The benefits of EU membership are not measured by net operating balances

KEY FINDINGS

National operating budgetary balances (OBBs) do not take into account all of the economic and non-monetary benefits that Member States gain from EU membership. In many policy areas with cross-border characteristics and demand for critical mass, common action at the EU level may lead to better results than fragmented national initiatives.

Several studies show that the Single Market has increased employment and growth. The effect of the Single Market deepening since 1990 has been quantified by 3.6 million new jobs. Additionally, EU GDP would be 8.7% lower if there had been no Single Market integration. The average EU citizen gains €840 more per year thanks to the Single Market. While all EU citizens benefit from income gains thanks to the Single Market, these effects are higher for Western Europeans in absolute terms. Relative to GDP, gains and losses are more similar.

Beyond direct gains in GDP, income and employment, the EU produces a range of less quantifiable yet arguably more important benefits. The Single Market – and indeed the EU – is not just concerned with business. It also puts in place regulations protecting workers, consumers and the environment. For example, the presence of air pollutants has fallen dramatically since 1990, partly thanks to EU regulation limiting their emissions.

Member States have access to information-sharing systems that help deal with cross-border issues, including food alerts, health hazards and criminal prosecution. Thanks to the market power of the EU, Member States are able to negotiate trade agreements that lead to employment creation and growth, as well as promote the EU values of human rights and environmental protection. The EU framework has historically helped to promote political stability, international ties, and democratic and liberal values.

Benefits of EU membership are ignored during EU budget negotiations

This briefing presents an account of the monetary and non-monetary benefits that Member States enjoy thanks to their EU membership. **EU policies have large national political and economic returns**, even though they may not be reflected in EU budget allocations. In particular, these benefits are not usually considered in the calculation of national operating budgetary balances (OBBs) and are thus omitted from EU budget discussions. The crucial aspect of these benefits is that they arise from EU membership and could not be developed elsewhere (i.e. national level). Their unique characteristics – which include a cross-border nature, the need for a critical mass, and network externalities – mean that the related benefits can only be reaped from action at the EU level.¹
This briefing is one of four that aim to expose the limitations of the operating budgetary balances (OBB) indicator, which results in inadequate political negotiations on the EU budget. These accompanying briefings clarify inter alia that OBBs are a misleading yardstick even for a Member State’s fiscal advantages. In this briefing, we focus on the non-budgetary advantages of EU membership that are completely ignored in a narrow OBB exercise.

Economic benefits of EU membership

Member State economies benefit from EU membership. This is mostly due to the Single Market and economic integration that leads to higher competition, efficiency and intra-EU trade volumes. Similarly, the EU allows countries to have a better relative position when it comes to international trade. Member States currently have access to global markets thanks to the trade agreements negotiated at the EU level. These factors have positive effects on employment, growth and knowledge diffusion. Operating budgetary balances calculations fully disregard these effects.

The Single Market and economic integration

The Single Market is a border-free area where goods, capital, people and services move freely. Importantly, it also allows for the free movement and exchange of data, knowledge and information. The Single Market aims to boost competition and trade, improve efficiency and regulations, raise quality, reduce prices and technical barriers, and harmonise national rules. While clear economic benefits are arising from these, Single Market rules also promote consumer and environmental protection, employment, and health and work standards, which will be discussed later in this briefing.

Importantly, the Single Market is not like any other free trade agreement (FTA). The latter often focus on a selection of sectors and individuals, while the former is, in essence, non-discriminatory and applies to all citizens and sectors. Contrarily to FTAs, Single Market rules (e.g. competition and state aid policy, mutual recognition) are enforceable by supranational bodies, particularly the European Court of Justice (ECJ), with EU law having supremacy over national legislation.

By reducing trade barriers, supporting competition and cutting prices, the Single Market contributes to increases in trade flows, GDP and employment. In 1988, the Cecchini Report – a highly influential contribution in preparation for the completion of the Single Market in 1993 – estimated the economic gains from the Single Market to be at European Currency Unit 200 billion. While it is difficult to estimate the growth effect directly related to the Single Market precisely, it is clear that EU economic integration is partly responsible for the huge increase in intra-EU trade and its related growth and employment. For example,
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Recent empirical studies suggest that **trade in goods and services has increased by 109% and 58% respectively, thanks to the Single Market.** EU GDP would be **8.7% lower if there were no Single Market integration** (see Figure 1).

