EU integration and its impact on Austria

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This study discusses economic and political economy aspects of Austria’s membership in the EU, presenting an overview of recent empirical studies. The studies coincide in finding that Austria has achieved substantial cumulative growth in GDP thanks to European integration. Estimates of the Europe-related growth dividend differ, depending, among other things, on how integration is defined and which horizons are reviewed. Overall employment is found to have benefited from EU integration as well. However, based on the available information, we have not been able to quantify the impact on employment for Austrian nationals and distribution effects across individuals. Still, it must be assumed that the benefit of EU membership has not been distributed equally and that for some population groups, membership has also brought disadvantages which were not always entirely offset. The low level of inflation, annual averages of 1.8% since the introduction of the euro, is attributable to the euro – at least in part. Moreover, the measures taken by the EU in response to the crisis have increased the stability of the Austrian banking system. Austria’s net contribution of 0.25% of GDP to the EU budget is relatively low in comparison to the positive growth effects achieved through EU membership. Beyond the economic dimension, the original objective of a unified Europe as a peace project is regaining in importance in uncertain times. In terms of democratic policy, the EU is seen as a gradual and, naturally, imperfect attempt to respond to growing global challenges with new ways of cooperation.

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Motivated by the desire to avoid a repetition of the horrors of World War II, efforts were begun in the 1950s to unify Europe politically and economically. The fact that Austria was not among the European Economic Community members may have been largely attributable to economic reasons up to the mid-1960s. Ultimately, though, political reasons (including the opposition of the Soviet Union and the strained relationship with Italy over the South Tyrol question) were instrumental in preventing Austria from joining (Mooslechner, 2005). Instead, in 1960 Austria became a founding member of the European Free Trade Association (EFTA), which constituted an apolitical counterpart to the European Communities. In addition, Austria established strong economic ties to the European Economic Community over time through a series of bilateral agreements, in particular the Free Trade Agreement of 1973. After the fall of the Iron Curtain, the opportunity arose for Austria to fully participate in European integration. Accordingly, in 1989 the Austrian government submitted Austria’s application to join. Participation in the EU common market, created in 1992, was key for Austria’s economy and was achieved by joining the European Economic Area (EEA) in 1993, though without codecision rights on EU legislation. After several years of negotiations, Austria became a member of the European Union (EU) in 1995. In the pre-accession referendum, which became necessary because EU membership required complete revision of the Austrian constitution, two-thirds of the population supported the accession. As a member of the European Union, Austria participated in all further integration measures, including expansion (in 2004, 2007 and 2013) to the current 28 Member States and adoption of the single currency as from 1999.

Generally speaking, the majority of Austria’s population identifies with the EU. According to the Eurobarometer survey of the European Commission (EC, 2016h), 26% of the Austrian population consider themselves to be citizens of the EU “fully and completely,” and a further 43% feel they are citizens of the EU at least “partly.” Compared to the rest of Europe, however, the sense of EU citizenship is not that widespread in Austria. European integration is currently facing major challenges, due not least of all to the effects of a protracted economic crisis and of international conflicts (e.g. Ukraine, Syria, Turkey), which also influence Austrians’ attitudes toward the EU. According to the Eurobarometer of spring 2016 (EC, 2016h) only 33% of Austrians trust the European Union; here Austria is in line with the EU average. The EU has a positive image for 32% of Austrians, a neutral image for 30% and a negative image for 37%. With regard to the percentage of positive opinions, Austria is roughly average for the EU; negative opinions, however, are 10 percentage points higher than the EU average. The most important issues facing the EU, in the opinion of Austrians, are immigration (48%), terrorism (27%) and public finances in the Member States (20%).

Evidence on Austrians’ overall view of the advantages and disadvantages of EU membership – albeit only up to 2014 – can be found in a survey conducted on the occasion of the 20th anniversary of EU membership (Austrian Society for European Politics – ÖGfE, 2014). In this survey, almost half of Austrians were of the opinion that EU membership brings more advantages than disadvantages; 37% found that the disadvantages outweighed the advantages, for 13% they were equal, and 2% chose not to respond.

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2 For the history of Austria’s path to EU membership, see also Breuss (1996) and Gehler (2002).
3 In EC (2016i), unemployment was named as the biggest challenge for the EU by 58% of Austrians, followed by migration (41%) and national debt (39%).
The results of the ÖGfE survey (2014) also show that in the opinion of Austrians, some groups derived particular benefit from EU membership, while other groups were more strongly affected by the disadvantages. EU membership was seen as especially advantageous for large companies (chart 1); Austrians felt that pupils, students and apprentices had also benefited. With regard to employees, opinions are divided; 40% found that the advantages outweigh the disadvantages, while 38% found that the disadvantages were greater. This divergence may reflect the high degree of heterogeneity among employees, as a result of which they may indeed have been differently affected by EU membership. Respondents to the survey found that for farmers, small and medium-sized enterprises (SMEs) and retirees, the disadvantages of EU membership outweighed the benefits.

ÖGfE (2014) also addressed the question of whether the fears expressed in Austria prior to EU membership had materialized. In the balance of opinions, the fears found to have indeed materialized were above all those relating to the threat to small agricultural enterprises (78% felt that this fear had materialized), the approval of genetically engineered food (64%) and the sale of Austrian companies to foreign owners (64%). In addition, 62% found that Austrian jobs were at risk (34% disagreed), and 56% of survey respondents felt that the fear that “Austria will not have any influence within the EU” had materialized (41% felt that this was not the case). Some fears, however, turned out to have been unfounded according to the majority of opinions. Of those interviewed, 53% felt that EU membership had not led to a loss of Austrian identity (40% disagreed) and 48% found that fears of a selling off of land and property had not proven justified (39% disagreed). Despite various concerns, only a minority of Austrians favor an exit from the EU. In a survey conducted in July 2016 (ÖGfE, 2016b), 61% of Austrians were in favor of Austria remaining in the EU, only 23% supported an exit, and 16% did not respond.

Amid increasing skepticism regarding the decision-making ability of the European bodies and their ability to achieve consensus (financial and economic crisis, refugees), fears of advancing globalization, a widespread desire for isolation and withdrawal (e.g. Brexit) and the invocation
of an idealized past (“things used to be better and cheaper”), people often draw the oversimplified conclusion that the EU and the euro are to blame for the current situation. Simple comparisons to a time prior to EU membership are misleading, however. Even without EU membership, the international environment and growth and employment prospects in Austria would have changed. And moreover: The global financial and economic crisis of recent years would probably have been more difficult for Austria to master alone. In order to conduct a serious discussion of the impact of EU membership, we therefore must always compare the current situation with a counterfactual world without the EU and the euro.

This article looks at selected economic and political economy aspects of Austrian membership in the EU and discusses the benefits and advantages of European cooperation as well as the ensuing problems. Sections 1 and 2 address the impact of European integration on economic growth and employment, with section 2 focusing specifically on monetary union and the euro. We address only recent studies, since we aim to provide a current picture of the impact of Austria’s EU membership rather than a historical outline. Section 3 addresses the fiscal relationships between Austria and the EU. Since a balanced discussion of European integration most go beyond the economic perspective, section 4 also discusses the significance of the EU as a peace project and its democratic legitimacy. In section 5, we give a summary and draw conclusions. In several boxes, we provide background information (Responsibilities in the EU, Rights in the EU) and single out specific issues (The EU and financial stability, Developments in Switzerland, The future of European integration).

### Box 1

**Responsibilities in the EU**

The division of competences between the Member States and the EU was jointly agreed by all EU member countries and enshrined in the EU Treaties:

- **National competence**: The design of taxation and spending policy (in part on the basis of jointly agreed EU rules) and all competences not transferred to the EU, for example labor market policy, social policy and distribution policy.
- **Competence of the EU**: In certain limited areas, only the EU may adopt legally binding acts. These areas include customs union, trade agreements, competition policy and, for the euro countries, monetary policy. With regard to sensitive issues such as common foreign and security policy, resolutions are adopted unanimously in the European Council; the individual Member States thus have a de facto right of veto.
- **Shared competence**: The EU shares competences with the member countries (e.g. single market, environment, structural and regional policy, agriculture, consumer protection, transportation).
- **Supplementary competence**: The Member States govern these areas; the EU plays only a supplementary role and can support the measures of the Member States by providing funding out of the common coffers or by facilitating the exchange of information (e.g. health, culture).
- **Economic and Monetary Union has its own set of rules**: EMU members conduct a single monetary policy and coordinate their economic policies (based on common fiscal rules that leave leeway for national adaptation and interpretation).

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1 The key provisions are set forth in the Treaty on the Functioning of the European Union (EU, 2012).

2 There is disagreement as to whether the free trade agreement with Canada (CETA) falls under the sole competence of the EU. The Legal, Legislative and Research Services unit of the Austrian Parliamentary Administration argues that CETA also involves areas of national competence and that, such being the case, the treaty must be
1 Economic growth and employment

1.1 Challenges for industrialized nations: globalization and economic slumps

Greater market opportunities, but increased competition as well

Not only the EU Member States, but all industrialized nations, including the U.S.A. and Japan, are currently facing major challenges. On the one hand, the negative effects of the most severe financial and economic crisis since the 1930s have not yet been overcome (e.g. unemployment, loss of income). On the other hand, globalization has strongly increased, and with it, the importance of emerging markets, such as China and India. Globalization leads to new market opportunities for European companies and to cheaper imports (above all with regard to consumer products and intermediate goods), but also to increased competition for companies and employees.

In many areas, emerging markets are catching up in terms of technology and can produce goods at labor costs which, though rising, are still much lower than in industrialized countries. They are increasingly offering products on the global market (left panel in chart 2) which are also relatively inexpensive. In response to this cost and wage pressure, many industrialized countries with international competitors are increasingly specializing in knowledge-based products (e.g. specific high-priced services). Their often small domestic markets are no longer adequate to support such specialization, which compels them to export. In addition, an increasing number of goods (e.g. cars) are being manufactured in international production chains (with, e.g., the engine being built in one country and the vehicle being assembled in another), which leads to increasing specialization as well. This makes it all the more necessary to eliminate barriers to trade, however, and to enter into international economic alliances.

