

# Stagnation and Renewal

## The Single European Act and Maastricht

### CHAPTER OVERVIEW

- After the Treaty of Rome the EU went through several rounds of enlargement, taking in the UK, Ireland, and Denmark in the 1960s, and Greece, Portugal, and Spain in the 1980s. Yet overall movement toward deeper economic and political integration stalled significantly during the 1960s and 1970s as member states sought to retain their own autonomy and prerogatives.
- The revitalization of the European project received its most significant impetus in more than a decade with the creation of the European Monetary System (EMS), which aimed to coordinate macroeconomic policies and regulate exchange rates, and the Single European Act (SEA), whose goal was the completion of the single market.
- Meanwhile, the sudden fall of communism in Eastern Europe and the Soviet Union from 1989 to 1991 caused a dramatic shift in direction for the EU. While the logic of economic integration embodied by the EMS and SEA was already propelling it toward a common currency, anxieties about the direction of Germany after the fall of the Berlin Wall moved the EU to take steps toward political union. The result was the historic Treaty on European Union – popularly known as the Maastricht treaty – which set a timetable for a common currency (the euro) and deepened political integration.

With the signing of the Treaty of Rome in 1958, the new European Economic Community (EEC) aimed to create a Western European internal market encompassing the free movement of people, goods, money, and services. Although in the 1960s and 1970s achieving this goal remained far in the future, the EEC nevertheless made tremendous progress in abolishing internal tariffs, building a single market for agricultural goods, and acting as a unified trade bloc in international trade negotiations. Rome's kick-start to economic integration also attracted new members: a first wave of enlargement added the UK, Denmark, and Ireland in the early 1970s, and a second wave in the 1980s added Greece, Spain, and Portugal.

However, moves toward fuller economic – not to mention political – integration were not as swift nor as straightforward as many European enthusiasts would have liked: the deepening of the European project appeared to stagnate during the 1960s and 1970s, plagued by member states' economic problems and reluctance to cede sovereignty on crucial economic issues. Yet economic risk created new opportunities and initiatives, and these materialized in the form of the EMS – designed to help coordinate the macroeconomic policies of member states – and the SEA, which sought the completion of a single market for the European Community by December 31, 1992. The SEA expanded the policy reach of European institutions and broke down some of the most difficult physical, fiscal, and technical obstacles to trade.

As economic integration continued to develop in the 1980s, the fall of communism across Eastern Europe and the Soviet Union galvanized greater political integration. The rapid implosion of communist power in the German Democratic Republic (East Germany) led inexorably to the question of German reunification, a prospect that alarmed many in Europe (including, most notably, the UK's Margaret Thatcher). Yet as a new unified Germany emerged, the German chancellor, Helmut Kohl, and French prime minister, François Mitterrand, took steps to anchor it more firmly in the West through the introduction of a common currency, the euro, and a fuller political integration with the creation of a "European Union." The result was the Treaty on European Union or Maastricht treaty, the most important EU treaty since Rome.

## INTEGRATION TAKES ROOT (1958–1968)

Given the long history of inter-European hostilities and war, the integration of six Western European states under the auspices of the European Coal and Steel Community (ECSC), the EEC, and Euratom was a conspicuous achievement. There are barriers to the single market even today, but internal tariffs fell quickly enough in the early years of the EEC to allow the Six to agree on a common external tariff in July 1968 and to declare an industrial customs union. The single market expanded with the reduction of nontariff barriers to the movement of goods across borders (for example different technical or health and safety standards) during the 1960s and 1970s. Quota restrictions fell and huge gains in trade and productivity were made. It was, in economist Barry Eichengreen's view, "a golden age of growth" for the EEC.<sup>1</sup>

Other achievements burnished this "golden age":

- A fundamental goal of the Treaty of Rome had been agreement on a Common Agricultural Policy (CAP), which was achieved in 1968 with the acceptance of a watered-down version of a plan drawn up by the agriculture commissioner, Sicco Mansholt.<sup>2</sup> Its goals were to create a single market for agricultural products and to assure EEC farmers guaranteed prices for their produce. Although CAP initially encouraged both production and productivity, it was the largest single item in the budget and became enormously controversial (see Chapter 13).
- Under the Common Commercial Policy agreed to by the Treaty of Rome, the Six worked closely together on international trade negotiations and enjoyed influence they would not have had negotiating individually. The EEC acted as one, for example, in the Kennedy Round of General Agreement on Tariffs and Trade (GATT) negotiations during the mid-1960s and in reaching preferential trade agreements with eighteen former African colonies under the 1963 Yaoundé Convention (see Chapter 16).<sup>3</sup>
- Decision making was streamlined in April 1965 with the treaty establishing a Single Council and a Single Commission of the European Communities (the Merger Treaty). The decision-making process was fine-tuned further by the formalization in 1975 of regular summits of Community leaders coming together as the European Council (see Chapter 6). The EEC was finally made more democratic with the introduction in 1979 of direct elections to the European Parliament.

But there were serious problems as well. Even Jean Monnet had warned that "Europe will be established through crises and ... the outcome will be the sum of the outcomes of those crises."<sup>4</sup> The failure of the European Defence Community and the European Political

Community had been early blows, but this was the result of a common core problem – excessive ambitiousness. Then came the “empty chair” crisis of 1965, whose structural implications were more worrying because they showed how far some member states were prepared to go to protect national interests.

