

# Chapter 1





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# History

# Early Post War Period

- A Climate for Radical Change:
  - Facts:

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

# Understanding the climate for radical change

- Images:



Reichstag, 1945



Frankfurter Allee, 1945



Brandenburg Gate





# Understanding the climate for radical change



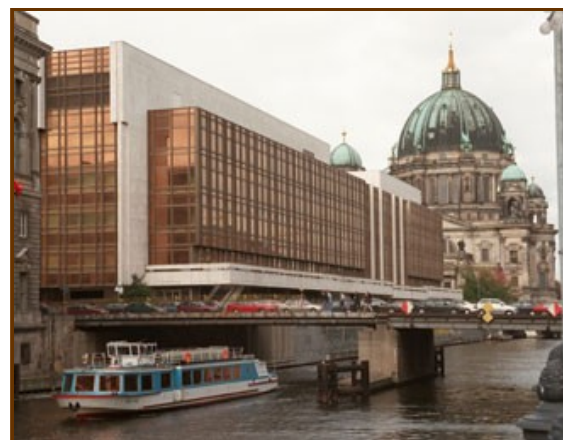
Unter der Linden, 1945



Unter der Linden, 1997



Berlin Cathedral, 1945



Berlin Cathedral, 1997

# Understanding the climate for radical change



Ortona, 1943



Verona 1945



Rotterdam, 1940

# Understanding the climate for radical change



London 1940





# 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
    - 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.
- UK, French and US zones merged by 1948
- 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





East German Guard Towers

Checkpoint Charlie, 1961



# First Steps



- **First Steps: the OEEC and EPU**
  - OEEC and EPU set up in conjunction with Marshal Plan, 1948.
  - OEEC coordinated aid distribution and prompted trade liberalisation.
  - EPU facilitated payments and fostered trade liberalisation.
  
- **New view: trade liberalisation could be pro-growth and pro-industrialisation.**

# Need for deeper European integration



- As Cold War got more war-like, West German rearmament became necessary.
  - 1949, Fed'l Rep. of Germany established.
  - But strong and independent Germany was a scary thought for many, including many Germans.
  - Widespread feeling: best to embed an economically and militarily strong W. Germany in European superstructure.
  - Problem: Many thought OEEC was too loose to avoid future war among Western European powers.

