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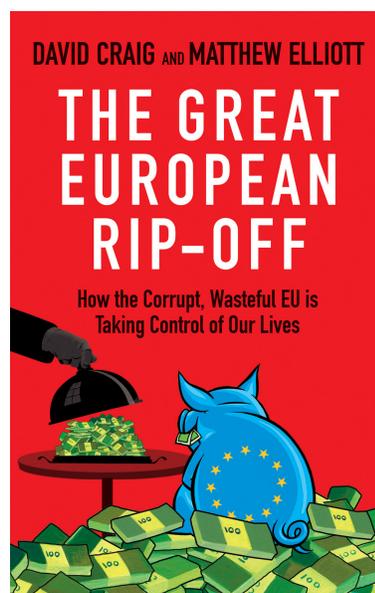
RESEARCH NOTE 46

## **THE GREAT EUROPEAN RIP-OFF**

### **A BACKGROUND NOTE EXPLAINING THE NEW ESTIMATED TOTAL COST OF THE EU**

***The Great European Rip-Off: How the corrupt wasteful EU is taking control of our lives*** by David Craig and Matthew Elliott has just been published by Random House.<sup>1</sup> A general press release about the book has been issued separately. This background note goes into more detail about the headline figure in the book that EU membership costs every EU citizen €2,460 (£1,968).

Before proceeding, readers should note that the research in this note uses the 2008 average exchange rate of €1=80p.<sup>2</sup> The pound has since fallen substantially in value against the euro and using current interest rates would lead to a significantly higher estimate of the cost of the EU in pounds. For that reason, these estimates are cautious compared to the cost of the Euro in contemporary terms.



The European Commission has recently claimed that the cost of the EU is around €235 (£188) per citizen<sup>3</sup> – around €116 (£93) billion per year. However, the authors have calculated, using the latest figures available when the book was written, that the EU really costs about ten times the Brussels estimate – around €2,460 (£1,968) per citizen, €1,219 (£975) billion per year. This research note provides additional background information on how the authors' estimate was reached.

It is important for readers to note that the book tries to find a total cost of the EU but does not suggest that it is all waste or that it could be eliminated overnight. However, an estimate of the total cost provides an important guide to the burden placed on member countries' economies and their citizens due to EU membership.

<sup>1</sup> Craig, D. & Elliott, M. '*The Great European Rip-off: How the Corrupt, Wasteful EU is Taking Control of Our Lives*', Random House, 5 March 2009

<sup>2</sup> Oanda.com 'FXHistory: historical currency exchange rates', <http://www.oanda.com/convert/fxhistory>

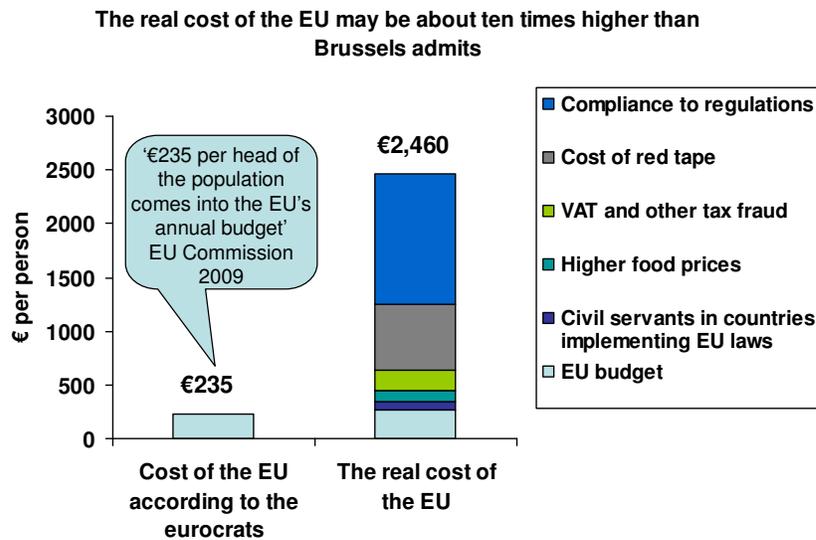
<sup>3</sup> *The European Union Budget at a glance* European Commission publication 2008/9

The estimate, which is featured on pages 50 to 54 of the book, is made up of the following:

