EUROPE

Hamburg Institute
of International
Economics

BERENBERG
PARTNERSHIP SINCE 1590

STRATEGY 2030 CAPITAL AND LIFE IN THE NEXT GENERATION. AN INITIATIVE OF BERENBERG AND THE HAMBURG INSTITUTE OF INTERNATIONAL ECONOMICS.

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Executive Summary

The European Union is facing a crisis. Although only one of 28 countries is leaving in the shape of the UK, measured by population, the UK is bigger than the 15 smallest EU countries and measured by gross domestic product, it is bigger than the 19 smallest countries. Thus the European Union is losing an economic and political heavyweight. From now on, the »exit« is no longer just a conceivable theoretical construct for EU members but a genuine political option.

Nevertheless, a breakup of the European Union is just as improbable as a rapid deepening in the direction of a »United States of Europe«. Instead of this, we expect a two-speed Europe to emerge in which further integration steps are initiated by countries with similar interests (»clubs of the willing«). Pragmatism is set to win the day, despite the emotionally charged atmosphere.

We have carried out a cluster analysis to identify five groups of EU member states that could make deeper cooperation possible on account of their common interests. One cluster comprises Belgium, Germany, Austria, France and Spain, for instance. There are good prospects for pro-European cooperation among this group of countries. Another cluster, on the other hand, stands more for national freedoms and scepticism towards a deepening of the EU. Alongside the UK, Denmark, Finland, Ireland, the Netherlands, and Sweden belong to this group.

Only some of Europe's current problems are home-made. A general malaise with globalisation is currently doing the rounds. Evidently the – on balance predominant – advantages of globalisation are not enough to generate acceptance across all sections of society for increasing economic and social integration. There are good explanations for this. According to the »globalisation trilemma«, it is not possible to realise national sovereignty, democratic politics and economic integration at the same time. Up until now, economic integration was often preferred to national sovereignty and democratic participation. It now looks as though the pendulum is starting to swing back in the other direction. The integration process is set to slow; nation states are insisting on regaining more sovereign freedom to act.

There are a number of starting points for a »better« Europe. A key role in this regard is played by the principle of subsidiarity. European solutions are only needed in places where problems do not stop at national borders (such as climate change or financial stability). In all other cases, political decisions should be preferred locally, at the level of national, regional or local government. This would also boost acceptance among the public at large.

Switzerland can be seen as a model for the European Union. For a long time now, the country has succeeded in bringing the dissimilarity in terms of language, culture and mentalities together under the roof of a nation with a single currency, without serious friction. No doubt the reasons for this success include the relative weakness of the central government coupled with the high level of cultural and structural autonomy enjoyed by the cantons and communes and a strong civil society.

Introduction

The German-American economist Albert O. Hirschman published his classic book »Exit, Voice, and Loyalty« in 1970. In it, Hirschman described ways of responding to negative developments in companies, institutions or states. If, for instance, the customer of a given company is no longer satisfied with the quality of the product, he can still go on buying loyally from this firm (»loyalty«), he can protest and demand improved quality (»voice«), or he can »defect« and buy from a different company (»exit«).

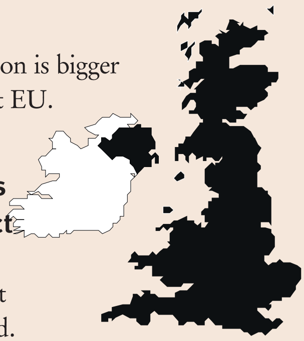
The basic concept underlying »Exit, Voice, and Loyalty« can be applied to many different areas of life. When looking at the current state of the European Union, Hirschman's book inevitably comes back to mind. Frictions between the member states, and frictions with Brussels, have been the order of the day in the European Union for decades. Despite all the dissatisfaction that would frequently rear up, it was always clear in the past that the member states would eventually choose the path of loyalty or voice. This helped the EU evolve into a pragmatic compromise machine. The member states were able to live with the compromises that had been negotiated at least to the extent that the benefits of EU membership were never seriously questioned. Even the long-running debate about Greece remaining in the single currency area (»Grexit«) was unable to divide Europe in the end. On the contrary, after all the disputes, provocations, disregarded rules and broken promises, the departure of Greece from the euro seemed inevitable. That both sides of the negotiations nonetheless managed to find a compromise at the very last minute looked like the ultimate demonstration of the irreversibility of European unification.

But then came 23 June 2016. Overnight, the British referendum on remaining in the European Union destroyed the supposed certainty that the EU would irreversibly continue expanding and deepening as a political entity.
The vote by the British electorate to leave the European Union turned Hirschman's third choice, exit, into a genuine option – even if the UK has not officially declared its intention to leave yet.

The UK

The population
The UK's population is bigger than the 15 smallest EU.

In terms of gross domestic product
the UK is bigger than the 19 smallest countries combined.



Although only one of 28 countries is leaving in the shape of the UK, measured by population, the UK is bigger than the 15 smallest EU countries, and measured by gross domestic product, it is bigger than the 19 smallest countries combined. Thus the European Union is losing an economic and political heavyweight. Furthermore, the UK is a country that traditionally opted for »voice« or protest. This new set of circumstances raises the question of what happens next with the European Union. In this publication, we examine this question in detail and outline possible scenarios for the future of the EU.

The incomplete European project

Europe in crisis: causes, possible solutions and future scenarios

In the beginning was the idea. At first, the European integration process was motivated primarily by political concerns: essentially it was a concept for peace. Europe was shell-shocked by the devastating consequences of the second world war. The European Union that we know today has evolved over the years and decades.

The success of the single European market

At present, 28 countries have joined together in a single European domestic market that guarantees basic rights and freedom of movement: the free movement of capital, services and people. The economic success of the single market is undisputed, the project can be described a success story. A study carried out by the Bertelsmann Stiftung comes to the conclusion that gross domestic product would have been lower in 2012 for all the countries analysed, with the exception of Greece, had European integration been taken no further after 1992.[1] Nevertheless, on 23 June 2016 a small majority of the UK electorate voted to leave the European Union in a referendum. The refugee question had clearly trumped the purely economic arguments for remaining in the European Union in the run-up to the vote.

> **Gross domestic product would have been lower in 2012 for all the countries analysed, with the exception of Greece, had European integration been taken no further after 1992.**
>
> BERTELSMANN STIFTUNG STUDY, 2012

The big venture of a single European currency

At the same time, 17 countries decided to take a further step towards deeper economic integration by introducing a single currency. Already before the euro had been launched, economists had warned against making the move, as the conditions for the formation of a monetary union had not been met; the countries involved were (and are) too different economically, socially and institutionally, and have cultures of stability that are too divergent to be able to introduce a single currency and pursue a uniform monetary policy. The criteria for an »optimum currency area« in this sense come from the Canadian Nobel laureate Robert Mundell.[2]

To have a currency union that is also stable in bad times, the single monetary policy requires the coordination of fiscal policy as a complementary institutional framework in a type of fiscal union. It has become apparent

1 Cf. Bertelsmann (2014).
2 Cf. Mundell (1961).

that, in its definition of the stability criteria and the no-bailout clause, the Maastricht Treaty was not sufficient to prevent the as-yet unresolved euro-crisis that has been smouldering since 2011. The problems with incentives that have yet to be resolved are serious. Member states are not allowed to have incentives to shift the cost of adjustment onto the other members states (moral hazard), neither are the markets permitted to place risk-free bets against the no-bailout clause because they can expect to be bailed out (dynamic inconsistency problem).[3]

A solution for stabilising the eurozone is possibly the key challenge for the future of Europe. »If the euro fails, Europe fails,« as German Chancellor Angela Merkel put it, might sound trite, but it is not excessive given the consequences. It is nevertheless true that a breakup may be the economically preferable option in the event of ongoing crises if the underlying institutional design faults cannot be eliminated.

Europe trapped between Grexit and Brexit

The events of recent years have made clear how Europe is facing a serious political, economic and institutional crisis, the causes of which are many and varied. Europe's crisis is a crisis of the monetary union and a crisis of the European Union. In each case, there are both highly specific and also shared causes. The future of Europe will be decided – to put it in somewhat pointed terms – between Grexit, the withdrawal of Greece from the monetary union, and Brexit, the withdrawal of the UK from the European Union. Paradoxically, avoiding a Grexit in the context of monetary union requires a deeper fiscal union, whereas the already decided Brexit, which will presumably also be realised at some point in the next two years, tends to imply the opposite, namely slower integration. Accordingly, Europe in its current state of health faces the institutional dilemma of not being able to develop in two directions at the same time, unless the countries of Europe choose specific development paths rather than a common pathway. In both cases, though, the key is to clarify both dimensions of integration, the economic and the political, in their relationship to each other and to harmonise them, meaning with a gain in terms of stability and acceptance.

Badly designed institutions and Europe's crisis of legitimacy

The conflicts that have arisen in Europe are the result of badly designed institutions. But this must not tempt us to assume that this is merely a technical or administrative matter. Institutions are built on acceptance and are

3 Cf. Vöpel (2013).

an expression of a common declaration of intent. By the same token, institutional failure is the result of a lack of legitimacy accordingly. This in turn raises the question of the right relationship between economic and political integration. Specifying the curvature of cucumbers is one thing, running a common refugee policy is something quite different. It takes economic integration to adopt uniform standards within the confines of the single European market. The political ability to enact a common European asylum policy is essential if common external borders are to be defined under the Schengen Agreement. Europe is clearly not capable of doing so, despite the much vaunted shared values.

How much diversity can a community of states bear and how much uniformity is necessary?

In this context, borders have the function of sensibly tracing the bounds of the social contract and creating legitimacy for the institutions responsible for this social contract. In the same way, the monetary union would need to have added to it institutions that are designed to stabilise it functionally. However, this also raises the question of whether democratic legitimacy can be attained for a common fiscal policy or the mutualisation of debt. Having doubts about this is perfectly appropriate right now. It is this question that will decide the stability and the future of Europe. How much diversity can a community of states bear? How much uniformity is necessary? And with what institutional arrangement can the greatest possible convergence be achieved?

Europe's destination and pathways

Three scenarios are conceivable for the future of Europe: the »United States of Europe«, the »Europe of nation states« and the »two-speed Europe«.

Starting from the current, multiple and overlapping crises in Europe, the following two fundamental questions are raised:

- **What does the desirable Europe of the future look like, and what purpose should it serve?**
- **What is the best way to get there, and how can a stable institutional design be established to achieve this?**

Destination and pathway are very closely related. The destination is primarily a political decision, while the pathway to get there comprises a stable and legitimised institutional arrangement at all times. Accordingly, it is the case that whoever specifies the destination must also supply a plausible pathway. This is precisely not what has happened to date. In the case of the euro-crisis, the European Central Bank essentially had to push its monetary-policy mandate to the very limits to stabilise the eurozone, but the solution is only temporary and at a long-term cost that is almost impossible to calculate while accepting a loss of confidence and credibility, the biggest asset that institutions have. A distinction needs to be made between static and dynamic efficiency when determining the desirable destination and the optimum pathway. Thus, the status quo can be convenient because, from the static viewpoint, it does not entail any adoption costs, yet this also prevents progress that makes sense in the long run but may under certain circumstances prove expensive.

