A EUROPEAN “MODEL” DEFINED BY PUBLIC POLICIES

# The economic project in the European construction and its implementation

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**ABSTRACT**

The European economic project was the foundation of the first European communities which brought together six states in North-western Europe. The European Customs Union coincided with the period of the Trente Glorieuses and enjoyed continued success until the “energy crisis” of the early 1970s. After the end of the Cold War, the Maastricht Treaty proposed a new order for Europe with the creation of an Economic and Monetary Union (EMU) as well as the European Union, which counted 25 states in May 2004. The early years of the twenty-first century were marked by numerous turbulent episodes that made the success of the EU’s initial economic project more difficult.

Signing of the treaty that established the European Coal and Steel Community (ECSC) in the Salon de l’Horloge (Quai d’Orsay), with Robert Schuman, the French Minister of Foreign Affairs, holding the treaty. 1951.

## The creation of the first communities 1951-1958

Jean Tirole has written that “the founding fathers of the European Union had a long-term vision for managing a potentially dangerous post-war period and were able to mobilize sufficient political support to construct Europe.”

Beyond the vast program of reconstruction, in the aftermath of the second global conflict American civil servants were convinced that only economic unification could solve the difficulties facing reconstruction. The separation of European economies emerged as an obstacle to the return of prosperity to the Old Continent.

**The new path: the functionalist option beginning with the ECSC (1951)**

The OEEC could not solve the specific problems of Europe's different sub-regions. The European Coal and Steel Community (ECSC) represented the initial heart of European construction from 1951, with the first enlargement of the Community of Six coming only in 1973.

The creation of the first communities (1951-1958) responded to the founders' expectations of promoting sector-specific integration in "fundamental sectors" of production, and initially brought together a limited number of European states from Western Europe. Unlike the cooperative model of the OEEC, the new path forward that was proposed in April 1951 was a functionalist option with the ECSC, in other words integration beginning with certain shared sectors.

How could one create actual solidarity between France and Germany, and then with other European partners? In his message from May 9, 1950, Robert Schuman also specified the recommended method of action, broadly taking inspiration from the propositions of Jean Monnet. The French government proposed placing all French-German coal and steel production under a joint high authority, in an organization open to the participation of other European countries.

The proposal for sectorial integration was defined in this way, as the project did not encompass all economic fields of activity, but instead included the coal and steel industries, a sector that was clearly vital for the reconstruction and development of Western Europe. An entire section of the text elaborated on this viewpoint, skilfully emphasizing that in the past this domain had helped implement policies of armament. "The establishment of this powerful production unit [...] open to any country that wants to take part [...] will lay the true foundation of their economic unification."

Robert Schuman emphasized the importance of the organizations that had to be put in place, and included a formula he cared about personally, "federation." The proposition was made against a backdrop of the need to preserve peace, with harmony between France and Germany being the primary condition.

**The creation of the European Economic Community**

The first community, based on the French-German nucleus, was to prosper economically. After the failure of a project of a political-military nature, the European Defence Community of 1954, integration would have to take place in the economic arena. It was in this frame of mind that the European Economic Community (EEC) was signed on March 25, 1957.

The long-term objectives of this new treaty were no doubt broader than the name of European Economic Community would suggest. The introductory declaration, which preceded the first articles, was a short text. It affirmed that the Six proposed through joint action to guarantee the economic and social progress of their country by eliminating the customs barriers dividing Europe. They identified the continued improvement of the living conditions and employment of their peoples as their shared goal. Through the elimination of existing obstacles, they proposed to guarantee "stability in expansion, trade balance, and fairness in competition," as well as "safeguards for peace and liberty."

The climate was very favourable when the first community was created, however states struggled to put in place the required infrastructure. For instance, before complete decolonization, states possessing overseas holdings had to contend with a major drain on their budget, which limited their investments. This was notably the case for France and Belgium. The Treaty of Rome took effect in the winter of 1958-1959 in a more favourable climate, with the freeing-up of trade taking place under good conditions. The establishment of the Common Agricultural Policy (CAP, 1962) and subsequent tariff negotiations in Geneva (GATT, 1956) would create specific links with states in Africa and the Mediterranean Basin. The customs union was built in less than ten years (January 1958-July 1968). From 1972, over half of the Six's commercial trade was between themselves. From 1958 to 1970, the Community's GNP increased by 70%, and the purchasing power of its inhabitants by 4 to 5% per year. However, the question of relations with third countries raised numerous problems. The taxation policy for goods coming from third countries was also prematurely encourage requests for accession. This was notably the case for the United Kingdom from 1961 onwards.

## Europe on the path to enlargement and deeper relations (from the 1960s to the 1990s)

As indicated in the treaties, the Europe of Six was intended to open up to other members. However, candidates had to demonstrate their capacity to join, which during the initial stages of enlargement was first and foremost based on their economic capacities. In reality, it took until the enlargement which included Central and Eastern European states for conditions of a legal and political nature to be specified (Petersberg summit near Bonn, June 19, 1992).