All countries benefit from Single Market integration. Graph 1 of Figure 1 shows the amount citizens gain in welfare every year (in 2016 values). It is quite clear that Western Europeans benefit more in absolute terms, in terms of welfare, than those from Southern and Eastern countries. Reversely, Graph 2 shows the relative impact and how much smaller national GDP would be if tariffs and non-tariff barriers, eliminated by the Single Market, were reintroduced. The geographic picture is more nuanced, as the countries registering the highest losses are Luxembourg, Slovakia, Czech Republic, Belgium, Hungary and the Netherlands.

Figure 1. Economic benefits of the Single Market

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The relevance of the Single Market for international, non-EU trade

The presence of the Single Market is of crucial importance when negotiating trade agreements with third countries. Arguably, **Member States alone would not have the same success as EU trade policy does in signing trade agreements.** Firstly, third countries are interested in accessing one of the world’s largest export markets. Secondly, the EU has the critical mass to have a power position in trade negotiations, which single Member States would lack. This power allows the EU to set high standards with trade partners in strategic, non-economic areas, such as the protection of human rights and the environment (to be discussed further). **The EU currently has 42 trade agreements in place with 73 third countries.**
Trade agreements are central to the EU’s economy. **Countries with whom the EU has preferential agreements account for the largest share of EU exports and imports of goods** (33% and 29% in 2018 respectively).\(^7\) Trade agreements are expected to have a positive, long-term impact on EU employment and growth. The opportunity to export more easily to larger markets increases the demand for goods and services of EU exporting firms, as well as others that belong to their supply chains within the Single Market, leading to more employment opportunities in the EU. It is estimated that **36 million jobs in 2017 were dependent on extra-EU exports.**\(^8\)

Thanks to the Single Market, the EU can attract large amounts of foreign direct investment. Foreign companies operating in the EU bring positive spillovers, including employment creation, transfer of technology, new skills and know-how. Similarly, through trade agreements, EU firms have access to additional markets for investing and setting up operations abroad.

**Non-monetary benefits of EU membership**

OBB calculations fail to account for benefits that cannot be computed quantitatively and can only be appreciated qualitatively. Nevertheless, they remain of utmost importance for citizens and countries: they span from **advantages that can be noted in daily life** (e.g. free mobility of citizens in the choice of their residence country, food safety) to **general principles** (e.g. democracy, peace, security). These policies have large political and economic returns, but only receive a relatively minor share of EU spending. Therefore, indicators that are based on budgetary payments like Operating budgetary balances are inherently incapable of accounting for these benefits of EU membership.

**Individual protection**

1. **Worker protection**

As citizens may work across different Member States throughout their life, their social security rights must be protected by a common system. The EU has no say on the operationality of national social security systems but does ensure that **other EU nationals and exportability of benefits are not discriminated against.**

EU laws have put in place minimum labour standards. For example, the EU established **common norms for the protection of workers** with the Working Time Directive 2003/88/EC, including a maximum working week of 48 hours, four weeks of annual paid leave, the entitlement to rest breaks during working hours as well as rules on night work. Similarly, the European Framework Directive on Safety and Health at Work 89/391 EEC sets general principles related to minimum health and safety requirement and has been the basis for other directives, setting minimum obligations for employees and employers (e.g. protection from exposure to carcinogens at work).
2. Gender equality

Gender equality and the fight against gender-based discrimination have become values enshrined in the Treaties. Although more progress is needed, EU regulation has made significant steps in the right direction in the past decades. For example:

- Council Directive 79/7/EEC provisions the equal treatment between men and women in the field of social security, including in cases of invalidity, sickness, unemployment and old age.
- Council Directive 92/85/EEC provides measures on improving the health and safety of pregnant workers and workers who have recently given birth or are breastfeeding.
- Council Directive 2004/113/EC provisions the equal treatment of men and women in the access and supply of goods and services (e.g. costs related to pregnancy should not be considered in the calculation of insurance premiums).
- Directive 2006/54/EC ensures equal treatment in accessing employment, promotion and working conditions; and enshrines the principle of equal pay for equal work.

