The European Union at 60: on perceptions and significance

by Annette Balaoing and Jacques Pelkmans

Sixty years from the start of European integration, various perceptions on its significance as well as its shortcomings abound. We address the key themes in the European debate, including those that have helped build the momentum towards BREXIT. Paradoxically, the impending exit of the UK from the EU has underlined the numerous benefits of membership, which many have long taken for granted. We examine the benefits of the EU by (1) emphasizing its values, (2) its role in the world, (3) the delicate balance between the EU and national regulatory autonomy. While many of the disillusions amongst the EU citizens contain a grain of truth, the question remains whether a peaceful, consensual and democratic process of integration between as many as 28 countries can realistically be expected to go fast forward and without controversies. This paper is an attempt to inform the current debate by examining the EU's key failings, as well as its fundamental value for the achievement of the European common good.

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Following the conclusion of the Rome treaty in March 1957, the EEC[3] started in 1958. Its 60st birthday - now, of the European Union (EU) - would seem to be a good occasion to reflect on the debate about European integration, both in terms of today's perceptions and as an attempt to assess its overall significance in a detached manner. After a short section explaining the great differences between the initial EEC and today's EU-28, we shall first discuss some of the prevailing perceptions about the EU in the media and in political debates in Member States, including views on its shortcomings and controversies. Subsequently, we shall explore the benefits of the EU, the emphasis on values, the EU role in the world and the fine balance between the EU level and national regulatory autonomy. Section 4 zooms in on BREXIT: what are the reasons the UK gives for leaving the EU, how sound are these and how can one explain the victory of the 'leave camp', even though with a narrow margin. The final section discusses the future of the EU and the Eurozone.

1. Today's EU is very different from the initial EEC

One should first of all realize that the EU of today is very different from, and far more ambitious than the initial EEC, even though the original foundation in the Rome treaty still applies. Three simultaneous processes over time have transformed the EEC into the EU of today. First, a steady process of '*deepening*' the economic and regulatory obligations that Member States have enacted at the EU level. Nowadays, the EU truly represents a two-level government structure. This means that many market-related forms of regulation of risks (such as about health, safety, environment and consumer protection) are no longer decided nationally but jointly, and the enforcement is either done directly by EU institutions (the European Commission and, ultimately, by the Court of Justice of the EU [CJEU]) or by the Member States, but as an 'agent' of the EU. This also applies in some other areas of public policy, although much more selectively, and often allowing much more scope for national governments to follow their own preferred solutions, where relevant. But the two-level government of the EU does not mean that national governments have little left to decide on. Member States still have much (or practically all) to say about education, national health systems and how defence, police and domestic security, domestic infrastructure, social housing and social security and

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3 - The European Economic Community.

'welfare' systems are paid for. Also, the national taxes and the substance and overall size of the national budget are decided nationally [4].

Second, a gradual process of *widening* the scope of EU policies and regulation has taken place. This is due to the conviction of the Member States that in many areas, a degree of common action is more effective than national policies and/or regulation for the pursuit of the relevant objectives. Some of these areas have given the EU far-reaching powers, whereas in other cases, the EU can only selectively act or can only work with certain instruments (say, money for programmes). A major and special instance of 'widening' of the scope of what the EU governs is the monetary union, better known as the 'eurozone'. The Eurozone now incorporates 19 EU countries and more may come in during the next decade. The widening of scope has led the EU to be active in non-economic areas, too, such as border-controls of people and migration and to some degree in foreign policy.

Third, the EU of today has been shaped by a series of *enlargements* such that the EEC of Six has now become the EU of 28 countries. Today, the picture is a little confusing because one country – the UK with BREXIT – is likely to leave the EU whereas some official EU candidate countries line up to prepare for EU membership (e.g. some Balkan countries). One longstanding EU candidate – Turkey – has so far failed to live up to the expected obligations, with tensions of an institutional, foreign policy (including values and Cyprus) and technical nature [5].

2. Current perceptions about the EU

Although the regular Eurobarometer continues to signal wide-spread citizen support for European integration in most Member States, there are minorities in many countries questioning the virtues of European integration, or at least preferring another form of what the EU should and should not do. Moreover, the political or media debates on the EU often bring to the fore critical or outright negative perceptions on aspects of the EU or even the EU as a whole, or its style of operation. Of course, one can hold the view that this only shows how important the EU has become. In a way it would seem to be little different from critical debates on national politics and on what national governments do or fail to do. There is un-

4 - There are EU rules for national budgets but only for their deficits (so, neither size nor structure of the national budget) and about the level of public debt. As to taxes, only VAT and excise taxes (e.g. on alcohol and fuels) are constrained by EU rules for reasons of intra-EU trade; however, the revenues remain national.