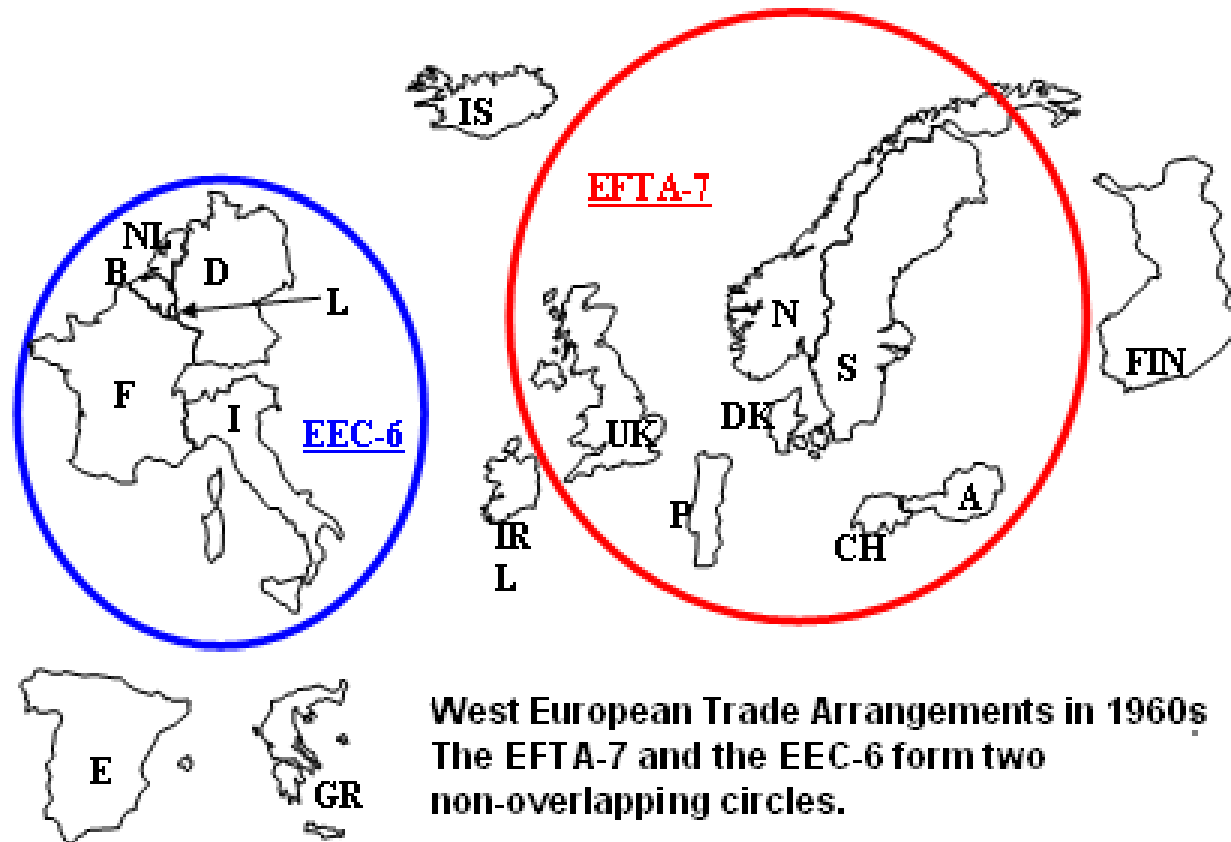
# Two strands of European integration



- **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**
  - ECSC (1951), EEC (1958)



# 1960-1973, two non-overlapping circles



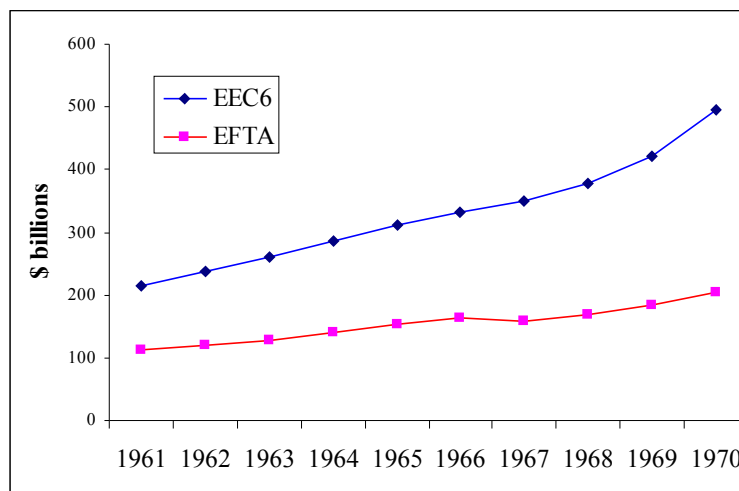
**West European Trade Arrangements in 1960s**  
The EFTA-7 and the EEC-6 form two non-overlapping circles.

# Evolution to Two Concentric Circles



- Preferential liberalisation in EEC and EFTA proceeded
  - (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
- EEC market bigger & growth faster.
  - Important discrimination facing EFTA exporters.