Pathways to Europe's future

It is essentially possible to draw up three general scenarios for the future of Europe alongside numerous intermediate variants. In some cases, the scenarios entail very different development pathways that need to be taken promptly in order to actually achieve the desired scenario in the end. Accordingly, the politicians cannot surrender this decision to an evolutionary historical process alone; they must actively shape and moderate this pathway instead. It is important in this context for the pathway to be both stable and legitimised at all times. Consequently, it is essential to present the destination and the pathway with the greatest possible transparency in

Development paths and target scenarios

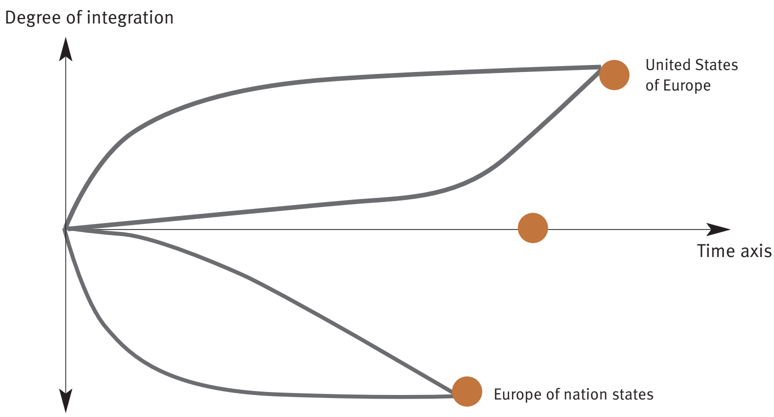


Fig. 1 Source: HWWI (2016).

order to incorporate all the alternatives, all the pros and cons, all the costs and benefits into the decision.

It is similarly important to incorporate the status quo and the pathway taken to date in order to mark out the distance already covered and the distance still to go. All discounted costs and benefits need to be incorporated in an intertemporal analysis of the welfare economics. Difficult to select, but significant at the same time, is the timing of a decision in favour of a given scenario. It is unwise to discard European integration in times of crisis and conflict just as it is unwise to blank out potential problems in good times.

A United States of Europe

The first extreme-case scenario is the formation of a United States of Europe. A historical example is provided by the United States of America. The story of its creation does, however, go back centuries, which illustrates how large the vision is and how long the necessary pathway. The biggest problem relating to the current crisis consists in persuading the citizens of the member states to accept this model. The most important point for the model of the United States of Europe is to organise democracy. Furthermore, the constitution must, from the institutional point of view, be achieved by consensus, meaning by mutual consent rather than majority vote. Establishing a respected democracy across 28 countries – or 27 after the UK has left – presupposes that a meaningful idea of a common European social contract is developed.

The litmus test for the United States of Europe model would probably be the shortly to be addressed creation of a fiscal union for the single currency area complete with the far-reaching centralisation of key policy areas in Brussels and the establishment of fiscal equalisation measures.[4]

A Europe of nation states

The second extreme-case scenario, and to some extent the diametric opposite of the United States of Europe, is the Europe of nation states or a return to greater independent statehood with national parliaments enjoying wide-ranging competencies. It is important to note with this scenario that the pathway back to this status is absolutely crucial for the economic, political and historical assessment of the scenario. The return to that point may take the form of an orderly, consensual repatriation of competencies, or equally of a crisis-induced breakup that could damage the European project for decades and incur high costs. Some believe that the point of no return has already been reached and, at most, a historical pause for breath should be taken: the process of European unification is irreversible; others, by contrast, want to hit the brakes before even more damage is done.

A two-speed Europe (»clubs of the willing«)

Probably the politically most opportune, but also the institutionally most difficult, scenario is the two-speed Europe. It is politically opportune because it does not demand a decision today in favour of either of the two extreme-case scenarios; institutionally difficult because it needs to be structured in such a way that both scenarios can evolve from it. It appears advantageous insofar as the question of legitimacy does not need to be addressed today under the cloud of huge uncertainty but can be put off to a later date. Whatever else, subsidiary structures of a confederation need to be set up for this scenario. Being able to select flexibly between different degrees of integration is essential from the point of view of what, in this case, is probably also a desirable convergence and integration process between every country in Europe. Thus the feared domino or contagion effect of Greece leaving the monetary union and the UK leaving the European Union has specifically proved to be the strongest argument against such a scenario. The division of Europe into two »clubs« should not lead to a cementation or even divergence between the clubs.

4 Cf. HWWI/PWC (2013).

Stability concepts

Economic theory contains a number of concepts of stability that could serve as the necessary, but by no means adequate, stability condition for the institutional structuring of Europe.

The »core« in game theory

The concept of the »core« comes from cooperative game theory, or more precisely negotiation theory. According to this concept, a coalition of players is not stable unless it is in the »core«. This means that no player or group of players can gain an advantage by leaving the coalition. As this holds true for all possible permutations, all coalitions that are in the core are, in this sense, stable. With regard to the European Union or monetary union, this means for example that a coalition of Germany, France, the Netherlands and Greece is deemed to be in the »core« when a coalition of, say, Germany, France and the Netherlands (or any other conceivable coalition) is not advantageous for each of the countries. It should be noted that this concept is static. The »core« is able to change dynamically. Thus, the present monetary union, for instance, can be developed into the »core« over time by means of targeted convergence efforts. The term »core Europe« gains a thoroughly obvious interpretation in light of this concept from game theory.

The institution of the »club«

The concept of the »club« states that the optimum size of the club is derived from what yields the best possible cost-benefit ratio for the members of the club. A tennis club, for instance, will admit as many members as allows the membership fee to remain as low as possible while at the same time preventing the courts from being fully booked or occupied too often. This decision contains a trade-off: Raising the number of members reduces the membership fee while simultaneously increasing the average court occupancy. To this extent there is an economically optimum number of club members.

When applied to the European Union, this means that, while the size and hence the benefit of the single market increases with every new member, the fees paid by the net contributors rise at the same time, provided the newly added member is a net recipient. This example shows that it is not only the number of members but also their specific characteristics that is crucial whether new members should be admitted and, if yes, which new members. For the UK, if the economic rationality of the club concept is applied, membership was no longer beneficial for this reason – just like tennis players who rarely play subsidize other members with their membership fees. As is evident from the history of sports clubs, members are for the most part very sluggish when it comes to leaving. For Europe, this meant stability for a long period of time. The task now, though, is to progress the »Europe« club.

Scenarios for a future Europe

We consider the two-speed Europe to be the most probable scenario. The »United States of Europe« and the »return to nation states«, on the other hand, should be seen as extreme cases.

Of the three general scenarios outlined above, the scenarios »United States of Europe« and »return to nation states« are, in terms of their probability of occurrence, clearly to be viewed as extreme cases. Ever deeper political integration between all member states must be considered unrealistic at present against the backdrop of the smouldering conflicts in areas like financial and refugee policy. What is evidently missing is an EU-wide basic understanding of which values should be obligatory for the shaping of central policy areas. Furthermore, the degree of economic integration is still not far enough entrenched to ensure an adequate level of converging interests EU-wide in key questions like budgetary policy. This can already be seen in a club like the eurozone, which to a certain extent is homogenous at least in terms of accession criteria.

At the same time, a return to a »Europe of nation states«, involving the complete abandonment of the European institutions, looks just as unrealistic in the immediate future. Despite all the clashes of interests seen at present, no actor is seriously questioning the achievements of the single market as a foundation of economic integration. The lengthy integration process has already left too many deep traces in the structure of European economies for this to happen. An untangling would entail prohibitive costs for trade and capital flows at least in the short to medium term. The hesitant behaviour of the Brexiteers following their success in the referendum suggests that even obstinate critics of the European project are aware that such a lock-in effect exists.

The only realistic way to overcome the EU's institutional crisis thus seems to be a two-speed Europe (»club within the club«). Feasibility and impact will depend crucially on which countries come together and in which areas, and through what type of measures, they deepen their integration. Such decisions should result from an appraisal of the economic and political considerations. Thus, while a large club would exert a commensurately large influence externally, it would in probability suffer internally from the same problem of conflicting interests as the present-day EU as a whole. As a result, the cost of decision-making would be similarly high as it is in institutions like the Council of Ministers today. The ability to respond flexibly to external crises would be accordingly low. At the same time, the internal stability would be jeopardized by strong centrifugal forces. Although a small club of like-minded members would probably prove more stable in this regard, it would not in certain circumstances be able to bring enough economic and political clout to bear to gain appropriate international acceptance and win over the rest of the EU for its reform strategy. This contains the risk that part of the EU would be permanently excluded from the further reform process. The upshot would be a lasting fragmentation of European decision-making processes.

» **The only realistic way to overcome the EU's institutional crisis seems to be a two-speed Europe (»club within the club«).**

Alongside the issue of the optimum club size, the nature and scope of the exclusive »club assets« need to be clarified. Various different models are conceivable in this respect. Starting from the status quo, it would be imaginable for certain areas to be added to the reach of community law within

a »club of the willing« (such as fiscal union, the issuance of joint bonds and industrial development), while the non-members of the club within the EU remain at the present level of integration.
At the same time, the club could also theoretically be structured in such a way that central elements of the present-day joint achievement, such as the single market, are only enjoyed in full by club members in future. This model implies that some EU member states would need to revert to national legislation in some areas.

Below we analyse which constellation of pioneers seems to be the most realistic for the immediate future. It is essentially safe to assume that the willingness of states to cooperate with each other depends crucially on the amount of common ground between them. In this context, countries with shared/similar interests and characteristics, especially in the fields of fiscal collaboration and political integration, are more likely to opt for close cooperation than those with widely disparate interests. This thesis draws on common ground essentially in terms of two characteristics: the present degree of economic integration and the level of socio-economic development. These two characteristics are the subject of empirical analysis below, aimed at assessing the different variants of the middle-path scenario.

It is essentially safe to assume that the willingness of states to cooperate with each other depends crucially on the amount of common ground between them. QUOTE

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Readers who are more interested in the results and less in the methodology should turn on to page 29.

Methodological framework

The willingness of states to cooperate with each other depends crucially on the amount of common ground between them. This is what we examine in the next section on the basis of two characteristics: »degree of economic integration« and »level of socio-economic development«.

Economic integration

In the following analysis, we define the degree of economic integration as the extent of a given country's interlocking relationship with the rest of the EU. Consequently, it shows how deeply the country is reliant upon relations with other EU countries in terms of its economic structure. Since countries with a higher degree of integration would also be expected to face higher costs in the event of a breakup, this metric provides an idea of the priority that European integration has for the country's economy. In theory, the reliance could be measured by both the cross-border exchange of goods and capital flows or movements of people (immigration, commuters).
We focus in our illustrative survey on analysing the trade in goods and services as a representative measure. To do so, we form a simple integration indicator (I) by presenting (i) the sum total of exports and imports in trade with EU states as a proportion of the sum total of exports and imports in trade with the rest of the world for each country.

$$I_i = \frac{\left(Export_i^{EU} + Import_i^{EU}\right)}{\left(Export_i^{nonEU} + Import_i^{nonEU}\right)}$$

A score of more than one 1 implies that trade with other EU states accounts for more than 50% of a country's total foreign trade, while a score of less than 1 suggests the opposite. Where countries reach similar scores here, it can be assumed that they will theoretically also favour similar concepts with regard to the extent and type of deepening of economic integration. For this reason, we use this metric below as one dimension for measuring common ground.

Level of socio-economic development

In contrast, the second characteristic, the level of socio-economic development, reflects similarities and common ground in economic and social development. In our analysis, we assume that countries at a similar level of development are also fundamentally more willing to cooperate. This can be explained by the anticipated correlation between the general level of development and the quality/complexity of the political institutions, for instance. Similarly developed countries have similar experience in dealing with questions relating to the rule of law, corruption prevention and the quality of regulation. The transaction costs for creating common institutions are lower as it is possible to achieve a consensus on central issues faster. This is particularly evident in the example of the fiscal union. Countries with domestic legislation that already demands fiscal discipline through measures like debt brakes will find it easier to accept supranational regulation of budgetary policy decisions.

