EU integration history

Class overview

1. First steps
2. Domino I
3. Euro pessimism
4. Domino II
5. CEE Enlargment

- Slides are largely based on Baldwin-Wyplosz's ones (textbook)

After WWII: A climate for radical change

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- London in late 1940 and Dresden in 1945

After WWII: A climate for radical change

	Death toll	The economic setback: pre-war year when GDP equalled that of 1945
Austria	525,000	1886
Belgium	82,750	1924
Denmark	4,250	1936
Finland	79,000	1938
France	505,750	1891
Germany	6,363,000	1908
Italy	355,500	1909
Netherlands	250,000	1912
Norway	10,250	1937
Sweden	0	(a)
Switzerland	0	(a)
UK	325,000	(a)

(a) GDP grew during the Second World War.

Source: GDP data from Crafts and Toniolo (1996), p. 4; death toll from http://encarta.msn.com

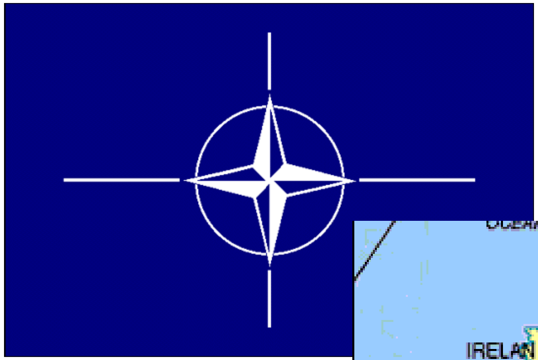
The prime question in 1945

- "How can Europe avoid another war?"
- What caused the war?
  - Blame Germany;
  - Blame capitalism;
  - Blame nationalism.
- These answers implied 3 very different solutions
  - 'Neuter' Germany, Morgenthau Plan of 1944;
  - Adopt communism;
  - Pursue European integration.
- European integration ultimately prevailed, but this was far from clear in the late 1940s.

Emergence of a divided Europe

- Germany was divided into US, UK, French and Soviet zones.
- The Soviet Union "spread" communism in East Europe.
- America and Britain rejected the Soviet vision and this confrontation lead to the "Cold War":
  - US, UK, and French zones merged in 1947/8;
  - "Berlin Blockade" and "Berlin air bridge" in 1948;
  - The Federal Republic of Germany established in 1949.
- The merger of the French, US and UK zones was a defining moment in Europe and a precursor of European integration.

A divided Europe



NATO

Warsaw Pact

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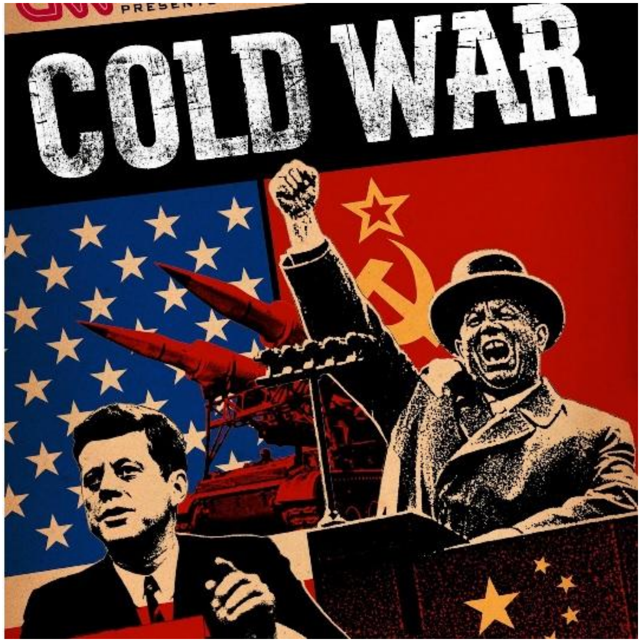
22 June 1974: Germany vs. Germany

First steps

- The USA offered financial assistance if countries agreed on a joint programme for economic reconstruction = the Marshall Plan (1948):
  - The OEEC administered this aid and prompted trade liberalization.
  - The EPU facilitated payments and fostered trade liberalization.
- New view: trade liberalization could be pro-growth and pro-industrialization.