At the heart of this crisis were French president Charles de Gaulle’s attempts to discard the supranational elements of the Treaty of Rome and to build a Community dominated by France.<sup>5</sup> Several sparks set off the conflagration: demands from the European Parliament for more power, the fact that decision making by majority vote on certain issues in the Council of Ministers was scheduled to come into force on January 1, 1966 (thereby taking away the national veto), and a proposal by the European Commission that it replace its reliance on national contributions from EEC members with an independent source of income – seen as urgent to the challenges of financing CAP.

All these developments smacked of excessive supranationalism to the French, who insisted that EEC funding continue to come from national contributions, at least until 1970. The other five states disagreed, so in June 1965 France began boycotting meetings of the Council of Ministers, preventing any decisions from being made on new laws and policies. De Gaulle even went so far as to cast doubts on the future of the EEC unless the national veto was preserved. The crisis ceased only with the January 1966 Luxembourg Compromise (actually an agreement to disagree), by which the voting procedure in the Council of Ministers was changed. Unanimity remained the ideal, but members would be allowed to veto matters they felt adversely affected their national interests. This curbed the growth of the powers of the Commission, the European project’s most ardent champion, and shifted more power into the hands of the member states (in the form of the Council of Ministers). This development, along with sagging economic fortunes and blows to the postwar welfare state across Europe in the 1970s, was to stall much of the forward momentum of the EU for well over a decade.

## THE ROLE OF THE US

At the outset the US backed the idea of European integration. President John F. Kennedy announced in 1962 that the US looked on “this vast new enterprise with hope and admiration” and viewed Europe not as a rival but as “a partner with whom we can deal on a basis of full equality.”<sup>6</sup> For the US, the Community not only promised valuable new trading opportunities, but might also help integrate West Germany into a peaceful Western Europe, improve Western Europe’s prospects of standing up to the Soviets, and fortify the transatlantic community.<sup>7</sup> But in spite of the public show of transatlantic solidarity, there were transatlantic disagreements as well, and these sticking points contributed eventually in their own way to European integration. Western Europeans pondered the motives and implications of US foreign policy, and some were moved to question the prospects for real transatlantic agreement on key international problems.<sup>8</sup>

Early doubts had been raised by the Korean War. Europeans had initially been heartened at the US-led invasion to expel North Korean invaders from the South, but were then alarmed by the invasion of the North, which prompted an intervention by China and threatened to generate Soviet hostility. Following that came Suez, which saw the US at odds with the UK and France over the shape of the postwar international system. Then a series of events in the 1960s and 1970s rattled Europeans again, underscoring transatlantic policy differences and further convincing many Europeans of the need for the Community to develop policy independence from the US:

- When the Berlin wall was built in 1961, cutting off the Soviet-controlled east from the Allied-controlled west, Europeans were disappointed that the Kennedy administration did not take stronger action against the Soviets.
- In October 1962 the world teetered on the brink of the nuclear abyss during the Cuban missile crisis, when the US made decisions with little reference to their European NATO partners.<sup>9</sup>
- The mid-1960s saw an escalation of the war in Vietnam, and it was the US's turn to be disappointed in Europe: the Johnson administration hoped for political and military support from Europe but received none, and public demonstrations against the war were loud and vociferous in Western Europe; a 1967 poll found 80 percent of Europeans critical of US policy.<sup>10</sup>
- Finally, when the Nixon administration suspended the convertibility of the US dollar against gold in 1970 and then severed the link altogether in 1971 – in both cases without reference to the Europeans – even pro-American European leaders began to argue that Europe needed to unite in order to protect its interests.<sup>11</sup>

Despite these misgivings, however, and with the exception of anti-Vietnam demonstrations, European criticism of US policy was mostly muted. Still, Europeans wondered how much they could rely on the Americans, and the Americans felt slighted at how often the Europeans seemed unwilling to understand or support the American view of the world and its major threats. The disputes were to continue to grow – over the Middle East, over détente with the Soviets, and over nuclear weapons. The doubts sown in the 1960s and 1970s eventually exploded into the open in 2003, when the US invaded Iraq, and a newly assertive France and Germany made their opposition public (see Chapter 16).

Perhaps the most telling indicator of the changing transatlantic balance was the growing assertiveness of the Community as a global trading power. Progress on the single market may have been limited, there may have been difficulties with making agricultural policy work efficiently, and the road to economic and monetary union may have been bumpy, but on the trade front the Community was making great strides, and no country felt the effects more than the US. The Common Commercial Policy (CCP, see Chapter 15) meant strength through unity; the Six (and later, the Nine) wielded their combined powers and resources with considerable effect in the meeting chambers of GATT.<sup>12</sup> The Community and the US were each other's biggest trading partners and biggest sources of foreign investment, and they would ultimately become each other's biggest commercial competitors. Conflicts ignited between the two sides over agricultural exports, the steel industry, government subsidies, and concerns from the US about the rise of Fortress Europe, a unified trading bloc with external barriers working against US trade interests.<sup>13</sup>

