IV. 1979 – 1993: Economies Integrated

1. Monetary Union at Last

1989 was the year of peaceful revolutions across communist Europe. The symbolic breakdown of the Berlin Wall on November 9, 1989, will forever be remembered as a day of history, comparable to the storm of the Bastille during the French Revolution exactly two centuries earlier.[1] 1989 was a turning point for European integration in yet another sense. Less spectacular, often overlooked, belittled at the time it happened and amid many doubts about its final outcome, 1989 was also a turning point in the evolution of a common European currency. As early as 1955, after Jean Monnet had stepped down as President of the High Authority of the European Coal and Steel Community to become head of a private Action Committee for the United States of Europe, he had already pointed to the usefulness of a common monetary policy. In 1959, and again in July 1961, his committee proposed the introduction of a European Reserve Fund as first step toward a common European currency. Future currency crises should better be dealt with by the EEC. Neither European governments, the European Commission, nor parliamentarians felt a sense of urgency at that time to take the issue further. The world financial system established 1944 in Bretton Woods worked well and as the overall economic recovery of Western Europe seemed without limits, the creation of a common financial market, let alone a common currency, was not an urgent priority.

With the end of the long post-war boom, the mood had begun to change by 1973. But unfortunately European interests and actions in dealing with the global financial crisis were as diverse and contradictory as possible. The break down of the Bretton Woods system between 1971 and 1973, coupled with the consequences of the oil crisis, demonstrated how different economic structures, financial interests, and policy conclusions among EC member states still were. It was only under the pressure of global events beyond their own control that EC leaders developed a sense of urgency to coordinate and if possible to harmonize fiscal, monetary and economic policies. A long journey began when, on March 21, 1972, the EC member states invented the "Monetary Snake" as a first element of joint crisis management. In reaction to the lost certainty about the external value of the dollar, the German government had suggested to its partners that the currencies of the six EC member states should give up their linkage to the dollar. Instead they should float together in order to prevent inflation and to maintain parities among them. The French government, encouraged by the European

1 Kühnhardt, Ludger, *Revolutionszeiten: Das Umbruchjahr 1989 im geschichtlichen Zusammenhang*, Munich: Olzog 1994; Antohi, Sorin, and Vladimir Tismaneanu (eds.), *Between Past and Future: The Revolutions of 1989 and their Aftermath*, Budapest: Central European University Press, 2000; Kumar, Krishan, *1989: Revolutionary Ideas and Ideals*, Minneapolis: University of Minneapolis Press, 2001.

Commission, proposed that the EC currencies should maintain fixed parity with the dollar while introducing a control mechanism to prevent unwanted excessive import of dollars. The French government considered joint floating of EC currencies a factual reevaluation of the European currencies to the detriment of France's economic development. The EC currencies ended up divided in four groups: the Federal Republic of Germany floated freely and accepted a revaluation of the Deutschmark by 5 to 10 percent against the partner currencies; France and Italy imposed different currency import controls; Belgium and the Netherlands floated together.

After the US had accepted an official devaluation of the dollar by 7.89 percent in December 1971 and revoked the additional import surcharge, a new basis for rearranging the international monetary system was found. On December 18, 1971, the finance ministers of the leading industrial countries decided in Washington to end the period of floating and realign exchange rates with a margin of fluctuation of 2.25 percent on either side of the new dollar parity (Smithsonian Agreement). Based on this agreement, the EC members decided to reduce the margin of fluctuation among their own currencies by fifty percent. This was the creation of the "European snake" inside the "Smithsonian tunnel."[2]

Then EC Commission President Roy Jenkins is credited for having been the first to propose the reconsideration of the project of a European Economic and Currency Union in a speech at the European University Institute in Florence on October 27, 1977. French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt endorsed the idea and prepared for its formal acceptance in the EC. Their proposal for the creation of a European Monetary System was accepted by the European Council on April 8, 1978, in Copenhagen, reconfirmed along with a detailed schedule by the European Council on July 6, 1978, in Bremen. On March 13, 1979, the European Currency System began to operate. It was based on three elements: an abstract reference currency, the ECU (European Currency Unit, named after a French currency valid between the thirteenth century and 1803), a new system of exchange rates, and interventions and various mechanisms concerning credits and transactions.[3]

The long march toward the euro had only just begun.[4] In spite of its shortcomings, the European Currency System served as an element of discipline helping to return to a period of currency stability and economic growth in the EC during the 1980's, unheard of since 1972. Interventions by central banks and the temporary need for currency parity adaptations did not undermine the European Currency System. When the Dooge Report

2 Aldcroft, Derek H., and Michael J. Oliver, *Exchange Rate Regimes in the Twentieth Century*, Cheltenham: Edward Elgar, 1998; Flandreau, Marc (ed.), *International Financial History in the Twentieth Century: System and Anarchy*, Cambridge: Cambridge University Press, 2003.

3 Grauwe, Paul de, and Theo Peters (eds.), *The ECU and European Monetary Integration*, Houndmills: Macmillan Press, 1989; Ribaud, Jacques, *The Case for a New ECU, Towards Another Monetary System*, New York: St. Martin's Press, 1989.

4 On the early years see Tsoukalis, Loukas, *The Politics and Economics of European Monetary Integration*, London: Allen and Unwin, 1977.

in 1984 initiated a whole series of treaty changes, finally leading to the Treaty of Maastricht and the full implementation of European Monetary Union, it reaffirmed the value of the European Currency System: In times of crisis, it had preserved the unity of the common market, safeguarded stable exchange rates and laid the foundation for the evolution of a currency identity in the EC.

The "1992 project," the path to complete the Single Market, was launched by the new EC Commission President Jacques Delors, in office between 1985 and 1995.[5] His arrival at the helm of the EC followed the beginning of the long Presidency of François Mitterrand in France (from 1981 and 1995) and the even longer Chancellorship of Helmut Kohl in Germany (from 1982 to 1998). In 1983, Socialist President Mitterrand was convinced by his Finance Minister Jacques Delors that France would have to stop socialist deficit spending and resort to a policy of austerity. Otherwise France might be forced to leave the European Monetary System and the Common Market. Mitterrand coupled his decision in favor of an unpopular austerity policy with a consistent commitment to European integration. Chancellor Helmut Kohl had always been an ardent supporter of European integration. Under public pressure against the deployment of new NATO cruise missiles on German territory, his predecessor Schmidt had lost the support of his own Social Democratic Party. Kohl and his coalition of Christian Democrats and Free Democrats resisted the anti-missile protest early in 1983 and received full endorsement for this policy by President Mitterrand. In light of new Soviet threats emanating from their deployment of SS-20 missiles directed against Germany and other West European NATO countries, following the invasion of Afghanistan in December 1979 and the outbreak of a new Cold War, France was adamantly convinced of strong defense. For Chancellor Kohl this attitude confirmed the need for German foreign policy to always couple transatlantic relations with a Franco-German accord. Never should his country find itself in a strategically important situation in which it would have to choose between loyalty to France and loyalty to the US. Helmut Kohl considered this the most important heritage of the policy of Konrad Adenauer. In François Mitterrand, he found his partner for a long period of a constructive Franco-German rapport on the crucial issues of European integration.

Ever since the European Council of Fontainebleau on June 25 and 26, 1984, the two leaders demonstrated the functioning of a Franco-German tandem in European integration matters. Endless initiatives were enacted by the two leaders. Long is the list of compromises they struck on issues of national disagreement. The European Monetary System operated until December 31, 1998, when it was finally replaced by the irrevocable fixing of exchange rate parities among the participants of the European

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5 On his interpretation of the events and his presidency in general see Delors, Jacques, *Mémoires*, Paris: Editions Plons, 2003: on his legacy see Endo, Ken, *The Presidency of the European Commission under Jacques Delors: The Politics of Shared Leadership*, New York: St. Martin's Press, 1999.

Monetary Union and the creation of a new exchange rate system between participants and non-participants of the European Monetary Union within the EU.

On June 14, 1985, another agreement with symbolic and practical consequences was signed: The Schengen Agreement, named after a small town on the border of Luxembourg with Germany.[6] Germany, France, Luxembourg, the Netherlands, Italy and Belgium, but also the non-EU member states Sweden, Norway, Iceland, Austria, Spain and Portugal agreed to reduce and eventually completely lift border controls. The implementation procedures lasted an extremely long time, beginning only in 1995. Since 2001, all the signatory states of the Schengen Agreement have abolished border controls and introduced a single visa for all non-EU visitors, who are required to obtain an entry visa into any of these countries. For Europeans, it became a new feeling to cross a border among any of the states of the Schengen Agreement without presenting their passport or seeing a border police officer.

The Single European Act, in force since July 1, 1987, facilitated the way to a coherent political union and called on Europe to reinvigorate its potential and optimism amidst an economic and social crisis.[7] The completion of the Single Market and the realization of full economic and monetary union were the main goals stipulated in the Single European Act, the first noticeable treaty amendment since the Luxembourg Treaty of 1970 on budgetary matters.[8] The EC leaders realized the growing technological and productivity gap between the EC on the one hand and the US and Japan on the other. Europe was in need of a common market and a new initiative toward an integration deserving of this name. Crisis in the financing of the Common Agricultural Policy, necessary measures to implement the project of a Single Market, and the increased need for financial resources to implement community goals were dealt with in a cohesive package (Delors I Package), accepted by the European Council on February 11 and 12, 1988.

Up to this point, the preparatory work for the European Economic and Monetary Union had proceeded speedily. While the public debate was still highly controversial

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6 Joubert, Chantal, and Hans Bevers, *Schengen Investigated: A Comparative Interpretation of the Schengen Provisions on International Police Cooperation in the Light of the European Convention on Human Rights*, The Hague/Boston: Kluwer, 1996; den Boer, Monica (ed.), *Schengen, Judicial Cooperation and Policy Coordination*, Maastricht: European Institute of Public Administration, 1997; European Union. European Commission, *The Schengen Acquis: Integrated into the European Union*, Luxembourg: Office for Official Publications of the European Communities, 2001.

7 McKenzie, George, and Anthony J. Venables (eds.), *The Economics of the Single European Act*, London: University of Southhampton, 1991; Engel, Christian, and Wolfgang Wessels (eds.), *From Luxembourg to Maastricht: Institutional Change in the European Community after the Single European Act*, Bonn: Europa Union Verlag, 1992; Swann, Dennis (ed.), *The Single Market and Beyond: A Study of the Wider Implications of the Single European Act*, London: Routledge, 1992.

8 McKenzie, George, and Anthony J. Venables (eds.), *The Economics of the Single European Act*, London: University of Southhampton, 1991; Engel, Christian, and Wolfgang Wessels (eds.), *From Luxembourg to Maastricht: Institutional Change in the European Community after the Single European Act*, Bonn: Europa Union Verlag, 1992; Swann, Dennis (ed.), *The Single Market and Beyond: A Study of the Wider Implications of the Single European Act*, London: Routledge, 1992.

across the EC, and Britain under the Premiership of Margaret Thatcher explicitly opposing EMU, the governments of France and Germany proceeded at full speed toward their common goal, albeit rooted in different interests.[9] They had to harmonize deep differences on the way to achieve this goal – Germany demanding a strong common currency, France requesting the early introduction of the currency by all means. The European Monetary System had shifted European currency relations in favor of the Deutschmark. The other EC member states were increasingly forced to peg their currency to the Deutschmark.

