

At What Cost EU Membership?

Central and eastern European leaders must acknowledge that liberalization has stalled as regulations have mounted.

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By [MARIAN L. TUPY](#)

These are difficult times for the European Union, yet with the exception of the cantankerous prime minister of Hungary, few central and eastern European leaders are willing to talk about national interests in the context of the European project.

That is partly for geopolitical reasons, such as the fear of a resurgent Russia, and for sentimental reasons, such as the pride in belonging to a group of advanced democratic nations. The economic factors, however, are more complex. Leaders in the region should not ignore the rising costs of their EU membership.

EU politicians in Brussels often speak of the "huge" benefits of belonging to the bloc. There have been, mostly from trade liberalization, which helped rebuild war-torn Europe and remains the most salient feature of European integration. However, as future negotiations on trade liberalization decrease tariffs world-wide, and transport and communication become even cheaper, the benefits of the European free-trade area will diminish.

Moreover, participation in the European free-trade area is not cost-free—as Estonia found out when it had to raise its tariffs to join the EU. French economist Patrick Messerlin has estimated that European trade protectionism vis-à-vis non-EU countries costs Europe between 5 and 7% of annual GDP. Cheap imports, politicians often forget, are as important as exports. They increase standards of living by lowering prices and providing consumers with additional choices.

The alternative to the European customs union is not economic isolation. All EU member states are also members of the World Trade Organization. They are thus bound by the EU's WTO commitments. Should a country decide to leave the EU, in

the worst-case scenario it would be subject to the same EU tariffs as other non-EU countries—a trade-weighted average applied tariff of 10.1% and 2.7% on agricultural and non-agricultural goods respectively. More likely, a former member would be able to negotiate a bilateral agreement with the EU, as Switzerland has; join the European Economic Area, like Norway; or liberalize unilaterally.

While free trade among European countries was an important step forward, the process of economic liberalization has stalled in the last decade, even before the 2008 financial crisis. For instance, roughly 60% of the service market has not been liberalized. In 2006 the EU watered down its attempt to deregulate services—who can forget the French fear of cheap Polish plumbers—in a move that was particularly damaging to new EU members, where wages are lower than in western Europe.

Then there is the EU's Common Agricultural Policy (CAP), really just a network of farm subsidies and production quotas, which France demanded as the "price" for creating a common market more than 50 years ago. From the beginning, the CAP has been expensive, wasteful and corrupting; it now sucks up about half the EU's total common budget. Its system of geographical disbursement also discriminates against central and eastern European farmers: A typical Latvian farmer, for example, receives a subsidy of €90 per hectare per year. A Greek farmer receives €650.

As for the costs of EU regulation, the European Commission's own estimate puts the figure at about €600 billion per year. Stringent environmental, health and safety regulations are particularly damaging to central and eastern Europe. Bulgaria is the poorest EU country with an average per-capita income of €4,800 per year, or one-fifth the EU average. Electricity prices eat away a large part of monthly incomes. Yet the EU insists that 16% of Bulgarian electricity will have to come from much more expensive renewable sources, such as solar panels and windmills, by 2020.

The regressive nature of some EU regulation was again on display earlier this year, when an EU directive aimed at increasing the comfort of hens resulted in a drastic decline in central and eastern European egg production, and a 100% increase in the price of eggs in the Czech Republic. But as long as the chickens are happy.

Finally, there is the apparently open-ended commitment of central and eastern euro-zone members to help rescue the common currency. So far, Slovakia's total commitment to the European bailout fund amounts to €13 billion in financial transfers

and loan guarantees. That is more than the annual tax receipts of the Slovak government. It is worth mentioning that per-capita income in Greece, which has already received two bailouts, was €20,100 in 2010. In Slovakia, it was €12,100.

A typical refrain from Brussels is that central and eastern countries have prospered since joining the EU in part because its "cohesion fund" has redistributed so much money to east from west. Slovakia, for example, was entitled to some €11.6 billion between 2007 and 2013. By the start of 2012, however, it had only used about 30% of that money—some of it tied to projects of dubious value.

What happens when we subtract the explicit costs of EU membership, including the contributions of central and eastern countries to the EU budget, from the EU's largesse, including cohesion funds and agricultural subsidies? The net "gain" for Slovakia comes to an average of €77 per person per year between 2004 and 2010. It was €102 in Poland, €115 in Hungary, €66 in the Czech Republic, €200 in Estonia, €163 in Latvia and €224 in Lithuania. Those figures do not take into account the implicit costs of EU membership arising from trade protectionism and regulation (at least €2,552 per person in each country, using the Commission's and Mr. Messerlin's figures), not to mention bailouts.

This is not a scientific cost-benefit analysis of the EU membership. Nor is it a call for central and eastern European countries to leave the EU. Rather, it is a plea for realism and honesty. The EU is neither as successful nor as beneficial as the political elites in Brussels claim. In order to prosper within the EU, the leaders of central and eastern European countries must become less idealistic and more assertive. It is their duty to the people who elected them.

Mr. Tupy is a policy analyst at the Cato Institute's Center for Global Liberty and Prosperity.