

Fritz Breuss

Vienna University of Economics and Business
Austrian Institute of Economic Research, WIFO¹



¹ Fritz.Breuss@wu.ac.at; Fritz.Breuss@wifo.ac.at.

25 years of Austria's EU membership

Austria's EU accession 25 years ago, alongside Finland and Sweden, was preceded by an extended period of convergence toward the EU via the free trade agreement concluded with the European Community in 1973, and the participation in the European Economic Area (EEA) in 1994. Although the Corona crisis in 2020 seems to overshadow the overall positive balance of 25 years EU membership, on average the real GDP growth dividend amounted to 0.8 percentage points (pp) per year since 1995. This effect is composed of 0.4 pp GDP growth due to participation in EU's single market, 0.1 pp GDP growth from EMU/euro participation and finally 0.3 pp GDP growth due to the EU enlargements since 2004. Implementing EU policies, Austria has modernized and Europeanized its economy. Even before EU accession, Austria had emerged as a social and economic gateway between Western and Eastern Europe after the fall of the Iron Curtain in 1989 and benefited from the opening-up of Eastern Europe. The EU enlargement rounds in 2004 and beyond reinforced these developments and enabled Austria to achieve, together with its neighbours, a kind of miniature globalization.

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The year 2020 – paraphrasing Queen Elizabeth II – will be remembered as an “annus horribilis”. The world has been infected by the Corona virus and as a reaction most governments locked down all activities of the economy. This resulted in the worst recession since the Great Depression in the thirties. Many celebrations are overshadowed by the Corona crisis: The 75th anniversary of the end of World War II, the 70th anniversary of the foundation of the EU (Schuman Declaration – “Europe day”) and the memory of 25 years of EU membership of Austria, Finland and Sweden. This must be kept in mind when in the following the experience with the EU is evaluated. Nevertheless, the unique Corona crisis year 2020 should not make forgotten the achievements during 25 years of EU membership.

Austria, together with Finland and Sweden, joined an EU with twelve Member States 25 years ago, which grew to 28 Member States by 2013. With the Brexit, it shrank to 27 countries. As a member of the European Free Trade Association (EFTA), Austria had already closely approached the EU's trade policy through the Free Trade Agreement with the EC in 1973 (in the following FTA-EC-EFTA) and the participation

in the European Economic Area (EEA) in 1994. With its accession to the EU in 1995, Austria participated in all subsequent deepening steps of EU integration (EMU with the euro; Schengen Agreement) and in the EU enlargement process. Austria's membership in the EU has made it politically more European, more modern and more open, and it has also benefited economically from all levels of integration.

This article describes firstly Austria's approach towards the EU. Then it confronts the expectations ex ante with the macro-economic outcomes of the EU membership. This is done by a comparison with Finland and Sweden which jointly entered the EU and lastly by presenting the results of own model simulations.

1 Austria's step-by step approach towards the EU

Austria had been a member of EFTA since 1960, participated then one year (2014) in the European Economic Area (EEA) and, together with Finland and Sweden, joined the EU 25 years ago (For a short history, see table 1). An intensive political discussion in Austria preceded EU accession; above all, there were initially concerns about the compatibility

of Austria's status of permanent neutrality with a full EU membership (Breuss, 1996; Gehler, 2002; Griller et al., 2015). Happily, the collapse of communism in 1989 and the resolution of the Soviet Union in 1991, also removed the fear of a Soviet veto against Austria's EU accession. After a hot political debate, the then ruling grand coalition (SPÖ and ÖVP) reached a consensus that Austria should join the EU. Therefore, on July 1989 the Austrian federal government decided to apply for EU membership.

After joining the EU, Austria participated in all steps of deepening the Union: a must for every new member is the entry into the internal (or single) market. It grants the four freedoms for goods, services, capital and labour. Austria was also among the first eleven countries that founded the EMU in 1999 and introduced the euro as legal tender in 2002. In the meantime, 19 EU Member States are euro area countries. Austria also joined the Schengen Agreement on April 28, 1995, which led to the end of border controls on April 1, 1998.