### The enlargement

The signing of the Treaty of Brussels in Egmont Palace on January 22, 1972 was facilitated by the positive understanding established between France, under Georges Pompidou, and the British Prime Minister, Conservative leader Edward Heath. Economic issues were essential and involved the four candidate countries joining the EEC and Euratom. The new members accepted the treaties which instituted the Communities, along with the legislation adopted by them. The general transition period was five years. Nevertheless, the enlargement of the Community only took effect after ratification procedures in January 1973. The Europe of Ten envisioned in Brussels was reduced to Nine after the defection of Norway, as the referendum of September 1972 ended in failure for supporters of membership. In January 1973, the Community of Nine succeeded that of Six. Institutional arrangements placed Great Britain on a level of equality with the three major members of Germany, France, and Italy.

The increasing development of trade between the United Kingdom and EEC members, at a time when the bonds between London and former members of the Commonwealth were weakening, convinced British leaders in foreign trade of the validity of this choice. A referendum was nevertheless organized in the United Kingdom in 1975 by Harold Wilson, in response to requests from some Labour and many Conservative MPs. The score of 67.2% for supporters of remaining in the EU was quite a great success for Harold Wilson, although later British positions would create serious difficulties, notably with the return of the Conservatives under Margaret Thatcher.

After the Lomé Convention (conference in Lomé, Togo in 1975) also included overseas territories, the Community took on a much larger African dimension, while English increasingly imposed itself at the cultural level.

### Growing tensions between European partners

The enlargement of the communities was supposed to be accompanied by a deepening of relations decided on at The Hague in December 1969 on the eve of the first enlargement.

The objective defined at The Hague was the institution of an Economic and Monetary Union in 1980, although a major international economic crisis—inflation, monetary crisis, oil crisis—affected the Europe of Nine. During the 1970s, the recently enlarged Community was confronted by a number of serious crises. The monetary difficulties which affected the early part of the decade had not yet been curbed. The devaluation of the dollar in February 1973, on top of the one from December 1971, did not allow for the stabilization of European currencies. In

1973-1974, in the aftermath of the crisis in the Middle East, the economies of Western Europe suffered the first oil shock in full force. This was a major and lasting crisis. The brutal rise in the price of oil (the price of a barrel quadrupled in a few months) led to a recession. The companies that were the most dependent on energy supplies went bankrupt. The second oil shock of 1979 also had a severe impact, at a time when there should have been a return of growth. The Europe of Nine was not sufficiently coordinated to face this crisis, while European states that were oil and gas producers, the Netherlands and the United Kingdom, adopted different positions in response to the energy crisis.

### Economic reform and institutional dynamics

These crises encouraged deeper relations, with the creation of the European Monetary System (EMS) being one of the most important initiatives. Under the leadership of its president Roy Jenkins, the European Commission proposed its plan for monetary union in 1977. In April 1978, on the initiative of Helmut Schmidt and Valéry Giscard d'Estaing, the European Council meeting in Copenhagen accepted the principle of creating a European Monetary System, and gave community institutions the task of developing a flexible mechanism designed to limit the fluctuation band for European currencies (to 2.25% on either side of the pivot rate). The creation of the ECU (European Currency Unit), a unit of account, which served as a reference for national currencies, was an important step in the process that would lead to the development of the Economic and Monetary Union during the 1980s. On the institutional level, the strengthening of the Council of Europe was imposed, and the election of the European Parliament based on universal suffrage created a new dynamic.

The France of Valéry Giscard d'Estaing played an important role in the institutional revival. The Council meeting, which was under a French presidency, initiated a number of reforms during the second half of 1974 to promote the possibility of an Economic and Monetary Union. The strengthening of the European Council in December 1974, which would bring together the heads of state or government at least three times per year, can be considered as a significant advancement in the functioning of a community on the path to enlargement. Moreover, the election of the European Parliament by universal suffrage, which was confirmed in September 1976, would continue to make public opinion more sensitive to the realities of European construction. The first elections took place in June 1979, and the participation of 62.4% of citizens was considered relatively high for a first vote. The debates focused to a great extent on economic issues, but also demonstrated that the EEC's communication policy was totally insufficient.

## Major transformations during the turning point of the 1990s

The crisis caused by the collapse of the Soviet bloc once again sparked developments that were crucial to European economic construction, from enlargement to deeper relations.

### Early contacts between the West and the East of the continent

In 1988, the European Economic Community concluded a framework agreement with COMECON, the Council for Mutual Economic Assistance. In July 1989, the summit of seven industrialized countries—the Arche summit that took place in Paris from July 14-16—gave the community the task of implementing the PHARE program (Poland, Hungary, Assistance for Restructuring Their Economies). In May 1990, after the fall of the Berlin Wall and important transformations in Eastern Europe, this agreement was extended to all Central and Eastern European Countries (CEEC). This action was coordinated by EEC member states and undertaken with the cooperation of the OECD.

