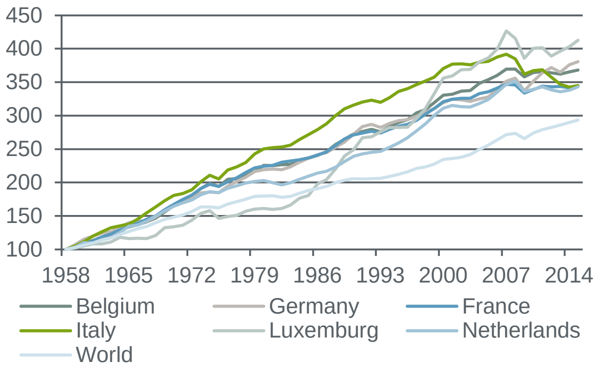
### Europe rises like a phoenix from the ashes

The six founding states started with a full show of flags, achieving economic growth that brought unprecedented prosperity to Western Europe (Figure 1). Since 1958, real per capita GDP in all founding states has more than tripled. Global economic growth has remained far behind.

A comparison with South American economies illustrates the success of the EEC states in achieving their objectives. At the end of the 1950s, per capita incomes in Argentina and Uruguay were still higher than in Italy and not much lower than in the other states of the EEC. Venezuela was a much richer country thanks to its oil. But while democracy, the social market economy and peaceful cooperation among the EEC drove nearly continuous growth over 60 years, dictatorships, political instability and socialist economic ideas hampered the development of South America's economies. Per capita incomes are therefore significantly higher and distributed much more equitably in all EEC states today.

**Figure 1: The founding states of the European Economic Community leave the rest of the world behind**

Real per capita GDP growth (1958=100)




Sources: World Bank, Angus Maddison Project, Knoema, Destatis.

### The EEC enjoys great popularity and develops into the European Economic and Monetary Union

Just three years after the founding of the EEC, further states applied for accession. President de Gaulle of France rejected an expansion, however, fearing that new members would make cooperation more difficult and jeopardise integration.[1] It took nearly 20 years for Denmark, Ireland and the United Kingdom to be admitted. By 2013 the Union had its current 28 members. At the same time, several members expanded the Community into the European Economic and Monetary Union (Table 1). Never before in the history of the world has a community of national states entered into closer and more successful cooperation for peace, prosperity and freedom.

A comparison of key economic figures of 2015 and 1995 illustrates how much the EU has evolved in the past 20 years.

- The EU has grown strongly: both the population and real gross domestic product increased by 36 %, to 509 million inhabitants and EUR 12.4 trillion, respectively (Table 2).
- Among the industrialised countries, the EU states have achieved a prominent position in economic performance and prosperity. Both per capita GDP and labour productivity are

higher on average for the EU-15 that acceded by 1995 than for the other OECD countries (Table 3). Incomes are also distributed significantly more equitably.

- The EU states have maintained their strong position in the global economy even in the era of globalisation. In 2015, they generated 17 % of global gross domestic product and took a share of 33 % of global trade. Thus, the Union has gained more economic significance than the USA. For comparison: the USA account for 16 % of global GDP and 9 % of global trade.

- The economic heterogeneity of the EU has grown substantially with its enlargement to the east. In 1995 Portugal had the lowest per capita GDP, at 65 % of the EU average. In 2015 it was Bulgaria with 47 %. The differences in labour productivity have grown by the same factor. The goal of reducing the economic backwardness of the formerly socialist states has become another challenge for the EU.

### Table 1: Milestones on the path towards European Economic and Monetary Union

| | |
|---|---|
| **Deepening the European Union** | |
| 1957 | Belgium, Germany, France, Italy, Luxembourg and the Netherlands sign the Treaties of Rome on the foundation of the European Economic Community (EEC) and the European Atomic Energy Community (EAEC). |
| 1968 | Entry into force of the customs union: abolition of all internal tariffs between the EEC states, common external tariff. |
| 1986 | Single European Act: guidelines for the creation of the European Single Market and dismantling of the internal barriers to passenger traffic and cross-border capital movements until 1 January 1993. |
| 1992 | Maastricht Treaty: creation of the European Union with three pillars: 1. continuation of the previous EC (agricultural market, customs union, European Single Market, etc.) with extended powers (e. g. consumer protection), 2. common foreign and security policy, 3. cooperation i. a. on justice and domestic policy as well as immigration. |
| 1993 | Entry into force of the European Single Market. |
| 2002 | Introduction of Euro cash. |
| **Accessions and Exit** | |
| 1958 | Belgium, Germany, France, Italy, Luxembourg, Netherlands |
| 1973 | Denmark, Ireland, United Kingdom |
| 1981 | Greece |
| 1986 | Spain, Portugal |
| 1995 | Finland, Austria, Sweden |
| 2004 | Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Czech Republic, Hungary, Cyprus |
| 2007 | Bulgaria, Romania |
| 2013 | Croatia |
| 2016 | The United Kingdom decides to exit after a referendum |

### What are the EU's achievements?

We have responded to this question in two ways. First, we have examined what the EU has done for its residents, businesses and member states. Second, we have compared the economic development of the EU states with other countries and regions. The results are highly remarkable.

