

A New Start for the European Union?

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Abstract

In recent months a great deal of ink has been spilt on the numerous problems being experienced by the European Union (EU) and the Euro zone. It has been suggested on more than one occasion that the project should be continued with a limited number of core countries committed to the creation of a more integrated whole, particularly on the political front. At present it is not yet clear which countries might be involved. Even so the Dutch Minister of Finance, Jeroen Dijsselbloem (Dijsselbloem), a social democrat and the Chairman of the Euro group, has argued for a new five-country Schengen Zone. This new EU should consist of the following present members: Austria, Belgium, Germany, the Netherlands and Sweden. The external borders of the five countries would be properly secured and Dijsselbloem selected these countries primarily because they are the ones currently doing the most to receive the huge numbers of asylum seekers. These five countries are the economic core of the EU. It is the first time that a top European politician has named the countries that could constitute a new core Europe. On 9 February 2016 the Foreign Ministers of the six founder members of the EEC met in Rome, to discuss the poor functioning of the EU. The important political lesson of these Roman encounters is the fact that now also France, Italy and Luxembourg are around the table concerning the negotiations of Europe's future.

Introduction

The aim of this article is to examine the potential opportunities of a new core Europe by posing the following questions:

- what are the various combinations of countries (see below) that could be considered for a rebooted Europe,
- To make comparison possible all the proposed combinations are examined in the light of a number of defined parameters. The parameters selected include traditional measures such as population and area, as well economic and financial parameters (share in the EU budget, size of GDP, contribution to the capital reserves of the ECB, gold reserves, and share in the IMF) and military spending.

A calculation for each parameter is made to see which combination would be best suited to serve as the basis for a possible "restart" of a core Europe. In the conclusion the question is asked of what must be done about the countries that cannot be included among the core countries.

Literature Review

This study is based on the actual ideas concerning the future of the European Union. The financial figures are calculated on the budget facts of the concerned institutions.

Europe's Problems

In recent months the problems in connection with the functioning of the European Union have become highly visible and the list given below is by no means complete:

- immense cultural and political differences between member states,
- differences in economic prosperity and social welfare,
- the division of the Union into a Euro zone and a non-Euro zone,
- the continuing difficulties of Greece (and others) in the Euro zone,
- the numerous difficulties in connection with guarding the external borders of the Schengen area,

- mass migration from Africa and the Middle East,
- The Brexit debate.

To respond to these challenges the idea is to relaunch the Union with a limited number of countries. The possible combinations of countries taking part in a core Europe are as follows:

- the Dijsselbloem five state proposal (Belgium, Germany, the Netherlands, Austria and Sweden);
- the six founder members (the three Benelux countries, Germany, France and Italy);
- The founder members together with the Dijsselbloem proposal: here only Belgium, Germany, and the Netherlands are common to both groups. Austria and Sweden only appear in the Dijsselbloem proposal, whereas in the founder members group they are replaced by France, Italy and Luxembourg. As a result the combination comprises eight countries: the six founder members with Austria and Sweden;
- centre- south group (nine members): the six founders together with Austria and the Iberian countries (Spain and Portugal, members since 1986) make a total of nine countries that covers the entire south western flank of the Union but without Scandinavia;
- centre- north group (ten countries): the six founders together with Austria and the three Scandinavian countries;
- The twelve country group is the foregoing group together with the Spain and Portugal. More particularly it corresponds to the 15 member group that was formed in 1995 less the problem state of Greece (a member since 1981), the United Kingdom, with its Brexiteers, (a member since 1973) and Ireland (a member since 1973). In this most extended hypothesis, the entire western flank of continental Europe is covered.

The calculations made for the various combinations are shown below. The following parameters were taken into consideration for the calculations for each combination of countries that might be considered for rebooting a core Europe: land area, population, contribution to the EU budget, the GDP (Gross Domestic Product), contribution to the capital reserves of the ECB (European Central Bank), and share in the IMF (International Monetary Fund) and gold reserves.

The Parameters

The results of the seven calculations of the aforementioned parameters for the various combinations are given below and accompanied by a commentary.

(i) Geographical Area

The total surface area of the European Union is today about 4.482.100 km²(CIA factbook). The results for this parameter tell us the following about the various versions of a core Europe.