The European Community and the OECD's twelve other partners also supported the French project for a European Bank for Reconstruction and Development (EBRD), with headquarters in London. The bylaws of this new organization, which enjoyed the support of forty-two members (including the USSR), were adopted in April 1990. It was the first institution with an economic and financial mission uniting the two Europes. It was given the task of assisting former socialist Europe with its democratization and transition towards a market economy. However, its initial allocation was relatively modest (10 billion ECUs) in order to satisfy the enormous needs of the East, and its management under the presidency of Jacques Attali was met with vigorous protest. Trade on a wider basis developed from 1991. The EEC Commission offered PECO association agreements, known as “European agreements.” The proposed cooperation was commercial (the gradual implementation of bilateral free trade for industrial products), along with technical, scientific, and cultural cooperation. From 1993, some Central European states wanted to go beyond this level of cooperation. In 1994, in connection with the debate surrounding the enlargement of the European economic space with four candidates (Austria, Finland, Norway, Sweden), CEEC countries requested their potential membership before the year 2000 to be evaluated. In March 1994, the European Union accepted the principle of the enlargement to sixteen countries. After Norway’s refusal to join, the fifteen countries studied the question of enlargement towards the East (Essen summit, December 1994).

From the autumn of 1989, following the fall of the Berlin Wall, to the accession of new members, the Union grew from 12 to 15 members (in 1995), and later to 27 members (accession of 2004). This extension took place in a difficult environment, but in the opinion of experts, the process was carried out in a globally favourable context. A synthesis by Élisabeth du Réau, published in January 2003 and entitled *L'élargissement de l'Union européenne. Quels enjeux ? Quels défis?*, highlighted the originality of the preparatory process that enabled new members to accede from 1997 to 2004, the majority of whom were states from Central and Eastern Europe which were once members of the Warsaw Pact and COMECON.

**The Economic and Monetary Union envisioned by the Maastricht Treaty, and initial British reservations**

It was in a context of enlargement that the Economic and Monetary Union presented in the Maastricht Treaty (Title VI) initially came about, as the “logical accomplishment of the fulfilment of the 1992 objective.” In order to fully benefit from this large space for trade and cooperation, the EU had to enable the growth of economic performance across the entire community territory, thanks to a “convergence of economic policies toward greater price stability and growth.” The EMU (Economic and Monetary Union) had to provide the means of influencing the international system towards greater balance. Finally, the EU, which reinforced the cohesion of the European Community, should encourage it to play a greater global role through relations with Eastern European countries as well as with the Southern Hemisphere. These aims were ambitious at the time. The process envisioned for achieving this was specified in the treaty in the form of a provisional calendar, which had been proposed by Commission president Jacques Delors in 1989.

The first stage began in July 1990: its purpose was to liberalize the flow of capital flow, abolish control over trade, and bring economic policies closer together. It was during this initial phase that member states had to present programs for convergence, along with other specific criteria (known as indicators of convergence). The second phase began in January 1994, as the treaty provided for the creation of a European Monetary Institute (EMI). This institute was intended to strengthen the coordination of member states’ monetary policy, with a view to guaranteeing price stability and facilitating use of the ECU. The third phase would begin at the earliest on January 1, 1999. In 1996, in the light of the reports issued by the European Commission and the EMI, the Finance Ministers of the Twelve would indicate which member states met the conditions to use the single currency. The launch of the third phase was preceded by the creation of the European Central Bank (ECB). This bank was independent of governments and was responsible for managing the monetary policy of the member states which had met the threshold of the third phase.

As the United Kingdom was opposed from the outset to the adoption of a single currency, in December 1991 it requested and obtained at Maastricht the opt-out exception clause which allowed Parliament in London to vote on whether to join the EMU’s third phase.

### The creation of the euro zone

On January 1, 1999, the euro became the official currency of the eleven member-states (Greece joined this zone only in 2001). Member states had to follow the "Stability and Growth Pact" (adopted at the European Council meeting in Amsterdam in June 1997). Since December 1997, the Eurogroup has served as the informal deliberative body for the eleven member-states. In March 2000, the European Council meeting in Lisbon instituted an ambitious strategy by proposing to establish a new coordination process designed to "make the Union" the most competitive and dynamic knowledge economy by 2010. Five years later, in 2005, the program was revised significantly downwards in accordance with the situation and integration of new members. Moving forward, the Lisbon process focused on growth and employment (European Council meeting of March 2005). The Eurozone would soon expand beyond its twelve Western partners, adding Slovenia in January 2007, Malta and Cyprus in January 2008, Slovakia in January 2009, and Estonia on January 1, 2011. The United Kingdom, Denmark, and Sweden chose not to participate. The creation of the European Central Bank (ECB) was an important turning point. There would henceforth be no national monetary policy, as the EU's monetary policy would be exercised by the European Central Bank.

When the first communities were created, the European economic project was an interesting initiative which was nevertheless limited to a modest geographic space in North-western Europe. Successive enlargements turned the first European Community into a vast space that today includes 28 states. After remarkable successes that partly coincided with Western growth during the Trente Glorieuses, the Community of Twelve, which became the European Union, had to contend with major transformations in both the late twentieth century—from the fall of the Berlin Wall to the implosion of the USSR—and the early twenty-first century. Although it has fully felt the effects of globalization, the role of the EU as a major commercial actor, along with the Eurozone's influence in the Western financial system, gives it the status of a major albeit controversial actor.

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