

Recent events notwithstanding, all things considered, the European Union has proved to be a brilliant success along several dimensions. This is why there are still several countries waiting outside the gates aspiring to membership while only the British are considering exit as if to confirm French **President Charles de Gaulle's initial doubts about British membership**. And this is why US **President Barack Obama encourages British voters openly to say No to Brexit** in the upcoming referendum in June 2016, warning them that Brexit may weaken the "special relationship" between the Britain and the United States.

### **Peace, prosperity, and open arms**

Recent troubles notwithstanding, I see three main reasons why the EU deserves to be regarded as a brilliant success: Peace, prosperity, and open arms.

First, the EU has helped keep the peace in Europe since 1945, the longest continuous period of peace and harmony in Europe since time immemorial except for some skirmishes - some major ones, it is true - in former communist countries in the Balkans. Chancellor Helmut Kohl, one of the chief architects of German reunification as well as of European unification, put the matter well when he declared that Germany wanted to share her sovereignty and her fate with her European neighbors lest her neighbors never again need to fear German belligerency.

Second, the EU has promoted prosperity on the continent by engineering a major economic and social transformation with an unwavering emphasis on human rights. European cities from Helsinki to Lisbon - and, yes, also from Athens to Dublin - have been transformed before our eyes, and the same applies to the European countryside. The EU's strong emphasis on human rights has involved, among many other things, the abolition of the death penalty throughout the union membership. The Americans have begun to take notice: **the number of death sentences and executions in the United States has dropped significantly** since the mid-1990s.

Third, with open arms, the EU has welcomed formerly autocratic countries back into the European fold - first, Greece, Portugal, and Spain on the southern fringes of Europe, and then the former communist countries in East and Central Europe - enlarging Europe, making it whole. Thus far, only Iceland, Norway, and Switzerland have opted to stay outside

the union. Switzerland is a chapter unto itself, having joined the United Nations as late as 2002. Norway is also a special case in that its voters have twice turned down membership in national referenda against the will of the country's main political parties and interest organizations, a remarkably inward-looking attitude on the part of Norwegians. I will discuss Iceland toward the end of the article.

To continue with the EU's open arms, Catalonia is eager to join - or rather, remain in - the EU, as is Scotland, after achieving independence. About a half of the Catalan population wants independence from Spain because many of them feel treated like a minority within Spain without full respect and full rights. The government in Madrid threatens to keep an independent Catalonia outside the EU, a threat that contradicts the EU's open-arms policy and is, therefore, likely to prove empty. The Scottish situation is different. There, also, about a half of the voters want independence, primarily because they want Scotland to be more like Scandinavia, thus setting England free to become even more like the United States. Scotland joined the United Kingdom in 1707 primarily to gain access to a much larger market. Today, as a member of the EU, Scotland enjoys such access and, therefore, does not any longer need to be part of the UK for reasons of trade even if most of Scotland's trade is still with England. The threat from Westminster that Scotland will lose its EU membership if it leaves the UK sounds hollow because, again, it is incompatible with the EU's open-arms policy. The threat from Westminster appears also a bit comical in view of the fact that the Conservative government is just about to hold a referendum that may take the UK out of the EU, a result that would almost surely encourage demands for immediate Scottish independence to enable Scotland to remain in the EU.

In both Catalonia and Scotland, the prospect of continued EU membership holds the key to independence. Without membership, many of those who advocate independence would have doubts as they would fear weakened trade relations as President Obama has warned British voters. As members, however, Catalonia and Scotland, would have continued access to Spanish and British markets through the EU, assuming the UK decides against leaving the EU.

### **Union of small European states**

With time, the character of the EU has changed as it has developed into a union of small

European states. If Catalonia achieves independence and joins the EU, it will become the typical EU member in terms of population size. Of the 29 members, there will be 15 countries larger than Catalonia and 13 smaller countries. This shows how unreasonable it is to maintain that Catalonia or Scotland are too small to stand on their own feet as EU members. Denmark and Finland are the size of Scotland and smaller than Catalonia. Denmark has been an EU member since 1972 as well as a *de facto* subscriber to the euro and Finland has been a member of the EU as well as of the Economic and Monetary Union (EMU) since 1994. If Denmark and Finland were able to do so well by their EU membership, there can be no reasonable doubt about the ability of Catalonia and Scotland to do likewise.