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4 See IMF (2013) for Germany – Austria’s most important target market for exports.
The economic opening of the emerging markets, in particular China, has increased the global labor supply by several hundred million people. Moreover, total world population growth has been much more dynamic than population growth in the industrialized countries, which has also served to boost the worldwide labor supply.\(^5\) In some of the industrialized nations, in contrast, the population is declining.\(^6\)

The international trends are accompanied by growing wealth and income inequality (see Piketty, 2014; Dabla-Norris et al., 2015), which in turn triggers social and political conflicts. The inequality is intensified by corrupt regimes, armed conflicts and climate change, prompting (or forcing) many people to emigrate and seek security, and subsequently work, elsewhere, also in the EU and in Austria.\(^7\)

The EU as a buffer from the negative consequences of globalization

European integration is not the cause of the global economic changes, but rather a concerted attempt to tackle them jointly. Even without EU membership, the international environment, and thus the growth and employment prospects for Austria as well, would have changed significantly. Through economies of scale, EU membership offers partial protection from the negative economic consequences of globalization. Size also offers protection from currency speculation (above all during financial crises), growth advantages in an environment of global competition, and more effective stimulus measures in the event of strong economic downturns.

\(^5\) According to UNFPA (2016), the average annual population growth rate for the years 2010 to 2016 will be 0.3% in the “more developed countries” and 1.2% for the world as a whole.

\(^6\) Overall population growth in Austria between 2008 and 2015 was at 3.7%; however, the share of the population with Austrian citizenship declined over the same period by 0.7% (authors’ calculations based on data from Statistics Austria, 2016b). Immigration will not be sufficient to offset the decline in the number of people of working age (Biffl et al., 2010). For more recent estimates, see IIASA (2016).

\(^7\) For an overview of international migration, see United Nations (2016).
With regard to international negotiations as well, “big is beautiful”; when individual countries join together, they have a stronger voice and achieve greater leverage. With regard to international trade agreements, global climate protection agreements, etc., the EU is a global player on the international stage, bringing to the table a level of expertise, resources and bargaining power which a smaller country would be unable to match. At the same time, not all of the results negotiated by the EU in international agreements may be considered optimal by all member countries or all population groups.

Box 2

**Rights in the EU**

EU membership, and with it participation in the European single market, brought a broad range of rights. The most important are:

- **Codetermination:** EU citizens have voting rights in elections to the European Parliament and in local elections in their principal place of residence, even if they are not citizens of the country in question. They are entitled to start a European citizens’ initiative or to present a petition to the European Parliament.

- **Equal treatment of all citizens of the European Union:** No distinctions shall be made on the basis of citizenship. Anti-discrimination guidelines are intended to prevent unequal treatment on the basis of race, religion, views, gender, sexual orientation, age or disability.

- **Free movement of persons:** EU citizens are permitted to study or work in any EU Member State under the prevailing legal conditions of the host country and with the same rights as the host country’s own nationals. Professional qualifications must be recognized, and, to the extent that the legal requirements are fulfilled, access to social security and to pension insurance is guaranteed.

- **Free movement of goods:** No customs duties are charged, or other import or export restrictions imposed, on goods imported and exported within the EU.

- **Freedom to provide services and establish subsidiaries:** Companies are free to provide their services or to found subsidiaries in any EU member country. The European Services Directive eliminates bureaucracy and red tape in the provision of services across borders.

- **Free movement of capital and payments:** Money and securities may be transferred between EU member countries in any amount. Consumers benefit from the opportunity to execute inexpensive transfers.

- **There are no systematic border controls between EU Member States participating in the Schengen Agreement.** Also, borders may now be crossed anywhere; previously this was only possible at official checkpoints.

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2. This also means that EU citizens moving to Austria are entitled to draw benefits in Austria (e.g. benefits under health and accident insurance, child support benefits, unemployment benefits, and assistance to the long-term jobless who have become ineligible for unemployment benefits) if they are employed or were employed for more than a certain minimum period. To receive means-test benefits ensuring a minimum income, persons able to work must demonstrate an attachment to the labor market.
3. However, experience with increased immigration of refugees from crisis areas since 2015 has revealed weaknesses in the cooperation between the EU Member States (e.g. with regard to the control of external borders and the coordination of migration). Some of the member countries have, as a result, temporarily revoked the enhanced freedom of movement established under the Schengen Agreement.
1.2 General growth-enhancing effects of integration

Access to a larger, single market has had a stimulating effect on growth, creating both one-time and permanent growth effects. One-time effects temporarily increase the growth rate and thus lead to a one-off, but lasting increase in the level of GDP. Permanent effects increase the GDP growth rate on a long-term basis, with stronger level effects accordingly. Specifically, access to, say, a larger export market constituted a one-time growth effect related to EU membership. Permanent growth effects are attributable to a broad range of factors, as evidenced by the theory of economic growth in particular. According to this theory, larger economic units lead to rising returns to scale on a macroeconomic level and thus to a lasting higher growth rate. The most important arguments are set forth below.

With the single market, a large common trade area was created. Within the EU, there are no customs duties or other barriers to trade (including waiting times at borders). The transport, information and transaction costs sink due to harmonized EU standards. The common currency also serves to reduce trade and transaction costs (all prices are immediately comparable, currency exchange costs are eliminated), and currency risk is a thing of the past within Economic and Monetary Union (EMU). Lower barriers to trade enable individual companies and countries to exploit their comparative cost advantages more fully. Austrian companies benefit above all from the decline in export costs thanks to European integration, because around 70% of Austrian exports go to EU member countries, and conversely, an equally high share of Austrian imports come from other EU countries (Mannen, 2016). Easier entry and the convenience of the common currency tend to have a positive impact on tourism in Austria as well; in 2015, 84% of all overnight stays by foreigners in Austria were accounted for by citizens of the other 27 EU member countries (Statistics Austria, 2016a). Increased trade can lead to more efficiency and productivity and thus have a positive impact on economic growth. Consumers profit, for example, from a greater variety of products and lower prices.

Box 3

The EU and financial stability

The financial crisis revealed a number of weaknesses in the European banking system. Numerous EU banks were highly undercapitalized and were financing too high a share of their balance sheets with short-term, unstable liabilities (e.g. unsecured interbank loans). In addition, banking regulation had been harmonized only in part. Banking supervision was exclusively the responsibility of the individual Member States; the European Banking Authority (EBA) had only a coordinating function. The financial crisis caused serious liquidity problems for numerous banks and solvency problems for some banks. This resulted in high fiscal costs, as governments within the EU sought to prevent the collapse of systemically relevant banks. While the goal of maintaining financial stability and preventing an even worse economic crisis met with general approval, criticism was leveled at the measures adopted to achieve this goal.

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8 With regard to negative effects of transaction costs on an economy’s growth rate, see for example Goo (2011), and regarding the connection between trade and growth, see Wälde and Wood (2004).

9 In contrast to the theory of absolute cost advantages (Smith, 1776/1986), Ricardo (1817/2001) showed that trade leads to advantages even when a country has absolute cost advantages with regard to all goods, but specializes in goods with comparative (relative) cost advantages. In the case of two goods and two countries, a country has a comparative cost advantage when, in the event that it specializes in the production of one product, less of the other product must be given up (lower opportunity costs) than in the other country.
The EU and the Eurosystem have since implemented a series of measures to strengthen financial stability and the stability of the banks in the future. They are designed to reduce the likelihood of further bank and financial market crises. These measures are intended to obviate further support in the form of taxpayer funds. The establishment of largely uniform banking regulation through the Capital Requirements Regulation (No. 575/2013, EC 2016g) and the material improvement of banking regulation, in particular by strengthening capital and liquidity requirements (Basel III), is intended to increase the stability of the individual banks. Given the interdependency of the EU Member States, which became obvious in the course of the crisis, the EU pursued the goal of a banking union in order to more closely integrate the national banking systems. Banking union is based on three pillars (e.g. EC, 2016a and OeNB, 2016a):

1. The Single Supervisory Mechanism establishes uniform banking supervision, with the ECB as the central supervisory authority over the largest, systemically relevant banks. This is intended to reduce the likelihood of banking crises.

2. In the event that banks do develop problems despite the more stringent regulatory and supervisory measures in place, the Single Supervisory Mechanism is intended to allow orderly resolution, with as low a burden on taxpayers as possible and minimal impact on the real economy.

3. A harmonized deposit insurance system is intended to ensure uniform protection of savings in the event of the insolvency or resolution of banks.

The macroprudential supervisory arrangements were expanded to facilitate identification and containment of systemic risks. Since financial cycles run differently among the EU member countries, macroprudential supervision has remained a national responsibility (Eidenberger et al., 2014) – subject to coordination at the European level by the European Systemic Risk Board (ESRB), which was created to this effect in 2010 (see e.g. ESRB, 2016).

Increasing integration facilitates foreign direct investment and production across countries. For example, based on end-2015 stocks, EU member countries accounted for two-thirds of outward foreign direct investment of Austrian companies (OeNB, 2016b). In a globalized world characterized by a high degree of specialization, products can no longer be produced exclusively in-country, or profitably sold only within the domestic market. To produce on a cost-effective basis and to remain competitive in terms of price and quality, integration into international production chains is thus just as necessary as access to expanded sales markets (see Amador and di Mauro, 2015). This is especially true for small economies such as Austria’s (see for example Kulmer et al., 2015). International integration is facilitated by the clear legal situation within the EU. Both large industrial enterprises producing and/or buying and selling in other countries or EU-wide, and small and medium-sized enterprises (SMEs) in their role as specialized suppliers, benefit from the clear legal framework.