## Market Size (GDP) EEC vs EFTA, 1960-70.

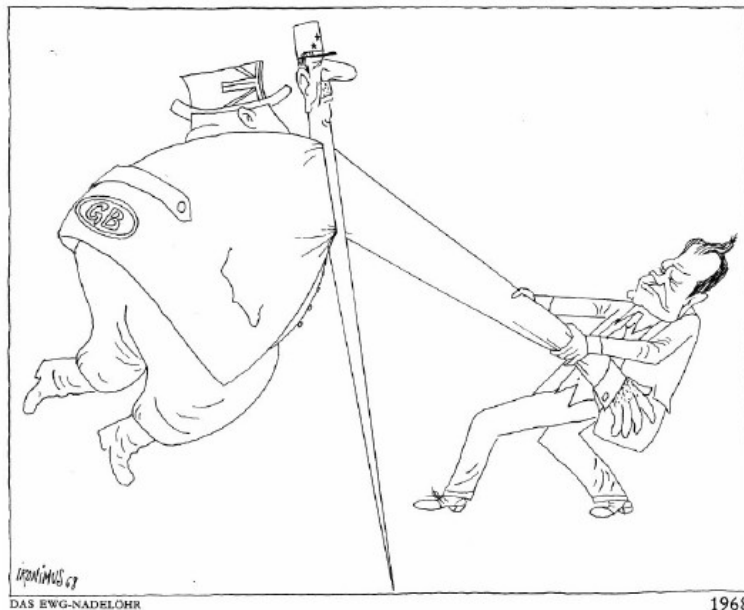


Source: "A test of endogenous trade bloc formation theory on EU data," Richard Baldwin and Roland Rieder, **Journal of International Economic Studies**, December 2007.

# Evolution to Two Concentric Circles

- UK government changes mind & applies in 1961.
  - EEC7 would have meant discrimination in an even larger market, so 3 other EFTAs also changed their minds after the UK decided to apply.
- De Gaulle's 'non' (twice).

German Chancellor Willy Brandt trying to get the UK into the EEC past the objections of French President Charles de Gaulle.



Source: [www.ena.lu](http://www.ena.lu)