5 - The EU side has also not been signalling much enthusiasm – in fact, the Union is divided on eventual Turkish membership and recent conduct by the Erdogan government has cooled whatever support there was in the EU.

doubtedly some truth in these statements but it would be wrong to leave it at that. We consider it worthwhile to take these criticisms seriously and attempt to appreciate the motives behind them.

2.1 On disillusions and a natural neglect of the benefits

A first category of negative perceptions or complaints consists of disillusionments or disappointments amongst citizens, be it that these might differ a lot between EU countries. Such perceptions might include the following:

- the EU would seem to have lost its way; or, is no longer inspiring;
- the EU seems all about rules, not people; the EU is out of touch with the ordinary people;
- not all the complaints about the EU are forms of 'easy populism', indeed, some represent genuine concerns; on the other hand, it is apparent that there is a lot of fake news or messages about the EU taken out of context, on purpose, because much of the integration process is highly technical, making it easy to turn the EU into a scapegoat and sowing confusion amongst citizens;
- those working for or with the EU do not engage in the main political debate on Europe, failing to explain or justify what the EU does;
- the EU is often slow or powerless because of conflicts between EU countries or endless horse-trading; due to cumbersome and precarious compromises, the EU cannot be flexible or falls back on legal rigidities.

Many of these disillusionments contain a grain of truth – the question is whether a peaceful, consensual and democratic process of (mainly economic) integration among as many as 28 countries can realistically be expected to go fast. It is also inevitable that it is highly complex, not least because of the combination of 'deepening' and 'widening'. This complexity is mostly a result of regulation. Regulation requires precision and expertise in each and every sector or other economic activity - this turns off voters whether nationally or for EU issues. Expertise in European integration has become a profession, a specialisation in its own right. Progress - much less highlighted in newspapers and typically ignored in the social media – is often piecemeal and spread over numerous specialised fields in relatively modest, yet meaningful steps. Because of these EU properties, there is a risk that two parallel 'realities' emerge: one is the precise but incredibly complex process of further deepening and widening in numerous specialist fields, and the other consists of a singular focus on a few broad 'themes' or 'visions', leaving out almost all what the EU actually accomplishes every day. Amongst hundreds of initiatives of 'better EU

regulation' in many policy domains, just a few generate headlines and always because of discord. More than in national politics, it leads to the neglect of what the EU does relatively well (because it is often technical and spread over numerous specialisations) and shifts attention to a few hard cases of EU decision-making. The impossibility of getting across to voters what the EU is actually doing prompts EU leaders to follow a different strategy: they attempt to push their 'branding' of EU initiatives such as the 'Energy Union', the 'circular EU economy', the 'Digital Single Market', the 'Capital Market Union', the 'genuine Economic and Monetary Union' and 'the' area of justice and freedom (the core of which is 'Schengen'), to mention a few key 'brands'. NGOs at the EU level simplify still further. Many are 'one-issue' networks, with a natural inclination to signal what is 'bad' or 'too slow' – for such NGOs it is vital to practice 'headline communication' with their members or supporters. Some NGOs have a much broader and stable membership (e.g. the BEUC coordinating the national consumer movements; and ETUC, the national labour unions) and they are capable of contributing to the policy debate in more domains and in more constructive ways. Moreover, many useful things the EU does or promotes are not necessarily exciting, yet usually improve the way the European economy works (and better than when individual EU countries would go it alone). Just one important example: one of the greatest EU accomplishments – still advancing further – is European technical standardisation, but it is hardly ever in the spotlights outside business circles despite its importance in the EU and more and more worldwide [6].

2.2 Shortcomings of and controversies in the EU

At the same time, one must acknowledge that the EU has made some major mistakes and these have fuelled negative perceptions. There are also aspects of European integration – emerging from the widening of the scope of policy powers at EU level – which tend to be more controversial than the core powers assigned to the EU, mainly associated with the 'internal market'. Finally, some of the frictions are rooted in the successive enlargements which have led to a Union of countries with much more diversified preferences, making it – in some areas – much

6 - There are three standardisation bodies at EU level (with Norway, Switzerland and e.g. Turkey as well). CEN & CENELEC promulgate technical industrial and consumer standards [by now, some 25,000] and ETSI deals with digital and telecoms standards [some 43,000]. It is crucial to appreciate that the large majority of these standards are identical to world standards, typically agreed upon in Geneva (in world bodies). The efficiency gains from such standardisation in the EU internal market and in world trade are enormous. Yet, there is little publicity.

more difficult to come to joint decisions seen by voters, parties and some leaders as 'legitimate'.