At the peak of German economic and monetary strength, the other European partners were in favor of a common currency in order to liberate themselves from German economic dominance.[10] For Germany, the constellation was more ambivalent. The German government of Chancellor Kohl had to embrace a highly sophisticated policy approach. While it did not want to alienate its European partners, it had to be cautious toward its own voters as far as the idea "to give up the Deutschmark" was concerned. Throughout the 1980's, this was not a popular idea in the Federal Republic.

While Chancellor Kohl signaled President Mitterrand his readiness to create a common European currency, Kohl's Foreign Minister Genscher proposed to establish a "Wise Man's Council" mandated to work out the principles required to create a European currency space with a European Central Bank at its head. Jacques Delors, the President of the European Commission, was designated by the European Council of Hanover on June 27 and 28, 1988, to chair such a council. Under the chairmanship of Delors, the presidents and governors of the Central Banks of the EC member states, a second member of the EC Commission and three monetary experts were asked to draft a manageable plan.[11] The group, by and large, oriented its work on the methods and propositions of the Werner Plan. When the Delors Plan was presented in April 1989, it declared on principle that in a Single Market, in which the movement of capital and goods was no longer under control of national governments, it was essential to harmonize national economic policies and unify currencies.

The member states, the Delors Plan suggested, would execute currency sovereignty together. The common European currency would generate more economic growth and would keep inflation rates low, it would help to strengthen the European economy vis-à-vis the US and would substantially enhance European integration. On June 27, 1989, the European Council in Madrid adopted the Delors Plan on the path toward a common currency. The plan contained three stages: The first one would not yet entail a treaty revision but was supposed to complete the Single Market, coordinate economic policies

9 See Gowland, David, and Arthur Turner, *Britain and European Integration 1945-1998: A Documentary History*, London/New York: Routledge, 2000.

10 On the French position on this matter see Howarth, David J., *The French Road to European Monetary Union*, Houndmills. Palgrave, 2001.

11 On the role and legacy of Jacques Delors see Ross, George, *Jacques Delors and European Integration*, New York: Oxford University Press, 1995.

and monetary cooperation as well as the participation of all EC member states in the exchange rate mechanism of the European Currency System; the second stage was dedicated to the preparation of a European System of Central Banks; the third stage would lead to the transfer of national competences on monetary and economic matters to community institutions, the establishment of irrevocable exchange rates and, finally, a common currency. The Madrid decision of June 27, 1989, reiterated the importance of the parallel developments of the economic and monetary aspects of the endeavor. The beginning of phase one of the European Currency Union was fixed for January 1, 1990. Once the first stage had begun, an Intergovernmental Conference would be summoned to prepare the next and final stages. The decisions of the European Council of June 27, 1989, were the actual turning point toward the European Currency Union. Almost two decades after his promulgation, the Werner Plan was ready to be realized. It would still take until January 1, 2002, for European citizens in 12 EU member states to have a common currency, the euro, in their pockets. For the first time since the Roman Empire – but this time based on voluntary decisions by democratically elected governments, fully and wholeheartedly approved by the European Parliament – Europe had a common currency. Then Spanish Prime Minister Felipe González is credited for having suggested the name euro, divided into cents, which can be understood in all European languages.[12]

The meaning of the decisions taken on European Monetary Union in June 1989 stands out among all other developments of European integration during the second phase of the process. These decisions finally enabled the completion of the Treaties of Rome and restated their intention by a wider, more solid and more meaningful implementation of the prerequisites of a Single Market beyond the formal revocation of tariffs. Finally, they were embedded in a complex web of decisions boosting the evolution of the European governance system and subsequently also the further evolution of a European foreign and security policy.[13]

European Monetary Union at last – that was the result of a long, often daunting and ambiguous process.[14] It required political steadfastness and will, a convergence of very different approaches and attitudes, a survival of crises and the recognition of the basic challenge: If Europe was to compete in the global economy it had to reinvent the concept of the Single Market originally laid out in the Treaties of Rome. It had to complete the project full circle should it not get lost again in the intricacies of executive

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12 The decision was taken by the Madrid European Council on December 15 and 16, 1995.

13 See Dinan, Desmond, *Europe Recast: A History of European Union*, Boulder: Lynn Rieffer Publishing, 2004: 239-240.

14 For more detail, see Ungerer, Horst, *A Concise History of European Monetary Integration: From EPU to EMU*, Westport/London: Quorum Books, 1997; Lucarelli, Bill, *The Origins and Evolution of the Single Market in Europe*, Aldershot: Ashgate, 1999; El-Agraa, Ali M. (ed.), *The European Union: Economics and Politics*, New Jersey: Prentice Hall, 2001; Buti, Marco, et al. (eds.), *EMU and Economic Policy in Europe: The Challenge of the Early Years*, Cheltenham: Edward Elgar, 2002.

politics and bureaucratic inertia so often associated with the European integration machinery throughout the 1970's. It was no easy journey to come to sustainable agreements among the proponents of the very same idea. As much as it was a tall agenda the EC leaders had to muster, they have to be credited for not faltering in light of public skepticism and the ever-present British objection.

Among the legacies that surround the common European currency is that of a Franco-German deal in the context of German unification after the fall of the Berlin Wall.[15] In order to obtain French agreement on unification, so a false myth goes, Germany was ready to give up the Deutschmark and share its strong currency with France. Empirical evidence does not support this myth. As empirical evidence shows, the turning point in European integration history in favor of the implementation of a common European currency had been reached before the Berlin Wall came down. It cannot be denied that the whole project, of course, could still have been derailed between 1989 and 2002, but the political prize was too great. It can also not be denied that imminent German unification, and the expectation that a stronger Germany would need more than ever to be integrated into the European community, contributed to the acceleration of the project. But historical evidence must acknowledge the track record of monetary union development, beginning with the Werner Plan of 1970 and continuing with the turning point for the realization of a common European currency at the European Council meeting on June 27, 1989. This is the other significant date in 1989 as a turning point in European integration.

2. Storms over Europe

1973 was not a good year for European integration. When US Secretary of State Henry Kissinger declared 1973 the "Year of Europe," his announcement was perceived among many Europeans as a cynical attack rather than as a promising offer.[16] Parallel to an increasing American disengagement in Indochina, on April 23, 1973, Kissinger proposed a New Atlantic Charter to consolidate and revitalize the Atlantic partnership. Distinguishing between the global commitments of the US and the regional role and ambition of Europe, this approach was bound to receive a critical response. On July 23, 1973, the nine Foreign Ministers of the European Community, obviously under French and British guidance, responded with the claim that it would be time for a proclamation of European independence from the US. In a Document on European Identity, agreed upon at the summit meeting of the Council on December 15, 1973, in Copenhagen, the EC recognized that there was no alternative at this point in time to American nuclear

15 On the context see Knipping, Franz, *Rom, 25. März 1957: Die Einigung Europas*, Munich: Deutscher Taschenbuch Verlag, 2004: 249-253.

16 For his own account see Kissinger, Henry A., *American Foreign Policy*, New York: W. W.Norton & Company, 1974: 165-167 („The Year of Europe").

protection and the presence of American troops on European soil. Yet the relations between the EC and the US had to be put on the basis of an equal partnership. They did not influence the commitment of the EC to act as an independent and distinct entity. When at the end of the debating process the NATO Council recognized the independence of European Political Cooperation and signed a New Atlantic Charter in Ottawa on June 19, 1974, the act was in reality more face-saving than substance. The Americans wanted consultations before the EC decided on a foreign policy matter; the EC insisted to do it the other way around. As neither side was bound to forfeit existing bilateral channels, the New Atlantic Charter was open to a multitude of interpretations. Yet transatlantic relations relaxed again, only waiting for new disputes on, for instance, the issue of European importation of gas from the Soviet Union in exchange for building the pipelines.

1973 was also bad for Europe because of the implications of the outbreak of new violence in the Middle East. The Yom Kippur War of October 1973 was not met with any common European position. Even worse, the increased dependency of the EC on oil imports from the Arab world led to bitter consequences for the EC. Although the EC thought to pursue a highly balanced position on the Middle East, it had to suffer the dire effect of the Arab oil boycott in the autumn of 1973.

In 1958, energy consumption among the six founding countries of the EEC was based on 74 percent coal and only 10 percent oil. As oil got cheaper and access easier, the belief in atomic energy diminished in Europe, and with it the role of the Atomic Energy Community.[17] But as a consequence, by 1968, the EC based its energy consumption on 28 percent coal and 56 percent oil. By 1973, 67 percent of all energy consumption in the EC was based on oil. When all of a sudden oil prices skyrocketed from 2 dollars per barrel in 1973 to 10 dollars per barrel in 1974 and 12 dollars per barrel in 1975 (compared with 54 dollars per barrel in 2004 at the peak of the Iraq crisis) Europe was hit hard. After Arab oil producers imposed an embargo on the port of Rotterdam in reaction to the Dutch government's support for Israel, EC citizens were able to ride with bicycles on highways as their governments prohibited car driving on Sundays in order to save oil. That was the funny side of things otherwise getting worse, and making Europe's leaders realize the energy dependency of the EC.

Although the EU summit in Copenhagen in December 1973 promulgated "a ringing" declaration of European identity[18] – more occupied with the abstract and somewhat obsessive fear of transatlantic dependency of the US than with the effects of

17 EURATOM in itself had been a strange combination of French plans for economic modernization and its anti-American bias. France was favoring the use of a technology for the production of atomic energy based on the natural uranium available in France, in some French overseas territories and in the Belgian colony Congo. The other EURATOM partners rejected this technology and were in favor of enriched uranium, a technology successfully used in the US, cheaper and more advanced. The consequence of this disagreement was the different evolution of European atomic energy technologies throughout the 1960s – in spite of EURATOM.

18 Dinan, Desmond, *Europe Recast: A History of European Union*, op.cit. :153.

the disastrous oil dependency and its impact on the European economy – the EC was not capable of agreeing on a common position on energy matters. Finally, EC member states agreed to join the International Energy Agency (IEA), which had been established on American initiative under the framework of the Paris-based OECD. France refused to join. Finally, in 1974 the Council decided to reduce the EC dependency on oil imports and to establish national oil reserves for 90 days as well as EC-wide coordination in case of supply shortages.