This means that Austria (unlike Sweden, which has not yet introduced the euro) has advanced formally to become a role model EU Member State. However, the lack of implementation of EU law shows that this is not quite the case in practice (Wolfmayr, 2019; European Commission, 2018).

The dual nature of European integration in the 1960s (European Economic Community, EEC (since 1967 European Communities, EC)) versus EFTA was overcome by the FTA-EC-EFTA in 1973. By the middle of 1977, these created a large free trade area in Europe (at least for industrial and commercial goods). The next step towards Austria's rapprochement with the EU came with participation in the EEA in 1994, which already implemented two-thirds of the law concerning EU's internal market. The full liberalization then took place on January 1, 1995 by participating in the four freedoms of the EU internal market (Breuss, 2020c).

Before the start of each integration step, several studies were carried out in the EU¹ and also in Austria (especially

Table 1

A short history of Austria's approach towards the EU

17 July 1989	Austria (as a then EFTA member) applies officially to join the EC ("letter to Brussels").
1 February 1993	Start of the accession negotiations
1 January 1994	The European Economic Area (EEA) enters into force: EC plus Austria, Finland, Iceland, Norway, Sweden and Liechtenstein
30 March 1994	End of accession negotiations: Accession Treaty
12 June 1994	In a referendum in Austria 66.6% of the population voted for an accession to the EU.
24–25 June 1994	European Council meeting in Corfu, Greece: Austrian representatives sign the Accession Treaty EU-Austria.
1 January 1995	Austria (together with Finland and Sweden) becomes the 15 th member of the EU. Austria leaves the EFTA.
28 April 1995	Austria accedes to the Schengen Agreement.
1 January 1999	Austria becomes one of the 11 founding members of the Economic and Monetary Union (EMU).
1 January 2002	The euro is becoming the legal tender in the euro area.
1 May 2004	The EU-15 is enlarged by 10 new Member States: EU-25
1 January 2007	Bulgaria and Romania become members of the EU-27.
1 July 2013	Croatia becomes a member of the EU-28.
1 February 2020	The United Kingdom leaves the EU: the EU shrinks to EU-27.

Source: Author's compilation.

¹ *Cecchini Report (1988) evaluating the impact of the Single Market; European Commission (1990) studied the implication of EMU and the single currency in Europe. A summary of studies about the quantitative effects of European Post-War Economic integration can be found in Badinger and Breuss (2011).*

by the Austrian Institute of Economic Research, Wifo) in order to estimate ex ante the possible integration effects². Austria had already earned a big part of the economic fruits through the intensification of foreign trade relations with the EU via the FTA-EC-EFTA of 1973 and the membership in EEA in 1994. So, the expectations about an additional welfare gain through a full membership in the EU were subdued but realistically positive. Most Austria's EU accession studies predicted an annual increase in real GDP by around ½ percentage points.

The constant deepening of EU integration has also increased its complexity and caused an ever bigger challenge to estimate the possible integration effects. The EEC Customs Union established in 1968 could still be evaluated with the simple theoretical effects developed by Viner (1950) – trade creation and trade diversion. With the advancement of EU integration – internal market (with the four freedoms) as well as the EMU and the introduction of the euro – other macroeconomic effects had to be considered in addition to pure trade effects.

2 Participating in an ever closer union

Connected with the accession to the EU there was a restriction of national autonomy and the transfer of competences to the EU in favour of an increased participation in the European community³. Participation in the supranational organization European Union (it is a hermaphrodite between the confederation and the federal state, namely a confederation of states) resulted in significant changes to the Austrian constitution (Öhlinger, 2015). The attempt to gradually create the “United States of

Europe” – an old dream – by means of the “Treaty establishing a Constitution for Europe” (TCE or Constitutional Treaty) failed after the negative referenda in France and the Netherlands in 2005. Ultimately, however, essential elements have taken up in the currently valid Treaty of Lisbon – in force since December 1, adopted in 2009, in the form of two partial contracts (The Treaty on European Union, TEU and The Treaty on the Functioning of the European Union, TFEU). In the preamble to the Treaty on European Union (TEU), the finality of the EU is addressed relative vaguely but decisively by the target “.. *creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen in accordance with the principle of subsidiarity.*” For the British people, this goal was one step too much. In the “Brexit referendum” in 2016, the Brits obviously assessed the benefits of this ever-increasing shift of competences to Brussels less than the recovery of their state autonomy (“taking back control”).