Need for deeper European integration

- As Cold War got more war-like, West German rearmament became necessary.
- But strong and independent Germany was a scary thought for many, including many Germans.
- Widespread feeling: best to embed an economically and militarily strong West Germany into a supranational Europe.



Two strands of European integration

- The disagreement about depth of European integration:
  1. Intergovernmentalism: nations retain all sovereignty
     - OEEC (1948), Council of Europe (1949), Court of Human Rights (1950), and EFTA (1960).
  2. Federalism: supranational institutions
     - ECSC (1951), EEC (1957), Euratom (1958).

Schuman declaration

- ECSC (1951): Coal and steal community [federalist view]
- Belgium, France, Germany, Italy, Netherlands and Luxembourg (the ‘Six’) place their coal and steel sectors under the control of a supranational authority
- EDC (and EPC) failure

Schuman

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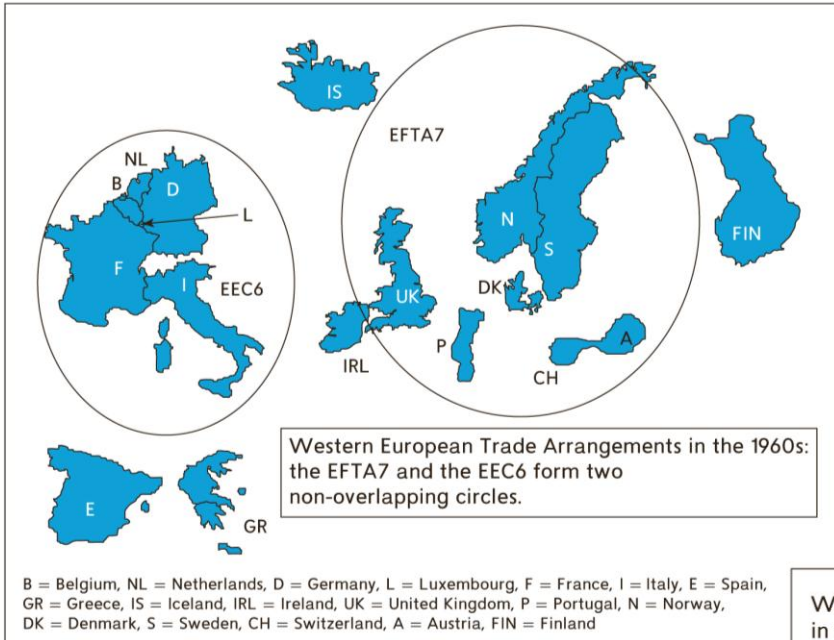
The Treaty of Rome

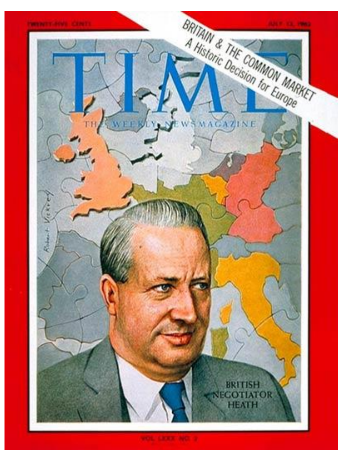
- Riding on the success of the ECSC, EEC (1957) and Euratom (1958): More integration both horizontal and vertical
- The United Kingdom supports the EFTA (intergovernmentalism option)