Neither Europe's economic weight nor the ambitions of a coordinated foreign policy could alter the basic parameters of the oil crisis and of Europe's dependency on Middle East oil. Europe's independence was not only challenged by an American quest for primacy in transatlantic relations, but more so by energy dependency on the Middle East in the absence of a strong reciprocal bargaining power. Following the Yom Kippur War, the EC felt left out of diplomatic efforts to bring about a settlement in the Middle East, largely dominated by the US in close collaboration with Israel. In 1974, the EC announced the Euro-Arab Dialogue.[19] During "good weather periods" this might have been considered the most normal thing among regional neighbors. Now, it was almost considered an insult by Israel and the US while it did not substantially alter the power equation as far as European oil dependency was concerned. The US insisted that the Euro-Arab Dialogue would touch neither on the issue of oil nor on matters related to Israel. In 1977, and reiterated in 1980 (Venice Declaration), the European Community outlined its principles concerning a solution to the Middle East conflict: recognition of the right of existence and security for all countries in the region, Israel included, and recognition of the legitimate rights of the Palestinian people. The EC Declaration did not translate into any relevant operational program. When multilateral peacekeeping troops were sent to Sinai and Lebanon in 1981 and 1982, only Great Britain, France, Italy and the Netherlands (only to Sinai) sent individual national contingents. The EC was not a player.

The Middle East quagmire and Europe's helplessness did trigger new forces of self-assertion in the EC; this was also noticeable as far as economic and monetary development was concerned. In the end, various threats came together and merged into an obvious challenge the European Community had to respond to if it wanted to be taken seriously. While the dollar crisis in 1971 was still considered a transitory phenomenon, during the next two years the cumulative impact on the world economy had become evident.

In the field of diplomacy, European Political Cooperation proved most effective, yet hardly decisive. The very first meeting of the six Foreign Ministers of the EC on November 19, 1970, in Munich had already envisaged a possible genuine participation

19 Völker, Edmond (ed.), *Euro-Arab Cooperation*, Leyden: Sijthoff, 1976; Taylor, Alan R., *The Euro-Arab Dialogue*, Washington D.C.: Middle East Institute, 1978; Hallaba, Saadallah A. S., *Euro-Arab Dialogue*, Brattleboro, VT: Amana Books, 1984; Bat Ye'or, Eurabia: *The Euro-Arab Axis*, Madison, NJ: Fairleigh Dickinson University Press, 2005.

of the EC during the upcoming negotiations of the Conference on Security and Cooperation in Europe (CSCE). New hope to end the Cold War was associated with this conference that brought together all European countries, including Albania and the Holy See, as well as the US and Canada. Between July 1973 and July 1975, delegations from 35 countries negotiated in Helsinki until they reached agreement on the Final Act of the CSCE.[20] It became famous for its mechanism of dividing the issues contested in Europe into three baskets: The continent, still living in the absence of a formal peace treaty ending World War II, was jointly looking into matters of security, defense and confidence-building, economic cooperation and technological developments, and human conditions, including improved forms of human contacts and reassurance of basic human rights. Many of the pro-democracy movements opposing communist totalitarianism in Central and Eastern Europe were able to point to the signature of their government under a document clearly reaffirming all relevant basic human freedoms and rights. The CSCE Final Act became an important point of reference for dissidents in their struggle with communist dictatorships. In the European Community, hardly anyone took notice of the fact that the CSCE Final Act could also have served as point of reference for the evolution of a common foreign policy of the EC. On August 1, 1975, Italian Prime Minister Aldo Moro – murdered less than three years later by left-wing terrorists on May 9, 1978 – signed the CSCE Final Act not only as representative of his country, but as acting President of the European Council, also explicitly on behalf of the European Community.

The hard choices were more difficult to muster for the European Community. The economic performance of the EC began to worry many observers during the late 1970's and early 1980's. Japanese technological development impressed the world, the "Little Tigers" in South East Asia emerged, South Korea became a relevant player among industrialized states and the United States recovered under the optimistic leadership of the Presidency of Ronald W. Reagan, who revitalized America's "can do-spirit." Europe in turn became the object of caricature for many media, deprecating obituaries of the EC as the lifeless fossil of a continent burdened by smokestack industries, the inexorable costs of the welfare state, rigid labor laws and even more rigid trade unions. Euro-sclerosis became another term for European integration.

The poor European performance in the global economy was considered to be a function of highly overregulated and inefficient political processes.[21] Between 1950 and 1973, the average annual growth rate per capita GDP in Western Europe had been 4.1 percent on average; between 1973 and 1998 it slumped down to 1.8 percent on

20 Goodby, James E., *CSCE: The Diplomacy of Europe Whole and Free*, Washington D. C.: Atlantic Council of the United States, 1990; Farrell, Henry, and Gregory Flynn, "Piecing Together the Democratic Peace: The CSCE, Norms and the 'Construction' of Security in Post-Cold War Europe," *International Organization* 53.3 (1999): 505-535.

21 See Albert, Michel, and Robert James Ball, *Toward European Economic Recovery in the 1980s: Report to the European Parliament*, New York: Praeger, 1984.

average.[22] The European Community had become the symbol of a huge misallocation of resources at the expense of other parts of the world (Common Agricultural Policy) coupled with increasingly protectionist tendencies, also in the industrial sector, while at the same time incapable of reviving economic productivity and technological modernization, and of organizing its own security. Worst of all, security dependency on the US was linked to a combination of a beggar-thy-neighbor-policy and tides of anti-Americanism. Most importantly, European decision-making procedures were highly dilemma-prone, inefficient, ineffective, and the root cause of the creeping inertia that held the EC hostage.

The second Cold War after the Soviet invasion of Afghanistan in December 1979 reinforced the security obsession in Europe, coupled with fear and an inclination to simply shy away from reform requirements.[23] Yet the global setting, which Europe could not escape and, in fact, even increasingly wanted to shape, was forcing the European Community to wake up to the set of challenges it was confronted with. Between the formal completion of customs union in 1968 and the launching of the Single Market project in 1985, economically the European Community undermined much of the trust and respect it had developed over the first decade of its existence. The Commission had become excessive striving for harmonization, although the root causes were all too often specific economic interests of member states or certain individual companies or sectors of the industry. Yet the stereotypical impression was cemented: That "Brussels" was a bunch of well-fed bureaucrats detached from real life and untamed by any political control. Only the latter aspect was serious, finally giving way to a strengthened role of the European Parliament. Deficits in parliamentary democracy on the level of the EC were exacerbated by the lack of leadership and cohesive orientation on the national level. But this criticism did not pertain to Europe alone. The issue of governability in the Western world during the 1970's and 1980's became a hot topic across the globe.[24]

Under these circumstances, the efforts of Helmut Schmidt and Valéry Giscard d'Estaing to remobilize European insights into the importance of coordinated and harmonized economic and monetary policies were remarkable and laudable exceptions. Progress was to emanate from European integration efforts through crises and pressure, internal and external alike. This had become the rule of experience, affirmed by all possible exceptions. It was also significant that, after all, the political process mattered.

22 See Ferguson, Niall, *Colossus: The Price of America's Empire*, New York: Penguin Press 2004: 240.

23 Heller, Mark, *The Soviet Invasion of Afghanistan: Motivations and Implications*, Tel Aviv: Center for Strategic Studies, 1980; Arnold, Anthony, *Afghanistan: The Soviet Invasion in Perspective*, Stanford: Hoover Institution Press, 1981.

24 Most notable was a Report to the Trilateral Commission: Crozier, Michel, Samuel P. Huntington, and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission*, New York: New York University Press, 1975. On the Trilateral Commission and its role see Beverungen, Johannes, *Elite Planning Organizations: Traditionen, Charakteristika, Implikationen der Trilateral Commission*, Baden-Baden: Nomos, 2005.

While the primacy of the market became a global creed, European integration remained essentially a political project, defined by political decisions and not by market forces. No political system under the conditions of democratic rule can overlook the role of the people it pretends to represent. Not only did governments have to exercise the leadership required to keep the European machinery going, European citizens had to be recognized in their desire to have the European Community work to their advantage. By the 1970's, the fear to fall back into nationalism and another war among the EC partners had substantially vanished. Fear of communism remained strong and the Soviet threat a permanent incentive to hold the Western world together. But more and more, concern about the quality of European policy making turned into criticism of a democratic deficit in the EC. Emerging European interests could only be sustained if they would take the people more seriously – not only as part of the process, but as its foundation and purpose.

3. Emerging European Interests in the Spheres of Economics and Politics

The second period of European integration started with consolidated institutions. It came to an end with the refounding of the European Community as the European Union through the Treaty of Maastricht. This period of integration saw the completion of the market integration, the beginning of a steady flow of treaty-based efforts to constitutionalize European integration, and the beginning of the effects of the most fundamental geopolitical changes that occurred with the end of the Cold War. This second phase of European integration experienced the emergence of four new robust and sustainable European interests:

a) A growing understanding that a common market would require a common currency, which would, however, not come about automatically but would be dependent upon intensive processes of harmonization, compromises and legally-binding mechanisms to make it eventually work as a Single Market.
b) An emerging consensus that the common market would need mechanisms of solidarity and resource allocation to develop a better balance among all regions and economic structures of a community whose asymmetries increased with each new enlargement.
c) A solidified agreement that further economic cooperation would inevitably require a consistent development of institutional mechanisms and a steady constitutionalization beyond the original structures laid out in the Treaties of Rome in order to strengthen legitimacy and popular support for European integration.

d) An enhanced awareness that the European Community would inevitably need to raise its international political profile, requiring new initiatives toward political cooperation and eventually the emergence of a common foreign policy.

(a) The path toward European Monetary Union, as outlined above, remained the biggest challenge and the most lasting success of the second stage of European integration. It was achieved only through crises and after phases of failure. But in the end it was achieved. It was coupled with the goal to completely realize the Single Market by December 31, 1992. When European Commission President Jacques Delors presented his program to the European Parliament, he already had in mind that it would take two periods for the mandate of the European Commission to complete the Single Market through the dissolution of all existing barriers. The Single Market Program, as set out in the Commissions White Paper of 1985, constituted the most ambitious and comprehensive supply-side program ever launched under the roof of European integration.[25] The White Paper identified all the existing physical, technical and fiscal barriers, which still justified continuous frontier controls between the EC member states. It then set out a seven-year timetable for getting rid of each of them. British Commissioner Lord Cockfield was in charge of implementing a catalogue of 282 directives as identified in the White Paper. He did it so well that Prime Minister Thatcher became highly critical of him. She accused him of no longer serving his country, but of the worst thing possible: having a European interest. She did not appoint him for a second term to the Commission. Microeconomic as well as macroeconomic barriers had to be abandoned in order to establish a Single European Market. Competition policy became an essential tool to prevent the national re-segmentation of national markets via anti-competition behavior through cartels, state aid, or the abuse of a dominant position. Measures to facilitate the transport of goods at the internal community-borders through technical simplifications of tax procedures and customs control, the dissolution of passenger control at the internal community borders, and simplification of veterinary and phytosanitary control mechanisms at the place of origin of products simplified and sped up the operations of the European economy. More difficult was the process of turning the capital markets of the EC into a single one. This process delayed the formal conclusion of the Single Market project at the end of 1992 to a great extent. This was also true with respect to the full implementation of legislation facilitating the comprehensive free movement of people, including the aggregation and portability of pension and social security rights acquired by EC workers. While intra-EC migration in border areas increased by 18 percent between 1987 and 1994 there has never been larger scale migration of labor within either the EC or the EU.