3. Consumer protection

EU legislation sets rights for consumers, standards for products and information, and processes to deal with risks. Given the cross-border nature of the economy, it is of utmost importance that these rights and rules are made unanimous across the EU, to avoid grey areas resulting from different national regulation. Examples of benefits arising from EU consumer protection include:

- Passengers on various modes of transport have rights when it comes to realtime information and compensation for cancellations and/or delay.
- Consumers may always return an online purchase within 14 days and be reimbursed.
- Citizens may not be charged roaming fees for calls, SMS and data when they are in other Member States.

Box 1. Food and product safety

EU-wide systems for information sharing, product tracking and alert sending are crucial to ensure that dangerous food and products are recalled from the market.

- The Rapid Alert System for Food and Feed (RASFF) swiftly shares information concerning food safety risks and hazards to all countries.
- The Trade Control and Expert System is an EU programme that tracks all movements of plants, seeds, food and animals (including imported ones) across the Single Market, thus facilitating safety alerts.
- The Rapid Alert System for Non-Food Products is notified about health hazards of products by users, and in turn shares the information.


Standard-setting

Standards stipulate technical requirements for products and services. In Europe, three standardisation organisations can ratify a European Standard by bringing together relevant stakeholders. Additionally, the word ‘standard’ is used to refer to rules and laws that generate essential technical requirements for businesses operating in the Single Market. The substitution of multiple (and potentially conflicting) national standards with a common one clearly generates positive effects. By adopting the common standard, EU firms can access a larger market more easily. It has been estimated that standards have contributed to GDP growth rate (e.g. 0.8% of French GDP growth between 1950 and 2007, 0.9% of German GDP growth between 1960 and 1996).
EU standards also have an international dimension. If the standard is widely applied within the EU, especially in sectors open to international trade and actors, it has the potential of being taken up by third parties and becoming a global standard. In this case, EU firms gain from a significant competitive advantage due to their initial compliance and familiarity with the standard.

Box 2. Data protection on track to become a global standard

The General Data Protection Regulation (GDPR) strengthens and protects users’ rights over their own data, and enhances enforceability by allowing the penalisation of non-compliant actors. GDPR is an example of how EU rules become, in practice, a standard. GDPR has a strong international dimension, as it applies to all cases involving an EU citizen. Despite its significant compliance costs and the ongoing debate on how the Regulation could be made more cost-efficient, it has the potential of becoming the template for the global harmonisation of data protection. This would give relevant EU workforce and already compliant businesses a clear competitive advantage. Brazil, California and Australia are already exploring how to align their own data protection laws with GDPR.

Free mobility

Free mobility offers fundamental liberty of locational choice – which is a value in itself – in addition to economic advantages. Asides from savings resulting from visa-free travel, free mobility of workers and students bring advantages in terms of the enhancement of human capital, exchange and diffusion of knowledge and information, and creation of cross-border networks. To illustrate the magnitude of student mobility and provide a non-monetary indicator of related benefits, Table 1 shows the number of participants in Erasmus+ per selection of Member States. Taking into account the population sizes, it emerges that some countries have a larger proportion of exchange students, consequently reaping advantages.

Table 1. Erasmus+, higher education student flows (call 2016)

<table>
<thead>
<tr>
<th></th>
<th>Outgoing</th>
<th>Ingoing</th>
<th>Erasmus participants as % of the national population</th>
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<tbody>
<tr>
<td>France</td>
<td>43,905</td>
<td>28,722</td>
<td>0.108%</td>
</tr>
<tr>
<td>Germany</td>
<td>40,959</td>
<td>34,497</td>
<td>0.091%</td>
</tr>
<tr>
<td>Italy</td>
<td>35,666</td>
<td>26,294</td>
<td>0.103%</td>
</tr>
<tr>
<td>Poland</td>
<td>15,453</td>
<td>16,908</td>
<td>0.085%</td>
</tr>
<tr>
<td>Romania</td>
<td>7,202</td>
<td>3,541</td>
<td>0.055%</td>
</tr>
<tr>
<td>Greece</td>
<td>5,259</td>
<td>4,688</td>
<td>0.093%</td>
</tr>
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Box 3. Mutual recognition of academic qualifications

The EU has strongly facilitated the mobility of workers and students by ensuring that academic qualifications from different Member States are mutually recognised by universities and employers. This is possible thanks to the Bologna Process which harmonised the structure of higher education and put the European Credit Transfer and Accumulation System in place.
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However, there are two sides of the free mobility coin. On one, it allows countries to access the workforce they need and workers to choose where to settle. On the other, this can lead to a ‘brain drain’, where skilled and often young workers leave less dynamic areas with fewer work opportunities and lower wages. Meanwhile, more dynamic areas – often located in the net payer countries – can attract additional workforce.

