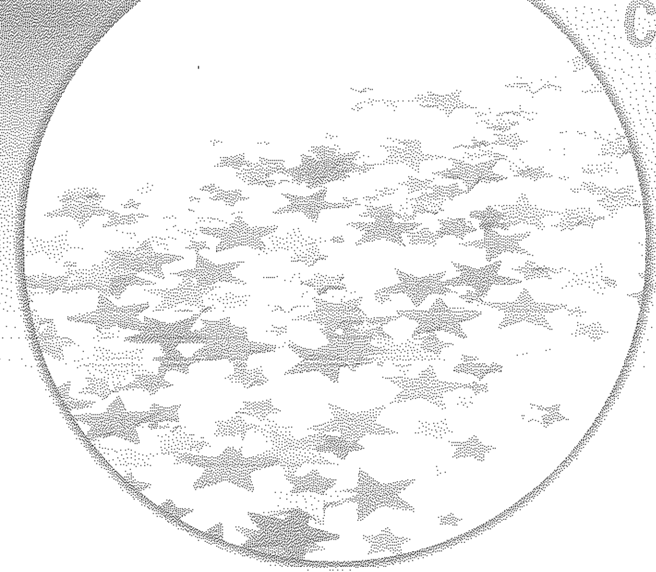
Chapter



And what is the plight to which Europe has been reduced? . . . over wide areas a vast quivering mass of tormented, hungry, care-worn and bewildered human beings gape at the ruins of their cities and their homes, and scan the dark horizons for the approach of some new peril, tyranny or terror. . . . That is all that Europeans, grouped in so many ancient states and nations . . . have got by tearing each other to pieces and spreading havoc far and wide.

Yet all the while there is a remedy. . . . It is to re-create the European Family, or as much of it as we can, and to provide it with a structure under which it can dwell in peace, in safety and in freedom. We must build a kind of United States of Europe.

Winston Churchill, Zurich, 19 September 1946

History

Chapter Contents

Introduction

The May 2014 European Parliamentary elections saw large gains by anti-EU parties in several nations. These results make it more important than ever to understand how and why Europe arrived at its current state of integration. As Tommaso Padoa-Schioppa – one of the architects of the euro – put it: 'After experiencing political oppression and war in the first half of the twentieth century, Europe undertook to build a new order for peace, freedom, and prosperity. Despite its predominantly economic content, the European Union is an eminently political construct' (2004, 1).

Quite simply, it is impossible to understand today's economic integration without a firm grasp on Europe's post-Second World War history. This chapter presents the main events of European economic integration in chronological order, stressing, wherever possible, the economic and political economy logic behind the events. The Annex provides a chronology 'study guide' to help readers identify the key events and issues.

1.1 Early post-war period

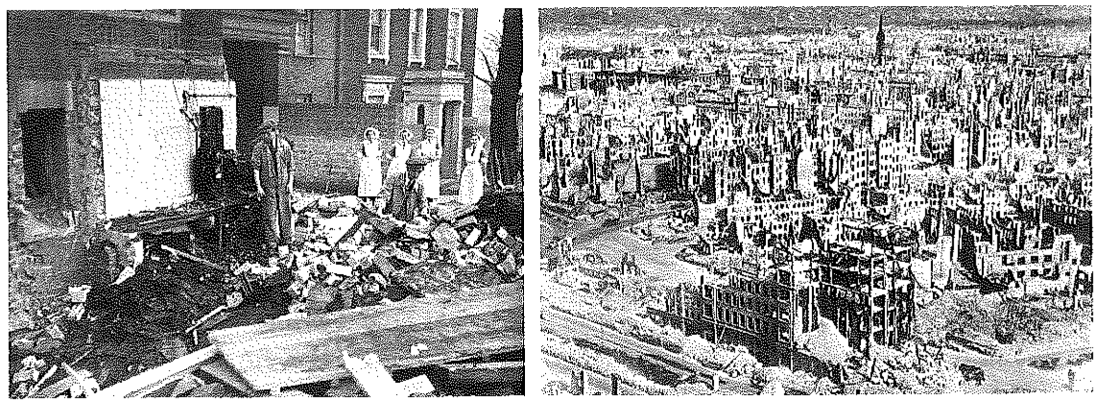
In 1945, a family standing almost anywhere in Europe was in a nation that was recently ruled by a brutal fascist dictator, occupied by a foreign army, or both. As a direct result of these governmental failures, tens of millions of Europeans were dead and Europe's economy lay in ruins. Worse yet, this was not new. If the parents were middle-aged, the Second World War would have been their second experience of colossal European death and destruction. The Second World War was the fourth time in 130 years that France and Germany had been at the core of increasingly horrifying wars. Forgetting about facts like these has allowed politicians such as the UK's Nigel Farage to claim, in 2012, 'When people stand up and talk about the great success that the EU has been, I'm not sure anybody saying it really believes it themselves anymore' (BBC, 2012).

1.1.1 A climate for radical change

As the fog of battle lifted in 1945, it was clear to all that something was desperately wrong with the way Europe governed itself. This opened minds to radical changes – changes that would be absolutely unthinkable in most nations.

It is hard for students born in the 1990s to connect emotionally with the misery and hardship that opened minds to this drastic reconsideration. Yet it is essential to a deep comprehension of the EU in the second decade of the twenty-first century. The web allows students to see photos (see Figure 1.1), watch videos, read original documents and listen to speeches from the time. The website of the Luxembourg-based Centre Virtuel de la Connaissance sur l'Europe (www.cvce.eu) provides access to a vast range of European documents; go to 'Historical events in the European integration process (1945–2009)'. For powerful photos and videos of Germany's experience, go to http://www.hdg.de/lemo/html/Nachkriegsjahre/ and http://the-world-at-war.npage.de/picture-gallery.html.

Figure 1.1 London Hospital in late 1940 and Dresden 1945



© Robert Hunt Library/Mary Evans © Mary Evans/Epic/Tallandier

Table 1.1 shows some figures on the death and destruction caused by the Second World War. In western Europe, the war killed about 8 million people, with Germans accounting for three-quarters of this total. In central and eastern Europe, over 9 million perished, of whom 6.3 million were Poles. The Soviet Union alone lost over 20 million. The fact that much of the killing was deliberate genocide made it even more horrifying (see www.jewishvirtuallibrary.org for information on the Holocaust).

Table 1.1 Death and destruction in the Second World War

	Death toll	The economic setback: 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	(a)
Switzerland	0	(a)
UK	325,000	(a)

(a) GDP grew during the Second World War.
Source: GDP data from Crafts and Toniolo (1996), p. 4; death toll from http://encarta.msn.com

The war also caused enormous economic damage. Figures are difficult to find for central and eastern Europe, but the estimates for western Europe are staggering, as Table 1.1 shows. The war cost Germany and Italy four decades or more of growth and put Austrian and French GDPs back to nineteenth-century levels.

Refugees, hunger and political instability

The economic, political and humanitarian situation in Europe was dire in the years 1945–47, especially in Germany. Food production in 1946 was low and the 1946–47 winter was especially harsh. Hunger was widespread. Food was rationed in most European nations up to the mid-1950s. At times, rations fell to just 900 calories per day in some parts of Germany (2000 calories per day is the standard today). Much of Europe's infrastructure, industry and housing lay in ruins. Many Europeans in these years were dependent on humanitarian aid, in much the same way as people in war-torn African nations are today. The UN Relief and Rehabilitation Administration (UNRRA) spent nearly $4 billion on emergency food and medical aid, helped about 7 million displaced persons return home and provided camps for about a million refugees who did not want to be repatriated.

Politically, western Europe suffered governmental and constitutional crises. The French wartime leader General de Gaulle resigned as president of the provisional government in 1946 over a disagreement on France's new constitution. Italy and Belgium saw bitter internal conflicts over their monarchy. Italy abolished its monarchy in a referendum that involved accusations of communist manipulation. The return of the Belgian king sparked riots. If all this seems like the plot of a B-grade apocalypse movie, you should watch some of the online audiovisual material at www.cvce.eu to see just how real it was. Hunger, riots and refugee camps were commonplace all across western Europe.

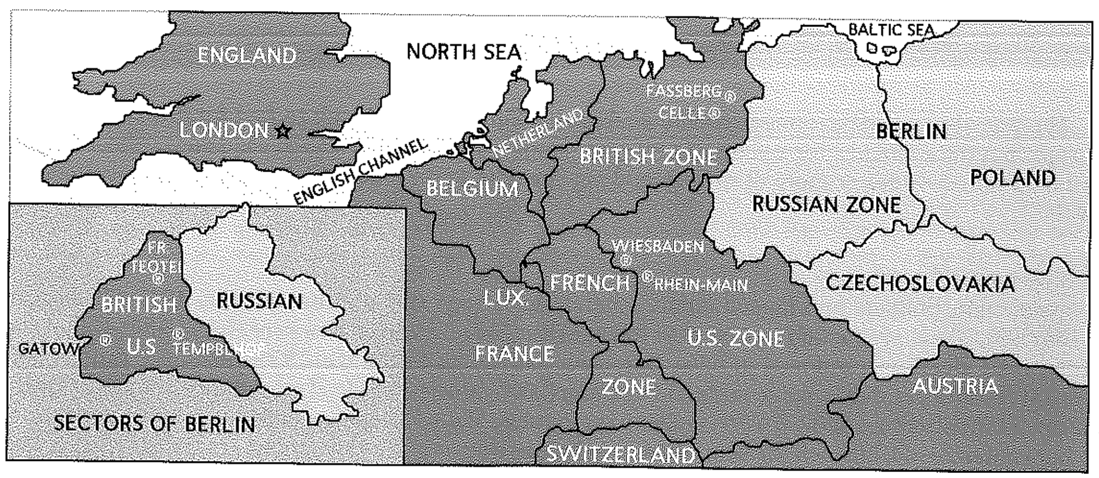
1.1.2 The prime question and guiding ideologies

The horror and revulsion arising from this devastation pushed one question to the forefront in the mid-1940s: 'How can Europe avoid another war?' The solutions offered depended on beliefs about the causes of the war; three schools of thought were in evidence:

1. *Germany was to blame.* Guided by this belief, the so-called Morgenthau Plan of 1944 proposed to avoid future European war by turning Germany into 'a country primarily agricultural and pastoral in character' (http://www.worldfuturefund.org). The same thinking guided post-First World War arrangements in Europe. That war was blamed on Germany and the victors were rewarded with territorial gains and financial reparations. The result was a cycle of recovery, resentment and national rivalry that led to the Second World War.
2. *Capitalism was to blame.* Marxism–Leninism blamed capitalism for most of the world's evils, including both world wars. This belief suggested that communism was the solution.
3. *Nationalism was to blame.* The third school blamed the excesses of destructive nationalism for the war. The solution suggested by this belief was tighter integration of all European nations. While calls for a united Europe were heard after the 1914–18 war and during the 1939–45 war, the school's most famous post-war statement was the 1946 'United States of Europe' speech by Winston Churchill (you can listen to it at www.cvce.eu).

School number 3 and the European integration solution ultimately prevailed, but this was far from clear in the late 1940s. Most European nations were either struggling to re-establish their governments and economies or were under direct military occupation. Germany and Austria were divided into US, UK, French and Soviet zones (Figure 1.2). Soviet troops occupied all of central and eastern Europe. In

Figure 1.2 The four-way division of Germany



Source: Harry S. Truman Museum and Library (www.trumanlibrary.org)

western Europe, 1945 and 1946 passed with hardly any progress towards the establishment of a post-war architecture. Western European governments' limited governance capacities were overloaded by the dismal humanitarian situation.

