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The European Budget in the Years 2007 to 2013 and the Common Agricultural Policy

The EU budget for the new financial period of 2007 to 2013 represents a compromise with which no-one is truly satisfied. The controversial debate which preceded it was unable to produce a radical reform of the EU's finances, particularly as regards the Common Agricultural Policy. The differences in the level of wealth in the EU countries and regions will therefore be reduced more slowly than would otherwise have been possible.

Since 1970, the European Union has financed itself through an own resources mechanism. Own resources flow to the EU either directly or via the national budgets of the member states, irrespective of developments in the national public budgets. Before 1970, the Community budget was exclusively financed by direct financial contributions from the member states. Own resources consist of revenue in the form of customs duties, agricultural duties, the value added tax (VAT) based resource and the gross national income (GNI) based resource. The budget plan for the year 2006 provides for the revenue shown in Table 1.

The European Union has been a customs union since 1968, i.e. there are no longer any intra-Community customs duties; a common customs tariff is levied on trade with third countries at the EU's borders. After the deduction of a flat charge of 25% (before 2001: 10%) for the collection and transfer of customs duties, this entire revenue flows into the EU budget. The Union will receive approximately €12.9 bn in customs duties in 2006. Agricultural duties are a special type of customs duty. They are levied when agricultural products with prices below those determined by the member states are imported into the European Union from third countries. This raises the price of these agricultural imports to the intra-Community price level. Ultimately, this protectionist measure is a way of protecting the European agricultural industry against competition from the world market by allowing the imposition of flexible customs duties. This isolationist policy is sharply criticised by the World Trade Organisation (WTO) and, as a whole, leads to a decrease in wealth since free trade in agricultural products is greatly restricted. Agricultural duties amounted to €1.3 bn in 2006. As a result, customs duties and agricultural duties accounted for approximately 13% of the EU budget. In the 1970s, these traditional own resources accounted for over 50% of the total revenue.

The VAT-based resource was introduced in 1979 and is a share of the VAT base of the member states, which approximately corresponds to final consumption. This share was 1% in 1999, 0.75% in 2002 and 2003 and has been 0.5% since 2004. In 2006 approximately 14% of the Union's revenue, €15.9 bn, will come from the VAT-based resource. Since VAT has a regressive effect despite exemptions and reduced rates on certain products, this form of revenue has been scaled down considerably in favour of the GNI-based resource. The VAT base covers the consumption of goods and services at final consumption level, but not investments and exports. Countries with higher levels of wealth generally have a comparatively low consumption rate and hence a lower VAT base, resulting in the regressive nature of this form of revenue.

The GNI-based resource was introduced as a further source of revenue in 1988 and, at €80.6 bn and with a 72% share of the EU budget, has since become the most important form of revenue. This covers the residual financing of the EU budget, since borrowing to finance the EU budget is not permissible. As gross national income stands for the measure of wealth, the economic performance of member states is proportionally taken into account. Hence, the EU financing arrangement features a mixture of proportional and regressive elements, but the proportional elements have clearly outweighed the regressive ones recently.

Although inconsistent with the European spirit and only covering one aspect, it has become common practice to look at the costs and benefits of the EU in connection with the net contributions made by the member states.[1] The most important net contributors in proportion to their respective economic performances are the Netherlands (0.52 % of GNI), Luxembourg (0.36% of GNI), Sweden (0.30% of GNI) and Germany (0.27% of GNI).[2] At times,

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[1] Cf. L. P. Feld: Nettozahler Deutschland? Eine ehrliche Kosten-Nutzen-Rechnung, in: W. Wessels, U. Diedrichs (eds.): Die neue Europäische Union: im vitalen Interesse Deutschlands? Studie zu Kosten und Nutzen der Europäischen Union für die Bundesrepublik Deutschland, Berlin 2006, pp. 93-113.

[2] Figures for the year 2005, cf. European European Commission: Allocation of 2005 EU expenditure by Member States, Luxembourg 2006, p.138

Table 1
EU Revenue in 2006

Revenue Categories	€ million	% of EU Budget
Customs duties	12,905	11.5
Agricultural duties and sugar levies	1,320	1.2
VAT resource	15,884	14.2
GNI-based resource	80,563	72.0
Other revenue[1]	1,298	1.2
Total[2]	111,970	100.0

[1] Miscellaneous + surpluses, balances and adjustments.