Since the entry into force of the Lisbon Treaty, competences between the EU and the Member States have been divided into three categories (Articles 3–6 TFEU):

- *Exclusive competence of the EU:* Customs Union (Common Customs Tariff, CCT), Common Trade Policy (GTP).
- *Shared competence between the Union and the Member States:* internal market, social policy, regional policy, common agricultural policy (CAP), environment, energy, consumer protection, transport, trans-European networks (TEN), area of freedom, security and justice, research programs, development cooperation.

² An overview of such Austrian studies can be found in Breuss (2012) and Beer et al. (2017).

³ For an analysis of the impact of EU law on the national legal system in Austria, see Griller et al. (2015).

- The Union shall have competence to carry out actions to support, *coordinate or supplement the actions of the Member States*: human health, industry, culture, tourism, education, youth and sport, civil protection, administrative cooperation. In addition, the Member States coordinate their economic policies within the Union (Art. 5 TFEU). The council adopts measures for broad guidelines for these policies, e.g. employment and social policies.
- Special rules apply to the *Member States whose currency is the euro*. Due to the asymmetrical construction of the EMU (central monetary and decentralized fiscal policy), there is a whole arsenal of procedures – extended after the Great Recession in 2009 (including the European Semester) and instruments (Reform of the Stability and Growth Pact, Fiscal Pact with a debt brake obligation, etc.) to coordinate the different fiscal policies of the EU and euro area countries. This necessary coordination works relatively well in "good weather periods", but hardly in times of crises, like in the 2009 recession and the following euro crisis.

Overall, Austria and its governments, which have been changing since 1995, have dealt very well with the changed political framework as an EU member and have given the Union many important impulses. Finally, Austria has shown solidarity by the *Vienna Initiative* with the new EU Member States of Eastern Europe that were in need due to the financial crisis (Selmayr, 2019). Occasional outliers (referendum on leaving the EU in 2015; the memory of H.-C. Strache's "Öxit" debate after the Brexit referendum) have disappeared from the political debate since the struggle for Brexit and are also largely rejected by the population (Schmidt, 2020).

3 Performance of Austria, Finland and Sweden in the last 25 years

Economies develop with and without EU membership. Before analysing how much of the general economic development can be attributed to EU membership, it is worth taking a comparative look at the economic development of the three Member States that joined the EU in 1995, Finland, Austria and Sweden (table 2).

Table 2

Macroeconomic indicators of selected countries: 1995–2020

Annual averages Indicator	Unit	Austria	Finland	Sweden	EU-15	Germany	USA	Switzerland
GDP, real	%	1.60	1.95	2.23	1.20	1.11	2.14	1.57
GDP p.c., real	%	1.14	1.62	1.58	0.93	1.01	1.25	0.76
GDP, nominal 2020	billion PPS	344	184	371	13,073	3,029	14,054	404
GDP p.c., nominal ¹ 2020	PPS	38,602	33,224	35,804	31,777	36,380	42,470	46,485
Inflation ²	%	1.78	1.37	1.16	1.74	1.39	2.14	0.54
Unemployment rate	%	4.82	9.13	7.60	8.88	7.24	5.84	4.13
Net-lending	% of GDP	-2.51	0.05	-0.21	-2.98	-1.87	-5.86	-0.34
Public debt 2020	% of GDP	78.80	69.40	42.60	100.3	75.6	136.20	42.00
Intra-EU exports	%	5.99	3.87	4.05	4.34	4.97	x	x
Intra-EU exports 2020	Share in %	70.80	58.80	57.90	61.1	58.4	x	x
Current account	% of GDP	1.19	2.33	4.82	1.10	4.15	-3.16	9.61
Net-contribution to EU budget ³	% of GNI ⁴	-0.25	-0.14	-0.34	x	-0.38	x	x

Source: European Commission: *European Economic Forecast, Spring 2020* (AMECO data base); IMF *World Economic Outlook April 2020*.