The socio-economic position of a given country is determined by the economic pillar and the social pillar together. The former is represented in our analysis by the metric of per capita gross domestic product (GDP). As GDP measures the value added by goods and services produced within a country, it only covers the economic pillar and does not on its own provide a satisfactory measure of development for our purposes. Consequently, we have supplemented it with the Social Progress Index (SPI), an index drawn up by the organisation Social Progress Imperative. This is a yardstick that measures social progress in terms of three dimensions – basic human needs, foundations of wellbeing, and opportunity – the components of which are each based on a series of sub-indicators. This allows the non-monetary aspects of welfare that are essential for our analysis to be taken into account as well. The basic human needs include access to nutrition, medical care and running water, adequate shelter, and an sufficient degree of personal safety. The second pillar goes beyond this by assessing foundational issues for human welfare like access to information and the quality of the environment.

In its third dimension, opportunity, the SPI takes account of the idea of the »capability approach« largely attributable to Sen.[5] In this regard, the level of development is measured by the opportunities available for individuals to develop with regard to various dimensions like the degree of

5 Cf. Sen (1999).

personal freedom and access to advanced education. Table 1 summarizes the pillars and sub-indicators. Using the SPI makes it possible to examine all of these aspects independently of GDP development, as the SPI itself does not include GDP or any other income-related variable. This puts it outside the tradition of expanded GDP metrics (such as UGR environmental accounts) and differentiates from both other compound indicators (such as the Human Development Index) and the metrics used in subjective satisfaction research.[6]

Composition of the Social Progress Index

Basic human needs	Foundations of wellbeing	Opportunity
Nutrition and basic medical care	Access to knowledge	Personal rights
Water and sanitation	Access to information and communication	Personal freedom and choice
Shelter	Health and wellness	Tolerance and inclusion
Personal safety	Environmental quality	Access to advanced education

Tab. 1

Source: After Stern et al. (2016).

When aggregating the sub-indicators to form components and components to form dimensions, it is not only which data are input that is crucial but also what weighting is applied to the various elements.[7] In the case of the SPI, the weightings for the sub-indicators are determined by analysing the main components before aggregating the components and dimensions with equal weightings to yield the final SPI for a given country.

6 For the three-way division, cf. Fleubaey (2009).
7 Cf. OECD (2008).

In order to additionally present the economic dimension of development, we combine the SPI with per capita gross domestic product (GDP) to form a socio-economic development index (Di) for our analysis in the following way: We normalise both per capita GDP and SPI to a non-dimensional distribution in order to distil a single unit from the two metrics. Then we form a weighted average from the two normalised metrics, where (w) represents the weighting factor:

$$D_i = g \cdot GDP_i + (1 - g) \cdot SPI_i$$

To obtain robust results, we vary the weightings (w) so that they can assume three different values (see Table 2). Starting from the three-pillar model (economy, environment, society), which usually forms the foundation for the idea of measuring economic and social progress,[8] in the first variant (A) we weight GDP (economic pillar) at one-third and the SPI (social and environmental pillar) at two-thirds. The alternative weightings reflect the motivation »GDP and beyond« (two pillars: economy and everything else; Variant B) and the idea that no GDP-related metric is required to measure social progress (Variant C). The latter is already covered in our analysis by specifying the measure of economic integration.

Development index variants

Variant	Motivation	GDP weight	SPI weight
A	Three pillars	1/3	2/3
B	Two pillars / GDP and beyond	1/2	1/2
C	No GDP/ income metrics	0	1

Tab. 2 Source: HWWI (2016).

8 Cf. Stiglitz et al. (2009).

Empirical analysis

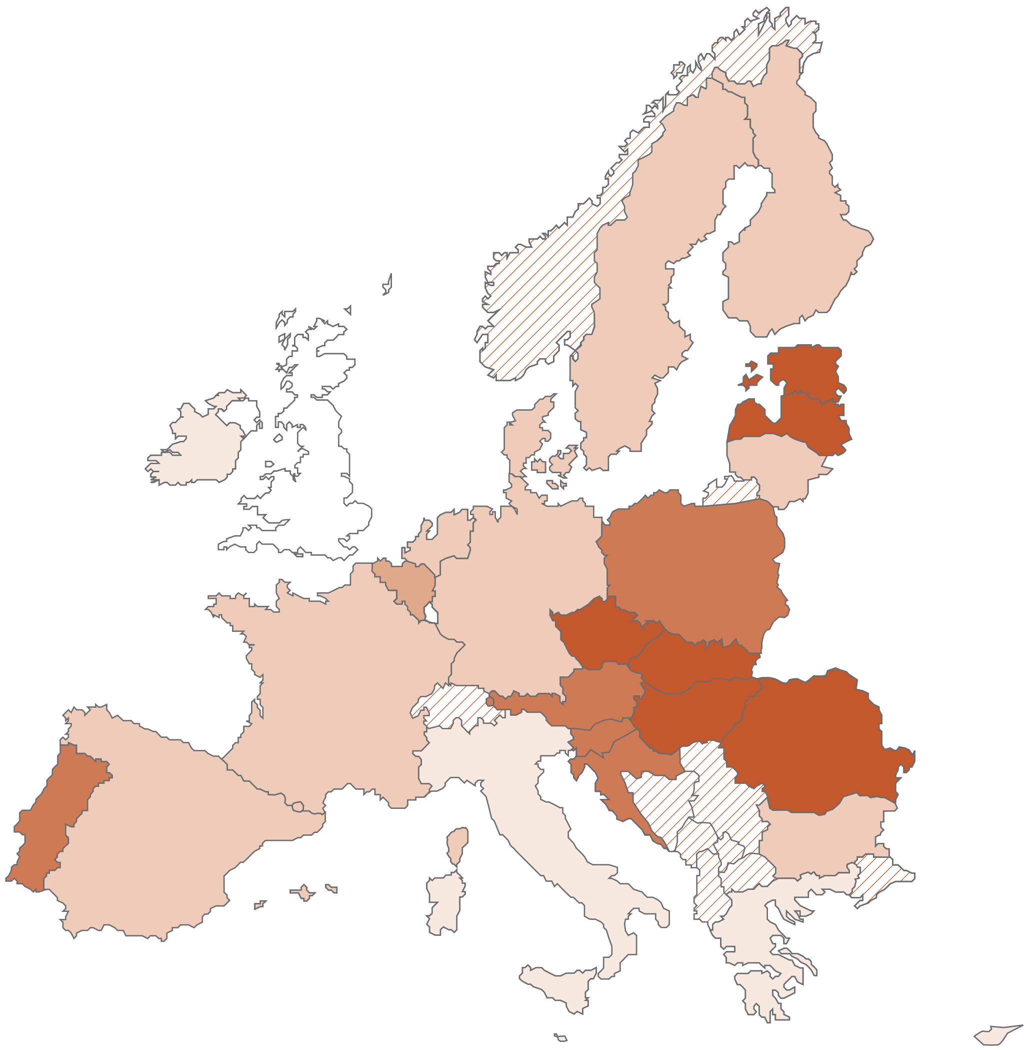
We have carried out a cluster analysis to identify five groups of EU member states that could facilitate deeper cooperation on account of the existing common ground in their interests. For example, Group 1 contains a clutch of western/ south-western European countries, including Germany, but which also incorporates Spain, a country currently facing an economic crisis.

Economic integration

Figure 2 first of all shows the geographical distribution of the country-by-country results for our integration index (I i). What stands out is that a number of smaller countries in central Europe – the Czech Republic, Hungary and Slovakia – have an especially high share of intra-EU trade. This can certainly be attributed in part to their geographical location as well as to the strong focus of their production structure on intermediate products/inputs, with the physical proximity to countries specialising in final production like Germany offering advantages in terms of minimising shipping costs. On the other hand, there are also two countries from the European periphery in the form of Portugal and Estonia for which a relatively high degree of integration is measured. Evidently it is not only geographical location that is relevant for the depth of economic integration, but also factors like economic structure and historical relationships. Also conspicuous is the low degree of integration demonstrated by the UK and Greece. This finding points towards a conceivable correlation between trade relations and political centrifugal forces: countries with economies that are only integrated in European production networks to a minor extent would tend to be more hostile towards the formation of shared institutions. The UK's relatively low dependence on trade may certainly have played a role in the Brexit vote. In the case of Greece, the opposition to institutional integration is reflected primarily in the field of budgetary policy.

Evidently it is not only geographical location that is relevant for the depth of economic integration, but also factors like economic structure and historical relationships.

Degree of integration



The index shows the ratio of EU-internal to EU-external foreign trade for the country in question. A high value means that a large share of the foreign trade is attributable to trade with other EU countries. A low value indicates that trade with non-EU countries accounts for a large share of foreign trade.

NonEU-member
≤ 1.0
≤ 1.5
≤ 2.0
≤ 2.5
≤ 3.0
≤ 5.0

Fig. 2

Source: Eurostat, HWWI (2016).

Level of socio-economic development

The suitability of an indicator as a measure of the level of development presupposes a minimum degree of dispersion in the country-by-country comparison. In the case of the Social Progress Index, it is interesting above all to examine the distribution of the values within the individual pillars of the indicator across the countries. Figure 3 first provides a global overview by presenting a comparison of the average values across various country groups in the 2016 Social Progress Index.

In the present case, a distinction is first made between developing and emerging nations – roughly defined in line with OECD membership – and a comparison drawn with the EU average. As might be expected, it is apparent that OECD countries perform better than non-OECD countries in all sub-categories of the index, which underscores the relevance of the Social Progress Index. The discrepancy in the categories »Personal rights« and »Access to advanced education« is particularly marked. At the same time, the EU countries across the board are similarly close to the OECD average, as would be expected. Thus the level of development of the EU countries tallies with that of the industrialised nations overall.

In the chosen form of presentation, the spider chart, individual lines in the web each represent the individual dimensions of the index. The distance from the centre of the web shows the performance of the group of countries in terms of these dimensions. Connecting the values achieved in the indi-vidual dimensions then gives rise to the line patterns shown.

Spider chart of SPI components and dimensions – worldwide

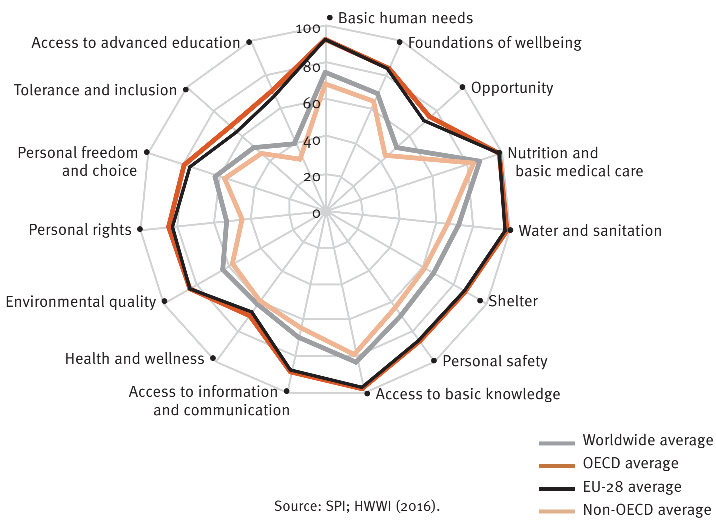


Fig. 3 Source: SPI; HWWI (2016).