The most prominent mistake has been the half-baked Eurozone. Member States wanted to have the euro, but without enough of the far-reaching disciplines and selective centralisation in some crucial areas that it takes. During the first ten years of the euro (1998 – 2008) these flaws in the design of the monetary union remained hidden because the macro-economic situation was fairly stable and indeed pro-growth for a number of years whilst financial stability [7] was taken for granted, even without the required EU supervision and common funds. Once the financial and economic crisis began to hit the EU, the major flaws and shortcomings of the regime became evident. It took at least 6 years before the euro regime had been improved by means of more intrusive regulation, EU-level supervision (at first, resisted by Member States) and the establishment of several big EU funds for crisis management (both for banks and for EU countries' budgets). The resolution of the crisis for Greece also turned out to be unnecessarily harsh, especially socially, even though it has to be recognised that Greece has first of all itself to blame. However, some populist criticism is basically unacceptable: having a common euro brings with it common responsibilities for the quality and stability of the currency and loose budget rules are not the way out of any crisis; one can of course discuss what margins one can tolerate, but having large deficits and huge state debt breeds new crises, rather than solving anything.

As to the powers at EU level, the regulatory powers connected to the single market are broadly accepted. The occasional differences of view (or, costs!) are a natural phenomenon and not profoundly different from national regulation, with one exception: it takes a qualified majority of Member States (dependent on the size of the involved Member States, up to 22 or 23 countries) and a simple majority in the European Parliament [EP]. Given this extra complication, it is actually a pleasant surprise how many proposals - but often with amendments – are turned into EU laws. Yet, other powers can be more controversial. Two examples: social legislation and issues of migration. Both are subjected to broad 'visions' and this

7 - This was primarily about the soundness of banks and other important financial operators and well-functioning financial markets, including growth-supporting capital markets. The opposite - financial instability – can generate huge losses and tends to cause contagion among many financial players (also across borders in Europe); if banks and other players do not have significant buffers (as a result of supervisory requirements), they may go bankrupt, further intensifying contagion. If States come to the rescue of banks, the state's budgets explode and with them , the outstanding state debt. A solid regime ought to prevent that taxpayers pay the bill for what is a weak or very incomplete EU regime, whilst the big banks escape bankruptcy. A monetary union without a strong – common - regime for financial stability is not sustainable and might generate big welfare losses at one point in time.

'framing' can sow discord and confusion. In the social area, vague and woolly terminology serves advocates of radical visions which are not embedded in the EU reality of two-level government. Since the EU has no right to tax and cannot levy social charges, the practical application of social welfare policies is a matter for the Member States and they differ enormously in these aspects. Terms like 'Social Europe' and 'the social dimension of European integration' are decidedly unhelpful, yet are employed incessantly as slogans by certain circles. Typically, they conclude that 'Europe is not social enough' as if the EU mimics a state with the power to tax and raise social charges.. What the EU does amounts to essentially two things: one is the adherence to specific principles in the EU treaty [e.g. the equality of men and women at work and otherwise] or by consensus [the new 'EU pillar of social rights'] and the other consists in a set of minimum social requirements in EU directives, leaving quite some space to be more ambitious (or not) for the Member States. However, when it comes to the 'welfare state' and the labour market regimes, most if not all is determined by the Member States. It is therefore inappropriate to point to the EU as not social (enough): Europe is mostly social via the Member States! It is also good to realize that when labour unions want the EU to be 'more social', they do *not* want to Europeanise wage setting, or other aspects of industrial relations. The latter form the very power base of the labour unions, firmly entrenched in the national social and political fabric.

Nevertheless, one element – hardly noticed until two decades ago – is much more complicated and indeed sensitive: when social issues get mixed up with free movement of workers, or migration more generally. Free movement of workers has been accomplished, at least formally, since 1968 and is therefore nothing new in the EU. Free movement is usually economically beneficial for all concerned, as long as wage costs of source and destination countries are not too far apart. If the latter condition is not fulfilled – Portugal in the late 1980s; and 8 new Member States from the Eastern enlargements in 2004 and 2007 – significant displacement effects can occur, especially painful in a crisis when no alternative jobs are readily available. In sectors like the French infrastructure of the TGVs, horticulture in many West European countries, hotel & restaurant business, EU-wide road haulage and construction more generally, tensions have emerged as workers from 'the East' have 'invaded' these segments of the labour markets. The problem is not easy to solve: free movement in some sectors [8] has come to feel like a threat for workers in 'old' Member States, whereas it is regarded as an asset for those from 'the

8 - This is not the case in other sectors - the 'East-West' balance of non-national EU workers in Member States is still in favour of those originating from 'old' EU countries, often active in high-skilled jobs or in business.