- The Dijsselbloem countries: 961,360 km²
(Sweden: 450,295 km², Germany: 357,121 km², Austria: 83,871 km², The Netherlands: 41,543 km² - not included the Windward and the Leeward Antilles - and Belgium: 30,528 km²)
- The six founder members: 1,376,920 km²
(France: 643,801 km², Italy: 301,339 km² and Luxembourg: 2,586 km²)
- Dijsselbloem proposal + founder members (eight states): 1,911,086 km²
- The centre south group: 2,058,995 km²
(Spain: 505,992 km², Portugal: 92,212 km²)
- The north group: 2,291,035 km²
(Denmark: 43,094 km²- not included the Faroe Island and Greenland -, Finland: 336,855 km²)
- the twelve: 2.889.239 sq.km

A core Europe with twelve member states has of course the largest geographical area. The inclusion or otherwise of the two largest countries, France and Sweden, in particular makes the difference, while the presence of France means that European territory extends beyond continental Europe to include countries in the Caribbean, South America (Guyana), the Pacific (Polynesia, New Caledonia) and Africa (Réunion). The territory of a core Europe would be the smallest in the Dijsselbloem option, restricted as it is to five countries and coming in at position number 31 in the world rankings of countries by area, just after Egypt in fact.

The combined area of the six original states moves up to position 20, just behind Mongolia, whereas the combination of the Dijsselbloem proposal and the six would put a core Europe into 15th place, after Mexico. The centre south group goes over Mexico and becomes the 14th place before Mexico.

A centre north group would move Europe up to 12th place after Congo and before Greenland. Finally a core Europe of twelve member states would be the 8th largest country by area in the world, slotting between Argentina and India at no. 7. All the constituent states lie in environmentally moderate climatic zones, while the participation of Denmark would also provide a gateway to the Arctic. Nonetheless all these hypothetical combinations for a European core remain far behind the geographically largest countries in the world, namely Russia (17 million km²) and Canada (9.9 million km²).

(II) Population

The population (CIA factbook) of the world's countries varies greatly with countries as populous as China (1,300 million) and India (1,200 million) and as sparsely inhabited as the Pitcairn Islands in the Pacific Ocean (with a population of 48). The present-day EU with its 28 member states has 514 million inhabitants, making it the third largest political entity in the world in terms of population. (Figures 2014)

For this parameter we find the following figures emerge for each core option (figures are rounded):

- The Dijsselbloem countries: 127, 7 million
(Germany: 81 million, The Netherlands: 17 million, Belgium: 11.3million, Sweden: 9.8million andAustria: 8.6million)
- The six founder members: 238,1million
(France: 66.5million, Italy: 61.8million and Luxembourg: 570,000)
- Dijsselbloem + founders (eight members): 256,5million
- The centre south core with nine: 305,6million
(Spain: 48.1 million, Portugal: 10.8 million)
- The centre north core with ten: 267,5 million
- The twelve: 326,4million
(Denmark: 5.6million, Finland: 5.4million)

All these combinations give different results in the ranking of countries by population. The Dijsselbloem proposal for example results in a 10th place, with a population slightly greater than that of Japan. The six founder members of the EEC result in a 5th place, just behind Indonesia and ahead of Brazil. Dijsselbloem plus the founder members lands in 4th place, behind the USA, and the combinations centre –north and centre south also yields a 4th place. A core Europe with twelve member states though takes third place, albeit with a much smaller population than India or China. The population of this twelve state Europe accounts for about 65% of the population of the current EU with its 28 member states.

(III) Share in the EU budget

Every year the member states of the European Union make a contribution (comprising customs duties, VAT and a toll on the Gross National Income) to the EU budget. The details of the own resources system are set out in a decision nr. 355/2014 of the Council. The table shows the member states ranked by their percentage contribution to the financing of the 2015 EU budget (budget 2015).