With more small members on the horizon, there is reason also to believe that the common interests of small countries will weigh more heavily in EU policy making and institutions in the future. Clearly, Europe has its political disagreements separating left from right, north from south, east from west, and so on, as does the US and other countries. Even so, Europe's advanced social model, harking back to Chancellor Otto von Bismarck who can be said to have introduced the first rudiments of the German welfare state in the 1880s, faces no serious challenge within Europe. This makes Europe quite different from the US where the more limited and less ambitious welfare state legislation launched by Democratic Presidents Franklin D. Roosevelt, John F. Kennedy, and Lyndon B. Johnson is under attack by its Republican opponents in Congress, a situation that seems unthinkable in Europe.

The strong parallel emphasis on efficiency and fairness is, as I see it, the key to the economic and social advances accomplished thus far by the EU. This helps to explain the continued attractiveness of EU membership to all but the most eccentric and inward-looking countries in Europe. Further, the minority of voters against EU membership within individual countries includes European advocates of the US Republican extremism that now, with the 2016 US presidential election approaching, seems to threaten the cohesion if not the existence of the Republican Party.

### **Three comparisons**

The weaknesses that have emerged in modern America - lack of trust, imploding politics, stagnant wages, and increased inequality - mirror the strengths of the European model. In his seminal book *Bowling Alone*, Robert Putnam charted the collapse of trust in American

society, a gradual process the way Putman describes it.

Let me suggest three related phenomena to highlight some of the current differences between the US and Europe.

- American workers spend 1,800 hours per year at work compared with 1,400 hours in Denmark and Germany, 1,500 in France, 1,600 in Sweden and Switzerland, and 1,700 in UK (source: [The Conference Board. 2015. The Conference Board Total Economy Database](#)). Why? One plausible explanation for these differences is that US workers need to put in long hours to compensate for the lack of social security that Europeans can take for granted (Gylfason, 2007). Unlike Americans, Europeans have seen their economic wellbeing rise through higher incomes as well as less work.
- In 1960, the average American was 3 cm taller than the average German. Today, the average German is 3 cm taller than the average American as documented in a series of works by John Komlos and his associates (see, e.g., Komlos and Baur (2004) and Komlos and Lauderdale (2007)). Why this reversal? A likely reason seems to be that tens of millions of US citizens have been left behind, in poverty and without adequate social insurance, unable even to attain normal physical stature, thereby dragging down - or, more precisely, slowing down the natural advance of - the average height of the adult population in the US (Gylfason, 2007). If this interpretation is correct, it constitutes a devastating case against inequality of incomes and wealth on economic grounds quite apart from the ethical issues at stake.
- New research by Nobel-Prize winning Scottish economist Angus Deaton and Anne Case, both at Princeton University, shows that [middle-aged non-Hispanic white Americans have faced declining life expectancies since 1999](#) due to a sharp rise in life-style related diseases and suicides (Case and Deaton, 2015). Declining life expectancies are unheard of in modern times except in Russia after collapse of communism and in Africa due to public health disasters, especially the HIV/AIDS epidemic. The lives thus lost in the US are almost as many as those lost to the HIV/AIDS epidemic since 1981 (0.5 million vs. 0.65 million).

## **Expansion fatigue**

There is no denying that the EU presently faces serious difficulties, some of its own doing,

some not, including the recent torrent of Syrian refugees into the EU. While the EU cannot be blamed for the influx of refugees, the extent to which the EU bears itself some of the blame for some of its other current problems is debatable. The EU has looked the other way while anti-democratic tendencies have intensified in Hungary and, more recently, also in Poland. The EU could have reacted by, for example, imposing economic sanctions by withdrawing financial support from Hungary but chose not to do so. Likewise, the EU seems not to have done much to try to rein in rampant corruption in Bulgaria and Romania. The economic troubles of Greece can be said to follow in part from the EU's flawed fiscal and financial architecture, a problem well understood from the inception of the euro but one which the EU has yet to address satisfactorily. This list could be extended. In view of these issues, it is understandable that some older EU members are inclined to think that now is a good time to slow down the geographic expansion of the EU by sharpening the focus on deepening European integration while putting widening on hold for the time being. Even so, EU would benefit from the admission of new members such as deeply democratic Catalonia and Scotland. If they declare independence, the EU will almost surely welcome both of them with open arms. This would lend an even stronger voice to advocates of the EU as a union of small European states eager to advance economic efficiency and social justice side by side.