East', benefitting from much higher wages than at home. The famous slogan that 'workers with similar jobs on the same work site should earn the same wages' sounds socially convincing, yet, its realization is so limited that it can be termed as being 'anti-social'. Why? By imposing a 'French wage' to mobile workers from 'the East', no enterprise will offer a job to those from 'the East' – because there is no wage advantage and all the rest (housing, language, habits) generates costs or inefficiencies. The upshot is that – de facto – only West European workers will be protected and East European workers cannot exploit free movement anymore. The long-run solution is obvious: when the East is catching up (as is happening but slowly), the wage gap will narrow over time; this is already the case for Slovenia and the Czech Republic. However, in the short run, sensitivities are entirely understandable. And what does one do with truck drivers only operating in Western Europe, but the truck and the driver are from far-away countries in 'the East'? Such drivers earn nearly three times what they earn at home but the construction is totally artificial and the social 'costs' of drivers sleeping in their cabins for 4 – 6 weeks is anything but social. Meanwhile, truck drivers from 'the West' are squeezed out or have to accept deep wage cuts. No wonder all this led to considerable social frictions.

Finally, a series of enlargements have engendered a Union with more diverse preferences. This diversity can be seen as an enrichment, especially culturally, but it also sometimes causes a split in the Council of Ministers or diametrically opposed views in the EP. The gap is greatest with respect to refugees from Asia and Africa, with new Member States showing a steadfast refusal to join the burden-sharing as agreed in the European Summit. The upshot is that practically no refugees are found in these Member States and, at times, the atmosphere is hostile. Another, new[9] phenomenon is the watering down of democratic traditions and of the sacred principles of the rule of law - the fundamental values of the Union – in (so far) two Member States, Hungary and Poland. This is both worrying and puzzling. Worrying because the success of the EU has always been attributed in part to the upholding of values in Europe and worldwide – this challenge is therefore existential. It is also ill-at-ease with the victory over both communism and fascism in Europe since World War II. It is puzzling because the EU has brought these countries a profound sense of belonging[10] and security, besides tremendous new opportunities and economic progress.

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9 - This is not entirely new. In the days of Haider in Austria, similar fears arose but this fizzled out.

10 - Who does not remember the slogan of the famous dissident and later president of the Czech Republic Vaclav Havel, once communism was over? "Now we return to Europe".

3. The benefits and limits of European integration

The benefits of European integration should yield a satisfactory answer to the question why we engage so deeply with many other European countries. The short answer consists of economic benefits and the prevalence of values we share and cherish. At the same time, there are also natural limits to European integration. Precisely, when discussing the benefits of the EU, it is good to be conscious of these limits, both internally and externally.

3.1 The benefits of European integration

The original benefit of the 1951 European Coal and Steel Community and its successor, the EEC of 1957, consisted first and foremost in solidifying peace in Europe. This benefit might seem old and historical nowadays but that would be very short-sighted. Europe has been without war for 7 decades [11] and most former communist countries declared - -when they were seeking EU membership – that the EU would give them a sense of security due to the combination of its size, economic power and values, even though the EU is a civil Community without an army [12].

Since the EEC was founded, the economic benefits have become ever more preponderant. Initially, neither economic theory nor empirical econom(etr)ic analysis had the appropriate tools to properly measure those benefits. Only since the late 1980s has this begun to change, although even today there is still an active debate amongst economists on the probable magnitudes of the additional GDP (national income) attributable to integration and on the effects on e.g. wages, jobs and regions. This is not the place to discuss the many technicalities of this debate [13]. It seems fair to sum up the debate with three key inferences :

- there is a range of results, not one figure, about 'the' economic benefits ; they also depend on the time period and the country;
- despite the great progress in modern empirics, grounded in better economic theory, the very broad and 'deep' economic integration the EU has mean-

11 - Outside the EU and following the dissolution of Yugoslavia, war broke out in the Balkans. Since the end of that war, the EU has been active in former Yugoslavia to help maintain peace and resume development. Slovenia became a member and several other Balkan countries now line up for EU membership.