The EU fosters research and development (R&D) and training and education (“human capital”) in many ways. In macroeconomic growth theory, research and development and human capital

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10 Regarding the impact of direct investment on economic growth, the evidence is mixed. For recent empirical studies confirming the growth-stimulating impact of direct investment, see Pegkas (2015), Bhattarai (2016) and Herzer (2010).
are the decisive factors for long-term growth. The insights from growth theory show that in highly developed economies such as those of the EU, R&D is a vital basis for maintaining international competitiveness, generating economic growth and creating jobs.\(^{11}\) Both basic research, which can lead to radically new ideas, and the innovations which translate research products into marketable products and services, are highly important in this regard. The EU sets ambitious long-term goals for spending on research as a percentage of GDP (summarized in the strategy \textit{Europa 2020}, see EC, 2010) and promotes R&D through initiatives such as the research framework program \textit{Horizon 2020}, launched in 2014 (basic and cutting-edge research, funding for research on approaches to issues such as climate change, renewable energies, food and nutrition security, and the aging of the population; see EC, 2016b). Through the EU, a joint European research area has been created which offers EU-wide opportunities for work and collaboration to researchers and students (\textit{Erasmus}; see e.g. EC, 2016c) and facilitates the exchange of scientific findings. With cross-border scientific cooperation, better research results can be achieved than through work that takes place in isolation. Draft European Commission legislation, currently under discussion, for a common consolidated corporate tax base (see EC, 2016d), will create tax incentives for R&D as well. A common tax base is intended to create additional tax relief for companies operating in different countries and to reduce the scope for large corporate groups to evade taxes.

Participation in the single market and in EMU has led to greater competition. One of the most important arguments for increased competition is that it leads to lower prices and thus greater purchasing power, greater choice and, via competitive pressure, to increased product innovation, and thus to higher growth as well (see e.g. Porter, 2000; Aghion et al., 2001).\(^{12}\) Recent empirical research finds evidence of the growth-stimulating impact of competition (for Austria, see Böheim, 2004). Before EU accession, there was significantly less competition in Austria; there were many monopolies (telecommunications, post, electricity and gas) and tolerated cartels, as well as sector-specific import restrictions (agricultural products). In order to ensure competition between companies, the EU prevents barriers to competition and the abuse of market dominance, monitors mergers and introduces measures to liberalize regulated markets.

However, these considerations do not necessarily take the demand side sufficiently into account. According to the theoretical approaches set forth above, the demand side, while having less of an impact on the long-term growth rate of the economy,\(^{13}\) is important for the utilization of production factors (e.g. labor) over the economic cycle. During periods of crisis, in particular, it is unclear whether the enhanced purchasing power created by competition-driven price pressure will actually lead to increased demand. While the market entry of new competi-

\(^{11}\) According to traditional neoclassic growth theory (Solow 1956), R&D is the key driver of growth; per capita GDP grows at the rate of technological progress, where the rate of growth is exogenous, i.e. not explained by the model itself. In more recent approaches to growth theory, growth is explained within the framework of the respective model. Here growth is based, for example, on the accumulation of human capital (Lucas, 1988 – positive external effects of the level of human capital), on innovations (Romer, 1990 – human capital and the “in part non-rivalizing ideas” connected with it) or on R&D expenditures financed by monopoly profits (according to Schumpeter, 1911/1964).

\(^{12}\) This argument is a controversial one in the theoretical literature, however: According to Schumpeter (1911/1964), growth is created only by monopolies, since they can achieve economic profits which in turn are reinvested. A separate strand of growth theory research is based on this idea. For an introduction, see Aghion and Howitt (1998), section 2; for a more exact discussion of this contradiction, see Aghion and Griffith (2008).

\(^{13}\) For theories emphasizing demand-side factors for growth, see e.g. Blecker (2011), Dutt (2011), Lavoie (1992), Steindl (1952, 1979) or Kaldor (1957).
tors can indeed increase investment and employment in a given sector, the established companies will react by cutting costs, often by cutting jobs. A climate of insufficient or uncertain demand can thus create a vicious cycle (Eggertsson et al., 2016).

1.3 The impact of European integration on economic growth and employment in Austria

Positive macroeconomic effects on growth and employment

Empirical studies clearly show that joining the EU and the monetary union had a positive impact on economic growth, exports and employment in Austria. As noted in the introduction, we concern ourselves with recent studies. They are relatively limited in number, however, and they often address only the period prior to the economic and financial crisis.¹⁴

The economic impact of European integration on Austria must invariably be compared with a counterfactual scenario without European integration. For example, an empirical observation of rising, declining or stable employment growth in Austria does not yet yield any indication as to whether the trend can be attributed to integration. Conceivable counterfactual scenarios might be that Austria did not become a member of the EU or of monetary union, or that some EU integration milestones never happened. Studies which apply different counterfactual scenarios should also arrive at differing estimates of the impact of integration. Moreover, anticipation effects must be taken into account, since some of the effects of integration actually materialize prior to the official integration measure and are thus frontloaded (e.g. through preparation for monetary union). Additionally, the developments that would have taken place under the counterfactual scenarios cannot be observed. We therefore have to estimate how Austria’s economy would have developed in a counterfactual situation, and estimates of this kind always entail a degree of uncertainty.

In the studies that we review, different methods are applied. For example, Breuss (2016) developed a macroeconomic model which takes the effects of increased integration into account, e.g. by varying the level of a dummy variable depending on the degree of integration. Other studies apply the synthetic control method, which originated with Abadie and Gardeazabal (2003). Here, for purposes of comparison, a synthetic Austria is created out of a group of countries which are not members of the EU or of the euro area. The selection and weighting of countries in the construction of the synthetic Austria is carried out using statistical methods, so that Austria and the synthetic Austria prior to Austrian integration are as similar as possible in terms of the criteria relevant to economic development. The difference in development between Austria and the synthetic Austria is then designated as the impact of European integration.

Based on a dedicated macro model, Breuss (2016) compares actual economic development in Austria with a hypothetical development in which Austria had not taken part in any of the integration measures since 1989. Accordingly, the opening up of Eastern Europe (1989)¹⁵ led to an average annual increase in the growth of gross domestic product (GDP) in Austria of 0.2 per-

¹⁴ For an overview of earlier studies, see Badinger and Breuss (2011), who attribute the relatively limited number of ex post impact studies to the fact that they are more difficult to conduct than ex ante pre-integration impact studies. Specific studies on monetary union are presented in the next section. A discussion of the macroeconomic impact of an exit from the EU and the Eurosystem is not the in focus of this paper (Keuschnigg and Sardadvar, 2016).

¹⁵ In other words, the study also addressed integration steps other than official integration steps (e.g. EU acce-
sions). The studies discussed in this section differ in taking different types of integration steps into account.
In addition, through EU accession, 12,000 additional jobs were created per year. The EU’s expansion in 2004 and 2007 generated an additional 0.2 percentage points of annual economic growth. As the integration measures overlap, it was not possible to simply add up the individual effects. If all integration measures are taken into consideration (including monetary union, which will be discussed subsequently), the resulting overall effect for Austria is an increase in annual real economic growth of 0.9 percentage points on average and the creation of an additional 18,000 jobs per year. Likewise, the unemployment rate was reduced by 0.1 percentage point and the inflation rate by 0.2 percentage points on average. As outlined by Breuss (2016), the positive effects of integration generally decline over time. Moreover, the growth effects ebbed in the aftermath of the economic crisis, in particular the growth effects arising from the EU single market and monetary union. The positive effects of EU expansion were found to have been more stable, in contrast. Even if greater integration does not lead to permanently higher growth rates the positive impact on the level of GDP remains, even if no further growth-stimulating effects whatsoever were to result from the past integration measures. Overall, due to European integration since 1989, Austrian economic output is some 29% higher than it would have been without integration; on a per capita basis, the increase in income amounts to 28%.

Berger et al. (2014) also apply a macroeconomic model and view the greater increase in total factor productivity in Austria in comparison to Switzerland as a dividend of accession. Additionally, the increased labor supply, through which problems in the supply of skilled labor were solved, is included in the estimate. Higher productivity and a greater supply of labor led to additional incentives for companies to invest, which in turn tended to increase productivity. According to Berger et al. (2014), annual real GDP growth was 0.6 percentage points higher due to EU accession, a finding in line with that of Breuss (2016); employment rose by roughly 16,000 individuals per year; and the unemployment rate was about 0.6 percentage points lower. As a result of higher labor productivity, net wages grew 0.3% more, on average, than would have been the case without EU accession. Campos et al. (2014) apply the synthetic control method in order to calculate how per capita GDP and labor productivity would have developed if a country had not joined the EU. According to Campos et al. (2014), EU accession had positive effects for all countries studied with the exception of Greece. Here Austria’s GDP was 7.2% higher in 2008 (at the end of the period under review) than would have been the case without EU accession; this reflects annual economic growth which is 0.8 percentage points higher on average.

The Bertelsmann Foundation (2014) investigates whether the EU member countries benefited from greater integration since the introduction of the single market in 1993. For this purpose, an index was established which reflected the degree of integration of the Member States. The counterfactual scenario is a world in which European integration remained at the 1992 level, i.e. the integration index has the same value in the comparison scenario in 2012 as in 1992. Through the use of regression results on the correlation between the integration index and economic growth, and the country-specific development of the integration index, the impact on growth of European integration can then be assessed. The findings show that per capita gross domestic product was higher in almost all countries studied than was the case when European integration remained at the 1992 level; as in Campos et al. (2014), Greece is an exception. In 2012, Austria’s advantage from European integration amounted to 25% of the income level of 1992. Austria thus had the fourth-highest growth level.
Boockmann et al. (2015) apply the ifo trade model and compare actual economic development in Austria with the economic development that would have been achieved under the following three scenarios: In the first scenario, Austria would have a status like Switzerland’s (own currency, partial participation in the single market, no customs barriers), in the second scenario a status like that of the U.S.A. (with EU trade agreements with non-member countries in place), and in the third scenario Austria would not have any trade agreements. The findings are that Austria’s exports are 9% higher as an EU member than in the Switzerland scenario (43% higher than in the U.S. scenario and 45% higher than in the absence of any trade agreements). Per capita income would be 1.7% lower if Austria’s relationship to the EU were similar to that of Switzerland’s. Under the other two scenarios, real per capita income would be between 4.4% and 7.6% lower. The authors note that the stated losses represent a lower limit, since they analyze only the static effects of the better sectoral allocation. Dynamic effects (increase in factor productivity, e.g. through innovations) were not taken into account.