Security

**Transnational threats** (e.g. terrorism, organised crime, human, arms and drug trafficking, money laundering) **created the need for intra-EU collaboration** and pushed the EU to develop common responses and rules. Article 83 TFEU allows the European Parliament and the Council to “establish minimum rules concerning the definition of criminal offences and sanctions in the areas of particularly serious crime with a cross-border dimension”, including those mentioned above. For example, this legal basis has been used in the Council Framework Decision 2002/475/JHA on combating terrorism.

An example of European added value (EAV) in internal security is the European Arrest Warrant which allows a Member State to issue an arrest warrant that is valid throughout the EU. Consequently, Member States cannot refuse to surrender their citizens to another. This tool is necessary for a border-free zone where criminals can easily move to another country. Similarly, the EU Agency for Law Enforcement Cooperation (Europol) provides operational support, analysis and expertise to Member States and ensures the correct exchange of information and data. These services are crucial to tackling crimes of a cross-border nature.

International soft power

**The EU’s large market power allows it to exert significant international soft power.** For example, the EU included trade and sustainable development chapters in the FTAs with South Korea, Canada and Japan. These chapters foresee binding obligations on labour rights and environmental protection enshrined in international agreements (e.g. the Conventions of the International Labour Organization). Secondly, coercive economic measures (e.g. sanctions against a third country) have more weight and effectiveness when they are adopted by the EU bloc rather than a few Member States.

The involvement of the EU framework and institutions in international matters has led to agreements that would have been more difficult to achieve if Member States were acting alone. This is the case of the Joint Comprehensive Plan of Action (JCPOA) or ‘Iran deal’, where the convening power and direct involvement of EU bodies have supported the three Member States directly involved. Regardless of the recent difficulties in implementation, the very fact that the JCPOA could be achieved in the first place owes to the action and perseverance of the EU, in close dialogue with other partners. Similarly, **the Paris Agreement is an example of how Member States benefit from the involvement of the EU institutions and climate diplomacy to achieve common objectives at the global level.**

The ‘power of the bloc’ helps EU countries achieve their respective objectives. This has been evident during Brexit negotiations, where Ireland’s large negotiating power against the UK is due to the support of the EU.
Environmental protection

The protection of the environment is a policy area where benefits of EU common action are evident, given its cross-border nature. Water and air pollution do not stop at borders, thus harmonised standards and common rules are beneficial for all actors and avoid freeriding. EU directives on air pollution date decades back: Council Directive 88/609/EEC set limits on the emissions of sulphur dioxide and oxides of nitrogen. As shown in Figure 2, the emissions of these and other major pollutants have fallen dramatically since 1990. Member States that do not respect pollution limits can face infringement procedures and be legally pursued by the ECJ, which may result in financial sanctions. Recently, the Court has ruled that “France has systematically and persistently exceeded the annual limit value for nitrogen dioxide since 1 January 2010”.13 While technological advance helps the shift towards cleaner practices, the incentive provided by legal limits on emissions is of significant importance. As shown by the existence of infringement procedures, it is uncertain whether Member States would have drastically reduced emissions of pollutants if it were not for EU legal limits. Similarly, EU regulation provides a strong incentive, as well as financial assistance, to countries wishing to join the EU to ameliorate their air quality and strengthen their environmental institutions.

Figure 2. Improving air quality in the EU

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Peace

It is a historical reality that longstanding enemies like Germany and France, with a past of bilateral wars, have learned to become close partners with extensive ties and to undertake common policies within the institutional set-up of the European Communities and the Union. Hence, there is no doubt that the EU, alongside other supranational organisations promoting peace and security (i.e. NATO, UN, Council of Europe) is one significant explanation of the outstanding peace performance of the post-1945 European continent. In addition to peace, the EU has allowed its citizens to familiarise with different cultures and overcome prejudices on a more personal level. The value of peace in Europe cannot be quantified in monetary terms but is still clearly of paramount importance. For these and other reasons, the EU won the Nobel Peace Prize in 2012.