Things moved more rapidly in the east. The Soviet Union had already begun to implement its vision of a new Europe during the war. Communism was imposed on the previously independent nations of Estonia, Latvia and Lithuania, and by 1948 communist parties had been pushed to power in every Soviet-occupied country. Communists took power in Albania and Yugoslavia, and were gaining strength in Greece. School number 3 had many adherents in western Europe. In the parliamentary elections of 1946, communists won 19 per cent of the vote in Italy and 29 per cent in France.

1.1.3 Emergence of a divided Europe: the Cold War

America and Britain rejected the Soviet's world vision and the wartime alliance unravelled. The Allies-versus-Axis confrontation was replaced by an East–West confrontation, called the Cold War. By 1947, the USA and Britain had concluded that an economically strong Germany would be essential to the defence of liberal democracy in western Europe. They merged the UK and US zones into 'Bizonia' (September 1947), and France, which had originally favoured the Morgenthau Plan, added its zone in 1948. Germany drew up a constitution in 1948 under the leadership of Konrad Adenauer (see Box 1.1).

Box 1.1 Konrad Adenauer (1876–1967)

© Mary Evans/Iberfoto

Born to a family of modest means, Konrad Adenauer rose to become Mayor of Cologne, a post he was stripped of by the Nazis in 1933. He was President of the 1948 Parliamentary Council that drew up Germany's constitution ('Basic Law') before becoming the first Chancellor (i.e. Prime Minister) of Germany – an office he held from 1949 to 1963. Under his leadership, Germany regained its sovereignty, joined the European Economic Community and NATO, and evolved into a cornerstone of western European democracy and economic strength. Adenauer was a key promoter of close Franco–German cooperation and of Germany's social welfare system.

In reaction to western moves towards creating a German government in their zones, the USSR escalated harassment of western travel to Berlin. Ultimately, the Soviets imposed the famous 'Berlin Blockade' on 24 June 1948. Western powers countered with the equally famous 'Berlin air bridge' (see www.cvce.eu for details and photos). In May 1949, the Federal Republic of Germany was established. The new government agreed to make a military contribution to the western defence effort.

Soviet aggressive promotion of their solution (communism for all) triggered a western reaction that narrowed the three solutions down to two with an 'iron curtain' between them. East of the iron curtain, the post-war architecture was based on communism and one-party politics. To the west, it was built on multi-party democracy, the social market economy and European integration.

The merger of the French, US and UK zones was a defining moment in Europe. Tentative and ideologically-based support for European integration came to be strongly reinforced by western European nations pursuing their own interests. French leaders saw the Franco–German integration as a way of counterbalancing US–UK influence on the Continent while at the same time assuring that a reindustrialized Germany would become an economic partner rather than a military adversary. The UK and the USA supported European integration as the best way to counter the spread of communism in Europe. German leaders embraced European integration as the surest route to re-establishing Germany as a 'normal' nation (Germany was recognized as an independent nation only in 1955). Italian leaders also welcomed European integration, which provided them with an ideological counterbalance to communism and helped shut the door on Italy's fascist past. The Benelux nations (Belgium, the Netherlands and Luxembourg) were happy about anything that reduced the chances of another Franco–German war.

1.1.4 First steps: the OEEC and EPU

From the perspective of European integration, the most important result of the western European effort to resist communism was the so-called Marshall Plan and the Organisation for European Economic Cooperation (OEEC). In reaction to the dire economic conditions in Europe and the attendant threat that communists might come to power in Greece, Italy and France, US Secretary of State (i.e. Foreign Minister) George Marshall announced that the USA would give financial assistance to all European nations 'west of the Urals', if they could agree to a joint programme for economic reconstruction.

Almost immediately, European nations gathered in Paris to study Marshall's proposal (the USSR and the central and eastern European countries eventually withdrew and never received Marshall Plan funds). The conference was intended to determine the amount of aid required and, at US insistence, to create a permanent organization (the OEEC) in which Europeans would cooperate in their mutual economic recovery. A joint programme and organization were duly developed by the Europeans. The US Congress, which was initially reluctant, funded the Marshall Plan in April 1948 after the communist takeover in Czechoslovakia.

The OEEC was established in 1948 with 13 members of the old EU15 (Finland was under Soviet pressure to stay neutral and Spain was under Franco's dictatorship) plus Norway, Iceland, Switzerland, Turkey and the US–UK zone of the Free Territory of Trieste until it was merged with Italy. Germany was still under occupation, but representatives from the western zones participated. From 1948 to 1952, Marshall Plan aid amounted to $12 billion, with half of this going to the UK, France and West Germany. The Soviet bloc's counterpart, the Council of Mutual Economic Assistance (CMEA), was set up in 1949.

The OEEC divided American aid among its members (see Box 1.2), but a far more important role, as far as European history is concerned, was the OEEC's mandate to advance European economic integration. It did this by reducing intra-European trade barriers and improving the intra-European system of payments by establishing the European Payments Union (EPU).

Box 1.2 The European Payments Union (EPU), July 1950 to December 1958

Most European nations were bankrupt after 1945, so trade was generally conducted on the basis of bilateral agreements, often involving barter. The EPU multi-lateralized these bilateral deals. Each month, EPU members added up the deficits and surpluses in their bilateral trade accounts with other EPU members. These were offset against each other so that each nation remained with an overall surplus or deficit with respect to the EPU. The great advantage of this approach was that, since nations no longer owed money to each other directly, the debt-based incentives for importing from or exporting to a particular partner vanished. As a consequence, it was easy to loosen the web of bilateral trade restrictions that had been set up in the early post-war years. In this way, the EPU can be thought of as the real start of post-war European economic integration.

Source: This box is based largely on Eichengreen and de Macedo (2001)

In 1949, the USA demanded that the OEEC make greater efforts to bring about direct European economic integration, especially intra-OEEC trade liberalization. Up to this point, Marshall Plan money was mainly

used to finance European countries' dollar deficits in the EPU (see Box 1.2). Responding to this pressure, the OEEC nations removed quantitative restrictions. The OEEC's trade liberalization was important in at least two ways.

First, the liberalization fostered a rapid growth of trade and incomes. The 1950s were marked by a remarkable increase in GDP and the export of manufactured goods, at least on the Continent.

Second, it shifted the mindset of policy makers in a way that eventually opened the door to the European Union. Europe's leaders came to view European integration as an idea that made as much sense economically as it did politically. As Milward (1992) put it: 'The proposals for trade liberalisation and customs unions that were made fell therefore on to a receptive soil.'

In the decades following the First World War, especially during the 1930s, economic growth was viewed as a competition between nations. In this competition, trade barriers played a central role as each nation sought to 'save' its market for its own industrialists. In sharp contrast, the correlation between trade barriers and industrial growth was completely reversed in the 1940s and 1950s. Trade liberalization among western European nations went hand-in-hand with spectacular growth; intra-European imports and exports expanded even more rapidly than output.

1.1.5 The drive for deeper integration

The OEEC was an economic success, but would it prevent another intra-European war? Some OEEC members felt economic integration had to be much deeper to make a future intra-European war unthinkable. The Cold War lent urgency to this drive. With East–West tensions rising steadily, Germany would not only have to be allowed to regain its industrial might, it would have to rearm in order to counter the threat of Soviet territorial aggression. Since many Europeans, including many Germans, were still uncomfortable with the idea of a Germany that was both economically and militarily strong, integrating Germany into a supranational Europe seemed a natural way forward.

1.2 Two strands of European integration: federalism and intergovernmentalism

In 2014, the public debate in many European nations questions whether EU integration has gone too far. This has been an issue for over six decades. While it was clear by the late 1940s that European integration would be the foundation of western Europe's post-war architecture, a serious schism immediately emerged regarding the role of nation-states. Even today, this schism defines the debate over European integration.

1. Some Europeans felt that national sovereignty and the nation-state constituted a fragile system prone to warfare. Since time immemorial, European states had been engaged in intermittent struggles for dominance – struggles that typically involved the invasion of other European nations. As industrialization made killing much more 'efficient', the cost of these struggles rose to the point whereby no one could win. To these thinkers, even democracy was insufficient to prevent horrifying wars. Hitler, after all, gained his first hold on power through democratic means. To prevent another cycle of recovery and national rivalry that might lead to a third world war, nations should be embedded in a *federalist* structure – a supranational organization embodied with some of the powers that had traditionally been exercised exclusively by nations.
2. Other Europeans, led by Britain, continued to view nation-states as the most effective and most stable form of government. To them, European integration should take the form of closer cooperation – especially closer economic cooperation – conducted strictly on an *intergovernmental* basis, i.e. all power would remain in the hands of national officials and any cooperation would have to be agreed unanimously by all participants.

Not surprisingly, the federalist school was most popular in nations that experienced the greatest failures of governance – failures measured in terms of wartime death and destruction (see Table 1.1). This group included Belgium, the Netherlands, Luxembourg, France, Austria, Germany and Italy.

People from nations whose governments avoided foreign occupation and/or catastrophic loss of life tended to maintain their traditional faith in the nation-state. This included the UK, Denmark, Norway and Iceland, as well as the neutrals, Ireland, Sweden and Switzerland. Fascist dictators in Spain and Portugal ruled until the 1970s, so the question was long postponed in the Iberian Peninsula.

1.2.1 Two early extremes: Council of Europe and the ECSC

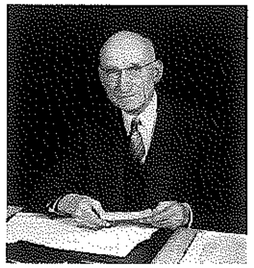
Intergovernmentalism initially dominated the post-war architecture. In part, this was simply a matter of timing.

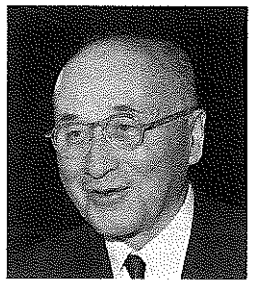
The only major European nation with a truly effective, democratic government before 1947 was Britain – a firm believer in intergovernmentalism. The first three organizations – the OEEC, the Council of Europe and the Court of Human Rights – followed the intergovernmental tradition. The OEEC was strictly intergovernmental (i.e. one nation, one vote, with unanimity required to agree anything), and the 1948 'Congress of Europe' established two intergovernmental structures, the Council of Europe (1949) and the Court of Human Rights (1950), both of which continue to function today and are entirely unrelated to the EU.

The first big federalist step came in 1952 with the Schuman Plan inspired by the 'father of European integration', Jean Monnet, but promoted by French Foreign Minister Robert Schuman (see Box 1.3). Schuman proposed that France and Germany should place their coal and steel sectors under the control of a supranational authority.

This was a radical move at the time. Coal and steel were then viewed as the 'commanding heights' of an industrial economy and crucial to a nation's military and industrial strength. Schuman explicitly justified his plan as a means of rendering future Franco–German wars materially impossible.

Box 1.3 Robert Schuman (1886–1963) and Jean Monnet (1888–1979)





Born in Luxembourg, Schuman studied and worked in Germany until the end of the First World War. He became French when Alsace-Lorraine reverted to France in 1918. He held several positions in the post-war French governments, including Finance Minister, Premier and Foreign Minister. Schuman provided the political push for the European Coal and Steel Community, which most consider to be the wellspring for the European Union. He was also the first President (1958–60) of the European Parliament.

Jean Monnet, born in Cognac in 1888, was a brilliant organizer and as such helped to organize Allied military supply operations in the First and Second World Wars. Near the end of the Second World War he joined Charles de Gaulle's provisional Free French government, and was responsible for the 'Monnet Plan', which is credited with helping France's post-war industrialization. Monnet was a convinced Europeanist and led the European movement in the 1950s and 1960s. Monnet, who is sometimes called the 'father of European integration', was the intellect behind the idea of the ECSC and the first president of its 'High Authority' (precursor of the European Commission) from 1952 to 1955. He continued to push for the European Economic Community and the European Atomic Energy Community (Euratom). He died in 1979.