Monnet

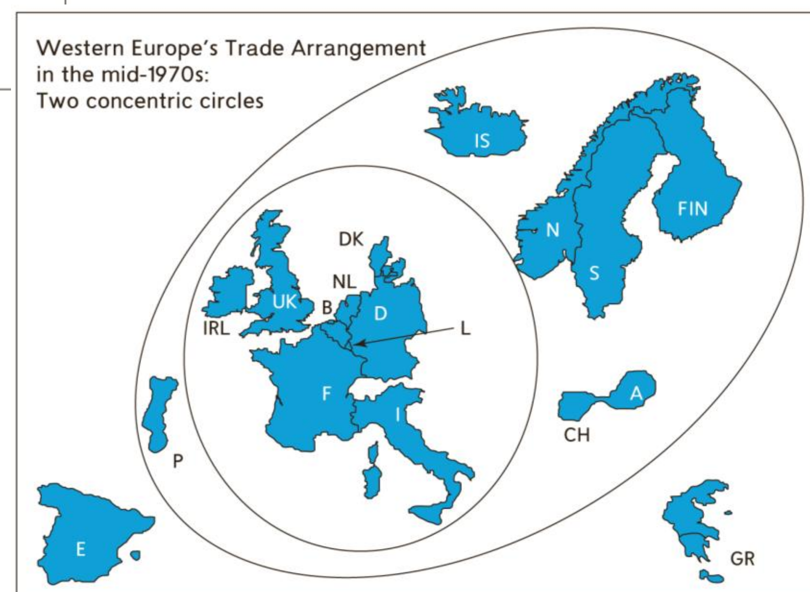
Domino effect I

1960s





1970s



Domino effect I

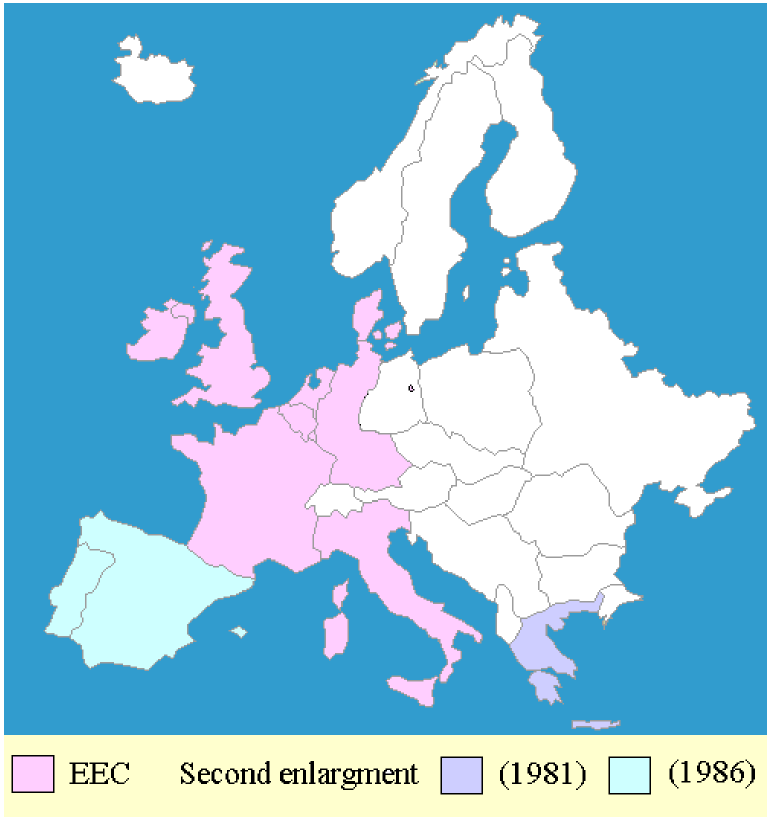
- Falling trade barriers within the EEC and within EFTA lead to discrimination. The EEC club was far more attractive to exporters and this lead to new political pressure for EFTA nations to join the EEC.
- The UK applied for membership in 1961 and Denmark, Ireland, and Norway also followed.
- Charles De Gaulle stopped UK membership twice.
- Denmark, Ireland, and UK join in 1973 while Norwegians said no in a referendum.

Euro-pessimism (1973-1986)

- Political shocks:
  - Luxembourg Compromise + enlargement = decision-making jam;
  - Plans for extensive economic integration postponed.
- Economic shocks:
  - Bretton Woods falls apart, 1971-1973;
  - Failed EEC monetary union;
  - 1973 and 1979 oil price shocks with stagflation;
  - Failure of Deeper Trade Integration (technical barriers to trade);
  - Growing cost of Common Agricultural Policy creates frictions over budget.

Bright spots

- Democracy in Spain, Portugal and Greece lead to their accession;
  - Greece joins in 1981
  - Spain and Portugal join in 1986 after long a difficult accession talks
- EMS set up in 1978 works well;
- Merger Treaty (1965) and direct election of EU Parliament (1979).