Table: I Percentage Share of the Eu Budget by Member State

1.	Germany	20.84 %
2.	France	16.52 %
3.	Italy	12.13 %
4.	UK	12.08 %
5.	Spain	8.20 %
6.	The Netherlands	4.89 %
7.	Belgium	3.92 %
8.	Poland	3.16 %
9.	Sweden	2.95 %
10.	Austria	2.32 %
11.	Denmark	2.02 %
12.	Finland	1.52 %
13.	Greece	1.34 %
14.	Portugal	1.28 %
15.	Ireland	1.22 %
16.	Czech Republic	1.12 %
17.	Romania	1.14 %
18.	Hungary	0.76 %
19.	Slovakia	0.58 %
20.	Croatia	0.33 %
21.	Bulgaria	0.33 %
22.	Slovenia	0.30 %
23.	Lithuania	0.30 %
24.	Luxembourg	0.25 %
25.	Latvia	0.19 %
26.	Estonia	0.15 %
27.	Cyprus	0.12 %
28.	Malta	0.05 %

The table shows that the 15 EU states that were already members in 1995 still contribute 91.48% of these resources. Furthermore it clearly shows that the expansion of the EU in the present century has not brought in much by way of contributions to the EU budget. Poland, with its 40 million inhabitants, makes the largest contribution, but still contributes less than Belgium. The various combinations for a new EU core considered here make the following contributions to the EU budget:

- Dijsselbloem group	=	35.92 %
- Six founders	=	58.55 %
- Dijsselbloem + founders	=	63.82 %
- centre north core (ten states)	=	67,36 %
- centre south core (nine states)	=	70.35 %
- Group of twelve	=	76.84 %

The difference between the group of twelve and the fifteen members in 1995 is for the most part attributable to the UK contribution. The presence of the larger contributors, headed by Germany and followed by France, in most of the options is important. The large contribution made by the six founder members is also due to Italy and the Benelux countries (9.06 %). The Dijsselbloem - Founder's combination reaches nearly 2/3 of the budget with eight countries. The nordic combination goes over the 2/3 and the centre south core, with Spain, reaches more than 70%. The core with twelve has a share of more than ¾ of the budget contributions.

(IV) G.D.P.

The figures for "Gross Domestic Product" (source: Eurostatt) give a total of 13,921 million euro for the entire Europe Union.

When we calculate the GDP for the various proposed options, we arrive at the following:

- The Dijsselbloem countries: 4,319 million euros or 31 % of the current EU-GDP; (Germany: 2,904, The Netherlands: 655, Sweden: 429, Belgium: 402 and Austria: 329)
- The six founders: 7,764 million euros or 55.77 % of the current EU (France: 2,142, Italy: 1,615 and Luxembourg: 46)
- Dijsselbloem + founders: 8,522 or 62.21 % of the EU
- The centre south (nine states): 9,324 million euros of 66.97 % of the EU (Spain: 1,058 and Portugal: 173)
- The centre north (ten states): 8,983 million euro or 64, 5% of the present EU (Denmark: 257 and Finland: 204)
- The twelve: 10,214 million euros or 73.27 % of the EU

The GDP of Germany represents 20.86 % of the total and that of France (15.38%) is also significant. For this reason the combinations that include these two countries are mathematically predominant. What is also striking is Sweden's high GDP compared to Belgium despite the greater population of the latter. The optimal result for the GDP parameter is obtained with the Dijsselbloem + founder members option. Expansion to a twelve member state results, compared with the eight of the previous combination, in a statistically lower per capita GDP. Nonetheless the combination with twelve core member's account for a GDP that comes to almost three quarters of the current GDP of the 28 EU members. These calculations also show that the expansion of the EU in the 21st century has had a relatively low impact on the size of the GDP. In this connection it must again be pointed out that the second largest GDP in the European Union is that of the United Kingdom with 2,220 million euros. The better economic performance of this country in recent years has lifted the UK into the number two position, ahead of France.

(V) European Central Bank (ECB)

All 28 member states of the EU have a share in the capital reserves of the ECB. In 2015 the ECB had reserves totalling 10,800 million euros. The size of the holdings of national banks in these reserves is calculated using a formula that reflects the size of the country's population and the national GDP as a percentage of the EU totals for these two parameters. Both figures have equal weight and are recalculated every five years.