Sources: http://www.hdg.de/lemo/biografie/robert-schuman.html and http://www.hdg.de/lemo/html/biografien/MonnetJean/index.html

Other European nations were invited to join this European Coal and Steel Community (ECSC), and Belgium, Luxembourg, the Netherlands and Italy actually did so. This created a group of nations known simply as 'the Six' – a group that has been the driving force behind European integration ever since. See Box 1.4.

Box 1.4 The European Coal and Steel Community (ECSC)

France and Germany launched the ECSC initiative, inviting other nations to place their coal and steel sectors under its supranational authority. Since coal and steel were critical economic sectors at the time, most nations declined.

The ECSC's structure submerged the role of nation-states to an extent that seems unimaginable from today's perspective. It still represents the 'high-water mark' of European federalism. Crucial decisions concerning such issues as pricing, trade and production in the then-critical coal and steel sectors were placed in the hands of the High Authority. This body, the forerunner of today's European Commission, consisted of officials appointed by the six Member States. The High Authority's decisions, some made by majority voting, were subject to limited control by Member State governments. See Spierenburg and Poidevin (1994) for details on the ECSC.

Times had changed

By the time the ECSC was in operation, Europe was a very different place from what it had been in 1945. The year was 1952 and Cold War tensions were high and rising. Economically, things continued to get better. As Table 1.2 shows, the Six had managed to get their economies back on track, having experienced miraculous growth.

1.2.2 Federalist track: the Treaty of Rome

The ECSC was a success, not so much in that it solved the thorny problems of Europe's coal and steel sectors, but rather as a training scheme for European integration. It showed that the Six could cooperate in a federal structure. The Six as a whole, but especially Germany, continued to grow spectacularly, while East–West tensions continued to mount. The latter made German rearmament an essential component of western Europe's reply to Soviet expansion and ideological commitment to spreading communism.

In 1955, Germany joined western Europe's main defence organization, the North Atlantic Treaty Organization (NATO), and began to rearm in earnest. This triggered a reaction from the Soviet bloc – the USSR and the central and eastern European nations formed the Warsaw Pact to counter NATO. It also brought back the question of deeper European integration.

By 1955, it had become clear that coal and steel were no longer the 'commanding heights' of Europe's economy in economic or military terms. The ECSC might not be enough to ensure that another Franco–German war remained unthinkable. European leaders turned their minds to broader economic integration. Having failed to move directly to political or military integration (see Box 1.5), the natural way forward was broader economic integration.

A key force behind supranationalism was Jean Monnet, who formed a high-powered pressure group – the Action Committee for the United States of Europe – whose membership included leading figures from all the main political parties in each of the Six. The aim was to merge European nation-states into a supranational organization along the lines of the ECSC but much broader in scope.

Table 1.2 Post-Second World War reconstruction

	Back-on-track year (year GDP attained highest pre-Second World War level)	Reconstruction growth (growth rate during reconstruction years, 1945 to back-on-track year) (%)
Austria	1951	15.2
Belgium	1948	6.0
Denmark	1946	13.5
Finland	1945	n.a.
France	1949	19.0
Germany	1951	13.5
Italy	1950	11.2
Netherlands	1947	39.8
Norway	1946	9.7

Source: Nicolas Crafts, Gianni Toniolo, "Postwar growth: an overview", in Nicholas Crafts, Gianni Toniolo (eds), *Economic Growth in Europe since 1945*, (1996) © Centre for Economic Policy Research 1996, published by Cambridge University Press, reproduced with permission

Box 1.5 Failed integration, EDC and EPC

Encouraged by the rapid acceptance of the ECSC, federalists pressed ahead with ambitious plans. In the first years of the 1950s, leaders from the Six worked out plans for a supranational organization concerning defence – the European Defence Community (EDC) – as well as for deep political integration – the European Political Community (EPC). This remarkable enthusiasm for supranationality ultimately failed when the French parliament rejected the EDC explicitly, after which EPC plans were dropped.

The ECSC, EDC and EPC proposals were revolutionary by today's standards. When most voters had lived through the traumatic years of the Second World War, radical thinking was mainstream. Today, by contrast, European governments baulk at pooling their sovereignty over comparatively trivial issues such as air traffic control.

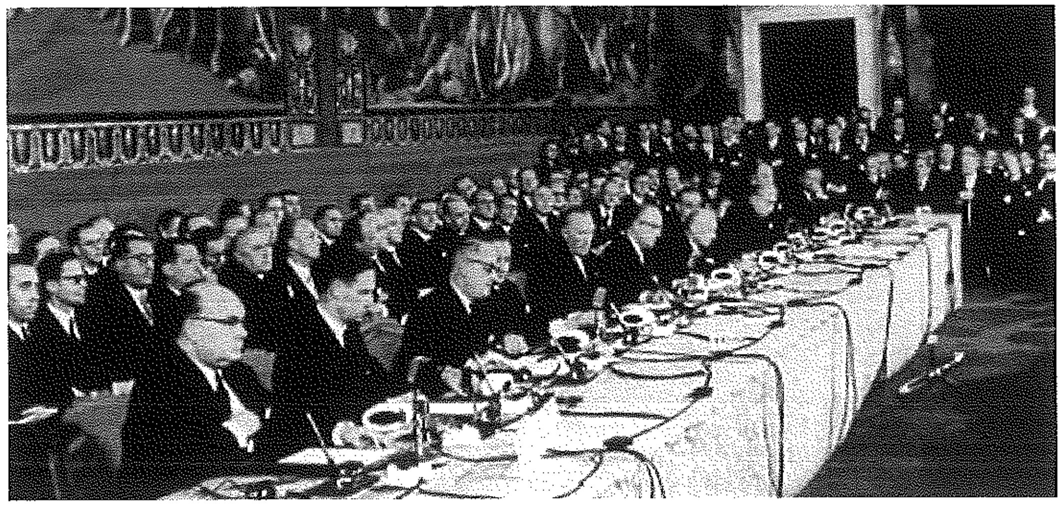
Source: Distilled from information on www.cvce.eu

Foreign Ministers of the Six met in Messina in June 1955 to start a process that soon led to the signing, on 25 March 1957, of two treaties in Rome: the first created the European Atomic Energy Community (Euratom); the second created the European Economic Community (EEC). Because the EEC eventually became much more important than Euratom, the term 'Treaty of Rome' is used to refer to the EEC treaty. Britain partook in the preliminary meetings but dropped out in October 1955 as it was not interested in this deep economic integration.

The Treaty of Rome was quickly ratified by the six national parliaments and the EEC came into existence in January 1958. (The institutions of the ECSC, the EEC and Euratom were merged into the 'European Communities', or EC, in 1965.)

The Treaty of Rome committed the Six to extraordinarily deep economic integration (see Chapter 2). In addition to forming a customs union (removing all tariffs and quotas on intra-EEC trade and adopting a common tariff on imports from non-Member nations), it promised free mobility of workers, capital market integration and free trade in services as well as a range of common policies – some of which were to be implemented by a supranational body. The Treaty also set up a series of supranational institutions such as

Figure 1.3 Signing of the Treaty of Rome



the European Parliamentary Assembly (forerunner of the European Parliament), the European Court of Justice and most important of all – the European Commission. See Chapter 2 for details.

1.2.3 Intergovernmental track: from OEEC to EFTA

Formation of the EEC introduced discrimination – preferences is a nice word for the same thing – into European economic integration. Hitherto trade liberalization was extended to all OEEC nations on a non-discriminatory basis. The EEC's customs union meant that tariffs within the EEC would be lower than those charged to third nations. The other 11 OEEC members were side-lined.

Fearing discrimination and marginalization, seven OEEC nations formed their own bloc in 1960, the European Free Trade Association (EFTA). Britain, which was the largest economy in Europe at the time, led this initiative. By the early 1970s, all western European nations had forsaken bilateralism except Ireland, which was in a monetary union with its major trading partner (the UK). Greece and Turkey both applied for associate EEC membership almost as soon as the Treaty of Rome was signed, and Spain signed a preferential trade agreement with the EEC in 1970 (and with EFTA in 1979).

1.2.4 Two non-overlapping circles: Common Market and EFTA

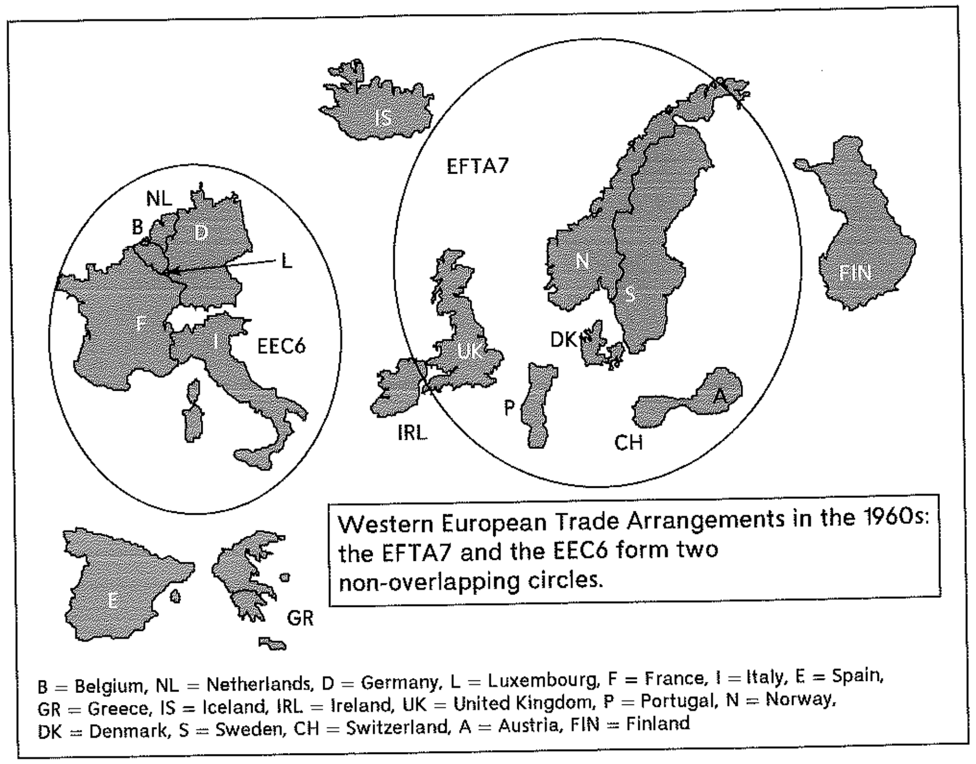
The trade liberalization promised by the Treaty of Rome and the Stockholm Convention (EFTA's founding document) rapidly came into effect in the 1960s. By the late 1960s, trade arrangements in western Europe could be described as two non-overlapping circles (Figure 1.4).

The lowering of intra-EEC trade barriers had an immediate and dramatic impact on trade patterns. During the formation of the customs union (CU), the EEC's share in its own trade rose from about 30 per cent to almost 50 per cent. At the same time, the share of EEC imports coming from six other major European nations remained almost unchanged, falling from 8 to 7 per cent. (More on this in Chapter 5.)

1.3 Evolution to two concentric circles: the domino effect part I

At the beginning of the 1960s, EFTA-based and EEC-based firms had roughly equal access to each other's markets as the preferential tariff cutting had only just begun. As the barriers began to fall within the EEC and within EFTA (but not between the groups), discrimination appeared. This discrimination meant lost

Figure 1.4 A Europe of two non-overlapping circles



Source: Baldwin (1994)

profit opportunities for exporters in both groups. Importantly, the relative economic weight and economic performance of the two circles were far from equal. The GDP – and thus the potential market size – of the six EEC nations was more than twice that of the seven EFTA nations (EFTAns) and the EEC incomes were growing twice as fast. The EEC club was far more attractive to exporters than the EFTA club. Accordingly, the progressive reduction of within-group barriers generated new political economy forces in favour of EEC enlargement, but how did discriminatory liberalization create these forces for inclusion?