[2] Differences due to rounding.

Source: European Commission: General Budget of the European Union for the Financial Year 2006, Luxembourg 2006, p. 24; own calculations.

Table 2
EU Expenditure

Expenditure Categories	2006 (€ million)	2006 (%)	2007-2013 (%)
Agriculture	50,991	45.5	43.0
Structural Operations	35,640	31.8	35.7
Internal Policies	8,889	7.9	9.6
External Policies	5,369	4.8	5.8
Administration	6,656	5.9	5.8
Other Expenditure[1]	4,424	4.0	0.1
Total[2]	111,970	100.0	100.0

[1] Equalisation payments, pre-accession strategy (for candidate countries), reserves.

[2] Differences due to rounding.

Source: European Commission: General Budget of the European Union for the Financial Year 2006, Luxembourg 2006, p. 7; Council of the European Union: Document No. 15915/05 of 19.12.2005, Brussels 2005, p. 33; own calculations.

the question of the cost of the Union causes fierce public controversy in the member states. Thus, opinion polls cited the Netherlands' status as the foremost net contributor per capita as the most important reason for its rejecting the European constitution in spring 2005.

In 2006, the EU budget totalled approximately €112 bn. To ensure budgetary discipline, an overall ceiling on the EU budget, fixed as a percentage of the total GNI in the EU, was agreed upon in 1988. As a result, expenditure may not exceed 1.24% of the Community's GNI. Due to a technical change to the European System of Accounts 1995 (ESA 95), the overall ceiling was reduced from 1.27% of GNP (former term) to 1.24% of GNI (new term in ESA 95). The net contributors Austria, France, Germany, the Netherlands, Sweden and the United Kingdom are calling for a limitation of expenditure to 1.0% of GNI. According to the European Commission's plans, EU expenditure was to be increased to 1.15% of GNI. The compromise agreed in 2005 now provides for a budget of 1.045% of GNI. Table 2 shows a comparison of the expenditure categories of the EU budget plan for the year 2006 and over the financial period 2007-2013.

Common Agricultural Policy

The Common Agricultural Policy (CAP) introduced in 1962 dominates EU budget spending in the financial year 2006, accounting for just under €51 bn and, therefore, a 45.5% share of total expenditure. Pursuant to Article 33 of the EC Treaty, the objective of the CAP is to increase agricultural productivity, making a fair standard of living possible for the rural population, and to ensure fair prices for consumers. On average, agricultural expenditure during the 1970s amounted to more than three-quarters of overall spending.[3] During the same period, agriculture's share of total economic output declined, decreasing in Germany, for instance, from 6.4% in 1960 to 0.9% in 2005.[4] How is the high significance of agricultural expenditure in relation to agriculture's contribution to economic output justified?

- Traditionally, many countries strove to produce as much food as possible to satisfy their own needs and to be self-sufficient vis-à-vis other countries. There was undoubtedly justification for this in times of crisis and war. In the era of globalisation, however, these aspirations to self-sufficiency can probably be regarded as outdated. Germany exports goods equivalent to 40% of its GDP and imports goods worth 35% of its GDP.[5]
- The income elasticity of demand for agricultural products is very low since they are inferior goods. Hence, as incomes rises, demand increases only slightly. Moreover, demand for agricultural products has a low degree of price elasticity, i.e. changes in supply lead to relatively severe price swings.The high production increases in the agricultural sector generated in the past would therefore have brought about a sharp decrease in agricultural prices and resulted in a significant reduction in farmers' incomes. This was considered unacceptable for reasons related to the distribution of wealth.

A system of agricultural market regimes[6] was therefore developed to protect the EU from the world market with the aid of agricultural duties (import duties on

[3] Cf. U. Nittka: Das Finanzierungssystem der Europäischen Gemeinschaften, Diss., Bochum 1979, p. 479.

[4] Cf. E. Feess: Mikroökonomie – Eine spieltheoretisch- und anwendungsorientierte Einführung, Marburg 1997, p. 279; Federal Statistical Office: Statistical Yearbook 2006 for the Federal Republic of Germany, Wiesbaden 2006, p. 630.