# Evolution to Two Concentric Circles

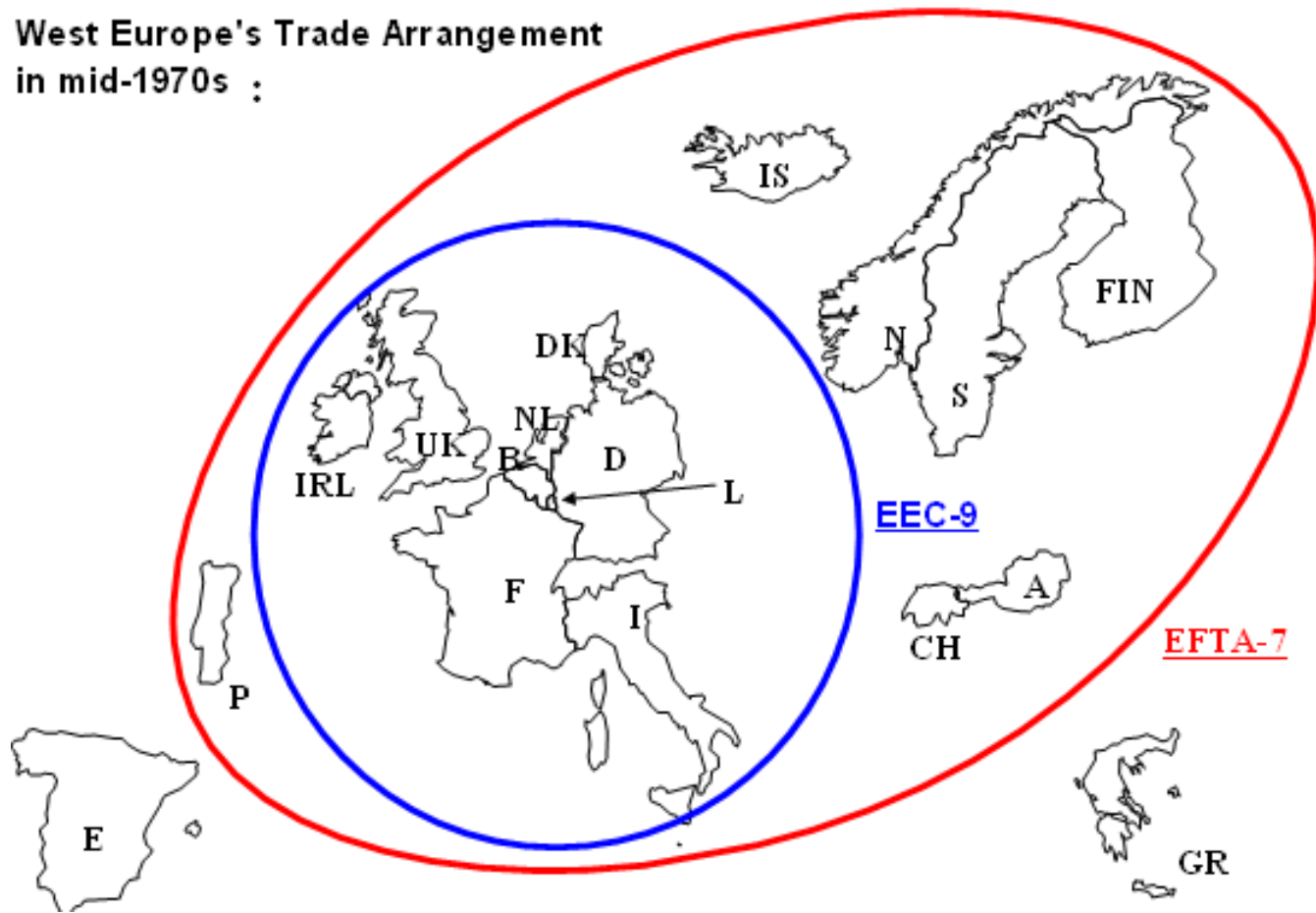


- First enlargement, 1973
  - UK, Denmark, Ireland & Norway admitted (Norwegians say no in referendum)
- Enlargement of EEC reinforces ‘force for inclusion’ on remaining EFTAs
  - To avoid new discrimination as UK, DK & Ire join EEC customs union, remaining EFTAs sign FTAs with EEC-9.
- Why weren’t the FTA’s signed before?
  - Domino-like affect of lowering barriers.

# Two concentric circles



West Europe's Trade Arrangement  
in mid-1970s :



# Euro-pessimism, 1975-1986

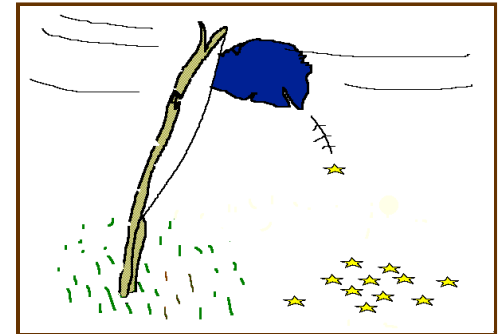


- Political shocks:

- ‘Luxembourg Compromise’ (1966) + enlargement leads to decision-making jam.
- Plans for extensive economic integration promised in Treaty of Rome postponed (approximation of laws, monetary integration (Warner Plan)), etc.

- Economic shocks:

- Bretton Woods falls apart, 1971-1973.
  - Failed EEC monetary schemes (except within DM bloc).
- 1973 and 1979 oil shocks with stagflation.
- Growing cost of Common Agricultural Policy creates frictions over budget (especially with the UK).



# Bright spots



- 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.
- Budget Treaties (1970, 1975).
- 1979 Cassis de Dijon decision built on 1974 Dassonville ruling.
  - Challenged validity of national rules that introduce non-tariff barriers to trade.
  - “Mutual recognition” principle introduced.



# Deeper circles: single market programme



- Mutual recognition as threat to national regulatory control; race to bottom?
- How to put member gov't back in charge?
- 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.
  - Mutual recognition is disciplined by minimum harmonisation
  - More efficient decision making procedures allow agreement on min. standards "New Approach" Directives.