Discriminatory liberalization is studied in depth in Chapter 5, but the idea behind these new political economy forces can be illustrated with an anecdote. Two campers in Yellowstone National Park, who have just settled down in their tent, hear the roar of a hungry grizzly bear very close by. One camper sits up and starts putting on his running shoes. The other camper says: 'Are you crazy? You can't outrun a bear!' The first camper, who continues tying his laces, replies: 'Oh, I don't have to outrun the bear. I just have to outrun you.' When it comes to outrunning bears and succeeding in business, relative competitiveness is the key to success. A firm is harmed by anything that helps its rivals.

In the case at hand, closer EEC integration diminished the relative competitiveness of non-EEC firms in EEC markets, thereby harming their sales and profits. Of course, the same happened to EEC firms in EFTA, but given the EEC's much greater economic size, pressures on EFTA members to adjust were much greater than those on EEC nations. This effect helps explain why preferential integration among some nations can change the political economy attitudes of excluded nations. This is what Baldwin (1994, 1995) calls the 'domino theory' of regional integration; the preferential lowering of some trade barriers creates new pressures for outsiders to join the trade bloc and, as the trade bloc gets bigger, the pressure to join grows. As history would have it, the British government was the first to react to the pressure.

1.3.1 First enlargement and EEC–EFTA FTAs

In 1961, the UK applied for EEC membership – just six years after walking away from the Messina talks. There are many reasons for this *volte face*. In the late 1950s, Britain half-expected the EEC to fail just as the EDC and EPC had before it (see Box 1.5). Moreover, British wartime successes hung heavy in the air. Clement Attlee, former UK Prime Minister, dismissed the EEC as 'six nations, four of whom we had to rescue from the other two'. Thinking changed once the EEC was up and working well. UK industries faced the reality of rising discrimination in Europe's largest and fastest-growing markets. The British government had to react; EFTA was not a substitute for free trade access to the EEC6 markets.

Britain's unilateral decision tipped over more dominoes. If the UK was to jump from EFTA to the EEC, the remaining EFTAns would face discrimination in an even larger market (since the EEC is a customs union, the UK would have had to re-impose tariffs on imports from other EFTAns). This possibility led other nations to change their attitude towards membership. In this case, Ireland, Denmark and Norway quickly followed Britain's unilateral move. The other EFTAns did not apply for political reasons, such as neutrality (Austria, Finland, Sweden and Switzerland), lack of democracy (Portugal), or because they were not heavily dependent on the EEC market (Iceland).

While Germany was broadly in favour of UK membership, France was opposed to it. In a renowned January 1963 press conference, French President Charles de Gaulle (see Box 1.6) said 'non' to this first enlargement attempt. The four EFTAns reapplied in 1967 and de Gaulle issued another famous 'non', but, after he retired, the applications were reactivated by invitation of the EEC. After many delays, membership for the four was granted in 1973. At that time, Norway's population refused EEC membership in a referendum.

Box 1.6 Charles de Gaulle (1890–1970)

© Ingram Publishing

Charles André Marie Joseph de Gaulle was twice wounded in the First World War and was captured by German forces. A colonel in the French Army when the Second World War broke out, he rose rapidly to brigadier general (the youngest general in the French Army, at age 49). He was strongly opposed to the French surrender in June 1940 (after just two weeks of combat) and broadcast his renowned 'Appeal of June 18' from London. His appeal won over leaders in some of the French Overseas Territories and he created the Free French Movement, which provided an alternative to the collaborationist Vichy Republic led by Marshal Pétain.

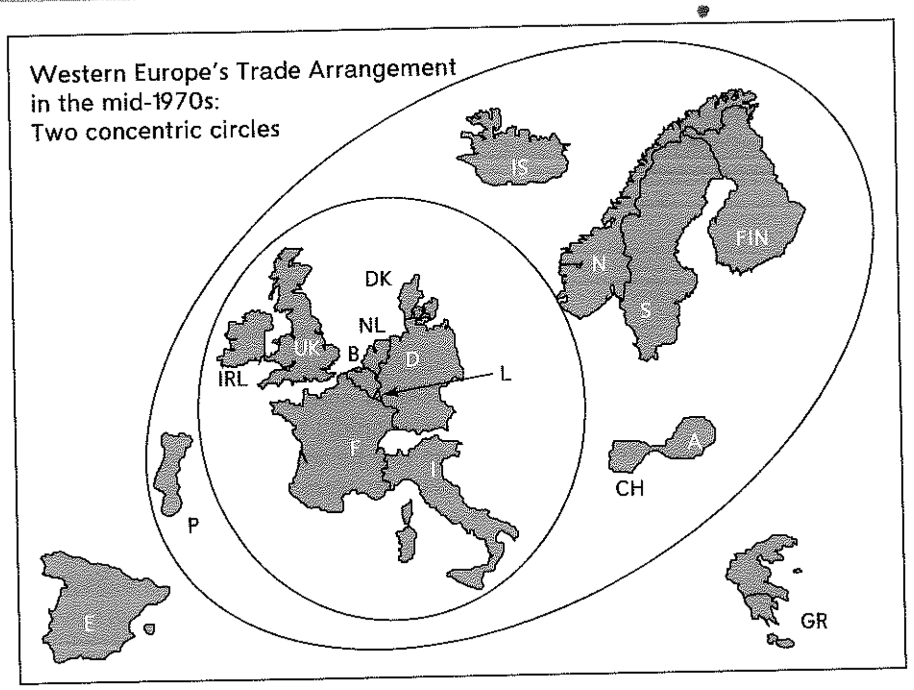
After the war, he headed the provisional government, but resigned in 1946, frustrated by the weakness of the president in the new constitution. Like Adenauer, he firmly supported Franco–German cooperation but was a reluctant Europeanist, objecting to supranational organizations such as the ECSC. France, however, had already adopted the Treaty of Rome before his return to power in 1958 under crisis conditions. The general dominated political life and did much to restore French dignity and power. He resigned in 1969 and died the following year.

The impending departure of four EFTAns to the EEC was anticipated well in advance and triggered a secondary domino effect. The 1973 EEC enlargement meant a swelling of the EEC markets and a shrinking of the EFTA markets. Firms based in the remaining EFTA states would suffer a disadvantage (compared to their EEC-based rivals) in more markets and enjoy an advantage (over their EEC-based rivals) in fewer markets. Accordingly, EFTA industries pushed their governments to redress this situation. The result was a set of bilateral free trade agreements (FTAs) between each remaining EFTAn and the EEC, which took place when the UK and company acceded to the EEC. Notice that this change of heart does need some explaining. The stance of, say, Sweden towards an FTA with the then-EEC was a matter of top-level political calculation.

It may seem strange, therefore, that the calculations of Sweden's political elite led them to sign an FTA in 1972 when they had not found it politically optimal to sign one in the preceding decades. The explanation, of course, is that tighter integration among a nation's trade partners (in this case between the UK, Denmark and Ireland and the EEC) alters the economic landscape facing Swedish exporters. This reshaping of the economic landscape gets translated into a new political landscape. Such forces are in operation today. The 2004 enlargement stimulates demand for free trade with nations on the EU25's new eastern border.

By the mid-1970s, trade arrangements in western Europe had evolved into two concentric circles (Figure 1.5). The outer circle, which encompassed both EFTA and EEC nations, represents a 'virtual' free trade area for industrial products, formed by concatenation of the Treaty of Rome (for intra-EEC trade), EFTA's charter, the Stockholm Convention (for intra-EFTA trade) and individual bilateral FTAs between each EFTA member and the EEC (for EEC–EFTA trade). The inner circle, the EEC, was more deeply integrated.

Figure 1.5 A Europe of two concentric circles



Note: See Figure 1.4, p. 14 for abbreviations and source.

1.4 Euro-pessimism

Although the customs union was implemented smoothly and ahead of schedule, European integration stagnated soon after its completion. The Community was rocked by a series of political crises in the 1960s, soon to be followed by economic shocks in the early 1970s. These created a period known as 'Euro-pessimism' (1973–86).

1.4.1 Political shocks

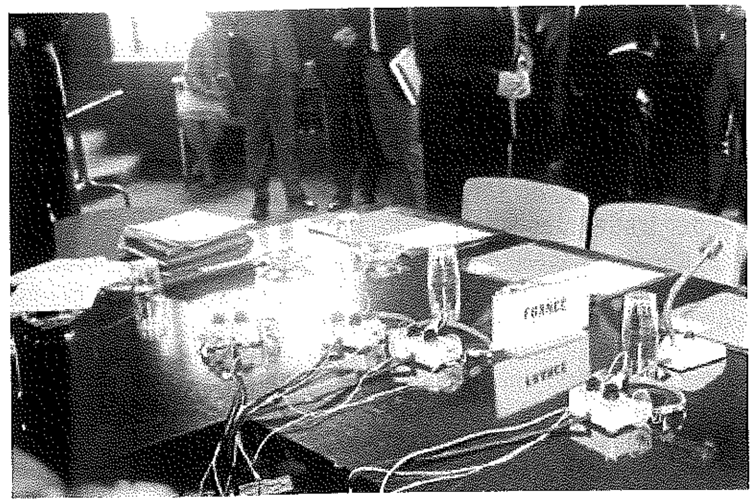
The spectacularly good economic performance of Europe's economies in the 1950s and 1960s – teamed with the manifest success of European economic integration – went a long way to restoring the confidence of Europeans in their governments' ability to govern (Milward, 1984). So much so that some nations began to regret the promises of deep integration they had made in the Treaty of Rome. Leading this charge for national sovereignty was French President Charles de Gaulle.

The issue came to a head as the final stage in the Treaty of Rome's transition period approached (1 January 1966). At this stage, the voting procedures in the EEC's key decision-making body, the Council of Ministers, were scheduled to switch to majority voting (see Section 3.3.1). For de Gaulle, it was unacceptable that France might have to accept a majority-backed policy even if it had voted against it. In the end, de Gaulle forced the other EEC members to accept his point of view in the so-called Luxembourg Compromise (see Box 1.7). Henceforth, unanimity was the typical rule in EEC decision-making procedures. The insistence

Box 1.7 The 'empty chair' policy and the Luxembourg Compromise

De Gaulle, who had always opposed supranationality, challenged the principle in 1966. The test case came when France opposed a range of Commission proposals including financing of the Common Agricultural Policy. France stopped attending the main Community meetings (the so-called 'empty chair' policy; see Figure 1.6) and threatened to withdraw from the EEC. This marked the end of the post-war climate for radical change, but not the end of the EEC.

Figure 1.6 Crise de la chaise vide, 1965



In exchange for its return to the Council of Ministers, France demanded a political agreement – the Luxembourg Compromise – that de facto overturned the Treaty of Rome's majority voting provisions. Whenever a Member State announced that it felt that 'very important interests' were at stake the voting rule switched to unanimity. In short, this reversed much of the unlimited supranationality that the Six committed themselves to in the Treaty of Rome just ten years before. The Luxembourg Compromise was abolished by the Lisbon Treaty and single-nation moves in the twenty-first century by Britain and others have failed.