To shed light on these effects as well, Boockmann et al. (2015) conduct an analysis using the synthetic control method. The results show that from 1995 to 2008, Austria’s per capita GDP was 4.6% higher on average due to EU integration, with this effect peaking in 2002 (8.5%) and then declining (2010: 4.5%). Boockmann et al. (2015) also show that labor productivity (value added per working person) increased by 7.5% as a result of EU accession. The impact of EU accession on labor market participation, on the other hand, is limited.

Oberhofer and Winner (2015) investigate the impact of EU accession on Austrian trade in goods. They study both the emergence of new trade relationships due to the reduction in barriers to market entry and the intensification of existing trade relationships (e.g. due to lower production costs and prices). The integration measures (EU accession of Austria and introduction of the euro in Austria, EU accession of Eastern European countries) are taken into account with the aid of dummy variables. In order to determine whether the observed changes in exports are attributable to European integration, Oberhofer and Winner conduct a difference-in-difference estimation for the years 1988 to 2014. Oberhofer and Winner (2015) show that through EU accession, exports to existing markets rose by about 10%; the impact in terms of opening up new export markets, however, was relatively limited. The greatest growth in exports was due to the EU’s eastward enlargement. The likelihood of exporting to new member countries rose by 4%, and exports to existing markets rose by 13%. The introduction of the euro had hardly any impact. The authors also demonstrate a substantial positive impact of integration on imports; this led to welfare gains for consumers and producers.

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16 The authors explain not to have extended the study horizon beyond 2008 because the synthetic control method applied is not suited to analysis of extraordinary events such as the economic and financial crisis. The shorter horizon is one of the reasons why Boockmann et al. (2015) arrive at a lower impact than Breuss (2016) does.

17 Boockmann et al. (2015) attribute the differences to Campos et al. (2014) to revised data.
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<tr>
<td>Dreuss (2016)</td>
<td>Macro model; comparison with hypothetical development</td>
<td>Fall of Iron Curtain EU accession of Austria EU enlargement 2004 and 2007 Monetary union Total</td>
<td>1995–2015</td>
<td>0.2</td>
<td>4.7</td>
<td>0.1</td>
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<td>Berger et al. (2014)</td>
<td>Macro model; relative productivity increase in Austria as an accession dividend and additional labor supply</td>
<td>EU membership of Austria</td>
<td>1995–2013</td>
<td>0.6</td>
<td>13.0</td>
<td>0.4</td>
<td>7.9</td>
<td>-0.6 (^2)</td>
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<td>Canossi et al. (2014)</td>
<td>Synthetic control</td>
<td>EU membership of Austria</td>
<td>1995–2008</td>
<td>0.8</td>
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<td>Bertelsmann Foundation (2014) (^3)</td>
<td>Regressions based on an integration index to change in index</td>
<td>EU membership of Austria</td>
<td>1992–2012</td>
<td>x</td>
<td>24.9 (^4)</td>
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<td>Boockmann et al. (2015)</td>
<td>Synthetic control</td>
<td>EU membership of Austria</td>
<td>1995–2008</td>
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\(^2\) since the individual integration effects overlap, the total effect does not equal the sum of the individual effects.

\(^3\) Average difference of the Austrian unemployment rate with and without EU membership for the period from 1995 to 2012.

\(^4\) Real per capita GDP is used.

\(^3\) Compared with GDP in 1992.

\(^3\) Average level effect.
In summary, the studies cited arrive at positive estimates of the Europe-related growth dividend, with mixed findings as to the actual size of the impact. This is due to the differing time horizons, definitions of integration, and indicators used to measure the growth effect.

**Box 4**

Isn’t Switzerland doing fine outside the EU?\(^1\)

Both Austria and Switzerland were founding members of the European Free Trade Association (EFTA) in the 1960s. In the early 1990s, the two countries’ paths diverged. Austria became a member of the European Economic Area (EEA), joined the EU in 1995 and European monetary union in 1999, while Switzerland remained a member of the EFTA. In the 1970s and 1980s, both countries achieved similar levels of growth, with Austria – the much poorer country at that time – catching up to Switzerland somewhat. In the early 1990s, Switzerland suffered a long phase of economic stagnation relating to the EEA referendum in 1992, in which membership of the EEA was rejected. One of the main reasons for the stagnation was the uncertainty as to whether, and if so how, Switzerland would succeed in participating in the EU common market. Switzerland began achieving economic growth on a par with Austria only in the second half of the 1990s, after most of the bilateral agreements with the EU had been signed, thus granting Switzerland access to the EU common market.

Switzerland never managed to make up for loss of growth suffered in the first half of the 1990s, even though on an international level, it was consistently assessed as being considerably more competitive than Austria.\(^2\) Not all of Austria’s growth advantage over Switzerland, however, can be attributed to Austria’s greater degree of EU integration. Austria benefited from other developments – in particular the opening up to the east – to a greater extent than did Switzerland. Switzerland, on the other hand, has traditionally been more active in global markets (finance, machinery, clocks etc.) and is thus less dependent on the EU. While the Great Recession of 2009 resulted in a 3.8% loss of GDP for Austria, Switzerland emerged from the Great Recession with a drop in GDP of just 2.1%.

The bilateral agreements adopted between Switzerland and the EU require Switzerland to comply with EU rules – and to contribute to the underlying EU budget – without having a say in developing those rules. Moreover, whereas the euro provides a very powerful shield against currency crises, Switzerland has repeatedly battled with currency crises and extreme exchange rate volatility, requiring the Swiss National Bank (SNB) to massively intervene in foreign exchange markets and adopt negative policy rates to avert overvaluation. The massive interventions notwithstanding, the SNB was unable to maintain its temporary exchange rate target of keeping the franc rising above CHF 1.20 to the euro; when the Swiss franc was unpegged, its exchange rate soared. The high reserves accumulated through the interventions had to be devalued, causing the SNB to suffer a loss from foreign currency positions in the amount of some SFR 23.3 billion in 2015 (Swiss National Bank, 2016). Through the currency appreciation, Switzerland lost some of its price competitiveness. Despite lower interest rates than in the euro area, the inflation rate has been negative in Switzerland since September 2014. Many Swiss employees, in particular, have suffered from the currency crises, since their working hours were increased without any corresponding wage adjustment in order to offset the loss in competitiveness due to currency appreciation.

\(^1\) This box is based on Nauschnigg (2011, 2016). For an analysis of the differing development trends in Austria and Switzerland, see also the studies of Breuss (2007, 2012).
No clear identification of winners and losers

According to the studies cited above, membership in the EU and in the euro area has had a positive impact both on economic growth and on employment in Austria in macroeconomic terms. Here it should be noted once again that these results must always be seen as relative to a counterfactual scenario without European integration. Admittedly, the existence of macroeconomic gains does not necessarily mean that all population groups or all individuals have profited equally. Losses are also possible, with relative losses (vis-à-vis the relevant comparison groups) probably occurring more often than absolute losses.

“Gains” and “losses” can be defined in very different ways. The focus, for example, can be on wealth or income distribution, employment, unemployment, job quality, wages, profits, range of products available, or a variety of other issues. Depending on the aspect examined, different groups can be “winners” or “losers.” For each individual issue, it would be necessary, as in the case of the macroeconomic analyses, to analyze a counterfactual scenario without European integration for purposes of comparison. Yet we are not currently aware of any studies which have developed the relevant counterfactual scenarios.

Even the question of which economic sectors have gained or lost is difficult to answer without counterfactual scenarios. Breuss (2015a) assumes that companies with extensive operations in the new EU member countries have gained (see the survey findings presented in the introduction). In addition, according to some indicators, income inequality in Austria has increased since EU accession; however, a similar trend is observable throughout the entire OECD, i.e. outside the EU as well (Mayrhuber et al., 2015; OECD, 2015). Whether and how broadly integration gains are distributed also depends, alongside other domestic and foreign determining factors, on state taxation and spending policies, which have remained under national authority and are essentially determined by domestic voter preferences. These policy areas are also subject to competitive pressure, but at the same time, the EU’s common rules ensure minimum requirements with regard to tax law, product quality and working conditions in order to avoid tax, social and environmental dumping.

A particular focus of discussion in the political area is whether the free movement of workers has led to a substitution of Austrian workers by foreign workers. We therefore go into this question here in more detail. According to the studies cited above, membership in the EU and
in the euro area has largely had a positive effect on overall employment in Austria. Employment is higher than ever before (also measured in terms of hours worked). The number of foreign workers has increased more rapidly since the turn of the millennium than that of Austrian workers (chart 3). This increase accelerated after May 2011, i.e. after the end of national transition periods that had delayed full access to the EU labor market for citizens of new EU members following the accession round in 2004. The number of Austrian workers, though showing a long-term rising trend, declined slightly in 2013 and 2014 (chart 3, left panel). In contrast, the employment of foreign workers increased significantly after the financial and economic crisis.

The employment of Austrian nationals depends, among many other factors, on the underlying demographic trends. The share of 15- to 64-year-olds among all Austrian nationals is declining due to low birth rates and rising life expectancy (chart 3, right panel). In absolute terms as well, the number of 15- to 64-year-old Austrian nationals declined from 2012 to 2015. This demographic trend has a damping effect on the labor supply and therefore on the employment rate for Austrians (chart 3, left panel). On the other hand, a steadily increasing share of 15- to 64-year-old Austrian nationals are able to find work, and for this reason, the share of working individuals within this group has risen in recent years (chart 3, right panel).