12 - Of course, a full analysis would show that it is more complicated. Most (though not all) EU countries are also in NATO and this has amounted to a credible threat for the Soviet Union and later Russia.

13 - For the diligent and/or economically trained readers, see surveys including Pelkmans (2011) and Mariniello, Sapir & Terzi (2015) among others.

while achieved cannot be fully captured [14] in these models and data; this implies that the calculated benefits found in the literature tend to underestimate the true benefits of the EU; and

- it pays to be an EU member: the results found in the recent economic literature hover around some 10% of extra GDP attributable to integration. Put differently, EU countries gain some 10% (on average) extra income due to the EU compared to when they would go it alone [15]. Moreover, if the single market would be further 'deepened', as has been agreed but is achieved only excruciatingly slowly, the potential of additional income attributable to the EU would be another 5% or so on average.

This economic approach has suddenly moved from technical economic circles to the political arena with the prospect of BREXIT in the spring of 2019. We shall therefore come back to these benefits in the following section.

However, it would certainly be too narrow to consider the benefits of the EU as being purely economic. The EU is a Community of values and emphasizes this property inside the Union, in the wider Europe and worldwide via its common foreign policy. Inside the EU these values were first simply taken for granted but they have become explicit and codified ever since the fall of communism when former communist countries looked for an anchor and beacon in a freer European environment. EU membership is conditional on adherence to these values such as democracy and the rule of law, respect for minorities and for human rights (both socio-economic and civil liberties) as well as some special features such as the rejection of the death penalty. For decades this was firmly agreed in all EU countries. However, very recently some deviations from what seemed to be an unquestioned heritage have occurred in Poland and Hungary, immediately leading to frictions in the EU. Although the most recent version of the EU treaty (of Lisbon, 2009) allows the sanctioning of such deviant conduct, the EU cannot terminate the EU membership of such countries. The new approach is to put huge 'structural and cohesion' subsidies at issue in case of undermining fundamental values of the EU.

In the wider Europe the values are monitored and discussed in the Council of Europe in Strasbourg. The Council has a long human rights tradition. Its members include Russia and Turkey and many others and this membership offers opportunities for the EU to influence the wider Europe in an accepted institutional context.

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14 - Examples: competitive EU-wide public procurement cannot be included in such models; neither can EU-wide patents and trademarks; nor for that matter cross-border foreign direct investment, despite its crucial importance in understanding the economic benefits.

15 - In an economic model, it is assumed that everything else (in that comparison) remains unaltered.

Nevertheless, the Council has no teeth: it works when well-intended countries are embarrassed by the Council's reports, whereas it is without any influence with obstructionist countries. Hence, much of the genuine EU influence in the wider Europe runs via trade agreements and their conditionality (linked to these values, e.g. Ukraine, Georgia), or, even more powerfully, via the route of prospective EU membership for candidate countries such as former Macedonia, Albania and possibly Serbia).

Worldwide the EU pursues a foreign policy with the values prominent in multilateral organs (of the UN) and in numerous bilateral arrangements, including bilateral free trade areas conditional upon commitments to uphold such values. This is far from easy in a range of bilateral diplomatic contacts and, unsurprisingly, the overall picture is mixed. However, if intense bilateral trade is solely based on WTO [16] rules, as is for instance the case between the EU and Saudi Arabia, it might feel as if the EU applies dual standards: an emphasis on values in some bilaterals whilst remaining silent with Saudi Arabia, known as disrespectful of the universal values in the UN Charter. Of course, the EU does not apply dual standards but simply does not dispose of the means to effectively 'export its (mostly universal) values' to such a country.

3.2 The limits of European integration

We shall briefly discuss two limits of European integration, given space constraints. One is internal to the EU and subjected to the 'subsidiarity test'. This somewhat heavy term [17] refers to the notion that the government should best be close to its citizens, unless this can be demonstrated to be too costly or plainly impractical. In other words, the case for transferring powers to the EU level has to be made in a functional manner on the basis of the efficiency and effectiveness of using the relevant powers at the common level, compared to the national level. Art. 5 of the Lisbon EU treaty, however, employs two key principles. One is the principle of conferral: the EU can only act within the realm of powers conferred by the EU Member States to the EU. The treaty has been amended a

16 - World Trade Organisation in Geneva, setting multilateral rules but shying away from values.