This share is useful for calculating the monetary value of the member states:

- The Dijsselbloem countries: 28.7 % (Germany: 17.99 %.The Netherlands: 4 %.Sweden: 2.27 %.Belgium: 2.47 % and Austria: 1.96 %)
- The six founder members: 51.15 % (France: 14.18 %. Italy: 12.31 % and Luxembourg: 0.20 %)
- Dijsselbloem + founders: 55.39 %
- The centre south core (nine states): 63.69 % (Spain: 8.84 % and Portugal: 1.74 %)
- The centre north core (ten states): 58, 13% (Denmark: 1, 49% and Finland: 1, 25%)
- The twelve: 68.7 %

In connection with the foregoing it should be remembered that neither Denmark nor Sweden are members of the Euro zone. We do think that in an EU restart the common currency will be an obligation. The combination of twelve countries holds over 68% of the ECB's capital reserves, where this does not include the problematic Greece. The ten Euro zone countries in the combination hold 64.94 % of the ECB's reserves. At present the 19 countries that make up the Euro zone hold 70.39 % of the ECB capital reserves. Of the non-euro countries with ECB holdings (29.61 %) only the Bank of England with a holding of 13.67 % is particularly noteworthy. As a result we can see that all the larger combinations hold a significant part of the ECB's reserves.

(VI) The IMF

The International Monetary Fund is without a doubt the world's most influential institution with respect to economic and financial policy. Further to the 14th General Review of Quotas, revised voting shares within the IMF have been in effect as of 26 January 2016. When the options are reviewed in the light of voting shares in the IMF the following results for a new European core¹ are as follows:

¹ The votes do not exactly correspond to share in IMF reserves. Belgium for example holds 1.39% of the reserves and has only 1.34% of the votes.

- The Dijsselbloem countries: 9.94 %
(Belgium: 1.34 %.Germany: 4.17 %.The Netherlands: 2.51 %.Austria: 0.63 % and Sweden1.29 %)
- The six founder members: 13.52 %
(France: 3.08 %. Italy: 2.27 % and Luxembourg: 0.15 %)
- Dijsselbloem + founder members: 15.44 %
- The centre south core (nine states): 17.51 %
(Spain: 2.74 % and Portugal: 0.62 %)
- The centre north core (ten states): 16, 84%
(Denmark: 1.01 % and Finland: 0.39 %)
- the twelve states: 20,2%

The size of a country's share in the IMF's reserves is based on its GDP, the transactions on the national accounts, the state of the balance of trade and the general level of prosperity. The twelve state combination results in one fifth of the voting rights in the IMF, putting it in second position behind the United States, which has 23.63 % of the voting rights and holds 24.7% of the reserves. The key figure here is 15%, because important IMF decisions can only be adopted when supported by 85% of the votes. As a result only countries with more than 15% of the voting rights have a *de jure en de facto* right of veto. The magic 15% is only reached when the new European core is constituted in four combinations. When the UK votes (3.08%) are added to the twelve's (20.2 %), the new Europe would come close to the figure for the US. The basket of "Special Drawing Rates" is related to the share in the IMF too. This virtual IMF currency is based on a basket of currencies that is reviewed every five years. The most recent reviews (2011, 2016) also took account of participation in world trade and the use of the national currency in international payments traffic. China's renminbi became part of this basket on 1 January 2016. At present the constituent currencies of the basket are the US dollar (41.7 %), the euro (30.9 %), the renminbi (10.9 %), the yen (8.3 %) and the pound sterling (8.1 %). The presence of the "pound" in the IMF/SDR basket of currencies is a good indication of the economic and financial power of the United Kingdom. When the euro and the pound sterling are counted together they weigh just about as much as the US dollar. The arrival of the renminbi has meant the relative decline of both the euro (from 37.4 % to 30.9 %) and the pound sterling (from 11.3 to 8.1 %). The US dollar has maintained its position in the IMF basket.

(VII) Gold Reserves

Gold is still widely used for investment purposes and central banks keep reserves of gold to serve as a guarantee for the monetary value of the paper money printed by them (source: World Gold Council , februari 2016).

The various combinations of countries give the following results regarding the gold reserves concerned².