## **ENLARGEMENT: LOOKING NORTH AND SOUTH (1960–1986)**

The march toward progress in the European project received more momentum with a further growth in Community membership. The idea of enlargement was never far from the minds of its leaders since there was a limit to how much the EEC could achieve with just six members. The country most obvious by its absence was the UK – still Western Europe's major power – but although Churchill had been a champion of European integration during both the war and his years in opposition (1945–1951), neither the Labour government that ousted him in 1945 nor he, upon his return to office in 1951, took this philosophy any

further. The UK still saw its interests lying with its empire and with the US, but the argument that joining the EEC might threaten its special relationship with the US was undermined by US support for the idea of a European Community.<sup>14</sup> Few in the UK government felt that the EEC had much potential;<sup>15</sup> but then came Suez, which finally shattered the UK's nostalgic idea that it was still a great power and shook the foundations of the Anglo-American relationship.

After being diverted briefly by its creation of EFTA, the European Free Trade Association (see Box 3.1), the UK began negotiating with the Six in early 1962, as part of a package deal that included Denmark, Ireland, and Norway. Denmark's motives for EEC membership were agricultural: it was producing three times as much food as it needed, and much of that was being exported to the UK. Furthermore, the EEC would be a big new market for Danish agricultural surpluses and foster Danish industrial development. Ireland saw the EEC as a potential boost for its industrial plans and as a means to reduce its reliance on agriculture and on the UK. Norway followed the UK's lead, owing to the importance of EEC markets.

### Box 3.1 EFTA: An Escape Route for Brexit?

Dean Acheson, US secretary of state during the Truman administration, described the UK's decision not to negotiate on membership in the ECSC as its "great mistake of the postwar period."<sup>16</sup> Certainly it began a tradition of the UK dragging its feet on Europe and its overall ambivalent attitude toward the EEC and later the EU. But at this time it was not entirely alone in its reticence: several countries supported an early effort by the UK to organize an alternative to the EEC that would champion free trade without economic and political integration.

To that end, in January 1960, EFTA was founded with the signing of the Stockholm Convention by Austria, the UK, Denmark, Norway, Portugal, Sweden, and Switzerland. Membership in EFTA was voluntary (unlike the contractual arrangements set up for the EEC by the Treaty of Rome), and EFTA had no political goals and no institutions beyond a Council of Ministers that met two or three times a year and a group of permanent representatives serviced by a small secretariat in Geneva. Though EFTA helped cut tariffs it achieved relatively little over the long term. Several of its members did more trade with the EEC than with their EFTA partners, and questions surfaced about the UK's motives in pursuing the EFTA concept. It was a marriage of convenience, created to prove a point about the relative merits of a looser free trade arrangement with low tariffs.

It soon became clear that political influence in Europe lay with the EEC and that the UK risked political isolation if it stayed out. The continent had made impressive economic and political progress, and UK industry wanted access to the rich European market.<sup>17</sup> So in August 1961, barely fifteen months after the creation of EFTA, the UK applied for EEC membership at the same time as Denmark and Ireland. They were joined by Norway in 1962. With three of its seven members now trying to defect, EFTA lost much of its relevance, so the rest of its members – Austria, Portugal, Sweden, and Switzerland – all applied for associate membership in the EEC, followed by Malta and Spain. Today, EFTA comprises just four members: Iceland, Liechtenstein,<sup>18</sup> Norway, and Switzerland. However, in 1990, negotiations began on the creation of the European Economic Area (EEA), under which the remaining EFTA members would be extended the terms of the SEA (see below), in return for which

they would accept the rules of the single market. The proposal made economic sense, given that 55 percent of EFTA exports went to the EC and 26 percent of EC exports went to EFTA.<sup>19</sup> All EFTA states joined the EEA, with the exception of Switzerland.

Curiously, EFTA has gained new visibility as a possible post-Brexit destination for the UK. For supporters, rejoining EFTA would keep the benefits of a single market, since EEA signatories enjoy a special trade relationship with the EU. Opponents have pointed out that joining EFTA and the EEA would continue to bind the UK to most EU rules (including those concerning the free movement of people) and require it to contribute money to support EU programs – all this without a seat at the EU decision-making table. Whether the UK will ultimately seek EFTA membership, after Brexit it will automatically be outside the EU, EFTA, and the EEA – for the time being, at least, an isolated trade partner within Europe.

UK membership seemed set for success, but then its application was tripped up by Charles de Gaulle, an Anglophobe who had plans for an EEC built around a Franco-German axis. He saw the UK as a rival to French influence in the EEC, and resented the UK's lukewarm response to the early integrationist moves of the 1950s. He also felt that UK membership would cede too much influence to the US in Europe, a concern that seemed to be confirmed at the end of 1962 when the UK accepted the US offer of Polaris missiles as delivery vehicles for the UK's nuclear warheads. For his part, Monnet was eager for UK membership and even tried to convince West German chancellor Konrad Adenauer by suggesting that he refuse to sign a Franco-German Friendship Treaty unless de Gaulle accepted the UK's application. But Adenauer thought that the development of the Franco-German axis was key, and had a close relationship with de Gaulle.<sup>20</sup>

