1. History of European Integration
Early Post War Period

• A Climate for Radical Change:
  – Facts:

<table>
<thead>
<tr>
<th>Country</th>
<th>Death toll</th>
<th>The Economic Set-Back: Pre-war year when GDP equalled that of 1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>525,000</td>
<td>1886</td>
</tr>
<tr>
<td>Belgium</td>
<td>82,750</td>
<td>1924</td>
</tr>
<tr>
<td>Denmark</td>
<td>4,250</td>
<td>1936</td>
</tr>
<tr>
<td>Finland</td>
<td>79,000</td>
<td>1938</td>
</tr>
<tr>
<td>France</td>
<td>505,750</td>
<td>1891</td>
</tr>
<tr>
<td>Germany</td>
<td>6,363,000</td>
<td>1908</td>
</tr>
<tr>
<td>Italy</td>
<td>355,500</td>
<td>1909</td>
</tr>
<tr>
<td>Netherlands</td>
<td>250,000</td>
<td>1912</td>
</tr>
<tr>
<td>Norway</td>
<td>10,250</td>
<td>1937</td>
</tr>
<tr>
<td>Sweden</td>
<td>0</td>
<td>GDP grew during WWII</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0</td>
<td>GDP grew during WWII</td>
</tr>
<tr>
<td>UK</td>
<td>325,000</td>
<td>GDP grew during WWII</td>
</tr>
</tbody>
</table>

• Images:
Understanding the climate for radical change

Reichstag, 1945

Frankfurter Allee, 1945
Canadian soldiers and tanks advance through the streets of Ortona, Italy in this 1943 photo. Canadian Press
The prime question in 1945

• “How can Europe avoid another war?”
  – What caused the war? 3 answers
    • Blame the loser
    • Capitalism
    • Destructive nationalism
  – These implied 3 post-war solutions
    • ‘Neuter’ Germany, Morgenthau Plan, 1944: convert Germany into ‘a country primarily agricultural and pastoral in character.’
    • Adopt communism
    • Pursue European integration

• European integration ultimately prevailed, but this was far from clear in the late 1940s.
Emergence of a divided Europe

- Cold War begins.
- USSR pushes communism in the East.
- Moves towards creation of West German government.
  - Berlin blockade, 1948.
- “Neuter Germany” solution abandoned for strong West Germany + European integration.

Germany & Berlin divided into 4 zones

Berlin blockade
A divided Europe
Checkpoint Charlie, 1961

East German Guard Towers

You are leaving the American sector. Вы выезжаете из американского сектора.

Vous sortez du secteur américain.

Die verlassen den amerikanischen Sektor.
First Steps

• First Steps: Marshall Plan 1948
  – Set up to consolidate democracy in Europe, avoid the expansion of communism and create export market for the US.
  – OforEurEconomicCooperation coordinated aid distribution and prompted trade liberalisation.
  – EPU facilitated payments and fostered trade liberalisation.
Need for deeper European integration

• As Cold War got more war-like, West Germany rearment became necessary.
  – But strong and independent Germany was a scary thought to many, including many Germans.
  – Wide-spread feeling: best to embed an economically and militarily strong W. Germany in European superstructure.
  – Problem: OEEC was too loose to avoid future war among Western European powers.
Two strands of European integration

• Federalism and intergovernmentalism
  – Immediate disagreement about depth of European integration.
    • Federalism – supranational institutions.
    • Intergovernmentalism – nations retain all sovereignty.

• Intergovernmental initiatives
  • OEEC (1948), Council of Europe (1949), EFTA (1960).

• Federal initiative
How the EU got going: The Road to Paris

– Robert Shuman (French FM) presents plan for the creation of a common market in coal and steel. Brain-child of Jean Monnet (Head of French Economic Planning Commission whose task was to restructure and modernize French industry).

– Coal and steel is strategic and France wanted some sort of international control over the Ruhr region (still in the hands of US and UK).

– Jean Monnet was a federalist but being a practical man saw the virtues of functionalism (start small and depend on spillover).

– This leads to the ECSC (Treaty of Paris).
The big jump: The Road to Rome

– Just as Monnet predicted further integration followed with the signing of Treaty of EEC (Treaty of Rome) and EURATOM Treaty in 1957 – (EEC-6).

– Perhaps due more to linkage than to functionalism:
  • *West Germany wanted the EEC as a common market while France wanted to share the cost of developing its nuclear energy programe. Thus a deal became possible between the two largest Continental West European states, the first example of the package deal that was to become a typical means of progress within the EC.*

The 1960s: Integration but not without crisis

- During this time period economic expansion in the west: integration depends heavily on the business cycle.