- The Dijsselbloem countries: 4,626.6 tons
(Germany: 3,381 tons, The Netherlands: 612.5, Austria: 280, Belgium: 227.4 andSweden: 125.7)
- The six founder members: 9,110.5 tons
(Italy: 2,451.8, France: 2,435.6 and Luxembourg: 2.2)
- Dijsselbloem + founder members: 9,516.2tons
- The centre south core (nine countries): 10,054.6tons
(Spain: 281.6 and Portugal: 382.5)
- The centre north core (ten states): 9, 637, 8 tons
(Denmark: 66.5 and Finland: 49.1)
- the twelve countries: 10,295,6 tons

The calculation of the impact of gold reserves depends very largely on whether the three most important countries are counted or not. These are the Federal Republic of Germany, France and/or Italy. The gold reserves of the Scandinavian countries and Luxembourg have remarkably small gold reserves. The Dijsselbloem option gives a share of 14.13 % of total gold reserves, including the ECB, the Bank for International Settlements and the IMF³, and when the core membership is expanded to twelve the figure rises to 31.44 %.

The object here is to protect the interests of the smaller shareholders. These poorer countries have a proportionally larger vote than their share in the IMF's reserves (Armenia for example has 0.03% of the reserves but has 0.06 of the votes).

² This calculation does not take account of the gold reserves of the European Central Bank (504,8 tons).

³ The IMF has reserves of 2,814 tons and the BIS has 108 tons

With exception of the Dijsselbloem option, all the combinations considered here would have the largest gold reserves in the world⁴, ahead of the United States. The twelve country core does, however, include two members of the current EU who are not Euro zone members, namely Denmark and Sweden. When compared with the gold reserves of the current Euro zone we see that there is very little difference. Indeed the largest gold reserves of the other Euro zone countries are held by Greece (112.6 tons). Outside the Euro zone it is the United Kingdom that has the largest gold reserves (310.3 tons), even though these are only small compared with other large countries. The size of Portugal's gold reserves is also striking. The UK has only the sixth largest gold reserves in the EU, after Germany, Italy, France, The Netherlands and Portugal.

General conclusion

The subject of this article has been the possible rebooting or restart of a European Union restricted to a core group of West European countries. The various options examined give an idea of the economic and financial value of the potential participant countries. The question must be asked of whether a restart of this kind would be possible if the current non-euro countries (Denmark and Sweden) were to take part. In terms of the chosen parameters the twelve state options carries the most weight, with this version of a core Europe being the third largest country in the world.

Examined from the point of view of the current contributions to the financing of the European budget, we see that the original countries that joined in the previous century are still the biggest contributors. The same conclusion can be drawn from the GDP calculations. In both cases a restart based on a core group of West European countries would have the world's second largest GDP, beaten only by the United States. We made similar calculations for the monetary aspects (ECB, IMF and gold). From these it appeared that a European Central Bank based on these Western European member states would be the second largest monetary zone in the world, beaten only by the US dollar. The Dijsselbloem + founder members combination, the nine and the twelve would all have a right of veto in the IMF. The euro of a core Europe would most certainly continue to be part of the SDR basket of currencies.

With respect to gold reserves the combination of the six original EEC countries, or the six together with Dijsselbloem would also be the country with the largest gold reserves in the world. A restart of the EU has in several cases a value comparing with the other leading countries in the world. But an unknown answer is if these mentioned West European countries are all in favour to give up powers and sovereignty. The political question though is to what extent will the UK still have economic ties to continental Europe, via EFTA and/or the European Economic Area? It's both excluded that also other EU countries will join the EFTA. This Brexit is also related with the possibility of Scottish independence.

Whatever the case, any restart of Europe will have to consider a customs union, collective border controls, military federation, monetary union, and an internal and common market. Crucial to any discussion is the question of whether these countries would be prepared to cede sovereignty to a European federation or confederation in order to facilitate a restart. Indeed the latter distinction is not insignificant as it concerns where the centre of gravity of political power will lie, i.e. with the European government or with the member states. Finally any restart will also have to provide an answer to what the relationship of the rebooted European core be to the other countries. For example, would the European Economic Area continue to exist as a sort of anteroom for a subsequent accession to the restarted EU?

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⁴ US gold reserves come to 8,133.5 tons.