# Opinion of the European Economic and Social Committee on 'Towards an updated study of the cost of non-Europe' (own-initiative opinion)

(2012/C 351/08)

Rapporteur: **Mr DASSIS**

Co-rapporteur: **Mr JAHIER**

On 14 July 2011, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on:

*Towards an updated study of the cost of non-Europe*

(own-initiative opinion).

The Subcommittee on the Cost of non-Europe, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 19 June 2012.

At its 483rd plenary session, held on 18 and 19 September 2012 (meeting of 18 September 2012), the European Economic and Social Committee adopted the following opinion by 154 votes to 5 with 7 abstentions.

## 1. **Summary**

1.1 Almost a quarter of a century on from the publication of the 1988 Cecchini report, the issue of the "cost of non-Europe" has re-emerged and appears a pertinent, useful perspective from which to take forward the debate on pursuing European integration. However, while the Cecchini report looked at the issue solely from the angle of the single market, it is now essential to go much further than that and discuss the costs of not completing economic and monetary union in Europe. These costs are already extremely high and could grow even more if nothing is done.

1.2 The problem becomes quite acute in a situation where – under pressure from the financial markets as well as new binding institutional rules – the Member States are compelled to step up their efforts to cut their debt. But how can this be done without jeopardising the growth which the financial markets are also calling for? The right way to proceed in order to avoid getting caught in an endless downward spiral and reducing a considerable part of the European population to poverty and destitution would be to pool a certain amount of expenditure at European level and to pursue more ambitious policies. This would enable the EU to create a virtuous circle of growth, construct an economic, industrial and technological identity that will hold fast in the context of globalisation and to defend our social model which has to a large extent made Europe what it is today.

1.3 There are doubtless several methodological and technological disadvantages to raising the issue of the costs of non-Europe in the way suggested in this opinion, but it will serve, most importantly, to allow logically indisputable arguments to be put forward for resolving the current crisis and pursuing and completing genuine economic and political union in Europe. Basically, an irrefutable case has to be made to convince public opinion in the various Member States to find solutions to problems by moving the needle on the subsidiarity gauge towards more and better Europe, at a time when certain political forces are trying to make it the scapegoat.

1.4 In this regard, parts of the EU 2020 strategy are extremely useful, and its aim of promoting genuine convergence particularly through common policies and objectives and closer coordination between Member States at all levels and in areas where the European approach is non-existent or embryonic is to be welcomed. Nevertheless, it could be asked whether the strategy is up to the challenge of achieving genuine economic and political union which can reinforce Europe's position in a globalised world and whether – as things stand – it will come to a happier end than the Lisbon Strategy.

1.5 We believe it is necessary to go further, bursting into the scheduled six-monthly discussions of both the EU-17 and EU-27 euro area leaders and pushing our leaders and citizens to wake up to the need for a Copernican revolution in relations between Member States, Europe and the world. Looking at the "costs of non-Europe" affecting us today and in danger of affecting us in the future is a very good way of advancing in that direction. We must use the evidence for economic, political and strategic benefits to thwart the eurosceptics and call public opinion to witness the fact that Europe is not the problem but must be seen as the solution.

1.6 This approach has the advantage of reducing costs, optimising expenditure and maximising opportunities and provides an appropriate response for meeting current challenges and finding a positive way out of the crisis which will benefit everyone.

1.7 In view of all these factors, a much broader analysis of the costs of non-Europe is needed than that proposed in the study commissioned by the Commission on *The cost of non-Europe: the untapped potential of the European single market*. We do not need yet another report (good though it is likely to be) to clutter the shelves of our libraries and be consulted from time to time by a few very specialised experts.

1.8 The EESC therefore calls on the Commission first to make an as exact an estimate as possible of the full set of costs of non-Europe outlined in this opinion and of their impact on employment and growth. As a second step, we propose that the EU 2020 strategy include calculated objectives for reducing these costs accompanied by a clear action plan and a systematic evaluation of its progress.

## 2. General points

2.1 The question of the cost of non-Europe has been raised by the EESC from different angles in several opinions issued in recent years ([1]). The debate on non-Europe was revived by the European Parliament and the Commission in late 2010, and the Commission has also commissioned an ambitious study updating the work of the Cecchini report ([2]) ([3]).