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25 European Communities, European Commission, *Completing the Internal Market: White Paper from the Commission to the European Council (Milan, 28-29 June 1985)*, Brussels: European Communities, 1985. On the process toward a Single European Market see Mayes, David G. (ed.), *The Evolution of the Single European Market*, Cheltenham: Edward Elgar, 1997.

Based on the Commission's Social Action Program of 1989, a framework for minimum standards of social policies has been established, for example in the area of health and safety at work, while outright harmonization of social policies has not become an objective of the EU. The Single Market Program accelerated the internationalization of companies in Europe. Consumer interests also became more relevant, although the harmonizing legislation led to mixed results as far as quality criteria and price reductions are concerned. But with the Single Market Program, a new beginning was imminent across the EC, driven by an optimistic prognosis: Freedom of capital, goods, services and people would generate an additional economic growth in the EC of around one percent annually over a period of six years, as estimated by the Cecchini-Report in 1988.

Global economic developments turned out to be favorable for the ambitions of the Europeans. Prices for oil and other natural resources declined. Decisive for the political implementation of the manifold Commission directives was the increase in qualified majority voting with the Single European Act that facilitated decision-making in the relevant formations of the Council. As far as powers to speed up the implementation of the Single Market were concerned, the European Commission was given enlarged competences for issuing decisions, based on Council directives.[26] Across the EU, conglomerates and private businessmen, trade unions and business associations alike, were highly motivated and supportive of the project that returned dynamics and economic growth to Europe and gave focus and new purpose to the integration process.

(b) The technological gap between Europe, on the one hand, and the US and Japan on the other hand, had grown dramatically until the late 1970's. Organizing a community wide technology policy became a new sphere of action for the EC, but this did not seem to produce a turn around. Productivity and technology gaps could not be reduced by new community activities in the fields of telecommunications, biotechnology or information-technology if the framework was not functioning. Non-tariff barriers had survived the creation of customs union and common market. Deregulation was required in many areas, and those who favored this with growing intensity were concerned that new EC initiatives would merely lead to re-regulations while the opposite was the priority of the decade. This general dispute on order concepts was not to vanish without a clear and fresh focus of EC priorities and actions.

Moreover, a European industrial policy and a common industrial space developed only very slowly. Due to the absence of relevant competences in the Treaties of Rome, the EC could only coordinate the industrial measures undertaken by the member states. This was too little to improve their global competitiveness during the 1960's and

26 At the time, the following legislative instruments were in use in the European Community: binding "regulations" with immediate enforcement and "directives" requiring national implementation regulations; non-binding "decisions," "recommendations" and "opinions."

1970's. The European Commission launched a debate on competition policies, another one about the wisdom of public subsidies and it outlined the plan for a European industrial space. While France was favorable to industrial interventions of the EC, Germany, and even more so Great Britain, were against it. The international economic crisis after 1973 forced the EC in some cases to intervene, for example in support of the European ship building, textile and leather industries. During the 1970's, an aggravated crisis in the European steel industry generated the biggest management of industrial matters by the EC thus far. With respect to provisions inherited with the merger of EEC and European Coal and Steel Community, the EC decreed production limitations, negotiated with third countries about limits to their imports into the EC, and in October 1980 announced an "obvious crisis", which gave the EC the right (according to Article 58 of the ECSC Treaty) to impose production quotas on steel companies.

The Hague summit of 1972 initiated support for an EC technology policy. For once, EURATOM was instrumental, as it was agreed upon that its activities should be broadened to cover other high technologies: With the goal to develop controlled thermonuclear fusion as the most promising source of future energy, the first European company, based on Community law, was founded (Joint European Torus). To extend the development of European companies into other spheres proved to be difficult. Labor laws differed too much between the EC member states, and the German model of co-determination between the social partners in large companies led to deep disagreement among EC partners in the early 1970's. The only companies finally operating throughout the EC were American ones, their headquarters mostly based in the US. The European Community was able to promote specialized industrial cooperation, mostly among a few partner states (like Airbus with French, German, Italian and Belgian participation, the European Space Agency, and the two companies involved in the process to enrich uranium, Urenco with German, Dutch and British involvement, and Eurodif with French, Italian, Belgian and Spanish participation). Mergers among companies could not, however, facilitate the creation of a European Shareholder Company (societas europae), which came about only after 2001 – in spite of more than a decade of recognition about its urgency.[27] This new legal form enables European companies to expand and reorganize across the EU without expensive and time-consuming formalities traditionally related to the creation of affiliates. In Germany, the implementation of this European law took until 2005. European companies can now choose between a German management structure with Executive Board and Supervisory Board or the Anglo-Saxon board-model with a Management Board as it also is practiced in France. Co-determination will be regulated through negotiations between the Board and representatives of the employees.

27 Maitland-Walker, Julian, "The Societas Europae: Useful Corporate Vehicle or Political Stalking Horse?," *European Competition Law Review*, 12.3 (1991): 97-100.

Only the project of a Single Market, strategically initiated and popularized by the European Commission, gave European economic efforts a relevant boost, finally launched and legalized as a Community interest by the Single European Act in 1987. The Single Market project, to be completed by 1992, was coupled with various new programs aimed at enhancing cohesion in the European Community. Structural funds, regional funds and cohesion funds completed the list of resource allocation activities of the European Community. They were also a function of the EC enlargement to Europe's south with Greece joining in 1981, Spain and Portugal in 1986.

(c) The institutional design of the European Economic Community established by the Treaties of Rome in 1957 was revolutionary in its time. However, it proved to be insufficient for a community that was growing in relevance, in scope and in size. With the rising ability of the European Community to set norms in an emerging common market, criticism grew about the insufficient accountability for the operations of the European Commission. The need to enhance and streamline the political procedures in the EC became inevitable. The European Economic Community had to grow into the European Community and needed to be reinvented as the European Union. This daunting process required treaty changes that corresponded to the establishment of a European pre-constitution. Throughout this period, national skepticism about the value of increased political coordination, or even integration, remained high. The EC found itself torn between underperformance and over-expectations. It was up to the political leaders of the member states to give a new impetus to the community. European summitry became a new reality in the process of policy making in the EC. It was followed by an ever-increasing quest of the European Parliament to gain a stronger role and to get directly elected in accordance with the democratic principles, which the EC claimed to uphold. Efforts to balance the recalibration of the relationship between the representation of the member state governments and the representation of the community citizens became a permanent feature of power struggles. It turned out to be a gradual, but with creeping advancement toward parliamentary democracy on the level of the EC. The European Commission found itself torn between the role of a neutral protector of the treaties, the motor of further integration, and the object of control by both sides of the emerging double-headed EC legislature.

When the Heads of State and Government of the EC met for their first summits after General de Gaulle had left the scener in 1969 (The Hague) and in 1972 (Paris), they were aware of the fact that the original provisions of the Treaties of Rome had to be revised. An automatic mechanism for the introduction of qualified majority voting had been blocked since the Luxembourg Compromise of 1966. Yet advanced and more focused work was necessary to keep integration on track and deliver the goods that were promised with the emergence of a common market. The Luxembourg Compromise had reduced the role and ambition of the Commission, but it did not eliminate its supranational quality. Yet the Commission President was confronted with difficulties in ensuring his participation in intergovernmental fora, including in the summit meetings and in the European Council that would evolve during the 1970's. It took three decades to find a new balance between the institutions as now outlined in the Treaty of Lisbon. The first decisive steps in this struggle for the power equation and constitutional character of the European Community began in the early 1970's.

On September 14, 1974, the new French President Valéry Giscard d'Estaing invited the Heads of State and Government of the nine EC member states to another summit in Paris. After much skepticism from the side of the smaller EC member states, but backed by German Chancellor Helmut Schmidt, this meeting decided on the permanent procedure to hold regular summit meetings, henceforth labeled the European Council. With the President of the European Commission having the right to participate, the European Council was to meet three times a year, in accordance with the rotating EC presidency across the national capitals. This procedure was amended to two meetings a year in 1985 and later enlarged to four meetings a year, out of which many were held outside national capitals with the intention of showcasing the cultural diversity of the EC.

For the time being, the 1974 decision was executed outside the realm of the Treaties of Rome. It clearly was an intergovernmental operation. Standing outside the EC Treaties, decisions by the European Council could not be bound by the European Commission, the European Parliament or the European Court of Justice. British Prime Minister Margaret Thatcher – arriving on the European scene in 1979 – could rejoice about this intergovernmental structure aimed only at achieving some minimal overlap of national interests by stating in 1981 that "there is no such thing as a separate Community interest; the Community interest is compounded of the national interests of the ten member states."[28] Over time, this rigid perspective had to be replaced by a more differentiated perception according to which an intrinsic amalgamation of national, community and, moreover, political interests evolved in the EC, also espousing the seemingly uncontrolled autonomy of the European Council. With the Single European Act, the European Council finally became a supranational entity, rooted in European law.

The European Council did occupy itself with the widest possible variety of issues. Institutional matters were as much on its agenda as economic and social issues, questions of foreign policy and, of course, monetary policy. "In many ways," Derek Urwin concludes, "the success of the European Council has depended upon the degree of compatibility between French and West German interests."[29] The most important of

28 Cited in Urwin, Derek W., *The Community of Europe: A History of European Integration since 1945*, London/New York: Longman, 1995: 175.

29 Ibid.: 176.

all decisions taken by the European Council was the one of 1978 to establish the European Monetary System.

The Paris summit of 1972, two years before the formal creation of the European Council, had defined as the most urgent and noble goal to transform the relations among the member states of the European Community before the end of the decade into a European Union – although, as then Irish Foreign Minister Garret FitzGerald later recalled, "no one knew what European union meant."[30] It would be inappropriate to describe the relationship between the European Council and the other EC institutions as being one of genetic and permanent antagonism and adversity. The evolution of the European Council did prove the importance and primacy of the member states whenever further "deepening" of the European Community was at stake. The EC was not holding competence-competences. This was the real fact of the matter, yet one which gives a subtler image to a complete story, which was always more than a War of the Roses between the European Council on the one hand and the European Community on the other. The European Council became an organ to shape and, in fact, to advance the European Community before it became a constitutional part of the European Union. This is true; yet, it was never simply "the other," but rather the driving force and the embodiment of the fact that the member states, after all, were the providers of the integration treaties and, hence, also those that largely defined their evolution. This was certainly true in the absence of parliamentary democracy on the European level, which itself was to grow with continuity throughout the 1970's and 1980's.

The founding meeting of the European Council in 1974 decided to enhance the role of the European Parliament. Thus, it initiated the very path toward parliamentary democracy in the EU that would have been unimaginable if the European Council had seen its role primarily as one of opposing the further deepening of European integration. Despite British and Dutch reservations, the first European Council summit also declared a strengthening of the Parliament by granting it more rights in the legislative process of the European Community. Then Commission President François-Xavier Ortoli told the European Parliament in February 1975 that the creation of the European Council "represents a major change in spirit and may, if we are not careful, shake the institutional structure set up by the treaties to their foundation".[31] European Commission and European Parliament became allies in preventing this from happening. By 1976, the European Council was finally accepting the first direct election of the European Parliament. It had gone a long way to achieve this first truly historical success.