	Item	Cost, €	Cost, £
1	Cost to business of complying with EU regulations	€600 billion	£480 billion
2	Cost to business of administering EU regulations	€300 billion	£240 billion
3	VAT and other EU tax fraud	€100 billion	£80 billion
4	Higher food prices	€50 billion	£40 billion
5	Officials in the member states enforcing EU rules	€35 billion	£30 billion
6	EU administration costs	€7 billion	£6 billion
7	Other EU spending	€127 billion	£101 billion
	<b>Total</b>	<b>€1,219 billion</b>	<b>£975 billion</b>
	Number of people in the EU	495,000,000	495,000,000
	<b>Cost per person</b>	<b>€2,460</b>	<b>£1,968</b>

While the EU's culture of secrecy and the scale of its interventions in the European economy and its citizens' lives mean that such an estimate can only ever be an approximation of the true value, this does highlight the extent that official studies underestimate the cost of the EU.

The following graphic is taken from page 54 of the book and each individual component of the €2,460 is discussed in greater detail below.



## 1. Cost to business of complying with EU regulations: €600bn (£480bn)

<b>The cost of complying with EU regulations, £</b>	<b>£480,000,000,000</b>
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It is likely that the total cost of regulation is higher than just the cost of administering them. There have been many estimates of the total cost of regulation produced in recent years, these tend to place the final amount around 12 per cent of GDP. The Chairman of the Better Regulation Taskforce, Sir David Arculus, said:<sup>4</sup>

*"Various other advanced economies have made some educated guesses at doing this and have come out with a total cost of regulation for their economies of about 10 – 12% of GDP. I find it inconceivable that the UK would be markedly outside of this range which probably means that we are spending about £120 billion on regulation each year, equivalent to the tax yield of income tax."*

This suggests that the total cost of EU regulation was between 5 and 6 per cent of GDP in 2005, given that studies in the Netherlands found that half of the cost of regulation in that country originated in the EU.<sup>5</sup> Given that the regulatory burden is widely accepted to have increased significantly in recent years,<sup>6</sup> it seems reasonable to assume that regulation costs around 7 per cent of EU GDP. That is around €900 billion (£720 billion). As the EU Commission has calculated that the cost of administering EU regulations is about €300 billion (£240 billion), that leaves €600 billion (£480 billion) in compliance costs.

## 2. Cost to business of administering EU regulations: €300bn (£240bn)

Total administrative burden, €	€600,000,000,000
Saving from a cut in administrative burdens by 25%, €	€150,000,000,000
Average 2008 exchange rate (€ to £)	0.80
Total administrative burden, £	£480,000,000,000
<b>EU imposed administrative burden</b>	<b>£240,000,000,000</b>

An EU study described the cost to business of administering regulations and commits the EU to cutting that burden by 25 per cent.<sup>7</sup>

*"The European Commission, in its strategic review of better regulation in the EU, is proposing to cut administrative burdens in the European Union by 25%. Analysis shows that this could make a major contribution towards strengthening the business climate in Europe and generate significant economic benefits – in the order of € 150 billion in absolute terms in the medium term."*

<sup>4</sup> Financial Services Authority 'Speech By Sir David Arculus, Chairman of the Better Regulation Task Force, to staff of the Financial Services Authority', 29 June 2005

<sup>5</sup> HM Treasury, 'Speech by Vice Prime Minister and Minister of Finance (Netherlands), Gerrit Zalm, at the Enterprising Britain Conference Panel "Economic Reform in Europe"', 26 January 2004

<sup>6</sup> British Chamber of Commerce 'Burdens Barometer 2008'

<sup>7</sup> European Commission 'Measuring administrative costs and reducing administrative burdens in the European Union', 14 November 2006

Assuming around half of this is the result of the EU regulations, as it was found to be in the Netherlands,<sup>8</sup> that is around €300 billion (£240 billion).<sup>9</sup> This is a low estimate, given that a recent study by Open Europe suggests up to 72 per cent of the cumulative cost of regulations introduced over the past decade is the result of the EU.<sup>10</sup>

### 3. VAT and other EU tax fraud: €100bn (£80bn)

VAT fraud, 2008, €	€100,000,000,000
Average 2008 exchange rate (€ to £)	0.80
<b>VAT fraud, 2008, £</b>	<b>£80,000,000,000</b>

Organised crime gangs can make significant amounts of money by defrauding the exchequer and getting money from member states' taxpayers through the EU VAT system. This is known as VAT or carousel fraud. In a background paper for the Economic and Financial Affairs Council, on Wednesday 14 May 2008, the cost of VAT fraud was estimated at €100 billion.<sup>11</sup> For more information on carousel fraud see pages 224 to 227 of *The Great European Rip-Off*.