Single Market Program

- Jacques Delors launches completion of the internal market
- The Single European Act (SEA, 1987) aims to create "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured," i.e., the four freedoms (mobility) promised by the Treaty of Rome:
  1. Goods
  2. Factors of production
  3. Services
  4. People
- It also implemented important institutional changes: majority voting instead on unanimity on issues related to the Single Market.

Domino effect II

- Deeper integration in EC12 strengthened the “force for inclusion” in remaining EFTA nations.
- New “forces for inclusion” lead to a domino effect:
- EEA initiative (1989) to extend single market to EFTA nations;
  - Membership applications by all EFTA nations except Iceland and Liechtenstein: Norwegian rejected (again) membership in a referendum; Switzerland only adopted a EEA-like bilateral deal with EU.
- The fourth enlargement (1995) adds Austria, Finland, Sweden and leads to the EC15.

Communism's spectacular collapse

- Division of Europe was cemented by the Berlin Wall (1961).
- By the 1980s, West's economic system provided a far better way of life.
  - Up to 1980s, Soviets thwarted reform efforts but inadequacy of Soviet system forced changes in USSR:
    - timid pro-market reforms (perestroika);
    - openness (glasnost).

Velvet revolutions in CEECs

- Pro-democracy forces in the central and eastern European countries (CEECs) had been repeatedly put down by military force hereto but found little resistance from Moscow in the late 1980s.
- In June 1989, Polish labour movement "Solidarity" forced free parliamentary elections and communists lost.
- Moscow accepted new Polish government.

Velvet revolutions in CEECs

- Moscow’s hands-off approach to the Polish election triggered a chain of events:
  - Hungary opened its border with Austria and many East Germans moved to West Germany via Hungary and Austria;
  - mass protests in East Germany; Wall falls 9/11/1989;
  - end of 1989: democracy in Poland, Hungary, Czechoslovakia;
  - end of 1990: German re-unification.

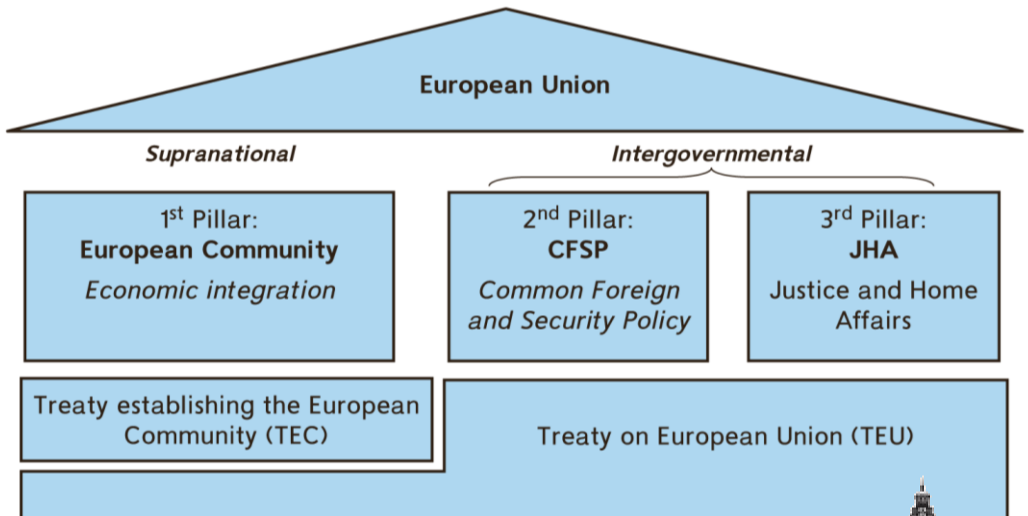
USSR collapses

- End of 1990: independence of Estonia, Latvia and Lithuania. End of 1991, the USSR itself breaks up.
- The Cold War ends without a shot and with it, the military division of Europe ends.
- Fall of the Berlin Wall in 1989

The Maastricht Treaty

- On the success of the Single Market, Delors proposes 2nd radical increase in European economic integration: monetary union.
- Maastricht Treaty signed 1992 committed EU countries to achieve monetary union by 1999, and a single currency to put into circulation by 2002.
- Ratification difficulties:
  - Britain opted out of common currency;
  - Danish voters rejected the Treaty and reversed their choice only once Denmark opted out of common currency.