¹ PPS = Purchasing Power Standard.

² National consumer price index.

³ European Commission: *Operating budgetary balance, average 1995–2018*.

⁴ GNI= Gross National Income.

- Between 1995 and 2020, *real GDP* grew on average in Austria by 1.6%; this was lower than in Finland (2.0%) and Sweden (2.2%). In Austria (−1.4 percentage points) and Finland (−1.0 percentage points), economic growth was weaker in the 25 years after EU accession than in the previous 25 years. Only Sweden (+0.3 percentage points) grew faster. While the three countries that joined the EU in 1995 grew faster than Germany (Austria + 0.5%, Finland + 0.8%, Sweden + 1.1%), apart from Sweden, GDP development was weaker than in the USA. Austria, Finland, and Sweden are among the richest EU Member States. In terms of GDP per capita, Austria was the second richest country in the EU-15 in 1995, with Finland in tenth place and Sweden in fifth. In 2020 Austria was third in the EU-27, Finland seventh and Sweden sixth.
- The *inflation* rate in Austria (1.8%) was higher in the last quarter of a century than in Finland (1.4%) and Sweden (1.2%). In all three countries it fell compared to the previous 25 years - in Finland (−6.2%) and Sweden (−6.0%) more than in Austria (−2.1%).
- Austria has the best position in terms of *unemployment*. At 4.8%, the unemployment rate was on average much lower than in Finland (9.1%) and Sweden (7.6%).
- In terms of *fiscal policy*, Austria fell behind Finland and Sweden both in terms of the development of the budget balance and of government debt.
- Austria already benefited greatly from the opening-up of Eastern Europe in 1989 and was able to further increase its foreign trade after the EU enlargement in 2004. Overall, Austria has therefore expanded its intra-EU trade much more than Finland and Sweden. This is reflected in the average annual

increase in intra-EU exports (Austria + 6.0%, Finland + 3.9%, Sweden + 4.1%). With an intra-EU export share of 70.8%, Austria is clearly ahead of Finland (58.8%) and Sweden (57.9%).

- Overall, the *current account* has improved in all three countries over the past quarter century, most notably in Sweden (a surplus of 4.8% of GDP), but also in Finland (2.3%) and Austria (1.2%).

Austria was able to raise its R&D (research and development) quota and reached the high level of that of Sweden (around 3½% of GDP), not least because of the increasing participation in EU research programmes. Finland fell from 3.9% in 2009 to less than 3%. While Austria and Finland introduced the euro from 1999 onwards, Sweden was able to improve its international competitiveness by devaluing the Swedish krona (by 0.7% per year since 1995). However, especially in Austria, the introduction of the euro meant that the previously strong appreciation trend of the Austrian schilling was stopped.

Regarding the fight against climate change, the Scandinavian countries are considerably more advanced than Austria. From 1995 to 2017, CO₂ emissions (per capita) decreased by 27% in Finland, by 38% in Sweden and by only 0.4% in Austria. Last but not least, the early introduction of a CO₂ tax in Finland in 1990 and in Sweden in 1991 contributed to this better result.