[5] 2005 figures: Exports €901.7 bn, Imports €789.6 bn, GDP €2,245.5 bn; cf. Federal Statistical Office, ibid., p. 642.

[6] U. Baßeler, J. Heinrich, B. Utecht: Grundlagen und Probleme der Volkswirtschaft, 18th ed., Stuttgart 2006, p. 680. It is poignantly stated that these "have nothing in common with the market and little in common with order".

agricultural products) and to make revenue generated in the agricultural sector independent of fluctuations in the equilibrium prices by establishing guaranteed prices. This system means that approximately 95% of all agricultural produce is unaffected by the usual pricing mechanism of supply and demand. This is technically implemented on the revenue side by means of the agricultural duties and on the expenditure side through the European Agricultural Guidance and Guarantee Fund (EAGGF), which comprises a Guarantee Section and a Guidance Section. The Guarantee Section finances comprehensive price support for agricultural products so that they exceed market prices (market regulation). Structural policy measures in the agricultural sector, for instance improvements to rural infrastructure, are financed under the Guidance Section.[7]

Since the administratively fixed prices are higher than the market equilibrium prices, this system produces significant production surpluses, which then have to be removed from the market at considerable cost. Attempts are sometimes made to sell this surplus production to non-EU states at subsidised prices. Export refunds are used to balance the difference between the price level within the Community and that of the world market. The European Agricultural Policy is ruinous for agricultural producers outside the EU. For one thing, they have hardly any access to the EU market and, for another, the EU subsidies that come in the form of export refunds place considerable pressure on world market prices. The fact that a high number of developing countries in particular are producers of agricultural products which must compete with subsidised EU products results in situations that are undesirable from the distribution angle. Ultimately, the Common Agricultural Policy leads to the displacement of Third World suppliers and hence contradicts the Community‘s own development policy. The World Bank estimates that even a minimal compromise in the WTO negotiations on the opening of the market would allow the revenue of developing countries to increase by more than the much praised debt cancellation in 2005 or the increase in development aid.[8] A full opening of the markets for agricultural products would result in a rise in revenue of $86 bn for developing countries by the year 2015, thus freeing 30 million people from extreme poverty (criterion: absolute income threshold of one dollar per day). However, the compromise on agriculture agreed at the WTO Conference in Hong Kong in December 2005, allowing only a limited opening of the market, will lead to a rise in revenue of just $16 bn, reducing the number of people suffering from extreme poverty by a mere 2.5 million.[9]

EU agricultural policy is particularly criticised for its high costs and inefficiency. Moreover, excess production puts an unnecessary strain on the environment. Intervention measures for cereals and rice (€17.3 bn), meat, eggs and poultry (€9.4 bn), fats and protein plants (€3.2 bn) and dairy produce (€2.0 bn) are particularly expensive. The greatest beneficiaries of the European agricultural policy are France (€9.4 bn), Spain (€6.3 bn), Germany (€6.1 bn) and Italy (€5.0 bn).[10] To support the fixed prices, a large proportion of the total expenditure must be spent on related costs such as purchasing, administration, warehousing, export subsidies or the destruction of the goods produced. It is estimated that farmers receive only around 20% of the total agricultural policy expenditure.[11] World market prices for agricultural products are raised to the intra-Community price level by the administratively fixed prices. Hence, the Common Agricultural Policy burdens both the European taxpayer because of its high costs and the consumer because of the far higher prices it causes. From an economic angle, direct income support for farmers should be favoured against the current system, which distorts market prices. The European agricultural lobbies, particularly the French and German ones, have hitherto proved very capable of effectively preventing farmers from being degraded, as they view it, to recipients of state aid. Moreover, decisions concerning state aid and the payment of state aid should not be made by the EU, but by the respective member states in accordance with their own political priorities. This would be in keeping with the principle of correspondence stemming from Breton and Oates,[12] which demands the disclosure of the identities of decision-makers, users and payers with a view to minimising overall cost. In the case of private goods, the individual is responsible for all three functions at once, while in the case of public goods, there are a large number of decision-makers, users and payers, who are not necessarily identical. If the payers predominate in the decision-making process, budget estimates tend to be too low. If the users are predominant, the budget will be too high, since the users will opt for an oversupply of public services without being required to pay for the financing in equal meas-

[7] Ibid.