The Three-pillar structure



Maastricht

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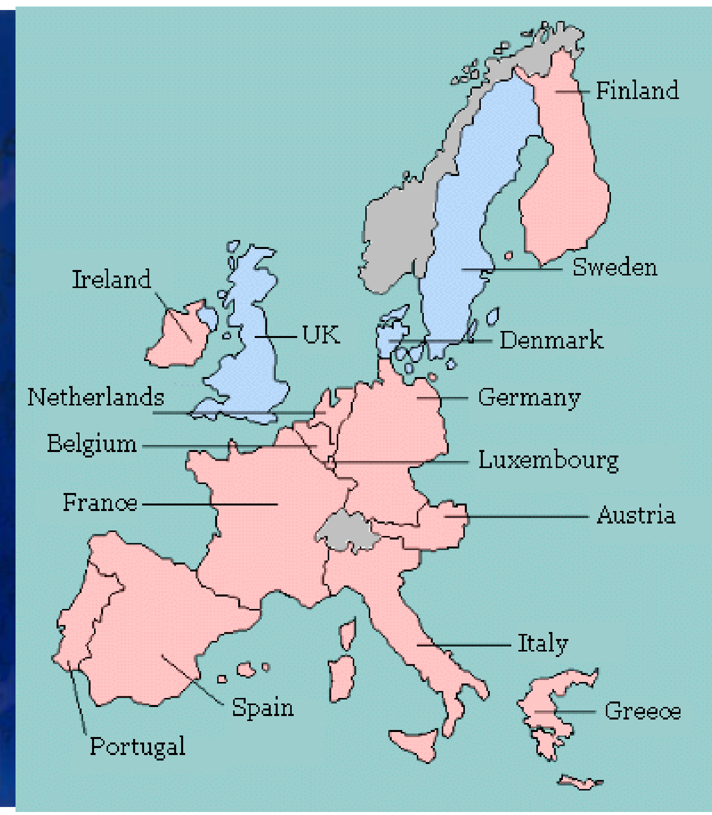
Common currency



Reuniting east and west Europe

- At first, no promise of eventual membership but "Europe Agreements": free trade agreements with promises of deeper integration and some aid.
- In 1993, the EU sets the Copenhagen criteria for accession of CEECs:
  - political stability of institutions that guarantee democracy, the rule of law, human rights;
  - a functioning market economy capable of dealing with the competitive pressure and market forces within the Union;
  - acceptance of the Community "acquis" (EU law in its entirety) and the ability to take on the obligations of membership.
- Copenhagen summit (2002) says CEEC nations plus Cyprus and Malta join in 2004 (5th enlargement).

Preparing for eastern enlargement

- Impending enlargement required EU to reform its institutions.
- Five tries:
  - Amsterdam Treaty, 1997;
  - Nice treaty, 2000;
  - Draft Constitutional Treaty, 2003. Reconsidered by IGC 2003;
  - Constitutional Treaty, 2004;
  - Lisbon Treaty, 2007.

Amsterdam Treaty

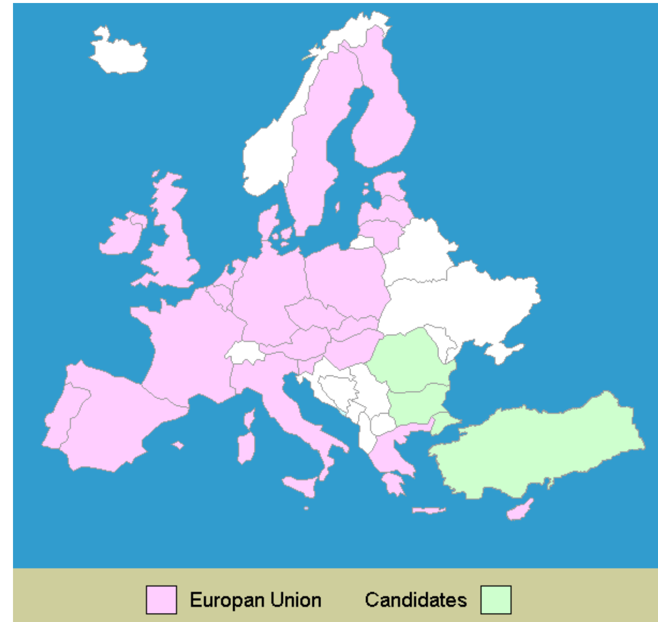
- Failed to agree main reforms set out as the goal for the Treaty.
- But, it did tie up the Maastricht Treaty:
  - more social policy;
  - Parliament powers modestly boosted;
  - flexible integration, ‘closer cooperation introduced’.
- But no agreement on reform of Commission, reform of Council voting rules, or on list of areas to move to QMV. The “Amsterdam leftovers” would be addressed by a future Treaty.