### Its commitment to peace has made the high prosperity in the EU possible in the first place

The Norwegian Nobel Committee awarded the Nobel Prize for peace, democracy and human rights to the EU in 2012. After rival military powers had spread wars, suffering and destruction across Europe for thousands of years and hampered the continent's development, the states of the EU today act as partners. Without a doubt, this should be seen as the EU's greatest achievement. The peace dividend it has yielded can hardly be overestimated:

### Table 2: The European Union has evolved to become one of the most important actors in the world economy

| Growth of the EU | 1995 EU-15 | 2015 EU-28 |
|---|---|---|
| Population (millions) | 372.5 | 508.5 |
| Gross domestic product (EUR trillion in prices of 2010) | 9.1 | 12.4 |
| Persons employed (millions) | 156.9 | 229.3 |
| **Economic significance of the EU** | | |
| EU share of world GDP in % (international USD, PPP) | 21.3 | 16.9 |
| EU share of global merchandise trade | 40.2 | 32.8 |
| EU budget (expenses) in EUR billion | 68.6 | 145.3 |
| **Economic integration** | | |
| EU internal trade in % of total merchandise trade of EU countries | 64.1 | 63.2 |
| Share of EU foreigners in total persons employed in % | 1.6 | 3.6 |
| **Economic heterogeneity of EU countries** | | |
| Lowest national GDP per capita in % of EU's GDP per capita in PPP | 64 (PT) | 47 (BG) |
| Lowest national labour productivity in % of EU's labour productivity | 60 (PT) | 45 (BG) |

Sources: EU Commission, Destatis, Eurostat, World Bank.

### Table 3: The EU is one of the regions with the world's highest per capita income and most equitable income distribution

| | EU-28 | EU-15 | OECD without EU | World | Germany |
|---|---|---|---|---|---|
| GDP per capita | 32,209 | 39,582 | 37,244 | 14,301 | 43,919 |
| Labour productivity* | 60,234 | 75,828 | 61,574 | 24,280 | 70,030 |
| Gini coefficient | 31.1 | 31.6 | 37.1 | 39.0 | 30.6 |
| Share of population with at least secondary education certificate in % | 87.7 | 84.4 | 85.1 | 59.7 | 96.6 |
| Life expectancy at birth | 79.3 | 81.4 | 81.1 | 71.5 | 80.9 |

* GDP per person employed

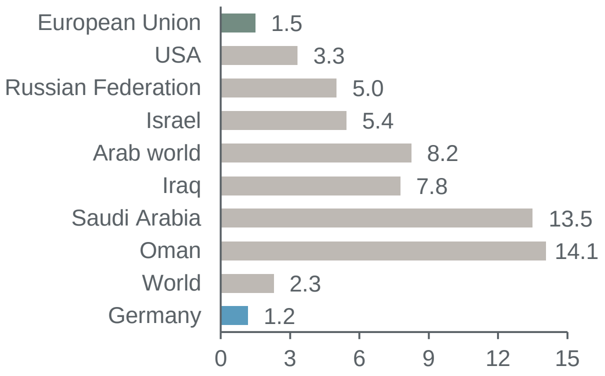
Source: United Nations.

In order to calculate the monetary advantage, we have estimated the peace dividend by way of a scenario. How much more would the states of the EU spend on defence if they regarded each other as political and military rivals? The savings in defence spending compared with the Cold War era provide an estimate. Since the dissolution of the Warsaw Pact in 1990, the member states of the EU have reduced their military spending from 2.6 to 1.5 % of gross domestic product. That means an annual saving of EUR 162 billion. Germany saves EUR 37 billion each year.

But the savings on defence in comparison with the Cold War can only be seen as a lower limit. Countries that perceive an actual threat, are arming themselves for war or involved in wars, expend much more of their production resources on defence. In Russia and Israel, military spending accounted for some 5 % of GDP in 2015, in the Arab world 8.2 %, in Oman 14.1 % (Figure 2).[2] Based on these figures, the EU states' annual defence savings range between EUR 516 billion and EUR 1.85 trillion. Germany saves between EUR 116 billion and EUR 392 billion each year.

**Figure 2: Peace and cooperation reduce defence spending and create security and prosperity**

Military expenditure in per cent of GDP in 2015




Source: World Bank.

The peace dividend is much higher still under the assumption that a fragmented Europe would conduct wars. From the Napoleonic Wars to World War II, Western Europe had less than 70 years of peace. The hostilities and struggle for hegemony among the European states and lack of solidarity in the Great Recession had prepared the ground for World War II.

### The European Single Market is the engine of economic integration

The European Single Market is the centrepiece of economic integration between the European states. As a reliable framework for free trade and the free movement of people and capital it has contributed decisively not just to the formidable growth of the EU but also to securing the peace. After all, conflicts with trading partners would cause substantial damage to national economies because of their close economic interdependencies.

The Single Market provides businesses with significantly better sales opportunities. The domestic sales market of German businesses has a volume of EUR 2.8 trillion. With the European Single Market they can tap into an international market worth EUR 14.2 trillion – free of tariffs. The common market generates intense competition across Europe. Businesses that prevail in this competition achieve efficiency gains that also improve their competitive position against enterprises from other regions of the world.