2.2 The Parliament and the Commission must have opted for this subject and method largely because the Single Market Act II is in preparation, although their papers also stressed the need to address this specific subject and use the scientific evidence ([4]) the approach would produce. The relatively complex models used by the Cecchini report led at the time to an increase of between 4.5 % and 7 % of EU GDP (for the 12 Member States), with the projected creation of a further 2 to 5 million jobs in the unified area. However, these estimates were based on a methodology and basic hypotheses that are open to some criticism and challenges. Furthermore despite their success in communication terms, as far as we know these forecasts have never been reviewed in any way and thus their accuracy has never been evaluated *ex post* ([5]).

2.3 The EESC welcomes the return of the matter to centre stage, but is surprised that this is happening almost a quarter of a century after the publication of the Cecchini report. However, the way of addressing it – using the same old methodology and calculating once again the potential economic impact of removing barriers to trade in the single market – is at best restrictive and at worst simply inadequate for at least two related reasons.

2.4 The first is the danger of getting caught up in a debate on the costs of non-Europe that is purely technical (not to say technocratic), while – despite the existence of extremely complex tools that could be used – what may seem technical is often only an illusion in the social sciences.

2.5 The second – even more fundamental – reason is that current circumstances are completely different. In 1988, the debate focused essentially on the state of the common market, rebaptised the "single market". In this sense the Cecchini report was very useful, as it accurately pinpointed and calculated the obstacles and delays. In so doing, it provided grounds for a recovery plan and contributed to the drive which resulted notably in the Delors plan and its 1992 goal.

2.6 In 2012 it is no longer the single market which is the core of the issue. Not only has the building of the single market progressed considerably in the last quarter of a century but, above all, the context has developed substantially and now includes at least five new key factors which were not present in the late eighties: 1) globalisation is much more advanced, with the arrival on the international market of emerging countries such as Brazil, India and, above all, China, whereas Europe's competitors in the 1980s were primarily developed countries; 2) Europe is now made up of 27 countries whose levels of development, economic structures and social systems are more disparate than was the case in the 1980s; 3) European integration has evolved considerably, with various key institutions such as the euro and the ECB now in place; 4) an economic crisis worse than any since the 1930s is still ravaging Europe, having now become a sovereign debt crisis; and lastly 5) the imperative need for the EU Member States to cut their debts in the coming years.

([1]) See, for example, the EESC Opinion on *Renewal of the Community Method (Guidelines)* of 21 October 2010 or the Opinion on the *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the national parliaments: The EU Budget Review* of 16 June 2011.

([2]) N.B. This aim of the report was to calculate the potential economic impact of removing barriers to intra-Community trade between the Member States at the time. The new study should use the same methodology and adapt it to the problems and challenges of the current situation.

([3]) On 15 December the European Parliament (EP) decided to commission an exhaustive report on the cost of non-Europe. After a tender procedure the Commission awarded the study to a consortium led by the London School of Economics. This report should underpin the debates on the drafting of the Single Market Act II.

([4]) As stated in the methodological memo of 21 February 2011 by the European Parliament's Directorate-General for Internal Policies of the Union: In principle, the justification for estimating these costs/benefits reflects the determination to make decisions based on *scientific evidence* concerning various concepts or principles (of good financial management, effectiveness or sustainability) in order to guarantee the policy's transparency and accountability vis-à-vis the general public (italics in the text).

([5]) Apart from in an analysis by authors unknown carried out 20 years later, available on *www.oboulo.com*. This analysis states that expectations may not have been met but that the quality of the forecasts was generally satisfactory (see *The Cecchini Report – 20 years later*, 16.1.2009).

2.7 In view of these factors, we suggest that the debate be based on the costs of non-Europe in a very different way. The handicap beleaguering Europe now is not so much delays in building its internal market (which, by the way, benefits our competitors as well as Europeans), as the overriding need to establish a strong economic, industrial and technological identity in the context of multi-polar globalisation characterised by increasingly tough competition, from the emerging powers especially, during an unprecedented systemic crisis.

2.8 Discussion therefore needs to consider all the costs of non-Europe resulting from the failure to complete European integration. These costs extend far beyond those which might be occasioned by any remaining barriers to intra-Community trade. The EESC is aware of the difficulties of taking such a broad and political approach to the matter, but it is the only approach that we believe makes sense in the current situation [6].