Back to Greece. Much has been made recently of Greece's inability to overcome her financial predicament by devaluing her currency. The argument is that macroeconomic adjustment by other means within the confines of the euro is bound to be more costly than devaluation of the drachma would have been. This may well be true as far as it goes. Even so, several euro countries have managed a significant adjustment in recent years, including Ireland, Portugal, and Latvia where, in 2014, unemployment was in the range between 11% and 14% of the labor force compared with 26% in Greece. In 2007, all four countries had unemployment rates between 5% and 8%. The experience of Ireland, Portugal, and Latvia shows that adjustment by other means - fiscal restraint, wage cuts, and more, sometimes referred to as an internal devaluation - with the euro in place is possible even if it can be quite painful. None of these countries seriously considered leaving the euro zone, nor did Greece. Comparisons of the euro with the Gold Standard are misplaced because the European Central Bank can devalue the euro if it wants to; in fact, the ECB did so recently.

## **Iceland and the EU**

Iceland became a founding member of NATO in 1949. The decision to join was not based on detailed benefit-cost analysis. Details did not matter. Rather, the Icelandic parliament decided that NATO is a club where Iceland inextricably belongs. In other words, Iceland's parliament decided to share Iceland's fate with that of other members of the alliance, including most of Iceland's closest friends and allies. No referendum was held. Profiteering from Icelandic NATO membership came later. The defense agreement between Iceland and the US is considered to have generated incomes equivalent to about 2% of GDP per year from the 1950s until 2006 when the US government unilaterally closed the NATO base in Iceland against the will of the Icelandic government.

Similarly, the Icelandic parliament's decision to apply for EU membership in 2009 was not based on an explicit benefit-cost analysis. The principle is the same as before: those in favor of membership view the EU as a club where Iceland belongs if only because all of our closest allies except Norway are members. Further, in fact, I believe Iceland should join the EU even if it could be demonstrated that the costs of membership outweigh the benefits, but then, of course, it is impossible to assess the monetary value of political benefits.

From the early 1990s until the crash of 2008 opinion polls showed that Icelandic voters were consistently albeit marginally in favor of EU membership whereas political parties, subservient to the oligarchs they had created by granting them virtually free access to Iceland's valuable fish resources, and interest organizations stood shoulder-to-shoulder against membership. Here the situation was diametrically opposite to that of Norway. Up against the wall after the crash, Iceland filed an application for membership in 2009. The application could be understood as a way of saying to the rest of Europe: Please excuse us for having permitted our banks to separate you from so much of your cash, but from now on we shall abide by the discipline required by EU membership. With the political parties held primarily responsible for pushing Iceland off the cliff in 2008 through their crony privatization of the banks during 1998-2003 back in power in 2013, an attempt was made to withdraw the application in 2012 as if to say: We did not mean to say we are sorry, we were just kidding. This is, however, a controversial interpretation. While many Icelanders apparently sensed a collective guilt about having voted for politicians who through the corrupt privatization of the banks paved the way into the abyss in 2008, others had no such feelings of guilt, blaming the crash on the bankers or the politicians or even on foreign conspirators. Anyhow, the attempt in 2012 to withdraw the EU membership application

failed. Specifically, parliament put in the membership application in 2009 whereas the foreign minister, not parliament, attempted to pull out unilaterally in 2012, a pullout considered invalid by the EU because an individual minister cannot undo a formal decision by parliament. Hence, Iceland's application remains on ice, like the Swiss one from 1992, waiting to be reactivated by a new parliament which will then put the negotiated membership agreement before a national referendum as promised by parliament and as required by the new constitution that was approved by 2/3 of the voters in 2012 and awaits ratification by parliament.