Despite the overall increase in employment, unemployment in Austria (both in terms of headcount and as a percentage of the labor force) has reached record levels. The reason is, on the one hand, the fallout from the global financial and economic crisis and the still very weak economic growth in Austria (from 2012 to 2015, the real growth rate never exceeded 1%), and on the other hand the increasing labor supply. The latter is due primarily to immigration from

\[\text{Number of employees and share of 15–64-year-olds in total Austrian population}\]

\[
\text{Number of workers} \quad \begin{array}{c}
\text{Thousands} \\
0 & 500 & 1,000 & 1,500 & 2,000 & 2,500 & 3,000 & 3,500 \\
\end{array}
\]

\[
\text{Percentage of Austrian nationals aged 15–64 / in employment} \\
\begin{array}{c}
% \\
50 & 52 & 54 & 56 & 58 & 60 & 62 & 64 & 66 & 68 & 70 \\
\end{array}
\]

Source: Demographics: Statistics Austria (resident population), employment: registry data (jobs); authors’ calculations.

The demographic forecasts issued by Statistics Austria (Statistics Austria, 2016b) indicate that the share of this age group will continue to decline in the future.

\[\text{In addition, membership also helped to mitigate the negative effects of the economic and financial crisis on the labor market. This was due in particular to the common monetary policy, which helped to cushion the impact of the crisis (see section 3).}\]

\[\text{The demographic forecasts issued by Statistics Austria (Statistics Austria, 2016b) indicate that the share of this age group will continue to decline in the future.}\]
other EU member countries, as facilitated by the rules regarding the free movement of per-
sons.\textsuperscript{22}

Viewed historically, unemployment has always been higher and more volatile among foreign 
nationals than among Austrian nationals. This phenomenon has been especially noticeable in 
recent years. The increase in unemployment rates was significantly higher among foreign 
nationals than among Austrian nationals and has continued unchanged, while the number of un-
employed Austrians is beginning to drop.

All of these developments, however, can give only little if any indication of the causal effects of 
European integration on domestic employment or unemployment.\textsuperscript{23} In order to estimate the 
causal effects, several aspects must be taken into account: First, European integration led to 
stronger economic growth and thus, all other things being equal, to a stronger overall demand 
for labor. Second, the free movement of persons leads to greater opportunities for highly qual-
ified Austrians in other EU countries due to the greater ease of obtaining employment abroad 
and at EU institutions, and to simplified access to cross-border education and training (e.g. EU-
wide options for study, foreign internships for apprentices). After all, EU citizenship comes with 
the right to work and study in any country of the EU and ensures the recognition of qualifica-
tions and social insurance coverage. Third, the free movement of persons leads to an expanded 
labor supply, within Austria, of foreign nationals from other EU Member States. The overall 
labor supply in Austria has thus grown, despite the opportunities available to Austrians in other 
EU member countries. Fourth, considering the shortage of workers in specific skilled occupa-
tions (e.g. mechanical engineering and the care sector), migration of labor to Austria has 
served to partly reduce existing skills mismatches. Fifth, migrants supply labor at comparatively 
lower wages because of their lower skills (Bock-Schappelwein et al., 2008) and because of a 
discrimination-related pay gap (Hofer and Huber, 2002; Hofer et al., 2013).\textsuperscript{24} To some extent, 
Austrian and foreign nationals are competing for jobs (substitution effect). The substitution is 
stronger for less educated Austrians.\textsuperscript{25} Many activities that do not require any specialized skills 
are increasingly being taken over by foreign nationals (Huber and Böhs, 2012). Due to the ef-
fects described above in the fourth and fifth points, however, labor migration to Austria can 
also lead to complementarity effects in the form of stronger economic growth, and in conse-
quence to higher employment rates among the native population as well.

The supply of labor, and thus indirectly the unemployment rate as well, do not depend solely 
on demographic factors and net immigration; other determining factors are economic trends 
(the labor supply is usually pro-cyclical), the participation rate, and hours worked per capita. In 
percentage terms, the labor force participation rate is increasing; more women and more older 
people are active in the labor market. At the same time, however, the average hours worked 
per capita are declining.

\textsuperscript{22} The rise in the number of foreign workers cannot, historically speaking, be attributed solely to the EU. Migration 
has been an ongoing factor in Austria’s history over the past centuries, one that has little to do with EU member-
ship. Geopolitical events have triggered waves of migration, and at times there has been active demand for foreign 
labor given the need for labor in Austria. Government intervention, with or without the EU, has only a limited in-
fluence on immigration. Prohibiting immigration tends to serve only to criminalize those immigrants who come 
into the country regardless. Workers who do not hold legal residence permits become illegal workers and cannot 
be organized into unions. A reservoir of cheap competitors to the official labor market who lack rights undermines 
domestic wages and social rights

\textsuperscript{23} For a literature review regarding the impact of migration on the labor market, see Huber (2016).

\textsuperscript{24} For a discussion of the impact of employee deployments, see, for example, Riesenfelder et al. (2012).

\textsuperscript{25} According to Breuss (2010, 2016), integration in the EU has led to pressure on wages.
The available data do not allow us break down the trends discussed above between Austrian and foreign nationals, which is why we cannot answer the question of whether, or to what extent, a substitution (in the aggregate) of Austrian workers by foreign workers has taken place.\textsuperscript{26} We also are not aware of any empirical studies that examine the net effect of integration solely in terms of the employment of Austrians.

2 \hspace{1cm} \textbf{Monetary union and the euro}

Through monetary union, Austria contributes to the monetary policy decision-making process of a big player. Given the size of the euro area and its importance in the global economy, the monetary policy decisions of the ECB are effective in achieving an impact. Despite the frequently invoked “euro crisis,” to date neither the internal nor the external value of the euro has suffered from a crisis of confidence: Purchasing power and the exchange rate have remained relatively stable in the medium term. As a generally accepted means of payment, the euro has not experienced any decline whatsoever. Even beyond the borders of the euro area, it remains an attractive reserve currency and in demand as an international invoicing and financing currency (ECB, 2015). Below, we will first examine the macroeconomic aspects of the common currency and the single monetary policy. We will then discuss some aspects of the euro which are of direct relevance for consumers.

Measured by the average inflation rate, the euro is a stable currency; it ensures the purchasing power of income and the value of savings. The average annual inflation rate in Austria from 1999 to 2016 was 1.8% (compared with 1.7% in the euro area) and was thus close to the Eurosystem price stability target (i.e. below, but close to, 2% in the medium term)\textsuperscript{27} and significantly below the average inflation rate in the post-war era prior to monetary union (3.8%). The reduced inflation across the entire euro area can be attributed to the change in the monetary policy strategy and monetary policy of the euro area countries (González Cabanillas and Ruscher, 2008); after the signing of the Maastricht Treaty on the creation of the European Economic and Monetary Union, the preparations for monetary union alone already had an impact in this regard. In addition, globalization, and the increased competitive pressure which accompanied it, put downward pressure on prices and wages (Breuss, 2009). At times, however, perceived price increases can differ significantly from the statistical measure of inflation. The difference in “perceived inflation” is due in part to differing “baskets of goods” of different income levels and social groups, and underrepresented housing costs and prices. In part, however, it also reflects subjective or selective patterns of perception, such as an asymmetrical assessment of declining versus rising prices, overvaluing of frequently purchased consumer goods, or a deceptive comparison with historical, non-indexed Austrian schilling prices (Fluch and Stix, 2005).

\textsuperscript{26} Schweighofer (2012) refers to possible substitution effects in specific sectors. The overall effect, however, remains unclear. Schweighofer (2014) analyzes displacement processes in the Austrian labor market, but notes that it would take detailed microdata to arrive at an exact analysis of displacement effects. Using aggregated data, he finds signs of substitution effects. This study however does not apply a counterfactual scenario without European integration. For an earlier discussion, see Winter-Ebmer and Zweimüller (1999). From a macroeconomic viewpoint, finally, the higher level of employment in Austria due to immigration creates scope for spending, especially on proactive labor market policies, and improves the financial health of the social security system (above all the pension system).

\textsuperscript{27} Since 2011, the inflation rate in Austria has been consistently higher than the euro area average, reflecting above all the services sector’s higher contribution to inflation.
Moreover, the financial and economic crisis as from 2008 led to a sustained decline of inflation rates (chart 4). The unusually low – at times even temporarily negative – inflation rates in recent years are due, among other things, to drops in commodities prices (in particular the oil price) and to weak economic growth (Mikolajun and Lodge, 2016). The low inflation in some of the euro area countries (see chart 4 for the euro area average) even led to fears of a deflation risk (similar to the global economic crisis of the 1930s). In the course of the financial and economic crisis, the ECB cut policy rates to support the real economy and put a series of measures in place to bring the inflation rate back in line with its price stability target. In addition, at the start of the financial crisis, the banking system itself was threatened by a confidence problem; in contrast to a “normal” situation, banks were very reluctant to lend in the interbank market, leading to liquidity shortages, and in turn, to a decline in lending to companies and households. To fill the gap, the ECB made central bank liquidity available at very favorable conditions. In the sovereign debt crisis, the ECB successfully combated speculation by announcing that it stood ready to purchase sovereign bonds of distressed member countries, subject to strict conditionality. The ECB then counteracted the ensuing risk of deflation by means of further interest rate reductions and high-volume securities purchases. While moving more cautiously initially than the central banks of other industrialized nations (e.g. the U.S.A. and Japan), the Eurosystem has ultimately gone to great lengths in exercising its monetary policy mandate. The effectiveness of the new and nonstandard monetary policy measures of the ECB was demonstrated, for example, by the decline in interest rates on loans and the easing of lending conditions (Altavilla and Giannone, 2016; Rieth et al., 2016; Breuss, 2017). Any further macroeconomic stimuli would require expansionary measures on the part of further actors, in particular fiscal and income policy, and structural measures to strengthen the medium- and long-term growth potential of the euro area and the expectations of the economic actors.