Although the Luxembourg Compromise had no legal force, it had an enormous impact. It meant that unanimity was the de facto rule for almost everything. Almost all progress on deeper economic integration was blocked until majority voting was restored in the 1986 Single European Act. The compromise in full reads: 'Where, in the case of decisions which may be taken by a majority vote on a proposal from the Commission, very important interests of one or more partners are at stake, the Members of the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members of the Council while respecting their mutual interests and those of the Community, in accordance with Article 2 of the Treaty.' For details and background, see http://en.euabc.com/word/640.

on consensus radically reduced the EEC's ability to make decisions (see Chapter 3 on decision-making efficiency) and the problem only got worse as the EEC expanded to nine in 1973.

1.4.2 Failure of monetary integration

The late 1960s saw the USA running an irresponsibly inflationary monetary policy – printing money to pay for the Vietnam War. Since all major currencies were linked to the dollar at the time (via the global fixed exchange rate system called Bretton Woods), US inflation was transmitted into inflation in Europe and elsewhere. This, in turn, led to the gradual breakdown of the global fixed exchange rate system (between 1971 and 1973; see Chapter 14 for details).

Exchange rate stability was widely viewed as a critical factor supporting the rapid post-war growth in trade and international investment and the rising prosperity these brought. It prevented nations from offsetting the market-opening effects of European integration with a competitive devaluation. The EEC searched for ways of restoring intra-European exchange rate stability. It established the Werner Committee, which designed a step-by-step plan for European monetary union by 1980. EU leaders adopted the Werner Plan in 1971.

The economic environment for this new European monetary arrangement could not have been worse. Months after it was launched, the Yom Kippur War in the Middle East triggered an Arab oil boycott of western states. The resulting sharp rise in oil prices had a ruinous economic impact on western Europe. Just as inflationary tendencies were heating up as a result of US actions, the oil shock severely dampened economic activity in Europe and for all of its global trading partners. Most European nations adopted expansionary monetary and fiscal policies to compensate for the economic downturn and these further fuelled inflation. The result was falling incomes and rising inflation known as 'stagflation'. Just as the world was recovering from the 1973 oil shock, the Iranian Revolution produced a second massive oil price hike, in 1979, further aggravating stagflation. A debilitating series of exchange rate crises – caused by these massive external shocks – put the Werner Plan on hold for ever. This monetary integration failure was a key feature of Euro-pessimism.

1.4.3 Failure of deeper trade integration

As tariff barriers fell, Europeans erected new trade barriers. These new barriers consisted of detailed technical regulations and standards, which had the effect of fragmenting the European markets. While these policies, called 'technical barriers to trade' (TBT), undoubtedly inhibited intra-European trade, their announced goal was to protect consumers. EEC leaders had recognized the trade-inhibiting effects of TBTs in the Treaty of Rome (Article 100 requires 'approximation', Euro-speak for harmonization, of national regulations for the 'proper functioning of the common market'). However, as European voters became richer, they demanded tighter regulation of markets and products. The usual machinery of vested-interest politics meant that many of the new standards and regulations tended to protect domestic firms.

The EU first systematically took up the removal of technical barriers in 1969 with its 'General Programme'. This launched what came to be called the 'traditional' or 'old' approach to TBT liberalization. The approach adopted relied on detailed technical regulations for single products or groups of products implemented by unanimously agreed directives. Since unanimity was required, this approach failed. Harmonization proceeded much more slowly than the development of new national barriers. For example, ten years were required to adopt a directive on gas containers made of unalloyed steel and nine and a half years was the average delay for the 15 directives adopted en masse in 1984. In the meantime, Member States were implementing thousands of technical standards and regulations a year.

Stagflation, teamed with the failure of the initiatives to forge deeper monetary and trade integration, created a gloom over the 'European construction'. Many inside and outside Europe suspected that the ideals that had driven European integration since the late 1940s were dying or dead; the stars, so to speak, were falling off the EU flag.

Yet there were some bright spots in European integration during this period.

1.4.4 Bright spots

Spain, Portugal and Greece all adopted democratic governments, thus rendering them eligible for EEC membership. Greece joined in 1981, followed by the Iberians in 1986. The European Monetary System (EMS) started operation in 1978 and was successful in stabilizing intra-EEC exchange rates. EEC financing was put on a firm footing with two budget treaties (1970 and 1975; see Chapter 2 for details). The institutions of the three communities (ESCS, Euratom and EEC) were rationalized by the 1965 Merger Treaty and the EU Parliament was directly elected for the first time in 1979; previously, its members came from the members' national parliaments.

In the USA and Europe, central bankers decided to fight inflation – which had reached double-digit figures in most industrial nations. They did so by inducing a long, hard recession. Between 1981 and 1983 growth was negative or only slightly positive in most of Europe. While inflation rates did decline, this was at the cost of a significant increase in unemployment.

Starting in 1984, economic growth resumed. Political attitudes also changed – in particular, a strenthened belief in market economics began to spread throughout the industrialized world. US President Reagan and British Prime Minister Thatcher are often cited as vanguards, but even the socialist French President Mitterrand adopted a much more favourable attitude towards market-based solutions. While there are many causes for this philosophical shift, the fact that highly interventionist policies had failed to prevent ten years of poor economic performance is surely one of the most important.

1.5 Deeper circles and the domino effect part II: the Single Market Programme and the EEA

This favourable economic climate was matched with the arrival of a talented promoter of European integration, Jacques Delors (see Box 1.8). Delors, President of the European Commission from 1985 to 1994, sought to kick-start European integration by pushing for the 'completion' of the internal market that had been promised in the Treaty of Rome. He dubbed this the 'Single Market Programme'. By July 1987, all Member States had adopted the Single European Act, which is the Community legislation that implemented the Single Market measures (along with many other changes).

Box 1.8 Jacques Delors (1925–)

© European Union, 2014

Jacques Lucien Jean Delors, born in Paris, held a series of posts in banking and the French government. He was heavily engaged in the trade union movement and a devout Catholic. After a stint in the European Parliament, he became Finance Minister under French President Mitterrand. He was President of the European Commission during the most important deepening of European economic integration since the 1950s – an outcome that most observers accredit to his savvy and energy. He was critical to the passing of the 1986 Single European Act, which led to sweeping economic integration.

Delors was also instrumental in the Economic and Monetary Union (EMU), which led to the creation of the euro. Among his many other accomplishments, he pushed through a reform of EU financing and redirected EU spending away from agriculture and towards support for disadvantaged regions.

1.5.1 The Single Market Programme

In 1985, EU firms enjoyed duty-free access to each other's markets; however, they did not enjoy free trade. Intra-EC trade was shackled by a long list of trade-inhibiting barriers such as differing technical standards and industrial regulations, capital controls, preferential public procurement, administrative and frontier formalities, VAT and excise tax rate differences and differing transport regulations, to mention just a few. Although the vast majority of these policies seem negligible individually, the confluence of their effects served to substantially restrict intra-Community trade.

Indeed, many of these barriers were introduced in the 1970s as European nations increasingly adopted standards and regulations that were aimed at protecting consumers, workers and the environment. The free movement of goods was also restricted by national and local government practices such as biased purchasing patterns, exclusive production or service rights, and production subsidies to national champions. Likewise, the free movement of services – which was guaranteed in principle by the Treaty of Rome – was far from being a reality, again largely due to national prudential and safety regulations. Service providers typically were required to possess local certification and the requirements for such certification often varied across nations. Moreover, the certification process was often controlled or influenced by the national service providers, which had an economic interest in excluding foreign competitors via this certification process.

The key changes in the Single Market Programme were designed to reinforce the 'four freedoms' (free movement of goods, services, people and capital) promised by the Treaty of Rome. The concrete steps were:

- Liberalization of trade in goods
- Streamlining or elimination of border formalities
- Harmonization of VAT rates within wide bands
- Liberalization of government procurement
- Harmonization and mutual recognition of technical standards in production, packaging and marketing
- Liberalization of factor trade
- Removal of all capital controls
- Increase in capital market integration
- Liberalization of cross-border market-entry policies, including mutual recognition of approval by national regulatory agencies

The Single European Act also implemented important institutional changes. To clear the decision-making log-jam that had held up similar integration initiatives in the 1970s, the programme included a major change in the EU's decision-making procedures. Decisions concerning Single Market issues would be adopted on the basis of majority voting instead of on a basis of unanimity (see Chapter 3 for a discussion of EU decision-making procedures). This change in voting procedures was part of the so-called new approach to TBT liberalization.

Focus on capital mobility

The most novel aspect of the Single Market Programme was its focus on capital mobility; other features can be viewed as deepening or extending integration initiatives already agreed. Some EU members had unilaterally liberalized capital mobility, but many resisted. The Single Market Programme ruled out all remaining restrictions on capital movements among EU residents by 1988.

It is possible to think of this aspect of the Single Market Programme as unleashing a political economy process that eventually led to the euro. Simple macroeconomic logic (explained in Chapter 13) tells us that, without capital controls, nations must choose between controlling their exchange rate and controlling their monetary policy. Since exchange rate stability was considered paramount, EU members enslaved their monetary policy to achieve exchange rate stabilization in the context of the EMS. But once nations were no longer actively using monetary policy, resistance to centralizing monetary policy decisions in a European central bank was greatly weakened.

1.5.2 The EEA and the fourth enlargement

Since the Single European Act promised much tighter economic integration among EU members, non-EU nations again found themselves threatened by the discriminatory effects of integration in the EU. As in the 1960s and early 1970s, this triggered a domino effect as EFTA firms prompted their governments to offset that discrimination by seeking closer ties to the EU.

In the late 1980s, EFTA governments had decided that they must react to the Single Market. Several considered applying for EU membership (Austria actually did so), while others contemplated bilateral negotiations. Jacques Delors forced the decision in January 1989 by proposing the European Economic Area (EEA) agreement, which essentially extends the Single Market to EFTA economies (apart from agriculture and the Common External Tariff).

Given the political economy forces described above, it is easy to understand why EFTA nations wanted the EEA. Two aspects of the EEA, however, are extraordinary. First, the EEA is unbalanced in terms of the rights and obligations of EFTA nations in relation to future EEC legislation. The EEA commits EFTA nations to accepting future EU legislation concerning the Single Market, without any formal input into the formation of these new laws. Second, the EEA created supranationality among the EFTA nations, a feature that they had resisted since the end of the war.

As it turned out, EFTA nations were not happy with the EEA compromises, especially in the post-Cold War environment, where the East–West political division of Europe appeared to have vanished. By the end of the EEA negotiations, Austria, Finland, Sweden, Norway and Switzerland had applied for EU membership. For them, the EEA was a transitional arrangement. Swiss voters rejected the EEA in December 1992, effectively freezing their EU application. Accession talks with the four EFTAns were successful, however. The EEA thus now consists of the EU27, on one hand, and Norway, Liechtenstein and Iceland, on the other (Norway's voters rejected EU membership by referendum and Switzerland has an EEA-like bilateral deal with the EU).

The Single Market, EEA and plans for monetary union were launched while Cold War politics still mattered. They came to fruition in a very different world.

1.6 Communism's creeping failure and spectacular collapse

The division of Europe into communist and capitalist camps was cemented, quite literally, in 1961 by the construction of the Berlin Wall. While living standards were not too dissimilar to begin with, by the 1980s western European living standards far outstripped those in Eastern Europe and the USSR. Anyone could plainly see that the West's economic system (free markets and an extensive social welfare system) when teamed up with its political system (multi-party democracy and freedom of the press) provided a far better way of life compared to the East's system of planned economies and one-party rule.

While this 'creeping failure' of communism was apparent to the central and eastern European countries (CEECs), Soviet leaders repeatedly thwarted reform efforts via constant economic pressure and occasional military intervention. By the 1980s, the inadequacy of the Soviet system forced changes inside the USSR itself. The USSR adopted a policy of timid pro-market reforms (*perestroika*) and a policy of openness (*glasnost*), which involved a marked reduction in internal repression and diminished intervention in the affairs of the Soviet republics and Soviet-bloc nations.