In the space of just ten days in January 1963, de Gaulle vetoed the UK's application and signed the treaty with Germany. He upset the UK and some of his own EEC partners by reaching the veto decision unilaterally and making the announcement at a press conference in Paris. Since the UK's application was part of a package that included those of Denmark, Ireland, and Norway, they were turned down as well. Undeterred, the UK applied again in 1966 and was vetoed for a second time by de Gaulle, who was still worried about the influence within the EEC that UK membership would afford to the US, and also keen to ensure that French interests in the CAP were not undermined. Following de Gaulle's resignation as president of France in 1969, the UK applied for a third time, and this time its application was accepted, along with those of Denmark, Ireland, and Norway. Following membership negotiations in 1970 and 1971, the UK, Denmark, and Ireland finally joined the EEC in January 1973; Norway would have joined also, but a Norwegian public referendum in September 1972 narrowly went against membership, thanks mainly to the concerns of farmers and fishing communities. The Six had now become the Nine.

A second round of enlargements, which came in the 1980s, pushed the borders of the EEC farther south. Greece had made its first overtures to the EEC during the late 1950s but was turned down on the grounds that its economy was too underdeveloped. It was given associate membership in 1961 as a prelude to full accession, which might have come sooner had it not been for the Greek military coup of April 1967. With the return to civilian government in 1974, Greece applied almost immediately for full membership. Though the Commission felt that Greece's economy was still too weak, the Greek government responded that EEC membership would strengthen its attempts to rebuild democracy. The Council of Ministers agreed, negotiations opened in 1976, and Greece came aboard in January 1981.



**MAP 3.1** Growth of the EU, 1952–1986.

Portugal and Spain had requested negotiations for associate membership in 1962, but both were dictatorships. Although the EEC treaty said that “any European State may apply to become a member of the Community,” democracy was, in practice, a basic precondition. Spain received a preferential trade agreement in 1970 and Portugal in 1973, but only with the overthrow of the Marcelo Caetano regime in Portugal in 1974 and the death of Francisco Franco in Spain in 1975 was the possibility of EEC membership for the two states seriously considered. Despite their relative poverty, problems over fishing rights, and concerns about Portuguese and Spanish workers moving north in search of work, the EEC felt that membership would nurture democracy in the Iberian Peninsula and help link the two countries more closely to NATO and Western Europe. Negotiations

opened in 1978 and 1979, and Portugal and Spain joined the club in January 1986, bringing EEC membership to twelve.<sup>21</sup>

The doubling of the membership of the EEC had several political and economic consequences: it increased the international influence of the EEC (which was now the largest economic bloc in the world), complicated the Community's decision-making processes, reduced the overall influence of France and Germany, and – by bringing in the poorer Mediterranean states – altered the internal economic balance. Rather than enlarging any farther, it was deemed time to strengthen the relationships among the existing twelve members. Applications ensued by Turkey (1987), Austria (1989), and Cyprus and Malta (1990) and although East Germany entered through the back door with the reunification of Germany in October 1990, there was to be no further enlargement until 1995.

## **TOWARD ECONOMIC AND MONETARY UNION (1969–1993)**

The Treaty of Rome had mentioned the need to “coordinate” economic policies but had given the Community no specific powers to ensure this result, and coordination in practice meant little more than “polite ritualistic consultation.”<sup>22</sup> Proposals to go further went head to head with concerns about loss of national sovereignty, and EEC leaders disagreed about whether to move first on economic union (the coordination of economic policies) or on monetary union (the creation of a single currency).<sup>23</sup> Following agreement on the principle of economic and monetary union (EMU) at a 1969 summit of EEC leaders at The Hague, it was decided to move on the economic and monetary fronts simultaneously, with the achievement of fixed exchange rates in stages by 1980.<sup>24</sup> The Six accordingly agreed to work to hold exchange rates steady relative to one another and to maintain the value of national currencies within  $\pm 2.25$  percent of the US dollar in a structure colorfully known as the “snake in the tunnel” (a reference to the way values could go up and down within a defined band). They would meanwhile make more effort to coordinate national economic policies, with their finance ministers meeting at least three times annually.

The timing for this decision could not have been worse. The snake was launched in April 1972, just eight months after the Nixon administration took the US off the gold standard, ending the Bretton Woods era of fixed exchange rates. Nixon blamed the problems of Bretton Woods largely on the protectionism of the Community and its unwillingness to take more responsibility for the costs of defense, when in fact the inflationary effects on the US economy of the war in Vietnam were chiefly to blame.<sup>25</sup> The end of Bretton Woods brought international monetary turbulence, which was amplified in 1973 by an international energy crisis. In their anxiety to control inflation and encourage economic growth, several EC member states abandoned the snake: the UK, Denmark, and Ireland fled within weeks of joining; France refused to join, then joined, then left in 1974, then rejoined in 1975, then left again.<sup>26</sup>

A new approach emerged in March 1979, mainly on the initiative of the new West German chancellor, Helmut Schmidt, who was upset with the failure of the Carter administration in the US to take action to strengthen the dollar.<sup>27</sup> The EMS replaced the snake with an Exchange Rate Mechanism (ERM) (operating on a similar basis) founded on a European currency unit (ECU). The goal of the EMS was to create a zone of monetary stability, with governments moving to keep their currencies as stable as possible relative to the ECU, whose value was calculated on the basis of a basket of national currencies, weighted according to

their relative strengths (the deutschmark made up nearly 33 percent, the French franc nearly 20 percent, the Dutch guilder 10 percent, and so on). The hope was that the ECU would become the go-to means of settling international debts between EC members, psychologically preparing them for the eventual introduction of a single currency.