  - 1962: CAP: EAGuidance and GuaranteeF
  - 1968: completion of Customs Union

- 1965 empty chair crisis: the Comission proposes the creation of own resources to finance the CAP and the use of qualified majority voting but France is against it. *Luxembourg Compromise* (1966) resolves this but grants veto power when “very important interests” are alleged.
West European Trade Arrangements in 1960s
The EFTA-7 and the EEC-6 form two non-overlapping circles.
Evolution to Two Concentric Circles

- EEC’s customs union and EFTA’s FTAs completed by 1968
- Discriminatory effects emerge, leading to new political pressures for EFTAs to join EEC
  - Trade diversion creates force for inclusion
  - As EEC enlarges, force for inclusion strengthens
- When UK decides to apply for EEC (1961), 3 other EFTAnss also change their minds.
  - De Gaulle’s ‘non’ (twice)
Evolution to Two Concentric Circles

• First enlargement, 1973 (EEC-9)
  • UK, Denmark, Ireland & Norway admitted (Norwegians say no in referendum).

• Enlargement of EEC reinforces ‘force for inclusion’ on remaining EFTAs.
Two concentric circles

West Europe's Trade Arrangement in mid-1970s

EEC-9

EFTA-7
Euro-pessimism, 1975-1986

• Political shocks:
  – ‘Luxembourg Compromise’ (1966) + enlargement leads to decision-making logjam.

• Economic shocks:
  – Failed monetary integration schemes (Werner).
  – Growing cost of Common Agricultural Policy creates frictions over budget (UK).
  – Failure of deeper integration.
Bright spots

1970 *Luxembourg Accords* (create own resources and VAT and are applied in 1979 with first elections to the EP).

Democracy in Spain, Portugal and Greece.

Greece joins in 1981.

Spain and Portugal join in 1986 after long a difficult accession talks.

EMS set up in 1979 works well.

1984 Budget Treaties (British Check resolves dispute).

1979 Cassis de Dijon decision.

- Challenged validity of national rules that introduce non-tariff barriers to trade.

- Mutual Recognition Principle introduced.
The Single Market Programme

• Early 1980s, loss of economic competitiveness vis-à-vis US and Japan.

• Checchini Report (Report on the Costs of Non-Europe): the completion of the internal market would, over 6 years, increase the GDP of the EC by 5 to 7%, reduce the costs of production by 2% and generate between 2 and 5 million jobs.

• Delors launches completion of the internal market with Single European Act
  – create "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured".

• Important institutional changes, especially move to majority voting on Single Market issues.
Single Market Programme, EC92

- Basic elements
  - Goods Trade Liberalisation
    - Streamlining or elimination of border formalities.
    - Harmonisation of VAT rates within wide bands.
    - Liberalisation of government procurement.
    - Harmonisation and mutual recognition of technical standards in production, packaging and marketing.
  - Factor Trade Liberalisation
    - Removal of all capital controls, and deeper capital market integration.
    - In principle free movement of people.
Domino effect

- Deeper integration in EC-12 strengthened the ‘force for inclusion’ in remaining EFTAns.
- End of Cold War loosened EFTAns’ resistance to EC membership.
- Result of ‘force for inclusion’
  - Membership applications by Norway, Sweden, Finland and Austria (all but Norway become members)
  - EEA – initiative to extend single market to other EFTAs (Norway, Iceland, Liechtenstein – not Switzerland).
- Concentric circles, but both deeper.
Fourth enlargement

- 1994, Austria, Finland, Norway and Sweden admitted (EU-15) (Norwegians again vote no).
Communism’s creeping failure and spectacular collapse

- By the 1980s, Western European system clearly superior due to the creeping failure of planned economies (why do you think they failed?).
- Up to 1980s, Soviets thwarted reform efforts (economic & military pressure).
- Changes in USSR due to inadequacy of economic system.
  - timid pro-market reforms (perestroika).
  - openness (glasnost).
Velvet revolutions in CEECs

– June 1989 Polish labour movement ‘Solidarity’ forced free parliamentary elections & communists lost
  • Moscow accepted new Polish government.

– Moscow’s hands-off approach to the Polish election triggered a chain of events.
  • Reformists in Hungarian communist party pressed for democracy & Hungary opened its border with Austria, 1000s East Germans moved to West Germany via Hungary and Austria.
  • Mass protests in East Germany; Wall falls 9\textsuperscript{th} November 1989.
  • End of 1989: democracy in Poland, Hungary, Czechoslovakia and East Germany (unification in 1990)
German unification and the Euro

• With the fall of the Berlin wall, Jacques Delors proposes 2nd radical increase in European economic integration.
  – the formation of a monetary union.
  – idea championed by French President Francois Mitterrand and German Chancellor Helmut Kohl.
  • Pending 1990 unification of Germany opens door to a ‘grand bargain’ (Mitterrand, Kohl). Germany gives up DM for European Monetary Union & East Germany joins the EU without negotiation.