## 3. **Europe and its achievements**

3.1 Sixty years ago, Europeans' dream of living in peace became reality with the creation of the first European community, the ECSC. The journey towards integration was slow but sure up until 1992. Over the last 20 years, EU enlargement to 27 Member States has undeniably signified a great step forward, but it is the only real progress achieved. The deepening of the EU announced as long ago as the early 1980s has been forgotten. The single currency, the internal market, the cohesion policies or the CAP are certainly major steps forward but incomplete and, above all, not enough to establish a genuine Union.

3.2 Once the subject matter of the debate has been decided, there is, of course, the matter of the debate itself. What does the cost mean? What does non-Europe mean? What, even, does "non" mean? Potentially, everything can be seen as Europe or non-Europe. It is objectively difficult to single out the instruments, policies and public goods concerned, to isolate their respective impact, to determine at what level they would be most effectively employed (European, national or local), to decide in what terms to express the costs and benefits and even over what timeframe they should be analysed (and the list of difficulties does not stop there). Given all these factors, reaching agreement on a rigorous methodological approach and moving beyond agreement on general matters is no easy matter. The European Parliament memo on the methodological aspects helpfully clarifies the issue and perfectly illustrates how complex it is.

3.3 However, whatever the approach, the definitions – even the broadest definitions – of the concept do not enable part of the essential public goods (such as peace or the free movement of persons), produced by European integration in a little over half a century, to be included in the debate.

3.4 Without wishing to attempt to calculate their contribution to Europeans' well-being or to rewrite history (what would have happened if European integration had not taken place in its current form?), it is worth pointing out – at a time when it is becoming more and more in vogue to talk about the costs of Europe – that the history of our continent has not always been such as we have experienced from 1945 to the present day. Peace, prosperity, fundamental rights (as enshrined in the EU Charter [7]), free movement of persons and goods, the possibility of using the same currency across borders, price stability and other benefits which are part of our daily life are currently perceived by many of us (particularly the younger generations) to be absolutely normal, a kind of natural state: border controls between France and Germany would be seen as a tedious oddity while the spectre of a war between European countries resembles a bad-taste joke. Clearly, it would be difficult, if not impossible, to say what the situation would have been like today had we stayed within the bounds of national frameworks, but it does not seem unreasonable to state that European integration has at the least facilitated the emergence of these public goods and has made them very apparent and natural to everyone.

3.5 Does that mean they are now here for ever? This remains uncertain. The possibility of a civil war would have seemed just as absurd and unlikely in Yugoslavia in the eighties, but that did not prevent the extremely bloody wars after the country split up. The other successes, which took years to achieve, can be reversed: establishment of border controls or questioning the validity of the euro area are subjects which commentators, Eurosceptic and/or populist political parties and – increasingly often – traditional political movements have no hesitation in raising in various contexts.

3.6 Lastly, without going into the most extreme scenarios, the question of the cost of non-Europe will be inescapable if certain key institutions, such as the single currency, totally or

[6] The Commission and Parliament are aware of the importance of these issues. While it acknowledges the potential scale of costs related to the external strands of its common policies, the European Parliament memo concludes that a study of this kind is likely to be highly complex and the results obtained too uncertain due to the fact that decisions are dependent on the international institutions and owing to shortcomings in multilateral governance (op. cit., p. 15). As regards the internal challenges, the memo proposes addressing the issue through the 2020 Strategy, listing the 12 areas where EU policies could be beneficial (op. cit., pp. 15-17).

[7] The Charter of Fundamental Rights includes the fundamental rights for the citizens of the European Union and the economic and social rights provided for in the Council of Europe's European Social Charter and the Charter of Fundamental Social Rights of Workers.

partially fail. The UBS Bank has recently produced a study [8] which, despite many weaknesses in its methodology, evaluates the costs of leaving the euro at 40-50 % of GDP for a "weak" country in the first year alone. Even for a "strong" country (such as Germany), this cost would come to 20-25 % of GDP for the first year alone, or EUR 6 000 to 8 000 per inhabitant. This does not include the destabilising political effects, potential "currency wars" with successive competitive devaluations, a resurgence of protectionist policies nationally and the potentially disastrous impact on the expectations of economic operators. These could plunge Europe into an extended slump for several years. No-one can predict the potentially disastrous consequences of these events, but we can expect considerable endeavours to form major new geopolitical configurations, giving rise to new alliances which would be potentially destabilising for Europe as a unified political and economic bloc.