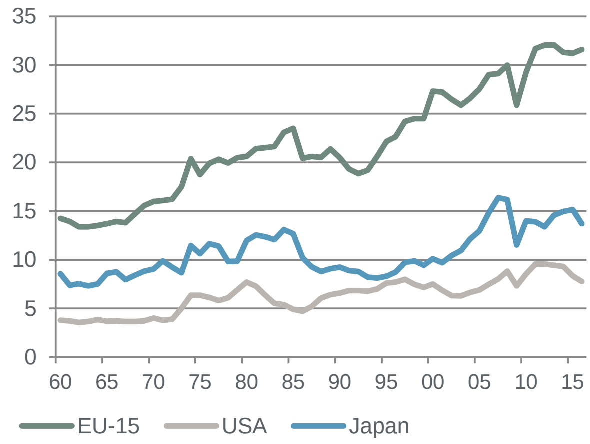
At the same time, the common market favours the specialisation of economies. In Germany, for example, a highly productive automotive industry with supplier industries was able to establish itself that produces far more cars each year than it can sell within the national borders. Germany produced 5.7 million automobiles in 2015 – and fewer than one third of them would actually be found on German roads. Many workers in export industries benefit from this international division of labour.

But the main beneficiaries of free trade in the EU are the consumers. Intense competition lowers prices for the end consumer and generates higher product variety. For example, Germans import shoes from Italy, furniture from Sweden and cheese from the Netherlands. Since an alternative to the Single Market is only hypothetical and cannot be directly experienced, this achievement of the European Union is one of the least consciously perceived ones – even though it pervades day-to-day life on a massive scale.

The strong growth of the EU states' external trade in comparison with other industrialised countries illustrates how the European Single Market has promoted trade. The ratio of goods exports to GDP in the EU-15 states has more than doubled since 1960 (Figure 3). The external trade of the USA and Japan has experienced much slower growth.

**Figure 3: European Single Market strengthens external trade**

Goods exports in per cent of GDP




Sources: AMECO, own rendition.

On average, EU countries ship two thirds of their exports to a partner country of the Union. The close trade relations between them can support them when protectionism emerges in other regions of the world. The European Single Market thus secures a reliable sales environment for economies with a distinct focus on exports such as the Irish, Belgian, Dutch, but also the German economy. In addition, the high economic significance of the European Single Market is of advantage when it comes to negotiating international free trade agreements. Its economic weight enables the EU to open up fair market opportunities outside the internal market for the businesses of its member states and enforce their high environmental and consumer protection standards.[3] The recently negotiated CETA with Canada is one such example. On their own, even large EU countries such as Germany, the UK or France would have a significantly less favourable negotiating position towards economic giants such as the USA or China. Germany, the largest EU economy, has a global market share of just 8 % – but the EU as a whole has 33 %.

Without the European Single Market as a free-trade zone, Europe would also have a chaos of national regulations on external trade, foreign investment, consumer and environmental protection. Switzerland is an example that illustrates what a massive political and bureaucratic effort states would have to undertake if they wanted to replace the EU rules with bilateral agreements. Switzerland has con-cluded 20 main agreements with the EU and many more agreements on economic and political cooperation. If each of the 28 EU member states wanted to go it alone and regulate their cooperation with every other EU state, they would have to enter into 7,560 key agreements and a multiple of smaller agreements.

Setting import tariffs would be a particular challenge. In order for customs offices to calculate such tariffs, exporters would have to provide evidence of the origin of their goods. As most goods are composed of intermediate products from various countries, that would lead to a complicated web of rules of origin ('spaghetti bowl' phenomenon).[4] What tangle a national fragmentation of the Single Market would create for trade in Europe can be surmised from the equally illustrative and daunting descriptions made by Friedrich List, a pioneer of the German Customs Union in the 19th century.[5]

**Intra-European capital flows support economic development and reduce the prosperity divide**

Besides external trade, the movement of capital is also free of restrictions throughout the European Union. Intra-European capital flows have intensified as a consequence. They flow primarily from the old EU-15 into the new EU-13, or in simpler terms, from the affluent west into the less affluent east.[6] This is because capital is more scarce in eastern European countries and investors achieve higher returns there. Since 1993 around EUR 600 billion flowed into the EU-13 from other countries; their capital account deficit averaged around 5 % of their GDP.[7] More than half of all foreign direct investment in the EU-13 came from the EU-15.

Intra-European capital flows accelerate economic convergence between the formerly socialist states and the long-standing market economies. In 1995 the EU-13 generated around 42 % of the income level of the EU-15 in purchasing power standards; by 2015 they had converged to 63 %. The investment-to-GDP ratio in the EU-13 was consistently above that of the EU-15, at 24 % compared with 21 %.[8] These extensive investments could not have been financed and the subsequent convergence could not have been realised without the provision of external capital. The data on capital flows and direct investments permit the conclusion that the free movement of capital within the EU had a substantial share in the eastern European member states' economic success.

The providers of capital also benefit from intra-European financial flows by achieving above-average returns on their investments. Germany in particular has a high savings ratio in a EU comparison. Its persistent current account surpluses mean that large portions of German savings are invested abroad, including in eastern Europe. Because of the high need for capital, good returns can be achieved with the funds invested there.

**The free movement of workers creates far more winners than losers**

The free movement of workers gives all EU citizens the right to take up work in other EU states without discrimination in favour of local workers. It has been in full force for all eastern European accession countries as well since 2014. It generally provides benefits to all citizens seeking employ-ment or qualifications outside their home country. For Germany that means a substantial number: between 2005 and 2015, more than 1.6 million Germans left the country and 1.3 million migrated back. Most moved to other EU states.