For the first time, the European Parliamentary Assembly had demonstrated its will in a more symbolic way in 1958: Against the suggestion of the EEC member states to appoint an Italian candidate – in order to give all member states a share in institutional

30 FitzGerald, Garret, *All in a Life: An Autobiography*, Dublin: Gill and Macmillan, 1991: 132.
31 Cited in Dinan, Desmond, *Europe Recast: A History of European Union*, op. cit. :161.

positions – the very first meeting of the Parliamentary Assembly on March 19, 1958 appointed Robert Schuman as its President. The parliamentarians wanted to honor the work of one of the Founding Fathers of European integration. With his move to organize security and economy not against the defeated Germans, but along with them, he became one of Europe's wise men of the twentieth century. His Schuman Plan of May 9, 1950, was the single most important step on the side of France to change the parameters of conflict in Europe. It was a sign of respect and gratitude that the delegates of the Parliamentary Assembly of the EEC appointed Robert Schuman – who was born in 1886 to a Lothringian father and a mother from Luxembourg, was raised bilingual in German and French, served in the German army from 1914 to 1918, became a French citizen in 1919, was arrested and held by the Nazi secret police (Gestapo) from 1940 to 1942, became French Prime Minister in 1947/1948, a highly respected Foreign Minister from 1948 to 1953 and died in 1963 – their first President.

Later disputes between the European Parliament and the European Council were less dignified. Increasingly, the issues were related to power sharing in a community with ever increasing relevance for public life in Europe. The members of the European Parliament rightly claimed that they are the prime representatives of the European people and hence should get a bigger share in the decision-making process of the European Community. The first direct election to the European Parliament in June 1979 was historic indeed.[32] For the first time anywhere in the world, a multinational parliament was elected by all eligible citizens of a supranational community. No matter how limited the supranational structures and their effect on community life were to be measured, the direct election to the European Parliament was more than just a symbolic act. It was the real beginning of the parliamentarization of European politics, which began with consultation and cooperation rights for the parliament before the mechanism of co-decision opened the door to its full role in the legislative process.

In the process of the evolution of democracy on the level of the nation state, the struggle for parliamentary rights had always been at the center of the quest for democracy, participation and political accountability. While the rule of law was established in most countries ahead of stable parliamentary power, in the end both processes merged, bound together by the budgetary rights of parliament and its right to select a majority-based government. The European Parliament began its journey toward the full realization of this goal with the direct election in 1979. The number of parliamentarians increased sharply from 198 to 410: 81 each for France, Germany, Italy and Great Britain, 25 for the Netherlands, 24 for Belgium, 16 for Denmark, 15 for Ireland and 6 for Luxembourg. A unified election procedure unfortunately did not come about. All in all, the first direct popular election to a European Parliament ever in the

32 Sweeney, Jane P., *The First European Elections: Neo-Functionalism and the European Parliament*, Boulder: Westview Press, 1984; Reif, Karlheinz (ed.), *European Elections 1979/81 and 1984: Conclusions and Perspectives from Empirical Research*, Berlin: Quorum, 1984; Kirchner, Emil J., *The European Parliament: Performance and Prospects*, Aldershot: Gower, 1984.

history of the continent resembled early constitutionalism in Europe's nation states in the mid-nineteenth century.

It should not come as a surprise that the first direct elections to the European Parliament received a lower voter turnout than national parliamentary elections on average in Europe. But the voter turnout of 63 percent on EC average could also be considered fairly high given that the stakes were not yet very high. Why bother to vote for a parliament that had no real decision-making powers? The results reflected the overall party affiliation in the EEC member states, with Social Democrats and Christian Democrats being the two dominant political groupings. The Social Democrats won 27.5 percent (113 seats), the European People's Party – the first EC-wide party established by the Christian Democrats in 1978 in preparation of the direct parliamentary election – won 26.8 percent (110 seats). Together with other smaller groups of the center-right they formed the majority. The French member of the European People's Party, Simone Veil, was appointed the first President of the directly elected European Parliament. The subsequent elections in 1984, 1989, 1994 and 1999 ended with marginal shifts in the political make-up of the European Parliament. While a continuous swing of the pendulum in favor of left of center parties was at first noticeable, in 1999 the European People's Party became the biggest faction.

For the first time, the European Parliament made headlines in November 1984 when it refused to grant discharge of the 1982 EC budget, invoking one of its limited rights. Throughout the first two decades in operation, the European Parliament was largely operating on a consensual basis as both big political groupings were promoting an increase of parliamentary rights. As this was the most important issue in the early decades of emerging parliamentary democracy in the EC, it seemed as if disagreement on policy choices hardly existed. Over time, this made it difficult for EC parliamentarians to gain authority in their respective national debates as they were often perceived as lobbyists for the sake of "their own" cause of strengthened parliamentary rights and less so as parliamentarians lobbying for the citizens' cause. The fact that parliamentarians were seated according to factions – labeled "political families" – and not in national order was significant and a practice since the very days of the General Assembly of the European Coal and Steel Community. The more a parliamentary-based system of European governance evolved – undeniable with the Treaty of Maastricht – the more the parliamentary factions gained in power and relevance in brokering European decisions.[33]

To this ambivalent image of the European Parliament in its early days was added the fact that it was not rare for national political groupings to send politicians into the European Parliament who were not or no longer in the forefront of events in their own

33 Morgan, Roger, and Clare Tame (eds.), *Parliaments and Parties: The European Parliament in the Political Life of Europe*, New York: St. Martin's Press, 1996; Lewis, Paul, and Paul Webb (eds.), *Pan-European Perspectives on Party Politics*, Leiden/Boston: Brill, 2003.

country. While in the past, it was compulsory for members of the European Parliament to be simultaneously a member of their own national parliaments, during the first legislature of the European Parliament still ten percent of MEPs (Members of the European Parliament) held a dual mandate. Even this percentage soon disappeared as the European Parliament grew in stature, and national political parties began to search for more competent and committed candidates to run for the European Parliament.

The emergence of a directly elected European Parliament was an important event in the formation of the European multilevel system of governance. A group of Three Wise Men (Barend Biesheuvel, Edmund Dell, Robert Marjolin) had been requested a year before this election by the European Council to design proposals in order to improve the ineffective decision-making mechanism in the EC. They suggested to (again) strengthen the European Commission and to extend the use of qualified majority voting in the Council. This report was followed by the so-called Genscher-Colombo-Plan, an initiative of the German and Italian Foreign Ministers in November 1981. Along with the European Parliament, they favored the signing of a Single European Act by which the complex institutional system of the EC should be organized in a definitive way around the European Council. It was also to give complete rights of deliberation on all EC matters to the European Parliament. They stressed the need for each member state to explain in writing why a right of veto was invoked on a matter of "vital national interest" in the Council. A Solemn European Declaration in June 1983 confirmed the gist of the Genscher-Colombo-Plan and opened the way to intergovernmental negotiations for the Single European Act.

The Single European Act legalized the European Council as part of the EEC Treaties. This institution had become indispensable, although its specific function and form was not properly outlined. In order to enhance the efficiency of decision-making in the EC, the Single European Act extended the principle of qualified majority voting in the Council on all matters related to the full implementation of the Common Market and in order to initiate new policy fields in the EC. Unanimity prevailed on tax matters and on questions relating to the freedom of movement for workers in the EC. In order to facilitate the work of the European Court of Justice, the Single European Act established a second court chamber of first instance. For the first time, the European Parliament was designated as such in the EEC Treaties. A new legislative method of cooperation between the European Parliament and the Council was established. On all decisions that were to be taken with qualified majority voting in the Council, the parliament was to be able to add proposals for change. If the European Commission agreed with a parliamentary proposal, it could only be rejected by unanimity in the Council. Vital exceptions remained: Common Agricultural Policy, transportation legislation, and legislation on services and matters of capital transfer; in these dossiers, the European Parliament could only express an opinion.

The Single European Act declared that the common goal of the EC was to realize the Single Market by December 31, 1992.[34] The Treaties of Rome were amended (Article 8 a-c) to legally facilitate the full implementation of this new priority of the EC. Some observers were astonished why the EC had to reiterate what seemed to have been the first and foremost goal of the EEC ever since 1957. Freedom of goods, labor, services and capital had been facilitated by the creation of customs union and common market, but a long and daunting process to overcome non-tariff barriers had only begun. It required a new and focused legislative boost by the EC. The Single European Act designed the legal framework to finally do so.

(d) For the first time in the history of European integration, the Single European Act stipulated a common foreign policy as a real community goal.[35] Euroskeptics could hardly believe that this move had ever happened in the first place. During these years, the European Parliament was already struggling to set up a committee on defense policy. At the beginning, they were only permitted to create a subcommittee on defense and disarmament of the Parliament's Foreign Affairs Committee. With the Single European Act, the "most decisive changes in the structure of the EC since its inception" occurred; with them, the member states "were to surprise everyone, including perhaps themselves."[36] This was certainly a fair assessment as far as the future evolution of a common foreign (and subsequently even security and defense) policy was concerned. The method of gradual harmonization of national positions on foreign policy matters was confirmed; over time this should lead to the formulation of common positions. The Single European Act underlined the necessity of regular mutual consultations before national positions on foreign policy matters were finalized. The loose institutional structures of European Political Cooperation, which had evolved since 1970, were legally rooted. Regular meetings of Foreign Ministers (four times a year in the presence of a member of the European Commission), two further meetings in the European Council, further meetings whenever it was considered necessary and, finally, the establishment of a Permanent Secretariat in Brussels to support European Political Cooperation were decided with the Single European Act. Explicitly, the Single European Act confirmed the need of compatibility between the EC's common foreign trade policy and its intergovernmental political cooperation. The European Parliament was to be kept informed about all matters relevant in European Political Cooperation.

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34 Button, Kenneth J., et al., "1992 and the Creation of a Single European Market," *Antitrust Bulletin*, 37.2 (1992): 281-335; Garrett, Geoffrey, "The European Community's Internal Market," *International Organization*, 46:2 (1992): 533-560.

35 Crouch, Colin, and David Marquand (eds.), *The Politics of 1992: Beyond the Single European Market*, Oxford, Blackwell, 1990; Pedersen, Thomas, "Political Change in the European Community: The Single European Act as a Case of System Transformation," *Cooperation and Conflict*, 27.1 (1992): 7-44.

36 Urwin, Derek W., *The Community of Europe: A History of European integration since 1945*, op. cit.: 228.

And another innovation: For the first time, the sphere of security was to be included in European Political Cooperation. Although many details were missing, a first solidly rooted step toward a common foreign and security policy had been completed. While tensions with the Soviet Union strengthened transatlantic cooperation and helped to reactivate Franco-German security dialogue in the context of the almost forgotten Western European Union (WEU), it seemed as if a new start for a common foreign and security policy could finally get the consent of all EC partners.