### 4. The effect of the CAP on food prices: €50bn (£40bn)

The effect of the CAP on food prices, 2008, €	€50,000,000,000
Average 2008 exchange rate (€ to £)	0.80
<b>The effect of the CAP on food prices, 2008, £</b>	<b>£40,000,000,000</b>

Different estimates of the cost to consumers of the CAP's effect on food prices are outlined in Open Europe's 2005 EU Budget Rebate Briefing:<sup>12</sup>

*"The Treasury stated in its 2004 budget report that, "The Common Agricultural Policy (CAP) is estimated to cost EU taxpayers and consumers around \$100 billion a year through subsidies and high food prices. The poorest, who spend the greatest proportion of their income on food, are hit hardest by an implicit tax on food of around 26 percent. Even after the benefits for farmers are taken into account, the cost to the UK economy has been estimated at some 0.5 percent of GDP."*

*The World Bank has estimated that as well as the \$50 billion a year the EU spends directly on agricultural support policies, there is also a knock-on cost to EU consumers of artificially high food prices of \$63 billion annually, and the cost to the developing world through lost trade is around \$20 billion a year.*

<sup>8</sup> HM Treasury, 'Speech by Vice Prime Minister and Minister of Finance (Netherlands), Gerrit Zalm, at the Enterprising Britain Conference Panel 'Economic Reform in Europe', 26 January 2004

<sup>9</sup> Oanda.com 'FXHistory: historical currency exchange rates', <http://www.oanda.com/convert/fxhistory>

<sup>10</sup> Persson, M., Booth, S. & Gaskell, S. 'Out of Control? Measuring a decade of EU regulation', Open Europe, February 2009

<sup>11</sup> European Council 'Background – Economic and Financial Affairs Council – Wednesday 15 May in Brussels', 8 May 2008

<sup>12</sup> Open Europe 'EU budget/rebate briefing', <http://www.openeurope.org.uk/research/budget.pdf>

*The independent Consumers Association, Which?, has calculated that the CAP has inflated the cost of food in the EU to around the highest prices in the world. It costs the average family of four an extra £20 pounds a week in higher food prices, equivalent to more than an extra £1000 per year for each family's food bill."*

This suggests that a range of different values for the cost of the CAP can be supported but €50 billion (£40 billion)<sup>13</sup> seems a to be a very conservative estimate, particularly when you consider the high Which? estimate (over £25 billion for the UK alone).

## 5. Member states administering EU rules: €35bn (£30bn)

<b>The cost of member states administering EU rules, 2009, £</b>	<b>£30,000,000,000</b>
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The book estimates spending by governments on administering EU rules at five times the administration costs within the European Union institutions. This is a conservative estimate, as many examples suggest that EU rules often cost as much as ten times more to administer in the member states as they do in the European Union institutions. One notable example is the Common Agricultural Policy (CAP).

Administering the Common Agricultural Policy at the European Union level cost €130 (£104) million.<sup>14</sup> By contrast, in the United Kingdom alone the budget of the Rural Payments Agency is £242 million.<sup>15</sup>

The Rural Payments Agency's budget is spent distributing money under the CAP. This calculation suggests that the cost of administering the CAP in *just one* member state is twice its administration costs within the European Union institutions. Across the twenty seven member states it is clearly quite likely that the total member state administration cost is significantly more than five times the cost within the European Union institutions, so the £30 billion above is probably an underestimate.

## 6. EU Administration Costs: €7.6bn (£6.2bn)

Administration spending, 2009, €	€7,700,730,900
Average 2008 exchange rate (€ to £)	0.80
<b>Administration spending, 2008, £</b>	<b>£6,160,584,720</b>

The EU's administration costs are taken from the EU's budget for 2009.<sup>16</sup> They have been converted to pounds at the average 2008 exchange rate.<sup>17</sup>

<sup>13</sup> Oanda.com 'FXHistory: historical currency exchange rates', <http://www.oanda.com/convert/fxhistory>

<sup>14</sup> European Commission '2008 General Budget', Title 05 – Agriculture and Rural Development, 5 March 2008

<sup>15</sup> Rural Payments Agency 'Annual Report and Accounts 2007/2008', 21 July 2008