[8] C. Decker, S. Mildner: Die wichtigen neun Prozent – Der Agrarhandel als ein Hemmschuh bei der WTO-Konferenz, in: Internationale Politik, No. 2, 2006, p. 107.

[9] Ibid., p. 101.

[10] Figures for the year 2004. Cf. Federal Statistical Office: Statistical Yearbook for Foreign Countries 2006, Wiesbaden 2006, pp. 174-175.

[11] Cf. U. Baßeler, J. Heinrich, B. Utecht, op. cit., p. 682.

[12] A. Breton: A Theory of Government Grants, in: Canadian Journal of Economic and Political Science, Vol. 31, 1965, pp. 175-187; W. E. Oates: Fiscal Federalism, New York 1972, pp 33-38.

ure.[13] In principle, there is nothing wrong with France or Germany's giving its agricultural sector high priority. However, such national preferences should not be subsidised from EU funds.

Structural Policy Measures

The EU uses structural and regional policy in an attempt to even out regional disparities in the economic performance of its regions. A total of €308 bn euros have been earmarked for this purpose for the next EU financial period 2007-2013. This is more than a third of the total EU budget expenditure. The net contributors, Austria, France, Germany, the Netherlands and the United Kingdom, in particular wish to limit regional aid. Germany is a net contributor, yet finds itself in a contradictory position. On the one hand, it tries to keep total EU expenditure to a minimum so that it need contribute little to the EU budget. On the other, a considerable amount of regional aid flows into the new Länder, since their GDP per capita is below 90% of the EU average (except Berlin) with three NUTS 2 regions[14] under 75% of the EU average.[15] The money is mainly distributed through three funds:

- the European Regional Development Fund (ERDF), which is designed to promote productive investment and the development of infrastructure;
- the European Social Fund (ESF), the purpose of which is to boost investment in training and employment and the integration of the long-term unemployed and disadvantaged groups;
- the Cohesion Fund, which is designed to promote investments in transport, the environment and renewable energy.

Depending on the fund and the support priority, the public authorities of the countries receiving assistance must assume a 15 to 50% share of the cost of the measure (co-financing). Structural policy has three central aims: the provision of support for the poorer EU regions in their effort to make up ground on the other regions (convergence), the strengthening of regional competitiveness and employment, and cross-border cooperation between certain regions. Ireland, which on its accession to the EU in 1973 was one of the poorest countries in Europe, is an example of successful regional policy. After the special case of the city-state of Luxembourg, Ireland is today the country with the highest GDP per capita in the European Union. With regard to the structural funds, the regions receiving Community aid are divided into three objective regions.[16]

- Objective 1 Regions: Regions in which GDP per capita is below 75% of the European Union average. These regions are to receive approximately two thirds of the money in the structural funds.
- Objective 2 Regions: Regions undergoing socio-economic and social transition and suffering from high unemployment, i.e. areas undergoing economic change, declining rural areas, urban areas in difficulty and depressed areas dependent on fisheries.
- Objective 3 Regions: Regions that do not come under Objective 1 and 2 regions, the education, training and employment systems of which are in need of modernisation to keep pace with economic and social change.

The Cohesion Fund was introduced to prepare Greece, Ireland, Portugal and Spain for monetary union. Despite these countries' accession to monetary union, the fund has not been wound up. This shows the strong persistence effect of funding once it has been granted. €3 bn are allocated to the Cohesion Fund each year. The fund exclusively finances environmental and transport investment in countries with a GDP per capita less than 90% of the EU average. The Structural and Cohesion Fund payments in total should not exceed 4% of the GDP of present or future member states to accommodate for the national economies' limited capacity to absorb transfer payments. The greatest beneficiaries of the European structural policy are Spain (€9.6 bn), Germany, especially East Germany (€4.6 bn), Italy (€4.5 bn) and Portugal (€3.5 bn).[17]

Other Expenditure

Internal policies are measures designed to promote education, youth welfare, culture, social welfare, environmental protection, consumer protection, research and technological development. External policies include development aid and humanitarian relief. In the framework of the pre-accession strategy, the candidate countries of Romania, Bulgaria, Turkey and

[13] D. Biehl: Wechselspiel zwischen Prozess und Institutionalisierung im Zuge der europäischen Integration, in: B. Schefold (ed.): Wandlungsprozesse in den Wirtschaftssystemen Westeuropas, Marburg 1995, p. 128.