17 - In a part of the literature, this term is said to go back to Pope Pius XI's social encyclical, Quadragesimo Anno in 1931, utilising the word for the importance of the family and local communities – say, the limits to (here) the EU can be justifiably set by bottom-up constraints of both a private and a state character. In another part of the literature, linking up with federalist institutional ideas, the origin should be traced back to the Dutch Republic of the Seven Provinces, a confederation with powerful bottom-up influences from regions, in turn strongly influencing the confederal US constitution of 1776 (less the federal one of 1789).

number of times since 1957. This is a political process under unanimity and a ratification process for all parliaments – therefore, the subsidiarity principle is not necessarily the reason why a certain competence is given to the EU or not. It could just as well be a so-called 'red line' for Member States A (or many of them) – a political refusal to constrain national autonomy – which explains whatever 'conferral' is or is not accomplished during treaty negotiations. Once powers are conferred to the EU, the principle of subsidiarity becomes relevant: even when that power is uncontroversial, it is (in most cases a 'shared' power with the Member States) the subsidiarity principle that should determine how much the EU can 'use' it to pursue agreed EU policies or make EU regulation. Nowadays, every Commission proposal must be accompanied by a subsidiarity test [18] and national parliaments have six weeks to submit a reasoned opinion against the proposed use of this EU power in this case. If 9 national parliaments do this, the Commission must carefully consider these counter arguments and adjust (or not) the proposal or even withdraw it. The Commission is also obliged to propose a 'proportional' use of the powers at stake. In the treaty text itself, several amendments have been introduced over time which also limit what is feared to be 'creeping integration': the almost invisible hollowing-out of a national competence by many piecemeal regulations or implementation measures over time. One example is about health care. The single market incorporates many aspects of health care (e.g. free movement of medicines and of medical devices, free movement of medical staff, all based on harmonised regulation, etc.) but with one big exception: the treaty explicitly forbids that the EU would touch the national health care *systems*, as this is regarded as a typical national socio-political choice, often very different among Member States [19].

Behind all this is the fear that the EU would usurp too much power routinely without any serious test of the rationale. In some debates this fear of an 'EU superstate' is wildly exaggerated and has no basis (see section 1, where we mention the retained powers of EU countries). But it is sensible to subject the process of further integration to a clear test of the rationale and to constrain it by the principle of conferral. It also serves as a permanent political alert not to violate the preferences of national and regional communities. However, in such a diverse Union, this is of course not always easy.

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18 - Normally, it is included in the compulsory Impact Assessment published on the same day as the proposal.

19 - Systems can be largely market-based or run partly or fully by the State, with distinct payment obligations for citizens and taxpayers across the EU. For the EU, this is a taboo area.

The other limit worth discussing is what the EU role can and should be in international relations. The EU is not a super power and – as such – has neither an army nor nuclear weapons [20]. It rightly presents itself as a 'civil' Community and it employs 'soft power'. Soft power is based on firm adherence to universal values in foreign policy and, in addition, manifests itself in trade and investment policy as well as development policy. In the latter policies, the EU is widely recognised as a world player. Right from the beginning, the EU has been a strong advocate of the GATT, now WTO, and against unilateral protectionism. For decades it has been active on all fronts of trade policy, be it multilateral, 'pluri-lateral' [21], regional and bilateral (but WTO compatible). Since the Lisbon treaty, the EU is also responsible for investment treaties with 3rd countries and this has now led – after some turbulence – to a proposed global reform of the investment protection parts of such treaties, with a new multilateral court for arbitration. Also, in development policy, the EU is the world's biggest donor if one adds up multilateral, bilateral and separate national aid flows.

Nevertheless, the limits of the EU role worldwide are easy to discern: it is not a member of the UN Security Council, the EU as such has no formal role or vote in the IMF (although it has the second most important currency in the world) and its voice in crisis areas such as the Middle East is respected but far from decisive. In foreign policy, the EU's influence would be bigger if EU countries would not seek to pursue their 'own' prominence, especially not the bigger EU countries. In other words, the 'common EU foreign policy' is not always so 'common'. However, even small countries can deviate from the common line, as (nowadays) Hungary is inclined to do with Russia and China. Some EU countries are still 'neutral'. The EU policy of common sanctions vis a vis Russia after the seizure of the Crimea is volatile due to a rather loose commitment in foreign policy.

4. BREXIT explained: implications for European integration

Disintegration – which is what BREXIT stands for – is rare in the world. This has a simple reason: very deep economic integration only occurs inside countries. The EU is totally unique, with its deep integration, without being a country! Canada has gone through nine attempts of the secession of Quebec since 1867 – lastly in the late 1980s – but every time voters or regional governments gave up. Czechoslovakia broke up in 1993 (whilst keeping a customs union and a common labour market), a unique case.