## 4. **No European Union without genuine economic union**

4.1 Contrary to the populist ideas being voiced in certain political quarters in numerous EU countries, in particular since the outbreak of the 2008-2009 crisis and its various manifestations since, current economic problems are not related to excesses by eurocrats in Brussels but to the fact that European integration is fundamentally incomplete. The stated aim of building a monetary *and economic* union has in practice never been achieved. The shameful disinterest displayed by Member States and the European institutions, constantly putting off the work necessary to achieve genuine economic integration and the processes necessary for legitimate and democratic decision-making in the Member States (some of which have gained considerable media attention), have ended up – in the face of an asymmetric external jolt of unprecedented violence – causing a spiralling lack of confidence in the markets. This state of affairs is costing all EU countries more and more in terms of competitiveness, growth and jobs, social cohesion and even democratic legitimacy in Europe.

4.2 The limits of establishing monetary union without real economic union have become apparent as they have led to divergence rather than convergence. Now, Europe no longer has the time to wait for things to come about naturally as history runs its course. The choice is either moving rapidly forward to complete genuine European economic union, including an effective mechanism allowing it to withstand asymmetric shocks, or bearing the potentially explosive costs of non-union in the future.

4.3 The current difficulties dogging the euro, which is essentially an incomplete currency, reflect this situation. The relative levels of public debt in the euro area as a whole, and even of most of the European countries considered to be under threat, are lower than those of other countries described as developed, such as the United States, the United Kingdom and Japan. However, whereas the dollar, the pound and the yen are seen as the currencies of true, mature powers, the euro suffers from its image as a currency whose sovereignty remains rather unclear [9], from a restrictive mandate conferred upon the European Central Bank and from the lack of any real economic governance at European level. For all these reasons, it is vital to achieve a genuine European economic union with rules – including rules that are binding – and clear responsibilities at every level. Only wide-ranging political reform, which would confer the political legitimacy needed on such a union, can make this a reality.

4.4 It is difficult to measure the full costs of this lack of confidence in the markets, which is, moreover, to a large extent responsible for the current recession. However, simply as a result of risk premiums levied on certain Member States in the current period, the cost of non-Europe for public budgets could be evaluated at between 0,4 % and 1,5 % of GDP in 2012 (i.e. between EUR 9 billion and EUR 36 billion) and up to 1,8 % and 2,4 % of GDP in 2013 and 2014 (i.e. EUR 42 billion and EUR 56 billion) respectively for the whole euro zone, with marked differences between countries, of course [10].

4.5 Successfully completed economic integration including, in particular, closer budgetary and fiscal integration subject to strict conditions and monitoring, would have been able to eliminate these risk premiums by putting mechanisms for pooling resources in place at European level (such as eurobonds or other instruments) instead of endless improvised, *ad hoc* emergency containment measures when the situation becomes untenable. The Member States and the EU must find the courage not to act reactively but to adopt coherent institutional reforms and a plan of action in order to find a global response to the current crisis that will set out a genuinely credible vision for the future.

4.6 Recently some steps have been taken in this direction. Regrettably they do not go far enough.

## 5. **The benefits expected by the European Union**

5.1 At the Brussels summit on 9 December 2011, reviving the discipline of the Maastricht stability pact, the parties undertook to slash the Member States' deficits by instituting now automatic penalties for infringements of the golden rule. Under pressure from the financial markets and new binding rules, the Member States will now be obliged to step up their efforts to cut their debt.

(8) UBS Investment Research, *Euro Break-up – the consequences*, www.ubs.com/economics, September 2011.

(9) Henry Kissinger's famous remark in the 1970s, "If I want to call Europe, who do I call?" is unfortunately still apposite.

(10) Vause N., von Peter G. (2011), "Euro Area Sovereign Crisis Drives Global Markets", *BIS Quarterly Review*, December 2011, *http://www.bis.org/publ/qtrpdf/r_qt1112a.pdf#page=4*.