EMU advanced further in 1989 with the elaboration by Commission president, Jacques Delors, of a three-stage plan:

- 1 The establishment of free capital movement and greater monetary and economic cooperation between the member states and their central banks
- 2 Greater cooperation among central banks, close monitoring of the EMS, and coordination of the monetary policies of the member states
- 3 The fixing of exchange rates and the creation of a single currency.<sup>28</sup>

European leaders approved the plan in June 1989, and it was later agreed that member states would have to meet several economic “convergence criteria” (including low inflation and interest rates) before they could adopt the single currency. If at least seven states met the criteria, a date would be set for stage three: the establishment of a European Central Bank responsible for setting monetary policy, thus paving the way for the single currency. The plan was easier said than done, however, and several member states found that the effort of controlling exchange rates caused their economies to overheat. Subsequently, several exchange rate realignments were made to help member states build monetary stability, but turbulence in world money markets escalated in the early 1990s, and the deutschmark came under pressure following German reunification in October 1990.<sup>29</sup> In 1992 and 1993, the ERM came close to collapse: the UK and Italy joined, then pulled out, and Ireland, Portugal, and Spain devalued their currencies. Clearly, monetary union was still a rough work in progress.

## **COMPLETING THE SINGLE MARKET: THE SINGLE EUROPEAN ACT (1983–1993)**

At the heart of the Treaty of Rome lay the goal of building a single market that would pave the way for the “four freedoms”: the free movement of people, money, goods, and services. Despite progress during the 1960s, nontariff barriers persisted, including different technical standards and quality controls, different health and safety standards, and different levels of indirect taxation. Progress in the 1970s was handicapped by inflation and unemployment and by the temptation of member states to protect their home industries.<sup>30</sup> European corporations also faced mounting competition from the US and Japan, particularly in new technology. As a counter measure, a decision was made in 1983 to revisit the single market project. A 1985 intergovernmental conference convened to discuss the necessary steps (see Box 3.2), and a Commission study (the *Cockfield Report*) listed 282 pieces of legislation that would need to be agreed to and implemented in order to remove all remaining nontariff barriers and create a true single market.<sup>31</sup>

The result was the SEA, which was signed in Luxembourg in February 1986 and came into force in July 1987. The first formal expansion of Community powers since the Treaty of Rome,<sup>32</sup> its goal was to complete the single market by midnight on December 31, 1992, by creating “an area without internal frontiers in which the free movement of goods, persons, services and capital is assured.” As well as relaunching “Europe” and building the single biggest market and trading bloc in the world, the SEA brought many more specific changes:

### Box 3.2 Outside the Lines: Intergovernmental Conferences in the EU

One of the key intergovernmental qualities of the EU can be found in the convening of summit meetings at which representatives of the member states discuss and reach decisions on broad strategic matters. Known as intergovernmental conferences (IGCs), these take place outside the institutionalized decision-making framework of the EU, typically over a period of weeks or even months. Depending on how they are defined, there have been as many as a dozen IGCs since 1950, but the most important have all been held since 1985.

The first IGC took place between June 1950 and March 1951 and focused on plans for the ECSC. Chaired by Jean Monnet, it led to the signing in April 1951 of the Treaty of Paris. The second IGC – which began in Messina, Sicily, in June 1955 and ended in Venice in May 1956 – led to the signing in March 1957 of the two Treaties of Rome, creating the EEC and Euratom. Several more IGCs were convened in the 1960s and 1970s, all dealing with more limited issues: a one-day IGC in April 1965 led to the Merger Treaty, another in 1970 discussed budgetary issues, and another in 1975 discussed the terms of the European Investment Bank.<sup>33</sup>

It was not until 1985 that the next substantial IGC was launched. Concerned about the lack of progress on integration and Europe's declining economic performance in relation to the US and Japan, representatives of the Nine met between September 1985 and January 1986, discussing and agreeing on the framework of the SEA. Two more IGCs took place during 1991 to examine political and monetary union, paving the way for the signature in 1992 of the Treaty on European Union.

Institutional reform and preparations for eastward enlargement were the top priorities of IGCs in 1996, 1997, and 2000, which resulted in agreement on the treaties of Amsterdam and Nice. Another IGC was convened in mid-2007 to discuss the content of the new Lisbon treaty in the light of the failure in 2005 of the Constitutional Treaty. In every case, the IGCs have been negotiated by national government ministers and permanent representatives, and so they continue to highlight the extent to which decision making on the EU's big initiatives still rests with the member states.

- The Community was given responsibility over new policy areas, such as the environment, research and development, and regional policy, and qualified majority voting in the Council of Ministers was extended to most areas of the single market.
- New powers were handed to the European Court of Justice, whose workload was eased by the creation of the Court of First Instance.
- Legal status was granted to meetings of heads of government under the European Council and to Community foreign policy coordination.
- Parliament was given more power relative to the Council of Ministers.
- Many internal passport and customs controls were eased or lifted and with the adoption of the separate Schengen agreement in 1985 (see Chapter 12) border checks were eliminated.
- Banks and companies enjoyed new freedoms to do business and sell their products and services throughout the Community.
- Protectionism was outlawed, and monopolies on everything from the supply of electricity to telecommunications were dismantled.