This was a concept far removed from the idea of a Common European Army as debated during the 1950's. Less ambitious, it was nevertheless a realistic approach that garnered general support in the EC, including that of Great Britain and Denmark. Yet Danish Prime Minister Poul Schlüter – chairing one of many minority governments that existed since the early 1970's – had a hard time convincing his citizens about the value of the Single European Act. Only a very slim majority agreed in a referendum in February 1986 to the Single European Act. It came as a warning sign to take euroskeptical citizens more seriously in any further step toward deepened European integration.

Symbolic efforts to popularize European integration would not be enough, although they were useful expressions of the supranational reality that was evolving. A common European flag, the European anthem (Beethoven's "Ode to Joy"), improvements in passenger traffic across the EC, and mutual recognition of diplomas were some of the results stemming from the report written by former European Parliament member Pietro Adonnino intended to accelerate the creation a of "Europe of Citizens".[37] The ultimate legitimacy of European integration would indeed come from a combination of visible and tangible effects on the daily lives of ordinary citizens, and from efficient and transparent decisions of political leaders assigned to act on behalf of strengthening the European public good.

The 1970's and 1980's saw a steady trend toward more stable governance structures, broadened perspectives and a solidification of the path toward European Monetary Union as the overriding priority of these years. No decision on institutional matters had left all actors satisfied. "Satisfaction" was rarely a category to measure success and evolution of EC governance. More important was an insight into the nature of this process: It continued, often balancing former excesses, in the direction favorable to one of the institutions, then again pushing the alternative concept of who should have primacy over whom. But all in all, a balanced governance system was appearing on the horizon of the European Community. Policy evolution and governance development did continue throughout the 1970's and 1980's, but both were never fully cohesive. Instead, each new result left enough frustration to keep the ball rolling toward the next goal.

37 Magiera, Siegfried, *The Emergence of a "Europe of Citizens" in a Community without Frontiers*, Speyer: Forschungsinstitut für Öffentliche Verwaltung, 1989; Bruter, Michael, *Citizens of Europe?: The Emergence of a Mass European Identity*, Houndmills: Basingstoke, 2005.

This remained the nature of how progress was defined in the making of the European Community. Crises had become its best friend.

4. The Deepening Effect of New Enlargement

No matter how incomplete the European integration process was, for more Europeans it became, nevertheless, attractive to apply for membership in the EC. Its performance could not have been so bad after all. Membership questions always spurred emotional debates in the process of European integration. But only two of them were particularly tense: the application of Great Britain and the application of Turkey, which the EU received in 1987. Under mounting public controversy, the European Council decided in December 2004 to open negotiations with Turkey that might last for ten to fifteen years.

In a much easier context, during the second half of the 1970's and until the mid-1980's the membership prospects of Greece, Portugal and Spain were at the center of attention. All three countries were able to gradually oust dictatorial regimes in 1974 and 1975 and establish rule of law-based democracy. As their economies had always been market-oriented, membership in the European Commission seemed to be the logical way to stabilize their domestic situations and to support their course of economic modernization. But what would be the benefit for the European Community to accept them as new members?[38]

When the EEC was founded, such a question had not even existed. The British application had produced resistance in France for reasons of political power and equilibrium. By the mid-1970's, the European Community had largely been transformed in its meaning for many of its citizens. It was no longer the indispensable peace vehichle to prevent the French and Germans from again resorting to destructive nationalism, and no longer a mechanism to decide on French-British struggles for dominance in Europe. It had become a vehicle to maximize affluence. Affluence, however, also generates fear of competition, greed and jealousy. When Greece, Spain and Portugal knocked at the door of the EC, politicians were excited in helping them to stabilize their democracies. Many citizens, however, were worried about the economic and financial effects on their own lives. Spain alone would increase the population of the EC by 20 percent, but its share of the EC's GDP was only 10 percent. Its agricultural land would add 30 percent to the EC's agriculture, and its agricultural work force another 25 percent to that operating in the EC. The country had surpluses in olive

38 Seers, Dudley, and Constantine Vaitsos (eds.), *The Second Enlargement of the EEC: The Integration of Unequal Partners*, New York: St. Martin's Press, 1982; Gibson, Heather D. (ed.), *Economic Transformation, Democratization and Integration into the European Union: Southern Europe in Comparative Perspective*, Basingstoke: Palgrave, 2001; Kaiser, Wolfram, and Jürgen Elvert (eds.), *European Union Enlargement: A Comparative History*, London/New York: Routledge, 2004.

oil and citrus fruits that would be added to the EC surpluses due to the Common Agricultural Policy. It could not come as a surprise that membership negotiations with Spain and Portugal lasted for more than six years. Twenty years later, both countries were among the most dynamic and growth-oriented regions in Europe.

When membership negotiations began with Spain and Portugal, it was already foreseeable that the Common Agricultural Policy would absorb almost 80 percent of the EC budget by the time of Spanish accession. The regional development funds would also come under severe pressure given the size of Spain, but also from the claims of the other two applicant countries. Reform of the EC structures was overdue. In fact, the enlargement process to the "olive belt" facilitated the necessary reform of the EC's Common Agricultural Policy. Production quotas reduced the spending in the Common Agricultural Policy and by 1992 – when the MacSharry reform came into being – the budgetary share for Common Agricultural Policy had gone down to 60 percent of the overall EC budget. This was no breakthrough, but at least a beginning in a sphere of misled community policy that had seemed unalterable. French agricultural labor had gone down to 2 percent of the overall work force of the country, but changes in agricultural reform were as controversial as if the ultimate destiny of the nation was at stake. Other countries exhibited this strange behavior, a fact that can only be explained by the importance of the agricultural vote in elections. The scope for victory had become rather narrow in European countries, mostly producing coalition governments to form a stable majority.

The other controversial issue that was related to Spanish EU membership prospects was its fishery fleet, which was 50 percent of the size of the total EC fishery fleet in 1980.[39] Common Fishery Policy had existed since The Hague summit of 1969, and following the Common Agricultural Policy became the other primary economic sector. As the Common Fishery Policy required changes prior to Spanish accession, the EC agreed on those changes preventing a crisis of its financial position in 1983. This set a precedent however that the Spaniards did not forget and when the EU had to decide on membership of a whole series of post-communist countries in the late 1990's, they made sure not to lose any of the financial privileges they had accrued since the beginning of their membership. Unfortunately, this behavior was a sign of national exploitation rather than a convincing argument for further funds meant to harmonize regional and structural asymmetries in an enlarged EU.

Since the beginning of the European Economic Community in 1958, special funds were allocated to support specific sectors of the EEC: the European Social Fund and the European Agricultural Guidance and Guarantee Fund. The latter one was absorbed by the Common Agricultural Policy. The philosophy behind the European Social Fund was to ensure social cohesion in the EEC with its diversity of economic potential and social

39 See Dedman, Martin J., *The Origins and Development of the European Union 1945 – 1995*, London/New York: Routledge, 1996:127.

cleavages. In 1973, in order to alleviate structural and regional imbalances that were considered detrimental to the big aim of economic and monetary union, the European Regional Development Fund was created. Already before joining the EC, Ireland, Great Britain and Italy had formed an unofficial grouping lobbying for the establishment of this fund. Consequently, they became the greatest beneficiaries of its resources, along with France, and Greece, Spain and Portugal after their accession to the EC during the 1980's.

In 1988, not least because of the consequence of the enlargements of the past years, the EC restructured the operation of its funds and put them on a much more refined basis, thus developing certain elements of an EC welfare state-like policy. This approach – embodied in the creation of the EC's Structural Funds – was never free of controversy. With the implementation of the Treaty of Maastricht the EU Cohesion Funds added a new instrument to the reallocation of EU resources. With the beginning of Cohesion Funds in 1993, the European system of solidarity became more elaborate, but not less controversial. Main recipients of Cohesion Fund resources were Ireland, Portugal, Greece and Spain, but also other regions with income discrepancies and socio-economic deficits substantially below the EU average, including the "new German Länder."

Whether the policies supported by these funds were successful remained a matter of political debate.[40] That they contributed to a strengthening of the role of the European Commission and, through the mechanism of co-decision-making introduced with the Treaty of Maastricht, also a strengthened role of the European Parliament is the institutional dimension of the debate. EC policy instruments were growing as much as they increased the degree of necessary adjustments, corrections, overhauling, and a permanent quest for increased financial resources to be available for the EC in order to be redistributed. Tommaso Padoa-Schioppa, later to become an Italian member on the Executive Board of the European Central Bank, made a convincing case for the importance of enhanced structural funds. In 1987, he stressed "the serious risks of aggravated regional imbalances in the course of market liberalization."[41] While the Southern European countries were hesitant to embrace market liberalization as part of the path toward the Single Market, the northern European countries were skeptical about the wisdom of turning the EC into a welfare state community. After a year of

40 Evans, Andrew, *The EU Structural Funds*, Oxford: Oxford University Press, 1999; Bachtler, John, and Ivan Turok (eds.), *The Coherence of EU Regional Policy: Contrasting Perspectives on the Structural Funds*, London: J.Kingsley Publishers, 1997; Rodokanakis, Stavros, "Fifteen Years (1988-2002) of Structural Funds' Intervention: Critical Evaluation and Impact on Economic and Social Disparities among EU Countries and Regions," *The European Union Review*, 8.1-2 (2003): 65-105; Beugelsdijk, Maaike, and Sylvester C. W. Eijffinger, "The effectiveness of structural policy in the European Union: An Empirical Analysis for the EU-15 in 1995-2001," *Journal of Common Market Studies*, 43.1 (2005): 37-51.

41 Padoa-Schioppa, Tomasso, et al., *Efficiency, Stability and Equity: A Strategy for the Evolution of the Economic System of the European Community*, Oxford: Oxford University Press, 1987: 10.

broad debate among policy makers and experts, the Delors I Package – adopted by the European Council in December 1988 – confirmed the logic of this argument. Another step toward consolidated – and controversial – welfare state mechanics was taken by the EC. The criteria for defining regions or sectors as "lagging behind" and being in need of financial solidarity from the EC was to remain a permanent fixture in EU decision-making, aggravated in the context of the accession of a series of post-communist countries in 2004 and 2007. However, constitutionally speaking, both the Structural Funds and Cohesion Funds clearly had the effect of solidifying the community's supranational profile.

Enlargement had again proven to be supportive of a "deepening" of the integration process rather than being an obstacle to it. This does not suggest that enlargement implications were only win-win situations. But it would also be misleading to assume that enlargements were only a burden on the process. They always had anticipatory, almost preemptive and accelerating functions. In the long run, enlargements always strengthened the community spirit although this might not have been immediately evident. They deepened the sense of identity for all those involved in an ever more visibly, truly European project. They also transferred mechanisms of political interest formation and at times even an aggressive pursuit of specific national or political interests to the European level. But in the end, isn't that what democracy is all about, also under the conditions of each nation state?