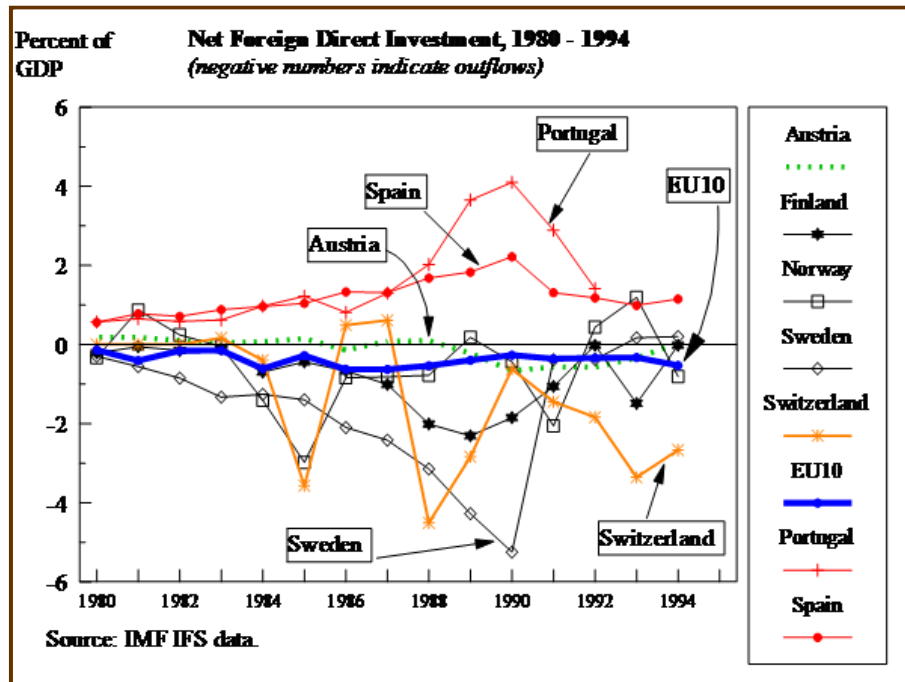
# Single Market Programme, EC92



- 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
    - Liberalisation of cross-border market-entry policies,

# Domino effect, part II

- Deeper integration in EC-12 strengthened the 'force for inclusion' in remaining EFTAs.
  - EFTA nations saw FDI outflows.
- End of Cold War loosened EFTAs' resistance to EC membership.