Despite the SEA's significant strides, a formidable challenge remained: addressing the problem of physical, fiscal, and technical barriers to trade was one thing, but economic disparities within the Community acted as additional handicaps. During the mid-1960s per capita gross domestic product in the Community's ten richest regions was nearly four times greater than that in its ten poorest regions. The gap closed during the early 1970s, but with the accession of the UK, Ireland, and Greece it grew to the point at which the richest regions were five times wealthier than the poorest.<sup>34</sup> The Commission-sponsored *Thomson Report* of 1973 concluded that these disparities presented an obstacle to a "balanced expansion" in economic activity and to EMU.<sup>35</sup> France and West Germany saw regional policy as a means of helping the UK integrate with its new partners, while the government of Prime Minister Edward Heath viewed it as a way of making EEC membership more palatable to Britons concerned about the potential costs of membership.<sup>36</sup> Reaching agreement in 1973, the Six launched the European Regional Development Fund (ERDF), designed to match existing national spending on the development of poorer regions, and aimed at projects that would create new jobs in industry and services or improve infrastructure.<sup>37</sup> While these structural funds accounted for only 18 percent of EC expenditures in 1984, they steadily moved up the budget and by 2007 still comprised about 46 percent of EU spending (about \$62 billion). But despite the increased spending, regional disparities in the EU not only remained, they grew after 2004 as several relatively poor Eastern European states joined the EU.

With new attention focused in the 1980s on the reinvigoration of the single market, it became clear that social problems also required action, particularly those related to worker mobility, including industrial decline and long-term unemployment. The SEA now made "cohesion" a central part of economic integration, and new prominence was given to the Community's structural funds, including the ERDF, the European Social Fund, and the Cohesion Fund. Another boost for social policy came in 1989 with the Charter of Fundamental Social Rights for Workers (the Social Charter), promoting free movement of workers, fair pay, better living and working conditions, freedom of association, and protection of children and adolescents.

## FROM COMMUNITY TO UNION (1970–1993)

The controversial idea of political integration received less attention from Community governments because of a prevailing feeling that there was little hope of building political union without first achieving economic union. A 1970 report authored by Belgian diplomat Etienne Davignon argued that foreign policy coordination would be a useful first step, especially given the growing divergence between US and Western European policies, made painfully obvious by Vietnam. He recommended quarterly meetings of the six foreign ministers, liaison among EC ambassadors in foreign capitals, and common EC instructions on certain matters for those ambassadors.<sup>38</sup> This so-called European Political Cooperation achieved some early successes, such as the 1970 joint EC policy declaration on the Middle East, the signing of the Yaoundé Conventions on aid to poorer countries, and collective European responses during the 1980s to the war in the Falklands, developments in Poland and Iran, and apartheid in South Africa.<sup>39</sup> But it was more reactive than proactive, its weaknesses illuminated during the 1990–1991 Persian Gulf crisis, when EC member states were divided over the US-led response to Iraq's invasion of Kuwait (see Chapter 6). Differences came to the fore as well in December 1991, when Germany unilaterally recognized Croatia and Slovenia without conferring with its EC partners.

Political union received renewed focus in 1984 by President François Mitterrand of France, who was determined to reassert the leadership of his country in the EC. It acquired

special importance in the wake of the fall of the Berlin Wall and its resulting “German question” (that is, the consequences of the reunification of Germany for the EU). Mitterrand’s goals for the EC now included a more thoroughgoing political union alongside its economic one so that reunified Germany would remain firmly tied to the fortunes of its western allies. West German chancellor Helmut Kohl, on the other hand, needed the French to sign off on his plan and timetable for unification (including the “4+2” agreement whereby the four allied powers and the two German states would negotiate the terms of the transition to unification) as well as securing the endorsement of the European Council for German unity. In return, Kohl agreed to move more quickly on monetary union and back a plan for a political union with more streamlined decision-making processes, a greater EU role in a number of policy areas, and a common foreign and security policy for the EU.<sup>40</sup>

The result was the 1990–1991 IGC on political union which led directly to the historic Treaty on European Union, agreed to at the Maastricht European Council summit in December 1991 and signed in February 1992. The many important changes enacted by the Maastricht treaty included the following:

- The creation of a new European Union, based on three “pillars” with their own rules: a reformed European Community which strengthened the European Parliament and European Council, a Common Foreign and Security Policy that would replace European Political Cooperation, and a third pillar which included new policy areas on justice and home affairs
- A timetable and conditions for the establishment of a single European currency
- The extension of EU responsibility to new policy areas such as consumer protection, public health, transportation, education, and social policy
- Increased cooperation on immigration and asylum, the creation of a European police intelligence agency (Europol) to combat organized crime and drug trafficking, and expanded regional funds for poorer member states
- New rights for European citizens and the formation of an ambiguous EU “citizenship” (with an EU passport), including the rights of citizens to live wherever they liked in the EU (subject to some limitations) and to vote in local and European elections.