![Chart 4: Inflation rate](image)

**Source:** Statistics Austria, ECB.

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28 On inflation in Austria since the founding of the OeNB in 1816, see Beer et al. (2016).
29 For an overview of the monetary policy instruments of the Eurosystem, see ECB (2016b).
One criticism which has been widely expressed is that the gradual reduction of policy interest rates to a level close to zero, and the lower interest rates paid on savings as a result, lead to an “expropriation of savings.” However, a look at the development of interest rates shows that in about half of the years since 1945, the nominal interest rate paid on savings in Austria was below the inflation rate. In addition, investing in a savings account is only one option for the use of funds among many. When interest rates are low, other options (e.g. buying other assets or spending money on consumption) become relatively more attractive. Moreover, the current low level of interest rates is not due solely to the actions of the central bank or the banking sector; rather, it reflects factors such as the weak economic growth (see for example Bernanke, 2015a,b; IMF, 2014), which is accompanied by low inflation.

Beyond establishing a common monetary policy in all participating countries, monetary union generates a range of macroeconomic effects – both benefits and costs. According to the theory of optimum currency areas (Mundell, 1961; McKinnon, 1963; Kenen, 1969), the direct advantages of monetary union include the elimination of transaction costs and of exchange rate risk, and the greater level of competition due to greater price transparency. As a result of these factors, the volume of foreign trade and cross-border investments may increase, thus accelerating economic growth. Monetary union, however, also entails costs. Since a monetary union by definition stops its members from pursuing independent monetary and exchange rate policies as it makes monetary policy for the currency area as a whole, its members can no longer tackle country-specific macroeconomic shocks – above all on the demand side – with national monetary instruments to regain stability. According to the theory of optimum currency areas, the costs of monetary union are the lower the more symmetrical the shocks experienced by the participating member countries are; the higher wage and price flexibility is; and the more mobile the factors of labor and capital are, allowing asymmetrical shocks to be offset by market mechanisms. However, this costing exercise must also take into consideration whether a given country would be in a position to pursue an independent monetary policy outside the euro area in the first place and how effective such a policy would be (as evidenced, for instance, by the case of Austria, which used to shadow Germany’s monetary stance in the pursuit of its hard currency policy).

In contrast to the findings with regard to the impact of EU accession, scientific evidence is mixed as to whether the monetary union has led to an increase in Austrian GDP. Breuss (2016) calculates an additional growth effect of 0.5 percentage points per year. In the period from 1999 to 2015, Austria’s economic output was 9.3 percentage points higher than it would have been without monetary union. Regarding the labor market, euro area membership reduced unemployment in Austria by 1 percentage point on a cumulative basis over the same period. Fernández and García Perea (2015), in contrast, find that monetary union did not have any measurable impact on Austrian economic growth. They note that monetary union came into being at approximately the same time that China began to play a considerably greater role in the area of trade (chart 2). China’s increased role led to greater fragmentation in international trade, and for this reason, no significant increases in trade between the euro area countries were observed despite the introduction of the euro. Moreover, the growing significance

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30 It is not clear on the basis of empirical observation whether the monetary union has led to an increase in trading activities between the euro area countries. For a recent analysis, see Glick and Rose (2015).

31 In this section as well, we address only recent literature. For an overview of earlier studies, see Badinger and Breuss (2011) and Beer (2011).

32 The counterfactual scenario is that the monetary union never came into being at all. It is thus a different counterfactual scenario than that of Austria having remained outside the monetary union, as in Breuss (2016).
of international production chains led to a complete reorganization of international trade. Oberhofer and Winner (2015) came to the conclusion that the introduction of the euro had hardly any additional impact on trade. One possible reason they give is that, due to the fact that the Austrian schilling had already been pegged to the German mark for many years, Austria did not profit as much from the single currency. In contrast, Campos et al. (2014) show that for euro countries, the cumulative growth advantage of EU membership is 2 percentage points higher on average than for EU Member States that have not yet introduced the euro. Specific results for Austria are not given, however. McKinsey Germany (2012) estimated that positive growth effects emerge in all euro countries and that Austria, along with Germany, Finland and the Netherlands, is one of the countries that have profited the most from the introduction of the euro.

In addition to the effects discussed in the studies referred to above, there are further advantages of monetary union, which, however, are more difficult to quantify. For one thing, monetary union constitutes a shield against currency speculation, to which the currencies not only of small countries (e.g. Finland in 1992), but of bigger countries as well (e.g. the British pound crisis of 1992) are exposed. In addition, an independent Austrian monetary policy outside the euro area would have to take into account the impact of monetary policy decisions on the exchange rate. In order to maintain a stable exchange rate vis-à-vis our main trade partners in the event of financial and exchange rate crises, substantial interest rate increases might become necessary, which could in turn lead to a slump in growth and rising unemployment. It is therefore doubtful to what extent an independent monetary policy is even effective for a small open economy in the event of a crisis. For Austria, the euro is thus a shield against financial and currency crises.33

Apart from the macroeconomic effects, the euro also has an impact on the day-to-day lives of consumers. The euro increases price transparency, since prices are easier to compare across the euro area countries. In addition, travel and purchases are easier and cheaper within the euro area thanks to the elimination of currency conversion fees. The euro and the single market for financial services fuel competition among banks, insurance companies, and pension and investment funds, causing the cost of these services to drop. Moreover, payment transactions have been simplified by the single euro payments area (SEPA). Bank transfers within the EU have become faster, more secure, and cheaper (as the fees are the same as for domestic wire transfers). When it comes to cash payments, finally, the euro is a relatively counterfeit-proof method of payment.

3 The EU and the national budget

3.1 Austria and the EU budget: contributions and gains

As a member of the EU, Austria is integrated with the other EU Member States also via the EU budget. The EU’s budget amounts to around EUR 150 billion (2016), which corresponds to about 1% of the annual economic output of the 28 EU Member States. About 92% of the EU’s budget flows back into the EU member countries – for the support of poorer regions, for agriculture, environmental protection, research, the promotion of human rights and the protection

33 See box 4: Isn’t Switzerland doing fine outside the EU?
of the EU’s external borders. Administration accounts for only 6% of the EU’s budget (EC, 2016e).34

Since it is one of the declared goals of the EU member countries to support poorer member countries and thus promote economic convergence, or the catch-up process, the poorer countries generally receive more funds from the EU budget than they pay into it (“net recipients”), while the relatively rich countries (including Austria) contribute more to the EU budget than they receive from it (“net contributors”). In 2015, Austria contributed the amount of EUR 2.53 billion (EC, 2016e) to the EU’s budget. This corresponds to about 0.9% of GDP, or less than 4% of the total Austrian budget. But this amount was largely offset by direct flows back to Austria in the form of EU subsidies, leaving a net contribution of EUR 0.85 billion (EC, 2016e; BMF, 2016). This corresponds to about 0.25% of GDP and 1.1% of the total budget. Flows of funds back to Austria include e.g. regional subsidies and, in conjunction with them, training measures in economically underdeveloped regions. In addition, courses of study abroad, for example, are financed and organized via Erasmus and other EU sponsorship programs. By lowering language barriers, positive spillover effects in the hosting country, and intensified trade relationships, these exchanges contribute to greater prosperity (DAAD, 2013).

The Austrian economy also benefits from indirect effects of the redistribution of funds within the European Union. Financial support to poorer member countries increases purchasing power in these countries, thus expanding sales markets for Austrian companies. Furthermore, support leads to higher investments within the recipient countries (e.g. for infrastructure building; see Breuss et al., 2010). Austrian companies can be awarded such contracts. Without these positive knock-on effects, growth, prosperity and employment in Austria would have been lower. In this sense, the Austrian economy, due not least of all to its competitiveness and to the multiplier effects of EU spending, can in fact be seen as a “net recipient.” In budgetary terms, on the other hand, Austria is a net contributor, which reflects both its affluence and its economic strength. Austria’s net contribution can thus be seen as a kind of operating cost contribution for the EU and as an admission fee to the single market and the other “club benefits” of the EU. With Austria’s economy benefiting from membership in this “club,” it generates extra tax revenues that fund Austria’s contribution.35

A further indirect effect of EU and euro membership was that Austria did not find itself in the midst of a massive crisis of confidence in the aftermath of the banking crisis. In light of the potential fiscal stabilization costs for a banking sector which had grown to over 300% of GDP (consolidated assets), Austria might have experienced heavy exchange rate pressures as well as significant problems to obtain and service debt if it had stuck to the Austrian schilling. The financial stability of the banking offices of Austrian credit institutions abroad was ensured through expanded access to EU subsidies of the countries in question (Nauschnigg, 2011). This

34 The administration of the EU is relatively lean. The European Commission has around 33,000 employees, the European Parliament around 6,000. To compare: About 70,000 people work in the administration of Hamburg, Germany and about 25,000 at Austria’s social insurance providers – although, of course, the tasks of a city administration or of Austrian social insurance are fundamentally different than those of the EU institutions.

35 However, there can be a negative impact if students from countries where access to tertiary education is relatively highly regulated (e.g. numerus clausus) can freely flock to open-access countries. This is especially the case when graduates do not remain in the country in which they gained their degree, so that the country which funded the studies is unable to reap the benefits of its education system.

36 Non-members (such as the EEA members outside the EU, and Switzerland) also pay contributions in order to participate in the single market. These countries do not enjoy the full benefits of EU membership, however (see also box 4).
does not mean, however, that there was no impact on Austria. Some of the rescue measures for Austrian banks had tangible effects on the state budget, with the expected negative confidence effects on the population. In return, Austria was spared a severe banking crisis.