20 - Only France and Germany have a small arsenal of nuclear weapons.

21 - Quasi-multilateral trade agreements with a subset of WTO partners but under WTO rules.

We shall briefly discuss the case for BREXIT as presented by Brexiteers and try to help the reader assess it. We shall also come back to the literature on the benefits of the EU. On the latter, the question on everybody's mind is obvious: why leave the EU if it is so clearly advantageous?

Although the referendum on BREXIT in 2016 was chaotic and the atmosphere was poisoned by many false messages as a tactic to influence voters improperly, it is good to first observe that the referendum was not so successful as the BREXIT camp claims. Only 37 % of the eligible voters voted for BREXIT – many stayed home, especially young people who later showed regret as they massively are in favour of staying in. Counting only those who actually voted, the difference between the two camps was only 2%, similar to the 1994 referendum in Norway which led to a crisis in the country. What were the arguments of the Brexiteers?

The general slogan was 'taking back control'. As we shall see swiftly, this easy slogan may have moved some voters but its substance is at best very thin, at worst a deeply misleading phrase. The areas for 'taking back control' consisted of (a) intra-EU migration, (b) the customs union, (c) the rulings of the EU Court of Justice [CJEU]. Migration inside the Union is governed by the principle of free movement of workers which cannot be weakened or curtailed. This absolute principle became controversial near the end of the crisis in the UK – before (say) 2012/3 the inflow of workers from Central Europe was greeted with relief as it helped to overcome specific labour shortages and added to economic growth. Former PM Cameron asked the EU that the UK be allowed to put a quota on annual inflows but this measure would never survive a case before the CJEU. The problem is merely about intra-EU migration, not immigration from the rest of the world because there the UK has never ever given up its freedom to control the inflows. UKIP - the anti-EU party which has collapsed since the referendum – exploited an anti-migration sentiment as the major EU issue for the UK and the only reason why the Conservative party followed suit was the great fear of it breaking up if they would not keep voters from following UKIP. Since the BREXIT referendum quite a few Central Europeans have left the UK and, unlike before, they are not compensated by new inflows; farmers and others complain again of shortages. Although the sensitivity has increased over the last decade, (intra-EU) migration is simply not a major factual issue and its curtailment after BREXIT might turn out to be minimal or even zero.

The customs union (CU) is more problematic. Almost nobody is in favour of exiting the EU customs union given the costs for business and the risks of occasional long queues of trucks. What then is the argument? It is very much the mind-set of the hard-line Brexiteers. For Brexiteers this means that staying in the customs union is losing control, and exiting the customs union implies 'taking

back control'. This is certainly true if one is part of the CU as a non-member of the EU, like Turkey, which has a customs union with the EU since 1996 but has no say whatsoever when the EU negotiates free trade areas with 3rd countries. The EU deal with Turkey is an objectionable one; that is clear: Turkey must accept the consequences of every free trade area the EU concludes but never gets the same market access to these 3rd countries unless and insofar as these 3rd countries are willing to mimic the deal they made with the EU. And in trade policy, there are few gifts, i.e. Turkey at times gets nothing or ends up in acrimonious negotiations.

In the case of the UK, it can avoid the Turkey situation if a solution is negotiated with the EU in which the UK (given the customs union) can participate in EU trade negotiations, without having a veto - the EU can then condition any deal with a 3rd country in ways to be determined such that the UK can share in the gains. In April 2018 the House of Lords has voted in favour of staying in the EU customs union, showing the discord in Westminster.

In the BREXIT camp there is a lingering frustration with a few rulings of the CJEU. The CJEU makes hundreds of rulings every year and frequently overrules what Member States legislate (at times, recalcitrantly). These frustrations barely exist in this form and to this degree outside narrow euro-sceptic Conservative circles in the UK and also not or hardly in other political parties in the UK. Yet, this is played up beyond any reasonable proportion. In fact, the UK has always been a front-fighter in favour of a deeper and better single market and the CJEU was and is crucial for that. Nevertheless, it is asserted that BREXIT would 'give back control' to the Brits because the UK would no longer suffer under the 'joke' of the CJEU. This is a U-turn very hard to imagine. The very least one can say is that this is the wildest of all generalisations and moreover completely ignores the enormous contribution the CJEU has delivered incessantly to the internal market development.