• Maastricht Treaty, signed 1992
  – Also, sets up EU’s ‘three pillar’ structure.

• ERM exchange rate crises, 1992-1994 (due to German reunification; explain-tight money in Germany means tight money in ERM ms).
USSR collapses

• 1990, Estonia, Latvia and Lithuania – declared their independence from the USSR.
• End of 1991, the Soviet Union itself breaks up.
• Cold War ends without a shot.
• Military division of Europe ended.
EU reacts

• The European Union reacted swiftly to this geopolitical earthquake by providing emergency aid and loans to the fledgling democracies.

• Signing of ‘Europe Agreements’ with newly free nations in Central and Eastern Europe
  – These are free trade agreements with promises of deeper integration and some aid.
Preparing for Eastern Enlargement

• Impending enlargement required EU to reform its institutions

• Four tries:
  – Amsterdam Treaty, 1997
  – Nice Treaty, 2000
  – Lisbon Treaty, 2007,
Amsterdam Treaty

- Failed to reform main institutions
- Tidied up of the Maastricht Treaty
  - Parliament powers boosted (codecision)
  - Flexible integration, ‘closer cooperation’ introduced (a majority must participate and need to respect aquis communautaire)
  - Voting rights can be suspended
- Amsterdam leftovers
  - Voting rules in the Council of Ministers
  - Number of Commissioners
  - Extension of issues covered by majority voting
Nice Treaty

• Reforms of main institutions agreed, but poorly done
  – Council voting rules highly complex and reduce EU’s ability to act with more members
  – No important extension of majority voting
  – No reform of decision making in ECB

• Generally viewed as a failure

• Main changes re-visited in draft Constitutional Treaty, 2003
Constitutional Treaty

• A constitutional convention is set up which proposes a European Constitution which is accepted in an intergovernmental conference in June of 2004
• Improved decision-making rules for Council of Ministers.
• Inclusion of Charter of Fundamental Rights.
Constitutional Treaty’s Problems

• France and Netherlands reject the Constitutional Treaty in referendums in Summer 2005.
• EU leaders suspend the ratification deadline.
• A modified version adopted in Lisbon in 2007 but rejected in an Irish referendum in June 2008. October 2009 accepted in second referendum and only pending ratification in Czech Republic and Poland.
From Copenhagen to EU-27

• EU says CEECs can join the EU (June 1993).
  – Set out famous Copenhagen criteria for membership (soft power).
    • stability of institutions guaranteeing democracy,
    • the rule of law,
    • human rights and respect for and, protection of minorities,
    • the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.

• 5th enlargement in May 2004 (EU-25 soon to become EU-27 in January 2007).
EU-27: The EU Today
Should Turkey be admitted to the EU?

Arguments for:

1. The EU already trades and invests extensively with Turkey and membership would accelerate this to the mutual benefit of the EU and Turkey.

2. Turkey is a crucial ally when it comes to the Middle East as a transitional country between the "east" and the "west". If Europe leaves Turkey alone, USA will have a very strong ally (stronger than the present alliance) in the Middle East, right at the EU border. This is a big problem if EU has future plans of greater direct political influence in the area.

3. Turkey has been coming back and forth between different political ideas and institutions, varying from demands for a religious state to that of a militarist state, a communist state and a liberal state. What EU has to offer can fully convert Turkey into the European democracy that she aims to be in theory. Otherwise, EU will have a highly unstable country right at its border, having a very large army with a political opinion. (examples of Greece, Spain and Portugal and more recently the CEECs). Look at progress reports at http://ec.europa.eu/enlargement/.
Should Turkey be admitted to the EU?

• **Arguments against:**

  1. Is Turkey a European Country? Except for a small section, the country isn't in Europe geographically.
  2. Culturally, the country isn't in Europe, either.
  3. Poor record on human rights (Kurds and other minorities). The Turkish state is based on a whole series of falsehoods, including denial of the Armenian Holocaust and the existence of Kurds in Turkey.
  5. Turkey has a large population, enough to have a significant say in EU politics given she is admitted. Such an impact might jeopardize the union if not developed with the necessary concern for the concept of EU but as an extension of national politics, since Turkey has a strong nationalist root.
  6. The unemployment in Turkey, combined with the young population, might, lead to a mass invasion of Turkish workforce into Europe.
  7. Economic benefits can be harnessed by a looser agreement (customs union).
Should Turkey be admitted to the EU?

• See the report by Katinka Barysch at:
  http://www.cer.org.uk/pdf/essay_economics_turkey_july_05.pdf

• Is the muslim faith compatible with western societies?
  – Market structure: Pecunia non olet and the cultural division of labor.
  – Political or public institutions which recognize the private right to worship but which are secular.