The EU has been a facilitator of cooperation and development across the two sides of the Northern Irish border. EU membership created the conditions for the creation and implementation of the open border in Ireland. Firstly, the Single Market effectively ended border checks. Secondly, UK and Irish leaders met as peers within the EU intergovernmental framework, thus favouring trust. Thirdly, the EU invested heavily in cross-border infrastructure and cooperation.

“The union and its forerunners have for over six decades contributed to the advancement of peace and reconciliation, democracy and human rights in Europe. […] Today war between Germany and France is unthinkable. […] The division between East and West has to a large extent been brought to an end; democracy has been strengthened; many ethnically-based national conflicts have been settled. […] The stabilizing part played by the EU has helped to transform most of Europe from a continent of war to a continent of peace.”

—The Norwegian Nobel Committee

Democracy and the rule of law

The EU framework and its bodies provide an additional level of checks and balances over national governments regarding values and liberal democratic standards. In case of deficiencies at the national level, the EU provides citizens with further protection of their rights. Notably, Article 7 TEU sets out mechanisms for the EU regarding Member State’s violations of EU values, including democracy, the rule of law and human rights. The process can result in the suspension of a country’s membership rights, including voting rights. However, considering that the decision is taken at unanimity in the European Council, the procedure is notoriously incapable of sanctioning more than one Member State.

The prospect of EU membership is a very strong incentive for reforms. To fulfil accession conditions, candidate countries must have democratic institutions and respect the rule of law and human rights. In post-dictatorship Greece, Portugal and Spain, the prospect of EU accession was an important driver for the strengthening of their democratic institutions. Today, democratic reforms and respect for the rule of law in the Western Balkans are guided by the pre-accession criteria and EU support. While incentives are very high for candidates, these may become less effective once countries become members.

Although recent developments in some Member States point to the limitations of the EU’s apparatus for protecting democracy and the rule of law, one can assume that had those countries not been in the EU, their democratic situation would have been even worse.
Conclusion

This briefing has presented a non-exhaustive list of how EU membership creates advantages for Member States, especially in policy areas where acting alone would lead to suboptimal results. Budgetary net balances like OBBs completely overlook all of these benefits. From the extremely narrow perspective of Operating budgetary balances, the only advantage of EU membership is money flowing back into a Member State. Such an indicator cannot result in anything but a distorted caricature of the true cost-benefit analysis of EU membership. As negotiations on the next Multiannual Financial Framework give extensive weight to such a poor compass (read Operating budgetary balances), the resulting decisions will be against the interests of European citizens and neglect policy areas that typically receive very little common spending but have a substantial potential to create European added value.


4 The model used by the authors is the ‘gravity model’, which assumes that trade volume increases with the size of exporting and importing countries, and decreases as distance between countries increases. Mion and Ponattu start from a counterfactual scenario characterised by the removal of the Single Market, and derive the boosting effect of the Single market on several variables: productivity, welfare (income) and markups. Mion, Giordano and Dominic Ponattu (2019), “Estimating economic benefits of the Single Market for European countries and regions”, Bertelsmann Stiftung.

5 The model used by the authors is the ‘QUEST model’, the global macroeconomic model developed for macroeconomic policy analysis and research. Mayer, Vicard and Zignago use a gravity model which results in more conservative estimations on GDP losses caused by the Single Market removal. Their estimated losses for the EU28 vary from 4.4% to 5.5%. See Mayer, Vicard and Zignago (2018), op. cit.


8 Arto, Inaki; José M. Rueda-Cantuche; Ignacio Cazcarro; Antonio F. Amores; Erik Dietzenbacher; M. Victoria Román and Zornitsa Kutlina-Dimitrova (2018), “EU exports to the world: effects on employment”, JRC113071, Brussels: European Commission.

9 Article 19 TFEU allows the adoption of legislation to combat discrimination in many areas, including on the basis of sex. Equal pay is established in Article 157 TFEU.


11 The selection of Member States reflects the instructions in the terms of reference for this Briefing.