For the impartial observer, it follows that there simply is no case in favour of BREXIT, quite apart from the expected economic effects. Note that the UK has moved closer and closer to a 'soft BREXIT', that is, a BREXIT that retains as much as possible from the EU in the UK and especially the internal market. If the UK would keep on mimicking the single market –without formally being 'in it' – including most or all EU regulation (as it now says), and if it were to stay in the customs union (as the government might be forced to accept), and also accept a dispute settlement system which would give prima facie precedence to the CJEU rulings, unless the UK would explicitly 'back out' in a case (such an idea has been floated as an option), one seriously begins to wonder whether BREXIT cannot be quietly shelved.

The economic simulations of a range of models in the UK and elsewhere (including the OECD and the IMF) differ somewhat but they all overlap in that the economic benefits of being in the EU will be lost in different degrees [22]. That means that BREXIT is costly for the UK. And it will be more costly if unfounded assertions by radical BREXIT ministers (Johnson, Davis and Fox) about 'better' free trade deals with e.g. the US and China than the EU could conclude, turn out to be yet another misleading promise. The conclusion is that this BREXIT experience has taught many Europeans how valuable the EU is for them, even though the Union is imperfect.

5. The future of the EU and the euro

The future of the EU seems reasonably bright but its weakness of communicating effectively with voters will have to be improved. The Italian election results in early 2018 are much more about domestic mistrust and low growth in Italy than about the EU, yet it is undeniable that populist parties are critical about the EU in some respects (e.g. immigration and refugees where Italy suffers from a lack of solidarity in the Union). Whether one likes it or not, for the EU the flows of refugees and 'economic immigrants' (without any chance of getting residence) from the Middle East and some African countries have to be controlled tightly, short of destroying the goodwill of the people in many EU countries. With a more dictatorial Erdogan firmly in government, and highly unstable governments in some other countries (and Libya with 3 governments), this is a difficult act to accomplish.

The economic crisis is over and all EU countries are growing again, and some of them rapidly. The new Member States' economies are beginning to catch up again with the 'West' which is crucial for the Union to retain its credibility. The tedious and slow deepening of the single market under the respective 'brands' (see section 2) has to be accelerated. It is important that the new European Parliament (after the summer of 2019) will comprise a stable middle segment of pro-EU parties as the basis for relatively sound legislation, but this is not all that certain one year beforehand. Equally key is that the leading EU powers have enough political space at home to support progress in European integration. Finally, the EU in 2019 might count 27, no longer 28 countries. Also, that is uncer-

22 - A survey of 10 models is provided in Emerson, Pelkmans et al. (2017), in a study for the European Parliament. The only study leaving some scope for less negative effects is the one produced by the BREXIT camp, where extremely radical policies are introduced along with BREXIT (i.e. the study does not measure BREXIT alone) on the basis of daring assumptions.

tain given the volatile political situation in the UK and the possibility of the fall of the May government, perhaps followed by new elections. If BREXIT would push through, even the EU will suffer a little economically; if BREXIT fails, it will nonetheless leave deep scars.

Perhaps more important still is the future of the Eurozone. The relevant new laws and EU bodies since the crisis and the new rescue and resolution funds give much more confidence that the Eurozone can benefit from financial stability and sound monetary and fiscal conditions. But debt levels (both private and state) are still high and this might eventually spell a new crisis if no measures are taken. The two key issues to resolve for the Eurozone are risk sharing (in case of deep disturbances) and NPLs (non- performing loans) outstanding with banks. Risk-sharing has a bad name in e.g. Germany because – if the receiving country is too weak – the intra-eurozone guarantees or loans might eventually turn into a 'transfer', and the money might not be returned. This is the major reason why Germany has, so far, been against a European Deposit Insurance System, despite its beneficial properties to stabilise the Eurozone. However, risk-sharing can also be based on market-transactions of private economic agents, especially via capital markets and cross-border credits. Here the US shows the EU a shining example – such private risk-sharing lowers the costs of a financial crisis a lot. This is now well realised in Europe, but what is in the way are lingering NPLs in banks of some Eurozone countries (Greece, Cyprus, Italy, for example). Much has been done to lower NPLs and make banks more robust. But not enough. For these countries, the NPL reform is critical and urgent. For the Eurozone, only very low NPL rates greatly lowering the risks for banks will form the acceptable basis to complete the 'genuine' monetary union and obtain a trustworthy and beneficial monetary union. In turn, this renders the expansion of the eurozone more likely.

European integration remains a fascinating and beneficial experience. Exiting has been shown not to be a serious option. But the Member States should do more to support the process, rather than merely acting upon domestic short-run politics.

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