Mark Gilbert argues that Maastricht represented an “unprecedented voluntary cession of national sovereignty,” and that it was “less an international treaty than a tentative constitutional act.”<sup>41</sup> The stakes were showcased by the debate over the wording of the draft treaty, which had originally mentioned the goal of federal union but was changed on the UK’s insistence to “an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen.” Problems also arose during ratification, when Danish voters caused political shock waves by rejecting the treaty in a June 1992 national referendum. Following agreement that Denmark could opt out of the single currency, common defense arrangements, European citizenship, and cooperation on justice and home affairs, a second referendum took place in May 1993, and Danes accepted the treaty. Following ratification in the other eleven states, the Maastricht treaty came into force in November 1993, nearly a year late.

Meanwhile, political agreement on the single currency was building in spite of doubts raised by the lessons of the ERM, and a decision was made in 1995 to call it the “euro.” While supporters argued that a single currency would further economic integration by eliminating the cost of exchanging currency for both producers and consumers while removing exchange rate risks, critics charged that a common currency for the entire EU had a fatal flaw: national economies in the EU differed markedly from each other while labor flexibility and wage flexibility were too low, a situation that posed grave economic risks.<sup>42</sup> Essentially, this meant that unlike workers moving from one US state to another, if one country in the EU experienced a serious



**PHOTO 3.1** Signing of the Treaty of Maastricht.

Source: © European Communities, 1992, EC – Audiovisual Service.

economic downturn (and therefore unemployment), workers would not willingly or easily move to those countries with more available, better-paying jobs.

Even more importantly, monetary policy (including the setting of interest rates and money supply) was to be directed by the EU through the European Central Bank, just as the US Federal Reserve Bank does. Consequently, individual countries would no longer be able to adjust their currencies to deal with the economic ups and downs of their economy. Yet in contrast to the US, fiscal policy (i.e., taxing and spending) was left in the hands of each of the member states of the EU, who oversaw their own budget surpluses or (crucially) deficits. In short, according to critics, monetary union had something of the worst of both worlds: member states had no power to set interest rates or devalue their currency to dig out of an economic hole, yet the EU as a collective had little power to ward off crises by controlling the spending and debt of its constituent parts. As would eventually become abundantly clear, few diagnoses could have been more accurate.

### QUESTIONS TO CONSIDER

- 1 Two visions of European integration – widening, or EU enlargement, and deepening, or further economic and political integration of the existing members of the EU – are often seen as standing in tension with one another. How might this tension be illustrated in the development of the EU in the 1970s and 1980s?
- 2 Viewed from the perspective of today's EU, how important were the EMS and SEA? What did they do and what impact did they have on the European integration process?
- 3 What were Maastricht's most significant achievements? What internal and external developments drove the signing of this treaty?

## NOTES

- 1 Barry Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond*, 198 (Princeton, NJ: Princeton University Press, 2007).
- 2 See John Pinder, *European Community: The Building of a Union*, 78–86 (Oxford: Oxford University Press, 1991); Derek Urwin, *The Community of Europe*, 2nd ed., 132–135 (London: Longman, 1995).
- 3 Urwin, *The Community of Europe*, 131.
- 4 Jean Monnet, *Memoirs*, trans. Richard Mayne, 518 (Garden City, NY: Doubleday, 1978).
- 5 Don Cook, *Charles de Gaulle: A Biography*, 370–371 (New York: Putnam, 1983).
- 6 D.C. Watt, *Survey of International Affairs 1962*, 137 (London: Oxford University Press, 1970).
- 7 US State Department documents cited by Desmond Dinan, *Europe Recast: A History of European Union*, 4th ed., 91 (Boulder: Lynne Rienner, 2010).
- 8 For more details, see John McCormick, *The European Superpower*, chapter 2 (New York: Palgrave Macmillan, 2006).
- 9 See Frank Costigliola, “Kennedy, the European Allies, and the Failure to Consult,” *Political Science Quarterly* 110, no. 1 (spring 1995): 105–123.
- 10 Richard J. Barnet, *The Alliance: America, Europe, Japan; Makers of the Post-War World*, 264 (New York: Simon and Schuster, 1983).
- 11 Roger Morgan, “The Transatlantic Relationship,” in *Europe and the World: The External Relations of the Common Market*, edited by Kenneth J. Twitchett (London: Europa, 1976).
- 12 For details, see Sophie Meunier, *Trading Voices: The European Union in International Commercial Negotiations* (Princeton, NJ: Princeton University Press, 2005).
- 13 Klaus Heidensohn, *Europe and World Trade*, 133–138 (London: Pinter, 1995).
- 14 Dinan, *Europe Recast*, 70–71. For a detailed analysis of UK attitudes, see James Ellison, *Threatening Europe: Britain and the Creation of the European Community, 1955–58* (New York: St. Martin’s Press, 2000).
- 15 Harold Macmillan, *Riding the Storm 1956–59*, 73 (New York: Harper and Row, 1971).
- 16 Dean Acheson, *Present at the Creation: My Years in the State Department*, 385 (New York: W.W. Norton, 1969).
- 17 Pinder, *European Community*, 46–47.
- 18 Liechtenstein is a principality between Austria and Switzerland with a population of 35,000. It is in a monetary and customs union with Switzerland, which also manages its diplomatic relations. It is one of several microstates within Europe that are independent but generally regarded as part of the larger states they border. (The others are Andorra, Monaco, San Marino, and Vatican City.)
- 19 Rene Schwok, “EC–EFTA Relations,” in *The State of the European Community, Vol. 1: Policies, Institutions, and Debates in the Transition Years*, edited by Leon Hurwitz and Christian Lequesne (Boulder: Lynne Rienner, 1991).
- 20 See Charles Williams, *Adenauer. The Father of the New Germany*, chapters 10–12 (New York and Chichester: John Wiley & Sons, 2000).
- 21 In February 1985 Greenland became the first territory to leave the EEC. As a colony of Denmark, it had become part of the Community in January 1973, in spite of voting against membership out of concern for losing control of its fishing rights. In May 1979 it was granted self-government by Denmark, clearing the way for a vote to leave the Community.
- 22 Tommaso Paddoa-Schioppa, *Financial and Monetary Integration in Europe: 1990, 1992 and Beyond*, 18 (New York: Group of Thirty, 1990).
- 23 Urwin, *The Community of Europe*, 155.
- 24 Commission of the European Communities, “Economic and Monetary Union in the Community” (the *Werner Report*), *Bulletin of the European Communities*, Supplement 11 (1970).
- 25 Tony Judt, *Postwar: A History of Europe Since 1945*, 454 (New York: Penguin, 2005).
- 26 Eichengreen, *The European Economy Since 1945*, 248–249.
- 27 Mark Gilbert, *Surpassing Realism: The Politics of European Integration since 1945*, 138–152 (Lanham, MD: Rowman and Littlefield, 2003).
- 28 European Commission, *Report of the Committee for the Study of Economic and Monetary Union* (Luxembourg: Office of Official Publications, 1989).