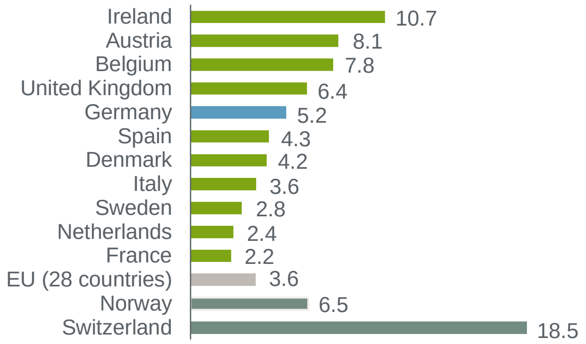
In view of the public debate over immigration, the positive impacts on the labour market cannot be emphasised clearly enough. Labour mobility in the EU helps countries with low birth rates and growing demand for labour, such as Germany, Austria and Denmark, prevent a lack of skilled labour. Germany has a skills shortage in technical occupant-ions, aged care, nursing, interior construction and dry walling, and a shortage of doctors. Without qualified immigration from EU states, that shortage would be much more pronounced. Non-German EU citizens now represent 5 % of the total workforce in Germany (Figure 4).

But the free movement of labour also helps the countries of origin. Spain and Greece currently have unemployment rates of around 20 %, and youth unemployment among the 15 to 24-year-olds exceeds 40 %. Emigration by jobseekers eases pressure on local social systems, reduces the devaluation of qualifications, and gives young people prospects and income. They often remit some of their income to their home countries, which helps their families.

At the same time, concern over labour mobility has usually proven unfounded, also because policymakers have taken precautions to prevent undesired developments. There is no mass immigration from the EU into the social systems of richer countries. Since the year 2011, 1.4 million people have migrated from the EU to Germany. Most of them are em-ployed and pay taxes and social security contributions in Germany. A mere 6 % of all unemployed in Germany are non-German EU citizens. There has been no massive rush to claim Germany's high social benefits.[9] One declared goal of the EU is to prevent the misuse of social systems. Along with other countries, Germany, too, is taking steps to prevent this.[10]

**Figure 4: In some countries, migrants from the EU increase the labour force potential considerably**

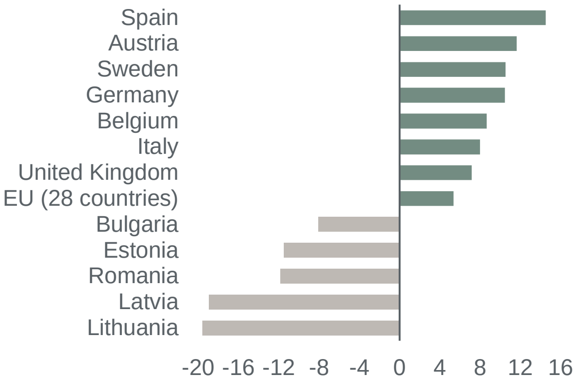
Proportion of other EU citizens in the country's workforce




Source: Eurostat.

**Figure 5: Since 1990, many eastern Europeans have migrated to western Europe – reducing both unemployment and skills shortages in the EU**

Currency balance in per cent of population from 1990 to 2015




Source: Eurostat.

The free movement of labour has not triggered a brain drain from the economically less-developed EU countries either. Major migration movements of up to 20 % of the population have occurred in the past 25 years from the Baltic states and from Bulgaria and Romania (Figure 5). However, that outward migration set in in the 1980s already and has not increased significantly of late. Immigration contributed to reducing unemployment considerably in eastern Europe. The strongest decline was in Bulgaria, where the unemployment rate was 20 % at one stage.

Migrants usually do not take jobs away from local workers either. Language barriers and difficulties in obtaining recognition and assessment of vocational qualifications often put foreign job applicants at a disadvantage against locals. In addition, demand for labour has grown for years, for instance in Germany. As the population is shrinking and demand for labour is rising, a growing labour shortage would emerge without migration. By closing this gap, migrants are also helping local workers and paying into the social system.

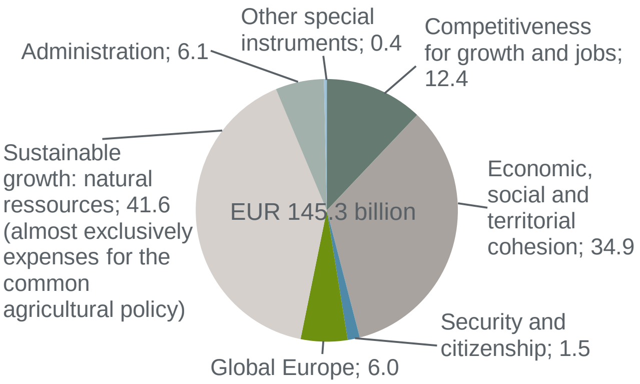
**The EU provides development aid to structurally weak regions of Europe**

Since it was founded, the EU has pursued the goal of reducing the backwardness of less-favoured regions. The Treaties of Rome laid the foundation for this. The EU acts as a community of solidarity in which the economically stronger members support those that are less strong and have run into difficulties.

Redistribution in favour of structurally weak regions and countries takes place in part through the support funds of the EU's Cohesion Policy.[11] In 2015, expenditure under Cohesion Policy amounted to 34 % of the EU budget, which totalled EUR 145 billion (Figure 6). The funds support infrastructure and business investment, start-ups, research and development as well as education, among other things. A considerable redistribution of funds in favour of the economically weaker EU members also takes place in the form of agricultural expenditure.