In light of the benefits of membership, the idea that, in a scenario in which Austria is not a member of the EU, Austria’s contributions to the EU budget could simply be channeled to other national purposes instead is deceptive. A much more likely result would be tax increases or cuts in transfer payments, given the likely rise in (re-)financing costs for the state in the form of higher risk premiums due to uncertainty, greater vulnerability and the country’s lower reputation. Moreover, any devaluation of a newly introduced currency would lead to a drastic increase in the national debt, since the outstanding debts would remain denominated in euros.

3.2 Fiscal policy in the EU

Budget and fiscal policy has, as a rule, remained a national responsibility, supported by various EU rules that have contributed to fiscal stability. At the same time, the national scope for fiscal policymaking is limited by stringent constraints established by the European Stability and Growth Pact. The declared purpose of the fiscal rules is to ensure the long-term sustainability of fiscal systems through budgetary discipline. Less attention was paid to the problem of the procyclical impact of budgetary policy in the event of crisis, and accordingly, the constraint on its stabilization tasks. From a macroeconomic perspective, an additional contraction in fiscal policy is neither desirable nor advisable in an environment which is characterized by private sector deleveraging. Hence the aggregate results at the EU level are often suboptimal.

Up to now, efforts to overcome the economic crisis through fiscal stimulus have not been very effective. The EU budget is small and underfunded for countercyclical stabilization measures. There is no central budget decision-making authority, and the coordination instruments for expansionary stabilization policies are lacking. To the extent that there is scope within the framework of the Stability and Growth Pact for stimulus measures in the individual countries, the incentive to carry out such measures is limited, since, due to the close economic interrelationships in the single market, they would also benefit neighboring countries. In addition, there is no political consensus regarding the appropriate initiatives. For these reasons, the deliberations on the further development of Economic and Monetary Union are focused on a closer coordination of fiscal policies (box 5). Some initial steps toward joint economic stimulus measures were made with the investment plan for Europe initiated in 2014 (Juncker Plan; EC, 2016f).37

For the EU and its Member States, there are various options for more effective fiscal policies. According to current research, public-sector investment (e.g. in transportation infrastructure or in early childhood development) is the most effective form of fiscal stimulus, since it has both an immediate impact on growth and employment and a long-term impact in terms of increasing potential output (Abiad et al., 2015; Gechert, 2015). Tax reductions and monetary transfers have lower multiplier effects than investments, but they can also be effective, especially when they are used for increased spending on consumer durables (Parker et al., 2013) or concentrated on credit-constrained households (with a high propensity to consume) (Bi and Kumhof, 2009). The size of the multiplier effects is determined by many factors, above all households’ propensity to consume; and further, by the government debt ratio and by eco-

37 At the end of 2016, the EU finance ministers voted to extend the European Fund for Strategic Investments (EFSI) to 2020 and to top it up. Over the total running period of about six years, the fund is to trigger investments in an amount of at least EUR 500 billion.
nomic framework conditions such as monetary policy (Warmedinger et al., 2015). Studies confirm that fiscal multiplier effects are significantly higher at the start of a recession, particularly when monetary policy is operating at or near the zero lower bound of interest rates. In addition, automatic stabilizers could be expanded, in particular in some of the EU periphery countries, where such measures are in place only to a limited extent. In ’t Veld (2013) argues that the disparities within the euro area could be reduced through expansionary fiscal policies on the part of the core countries (in particular Germany and the Netherlands), since fiscal policy stimuli in the north would have spillover effects in the south, and would serve to stimulate demand, and thus growth, in these countries. More expansionary fiscal policies could stimulate growth and employment at least in parts of the EU, as is also recommended by the OECD (2016).

4 Peace and democracy

4.1 The EU as a peace project

As a peace project, the European Union can be considered a success story. After two World Wars and countless violent confrontations before them, there has not been any military conflict between the member countries since the European Coal and Steel Community (ECSC) was founded in 1951. The ECSC, inspired by the Schuman Plan of May 9, 1950, was an attempt to place coal and steel, the key military goods, in Germany’s Ruhr region under the joint control of Germany and France, the former combatants, and the other founding members.

Prior to World War II, the League of Nations (the predecessor of today’s UN) had focused its efforts toward ensuring peace on a policy of alliances aimed at ensuring a balance of power and on the hegemony policies of major states. Yet these approaches proved inadequate in preventing nationalist fanatics from turning the continent into a battlefield. European integration emerged from the attempt to find a new way to prevent an escalation of the rivalries between the European powers in the future. Economic integration and the creation of joint political institutions was intended to defuse conflicts of interests between states and, by strengthening mutual interests, to undermine conflict-oriented nationalism (Melchior, 2014).

The successful initiative to contain any escalation of political conflicts by means of economic integration was steadily expanded to new areas in the decades after its founding, from the common market to the common currency. The basic idea is that economic cooperation, and

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38 See Blanchard and Leigh (2013), Coenen et al. (2013) and Batini et al. (2014) for an overview; Almunia et al. (2010) for historical evidence.

39 Fiscal policy efforts could be supported by wage policy. In countries with very high current account surpluses, significant wage increases would help to reduce the surplus and thus give the EU periphery countries scope to adapt their economies. Gächter et al. (2015) suggest a wage setting rule for the euro area, depending on productivity growth and the inflation target.

40 The OECD (2016) recommends a looser interpretation of the Stability and Growth Pact and the introduction of a “golden rule” for investments, under which public-sector investment should constitute an exception in terms of the deficit criteria. Further, the OECD recommends amending the rules governing the ECB’s bond purchases to give preference to purchases of bonds financing public investment.

41 In commemoration of the Schuman declaration, this day is celebrated every year as “Europe Day.”

42 This approach is called the “Jean Monnet effect” or “méthode Monnet.” The basic idea is to ultimately achieve political integration (at that time, between the two formerly hostile states France and Germany) by first starting with economic integration (at that time, with coal and steel). The proposal, known as the “Schuman Plan,” was originally supposed to be called the Monnet Plan, after its mastermind.
the creation of an economic area in which ideas, goods and services can be freely exchanged, promote general prosperity and thus prevent mass poverty as a source of conflicts. Successful economic integration can contribute to conflict prevention: When a conflict has the potential to bring about substantial losses in prosperity, participants in the conflict might refrain from escalating it. Economic cooperation is underpinned by the political cooperation which emerges through the creation of joint institutions and processes. The latter create a framework in which conflicts can be addressed in a nonmilitary manner.

Through its sheer existence, the EU disrupts the view of world policy dominated by nation states. As a cross between a federation of states and a supranational organization, it functions differently than does an individual nation state and provides an example of a different relationship between states and of a political form which transcends the national state. Diplomacy, negotiation, the use of incentives rather than sanctions, a focus on economic means to achieve political ends, and a policy of small steps characterize both the way in which consensus is formed within the EU and its activities on the world policy stage (Jones, 2010). Moreover, the principles which guide the EU, the actions it takes, and the results it achieves accordingly all more closely refer to normative standards than is usually the case with nation states (Manners, 2008a and b).

Article 3 of the Treaty on European Union states that the central aim of the EU is “to promote peace, its values and the well-being of its peoples” (EU, 2012). These principles also guide the EU’s actions in the global policy sphere (Rosamond, 2014). As an international player, the EU seeks to exercise “soft power” to achieve peaceful solutions to conflicts and serves as a mediator in numerous conflicts (Breuss, 2013, 2015b). The EU is the greatest donor of humanitarian and development aid worldwide. The EU’s failures at conflict prevention in individual cases, e.g. in the disintegration of Yugoslavia, have led it to step up its efforts to develop a common foreign and security policy and to develop the capacity to contribute to securing peace, including via military means if necessary. Admittedly, this could quickly conflict with nonmilitary conceptions of peace policy and may hold destructive potential. So far, however, NATO has remained the predominant entity for military cooperation in Western and Central Europe. In light of the changed geopolitical situation after the presidential election in the U.S.A., a discussion is underway regarding increased EU activity in the military domain in the framework of its Common Security and Defence Policy (CSDP).

The foreign policy of a major economic area such as the EU inevitably has an element of power politics, which in turn represents an inherent potential for involvement in geopolitical conflicts. At present, however, the international perception of the EU as a peace-oriented player appears to predominate, as was reflected in the awarding of the Nobel Peace Prize in 2012. Internally as well, this perception is shared by many (Bachmann and Sidaway, 2009). In a study conducted by the Bertelsmann Foundation (2015), respondents were asked what the greatest achievements of the EU have been. Peace ranked among the top three responses. The EU peace project thus continues to be of vital importance in the 21st century, and, in an uncertain world, may even increase in importance as well.
4.2 How democratic is the EU?

A common understanding of democracy starts with national parliamentarianism. Measuring the EU by this standard is problematic, because the EU is not a state in the classic sense but is based on both intergovernmental cooperation and supranational governance.

The European Parliament is elected directly by the citizens. It is made up of nationally elected delegates of national parties, but it has fewer formal rights to influence EU legislation than national parliaments have with regard to the legislation of their respective countries. The closest thing to an EU government is the EU Council of Ministers, which is made up of representatives of nationally elected governments. In other words, it is elected neither by the European Parliament nor directly. Finally, there is the European Commission as the administrative body tasked inter alia with presenting political and regulatory proposals (right of initiative with regard to new directives and regulations) and implementing EU law and EU resolutions. The Commission, which is also described as the “guardian of the Treaties,” consists of representatives nominated by the member countries and subject to confirmation by the European Parliament.

The current allocation of responsibilities reflects a compromise between the forces that tend to emphasize the intergovernmental character of the EU and those that tend to emphasize its supranational character. Bringing the EU into alignment with standards of democracy similar to those prevailing in nation states would require a political union – a kind of “United States of Europe” – for which there has not been sufficient support so far. As long as this remains the case, convergence will be possible only in incremental steps. The strengthening of the role of the European Parliament as a co-legislator, together with the Council, in the Treaty of Lisbon of 2007 was a significant step in this regard. However, it should be noted that the EU replaces the Member States and their democratic processes only in selected spheres of responsibility. In some areas the EU supplements the regulations of the Member States; in many areas, the democratic processes governing national agendas remain unaffected by the EU.