[14] The introduction of NUTS 2 Regions marked the establishment of a uniform and coherent classification of regions for the generation of statistics for the EU. The NUTS 2 level comprises 254 regions: Belgium (11), Czech Republic (8), Germany (41), Greece (13), Spain (19), France (26), Ireland (2), Italy (21), Hungary (7), The Netherlands (12), Austria (9), Poland (16), Portugal (7), Slovakia (4), Finland (5), Sweden (8) and the United Kingdom (37). Denmark, Estonia, Cyprus, Latvia, Lithuania, Luxembourg, Malta and Slovenia are each classified as NUTS 2 level regions.

[15] Values for the year 2003. Cf. Eurostat Press Release No. 63, 2006 of 18.05.2006.

[16] Cf. European Commission: Agenda 2000: For a Stronger and Wider Union; in: Bulletin of the European Union, No. 5, Luxembourg 1997, pp. 22-25.

[17] Figures for the year 2004. Cf. Federal Statistical Office: Statistical Yearbook for Foreign Countries 2006, op. cit., p. 175.

Croatia are to be provided with the assistance they need to come anywhere close to meeting the requirements for membership. To avoid new member states' becoming net contributors, compensation ensures that a balance is achieved between their budget revenues and contributions.

The New Financial Period of 2007-2013

The EU budget compromise achieved on 17 December 2005 was reached in the best Brussels tradition. It came about long after midnight, at two o'clock in the morning, and no-one is truly satisfied with it. The EU will spend a total of €862.4 bn in the period from 2007 to 2013. This sum is €10 bn more than EU Council President Tony Blair had proposed, though again nearly €10 bn less than the Luxemburg EU Council Presidency had intended in June 2005. The conflicting national interests of the UK and France took centre stage during the confrontation.

Because of its small agricultural sector, the UK profits only very little from the Common Agricultural Policy. This is the reason why a correction mechanism (British budget rebate)[18] was introduced in 1985, and wholly justified at the time. Had it not been implemented, the UK would have become the largest net contributor, although the UK per capita GDP was only 94% of the average of the then ten-member Community. In 2005, the UK was the richest large EU state with a per capita GDP of 116% of the EU-25 average.[19] Moreover, the payments made to France through the Common Agricultural Policy are 1.5 times higher than the EU average, and even 2.5 times higher than those made to the UK.[20] In particular, the difference in views between France and the UK regarding the amount of expenditure on agriculture has so far prevented an agreement being reached on the future financial framework. Tony Blair came under heavy pressure to waive €10.5 bn, some 20% of the rebate accruing in the period from 2007 to 2013. It is true that France managed to avoid a revision of agricultural expenditure before the year 2013, but the budget is to be reviewed again in 2008. An agreement may then be easier to reach, since the current adversaries, Chirac and Blair, will have departed from the political scene by then.[21]

The difference between the British and French proposals for the period 2007 to 2013 amounted to around €20 bn. Compared with the total volume of public spending of all the EU countries together, which comes to just over €5,100 bn a year, the effect had by €20 bn over seven years is expected to be only marginal in any case.[22] In contrast, what will have a much more noticeable impact is the fact that, at 43%, the amount of money spent on the Common Agricultural Policy will continue to place a disproportionately high burden on the EU budget in the years from 2007 to 2013.[23] The commitment to a further seven-year financial period has wasted the opportunity to substantially reduce this block of expenditure before the year 2014, and the review in 2008 will not yield any fundamental changes in this respect either because the Review Clause is very vaguely formulated.

With the compromise it adopted in December 2005, the EU failed to seize the opportunity to push through decisive changes in the budget's composition before the end of the next financial period in 2013. The UK Prime Minister had rightly pointed out that expenditure of over 40% on the Common Agricultural Policy is not affordable for a sustainable EU. He initially linked the lowering of the UK rebate with the demand for a fundamental reform of the agricultural policy. This link was entirely logical, since the UK rebate was introduced to compensate the UK for the relatively small returns it got from the agricultural policy. Unfortunately, he could not assert his negotiating position against France and Ireland, the only countries to advocate the maintenance of the current agricultural policy. The pressure to reach agreement was exceptionally high as a result of the rejection of the referenda in France and the Netherlands. It was not considered desirable for the EU to end the year 2005 with a debacle over finances as well. Decisions on the use of the EU budget must be made unanimously, and since every country has a veto right, negotiations are lengthy. So due to the requirement for unanimity in financial affairs, the solution reached once again complied with no more than the lowest common denominator. The main losers are the new member states,[24] which had to accept a reduction of €16 bn in regional aid.