**Figure 6: Common Agricultural Policy and Cohesion Policy are the two main EU budget items**

Shares in the EU budget in 2015 in per cent

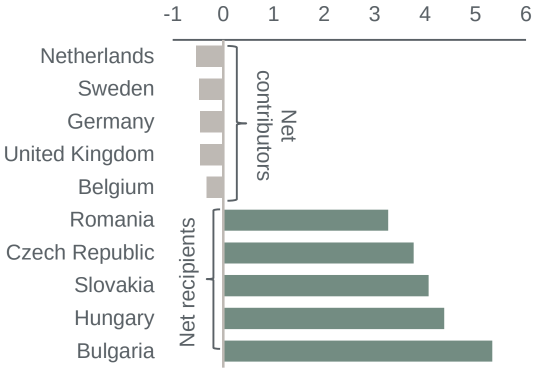



Source: Financial Report of the EU Commission.

The fiscal balances of the individual states with the EU budget show that transfers are of high overall economic importance for some recipients. The eastern European member states benefit to a particular degree (Figure 7). In 2015 net payments from the EU budget for Bulgaria, Hungary and Slovakia made up between 4 and 6 % of gross national income (GNI) and some 10 % of public expenditure. For comparison: the funds which Germany received from the USA for post-war reconstruction under the Marshall Plan were around 1.5 % of Germany's GNI in 1950. Besides, capping the EU's total budget at below 2 % of European GDP keeps the burden on net contributors low. The net contributors' share is currently less than 1 % of their GDP.[12]

**Figure 7: Transfers from the EU budget are of substantial importance for eastern European economies but a low burden on net contributors**

Fiscal balance with the EU budget in per cent of GNI in 2015



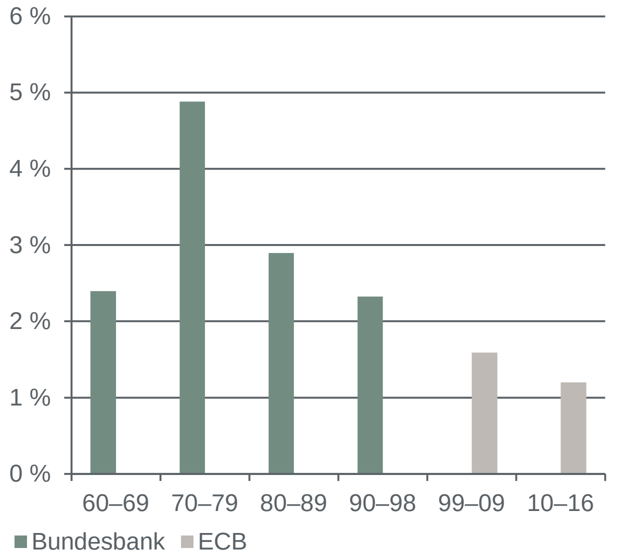

Source: European Commission.

### The euro: a stable, single currency for Europe

Twenty-five years ago in Maastricht, the green light was given for a further integration step: the member states declared their willingness to give up their monetary sovereignty and introduce a single currency, the euro. The ECB was modelled on the Deutsche Bundesbank and, like it, has ensured price stability. Today the euro is the legal tender in 19 EU states. Since its introduction, consumer price inflation in Germany has been even lower than during the era of the Deutschmark, which was regarded as a guarantor of stability (Figure 8).

**Figure 8: Euro area consumers benefit from stable prices**

Consumer price increase, in per cent



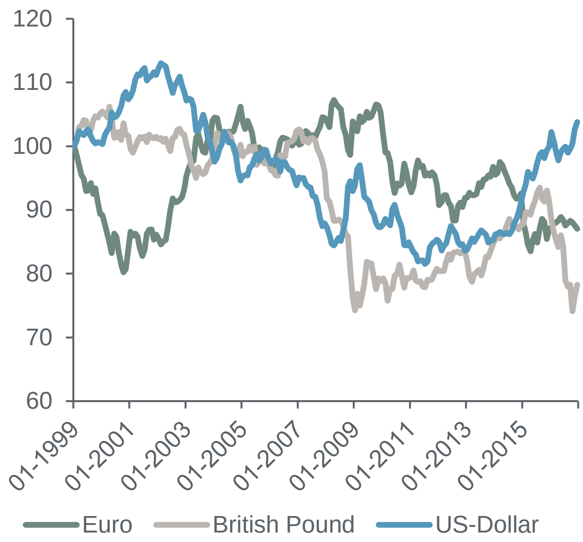

Source: Deutsche Bundesbank.

The external value of the euro is just as stable as that of the US dollar and the pound sterling (Figure 9). So for imported goods as well, consumers' purchasing power is as solid as in other important currency regions.

The single currency gives inhabitants and businesses 'palpable' advantages besides protecting against inflation. Travel and remittances within the euro area involve no currency conversion and associated costs. The bothersome calculation of exchange rates is also a thing of the past. Enterprises' costly hedging against exchange rate fluctuations has thus become obsolete. The associated annual savings are estimated at 0.3–0.4 % of GDP[13], which was more than EUR 40 billion in 2015. The exchange rate risk is often eliminated in transactions outside the euro area as well, since two thirds of exports from the euro area and half of imports are denominated in euros.[14]

**Figure 9: The external value of the euro was as stable as that of the US dollar and the pound sterling**

Real exchange rate, index 1999=100




Source: BIS.