As far as European integration was concerned, the Soviet foreign policy changes were critical. Pro-democracy forces in the CEECs, which had been repeatedly put down by military force hereto, found little resistance from Moscow in the late 1980s. The first breach came in June 1989 when the Polish labour movement 'Solidarity' forced the communist government to accept free parliamentary elections. The communists lost and the first democratic government in the Soviet bloc took power. Moscow rapidly established ties with the new Polish government.

Moscow's hands-off approach to the Polish election triggered a chain of events over the next 2 years that revolutionized European affairs. Pro-reform elements inside the Hungarian communist party pressed for democratic elections, and, more dramatically, Hungary opened its border with Austria. Thousands of East Germans reacted by moving to West Germany via Hungary and Austria. This set off mass protests against communist repression in East Germany, which culminated in the opening of the border between East and West Germany.

On 9 November 1989, thousands of West and East Berlin citizens converged on the Berlin Wall with pickaxes and sledgehammers to dismantle that symbol of a divided Europe (Figure 1.7). By the end of 1989, democratic forces were in control in Poland, Hungary, Czechoslovakia and East Germany. In 1990, East and West Germany formed a unified Germany and three Soviet republics – Estonia, Latvia and Lithuania – declared their independence from the USSR. By the end of 1991, the Soviet Union itself had broken up, putting a definitive end to its interference in central and eastern Europe. The European Union reacted swiftly to this geopolitical earthquake by providing emergency aid and loans to the fledgling democracies.

Figure 1.7 Solidarity movement and fall of the Berlin Wall

© Mary Evans Picture Library/Interfoto Agentur

1.6.1 Maastricht Treaty, the euro and German unification

The 'political earthquake' caused by the falling of the Berlin Wall also yielded substantial changes within the EU. With the wall gone, unification of the western and eastern parts of Germany was the natural next step, but a unified Germany would be a behemoth. With 80 million citizens and responsible for 30 per cent of Europe's output, Germany would be much larger than France, Britain or Italy. This raised many fears, ranging from a disturbed political balance in the EU to the unlikely, but still scary, spectre of German militarism. Many Europeans, including many Germans, felt that Germany would be best unified in conjunction with a big increase in the forces tying EU members together.

Riding on his success with the Single Market, Jacques Delors seized this historical moment and proposed a radical increase in European economic integration – the formation of a monetary union – a step that he believed would eventually lead to political integration.

The idea was quickly championed by French President François Mitterrand and German Chancellor Helmut Kohl. After extensive negotiations, the EU committed itself to a target of forming a monetary union by 1999 and adopting a single currency by 2002. This commitment was made in the Treaty of Maastricht.

The Maastricht Treaty is covered in depth in Chapter 14, but for the purposes of this chapter it is important to note that the Maastricht Treaty – formally known as the Treaty on European Union – embodied the most profound deepening of European integration since the Treaty of Rome. In addition to committing members to a transfer of national sovereignty over monetary power to a supranational body (the European Central Bank), and abandonment of their national currencies for the euro, the Treaty also:

- created EU citizenship; this included the right to move to and live in any EU state (the Treaty of Rome only guaranteed the right to work in any Member State) and to vote in European and local elections in any Member State;
- locked in the free movement of capital;
- strengthened EU cooperation in non-economic areas, including security and defence policy, law enforcement, criminal justice, civil judicial matters, and asylum and immigration policies;
- enshrined the principle of subsidiarity that was meant to control the transfer of responsibilities from Member States to the European Union;
- strengthened the European Parliament's power over EU legislation;
- introduced the 'Social Chapter' which expanded the EU's social dimension by introducing policies on workers' health and safety, workplace conditions, equal pay and the consultation of employees.

The most historic change was of course the commitment to adopt a single currency. As this subject is covered in great detail in Part V of the book, this chapter deals only with the aspects that are essential to understanding subsequent developments – except those related to the Eurozone crisis, which are dealt with at length in Chapter 19.

Maastricht ratification difficulties

EU treaties such as Maastricht have power because they must be part of each Member State's domestic law, i.e. EU treaties must be ratified by each and every member if they are to come into force. In many EU nations, ratification involves a vote by the national parliament; in others, a referendum. The Maastricht Treaty experienced great difficulties with ratification.

During the negotiations, the British insisted on a formal opt-out from the common currency (the idea was that all other members would have to adopt the euro once they met the criteria) and from the Social Chapter. Even with these provisos, Eurosceptics from his own party nearly brought down British Prime Minister John Major's government during the UK Parliamentary ratification vote. French President François Mitterrand put the Treaty to a referendum expecting a massive 'yes' vote that would bolster the Treaty's prospects (referenda are not mandatory in France), but only 51.4 per cent of the French voted 'yes'. The Treaty was challenged (unsuccessfully) as unconstitutional before Germany's High Court.

More problematic was the fact that Danish voters narrowly rejected the Treaty in a 1992 referendum. After EU leaders agreed to grant Denmark opt-outs on the single currency and defence matters, a second vote on Maastricht was held and the Danes reversed their own veto by voting 'yes'. The Treaty came into force in November 1993.

1.7 Reuniting East and West Europe

Given that almost every other nation in the region had free trade access to the enormous EU market, free trade agreements with the EU were a commercial necessity for the newly free central and eastern European countries (CEECs). Their strategic goal, however, was EU and NATO membership. CEEC leaders felt unsure that the new situation was permanent. If things went wrong in Russia and the iron curtain re-descended, each CEEC wanted to be sure that the curtain would, this time, come down east of its border.

1.7.1 First steps: the Europe Agreements

Each CEEC announced that its goal was to join the EU. The EU, by contrast, was reluctant in the early 1990s. Sidestepping the membership issue, the EU signed Association Agreements (also called Europe Agreements) with Poland, Hungary and Czechoslovakia in 1991. Europe Agreements for other CEECs followed progressively. By 1994, such deals had been signed with Romania, Bulgaria, Albania, Estonia, Latvia and Lithuania.

The Europe Agreements established bilateral free trade between the EU and each individual CEEC. Beyond the removal of tariffs on most industrial goods, a further goal was to make progress towards 'realizing between them the other economic freedoms on which the Community is based'. The adoption of EU laws and practices (competition policy, harmonized standards, etc.) helped the CEECs establish functioning market economies faster than they could have on their own. EFTA negotiated similar bilateral agreements in parallel. Some CEECs also signed trade arrangements among themselves. The goal of EU membership provided an important political anchorage that kept the pro-market reforms on track.

The Europe Agreements stopped short of offering EU membership – reflecting the profound ambivalence that many West Europeans initially felt towards eastern enlargement in the 1980s. For instance, slow action of the parliaments of EU Member States meant that the Europe Agreements signed with Hungary and Poland in December 1991 entered into force only in February 1994. Most of the hesitation was due to the economic nature of the CEEC. The CEECs were poor, populous and agrarian. Since the EU spent 80 per cent of its budget on farms and poor regions, eastern enlargement was viewed as a threat to EU special interest groups.

1.7.2 Copenhagen to Copenhagen: from 1993 accession criteria to EU membership

The EU officially ended its hesitancy in June 1993. In Copenhagen, the EU's key political body – the European Council – decided the associated CEECs could become EU members. The Council laid out the so-called Copenhagen Criteria for membership. These – which are still applied today – are:

- political stability of institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities;
- a functioning market economy capable of dealing with the competitive pressure and market forces within the Union;
- acceptance of the Community 'acquis' (EU law in its entirety, including all the treaties and subsequent rules) and the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

1.8 Preparing for eastern enlargement: a string of new treaties

Once the EU15 leaders confirmed that the CEECs would eventually join, the next order of business was to get EU institutions – which had been designed for 6 members and were straining to work with 15 – ready for a dozen new members. This started a chain of events that eventually ended in adoption of the Lisbon Treaty in December 2009.

The process began formally in December 1993. A treaty-writing exercise (what the EU calls an Intergovernmental Conference, or IGC) had already been scheduled in the 1992 Maastricht Treaty for 1996. The original purpose was something of a 'check-up' halfway into the timetable for monetary union. Building on this, the 1993 Brussels European Council added EU institutional reform to its agenda. The EU was using institutional structures and procedures that had been designed for six members in the late 1950s. By the 1990s, these were proving hard to make work for 15 members; adding another 10 or 12 would require EU institutional reform.

The group set up to propose such changes produced the so-called Westendorp Report. This identified Council of Minister voting and the number of Commission members as areas requiring reform but could not reach agreement on solutions. Agreement on problems and disagreement on solutions marked the four attempts at reform made by the EU over a 16-year period (Amsterdam, Nice, Constitutional and Lisbon Treaties). Moreover, the disagreements it highlights – big member vs. small members, federalists vs. intergovernmentalists, etc. – are exactly those that plagued every step of the decade-long process of reforming EU institutions.

1.8.1 Amsterdam Treaty: cleaning up the Maastricht Treaty

The 1996 IGC produced the Amsterdam Treaty in 1997. Ambitions for the Amsterdam Treaty were high – the mandate was to agree all the necessary enlargement-related reforms highlighted by the Westendorp Report. By this yardstick, it failed.

The Amsterdam Treaty is best thought of as a tidying up of the Maastricht Treaty. The substantive additions included a more substantial role for the EU in social policy formation (UK Prime Minister Tony Blair cancelled the British opt-out). The powers of the European Parliament were modestly boosted, and the notion of flexible integration, so-called closer cooperation, was introduced (see Chapter 2 for details).

The key enlargement-related reforms were not settled but were still pressing, so EU leaders agreed a list called the 'Amsterdam leftovers'. They also agreed to launch a new IGC in 2000.

1.8.2 Nice Treaty: failed attempt to reform EU institutions

After the year-long preparation of the IGC 2000, EU leaders met in Nice in December 2000 to wrap up a new treaty that was supposed to deal with the Amsterdam leftovers. At 4 o'clock in the morning, after the longest EU summit in history, EU leaders announced political agreement on a new treaty.

The result – the Treaty of Nice – was not a success. The critical Amsterdam leftover issues – the size and composition of the Commission, extension of majority voting in the Council of Ministers and reform of Council voting rules – were not fully solved (see Chapter 3 for details). For example, the chairmanship of then-French President Jacques Chirac (France chaired the European Council at the time) was heavily criticized by leaders of the European Parliament and the President of the European Commission, Romano Prodi. Indeed, a few days after the Nice Summit, the European Parliament adopted a resolution that accused the governments of having given 'priority to their short-term national interests rather than to EU interests'. Back then, however, the European Parliament did not have the power to block a new treaty.

Nice Treaty ratification difficulties

The Nice Treaty experienced some trouble with ratification but far less than did the Maastricht Treaty. Only the Irish refused to ratify the Nice Treaty in a referendum. Since a new treaty cannot come into force until all EU members have ratified it, the Irish 'no' had to be addressed. The solution was to make a number of political commitments guaranteeing Irish neutrality and to have all 14 other members ratify the Treaty. Irish voters were then asked to vote again; the second time they said 'yes'.

Note: Sinn Féin opposed the Nice Treaty, but most political parties supported it. Irish voters reversed their decision following EU assurances on military issues.

Incomplete reform

EU leaders at the Nice Summit knew that the Treaty did not fully adjust the EU to the new realities of the coming enlargement. In what had become a familiar pattern, part of the final political deal on the Treaty at Nice was an agreement to hold another IGC to complete the reform process. This 'Declaration on the Future of the Union' highlighted four themes:

1. defining a more precise division of powers between the EU and its members;
2. clarifying the status of the Charter of Fundamental Rights proclaimed in Nice;
3. making the treaties easier to understand without changing their meaning;
4. defining the role of national parliaments in the European institutions.