<sup>16</sup> European Commission '2009 General Budget', A. Introduction and Financing of the general budget, [http://eur-lex.europa.eu/budget/data/LBL2009\\_VOL1/EN/Vol1.pdf](http://eur-lex.europa.eu/budget/data/LBL2009_VOL1/EN/Vol1.pdf)

<sup>17</sup> Oanda.com 'FXHistory: historical currency exchange rates', <http://www.oanda.com/convert/fxhistory>

## 7. EU Spending: €126.8bn (£101.4 bn)

EU Budget 2009, €	€134,400,000,000
Average 2008 exchange rate (€ to £)	0.80
EU Budget 2009, £	£107,500,000,000
less spending on administration	(£6,080,000,000)
<b>EU Spending, 2009, £</b>	<b>£101,420,000,000</b>

The total EU budget is converted to sterling in a similar fashion.<sup>18</sup>

As these calculations show, the EU's is spending just over £6 billion on administration and just over £100 billion on other items.

### Earlier estimates

The Great European Rip-Off is not the first attempt to calculate the total cost of the EU. Three recent economic studies, one American, two British, of the net costs & benefits of EU and/or Eurozone membership, suggest that costs significantly outweigh benefits:

The US study, *Benefits & Spillovers of Greater Competition in Europe: A Macroeconomic Assessment*, by the New York Fed, concluded: "...increasing competition in the euro area to US levels could boost output by 12.4% in the euro area as both investment & hours worked rise markedly..."<sup>19</sup>

The British studies are *Should Britain Leave the EU? An Economic Analysis of a Troubled Relationship*, by Professor Patrick Minford,<sup>20</sup> and *A Cost Too Far? An analysis of the net economic costs & benefits for the UK of EU membership*, by Ian Milne.<sup>21</sup> The British studies used different methodologies; neither is directly comparable to the New York Fed study. But the striking thing is the very high orders of magnitude (in terms of annual ongoing percentages of GDP) that emerge from these exercises.

These are the estimates, as percentages of UK GDP, that Milne and Minford produced, broken down by item:

<sup>18</sup> European Commission '2009 General Budget', A. Introduction and Financing of the general budget, [http://eur-lex.europa.eu/budget/data/LBL2009\\_VOL1/EN/Vol1.pdf](http://eur-lex.europa.eu/budget/data/LBL2009_VOL1/EN/Vol1.pdf); Oanda.com 'FXHistory: historical currency exchange rates', <http://www.oanda.com/convert/fxhistory>

<sup>19</sup> Bayoumi, T., Laxton, D. & Pesenti, P. 'Benefits and Spillovers of Greater Competition in Europe: A Macroeconomic Assessment', Federal Reserve Bank of New York, Staff Report no. 182, April 2004

<sup>20</sup> Minford, P. et. al. 'Should Britain leave the EU? An economic analysis of a troubled relationship', Institute of Economic Affairs, 13 May 2005

<sup>21</sup> Milne, I. 'A Cost Too Far? An analysis of the net economic costs & benefits for the UK of EU membership', Civitas, July 2004

Type of Cost, % of GDP	Milne	Minford
<b>CURRENT (ongoing, annual)</b>		
Regulation (Milne), Manufacturing trade costs (Minford)	2.0	2.8
Common Agricultural Policy	1.5	0.3
EU Budget	0.5	0.4
Single Market	Zero	
Inward Investment	Zero	
Total excluding Opportunity Cost	4.0	3.5
Opportunity Cost	6.0	-
<b>Total Current including Opportunity Cost</b>	<b>10.0</b>	<b>3.5</b>
<b>ADDITIONAL FUTURE COSTS</b>		
Combined Milne excluding Opportunity Cost	10.0 min	
Harmonisation (Minford)		15.5
Pensions (Minford)		5.5
Joining Euro (Minford)		Macro volatility x 2
Additional Opp Cost (Milne)	6.0	
<b>Total Future Costs</b>	<b>16.0</b>	<b>21.0</b>
<b>All Current &amp; Future Costs</b>	<b>26.0</b>	<b>24.5</b>

The estimate of €1,219 (£975 billion) in *The Great European Rip-Off: How the corrupt wasteful EU is taking control of our lives* is similar in magnitude to the 10 per cent of GDP figure given by Ian Milne, which would equal £1,032 billion if the EU cost a similar share of GDP in the other member states.

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