4 Benefits of 25 years EU membership

Given the better overall economic development in Finland and Sweden compared to Austria (table 2), it is surprising that almost all studies assessing the effects of EU membership in the three countries are less favourable for the Scandinavian countries than for Austria (table 3). A main reason for this

Estimates of integration effects: A comparison

Authors	Method	Scale	Period	Austria	Finland	Sweden
London Economics (2017)	Econometric estimates with 5 indicators	SM: GDP p.c. %	1995–2015	2.58	1.71	1.50
Felbermayr et al. (2018)	ifo trade model	SM: Welfare cum. %	2000–2014	6.17	3.78	4.22
Mion-Ponattu (2019)	CGE model	SM: Welfare cum %	2010–2016	3.92	2.52	2.80
in 't Veld (2019)	QUEST DSGE model	SM: GDP, real cum. %	long-term	11.80	7.70	7.70
Oberhofer (2019)	Gravity cum IO model	GDP, real % p.a.	1995–2014	0.70	0.30	0.20
Breuss	Integration model	GDP, real % p.a.	1995–2020	0.46 ¹ (0.81) ²	0.44 ¹	0.41 ¹
Breuss	CGE model GTAP10 ³	Welfare cum (% GDP)	1995–2014	7.90	3.80	5.30

Source: Author's compilation.

¹ Trade and FDI results of the integration model of Breuss (2020d).

² Results of all integration effects of the integration model of Breuss (2020d).

³ Simulations with a 10x10 (10 countries and 10 sectors) CGE model with GTAP10 data of 2014; assumption: the EU accession reduces NTBs by 20%.

Note: SM = Single Market; cum = cumulative.

result may be the fact that most studies justify the EU effects solely with increased trade growth. Austria has an advantage in this regard because its intra-EU trade has been more dynamic than in the Scandinavian partners (table 2).

All studies compiled in table 3 report positive GDP or welfare effects of EU membership. In't Veld (2019) finds the largest impact of the EU membership in the three countries with Austria (a long-term increase in real GDP of 11.8%) in the lead; Finland and Sweden benefit equally with +7.7%. In't Veld considers in the European Commission's QUEST DSGE model trade effects (reduction of tariffs and NTBs) and a reduction of mark-ups due to fierce competition as member in the internal market. Felbermayr et al. (2018) estimate with the ifo trade model the second highest Welfare (income) effects in the long run: Austria (+6.2%), Finland (+3.8%) and Sweden (+4.2%). The study by Mion and Ponattu (2019) achieves effects of only half of those of Felbermayr et al. The highest positive GDP effects per annum are postulated by London Eco-

nomics (2017). Accordingly, Austria should have profited from EU membership by an annual increase of real GDP p. c. of 2.6%, Finland of 1.7% and Sweden of 1.5%.

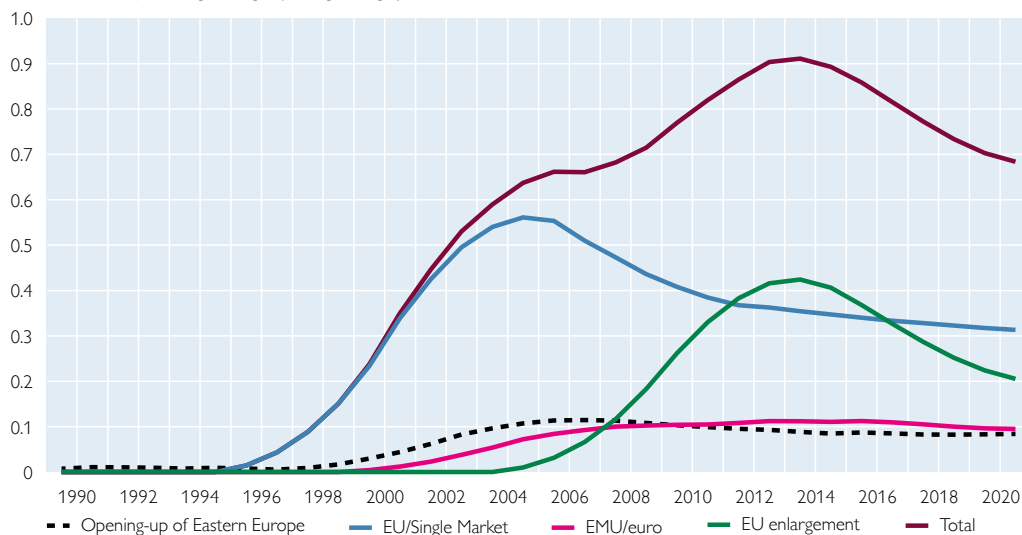
Studies by Austrian researchers show lower, but more realistic effects. Oberhofer (2019) with a structural Gravity cum Input-Output model finds that Austria's EU membership added 0.7 percentage points to the annual growth rate of real GDP. For Finland (+0.3%) and Sweden (+0.2%) this methodology results in only less than half the Austrian effects.