1.8.3 Eastern enlargement and the Constitutional Treaty

One year after the Nice Summit, the European Council met in the Belgian city of Laeken to adopt the 'Declaration on the Future of the European Union'. This provided an outline for thinking about the new treaty to be written by the IGC in 2004.

In light of the difficult Nice Summit, the Laeken Council also decided on a novel working method. It convened the 'Convention on the Future of Europe', which came to be known as the European Convention, consisting of a large number of men and women representing current and prospective Member States, the national parliaments, the European Parliament and the Commission. The Convention's output was to be the point of departure for the IGC 2004 that would draft the actual treaty (as required by EU law).

As far as its contents are concerned, the 'Laeken Declaration' contains a list of issues that is surprisingly close to that of the 1995 Westendorp Report. The Laeken Declaration, however, included two crucial novelties:

- The Declaration implicitly admits that the Nice reforms were insufficient. In effect, it asks the Convention to reform the Nice Treaty reforms before they have even been implemented (most Nice Treaty changes only took effect after 2004).
- While the Nice Declaration made no mention of a constitution, the word does appear in the Laeken Declaration.[1]

The European Convention, February 2002–July 2003

The European Convention was run by former French President Valéry Giscard d'Estaing with the assistance of two Vice-Chairmen (see Figure 1.8). It started slowly and many early observers expected its large size and ill-defined objectives to result in a muddled outcome.

Figure 1.8 The European Convention was run by its presidium

Presidential podium at the plenary session debate on institutional questions, January 2003. From left to right: Jean-Luc Dehaene (Vice-Chairman, Belgium), Giuliano Amato (Vice-Chairman, Italy) and Valéry Giscard d'Estaing (Chairman, France). © European Union, 2014

However, by mid-2002 President Giscard d'Estaing had redefined the Convention's purpose. The 'Convention on the Future of Europe' was transformed into a constitution-writing convention. The new

[1] The Laeken Declaration included the following statement: 'The question ultimately arises as to whether this simplification and reorganization might not lead in the long run to the adoption of a constitutional text in the Union. What might the basic features of such a constitution be? The values which the Union cherishes, the fundamental rights and obligations of its citizens, the relationship between Member States in the Union?'

goal was to present the EU heads of state and government with a fully written constitution. This changed everything. From that point onward, EU members started sending heavyweight politicians in place of low-level representatives. All arguments over the need for a constitution were dropped; discussion turned instead to its content.

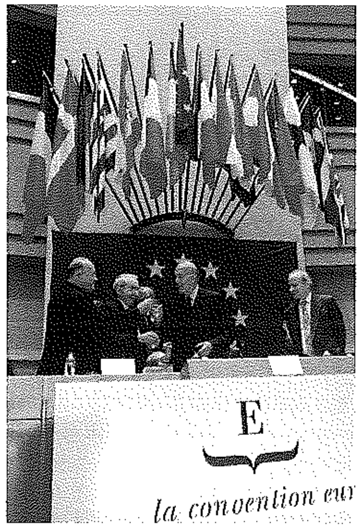
Chairman Valéry Giscard d'Estaing was firmly in charge. The Convention's decision-making procedure involved no voting by representatives and indeed no standard democratic procedure of any kind. The Convention adopted its recommendations by 'consensus', with Giscard d'Estaing defining when a consensus existed. The representatives of the candidate countries participated fully in the debate, but their voices were not allowed to prevent a consensus among representatives of the then-15 members of the EU.

These unusual features of the Convention's working method go a long way to explaining the many problems that the Constitutional Treaty was soon to face.

The IGC's failure and the Irish compromise

The process of turning the Convention's draft into an EU treaty (see Figure 1.9) did not start well. Although the draft was presented in July 2003, Italian Prime Minister Silvio Berlusconi (Italy chaired the European Council at the time) convened the IGC only in October 2003. Differences that had been papered over in the Convention emerged immediately – especially the critical Council voting question which had not been openly discussed in the Convention (see Chapter 3 for details). The Italian Presidency failed to bridge the differences – ending hopes that reform would come before enlargement.

Figure 1.9 Toast at the Convention's last Plenary Session, 13 June 2003



Source: © European Union, 2014

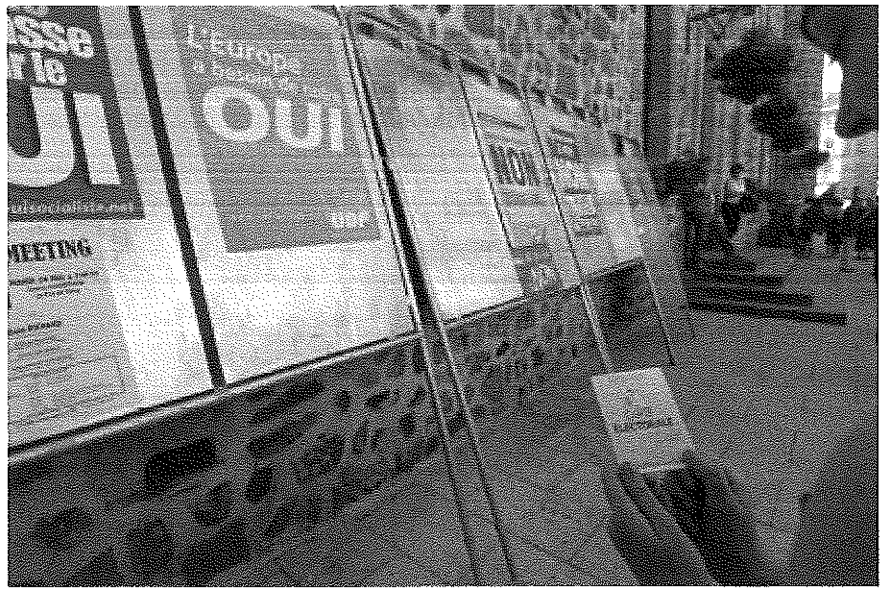
All EU members – including the ten members that joined in 2004 – agreed that institutional reform was a must, so the Irish government, which took over the EU Presidency from the Italians, made a new attempt to rewrite the European Convention's rejected draft. Skilful diplomacy by the Irish Presidency and a change of government in Spain permitted a grudging and difficult but ultimately unanimous acceptance of a new draft at the June 2004 summit of EU25 leaders. With this high-level political compromise in hand, the IGC completed its work and the Constitution was signed in Rome in October 2004.

Constitutional Treaty ratification difficulties

For a variety of reasons, five EU nations that would normally have ratified the Constitutional Treaty by parliamentary vote opted for referenda: France, the Netherlands, the UK, Luxembourg and Spain. Two of these – France and the Netherlands – turned in 'no' votes in mid-2005 that derailed the whole process.

The French and Dutch 'nos' were quite a different problem for EU leaders from the Danish and Irish 'nos' on the Maastricht and Nice Treaties. Apart from the fact that the Dutch and French were founding members, the number of no-voters was entirely different. In the first Irish poll on the Nice Treaty, less than a million people voted and only 530,000 said 'no'. In the French referendum, 16 of 29 million French voters said 'no' (see Figure 1.10). Three days later, 4.7 out of 7.6 million Dutch rejected the Treaty. While EU leaders could 'work around' 530,000 Irish no-sayers, it was impossible to ignore over 20 million 'nos'.

Figure 1.10 Posters for the French Constitutional Treaty referendum



In reaction, EU leaders suspended the ratification process and declared a 'period of reflection'.

1.8.4 The Lisbon Treaty

Two inadequate reform attempts (Amsterdam and Nice Treaties), a decade of on-and-off negotiations and four rejections by European voters made it clear that EU institutional reform was not easy and was not popular with EU voters. Why didn't EU leaders just abandon the project? The answer lies in the factors that had been obvious since the 1993 Westendorp Report. An EU of 25 had to reform its institutions if it was to continue functioning effectively and legitimately; the Nice Treaty reforms were not good enough.

Germany re-launches the institutional reform process

The process was re-launched when Germany took on the rotating EU Presidency in 2007. Guided by forceful German leadership, EU leaders declared the Constitutional Treaty to be dead and agreed on the basic outlines of its replacement – the Reform Treaty, which came to be known as the Lisbon Treaty after the city in which it was signed in December 2007.

As EU leaders had been talking about institutional reform since the mid-1990s and the best they could agree on was already in the Constitutional Treaty, EU leaders included all the main Constitutional Treaty reforms in the Lisbon Treaty but packaged them very differently:

- All the grandiloquent language and gestures to supranationalism were dropped.
- All references to symbols of statehood were jettisoned – the flag, the anthem, the Foreign Ministers and the like.
- The word 'constitution' was banished.

The only federalist token was to merge the term 'European Community' with European Union.

Lisbon Treaty ratification difficulties

The idea behind the German repackaging strategy was to avoid referenda in as many nations as possible. By making it more of a technocratic amendment of the existing legal structure, most EU governments felt they would be justified in ratifying the Lisbon Treaty by a vote of the national parliament – the procedure adopted for most treaties by most members since the very beginning. By and large, it worked. The Irish constitution, however, requires a referendum on any law that changes the relationship between Irish law and EU law. Since the Lisbon Treaty certainly meets this criterion, a vote was held in July 2008. The no-voters won by a solid margin.

To justify holding a new vote, the Irish government obtained promises from fellow EU leaders that directly addressed the concerns of certain segments of the Irish electorate. With these promises in hand, the Irish reversed their 'no' in October 2009. The Treaty came into effect in December 2009.

The Lisbon Treaty instituted many important changes. These are addressed at length in Chapters 2 and 3.

1.9 Global and Eurozone crises and institutional responses

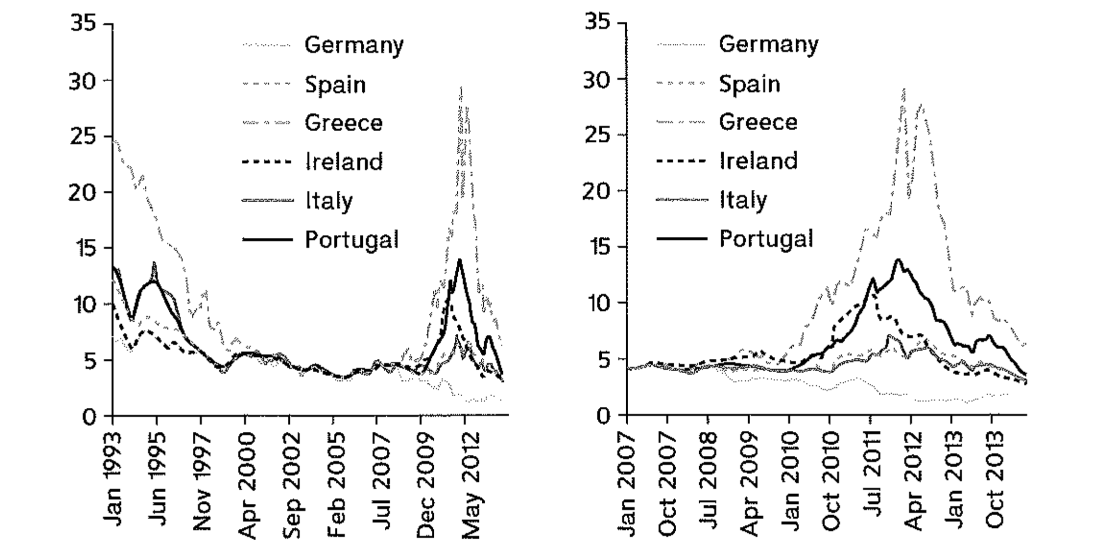
European economic integration during the 1990s and much of the 2000s was smooth sailing despite the 'Treaty troubles' discussed above. EU growth was good, unemployment was low and inflation was low and steady. This period has been called the 'Great Moderation'. It seemed that superior monetary policy in all high-income nations was able to avoid important recessions while keeping inflation under control. In Europe, the monetary union was given a good deal of credit for this favourable outcome.