# Domino effect, part II

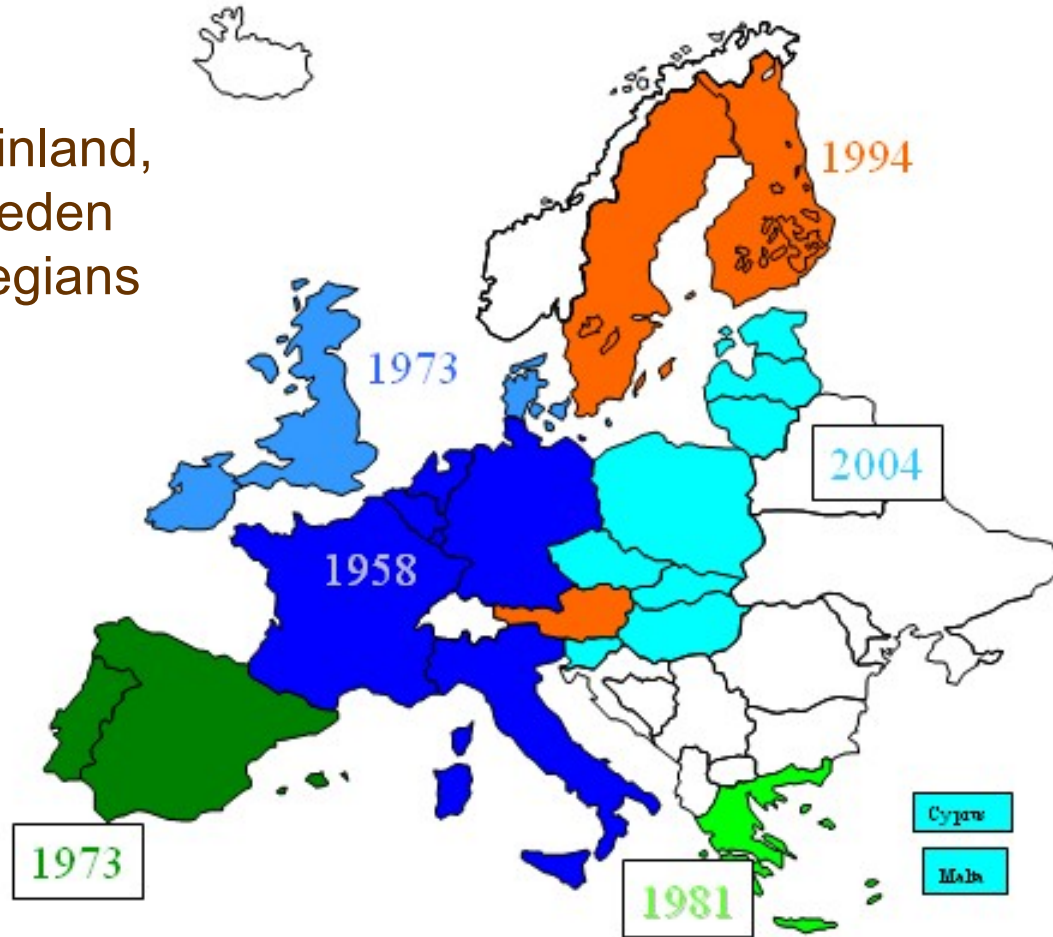


- As before, new ‘forces for inclusion’  $\Rightarrow$  domino effect.
  - EEA – initiative to extend single market to EFTAs.
  - Membership applications by all EFTAs except Iceland.
- Concentric circles, but both deeper.



# Fourth enlargement

1994, Austria, Finland, Norway and Sweden admitted (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.
- Up to 1980s, Soviets thwarted reform efforts (economic & military pressure).
- Changes in USSR due to inadequate 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.
  - Reformist 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<sup>th</sup> November 1989.
  - End of 1989: democracy in Poland, Hungary, Czechoslovakia and East Germany (unification in 1990).





# USSR collapses

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



# EU reacts



- EU reacted swiftly with emergency aid and loans to the fledgling democracies.
- Signing of 'Europe Agreements' with newly free nations in Central and Eastern Europe.
  - These were free trade agreements with promises of deeper integration and some aid.
  - At first, no promise of eventual membership.

# From Copenhagen to Copenhagen



- EU says CEECs can join the EU (June 1993).
  - Set out famous Copenhagen criteria for membership.
    - 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.
- Copenhagen summit December 2002 says 10 CEECs can join in 2004.
- 5<sup>th</sup> enlargement in May 2004



# German unification & Maastricht



- 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.
- Jacques Delors proposes 2<sup>nd</sup> radical increase in European economic integration.
  - Formation of a monetary union.
  - Idea championed by French President Francois Mitterrand and German Chancellor Helmut Kohl.
- Maastricht Treaty signed 1992.
  - Monetary union by 1999, single currency by 2002.
  - Sets up EU's 'three pillar' structure to reduce EU's 'competency creep'
- ERM exchange rate crises, 1992-1994.
  - Convinces some to abandon monetary union (UK, Sweden); convinces others of absolute necessity of one money (France, Italy, Greece, etc.)



# Preparing for Eastern Enlargement

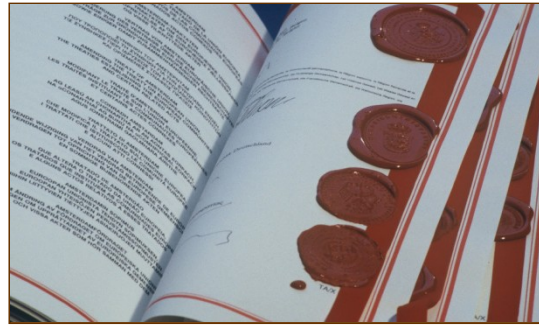


- Impending enlargement required EU to reform its institutions



- Five tries:
  - Amsterdam Treaty, 1997.
  - Nice treaty, 2000.
  - draft Constitutional Treaty, 2003.
    - Reconsidered by IGC 2003
  - Constitutional Treaty, June 2004.
  - Reform Treaty, 2007.