- 29 Gilbert, *Surpassing Realism*, 227–261.
- 30 For details on the development of the single market program, see Kenneth A. Armstrong and Simon J. Bulmer, *The Governance of the Single European Market*, chapter 1 (Manchester, UK: Manchester University Press, 1998), and Gilbert, *Surpassing Realism*, chapter 6.
- 31 Commission of the European Communities, *Completing the Internal Market: The White Paper (the Cockfield Report)*, COM(85)310 (Brussels: Commission of the European Communities, 1985).
- 32 For an assessment of its initial results, see Michael Calingaert, “Creating a European Market,” in *Developments in the European Union*, edited by Laura Cram, Desmond Dinan, and Neill Nugent (Basingstoke, UK: Macmillan, 1999).
- 33 Alfred Pijpers, “Intergovernmental Conferences,” in *Encyclopedia of the European Union*, edited by Desmond Dinan, 294 (Basingstoke, UK: Macmillan, 1998).
- 34 Stephen George, *Politics and Policy in the European Community*, 3rd ed., 196 (Oxford: Oxford University Press, 1996).
- 35 Commission of the European Communities, *Report on the Regional Problems of the Enlarged Community (the Thomson Report)*, COM(73)550 (Brussels: Commission of the European Communities, 1973).
- 36 Dinan, *Europe Recast*, 149.
- 37 For an assessment of the ERDF and regional policy, see James Mitchell and Paul McAleavey, “Promoting Solidarity and Cohesion,” in *Developments in the European Union*, edited by Cram, Dinan, and Nugent.
- 38 Urwin, *The Community of Europe*, 148.
- 39 Brian White, *Understanding European Foreign Policy*, chapter 4 (Basingstoke, UK: Palgrave Macmillan, 2001).
- 40 See Mary Elise Sarotte, 1989: *The Struggle to Create Post–Cold War Europe*, 82–85 (Princeton: Princeton University Press, 1989). Also see Colette Mazzucelli, *France and Germany at Maastricht* (Routledge: London and New York, 1999).
- 41 Gilbert, *Surpassing Realism*, 212.
- 42 For a concise discussion, see Madeleine O. Hosli, *The Euro: A Concise Introduction to European Monetary Integration*, 15–16 (Boulder: Lynne Rienner, 2005).

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## FURTHER READING

Peter M.R. Stirk and David Weigall, eds., *The Origins and Development of European Integration: A Reader and Commentary* (London: Pinter, 1999).

Tells the history of European integration through Maastricht with documents, speeches, treaties, white papers, and excerpts from key texts.

Geir Lundestad, *The United States and Western Europe Since 1945* (Oxford: Oxford University Press, 2003).

An excellent survey of transatlantic relations up until the Iraq war, showing clearly how and why the Americans and the Europeans could not always agree.

Barry Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (Princeton, NJ: Princeton University Press, 2007).

A detailed assessment of the impact of integration on European economic growth.

Colette Mazzucelli, *France and Germany at Maastricht: Politics and Negotiations to Create the European Union* (London and New York: Routledge, 1997).

A riveting account of the negotiations between France and Germany on political and monetary union.

Charles Mulhearn and Howard Vane, *The Euro: Its Origins, Development and Prospects* (Northampton, MA: Edward Elgar, 2008).

Provides a good overview of the euro against the backdrop of European integration and the steps leading to its introduction, including discussions of the ERM and EMU.