5.2 The basic question put to the political leaders of several European Member States faced with the situation of public debt is a case of trying to square the circle: how to reconcile the lack of confidence in the markets, as everyone is demanding, while – almost simultaneously – kick-starting growth? One way to solve this unsolvable equation is to abolish needless duplication between Member States by working together to achieve economies of scale and, at the same time, lay the foundations for future budgetary recovery at EU level. In this way, it would be possible to avoid or at least curb the depression-inducing effects of beggar-my-neighbour austerity measures, without crippling the public services provided while, at the same time, doing something about the problem of the wastage resulting from 27 – frequently uncoordinated – different policies in the same areas. Clearly, this idea is impossible to implement with a Community budget of only 1 % of GDP and totally incompatible with the suggestion of cutting budgetary expenses across the board, including at European level.

5.3 Total defence spending by the Member States came to nearly EUR 200 billion in 2010 but, in the view of many experts, national defence policies are still fragmented and generally ineffective [11]. Despite many European- and national-level initiatives, appropriations for equipment and R&D defence programmes (almost 20 % of the total budget) are practically the only area of genuinely pooled expenditure and even then, EDA estimates put this at 22 % in 2010 [12]. Studies on this point have posited a savings potential of 32 % or EUR 13 billion for these budget headings alone if expenditure were pooled [13].

5.4 This reasoning could apply to other sovereign areas of the Member States, such as the diplomatic service, customs, border guards, civil protection, combating fraud, etc. Cutting costs in all of these spheres, despite possible disagreement over the exact amount of these costs, is purely a question of political will.

5.5 The fiscal cost of non-Europe is a consequence that simply adds to the budgetary cost. No framework based on common European interests has been established for fiscal competition between the Member States. As a result, mobile bases liable to relocation are undertaxed, while others are overtaxed, resulting in lost tax revenue (and thus a cost) for Europe and the Member States. This situation also leads to imbalance, injustice and above all heavy social costs which are bitterly resented by the general public.

5.6 As regards the social domain, the discussion on the cost of non-Europe is not new. European integration cannot be based solely on the principle of free trade, with competition and consumer well-being taking precedence over everything else and causing downward social levelling. It should be pointed out that, despite frequent allegations of "European diktats", there, too, the problem is not enough Europe rather than too much. Over and above the feelings of injustice and extremely high social costs, particularly in the current context, the conclusions of several studies show that non-Europe in this domain also levies a high economic cost [14]. Thus, empirical data show that a fair and effective social policy contributes to macro-economic stability, not only by diminishing the impact of cyclical phenomena and promoting more effective allocation of resources, but also by fostering the well-being of citizens more generally [15]. What is more, good social policies tend to reduce adverse selection, internalise some external factors and upgrade the labour force and "social capital" in the broad meaning of the term. The European Social Charter aimed to introduce some basic rules in this area for all the Member States. It now seems necessary to go further and envisage a structured framework for the convergence of social policies in order to reduce gross disparities and to ensure that worsening social imbalances and the general increase in poverty do not end up becoming serious obstacles to significant, balanced and sustainable economic growth.

5.7 Fiscal and social competition, which is very poorly regulated in an economic area with few barriers to the movement of goods, services and capital also fosters other trends which are highly damaging in a globalised economy. The gradual collapse of industry in several European countries is an undeniable reality which is vigorously opposed by citizens and poses strategic problems for our countries as these developments are extensive, would be difficult to turn around in the short or medium term and will thus have serious ramifications [16]. The growing inconsistencies caused by national guidelines having primacy in the area of industrial policy have resulted in unilateral solutions which are less than optimal and sometimes even counterproductive [17], at a time when the emerging countries are applying confidence-inspiring industrial policies based on a weak currency and active government

(11) Heuninckx, B. (2008), "A Primer to Collaborative Defence Procurement in Europe: Troubles, Achievements and Prospects", *Public Procurement Law Review*, Volume 17, Issue 3.

(12) This figure is lower than for 2009. EDA database, Defence-Data_EDA participating Member States 2010,18 January 2012.

(13) See, for example, Dufour, N. et al. (2005), *Intra-Community Transfers of Defence Products,* Unisys.