Such a chart does not, however, say anything about the dispersion of our development index within Europe. Using the same form of presentation, Figure 4 therefore shows the breakdown of the SPI values between the EU-15 (being the 15 EU member states before the wave of enlargement in 2004) and the pool of states joining the EU from 2004 (at the earliest). This highlights a varying degree of discrepancy, depending on the individual indicator. In terms of satisfying basic human needs, it is narrow while being more marked when it comes to the indicators of opportunities for self-realisation. On average, a clearly measurable deficit on the part of the newer member states is apparent in terms of education opportunities, the extent of personal freedom and s ocial tolerance. For one thing, this is an expression of differences in the legal position. For another, it also reflects differences in the social climate, which in turn has repercussions for political decision-making. Against the backdrop of our aims, this makes it possible to identify potential barriers to deeper cooperation between these groups of countries. We intend to make this assessment more precise at the level of individual countries in the subsequent analysis.

On average, a clearly measurable deficit on the part of the newer member states is apparent in terms of education opportunities, the extent of personal freedom and social tolerance.

Spider chart of SPI components and dimensions – Europe

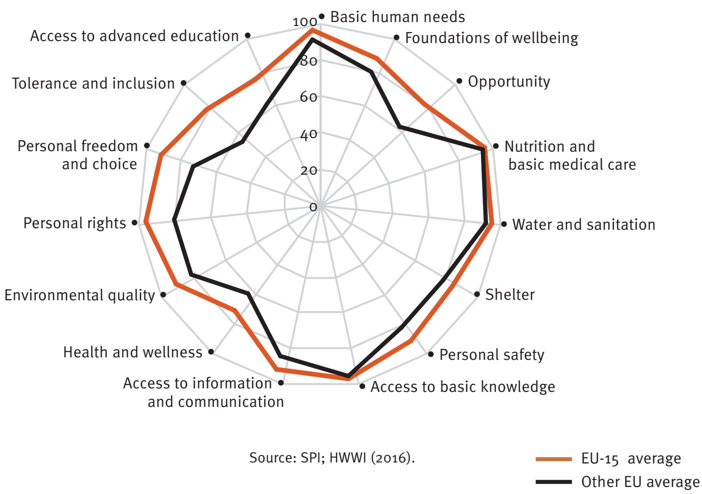


fig. 4

Source: SPI; HWWI (2016).

As described in the section entitled »Level of socio-economic development« (p.19), we form the development index used in the following analysis out of a combination of SPI index and per capita GDP. To a certain extent, the distribution of values this produces should depend upon the type of weighting selected. Table 3 presents the country ranking arising when each of the variants listed in Table 2 is applied. It is not possible to discern any major differences. In all three variants, the Scandinavian EU countries share the top three places. Finland does particularly well in variant C (SPI alone), caused by its lower per capita economic output compared with Denmark and Sweden. The variation is also largely limited in the middle rankings, which implies a generally close correlation between SPI and economic output. At the bottom end of the table, Romania and Bulgaria occupy the last spots by some margin. Consequently in geographical terms, both a north-south divide and east-west divide in the level of development can be observed for all three variants.

» **Consequently in geographical terms, both a north-south divide and an east-west divide in the level of development can be observed for all three variants.**

Development index

Variant A GDP: 1/3, SPI: 2/3		Variant B GDP: 50 %, SPI: 50 %		Variant C SPI: 100 %	
Country	Index value	Country	Index value	Country	Index value
Denmark	1.26	Denmark	1.24	Finland	1.41
Sweden	1.17	Sweden	1.17	Denmark	1.28
Finland	1.16	Finland	1.04	Sweden	1.16
Netherlands	0.99	Netherlands	0.92	Netherlands	1.14
Ireland	0.89	Ireland	0.84	UK	1.12
UK	0.85	Austria	0.75	Ireland	1
Austria	0.75	UK	0.72	Austria	0.75
Germany	0.65	Belgium	0.64	Germany	0.71
Belgium	0.65	Germany	0.62	Belgium	0.67
France	0.41	France	0.41	Spain	0.61
Spain	0.36	Spain	0.24	France	0.4
Slovenia	0.05	Italy	0.02	Slovenia	0.31
Italy	0.0	Slovenia	-0.07	Portugal	0.23
Portugal	-0.02	Portugal	-0.15	Czech. Rep.	0.03
Czech. Rep.	-0.19	Czech. Rep.	-0.3	Estonia	-0.01
Estonia	-0.22	Estonia	-0.33	Italy	-0.03
Cyprus	-0.35	Cyprus	-0.35	Cyprus	-0.36
Poland	-0.66	Greece	-0.63	Poland	-0.55
Slovakia	-0.7	Slovakia	-0.69	Slovakia	-0.7
Greece	-0.7	Poland	-0.71	Greece	-0.83
Croatia	-0.92	Croatia	-0.91	Croatia	-0.94
Lithuania	-0.98	Lithuania	-0.93	Lithuania	-1.08
Hungary	-1.03	Hungary	-0.99	Hungary	-1.1
Latvia	-1.08	Latvia	-1.01	Latvia	-1.23
Romania	-1.67	Romania	-1.52	Romania	-1.98
Bulgaria	-1.72	Bulgaria	-1.58	Bulgaria	-1.99

Tab. 3

Source: HWWI (2016).

Cluster analysis

A cluster analysis is now carried out in order to combine the two components of our common-ground concept – the integration index (I) and the development index (D) – in terms of their informative value. Its function is essentially to group together heterogeneous players (countries in our case) on the basis of their similarity with regard to certain characteristics. In this instance, degree of integration and level of development serve as the characteristics. In our interpretation, the groups identified in the analysis (clusters) then represent conceivable clubs of countries, as common ground in their interests could facilitate deeper cooperation. To present the results in graphical form, scatter charts are provided in Figure 5 (p.28) in which the degree of integration on the vertical axis is set against one of the three variants of the development index on the horizontal axis. The broad dispersion of the countries highlights the dissimilarity of the two dimensions. A slightly negative correlation is even apparent: countries with a high proportion of intra-EU trade in their foreign trade tend to perform worse in terms of the development index. To a certain extent, this also reflects the fact that countries with a lower level of socio-economic development are less competitive on the global sales markets, and therefore place a larger share of their exports within the single market. In terms of possible clusters, a concentration of countries is evident in all three variants for a high level of development with a simultaneously medium to low degree of integration.

Cluster analysis
In the cluster analysis, countries are grouped together on the basis of their similarity in terms of degree of integration and level of development to form clusters.

With regard to the position of the countries in these two dimensions, this may be attributable in part to different preferences in the countries as well as different stages of development in their economies and societies. This distinction seems necessary because it says a lot about the presumed pace of change. Differences in preferences are unlikely to contract or balance out much, if at all, over time, whereas differences in the level of development should narrow owing to economic convergence. It is thus possible to propose the hypothesis that eastern European countries will conceivably converge with core Europe over time in political and social areas, whereas countries like Greece and Italy simply have a different, culturally predetermined preference for a certain business model, and convergence should therefore not be expected.

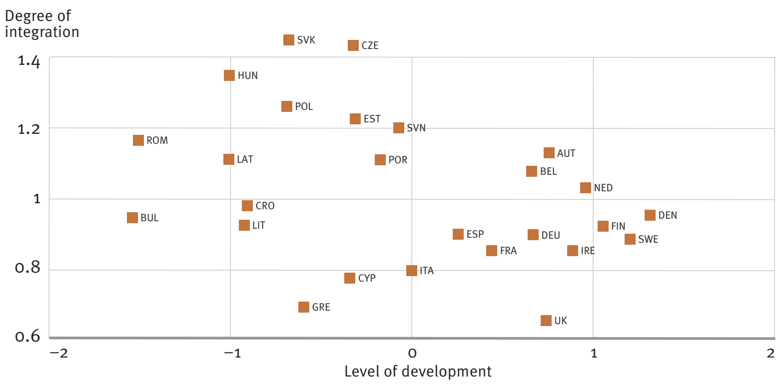
This also raises the question of how strongly an institutional framework actually can or should at all make preferences uniform across societies. In order now to be able to derive explicit group assignments from these

BEL	Belgium
BUL	Bulgaria
DEN	Denmark
DEU	Germany
EST	Estonia
FIN	Finland
FRA	France
GRE	Greece
IRE	Ireland
ITA	Italy
CRO	Croatia
LAT	Latvia
LIT	Lithuania
NED	Netherlands
AUT	Austria
POL	Poland
POR	Portugal
ROM	Romania
SWE	Sweden
SVK	Slovakia
SVN	Slovenia
ESP	Spain
CZE	Czech Rep.
HUN	Hungary
UK	United Kingdom
CYP	Cyprus

Country breakdown by degree of integration and level of development, Var. A

Source: Eurostat; SPI; HWWI (2016). Luxembourg and Malta: no SPI values.

Country breakdown by degree of integration and level of development, Var. B



Source: HWWI calculations (2016).

Country breakdown by degree of integration and level of development, Var. C

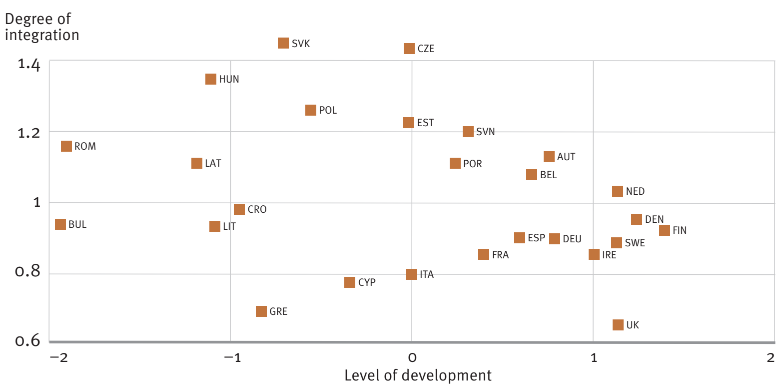


Fig. 5

Source: HWWI calculations (2016).

graphical patterns, cluster analyses are carried out for each of the three variants. The final outcome of this is a clear assignment of countries to specific groups, of which some could be proposed as potential »clubs« of willing integrators, depending on the constellation. As the shape of the scatter charts already suggests, there are distinct similarities in the assignments between the variants. Consequently, we restrict ourselves in the discussion to the results for Variant A (1/3 GDP, 2/3 SPI). Table 4 (p.30) shows the group assignments gained in this way.

Results

The compositions are quite surprising in places (see Table 4, p.30). For example, Group 1 contains a clutch of western/south-western European countries incorporating Spain, a country currently facing an economic crisis, alongside Germany, Belgium, Austria and France. In this case, a relatively high level of development with only medium to low dependence on EU trade was identified as common ground. A clear geographical concentration is otherwise only seen in Group 3, which encompasses northern/north-western European countries. In these cases, a high level of development goes hand-in-hand with a generally low share of intra-EU trade. The main common ground here could therefore be the presence of potential as well as the desire to win or secure national political freedoms. Interestingly, the UK is also part of this group. On the other hand, we see representatives of Groups 5 and (to a lesser extent) 2 which, in light of a relatively high degree of integration, have a vital interest in the continued existence of European cooperation, although they themselves can presumably not bring enough heft to the table to be able to promote further integration through their own leadership. Finally, Group 4 contains three countries from the European periphery that have weak economic and institutional ties. According to our 'analysis, therefore, it is Group 1 that would assume the role of »integration driver« in a two-speed Europe. Countries from Groups 2 and 5 would be stragglers in such a potential scenario, while breakaway nation-state movements could predominate in the countries from Group 3.