An indicator of these happy economic times was a convergence of Eurozone long-run interest rates with the low levels achieved by Germany (see Figure 1.11). The economic logic is simple. Long-run interest rates reflect the interest rate that investors demand for locking up their money for 10 years or so. Traditionally, nations with unstable monetary and economic policies – Greece, for example – would have to pay higher interest rates to convince investors. During its first decade of existence, the Eurozone erased this difference, as Figure 1.11 shows. By January 2007, for example, there were almost no differences between lending rates to Germany and Greece.

In many nations, the USA included, this situation – and the confidence it inspired – encouraged investors to borrow money to invest. This so-called leverage made the borrowers – be they nations, banks or individuals – susceptible to interest rate rises and/or interruptions in the flow of new borrowing. The USA in particular saw a spectacular rise in lending to home buyers with very poor credit. In autumn 2007, confidence in these so-called subprime loans evaporated, causing huge financial stress for banks and other investors who had made such loans. The US government responded by helping the fragile lenders. However, as we now know, rather than making the problem better, such assistance actually made it worse. The bad debt began to be concentrated in a few banks and other financial institutions.

On 15 September 2008, a major US bank, Lehman Brothers, was caught between a rock and a hard place. It had loans to repay but could not convince enough investors to lend it new money. Instead of bailing out Lehman's, the US authorities decided to allow it to go broke; the idea was to teach other banks that they should be careful. The tactic backfired spectacularly as it set off the largest crisis since the Great Depression – the so-called Global Crisis that is still echoing around the world in 2014. In autumn 2008, all sorts of lenders feared that other banks and financial institutions would go broke and, as a result, almost all lending ceased. Banks, however, have to continually borrow new money to pay off debt previously

Figure 1.11 Eurozone long-run interest rates, 1993–2014



Source: Authors' elaboration on ECB data

incurred. In other words, the fear of a sudden halt in lending can create a situation whereby the fear of bank insolvency is actually realized. Basically, all large US banks were technically broke. This situation rapidly spread to Europe.

The response of the USA, the UK and other governments could comprise a book of its own, but as far as the Eurozone was concerned, the impact came later. The Lehman wake-up call led investors in Europe to resume their old tactic of charging higher interest rates to weak nations. As the right panel of Figure 1.11 shows, interest rates started to diverge between, for example, Greece and Germany (the right panel is the same as the left panel but shows fewer years for the sake of clarity).

It was into this situation of heightened fragility that the Greek and Irish 'bombs' were thrown. In January 2009, a very large Irish bank (which was heavily over-extended in terms of property loans) essentially went bankrupt. To avoid losses, the Irish government agreed to nationalize the bank. In October 2009, the newly elected socialist premier in Greece announced that his predecessor had 'cooked the books' concerning the size of the Greek national debt and deficit (i.e. the gap between government revenue and spending). These bombs simultaneously made the respective governments much more indebted and raised the interest rate they had to pay on those debts.

As it transpired, these shocks threw Greece and Ireland into what would be considered bankruptcy if they were individuals. The sudden increases in Greek and Irish national debt and the higher interest rates led to questions regarding their solvency as nations. Such doubts led investors to demand higher interest rates, which in turn fuelled fears about their solvency. On top of this, financial markets began to fear that the crisis-struck nations might abandon the euro and allow their currencies to fall in value. This fear simply added to the likelihood of a debt meltdown and thus pushed long-run interest rates even higher.

First Greece and then Ireland asked for emergency loans from other EU nations and the International Monetary Fund (IMF). They did so because they were unable to fund their budget deficits at sustainable interest rates on the financial markets. If they had not received the loans, they would have faced the prospect of defaulting on their debt. As fear spread, so interest on vulnerable governments' debt rose. In other words, the Eurozone crisis spread. The emergency loans to Greece in May 2010 and Ireland in February 2012 were followed by emergency packages for Portugal in May 2011, for Spanish banks in July 2012 and for Cyprus in May 2013.

Parts IV and V cover these events in much greater detail, but for this chapter a key outcome was a massive institutional reform that ended up transferring significant amounts of sovereignty from Eurozone nations to the Eurozone level. The main examples are a sequence of EU laws restricting Eurozone members' ability to run independent tax and spending policies. Eurozone members also agreed to adopt German-style constitutional rules for balanced budgets, going by the evocative names of Six Pack, Two Pack, European Semester and Debt Brake, for example.

On top of these changes affecting national budgetary policies, the Eurozone crisis led to the establishment of a bailout fund called the European Stability Mechanism, common banking oversight for large banks and a procedure for allowing bad banks to go broke without all investors losing all of their money. In short, the seeds of both a banking and a fiscal union were planted by the EU's response to the crisis.

While the Eurozone crisis is far from over, the most intensive and dangerous phase does seem to have passed. The critical moment was when ECB President Mario Draghi announced in a speech that the ECB would do whatever it took to keep the Eurozone from breaking up. From this moment onwards, the very high interest rates started to converge back towards German rates and the immediate fears of a Eurozone break up and national debt defaults faded.

1.10 Summary

It is impossible to summarize 70 years of European integration in a few paragraphs. But it is possible to highlight the main events and lessons as far as the economics of European integration are concerned.

European integration has always been driven by political factors, ranging from a desire to prevent another European war to a desire to share the fruit of integration with the newly democratic nations in central and eastern Europe. Yet while the goals were always political, the means were always economic.

There have been basically three big increases in European economic integration. Formation of the customs union from 1958 to 1968 eliminated tariffs and quotas on intra-EU trade. The Single Market Programme implemented between 1986 and 1992 (although elements are still being implemented today) eliminated many non-tariff barriers and liberalized capital flows within the EU. Finally, the Economic and Monetary Union melded together the currencies of most EU members.

Each of these steps towards deeper integration – but especially the customs union and the Single Market Programme – engendered discriminatory effects that triggered reactions in non-member nations. Just as the knocking down of one domino triggers a chain reaction that leads to the fall of all dominoes, the discriminatory effects of EU integration have created a powerful gravitational force that has progressively drawn all but the most reluctant Europeans into the EU. If there is a lesson to draw from this for the future, it is that the 2004 enlargement is likely to greatly magnify the pro-EU membership forces in the nations further east and south.

In the current decade, the Eurozone crisis has triggered institutional changes that have substantially deepened European integration.

Self-assessment questions

1. Draw a diagram (or diagrams) that graphically shows the major steps in European economic integration, along with dates and the names of the countries involved. Be sure to discuss explicitly the removal of various barriers to the movement of goods, labour and capital.
2. Draw a diagram like Figure 1.4 that shows the current state of trade arrangements in Europe, including all European nations west of the Urals.
3. Make a list of all the EU treaties (with dates) and provide a ten-words-or-less explanation of each treaty's major contribution to European integration.
4. Make a list of the dates of the major stages in the Common Agricultural Policy and its reforms (see europa.eu.int/comm/agriculture/index_en.htm for details).

5 Make a list of the dates of the major stages in the EU structural spending programmes (see http://ec.europa.eu/regional_policy/index_en.cfm for details).
6 What were the main challenges posed by eastern enlargement of the European Union and how was the Treaty of Nice meant to address these challenges?
7 Some European integration experts subscribe to the so-called bicycle theory of integration, which asserts that European integration must continually move forward to prevent it from 'falling over', i.e. breaking down. List a sequence of events from 1958 to 1992 that lends support to this theory.
8 Explain how Cold War politics accelerated European integration in some ways but hindered it in others, such as geographic expansion of the EU.
9 Explain when and by which means the organization that is known as the European Union has changed names since its inception in 1958.
10 Make a table showing the dates of all changes in EU and EFTA membership.

Further reading: the aficionado's corner

For a good, general description of the development of European integration, see:
Urwin, D. (1995) *The Community of Europe*, Longman, London.

Two books that challenge the traditional view that federalist idealism was important in the development of Europe are:
Milward, A. (1992) *The European Rescue of the Nation-state*, Cambridge University Press, Cambridge.
Moravcsik, A. (1998) *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, Cornell University Press, Ithaca, NY.

A detailed description of post-war growth can be found in:
Botting, D. (1985) *From the Ruins of the Reich: Germany 1945–1949*, New American Library, New York.
Crafts, N. and G. Toniolo (1996) *Economic Growth in Europe since 1945*, Cambridge University Press, Cambridge.
Jackson, J. (2003) *The Fall of France*, Oxford University Press, Oxford.
Lamfalussy, A. (1963) *The UK and the Six: An Essay on Economic Growth in Western Europe*, Macmillan, London.
Moravcsik, A. (1998) *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, Cornell University Press, Ithaca, NY.
Tsebelis, G. (2005) 'Agenda setting in the EU constitution: from the Giscard plan to the pros ratification(?) document', paper presented at the DOSEI conference, Brussels, http://sitemaker.umich.edu/tsebelis/files/giscardagenda.pdf.

Useful websites

The European Parliament's 'factsheets' provide an excellent, authoritative and succinct coverage of many historical institutions, policies and debates. For example, it has pages on the historical development of the Parliament's role, on historical enlargements and on every treaty. See www.europarl.eu.int/factsheets/default_en.htm.
Very detailed information on any topic concerning the EU can be found at http://ec.europa.eu/index_en.htm.
A good glossary can be found at http://europa.eu/legislation_summaries/glossary/.
Details on specific treaties (including handy summaries) can be found at http://europa.eu/about-eu/basic-information/decision-making/treaties/index_en.htm.
For Marxist–Leninist thinking on capitalism, imperialism and war, see this tract by Leon Trotsky at http://www.marxists.org/archive/trotsky/1939/09/ussr-war.htm.
The Truman Library website www.trumanlibrary.org/teacher/berlin.htm is a good source for early post-war background documents online.
The Centre Virtuel de la Connaissance sur l'Europe provides a complete and well-organized website for documents, photos, videos, etc. on virtually every aspect of European integration at www.cvce.eu.
The German Historical Museum (DHM) provides photos and videos of Germany's wartime experience at www.dhm.de/lemo/html/Nachkriegsjahre/DasEndeAlsAnfang/.

References

Baldwin, R. (1994) *Towards an Integrated Europe*, CEPR, London. Freely downloadable from http://heiwww.unige.ch7Baldwin/papers.htm.
Baldwin, R. (1995) 'A domino theory of regionalism', in R. Baldwin, P. Haaparanta and J. Kiander (eds) *Expanding European Regionalism: The EU's New Members*, Cambridge University Press, Cambridge.
BBC (2012) 'Nigel Farage warns of EU "mass unrest" and "revolution", www.bbc.co.uk/news/uk-politics-18014552.
Crafts, N. and G. Toniolo (1996) *Economic Growth in Europe since 1945*, Cambridge University Press, Cambridge.
Eichengreen, B. and J.B. de Macedo (2001) 'The European payments union: history and implications for the evolution of the international financial architecture', in A. Lamfalussy, B. Snoy and J. Wilson (eds) *Fragility of the International Financial System*, P.I.E.-Peter Lang, Brussels.
Milward, A. (1984) *The European Rescue of the Nation-state: 1945–51*, Routledge, London.
Milward, A. (1992) *The European Rescue of the Nation-state*, Cambridge University Press, Cambridge.
Padoa-Schioppa, T. (2004) *The Euro and its Central Bank: Getting United after the Union*, MIT Press, Cambridge, MA.
Spierenburg, D. and R. Poidevin (1994) *The History of the European Coal and Steel Community*, Weidenfeld & Nicolson, London.
Urwin, D. (1995) *The Community of Europe*, Longman, London.