The advantages contrast with the experience of the financial crisis, which subjected the young monetary union to a hard endurance test. It became evident that high government debt in the euro area quickly becomes a threat to financial stability. The reason is that, in order to prevent the mutualisation of risk, the ECB is not available to provide targeted support to individual ailing states, as is the case in other currency areas. A safety network was therefore created, at the heart of which is the European Stability Mechanism, and a painful consolidation course was embarked upon. But much remains to be done in order to make the single currency crisis-proof in the long term, secure its acceptance, and accelerate economic convergence within the euro area.

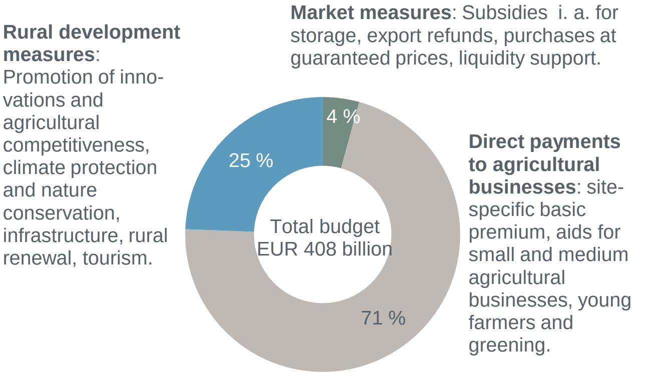
### The EU reforms agricultural policy – no more butter mountains, milk lakes and export subsidies

The Common Agricultural Policy (CAP) is an example of the European Union's capacity to reform. The CAP is based on extensive support payments to the agricultural sector. Originally, these were mostly subsidies in the form of export refunds and state guaranteed prices. As recently as in the 1970s, these subsidies amounted to more than 70 % of the EU's expenditures on agriculture. The costly consequence was massive overproduction of grain, fruit and vegetables, meat and dairy products that generated the legendary butter mountains and milk lakes.

In order to reduce wastage and misguided incentives, the EU has capped and decoupled aid from volumes produced. The reforms have significantly reduced the distortion of markets and international trade[15]. In addition, they have lowered the proportion of agricultural subsidies in the EU budget from more than 90 % in 1970 to around 40 % in 2015 (Figure 10).

### Figure 10: Subsidies for agriculture have been largely decoupled from production and exports

Financial framework shares of Common Agricultural Policy (CAP) from 2014 to 2020




Source: European Commission.

The reforms need to be continued to ensure an ecologically and economically sustainable agricultural sector. Because of high wages, salaries and land prices, many farming operations in Europe would not be able to prevail in international competition.[16] Reducing subsidies while largely preserving agriculture will therefore be successful only if European farmers significantly increase the productivity of their operations. In addition, the subsidies should be linked much more strongly to ecological criteria. In the interest of healthy nutrition, environmental protection and animal welfare, a need for further action remains in this regard.[17]

### EU-wide rules benefit fair competition and the inhabitants

The Single Market is undergoing a constant process of deepening. Important areas include digital services, financial services, capital markets and energy. This increases the need for EU-wide regulation. By no means, however, is more regulation always better, and it is definitely not always optimal to do it at EU level. It is therefore right for the EU to build on the principles of subsidiarity and proportionality. First, it should abstain from implementing measures if the member states find effective solutions themselves. This decentralised approach can better accommodate national preferences. Second, the costs of regulation should be capped and in a reasonable relation to its benefits. Overall, the OECD has confirmed that in international comparison the regulatory process followed by the EU Commission is of high quality and mostly superior to national methods. Below we explore two policy areas in which requirements set by the EU play an important role: consumer and environmental protection.

### For the good of the consumer, the EU is present – and often invisible – in everyday life

The EU's consumer protection pursues four goals: product safety and consumer health; ensuring clear, correct and consistent information; dispute resolution; and securing consumer rights. Some examples show that it also involves child and youth protection, and hard cash:

- According to estimates, each year 700,000 active and passive smokers die from health conditions caused by tobacco smoke[18]. The consequential costs for health systems resulting from coronary disease, smoker's lung, peripheral circulation disorders and cancer are considerable. Together with the member states, the EU has been able to significantly reduce the number of smokers through smoking bans, warnings and 'shock photos'. In particular, the proportion of 14 to 15-year-old smokers has dropped from more than 20 % to around 15 % since the end of the 1990s.

- The EU has given consumers the right to return products purchased via the internet and over the telephone within 14 days at no extra cost. This space of time also applies to the cancellation of service agreements, for instance for mobile telephony.

- Passengers in the Union are entitled to support and compensation in the event of cancellations and delays of flights, trains or buses.

- Prices of cross-border mobile telecommunication services have been reduced by 90 % since 2007 at the initiative of the EU. Roaming fees will be abolished entirely across the EU from June 2017.

- The EU Data Protection Directive strengthens the 'Right to be Forgotten', which means that EU citizens can demand the deletion of references to personal data in search engines.

### The EU ensures transnational environmental protection with a neutral effect on competition

The national states have transferred environmental legislation largely to the EU. Around three fourths of the environmental laws in force in the member states are based on EU regulations and directives. They include the Water Framework Directive and the Waste Framework Directive, the Nature Conservation Directive and the Air Quality Directive. This provides significant advantages:

- Many environmental issues require international agreements because they affect neighbouring states or the whole world. They involve climate protection, air pollution control and water pollution control. A prominent example of EU-wide cooperation is emissions trading in $CO_2$ certificates, which would hardly have been implemented without the established decision-making mechanisms in the EU.