It is Group 1 that would assume the role of »integration driver« in a two-speed Europe.

Potential operation of the clusters

So what would be concrete long-term advantages of such a process from the perspective of the respective country groups? For the pioneers, they

Results of the cluster analysis

Group	Country	Characteristics
1	Belgium	High level of development,
1	Germany	medium to low degree of integration
1	Austria	
1	France	
1	Spain	
2	Italy	Medium to low level of development,
2	Croatia	medium degree of integration
2	Latvia	
2	Poland	
2	Portugal	
2	Romania	
2	Slovenia	
2	Cyprus	
3	Denmark	High level of development,
3	Finland	low degree of integration
3	Ireland	
3	Netherlands	
3	Sweden	
3	UK	
4	Bulgaria	Low level of development,
4	Greece	low degree of integration
4	Lithuania	
5	Estonia	Medium level of development,
5	Slovakia	high degree of integration
5	Czech Republic	
5	Hungary	

Tab. 4 Source: HWWI (2016). Luxembourg and Malta: no SPI values.

naturally consist of the opportunities that arise to shape the future as well as a general gain in heft and the furnishing of prestige in foreign policy terms. The stragglers in turn could benefit from the experience gained by the group of pioneers, irrespective of the outcome of the integration experiment. In the event of success, they could follow the pioneers and join the club; in the event of failure, they would learn from the mistakes, without themselves having to bear the costs.

As individual clubs expand like this over the course of time, an organic growth process could be initiated for the European institutions overall. For this to happen, though, the doors to the clubs must remain open on both sides. The accession criteria must not be made so restrictive that stragglers are basically denied any opportunity to join. At the same time, club members must have the possibility to make an orderly exit at acceptable economic and political cost in the event of diverging interests. The example of the European monetary union shows how the absence of such a mechanism can endanger the stability of the club as a whole. On the other hand, the accession criteria must not be too soft either, as otherwise the degree of uniformity required to allow the club to make internal decisions cannot be achieved. The situation of the eurozone is also a cautionary example in this regard.

Impact of Brexit

Whereas the long-term strategic benefits of a two-speed Europe are hard to quantify due to a lack of precedents, the Brexit debate will at least enable conclusions to be drawn about the direct economic effects of a partial breakup. With a few exceptions, the recently completed studies in this regard draw a relatively uniform picture: most studies call for the UK economy to suffer a tangible negative effect in the period after the announcement of Brexit and the initial phase following its implementation.[9] And yet the key factor for the extent of the effects is the as-yet unknown structure of the exit arrangement. In particular, the nature and extent of the UK's future access to the single market are still to be clarified. The range of possibilities is correspondingly broad, from integration in the European Economic Area through to bilateral agreements. Consequently, all the studies compare and contrast several scenarios. Differences are also evident in the impact channels analysed. From a static perspective, this relates primarily to an anticipated decline in trade with EU member states, leading to a loss of income for the UK. In addition, productivity losses are calculated to ensue from contracting trade from a dynamic perspective, coupled in part with the absence of growth impetus from not participating in future EU free-trade agreements with third states.[10] On the other hand, possible positive factors, like the cessation of transfer payments and the chance to deregulate following the abolition of EU rules and regulations, are also included variously in the calculations.

All in all, the range of simulated long-term effects on the UK's gross domestic product in 2030 runs between –14% and +1.55%, which reflects the massive uncertainty surrounding the actual Brexit arrangements. The studies are far more unanimous, on the other hand, when it comes to the effects on the rest of the EU, which are considered on the moderate side across the board. How heavily the individual states will actually be affected

9 Cf. Bertelsmann (2015); CEP (2016); OECD (2016); Oxford Economics (2016); PWC (2016).
10 Cf. Becker/Ondarza (2016).

depends mainly on their level of economic integration with the UK. For Germany, the Bertelsmann Stiftung believes that GDP will be 0.1 to 0.3% lower as a result of contracting export activity.[11] The individual effects differ greatly from industry to industry, with the German automotive trade likely to be worst affected on account of its high volume of exports to the UK, if the predictions are to be believed.

The conclusions that the Brexit debate allows to be drawn about the consequences of future forms of segmentation within the EU are, as mentioned, limited. Indeed, for historical reasons, the UK's ties with the rest of the EU are today already less well developed than is the case with most other member states, which is reflected in corresponding special arrangements in the field of budgetary policy, among other areas. Nonetheless, the studies completed in this setting show very clearly just how critically important access to the single market is for the economic development of European states. It is therefore safe to assume that future forms of differentiated cooperation within the EU will not entail a dismantling of the single market. It is far more likely that the present integration framework will remain in force, at least in its core elements, for the EU area as a whole going forward, while individual groups of countries will join together at the same time to enact deeper cooperation in certain questions. In this context, several different clubs could form, depending on the issue at hand. This means that one country can certainly belong to several clubs in different constellations. The extent to which this will provide impetus for the union as a whole (»beacon function«) will depend crucially on the institutional design. The more open the clubs are in their access, the less the risk that individual countries will feel left out.

For Germany, the Bertelsmann Stiftung believes that GDP will be 0.1 to 0.3% lower as a result of contracting export activity.
BERTELSMANN STIFTUNG (2015).

11 Cf. Bertelsmann Stiftung (2015).

Conclusions

The purpose of our analysis is to outline possible scenarios for the future development of European integration against the backdrop of the present political and economic crisis situation. In this context, we are working within a broad corridor between the extreme cases of a union of federated states and a return to the old principle of the nation state. What we consider the most probable outcome in the present current circumstances is the scenario of a two-speed Europe, in which individual trailblazing countries come together as part of internal EU clubs in order to test certain forms of deeper integration. The question of actual institutional arrangements and above all the democratic legitimacy of such a process does, however, remain unanswered. Experimentation will play a key role in this as an evolutionary principle. Whatever else, it is essential for an adequate degree of uniformity to exist between the club members in order to ensure the stability of the arrangements. In our illustrative cluster analysis, we have identified this uniformity with two dimensions that have proved to differ greatly: the degree of trade integration and the level of socio-economic development. The groups of countries derived from this can be assigned intuitively to archetypes of actors that could take on the roles of pioneers, stragglers or blockers in the further integration process. In any case, our analysis documents the strong structural diversity of the present-day EU. Once more against this backdrop, it would seem absolutely essential for individual »clubs within the club« to form as drivers of integration if a return to a dynamic Europe is to occur.

What we consider the most probable outcome is the scenario of a two-speed Europe, in which individual countries come together as part of internal EU clubs. «

A central challenge when designing this process from the perspective of the EU as a whole will be to make the conditions for joining these clubs neither too loose nor too strict. The first instance would put the clubs' ability to act at risk, while the second could make the economic divide in Europe even more permanent. The creation of a fiscal union as an extended stage of monetary union could represent the crucial touchstone in this regard.

Europe caught in the globalisation trilemma

Outlook: Europe in a globalisation-unfriendly environment

The conclusion was drawn in Part A that the immediate future of the European Union will be shaped by »coalitions of the willing«. In actual fact, global trends – trends that have nothing directly to do with the EU – also suggest that there will be no further deepening of the EU as a whole at this stage. First of all, we outline the »globalisation trilemma« before moving on to describing a number of pragmatic approaches for a »better« Europe that would meet with greater acceptance among Europe's citizens.

According to the »globalisation trilemma«, it is not possible to realise national sovereignty, democratic politics and economic integration at the same time. Up until now, economic integration was often preferred to national sovereignty and democratic participation. It now looks as though the pendulum is starting to swing back in the other direction. What next for Europe? In order to understand which direction the European Union could take, in the following discussion we combine a look back at the past with a model that interpolates economic integration and politics. We then use this to attempt a prediction. We argue that, whereas the European Union has until now pressed ahead with economic integration at the expense of democracy and nation-statehood, we expect nation-statehood to enjoy a renaissance over the next few years – at the expense of economic integration. European democracy will continue to suffer due in part to a lack of legitimacy but also, more fundamentally, due to falling participation by politically moderate voters.

Globalisation in general, and European integration in particular, can leave people behind – and that ignoring this for long enough can have severe political consequences.
KEVIN O'ROURKE, ECONOMIC HISTORIAN[12]

Like any and all structural change, globalisation breeds winners and losers. That was the case in the »first wave of globalisation« from around 1870 to 1914 (see Figure 5, p.36)[13] and is the case again today. Back then, it was primarily the land-owning elites who lost out in the face of expanding agricultural competitors from overseas who were able to sell their products to Europe thanks to new, cheaper steamships. During this first phase of globalisation, not only expensive goods like silk or spices were traded for

12 O'Rourke (2016).
13 Trade data from before the first world war are extremely patchy, so we decided to select a number of sample countries for which we have data from 1880 to 2010. This means that the data prior to 1914 should be seen as a minimum level. It is probable that foreign trade expanded far faster than shown during this period.

Intra-European trade (logarithmic figures, USD billions)

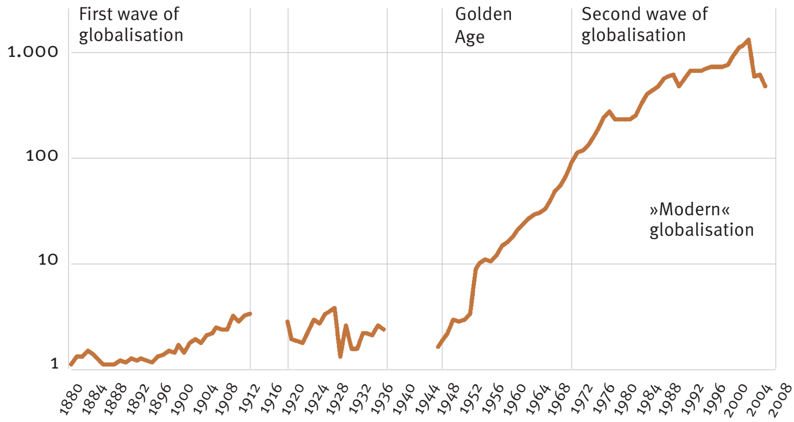


Fig. 6

Random sample for the UK, Germany, France, Belgium, Austria, Italy, Spain and Ireland. Source: Barbieri/Keshk (2012).

the first time but also finished and semi-finished products as well as masses of simpler consumer goods.
The losers from globalisation at that time organised themselves in Germany, France, the United States, Italy, and so on. The voice of globalisation's opponents gained the political upper hand over large parts of the population who profited from cheaper food and found work in the expanding, export-oriented industrial enterprises. The consequence was not only growing protectionism but also the introduction of sweeping barriers to migration. Between the two world wars, this led to the global economic crisis exacerbated by protectionism.[14]

The lesson learnt from this disastrous story was: prevent war and boost the living standards of broad swathes of the population. The way to get there was integration, which entailed dismantling trade barriers, harmonising rules and implementing joint decision-making. The international, meaning primarily intra-European, division of labour allowed each individual economy to specialize in whatever it did well (like cars in Germany and consumer goods in France) in order to then trade these things. Intra-European trade boomed like never before, especially in the 1950s to the mid-1970s (see Figure 6). This »Golden Age«, as economic historians call it,[15] was characterized by tangible economic growth from which all elements of the population benefited.