Unequal Distribution of Wealth

The unequal distribution of wealth among EU member states has become particularly clear since the enlargement of the European Union to include countries from central and eastern Europe in May 2004. In this context, wealth is defined as the GDP per inhabitant ex-

[18] Margaret Thatcher: "I want my money back!" at the summit of the European heads of state and government in Dublin in November 1979.

[19] Cf. Federal Statistical Office: Statistical Yearbook for Foreign Countries 2006, op. cit., p. 186.

[20] M. Euler: EU-Finanzverhandlungen gescheitert: Chance zum Nachdenken, in: Wirtschaftsdienst, No. 7, 2005, pp. 456, 458.

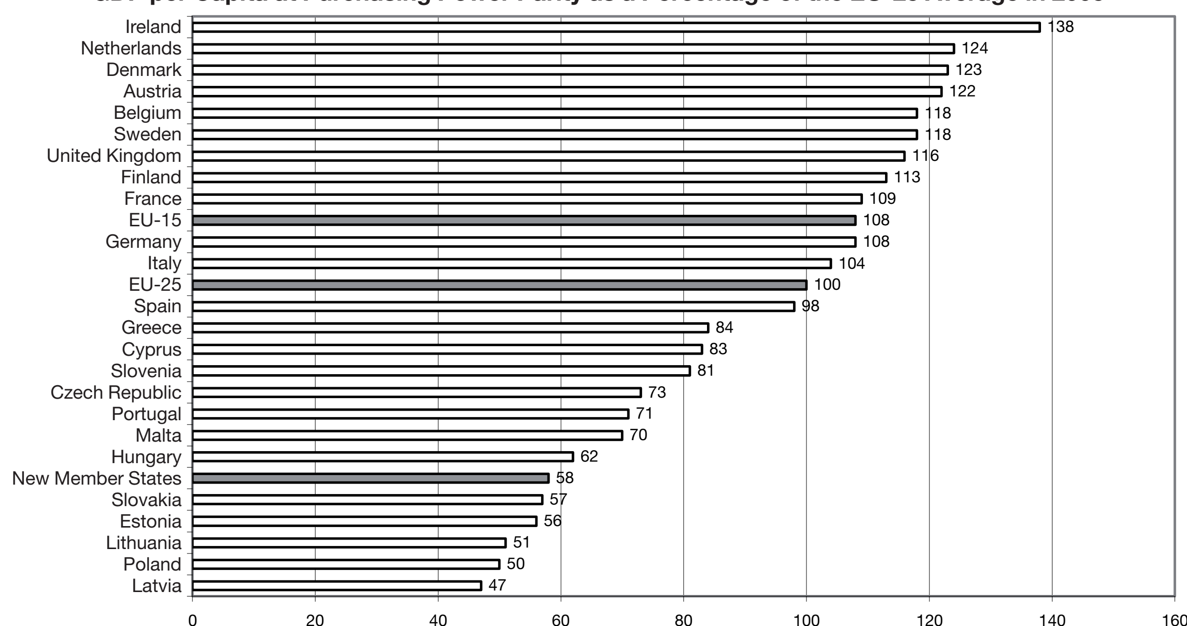
[21] Chirac's term of office ends in May 2007, and Blair has announced that he will stand down ahead of September 2007.

[22] Data for the Year 2005. Cf. Federal Statistical Office: Statistical Yearbook for Foreign Countries 2006, op. cit., p. 177.

[23] See Table 2.

[24] This article was written in 2006. Romania and Bulgaria are therefore not included in the new member countries.