Nice Treaty

- Not a success!
- The critical Amsterdam leftover issues – the size and composition of the Commission, extension of majority voting in the Council of Ministers and reform of Council voting rules – were not fully solved.
- Irish voters initially rejected the Treaty. After some concessions were granted to Ireland, Irish voters accepted the Treaty.

Constitutional Treaty

- One year after Nice Treaty, EU leaders adopt the "Laeken Declaration" and set up the "Convention on the Future of Europe" to outline a new Treaty.
- The Convention decided to write a "Constitution", which was signed in Rome in 2004.
- France and Netherlands rejected the Constitutional Treaty in referendums in 2005 and EU leaders suspend the ratification process.

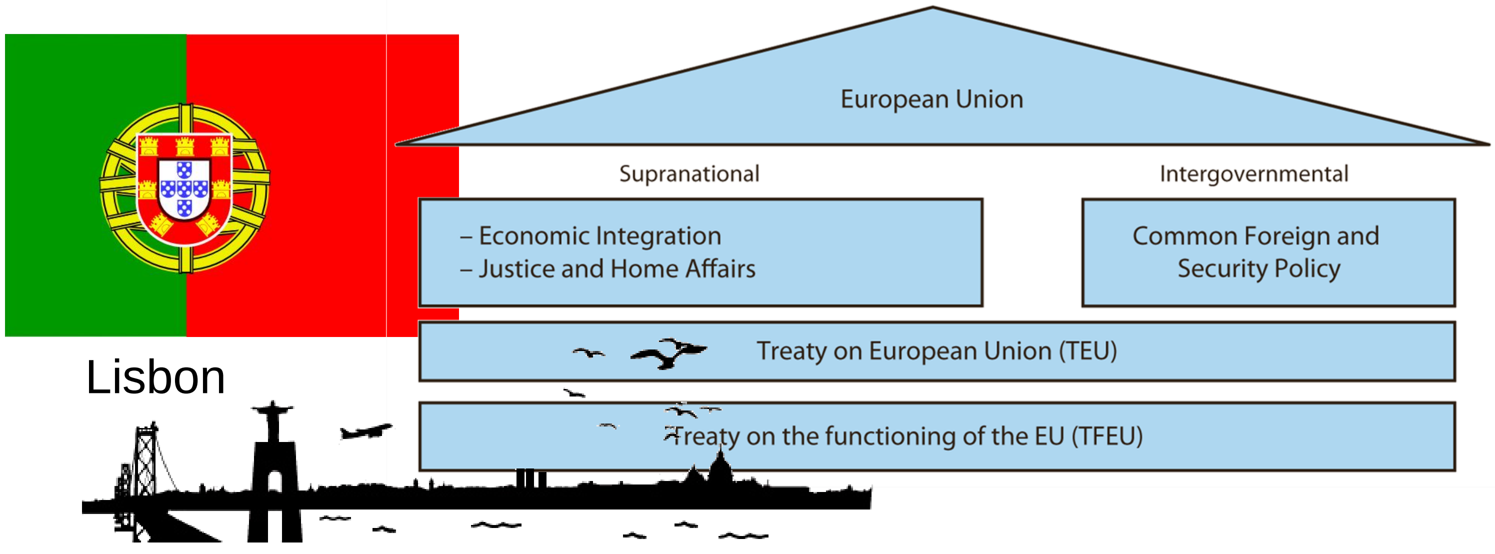


EU in 2004

Lisbon Treaty

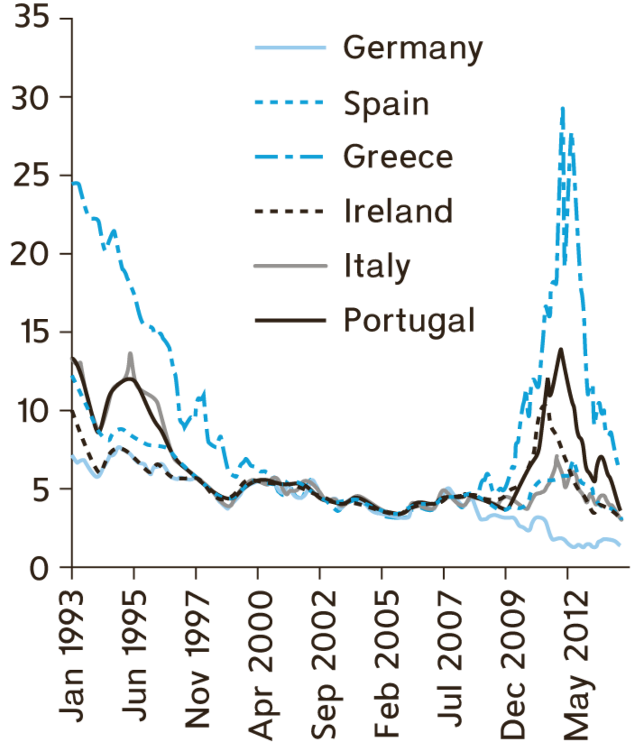
- Under the German EU Presidency (2007), EU leaders declared the Constitutional Treaty to be dead and agreed on the basic outlines of its replacement: the Reform Treaty, known as the Lisbon (2007).