With two approaches, Breuss come to similar results. Using the GTAP10 world trade model the simulation results in a cumulative GDP effect since 1995 of 7.9% in Austria, in Finland 3.8% and in Sweden 5.3%. A specifically constructed macroeconomic integration model (Breuss, 2020d) confirms the overall pattern of the other international studies if the integration model is reduced only to trade and FDI effects: Austria (+0.5% additional annual real GDP growth) has benefitted

Chart 1

Growth effects of Austria's 25 years EU membership

GDP, real, annual percentage changes (moving averages)



Source: Author's compilation.

Note: Total = EU/Single Market + EMU/euro + EU Enlargement.

more from the EU membership than Finland (+0.4%) and Sweden (+0.4%).

In the integration model for Austria, Breuss (2020d) includes several effects which can be expected from the deep integration into the EU: 1) Trade and FDI increased after the full participation in EU's single market and was enhanced through EU enlargement in 2004; 2) The EMU and the introduction of the euro improved Austria's relative competitiveness against countries in the periphery which in the pre-euro area devaluated against the Deutsche Mark and also against the Austrian schilling; 3) Productivity increased due to a better utilization of EU research programmes; 4) More competition in the single market reduced price mark-ups in Austria; 5) Austria is a net-contributor to the EU budget on average of 0.25% of GNI (table 2); 6) The EU accession in 1995 caused little net-immigration; it increased, however, after the EU enlargement in 2004 (although

cushioned by the seven years transitional arrangements).

An assessment of 25 years of Austria's EU membership comprises three stages of EU integration (chart 1):

1. Participation in EU's Single Market: The full integration into EU's single market led to an increase in real GDP of 0.4 percentage points per year. Inflation fell due to increased competition. 8,000 jobs were created each year.
2. Participation in EMU and introduction of the euro: The participation in EMU and the introduction of the euro contributed only 0.1 percentage points to real annual GDP growth. These results are below estimates using the synthetic control method (SCM) by Breuss (2019). Accordingly, the introduction of the euro led to annual GDP growth of 0.3%. McKinsey Germany (2012) calculated significantly stronger effects of the euro for the first ten

years after its introduction: in Austria cumulated +7.8% more real GDP (an annual growth of 0.8%), followed by Finland (6.7%) and Germany (6.4%) and the Netherlands (6.2%).

3. *EU enlargement in 2004 and the following years:* The EU enlargement supplemented the already existing advantage Austria had from the opening-up of Eastern Europe in 1989. EU enlargement contributed to Austria's real GDP an additional 0.3 percentage points per year. Most EU enlargement studies find a 1:10 rule. This means that the welfare gains of the new EU Member States are ten times higher than those of the old EU Member States (Breuss, 2002; Levchenko and Zhang, 2012). Already the world-historic event in 1989 – the fall of the Iron Curtain and the following opening-up of Eastern Europe – was beneficial for Austria (Brait and Gehler, 2014). This historic event moved Austria politically and economically from the border to the centre of Europe. Austria quickly took advantage of these new opportunities for trade and foreign direct investment. The memory of the old Austro-Hungarian monarchy were certainly helpful. The opening to the east led to an annual increase in real GDP of around 0.1%.