14 Cf. O'Rourke (2016).
15 Cf. Toniolo (1998).

In the first decades after the second world war, the dismantling of a wide range of trade barriers coupled with post-war reconstruction helped to boost foreign trade. Added to this was a catch-up effect following the destruction of the second world war. Germany experienced full employment for the first time during this period.

> **Nothing in the history of Western Europe resembles its experience between 1945 and 1968.**
>
> ALAN MILWARD, ECONOMIST AND BUSINESS HISTORIAN[16]

Globalisation similarly brought prosperity to Europe in the Golden Age. And because globalisation also means becoming more dependent upon each other, political ties also strengthened and improved. Thus, greater mutual dependence promoted not only prosperity but also peace. This is how the principles underlying the business model of European integration were formed. Europe's business model worked. The European club expanded – even the critical Brits joined the »club« the 1970s in the hope of also achieving higher living standards from deeper integration.

Economic and political integration go hand in hand

European integration progressed in both economic and political realms. Economic integration worked mainly by reducing »frictions« in economic transactions. It was still a simple matter to break down barriers to trade back in the 1950s and 1960s: customs duties on industrial products were easy to reduce, as the European economies were competitive in this area.

But the low-hanging fruit of integration was quickly harvested. Further economic integration now also required deeper political integration. The focus turned increasingly to common standards, not solely on goods markets any more but also in labour law, among other things. This meant that the European institutions became ever more important. More and more decisions were made exclusively at the European level, while »all« that was left for national parliaments to do was implement European laws, directives and court rulings at a domestic level. The Maastricht criteria are today probably something most Europeans know about. They are an example of the attempt to draw up common macroeconomic guidelines for a group of very different economies. In addition, the euro became the epitome of all integration projects – giving up national currencies (and hence the key instrument of domestic monetary policy) in order to give another boost to trade with each other.

16 Cited in Toniolo (1998).

Political self-determination at the national level was given up in order to be able to harvest the higher-hanging fruit of economic integration. But while Europe was imposing ever more common rules on itself, ever more clouds started to gather on the horizon of the Golden Age. The catch-up effects after the second world war faded. The first oil crisis came and the Bretton Woods system, an international set of rules and regulations that fixed exchange rates and limited cross-border movements of capital, collapsed. Japan, and somewhat later other Asian economies as well, started to compete with Europe. It was not just Europe that was looking for new ways to cement deeper integration, the global economy also increasingly evolved in the direction of »modernity« (see Figure 5). Furthermore, Europe's economies traded ever more with the rest of the world.

Perhaps globalisation can only go so far before it provokes a political reaction.
THE ECONOMIST [17]

All of these factors together threw the world into a new dimension of globalisation. Since the mid-1970s, capital has been able to move across borders almost without restriction. The first big cross-border value chains evolved. Information was shared ever faster thanks to new technologies. Asian economies joined the global marketplace. Europe and also the rest of the world grew even closer together – and became more reliant upon each other. These dependencies only generated a greater need for coordination and harmonisation on the political side. But despite all of this, intra-European trade failed to expand as quickly as in the 1950s and 1960s – and this went hand-in-hand with prosperity growing at a slower pace in relative terms.

The unease of globalisation

Ever deeper political integration, which appeared ever more irreversible, came up against prosperity growing at an ever slower pace. But economic growth generated by European integration was one of the two foundations intended to prop up the EU's business model. This gave rise to legitimacy If growth was now weakening, legitimacy started to weaken as well. This mix caused Europe's voters to grow uneasy.
While some argued that the decisions from Brussels were by and large subject to a democratic process, this view has lost, and is still losing, ground in the population at large. Europe's political integration surrendered – at least perceived – legitimacy.

17 The Economist (2016).

Consequently, but also serving to reinforce this diagnosis, turnout has been falling at elections almost everywhere for decades, with the number of people voting in European elections also declining in equal measure; on average across all EU member states, the total contracted from 63% in 1979 to 43% at the most recent elections in 2014 (see Figure 7). Only in Germany and northern Europe can a somewhat different trend be observed, with turnout rising of late or at least not declining. This aligns with the quite different economic trend experienced by these countries over recent years compared with southern Europe. And yet apathy towards, or even rejection of, EU politics also rose in eastern Europe after these countries joined the EU starting in 2004.

The feeling that political decisions were being made over the heads of the public became widespread above all in the wake of the major crisis following the collapse of Lehman Brothers in 2008 and the subsequent European sovereign debt crisis (but also partly due to the EU's eastward enlargement since 2004). The not particularly popular bank rescue deals, the proverbial »Polish plumber« who threatens jobs at home, and Angela Merkel's »alternativlos« (»no alternative«) became emblematic for this feeling. In 2015, the refugee crisis was added. At the same time, many economies continued to suffer, even beyond Europe's borders.

Turnout in European elections

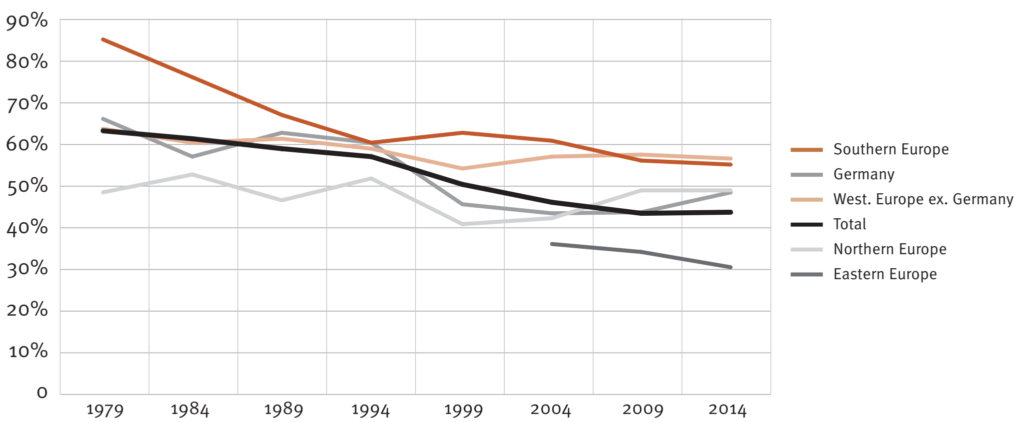


Fig. 7

Southern Europe: Greece, Italy, Spain, Portugal, Malta
Western Europe: Austria, France, Belgium, Luxembourg, Netherlands, Ireland, UK (excl. Germany)
Northern Europe: Denmark, Sweden, Finland
Eastern Europe: Baltic states, Poland, Hungary, Czech Republic, Slovenia, Slovakia, Croatia, Bulgaria, Romania
Source: European Parliament (2016).

Share of totalitarian and authoritarian parties in European parliaments

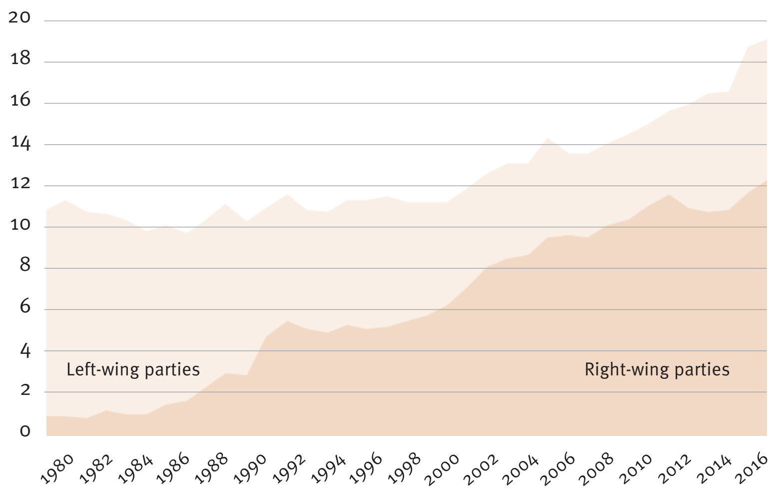


Fig. 8 Cumulative average shares. Source: Heinö (2016).

The European consensus is crumbling

Dissatisfactory or even alarming economic conditions coupled with a sense of political impotence helped to create a new set of political circumstances. While ever more people no longer participate in the political process by casting their votes, the share of parties is rising that ascribe to an authoritarian version of populism[18] – on both the left (like Podemos in Spain) and the right (like the FPÖ in Austria) of the political spectrum (see Figure 8). For the Swedish think-tank Timbro, authoritarian-populist parties tend to reject liberal democracy, prefer direct democracy, have less patience with the rule of law, while in return sharing a large dose of euroscepticism and a strong preference for national sovereignty.[19] In other words, pretty much the opposite of what would generally be described as the »European consensus«.

Today, an average of 18% of the seats in the parliaments of the EU member states are held by authoritarian-populist parties. If these figures are considered in conjunction with the change in the turnout in European elections, an uncomfortable correlation emerges. The greater the rejection of, or apathy towards, the Brussels politics (measured by turnout in European elections), the greater the current share of authoritarian-populist parties in the national parliament.

18 In the study cited below, Heinö (2016) does not provide a detailed definition of "authoritarian populism". According to his classification, though, its key feature is the full or partial rejection of liberal democracy and the »European consensus«.
19 Cf. Heinö (2016).

Turnout in European elections vs. authoritarian-populist parties in national parliaments %

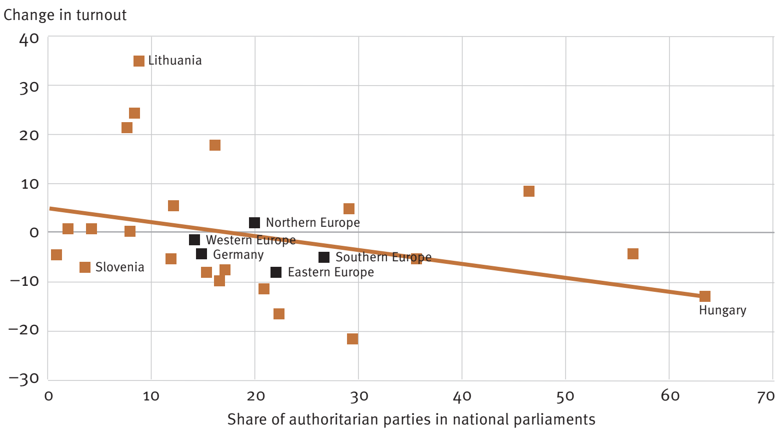


Fig. 9

The average turnout is calculated on the basis of all European elections that a country has participated in.
Source: Own calculations based on turnout data from the European Parliament (2016); data for authoritarian parties from Hornö (2016).

The Hungarian prime minister Viktor Orbán and his country lead the negative correlation in this regard. He said in 2014 that he preferred »illiberal democracy«. But at the beginning of 2016, the Polish foreign minister Witold Waszczykowski issued a warning against »cyclists and vegetarians« with an eye to the many political trends that are also gaining traction in the big cities of eastern Europe. Because economic and political integration are mutually dependent, while large swathes of the population started sensing greater economic and political uncertainty– with or without justification – the electorates have increasingly turned their backs on the European consensus. Viewed like this, the Brexit decision in June 2016 was only a particularly stark outworking of this phenomenon.

Where the journey is heading

We put on record that markets are unable to completely grow together if democratic politics are practised exclusively in a framework of wholly nation states. Deep economic integration, democratic politics and national sovereignty are mutually exclusive (Figure 10, p.42). So it is impossible to have it all. This political trilemma of globalisation, as posited by Dani Rodrik, an internationally renowned economist at Harvard University,[20] is of course stylised, meaning a model that simplifies reality.