The problem for policy making on the European level was increasingly one of accountability and transparency in its underlying institutions. The more the EC became active, the more European citizens realized the reach of its policies. But unlike in each national political system, the political structures in the EC appeared highly bureaucratic. No specific persons, parties or organs seemed to be accountable. All sorts of criticism was increasingly directed in a very general way toward "Brussels." But "Brussels" could hardly be profiled. Institutional reforms were therefore increasingly linked to the intention of making the EC policy process more visible, accountable and effective. Fiscal matters remained, however, a largely technical affair. Moreover, the increasing interconnectedness between national and European policy processes, aside being multidimensional on the horizontal level with the involvement of various European institutions, sharpened the feeling of detachment from the decision-making process. Even experts had a hard time understanding the mechanics of communitarian decision-making procedures. The term "comitology" became more than a short-hand word for a complex web of formal and informal influences, including interest groups, expert panels and pre-decision-making diplomacy. It became a synonym for the Western European equivalent of what Sovietologists meant with the term "Kremlinology," a helpless and hopeless set of speculations about who might be in charge of what.[42]

42 For an effort to bring reason into the system see Wessels, Wolfgang, "Comitology: Fusion in Action. Politico-Administrative Trends in the EU System," *Journal of European Public Policy*, 5.2 (1998):

The expansion of EC policy spheres had to overburden its institutions. Yet, it remained common to blame the European Commission for being overly centralizing, overstaffed and under-competent. This was unfair, not in the least because much of its staff were interpreters or did clerical work. All together, the interpreters included, the size of the European Commission was never bigger than the size of the administration of a larger European city. The real complaint about EC decision-making and policies should have been directed to the national political actors. As long as the EC was evidently able to deliver – that is to say to enhance the well being of the recipients of its actions – it was applauded. Road signs in peripheral regions of Ireland, Portugal and Greece, indicating that the improvement of traffic conditions were financed by the EC, had a positive effect on the attitude of local people about the EC. In countries that were net contributors to the EC budget, the focus was on spending and in support of the prejudice that taxpayers' money be wasted elsewhere. Political leaders did not always contribute to fighting prejudice and defending innocence by explaining the link between contributing to the EC and benefiting from the effects of integration, for example, through an increased import of goods originating in net-contributor countries. The 1980's led to a "monetarization" of EC matters – or better, it led to a materialistic reduction of its purpose. This was not only due to the preparation of the European Monetary Union. The whole EC was increasingly considered to be an operation of spending here and taking there, as an uneven and unfair monetary resource allocation scheme. The rationale for European integration was sometimes threatened so completely that it disappeared amid complaints about too much spending here and too little receiving there.

5. Budget and Politics: The Nasty Side of Enlargements

The evolution of a budget for the European Community and subsequently for the European Union is amongst the most important and yet unresolved matters of European integration. The European Community did increasingly grow into acquiring new tasks, both intended to deepen the integration process and to enhance redistributive programs aimed at consolidating the community through more symmetry in its socio-economic realities. The McDougall report of 1977 concluded that the EC would have to increase its budget to at least five percent of the Community GDP in order to properly perform both its redistributive and stabilizing role. This has not happened over thirty years, in spite of a continuous increase in work and competencies for the EU. The EU budget for

209-234; Christiansen, Thomas, and Emil Kirchner (eds.), *Committee Governance in the European Union*, Manchester: Manchester University Press, 2000; Ballmann, Alexander, et al., "Delegation, Comitology, and the Separation of Powers in the European Union," *International Organization*, 56.3 (2002): 551-574; Bergström, Carl Fredrik, *Comitology: Delegation of Powers in the European Union and the Committee System*, Oxford: Oxford University Press, 2005.

the period 2007-2013 still hovers around one percent of the EU's combined GDP. Such a limited budget cannot give adequate support to the claimed strategic role of the EU. Economic analysis comes to the conclusion that in spite of reforms within the redistributive mechanisms – foremost by reducing the costs for the Common Agricultural Policy – the European Union's budget to this day "simply is inadequate to perform this strategic role."[43]

Budgetary matters have been constitutional issues in all political systems at all times. The European Community is no exception to this rule. Public perception, however, tends to relate budgetary struggles in the EC primarily to political battles and egotistic claims for redistributive advantages at the expense of community solidarity. Both aspects have indeed been intertwined in the history of EU budgetary policy. Yet it must be stressed that first and foremost, budgetary debates and decisions in the EC were – and remain so in the EU – matters of constitutional relevance. This has certainly been the case since the budgetary disputes between Great Britain and her EC partners, embodied in the famous outcry of then Prime Minister Margaret Thatcher "I want my money back."[44] This was a constitutional assault on the very foundation of the EC as a supranational decision-making body with binding consequences for all its constituting parts. Prime Minister Thatcher succeeded in gaining a budgetary rebate for Great Britain. The constitutional implication was looming large whenever the issue was brought up again to be resolved: How substantial shall an autonomous EC/EU budget be as this would ultimately define the supranational character of European integration as a federal system.

The origins of the British quest for rebate are linked to British membership negotiations in the early 1970's. 40 percent of British butter was supplied by New Zealand and most of its sugar came from Caribbean Commonwealth countries. While New Zealand lamb, another commodity dear to British taste and heart, did not produce problems as the EC at the time did not yet have a market organization for lamb, butter did. French and Dutch producers hoped to take over the British share after accession of Great Britain to the EC. Realizing that British membership might not pass the approval of the House of Commons should it be detrimental to the links to New Zealand, France made the EC change the strategy of accession negotiations. Great Britain had originally offered to contribute initially 3 percent to the EC budget, going up to 15 percent in 1977. This was too little anyway, but now the EC insisted that New Zealand butter would be allowed into the EC only if Great Britain would substantially increase her

43 Lucarelli, Bill, *The Origin and Evolution of the Single Market in Europe*, op. cit.:157.

44 For her own account see Thatcher, Margaret, *Downing Street Years*, New York: HarperCollins, 1993: 60-64, 78-86, and 541-545; see also Young, John W., *Britain and European Unity, 1945-1992*, Basingstoke: Macmillan, 1993; George, Stephen, *An Awkward Partner: Britain in the European Community*, Oxford: Oxford University Press, 1998.

contribution to the EC budget. In the end, Great Britain agreed to contribute 8.64 percent in 1973, rising to 18.92 percent in 1977.[45]

With Margaret Thatcher becoming Prime Minister of Great Britain, the distorted budgetary contribution became a permanent and noisy EC topic again. Since Great Britain's agricultural sector was smaller than that of other EC partners, and since the country imported more agricultural commodities from outside the EC than the other member states, the British budgetary contribution was relatively higher while the country regained disproportionately less in return from the EC. Prime Minister Thatcher almost turned the issue into a matter of life and death. But she was not only concerned with the unfair treatment of her country and looking for "financial justice." On principle, she objected to the trend to an ever-increasing autonomous EC budget, which was to become the inevitable consequence of the growing costs for the Common Agricultural Policy and other redistributive policy schemes of the EC. Prime Minister Thatcher threatened to withhold British budgetary contributions, which would have been an illegal act under EC law. French President Giscard d'Estaing and German Chancellor Schmidt ventilated the possibility of relegating Great Britain to second-rank membership, which would have been legally possible. In the end, a compromise was struck in May 1980 in the General Affairs Council of the EC: Budget reform became an issue on the EC reform agenda and Great Britain received a rebate of two-thirds of its contributions over a period of three years.

Mrs. Thatcher's reelection in 1983 and the replacement of Giscard and Schmidt by Mitterrand[46] and Kohl did not make budgetary matters easier. In fact, the conflict stiffened. At the European Council meeting in Fontainebleau in June 1984, a rather permanent and, in fact, all too permanent solution was found: By unanimous agreement, Great Britain gained a permanent rebate of 66 percent each year on the difference between Great Britain's value-added tax contribution to the EC budget and its gains from the EC through its various funds, agricultural subsidies included.[47] If that sounds Byzantine, so it was! But it would be misleading to assume that the matter only concerned agriculture, value-added tax and the like. For Margaret Thatcher, the budgetary issue was the equivalent of what qualified majority voting in the EEC Council had been to French President de Gaulle before he ordered his ministers to move out of EEC meetings in 1965, a matter of principle, objection against further federalism through the backdoor of seemingly secondary issues and developments.

It was no coincidence that the evolution of budgetary matters loomed large again in the EC when the critical juncture of achieving both the Single Market and European

45 On the intensity of this negotiation see Dinan, Desmond, *Europe Recast: A History of European Union*, op. cit.:137.

46 On his legacy see Cole, Alistair, *François Mitterrand: A Study in Political Leadership*, London: Routledge, 1994.

47 See Denton, Geoffrey, "Re-Structuring the EC Budget: Implications of the Fontainebleau Agreements," *Journal of Common Market Studies*, 2 (1984): 117-140.

Monetary Union was reached in 1988. By then, Great Britain – content with its rebate – had been replaced by Spain, Portugal and Greece in the quest for overly excessive fiscal solidarity from their EC partners. Since Spain and Portugal were holding a blocking minority in the EC's Council – one of the reasons why the re-weighing of votes became so heated in the negotiations of the Treaty of Nice in 2000 and ever thereafter – they threatened to accept the Single Market program only if they would receive additional funds to adjust their economic structures to the conditions of tougher competition in the emerging Single Market. For those who still vividly remembered the budgetary disputes with Great Britain, this was a sort of remake under different circumstances. The ultimate issue, again, was not the Single Market, but the constitutional conditions of decision-making in a supranational Community wanting to achieve common goals without being able to resort to "natural" common interests.

Should the stand-off with Spain and Portugal be resolved in a way equivalent to the decision on Great Britain's rebate, and should the EC at the same time become enabled to finance new policies – among them science, technology and development aid – that were added to the Community's tasks with the Single European Act of 1987, an increase in the autonomous budget of the EC was inevitable. The European Council decided in Brussels on February 11 and 12, 1988, on a comprehensive budgetary reform (Delors I Package). The limit for "own" budgetary resources of the EC was set at 1.15 percent of the cumulated GDP of all member states for 1988, increasing to 1.2 percent in 1992. This meant already for the 1988 budget an increase of 20 percent to a total of 45 billion ECU. To the extent this money was not generated through import taxes, levies and the value-added tax share of 1.4 percent per member state, the EC was to receive net-contributions from its member states according to their GDP in proportion to their respective populations. By 1992, the next budgetary cycle was to include further increases. The Edinburgh European Council of December 11 and 12, 1992, concluded that the fiscal framework for the period 1993 to 1999 should begin with a ceiling on the EC's "own" resources of 1.2 percent of the cumulative GDP of all member states and grow to a ceiling of 1.27 percent in 1999, meaning an increase from 69 to 84 billion ECU. These budgetary decisions were already taken in light of the upcoming enlargement with the post-communist countries of Central and Eastern Europe. The pre-accession strategy, intended to help them achieve the standards of the *acquis communautaire*, was already included in these budgetary provisions. Once more, an emerging enlargement had provoked anticipatory extension of the scope of supranationality in Europe.