With the EU, the scope of influence of the Member States is not only limited; it is also expanded. In a globalized economy, national affairs do not end at the border; rather, national decisions have an impact beyond the country’s borders, and there are international affairs that require cooperation between countries. The EU, with its institutions and processes, extends the scope of democratically legitimized politics for the participating nation states: As a member of the EU, Austria thus potentially has greater influence on its international environment than it would as a nonmember.

The nation-state model of democracy is finding it increasingly difficult to manage cross-border affairs in a democratic fashion (Held, 1991). Globalization presents a challenge to democracies in establishing substantial rules at a time when various areas of politics are increasingly no longer under national control. In this context, the EU can also be understood as a new, experimental form of democracy, as an attempt to reinvent democratic governance to meet contemporary challenges. There are several levels of government in the EU – the local, the national and the European – with separate authorities operating at each level. The relationship of the levels to one another, and the players who are involved in decision-making at each level, are

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43 According to the Maastricht ruling of the German Federal Constitutional Court of October 12, 1993, the EU is a “compound of States” (EU, 1993). With this new term, the court wanted to characterize the EU’s special form.

44 According to a survey conducted in October 2016, “deepening cooperation between EU Member States” is seen by 47% of respondents in Austria as “very important” and by 38% as “important” (ÖGfE, 2016a).
an ongoing subject of discussion and negotiation. The negotiations take place on the basis of processes set forth in the Treaties, which were established under international law and have been revised over time. Due to the many players, stakeholders and channels involved, the weight of better arguments and the ability to convince others play a particularly important role, as evidenced by a major strand of research on Europe (Bieling, 2011). This kind of debate can be seen as a beneficial democratic process which is highly characteristic of the EU.

Such a framework also implies a high degree of complexity and a lack of transparency. The time, effort and energy necessary to actively contribute to policymaking or to take informed decisions when called to the polls can act as a barrier to participation. Low voter participation in the elections to the European Parliament, and, according to surveys, considerable EU skepticism can be seen as evidence of this (Neuhold, 2002). The economic focus of integration is also frequently taken as an indication of the dominance of economic elites in the EU process (Scharpf, 2012). The fact that social policy remains a minor niche among EU activities, while economic integration is far advanced with the single market and Economic and Monetary Union, can also be interpreted, however, as an expression of particularly strong democratic preferences for retaining the social agendas within national spheres of competence (Schmidt, 2015). Legitimacy problems emerge under this distribution of powers when, as a side effect of economic integration, distribution problems and cost-intensive crises unfold which cannot be overcome with national social policymaking tools and resources.

The above-mentioned barriers reflect not only specific problems of the EU, but rather a fundamental dilemma between increasing complexity and democratic participation. The political processes of the EU do not trigger complexity, but rather represent an attempt to master it: Most areas of politics today are transnational in nature and characterized by a variety of interrelated problems and players, and by a lack of consensus as to the appropriate solutions. In order to increase its legitimacy and to reduce structural asymmetries in participation, the EU is constantly searching for new ideas and approaches (e.g. the European Citizens’ Initiative; recent proposals include a solidarity corps for young people). The search for ways to open up to broader participation remains an ongoing process and a constant challenge for the EU.

**Box 5**

**Is European integration making progress?**

European integration can be seen as a process of political unification of the continent. It is determined by two dimensions: expansion and deepening. Both expansion and deepening are currently being controversially discussed. The upcoming “Brexit” shows that this process is not a one-way street. For possible future expansions, the accession countries must in any event fulfill the criteria defined for accession (adoption of legal rules, economic convergence or human rights). In addition, the EU must be in a position to absorb new members. At present, there is no fixed timeline for further accession.

As far as the deepening of the EU is concerned, significant progress was made in recent years; however, there is still a fundamental need for reform. For example, the European Stability Mechanism was created to master the sovereign debt financing crisis. It offers temporary financial assistance to Member States in severe financial distress, subject to strict conditionality. In order to accelerate economic recovery after the crisis, the EU launched an investment plan for Europe, with the European Fund for Strategic Investments (EFSI) at its center (EC, 2016f). To avoid future crises, the economic governance of the EU was revised: Through a re-
form of the Stability and Growth Pact and through the fiscal compact, national budgets and government debt developments are now monitored more closely and sanctioned if necessary. Over the long term, these measures help to ensure that debts do not “explode.” In the short term, however, they also reduce the scope for cushioning slumps in growth through debt-financed economic measures. With a view to preventing macroeconomic imbalances (current account deficits, price competitiveness, unemployment rate, etc.) from arising in the first place, a monitoring process has been introduced at the EU level. Moreover, as two of the pillars of banking union, the Single Supervisory Mechanism was established for banks in the euro area and a common banking resolution mechanism was created for the liquidation of insolvent banks.

While the reform measures and institutional innovations undertaken to date were effective in stabilizing economic conditions, weak growth and chronically disparate development between the Member States reflect the fact that the monetary union is not sufficiently resilient to absorb shocks and is suffering from inherent design deficiencies. In order to counteract these problems at least in part, in mid-2015 Commission President Juncker presented the report “Completing Europe’s Economic and Monetary Union,” which was drafted by the heads of five European institutions (the European Commission, the ECB, the European Council, the Eurogroup and the European Parliament) (“Five Presidents’ Report”; see Juncker, 2015). To ensure the smooth functioning of EMU, progress must happen on four fronts: toward a genuine economic union, which promotes prosperity and convergence; toward a financial union, which regulates banks and capital markets across national borders; toward a fiscal union, which delivers sustainability of all public households; and toward a political union, which gives the completed EMU democratic legitimacy.

As outlined in the Five Presidents’ Report, the process of completing EMU is to take place in two stages: Up to mid-2017, past reforms are to be enhanced by making the best possible use of the existing legal framework, for example by creating national Competitiveness Authorities, implementing a European deposit insurance scheme for bank deposits and establishing an advisory European Fiscal Board. Subsequently, The long-term goal, to be achieved by 2025, is to establish binding convergence targets, a fiscal stabilization function for the euro area, and a euro area treasury. This will probably require a Treaty change, not least of all to enhance the democratic legitimacy of EMU.

1 Regarding the expansion of the EU, see EUR-Lex (2016).

5 Summary and conclusions

Surveys show that just under 50% of Austrians are of the opinion that EU membership brings more advantages than disadvantages; for about 37%, the disadvantages outweigh the advantages. Opinions are divided with regard to the impact of EU membership on employees as well. Migration issues and unemployment are seen as the greatest challenges for the EU. The majority of Austrians favor remaining in the EU, however. Current economic conditions in Austria are characterized by high unemployment and relatively low economic growth. This prompts some people to conclude that this situation is the fault of the EU and the euro (“things used to be better and cheaper”). A balanced discussion of the impact of EU membership, however, must always compare the current situation with a counterfactual world, in the present, without the EU and the euro.
Empirical studies on the economic impact of EU membership show that European integration has led to a lasting increase in the level of GDP in Austria and to an increase in overall employment. According to macroeconomic growth theory, greater integration can also create ongoing higher growth. For the future, it will be important to generate new growth stimuli from integration and with the aid of coordinated economic measures. Monetary Union increases the effectiveness of monetary policy, helps to avoid financial market and currency crises entirely or to master them together, and leads to higher price stability and a range of conveniences in day-to-day life (e.g. the same currency when traveling abroad, price transparency).

The fact that macroeconomic gains are achieved, however, does not imply that these benefits are distributed equally across individual sectors, population groups or individuals. Losses are also possible and probable. The redistributive effects of European integration can be shaped by the Austrian government via its economic policy. In order to answer the question as to “who” has won or lost through European integration, however, it would be necessary, as in the case of the macroeconomic analyses, to establish the respective counterfactual scenarios without European integration for purposes of comparison. We are not aware of any studies which have quantified Austria’s development in counterfactual scenarios without European integration.

The effects of EU membership on the labor market are ambivalent to a certain extent. On the one hand, economic growth has increased, and an open labor market can in turn lead to more growth and employment; on the other, competition between Austrian and foreign workers is increasing in some sectors. We have not been able to quantify the specific impact on employment for Austrian nationals for a lack of the necessary counterfactual scenarios.

As one of the richest EU Member States, Austria is a net contributor to the Community budget. The cost of EU membership comes also with extensive benefits, though. In addition to the increase in growth and employment as a result of access to the EU single market, funds in the form of regional assistance, for example, flow directly back to Austria. Even the support of other, poorer Member States has an indirect positive impact on Austria, since the purchasing power in these countries is increased and more public investments are carried out, which in turn increases sales opportunities for Austrian companies. However, the currently weak economic growth and chronically disparate development between the Member States reflect the fact that the EU still is not resilient enough to absorb shocks. For this reason, a new round of efforts to complete EMU has been launched, with the “Five Presidents’ Report” of 2015 providing the roadmap for this process.

Regarding the question as to how democratic the EU is, it must be kept in mind that because of its special form (combining both supranational and intergovernmental elements), the EU cannot be measured by the democratic standards of a nation state. Rather, the numerous institutions, levels and processes of the EU can be seen as a successful and exemplary ongoing attempt to reinvent democracy in response to an environment of growing international interdependence. Moreover, the EU replaces the nation state and its democratic processes only in certain areas, while in others it mainly plays a supplementary role. In the future, the progressive deepening of the EU will also require increased democratic legitimacy, for example in the form of European parliamentary control over joint institutions.

The EU is ultimately a peace project, as the original motivation for European integration was to prevent a repetition of the horrors of World War II. In uncertain times, effective means to prevent conflicts between Member States from escalating gain significance as one of the most valuable achievements of European integration. On a global level, the EU strengthens Europe’s
role in avoiding or mediating international conflicts. In this area as well, Europe can be a global player in a way that individual European countries never could.

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