# Amsterdam Treaty



- Failed to agree main reforms set out as the goal for the Amsterdam Treaty.
- Tidied up the Maastricht Treaty
  - More social policy, Parliament powers modestly boosted.
  - flexible integration, ‘closer cooperation introduced.’
- Could not agree on reform of Commission, reform of Council voting rules, or on list of areas to move to QMV, so we had the “Amsterdam leftovers”:
  - voting rules in the Council of Ministers,
  - number of Commissioners,
  - Extension of issue 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.
  - Make shift solution for Commissioners.
  - No reform of decision making in ECB.
- Generally viewed as a failure.
  - This is what is in force in 2009 and will stay in force until Reform Treaty is passed.
- Main changes re-visited in draft Constitutional Treaty, 2003

# European Convention

- 1 year after Nice Summit, EU leaders admit Nice Reforms are not enough.
  - They ask for reform of the Nice reforms even before the Nice reforms have been tried. (Especially Council voting rules.)
- They agree “Laeken Declaration” and set up “European Convention” to outline a new Treaty.
- Convention decided to write a “Constitution”:
  - Run by former French Pres Valery Giscard d’Estaing.





# Constitutional Treaty

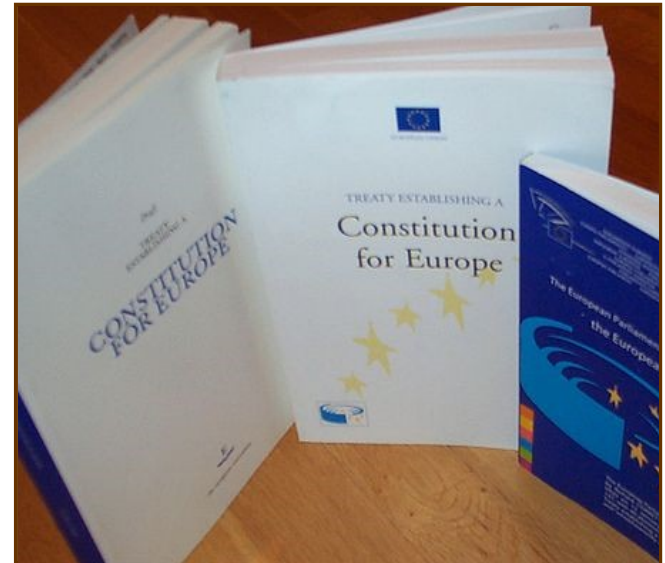
- Improved decision-making rules for Council of Ministers & slightly more majority voting.
  - Switch weighted voting to double majority (Chapter 3).
- Inclusion of Charter of Fundamental Rights.

- Other things where CT not strictly required:

- Many 'gestures' (flag, anthem, single document instead of Treaty of Rome and Maastricht Treaty, etc.) and tidying up (renumber articles, eliminate archaic provisions, etc.).

- Moves towards more coherent foreign policy decision making.

- Many de facto points turned into de jure (e.g. supremacy of EC law).





# Rejection

- France & Netherlands reject Constitutional Treaty in referendums in Summer 2005.
- EU leaders suspend the ratification deadline.



# Reform/Lisbon Treaty

- Under German EU Presidency (2007) EU leaders decide still need to reform the Nice rules to keep the enlarged EU operating efficiently and legitimately.
- Constitutional Treaty declared dead & outline of replacement agreed, the Reform Treaty, also known as the Lisbon Treaty (where it was signed by leaders in 2007).
  - 50<sup>th</sup> Anniversary of the EU.



# Reform Treaty

- Much of CT taken up in Reform Treaty.
  - But framed as a reform of Treaty of Rome & Maastricht Treaties, so very hard to read.
- Different form & no symbols of statehood.
- Goal was to avoid referendums without changing the substance





# Irish reject Reform Treaty

- June 2008, Irish voters reject Reform Treaty in a referendum (which is mandatory under Irish Constitution).



# Next steps



- EU leaders made some promises to Irish government and the Irish government will hold a second referendum in autumn 2009.
- Future of the Treaty is uncertain.