(14) Fouarge, D., *The Cost of non-Social Policy: Towards an Economic Framework of Quality Social Policies – and the Cost of not Having Them*, Report for the Employment and Social Affairs DG, 2003, Brussels.

(15) With regard to the link between inequality and well-being, see also Wilkinson and Pickett (2009), "*The Spirit Level. Why Equal Societies Almost Always Do Better*". Allen Lane, London.

(16) One example is the ECSC, whose demise is said to have accelerated the decline of the European steel industry and the considerable delay in implementing the Galileo project, which is bogged down in governance and financing difficulties due to lack of public ownership at European level.

(17) With regard to rules and funding programmes for national energy policies, for example.

support [18]. Rather than pooling or at least coordinating resources in order to meet these challenges, several major European countries are increasingly compelled, in the absence of a "European Energy Community" [19], to make bilateral agreements with third countries in areas as crucially important as energy and R&D [20]. It is obvious that a European policy would undoubtedly be a much more effective solution.

5.8 The EU's R&D budget for the 2014 to 2020 period is 0.08 % of its GDP, which is 20 to 30 times lower than national budgets. One study concludes that every additional public euro invested in European-scale R&D subsequently brings in EUR 0,93 from the private sector [21]. The Seventh Framework Programme for Community research (FP7, 2007-2013), which has EUR 50,5 billion in funding, shows that this is not just wishful thinking but that a common policy in the field is possible. The impact of the programme is huge: it is estimated that each euro spent by the framework programme results in time in an increase in industrial added value of between EUR 7 and EUR 14. In the long term, macro-economic studies carried out by DG Research predict that the Seventh Framework Programme will have enabled 900 000 jobs to be created by 2030, including 300 000 research jobs. In the same period, increased competitiveness will have resulted in an increase in EU exports of almost 1.6 % and a decrease in its imports of some 0.9 %.

5.9 Moreover, the common industrial policy must imperatively factor in environmental issues and be closely coordinated with EU energy policy. Managing energy issues nationally can give the illusion of making things easier in the short- or medium-term, but it can also prove very costly in the long term, leading to substantial dependence on hydrocarbon-producing countries and causing energy bills to soar. The answer could be to invest in development of energy infrastructure and dissemination of new energy sources with European-scale R&D [22]. According to an Accenture study commissioned by DG Energy, use of renewable energies such as wind energy in the United Kingdom or solar energy in Spain, along with the interlinking of national networks, could cut European consumers' bills by some EUR 110 billion by 2020.

5.10 In the current crisis, the risk of long-term, potentially permanent unemployment is growing. That could prevent individuals from achieving self-fulfilment in the workplace and deny the European economy their potential. Such a situation conflicts with the goal of inclusive growth and calls for an intensive search for long-term solutions, which should, among other things, involve support for inclusive jobs from public funds, with the aim of maintaining working habits, and for retraining activities, with the aim of adapting people to the future needs of the job market.

**Conclusion**

"***It is no longer a time for vain words, but for a bold, constructive act.***"

These words, spoken by Robert Schuman on 9 May 1950, are now more relevant than ever. Decision-makers, please act. The public wants peace and dignity. Harness the huge potential of 500 million Europeans. You do not have the right to let them down.

Brussels, 18 September 2012.

*The President*
*of the European Economic and Social Committee*
Staffan NILSSON

[18] Although the Lisbon Strategy provided for R&D expenditure of at least 3 % of GDP, the EU's expenditure is currently put at 1.84 %, as opposed to 3 % in the United States and 8 % in China.

[19] Joint Declaration from "Our Europe" and from the European Economic and Social Committee on the European Energy Community objective, 21 February 2012.

[20] One of the most recent examples to date is a series of agreements signed between Germany and China on 27 July 2011 on research and investment in green technologies, particularly electric vehicles and carbon capture and storage systems (Peel Q., Anderlini J., "China and Germany launch green initiative", *The Financial Times*, 28 July 2011).

[21] Communication from the Commission: Building the ERA of knowledge for growth COM(2005) 118 final, 6 April 2005.

[22] Syndex, *A low-carbon industrial policy as a strategy for emerging from the crisis in Europe*, report commissioned by the EESC, March 2012, Brussels.