- EU-wide legal provisions prevent individual states from gaining competitive advantages through low environmental standards.

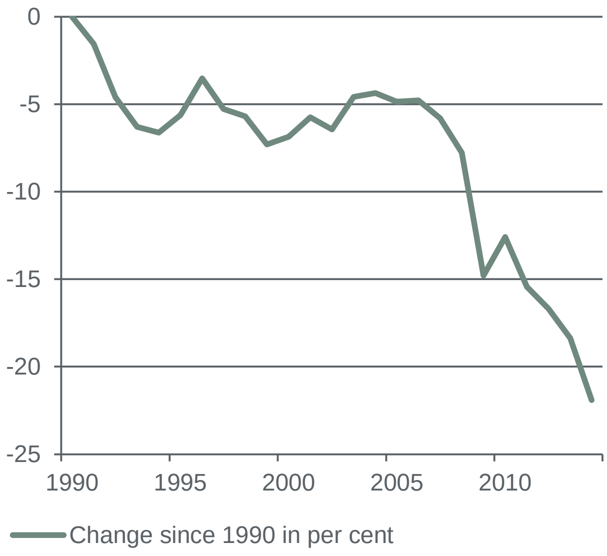
- The EU negotiates international environmental agreements for its member states, such as the Kyoto Protocol on greenhouse gas reduction, the Montréal Protocol on Substances that Deplete the Ozone Layer, and the Convention on Biological Diversity. International agreements are thus easier to achieve

- The EU provides funding for environmental protection, especially to support implementation in economically weaker regions. The eastern European member states received financial support to implement the EU requirements for clean drinking water, wastewater treatment and solid waste disposal.

- Climate protection is an example of the EU's environmental policy achievements. The laws and initiatives of the EU and its member states have enabled them to reduce their $CO_2$ emissions by 22 % since 1990 (Figure 11).

**Figure 11: Greenhouse gas emissions of the EU states**

Variation since 1990 in per cent




Source: European Environment Agency.

**The EU solves tasks which individual states cannot**

In a globalised world, many policy areas require multilateral action to be successful. This applies even more to the closely integrated EU. Fighting international crime, strengthening workers' rights and community projects that benefit all states require joint action.

- Combating tax fraud, tax avoidance and tax evasion: From September 2017, an EU directive will introduce a comprehensive system for mandatory automatic information exchange between EU states. It applies to interest, dividends, capital gains and other proceeds as well as account information of non-resident taxpayers. In order to detect tax avoidance practices, multinational enterprises have to disclose turnover, profit and tax payments for each country from the tax year 2016.

- Securing minimum labour standards: In order to prevent a race to the bottom between the member states, the EU sets minimum standards for working conditions. Thus, the EU Working Time Directive of 2003 stipulates that regular weekly working time must not exceed 48 hours and employers must grant at least four weeks of annual leave.

- Integrating European energy networks into a common energy market: By the year 2020, all member states are should be able to trade with their neighbouring countries at least 10 % of the electricity they generate through cross-border energy networks. That will enable more competition on the electricity markets, which are dominated by large suppliers, and will benefit the consumer. It will also increase supply security and allow reserve capacity to be reduced. That will improve the conditions for the further expansion of wind power and solar energy.

**In order to secure peace, freedom and prosperity, Europe has to continue to work together as a community**

In the past 60 years, the EU has impressively demonstrated its economic strength, adaptability and capacity to undertake reforms – even in economically difficult times. A look back on Europe's history and a comparison with other regions of the world show that our peace, freedom and unprecedented prosperity are anything but a matter of course. Only by opening up to each other in a spirit of friendship and by cooperating peacefully did the peoples of Europe succeed in achieving all this.

The financial crisis and its consequences have tested the EU's cohesion. The strong swelling of the flow of migration has heightened tensions. Both the refugee crisis and the introduction of labour mobility have led to growing fears of excessive pressure on social systems, rising unemployment and losing national identity. This has been compounded by scepticism towards globalisation and free trade.

All of this has enabled the rise of populist movements driven by the belief that power politics focused on national advantage can solve all problems. It thus appears necessary to step up efforts to convince the population of the benefit of continuing the EU's successful cooperation. One suitable path is to present to the inhabitants more clearly the goals, achievements and benefits that are 'palpable' in everyday life. Moreover, reference to the bad examples in Europe's history can illustrate how a relapse into national self-centredness, rivalry and the struggle for hegemony would lead all nations into a darker future.

In order to advance the EU's economic development, our main priority today is to create more jobs and higher incomes so that all of Europe can leave the financial crisis behind. This requires structural reforms, a stable financial system and higher investment. Available fiscal scope should be used for as long as there is a demand gap. The EU should be given further competences in areas where consensus exists in the member states. That may also mean a Europe of different speeds in which not all states join further integration steps for the time being. Every expansion of cooperation is an experiment. Handing individual policy areas back to national states should therefore not be a taboo topic if it is better for the cohesion of the union and the welfare of its economies.