Recent developments in Greece, Ireland, and Spain make Icelandic accession to EU membership a harder case to sell. This helps to explain why public opinion has swung against membership since 2008 even if developments in Baltic and Balkan countries suggest a different conclusion. Estonia, Latvia, and Lithuania joined the EU in 2004 and by now all three use the euro. Croatia became the EU's 28th member in 2013, ten years after filing its membership application. Undeterred by events in Greece, Albania became an official candidate for accession to the EU in 2014. Bosnia and Herzegovina applied for membership in 2016.

Another reason for the change in public sentiment in Iceland is that some Icelandic politicians tried to deflect their own responsibility for Iceland's home-made crash by absurdly blaming it on foreigners and whipping up immigrant-unfriendly chauvinism in Icelandic politics for the first time in history. In terms of economic damage relative to national economic output as well as in terms of fiscal costs, Iceland's crash was among the greatest ever recorded (Laeven and Valencia, 2012). For example, the damage inflicted on foreign creditors and shareholders was greater than anywhere else relative to the size of the Icelandic economy.

What would be the main benefits and costs of EU membership? The economic benefits are clear even if European Economic Area membership from 1994 has delivered many of them already. Yet, several significant benefits are still missing.

- Many Icelanders see the adoption of the euro as a key benefit in view of Iceland poor record of monetary management which has allowed the Icelandic króna to lose 95.95% of its value *vis-à-vis* the Danish krone since 1939. Quite apart from the general

philosophy behind the EMU, small countries can benefit from outsourcing the least successful parts of their national policy-making just as they should resist outsourcing their most successful procedures.

- The **Common Agricultural Policy is far less expensive for Europe's consumers and tax payers than is domestic farm protection in Iceland** as has always been the case. Thus, while producer support in the EU decreased from 39% of gross farm receipts in 1986 to 18% in 2014, it decreased from 76% to 48% in Iceland during the same period (OECD, 2015).
- In view of Iceland's checkered history of oligopolies and lack of competition in a number of areas, including agriculture, banking, fisheries, and trade, the EU's Competition Policy and associated monitoring and surveillance could offer significant benefits to Iceland.
- The Common Fisheries Policy constitutes a problem for Iceland, however, that needs to be solved. Iceland needs to understand and respect that the EU was built on the fundamental premise of the original European Coal and Steel Community stipulating joint management of Europe's natural resources. At the same time, the EU needs to understand Iceland's significant dependence on her fisheries - a dependence that concerns the national economy of Iceland as a whole and not just local fishing communities as in the rest of Europe. The EU's toleration of inefficient fisheries policies, tacitly justified by viewing fisheries as a fairly unimportant regional concern, cannot be accepted in Iceland where fishing remains a macroeconomic concern. Even so, Iceland needs a major overhaul of its fisheries management regime which the Supreme Court of Iceland ruled discriminatory and hence unconstitutional in 1998, a verdict confirmed by the United Nations Human Rights Committee in 2007 (Gylfason, 2009a). In the national referendum on a new post-crash constitution for Iceland, 83% of the voters declared support for a provision stipulating national ownership of natural resources, including full charge for the right to fish in Icelandic waters in keeping with the user-pays principle of environmental policy now openly advocated by the World Bank and the IMF as the best way to deal with climate change (Lagarde and Yong Kim, 2015). Whereas Norwegian tax payers have been able to claim about 80% of Norway's oil rent from the outset, **90% of the fisheries rent in Iceland still accrues to the vessel owners**, Iceland's answer to Russia's oligarchs (Thorláksson, 2015).



## Conclusion

Small can be beautiful. On average, small countries tend to have higher per capita incomes than large ones because various benefits of small size, including cohesion and homogeneity, seem to outweigh the diseconomies of small scope and scale and small pools of talent (Alesina and Spolaore, 2003; Gylfason, 2009b). The EU can expect to benefit from welcoming more small states as members. National boundaries matter less and less when cross-border trade is free. This is why the independence aspirations of Catalonia, Scotland, the Faroe Islands, and others need not be viewed with alarm. Along European lines, ill-designed national boundaries outside Europe would be easier to redraw if trade were free as in Europe, supported by social efficiency, freedom, fairness, and respect for human rights.

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