Figure 1
GDP per Capita at Purchasing Power Parity as a Percentage of the EU-25 Average in 2005



Source: Federal Statistical Office: Statistical Yearbook 2006 for the Federal Republic of Germany, Wiesbaden 2006, p. 186; own calculations.

pressed in purchasing power parity, i.e. the economic output per inhabitant is adjusted to take account of exchange-rate fluctuations in order to obtain a country's actual consumer purchasing power. "A higher domestic product is ... generally associated with a higher level of wealth in a national economy."[25] However, comparisons of wealth that are based only on economic performance are problematic, since they merely say something about a society's material wealth, but not its social wealth. A comprehensive concept of wealth would also have to include further areas, such as healthcare, education or the environment. For example, a rise in car production leads to an increase in the national income, whereas the additional time required for driving on congested roads and the environmental impact caused by elevated exhaust emissions are not taken into account. However, having too large a number of indicators would render comparability increasingly more difficult. The United Nations has therefore developed a more comprehensive concept to compare the wealth of its member countries, the Human Development Index (HDI). The HDI is formed by consolidating three equally weighted dimensions into a composite index. The first dimension is life expectancy at birth. In 2004, this ranged from 37.7 years in Zambia to 82.2 years in Japan. This dimension indirectly takes account of a country's healthcare, environmental state and working conditions. The second dimension comprises a country's level of education and hence opportunities and the equitable distribution of wealth. The illiteracy rate and primary school enrolment are the indicators in this case. The third dimension is the standard of living, which is expressed in the GDP per capita, since a country's wealth is also dependent on material support. The result is an index for 177 states. The first place goes to Norway with a score of 0.965 (the maximum score is 1.0), the 177th place to Niger with a score of 0.311. All European Union member states are classified as highly developed countries by the United Nations (index scores above 0.8). The HDI scores range from 0.951 for Sweden to 0.845 for Latvia.[26] Since the dimensions of life expectancy and level of education do not differ significantly between EU countries, the following comparison is based – for the sake of simplicity – on the GDP per capita as the measure of wealth. In contrast, some eastern European countries can even improve their composite index scores as a result of above-average scores for education.[27]

Figure 1 illustrates the differences in economic strength between the member states in relation to the average for all 25 member states (EU-25) in 2005.

Country-specific per capita GDPs range from 138% for Ireland to 47% for Latvia.[28] Hence, the per capita

[25] M. Frenkel, K. D. John: Volkswirtschaftliche Gesamtrechnung, 5th ed., Munich 2002, p. 150.

[26] Scores for 2004. Cf. United Nations Development Programme: Human Development Report 2006, New York, pp. 283-286.

[27] Cf. F. Hubert: Wohlfahrtsmessung mit dem Human Development Index, in: WISU, No. 2, 2005, p. 190.

[28] Without the city-state of Luxembourg, which has a value of 243% of the EU-25 average, being taken into account.

GDP in the EU varies by a factor of about 3. The range increases by up to a factor of 8.5 when the 254 NUTS 2 regions in the EU are included in the comparison. Here, the richest region (Inner London in the UK) achieves a value of 278% of the EU-25 average, whereas the poorest region (Lubelskie in Eastern Poland) has a value of merely 33%.[29] It is noticeable that the values for the new member states are significantly lower than average. In total, they amount to just 58% of the average for all EU states, although there is a great deal of dynamism in the way countries are making up ground. Hence, the GDP growth rate in the central and east European candidate countries was approximately 2% higher per year than that for existing EU countries. Assuming this additional growth also continues over the coming years, Slovenia will have overtaken Germany by the year 2020. The Czech Republic will then be at the same level as Spain, and Hungary at the same level as Greece. The values for the current EU candidate countries and the new members Romania and Bulgaria are significantly below the average value of 58% for the newest member countries: Croatia 47%, Romania 33%, Bulgaria 32% and Turkey 30% (of the EU-25 average, respectively).[30] This comparison does not take account of domestic differences in purchasing power parity. Thus, in Germany for example, the distribution of wealth between West and East Germany is considerably unequal. While West Germany has a value of 116% of the EU-25 average and is hence placed equally to the UK, the appropriate value for East Germany (including Berlin) is only 80% and thus at the same level as Slovenia.[31]

[29] Values for the year 2003. Cf. Eurostat Press Release, op. cit.

[30] Cf. Federal Statistical Office: Statistical Yearbook for Foreign Countries 2006, op. cit., p. 188.

[31] Cf. Federal Statistical Office: Statistical Yearbook for the Federal Republic of Germany, op. cit., pp. 29 and 659, and own calculations.