Cooperation always entails compromise and concessions. Not every country benefits equally from every integration step at every moment, and the Union also presupposes a willingness to give, as any good friendship would. Export-focused economies benefit from free trade on the European Single Market, others more from capital inflows and broad economic assistance. The free movement of workers is especially good for economies with a shortage of skilled labour and for those that have an excess labour supply. But friendship between peoples and economic and political stability are a very precious good for all. It is therefore a matter of common sense that we continue the 60 years of cooperation and further modernise and expand the common house of Europe for the benefit of all.

[1] Cf. Die Zeit (2013): Ein Königreich für Europa (*A Kingdom for Europe* – our title translation; in German), **http://www.zeit.de/2013/06/Grossbritannien-EU-Beitritt-Geschichte/seite-2**

[2] Arab world according to the World Bank's definition

[3] Some 30 preferential trade agreements negotiated by the EU with 60 countries are currently in force. Others are being negotiated.
**https://www.wko.at/Content.Node/service/aussenwirtschaft/fhp/Handelsabkommen/Handels-Investionsabkommen_EU-Drittstaaten.html**

[4] Intermediate products account for 60 % of trade between the OECD states.

[5] Before the German Customs Union entered into effect, the 35 principalities and four free cities of the German Confederation protected their markets from each other through tariffs, import restrictions and border controls. In a petition, Friedrich List wrote the following about this: 'The 38 toll barriers in Germany cripple domestic traffic and bring more or less the same results: how if every limb of the human body were bound together, so that blood could not flow from one limb to the other? In order to trade from Hamburg to Austria, from Berlin to the Swiss Cantons, one must cut through the statutes of ten states, study ten tolls and toll barriers, ten times go through the toll barriers, and ten times pay the tolls. Who but the unfortunate has to negotiate such borders? To live with such borders? Where three or four states collide, there one must live his whole life under evil, senseless tolls and toll restrictions. That is no Fatherland.' Cited from: **https://en.wikipedia.org/wiki/Zollverein**

[6] In addition, before the financial crisis high capital amounts flowed from northern to southern Europe – within the euro area. After the financial crisis, however, these capital flows reversed in part. At the same time, stable capital flows moved from west to east.

[7] There is no information on what portion of the EUR 600 billion came from the EU-15. Given the close capital interlinkages within the EU, however, it can be assumed that these countries are among the most important investors in eastern Europe. For direct investments the data confirm this, cf. Hobza, A. and S. Zeugner 2014, The 'imbalanced balance' and its unravelling: current accounts and bilateral financial flows in the euro area, European Commission, Economic Papers 520.

[8] Just as in the case of trade flows, high investment ratios and capital flows occurred even before the relevant country's accession to the EU. Anticipation of future EU membership likely provided incentives for extensive capital inflows.

[9] Cf. Straubhaar, T. (2014): Zuwanderung: aus ökonomischen und demographischen Gründen wichtig für die Zukunft, in: Zuwanderung nach Deutschland – Problem und Chance für den Arbeitsmarkt (*Migration is important for the future for economic and demographic reasons, in: Migration to Germany – a problem and an opportunity for the labour market*) - our title translation), Zeitgespräch, ZBW, p. 164 ff (in German).

[10] The scope of benefit exclusions under Social Insurance Codes SGB II and SGB XII is currently being redefined. The bill presented provides for persons who have not been or are not employed in Germany to be eligible for long-term benefits under SGB II or SGB XII only after five years of residence. Cf. Beauftragte der Bundesregierung für Migration, Flüchtlinge und Integration (2016): EU-Bürger, Zugang zu sozialen Leistungen allgemein,
**www.eu-gleichbehandlungsstelle.de/Webs/EUGS/DE/EUBuerger/FragenUndAntworten/SozialeLeistungenAllgemein/sozialeleistungenallgemein_node.html** (in German).

[11] The three main funds are the European Fund for Regional Development (EFRE) to promote competitiveness and job creation, the European Social Fund (ESF), which aims to improve employment and educational opportunities, and the Cohesion Fund, which supports environmentally friendly growth and sustainable development.

[12] GNI indicates the value of goods produced and services rendered by nationals. GDP indicates the value of goods produced and services rendered in a country by both nationals and non-nationals.

[13] Cf. Patterson, B. and S. Amati (1998): Adjustment to Asymmetric Shocks, Working Paper ECON 104 DE, European Parliament, p. 44.

[14] Cf. ECB (2015): The international role of the Euro, p.7**, https://www.ecb.europa.eu/pub/pdf/other/euro-international-role-201507.en.pdf**.

[15] Cf. Tangermann, S. (2013): Der Berg gebiert eine Maus (*The mountain gives birth to a mouse* - our title translation), Wirtschaftsdienst 2013/4 (in German).

[16] Cf. Landwirtschaftliche Rentenbank (2013): Die Gemeinsame Agrarpolitik (GAP) der Europäischen Union nach 2013, Schriftenreihe der Rentenbank Band 27, p. 8 f. (in German).

[17] The German Advisory Council on the Environment regards further reforms towards an environmentally just and sustainable agriculture as one of the greatest challenges for environmental policy in Germany and Europe. Cf. German Advisory Council on the Environment (2016), Environmental Report 2016,
**www.umweltrat.de/SharedDocs/Downloads/EN/01_Environmental_Reports/2016_05_Environmental_Report_summary.pdf**

[18] Cf. European Commission, DG Health and Food Safety, Tobacco Policy, **http://ec.europa.eu/health/tobacco/policy_en**