20 Cf. Rodrik (2002).

The political trilemma of globalisation

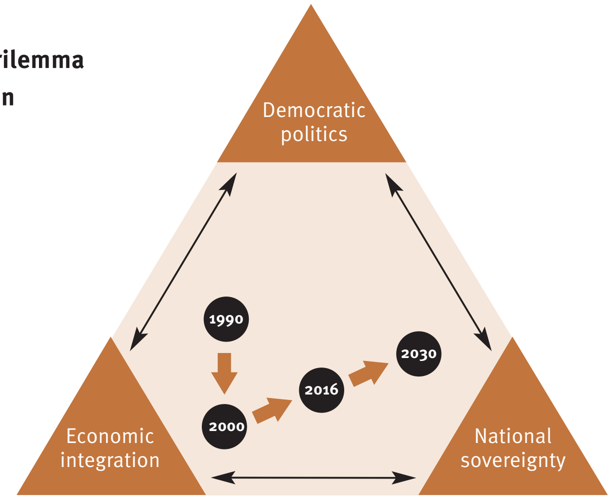


Fig. 10

Source: Own chart after Rodrik (2002).

The correlations must therefore be viewed in relative rather than absolute terms. The points between them represent the relation between the relative, current importance of the three corners for political decisions at various levels.

The trilemma describes what economists call a trade-off: You can only have more of the one at the expense of the other. During the preparations for the launch of the euro in the 1990s, it looked as though the national parliaments were being progressively subsumed by the Brussels institutions. Europe was moving increasingly towards the economic integration corner at the expense of sovereignty and also democracy. Even in the wake of the sovereign debt crisis since 2010, it looked as though the price of European integration was above all else the loss of national sovereignty but also ever more democracy, meaning the right of the population at large to have a say. It is only necessary to recall the Greek vote against the austerity measures imposed by the donor countries in July 2015. With this in mind, it is important to reiterate that what matters is a sense of a lack of democracy. It suffices for many decisions made by the European institutions to seem too far removed for the voters from their own personal political opinions.

> **We cannot pursue democracy, national self-determinaton and economic globalisation at the same time. If we wish to pursue globalisation, we need to give up either the nation state or democratic politics.**
>
> DANI RODRIK, HARVARD-ECONOMIST [21]

Added to this is the fact that European integration has primarily been a project of the elites to date – most people have still not been on an Erasmus

21 Cf. Rodrik (2011).

exchange. This is how massive criticism of representative parliamentary mechanisms used to reach a consensus and focus opinions at EU level (but also in national elections) in some areas.

The EU and its business model of »peace and prosperity through integration« are increasingly perceived as an empty promise or even threatening. As a result of this, the losers from globalisation are joining forces with the critics of globalisation. The latter are not necessarily negatively affected by converging markets; on the contrary, large parts of this group remain, on balance, beneficiaries of economic integration when looked at objectively. Yet this group is motivated by a fear of seeing their living standards slip and losing political clout.

The single European market is by no means fully integrated across every sector.[22] But while the European Union has to date grown in terms of economic integration at the expense of democracy and nation-statehood, we expect, in line with Rodrik's trilemma, nation-statehood to experience a renaissance over the next few years – at the expense of economic integration.

We expect nation-statehood to experience a renaissance over the next few years to the detriment of economic integration.

Conclusion

Free trade and economic integration in general – meaning globalisation – produce more winners than losers on average.[23] Over the next few years, Europe's institutions and Europe's national governments will (need to) do far more to ensure that this statement does not remain simply a truism calculated coldly by economists. The supposed and actual losers, or even just the opponents of globalisation and European integration, need finally to be convinced that a retreat into nativism will not necessarily yield greater peace and prosperity for the countries of Europe. But the road to get there will probably require further European integration to be put on hold for a while – if not even rolled back one or more steps.

22 Cf. Feld et al. (2016b).
23 Cf. Hornok/Koren (2016).

European Union: Beyond black-and-white thinking

There are a number of starting points for a »better« Europe. A key role in this regard is played by the principle of subsidiarity. European solutions are only needed in places where problems do not stop at national borders. In all other cases, political decisions should be preferred locally, at the level of national, regional or local government.

What steps could help the European Union gain greater economic and political efficiency and boost acceptance among its citizens at the same time? The EU malaise stems in part from home-made problems within the EU and in part from external factors that are incorrectly attributed to it. In many regards, the European Union is a success story. The citizens of Europe connect values like human rights, democracy, peace and the rule of law in particular with the European Union.[24] Living conditions in Europe really are extremely good compared with many other parts of the world. Nonetheless, dissatisfaction with the European Union has increased tangibly over recent years. This is demonstrated by surveys like the Eurobarometer arranged by the EU Commission,[25] the electoral successes of Euro-sceptic parties in many member states, the heated debate surrounding the topic of Europe and – most clearly – the outcome of the British EU referendum.

The reasons leading to dissatisfaction with the EU and finally to the UK's desire to leave can be divided into two groups: home-made problems and unpreventable problems. The problems that are not attributable, or at least not primarily attributable, to the actions of the European Union are often blamed – wilfully or erroneously – upon the EU and its institutions nonetheless.

Unpreventable reasons

A current example of this is the monetary policy of the European Central Bank. The accusation that the ECB has allowed interest rates to erode with its highly expansionary monetary policy over recent years is widespread. To a large extent, however, it is not built on justifiable arguments. Figure 11 on page 45 shows how the trend in the real interest rate on 10-year German government bonds already started falling in the mid-1990s.

Consequently, the erosion of interest rates is a phenomenon, the roots of which commence well before the global financial crisis, well before the European debt crisis and well before the inception of the ECB's unorthodox

24 Cf. European Commission (2015a).
25 Cf. European Commission (2015b).

policy. From 1995 to 2007, the year before the Lehman Brothers collapse, real interest rates had already fallen from over 5% to around 1%. This must therefore be attributable to other factors than monetary policy, as monetary policy was not excessively expansionary during this period. Whereas the ECB's benchmark rate is 0.0% today, it was between 2.0 and 4.0% at all times from the start of 1999 (the year in which the ECB started operations) to the end of 2007. The long-term downward trend in capital market rates overseas – such as in the United States – also implies that the ECB is not the main culprit. A far more likely reason is demographic change. As the ageing of society is driving demand for private pensions, the propensity for private saving is structurally high. High saving rates with only moderate demand for credit at the same time causes interest rates to fall.[26]

« The erosion of interest rates can only partly be laid at the ECB's door.

In our view, the European Central Bank has only aggravated a decline in interest rates that was happening anyway, with its bond purchase programme even leading to the yield on 10-year German government bonds briefly falling below the 0% mark. Negative interest rates would probably not have come about without the intervention of the ECB, although interest rates would nonetheless be at a very low level irrespective of ECB policy due to the glut of savings.

There are plenty of other examples of how the European Union is held culpable for things for which it is not responsible at all or only to a minor extent. Globalisation and digitisation, for instance, are driving dynamic change in business and society. This is demanding a great willingness to

Real interest rates and household savings in Germany %

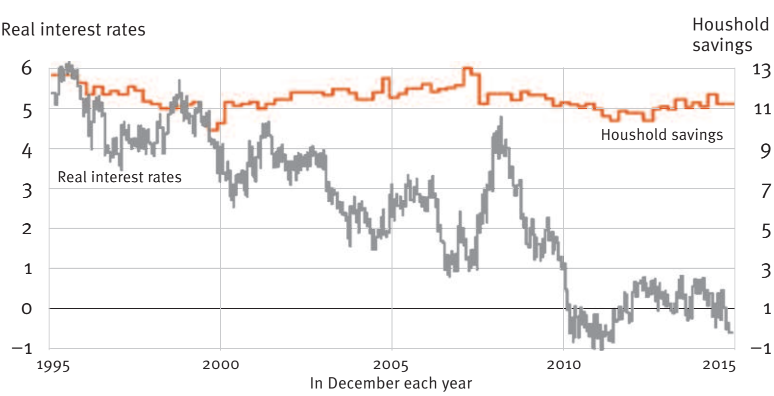


Fig. 11 Source: Bloomberg.

26 Cf. Quitzau (2015).

adapt on the part of members of the public. But profound changes often lead to fears of loss, dissatisfaction and frustration among the citizens-affected. The EU is frequently used as a projection screen in this regard. There's no doubt that the EU has accelerated change, as it is an integral part of globalisation. However, globalisation and digitisation would also have taken place without the European Union. The winds of change would also blow in a Europe of nation states – just not quite as strongly. That an exit from Europe for a country would not provide the all-embracing solution to every one of its urgent problems can also be seen from the fact that distinct dissatisfaction and in places even social polarisation also exists in many countries outside of the European Union (such as the United States). Some problems that appear to be specific to the EU evidently result more form the globalisation process overall – and European unification is merely one aspect of globalisation.

Globalisation and digitisation are causing insecurity.

The EU has only a few sets of tools at its disposal when negative developments occur outside of its sphere of influence. It cannot do much more than ensure transparency in order to head off any unwarranted criticism. The situation is somewhat different when the problems are home-made or the management of the European unification process is imperfect.

Home-made problems

The home-made problems include steps to integrate taken with excessive hastey One example is European monetary union, the ground for which was, with hindsight, inadequately prepared. During the course of the European sovereign debt and confidence crisis, the monetary union and the European Union were forced to break a series of self-imposed rules and laws. Even though we hold a fundamentally positive view of the single currency, we do note with regret how people were confronted with profound fears of financial loss during the eurozone crisis, which they would not have faced without the euro. Only under the extreme pressure of the crisis did a set of rules and regulations emerge – thanks to a high degree of pragmatism on the part of the decision-makers in the body politic, central banks and administration – at least enabling a mass panic on the financial markets to be stemmed.

The refugee crisis has also exposed shortcomings in European crisis management and differing views of crisis management between the individual member states. The abolition of internal borders only proved a clear gain for EU citizens until the EU's external borders were subjected to their first big

endurance test. The decision not to carefully protect the external borders made the European Union vulnerable to global migration flows. And setting (over-)ambitious objectives like the Lisbon strategy has also contributed to the malaise.
In March 2000, the heads of state and government gathered in Lisbon set themselves the goal of turning Europe into the most competitive and dynamic knowledge-based economic area in the world by 2010. Even back then, there was a huge amount of scepticism regarding this goal could be achieved. And so it came to pass that Europe failed to glitter with competitiveness and economic dynamism in 2010, as it was fighting to cope with the Greek sovereign debt crisis and the collapse of the monetary union instead. Missing ambitious objectives in such a spectacular way undermines the credibility of the political decision-makers, making it difficult for them to generate any excitement with newly set objectives.

The significance of nationally anchored peculiarities, interests and preferences was neglected with a view to pressing ahead rapidly with the expansion of the European Union. But centralisation is not an end in itself. The scope of the principle of subsidiarity is regulated in Article 5 of the EU Treaty (see box on page 48). Subsidiarity means that the targeted political goals should, wherever possible, be realised by the nation states – meaning national, regional or local governments. From this it follows that European solutions are only needed (and only then) where the tasks and problems to be resolved do not stop at national borders (such as climate change). Otherwise national parliaments remain the appropriate decision-making and solution level.
This means that rules governing the curvature of cucumbers (the relevant directive was withdrawn by the EU in 2009) have just as little place in the core competence of the European Union as standard regulations covering the sale of potholders and oven gloves to private individuals applicable Europe-wide. Such plans hit the headlines in the media in summer 2016. Quality standards can be defined at EU level if the same ideas in this regard predominate throughout Europe. Otherwise, the national parliaments are more suitable.
The final home-made problem mentioned in this list is the sometimes excessive self-promotion by representatives of the European Union. The sense has often been conveyed that only European solutions are good solutions. At the same time, the failure of Europe has frequently been misused as a bully pulpit in recent years.