The *overall economic benefits* of Austria's 25 years EU membership sum up to an additional annual increase of real GDP of 0.8%. A total of around 420,000 jobs were created. Inflation fell annually by around 1/10 percentage point. The current account improved significantly because of EU integration. This tendency has weakened in recent years. Despite its position as an EU net contributor, Austria was able to improve its national budget. Real exports increased

cumulatively by 31%, imports by 55%, which corresponds on average (exports and imports) to an additional trade volume of 43%. Austria's FDI stocks abroad increased cumulatively by 48% of GDP, the stock of foreigner's direct investments in Austria by 36% of GDP. Welfare (GDP per capita per year) improved in Austria by EUR 7,100 (at 2010 prices) and by USD 14,600 per capita (at prices and purchasing power standards from 2011).

5 Conclusions and outlook

Austria's accession to the EU in 1995 was the final step of its steady effort to become European. After the EFTA membership since 1960, the FTA-EU-EFTA in 1973 and the one-year participation in the EEA in 1994, Austria was already strongly integrated in Europe. Favoured by the collapse of communism in Eastern Europe and the dissolution of the Soviet Union, Austria were free to accede the EU. International studies and our own prove that 25 years of EU integration was beneficial for Austria. Whereas for incumbents to the EU membership is welfare improving this must not be true for the EU as a whole. There is a so-called EU integration puzzle (Breuss, 2014) postulating that it is difficult to explain why the EU – in spite of a steady deepening of integration since World War II – could not achieve higher economic growth than the United States (see also, Breuss, 2017). This contradicts all predictions of the various integration theories. So, while the EU overall did apparently achieve no growth impulses (Andersen et al., 2019) or only small ones (Breuss, 2018b), this does not apply to individual countries that joined the EU. This applies to Austria (+0.8%) as well as to Finland and Sweden (table 3).

Despite the positive judgment of 25 years EU membership, one has,

however, to assume that the best years of Austrian EU membership are already behind us (Breuss, 2020a, 2020b). Even if one takes into account that a full exploitation of the internal market potential (Wolfmayr, 2019) could lift real income by around ½ percentage points, four developments give reason to assume that Austria's economy can hardly expect any significant new integration impulses in the near future:

Firstly, the breakdown of the economic dynamic in Eastern Europe: So far, the new EU Member States in Central and Eastern Europe have always grown faster than the old ones. This was also necessary to catch-up to the rich western states. With the exception of Poland, which survived the Great Recession in 2009 without a slump in growth, all new EU Member States experienced a much stronger decline in economic growth in 2009 (particularly dramatically in the Baltic states) than the old Member States. However, recent forecasts indicate that the growth rates of the new EU Member States are slowly adapting to those of the old ones. The dynamic of the East, which gave traditionally a strong boost to Austria's foreign trade in particular, will slow down significantly, not at least after the Corona recession in 2020 (Breuss, 2018a).

Secondly, one can hardly expect new impulses for foreign trade and economic growth if the euro area expands.

Even if the euro were to be introduced in all EU Member States (“the euro for all”) in the near future (Breuss, 2019), the euro area would – with the exception of Poland – consist of only rather small countries (Bulgaria, Denmark, Croatia, Poland, the Czech Republic, Romania, Sweden and Hungary) and would therefore deliver no significant growth impulses to Austria.

Thirdly, the possible costs associated with the final Brexit – hard or soft – should not be underestimated. Even a soft Brexit with a comprehensive trade agreement with the EU will at least dampen economic development in the remaining 27 EU Member States. In addition, this should result in restrictions in the EU budget. The gap left by the net contributor to the UK must either be compensated for by savings in the EU's Multiannual Financial Framework (MFF) 2021–2027. Especially if one takes into account the new EU Commission's ambitious Green Deal program (Von der Leyen, 2019), which provides EUR 1 trillion for the transformation (decarbonization) of the European economy by 2050.

Fourthly, the Corona crisis will not only cause the deepest recession since World War II in 2020, but it could also – despite the EUR 750 billion EU recovery plan – significantly slow down the European integration process in the years to come.

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