

# Foreword

On the 55th anniversary of the Élysée Treaty, signed in January 1963 to mark France and Germany's post-war reconciliation, German Chancellor Angela Merkel and French President Emmanuel Macron drew a picture of a “prosperous and competitive Europe, more sovereign, united, and democratic”. But a decade of economic and migration crises and Britain's decision to leave the European Union represent major stumbling blocks on the path towards ever closer ties and continuous enlargement of the European Union. This year's report by the European Economic Advisory Group (EEAG) at CESifo focuses on the causes and symptoms of, and possible cures to the current integration malaise.

The fundamental question arises what factors are holding societies together. As **Chapter 2** explains, interaction within and between nation-states is strongly shaped by trust. Trust enables economic, social, and political interactions both within countries and internationally. It is also instrumental in forging common social identities. It is strengthened when there is contractual security in a relationship; but it is also created by the simple existence of repeated and continuing interactions between people. The chapter discusses the historical origins of nation-states and their functionality, before analysing trust in the European context.

A founding principle of the European Union is that all member states and citizens should participate equally in a single process of ever closer integration. Exceptions have been made in the past, however, and more flexible structures have been proposed. The euro crisis, Brexit, and global geo-political trends now make it interesting to revisit the issue of whether European states should be able to subscribe to only some of the rights and obligations of membership, with policy-specific country groupings moving at variable speeds. This would solve some problems, but would also raise new issues of transparency and accountability of decision-making, free-riding, and heterogeneity of rights depending on residence. **Chapter 3** reviews these and other issues in the light of experience and of the theoretical insights and practical analogies afforded by viewing the European Union, and possible sub-entities within it, as ‘clubs’ of countries.

Economic convergence is an important political objective of the European Union, but there is a widespread view that the last decade has brought divergence. **Chapter 4** shows that income and employment have converged for some groups of member states and during certain periods. Both before and after the global financial and euro area debt crises, however, there has also been significant divergence in both economic outcomes like income levels and inputs, such as institutional quality. Inequality has also increased within some countries, eroding trust in the ability of national governments to provide social protection. The perceived distributional impact of economic integration also tends to undermine trust in European institutions.

As always, **Chapter 1** of the report contains an in-depth analysis of the economic situation of the European Union and other countries around the world, together with a forecast for the year ahead. Attention is also devoted to some of the major policy changes that have already been transposed into law, like the US tax reform, or that are taking shape, like a gradual normalisation of monetary policy.

The European Economic Advisory Group at CESifo, which is collectively responsible for all parts of the report, consists of seven economists from six countries. This year the Group is chaired by Giuseppe Bertola (University of Turin). The other members are Torben M. Andersen (Aarhus University), John Driffill (Yale-NUS College), Harold James (Princeton University), Jan-Egbert Sturm (KOF Swiss

Economic Institute, ETH Zurich), Branko Urošević (University of Belgrade), and myself (ifo Institute and University of Munich).

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