The organizing idea throughout the second phase of European integration was the goal of completing the original promise of the Treaties of Rome, that is to say a Common Market. The more appropriate term Single Market underlined the deliberate political intention behind the project, which turned into a long and sometimes highly technical, often controversial process. The negotiation of the Treaty of Maastricht in 1990/1991 marked the end of the second phase of European integration. When the Treaty of Maastricht was signed on February 7, 1992, (and even before it eventually came into force on November 1, 1993, after a very difficult ratification process), European integration entered a new phase: So far, economic integration had been at the core of the European integration processes. Increasingly, European integration became politicized and politics Europeanized. The Treaty of Maastricht refounded the European Economic Community as the European Union. This was not only about semantics. It indicated the entry into a new period of European integration, aimed at constantly politicizing and constitutionalizing it.

This transformation into the next period of European integration was linked to another, rather sobering experience: Even legally binding decisions in the appropriate EC institutions did not automatically create new European realities. Most directives of the EC had to be transposed into national legislation. It was here, that European decisions were often halted in an effort to re-nationalize political decision-making. The struggle with this trend turned out to be one of the most time-consuming obstacles to early completion of the Single Market, no matter the extent to which the European Commission argued its case: By December 31, 1992, the Council had decided on 282 proposals from the European Commission. 213 of them had to be transposed into national legislation. Denmark with 189 decisions (88.7 percent), and Greece with only 150 decisions (70.4 percent), marked the upper and lower echelon among the member states' consistency with their own EC decisions. Nevertheless, the Edinburgh European Council of December 1992 declared mission accomplished. On July 6, 1988, Commission President Jacques Delors had stated in an often-cited speech to the European Parliament that in ten years time, "80 % of our economic legislation, and perhaps even our fiscal and social legislation as well, will be of Community origin."[48] In turn, this meant that 80 percent of legislation in member state parliaments was merely a reactive move to implement decisions already taken on the EC level. No matter how accurate Delors' prediction was, no single argument became as famous in order to demonstrate the substance of supranational political realities in the integrated Europe.

Some effects of the Single Market Program were supported by positive development in the world economy. The main result of the Single European Market remains the fact

48 Delors, Jacques, "Speech to the European Parliament, July 6, 1988," *Official Journal-European Communities/Annex*, 2-367 (1988):140.

that companies in EC member states gained access to larger markets, consumers had more choice, and increased competition has improved productivity and profitability. The trade surplus in European Union manufactured products rose from 12 billion euros in 1989 to 169 billion in 1997. Profits in the banking sector rose by 75 percent between 1997 and 2000. Total premiums written by European insurance companies rose by 50 percent between 1995 and 1999. One of the biggest markets that would gradually open up across the EU was that of public procurement. In 1999, it was estimated that the annual market for goods and services purchased by national, regional and local governments in the European Union was in excess of 700 billion euros. The Single European Market produced a considerable increase in intra-EU trade of 3 to 4 percent. GDP and welfare gains were obtained across the EU, although often difficult to calculate exactly. Estimates vary between a 1.1 and 1.5 percent increase in GDP for 1994 alone. Rationalization of production, better use of economies of scale through increased industrial concentration and reduction of price cost margins, were observed across the EU.

The completion of the Treaty of Maastricht (Treaty on European Union) was the culmination of the most successful phase of the Franco-German tandem in the EC context up to that point. Time and again, French-German cooperation proved to be the enabling precondition for progress toward deepened integration. The Franco-German tandem presented initiatives to bring the EC forward, organized compromises, advanced decision-making and achieved consensus results.[49] While the first phase of supranational integration – in spite of its historic beginning – was clouded by French claims of national primacy, France and Germany were confronted during the second phase of European integration with similar British claims, although constructed around different topics. Nevertheless, the principle of supranational political integration survived this period. It did not only survive, but was to become even more deeply rooted with the European Monetary Union and Treaty changes since the Single European Act and culminating with the Treaty of Maastricht. The Treaty of Maastricht opened the doors for a new period of European integration. Since the ratification debate on the Treaty of Maastricht, European integration has become increasingly politicized. Subsequently, politics became increasingly Europeanized. The fall of the Berlin Wall and the end of communist rule over Central, Eastern and South Eastern Europe put the question of imminent European unification on the political agenda of the continent. The issue of Eastward enlargement had many components, but most importantly, it established the primacy of politics in managing the European integration process. The

49 Calleo, David P., and Eric R. Staal (eds.), *Europe's Franco-German Engine*, Washington D. C.: Brookings Institution Press, 1998; Webber, Douglas (ed.), *The Franco-German Relationship in the European Union*, London: Routledge, 1999; Hendriks, Gisela, and Annette Morgan, *The Franco-German Axis in European Integration*, Cheltenham: Edward Elgar, 2001; Colard, Daniel, "Le Couple Franco-Allemand et la Construction de l'Europe," *Questions Internationales*, 11 (2005): 120-123.

Treaty of Maastricht itself initiated controversies about the limits of national autonomy and the primacy of European solutions beyond all experiences in post-War Europe. The controversies over Economic and Monetary Union were no less heated than those over a Common Foreign and Security Policy, and in fact over the very notion of transforming the European Community into a European Union with Union citizenship. European integration received a blow when Denmark rejected the Treaty of Maastricht on June 2, 1992, by less than 50,000 votes. A subsequent referendum in France on September 20, 1992, ended with the marginal support of 51.05 percent in favor of the Treaty of Maastricht. The path toward deepened European integration had become a contentious issue among the citizens of Europe. Following additional negotiations with Denmark, leading to four opting-out clauses for the Danes, the second referendum on the Treaty of Maastricht on May 18, 1993 was successful. The message of this experience was clear: Although the process of European integration seemingly remained a technical economic and bureaucratic operation, the citizens of the EC wanted to be heard and the member states began to see a shrinking of autonomous decision-making powers as a consequence of integration. This was indeed the case, and it was both intended and the logical consequence of deepened and solidified integration. The debate about the Treaty of Maastricht indicated a new transformation from economic primacy to Europeanized politicization. The challenge of absorbing the post-communist new democracies of Central Europe fueled this transformation and consumed EU activities for more than a decade. Often, the unification of Europe was interpreted as the ultimate goal and achievement of integration. But the Maastricht controversy made clear that integration would not succeed if it did not balance a new wave of widening with solid deepening.

The Treaty of Maastricht could not be more than another step in the direction of a political union that would deserve its name in reality. Failures and underperformances, however, also remained noticeable. The deficits in balancing governance structures and making them both efficient and legitimate were beginning to be widely recognized: Suggestions on what to do – as outlined with all clarity in the Tindemans Report in 1975 and in the draft for a European Constitution presented by the European Parliament in 1984 – were ahead of their time. The emerging global role of Europe was definitively lacking focus and substance. To the credit of the EC one has to add that the EC remained not only a prisoner of its own shortcomings, but also a hostage of the Cold War division of Europe – and a continuous beneficiary of American protection.

Parallel with this development, transatlantic relations were flourishing, but they were also going through their own history of progress and regression and again progression. The overriding strategic concern about the security of the Western world dominated the agenda, although the evolution of the global economy superseded in real terms the worries of many of those who were responsible for the maintenance of both stability and affluence, if not stability through affluence, on both sides of the Atlantic. The Second Cold War, escalating with the Soviet Union's deployment of new missiles

(SS-20) targeted at Western Europe, its invasion of Afghanistan in December 1979, and the imposition of martial law in Poland in December 1980, was counter-balanced only by new hope for non-communist dissidents in Central and Eastern Europe through co-operation with the West, and with the right to relate their human rights claims to the provisions of the CSCE Final Act signed by all countries of the continent. Sometimes, the CSCE Final Act was considered the substitute for a formal peace treaty to end World War II and all related claims, particularly claims to change borders in Europe again. For dissidents in Central and Eastern Europe, the Soviet Union included, the CSCE Final Act was only the beginning of a new chapter in their history, the beginning of freedom and the move to a unified Europe. The election of Karol Woytila as the first Polish pope in history on October 16, 1978, was indicative of things to come. During the first visit to his homeland in June 1979, Pope John Paul II, who would arguably become the most impressive, important and lasting among all leaders of the twentieth century, called on his countrymen, on all Europeans and, in fact, on all citizens of the world, not to be afraid, but to go ahead with a life of hope.[50]

50 On the papal visit to Poland and on related events of the peaceful revolutions in Europe see Garton Ash, Timothy, *The Uses of Adversity: Essays on the Fate of Central Europe*, London: Penguin, 1989; on the historical meaning and legacy of this arguably most outstanding personality of the twentieth century see Weigel, George, *Witness to Hope: The Biography of Pope John Paul II.*, New York: HarperCollins, 1999.

V. 1993 – 2009: Politics Europeanized

1. Constitutionalizing the European Public Good

(1) Crisis of Trust as Crisis of Deepening Integration

Surprisingly, the fall of the Berlin Wall on November 9, 1989, turned out to be the biggest challenge to Europe since the fall of Hitler's Third Reich in the same city on May 8, 1945. Instead of rejoicing about the end of Europe's division in happy anticipation of European unification under the banner of freedom, democracy and market economy, skeptical concern, fear and immobility soon filled the air. With German unification imminent as the immediate consequence of the fall of the Berlin Wall, even the very rationale of European integration seemed to have become questionable. Germany might not need European integration any longer, some argued. Other notorious skeptics perceived united Germany as the dominating European power, while some analysts were questioning whether or not Germany would maintain its interest in pursuing European integration at all. Soon, a first set of reassuring answers was given: The government of united Germany under Chancellor Helmut Kohl was reelected twice after the unification of the two German states on October 3, 1990, before he lost his Chancellorship in the 1998 election. At all times during this decade, Kohl's government remained unwavering in its commitment to European integration. German unification and European unity were considered as two intrinsically linked sides of the same coin.[1] Rapid German unification had come about only after formal consent of the four allied powers, who had won World War II against the German Reich. German unification accelerated the path toward the European Monetary Union. It also opened up the possibility of further enlargements to include Central and Eastern European countries: After all, the accession of the German Democratic Republic to the Federal Republic of Germany – based on its traditional internal federal structures with five "new Länder" joining the eleven "old Länder" of the Federal Republic – was the first accession of a post-communist transformation society to the European Community, albeit under different conditions. Joy could have been the overall European attitude.

This, however, did not happen because a second set of answers to the questions raised with the end of the artificial division of Europe was much more difficult to obtain. In fact, it even took EU leaders a couple of years to define the right content of questions following the fall of the Berlin Wall and the end of the Cold War. The fall of the Berlin Wall in 1989 found a first formal answer in the EU membership of ten post-communist countries in 2004, followed by another two in 2007. Further applicant

1 See Szabo, Stephen, *The Diplomacy of German Unification*, New York: St. Martin's Press, 1992; Zelikow, Philip, and Condoleezza Rice, *Germany United and Europe Transformed: A Study in Statecraft*, Cambridge, Mass.: Harvard University Press, 1995.