Treaty on European Union, Article 5

(1) The limits of Union competences are governed by the principle of conferral. The use of Union competences is governed by the principles of subsidiarity and proportionality.

(2) Under the principle of conferral, the Union shall act only within the limits of the competences conferred upon it by the Member States in the Treaties to attain the objectives set out therein. Competences not conferred upon the Union in the Treaties remain with the Member States.

(3) Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level. The institutions of the Union shall apply the principle of subsidiarity as laid down in the Protocol on the application of the principles of subsidiarity and proportionality. National Parliaments ensure compliance with the principle of subsidiarity in accordance with the procedure set out in that Protocol.

(4) Under the principle of proportionality, the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties.
The institutions of the Union shall apply the principle of proportionality as laid down in the Protocol on the application of the principles of subsidiarity and proportionality.

The formulation »if this or that happens, then Europe will fail« has been somewhat overused. When it was stated during the course of the refugee crisis that temporary border controls at the internal borders would be the end of Europe, this did not come across as being very credible. There are still too many contemporary witnesses who can remember how European values (including peace, democracy and human rights) were also ensured before the Schengen Agreement came into force. So why the temporary reintroduction of border controls should result in the end of Europe is hard to justify. A more differentiated approach would also be helpful here.

Pragmatic starting points for a »better« Europe

The European Union finds itself in a precarious situation at present. On the one hand, the benefits of the union are still appreciated by many citizens, although the approval ratings are currently deteriorating rapidly. The European Commission's Eurobarometer again provides revealing insights (the survey was conducted in May 2016).[27] When asked whether the EU conjures up a positive or a negative image, a majority of those surveyed (38%) gave a »neutral« response. 34% have a positive image and 27% a negative one. This result indicates that the world is by no means as black-and-white as the polarised discussion about Europe sometimes implies. At the same time, Figure 12 shows how the approval ratings have declined over the last ten years and especially sharply over the last twelve months.

27 Cf. European Commission (2015b and 2016).

Attitudes towards the EU

»In general, does the European Union conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image?«

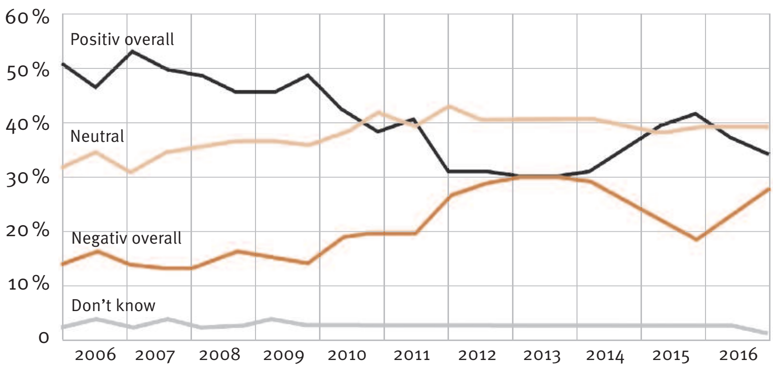


Fig. 12 Source: Eurobarometer.

The Eurobarometer also provides very clear indications of an extreme shift in the perception of issues among the respondents. When asked which are the two biggest problems currently faced by the EU, for a long time they put economic issues at the top of the list (economic situation, unemployment and public finances). Over the last two years, however, the issues of »immigration« and »terrorism« have risen abruptly to lead the way by a long margin. The ranking now looks like this (see box):

The biggest problems in the EU

1.	Immigration	48%
2.	Terrorism	39%
3.	Economic situation	19%
4.	Public finances in the member states	16%
5.	Unemployment	15%
6.	Crime	9%

Source: Eurobarometer.

In the recent past, the citizens of the European Union have evidently developed a strong preference for topics that are not primarily economic and financial. Immigration and terrorism are by far more the most important topics in the UK as well, at 51% and 38% respectively. This finding puts a different light on the Brexit vote by the British electorate. It is not possible to maintain in this form the common view that the majority of the general public had acted irrationally in the referendum, because Brexit would entail economic and financial losses for the UK. Instead, it could be interpreted that the population is consciously willing to pay this financial price to obtain some extra quality of life (such as internal security) in their daily existences. Furthermore, the extremely narrow outcome of the British referendum shows that the UK as a whole is neither for nor against the European Union. A narrow majority voted to leave the European Union, while a large minority would have preferred to remain. And of those people who voted to leave, only a very small number completely reject the European Union. In the same way, only very few of the EU's cheerleaders will have a completely uncritical attitude towards the EU. So, provided the European Union is not viewed in such a black-and-white way, allowing for the grey tones as well, a number of pragmatic starting points emerge for building a »better« Europe.

Politically, it is essential to heal the rifts that have opened up between the so-called elites in Brussels and the »simple« man or woman on the street. It could be very easy. Economic and social policy leads to success if it takes people as they are – and not how they should be. On the other hand, a political settlement that draws on idealising concepts of citizens ethically and morally rooted in European politics (who hardly exist in real life) is doomed sooner or later to fail. Even if such a political settlement is guided-by good intentions, aspiration and reality will eventually meet, with painful consequences.

The European Union needs to take the principle of subsidiarity more seriously again. Policies adopted locally close to the citizen are most likely to align with their wishes or preferences. European solutions are only needed in places where cross-border difficulties need to be overcome. This type of politics is also relatively easy to explain to the public at large. So if the public and eurocrats are not to be further alienated from each other, there will need to be more »coalitions of the willing« among the EU member states more frequently going forward, under which countries with similar views join together to provide solutions to specific questions (see also Part A by the HWWI).

It is important for the European Union not to convey the impression that it is the specialist for resolving problems that would never have existed without the EU. Some European policy decisions in the past were correct per se although the ground was inadequately prepared (such as the development of the monetary union). Consequently, thoroughness should take priority over speed again in the future.

The members of the public must have the feeling that their expectations – including those that they connect with Europe – are being met overall. A Europe that only comes up with ad-hoc solutions in a permanent crisis-management mode will struggle to gain much sympathy.

The big idea of a federal European state is a project for the future but not the present. The vast majority of citizens still do not have a European identity. While most members of the public at large now view themselves as citizens of the EU, the majority still primarily consider themselves citizens of their home country. This may well look different a generation on from now, as the European identity will probably have matured somewhat by then. But until that point, small steps should be preferred over big leaps. Changes in the habits and views of the public are far more promising than any attempt to enforce the changes quickly »from above«. Otherwise, the EU would »overreach« itself.

Switzerland as a blueprint for Europe?

Switzerland is unlike most other nation states – and maybe this is why it makes a good model for Europe. Language, ancestry and media landscape: Switzerland is diverse. Where single national languages are a matter of course for the population in its neighbouring countries, Switzerland has four language communities. Where the population can otherwise call upon a shared ancestry, the inhabitants of Switzerland came from different countries. When considering the question of what holds together a society of different cultures, it's worth taking a closer look at Switzerland.

Switzerland – land of diversity

It is true that Switzerland, more than probably any other country, demonstrates that diversity and cohesion do not have to be a contradiction in terms. The classically multicultural confederation is characterised by strong protection for minorities. The four national languages – German, French, Italian and Romansch – are recognised in the Federal Constitution, and the applicable electoral law ensures that the linguistic minorities are adequately represented in the parliaments. At the political level, a strong principle of subsidiarity is applied. Thus each of the 26 cantons has its own parliament, its own government, its own laws and police force, and enjoys decision-making autonomy over traffic and environmental issues. Important questions of jurisdiction, regional planning, taxes, schools and the fire brigade even fall within the remit of the communes, even if these only cover 50 inhabitants in the extreme case. Consequently, the Swiss identify themselves primarily with their cantons or communes and less with their country. The language communities mentioned at the start represent another key characteristic of the Swiss Confederation. As geographically compact regions, the German-speaking area of Switzerland covers the largest proportion at 65% of the population, followed by the French-speaking area (20%), Italian-speaking area (8%) and Romansch-speaking area (0.5%). Outside of the established language regions, immigrants from other parts of Europe contribute to the cultural diversity.

The media landscape in Switzerland

The small-scale culture, notably in its linguistic diversity, complicates the media system in particular. Thus the media tend to gear their programming to audiences within their respective language region. By contrast, users like to consume media from surrounding countries that share their language. The result is that the Swiss tend to draw their cultural and social affiliations from Germany, France or Italy, depending on their language community. As a general rule, media companies predominantly have strong regional roots. It is not that rare for some cantons or even communes to have their own newspaper. Although this does mean the media are closer to their consumers and can respond to their individual needs, the resources for national topics tend to be limited at small media companies. As a result, the media system as a whole if anything does more for segmentation than for interconnectedness or integration within Switzerland.[28]

Switzerland

Population: 8.1m

Size:
41,277 sq km

GDP:
USD 482.3bn

Despite the segmentation of the country, Switzerland boasts a stable democracy with no major crises. One reason cited for this balanced condition is specifically the federal structure. Thus the Swiss political landscape is shaped by the autonomy of the cantons. Differing opinions between the cantons on political issues are permitted rather than prohibited. This divergence of opinions is reflected in the results of referendums. In the plebiscites, regional minorities also regularly achieve majorities, serving to invalidate differences at other levels – like the linguistic divide. As a general rule, direct democracy by means of plebiscites is an instrument that shapes the political decision-making process in Switzerland. The institution of the referendum promotes involvement and reduces disenchantment with politics. In addition, participation helps to integrate the entire population. A cross-regional consensus can emerge from the decision-making process being borne by all. In this way, referendums in Switzerland can help boost the satisfaction of the individual and promote the integration of the whole.[29]

Switzerland's federal structure is considered a cause of stability.

Switzerland fundamentally continues to be connected by shared values – especially the common political culture (as in direct democracy) and a mentality of survival peculiar to small states. This gives rise to strong trust in its institutions and fellow humans together with a strong sense of justice and approval for internal institutions. The Swiss tend to be reserved in terms of their acceptance of diversity. However, this does not mean that the population is generally closed towards other cultures. Switzerland specifically demonstrates the cultural diversity through its various language communities. The Swiss do, however, distinguish between

28 Cf. Widmer (1996).
29 Cf. Frey/Kirchgässner (2016).

Social cohesion in Switzerland

Source: Radar of social cohesion; Bertelsmann Stiftung.

the original, diverse cultural experience and the new diversity created by greater immigration. A degree of reticence towards the latter is shown by the Swiss as a matter of principle.[30]

What can Europe learn from Switzerland?

The concept of integrating different societies and cultures also tops the agenda in the European Union. Here, too, there exist shared institutions for socially, culturally and linguistically different regions. Nonetheless, the case of European integration differs essentially from Switzerland. The cultural diversity in Switzerland is limited by the fact that various cultures and languages live together within one country that have already rubbed along with each other for over six centuries. By contrast, the European movement is much younger. In addition, the European community demonstrates far deeper cultural differences than is the case with Switzerland. There are still major differences between the countries of western Europe and the more recent additions – in areas like sexual equality and the concept of family.[31] Nonetheless, the confederation in the centre of Europe shows that there certainly are ways of shaping a multicultural experience within one country peaceably.

30 Cf. Blum (1999).
31 Cf. Gerhards/Hölscher (2003).

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