- Much of the Constitutional Treaty is taken up in the Lisbon Treaty:
  - all the grandiloquent language and gestures to supranationalism were dropped;
  - all references to symbols of statehood were eliminated;
  - the word ‘constitution’ was banished.
- After referendums (Ireland), the Lisbon Treaty came into effect in December 2009.

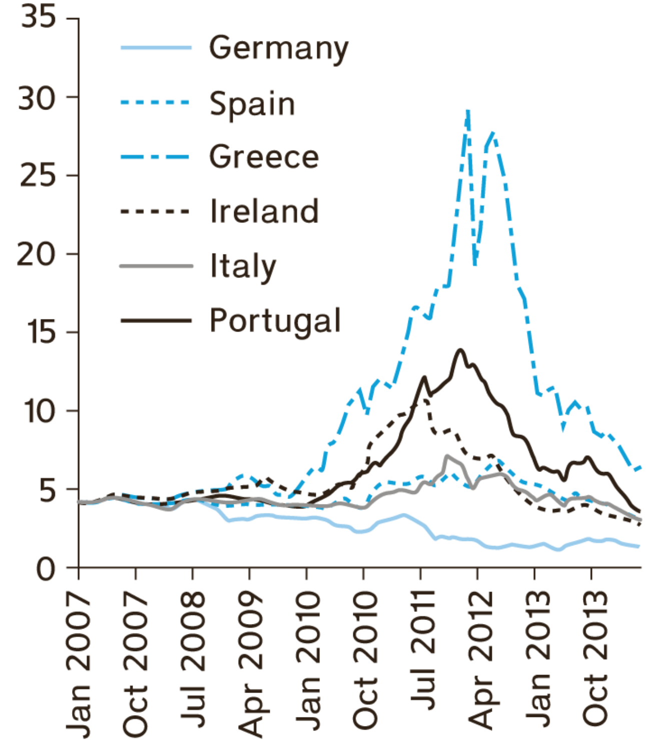
EU structure: Post-Lisbon



Eurozone crisis

- Interest rate convergence caused by EMU formation.
- Sharp divergence triggered by the crisis





Eurozone crisis

- Emergency loans and packages:
  - Greece (May 2010),
  - Ireland (February 2012),
  - Portugal (May 2011),
  - Spanish banks (July 2012) and
  - Cyprus (May 2013).
- Massive institutional reforms and with transferring sovereignty to the Eurozone level and new rules,
  - Balanced budget rules,
  - Six Pack,
  - European Stability Mechanism,
  - European banking Union.