

**THE FRENCH ROLE IN THE TRANSFORMATION OF  
EUROPEAN COMMUNITY INTO EUROPEAN UNION  
(1981-1994)**

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CERTIFICATE

This is to certify that this dissertation entitled "THE FRENCH ROLE IN THE TRANSFORMATION OF EUROPEAN COMMUNITY INTO EUROPEAN UNION (1981-1994) submitted by *Mr. Tahseen Anwer Arshi*, in partial fulfilment of the requirements for the award of the Degree of MASTER OF PHILOSOPHY of this University, is his original work. To the best of our knowledge, this dissertation has not been previously submitted for the award of any other degree of this University or any other University.

We recommend that this dissertation be placed before the examiners for evaluation.

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## Preface

The French role in the movement for European Unification spawns over several centuries. As far back as 1306 A.D., Pierre Dubois in his "Republic Chretienne" (Christian Republic) proposed a kind of European confederation, placed under the charge of a council, in which different member nations could settle their disputes peacefully. Later, in the early seventeenth century, Duc de sully formulated his Grand Design at European confederation of Hereditary monarchies, sovereign republics and other elected and political entities. This confederation would set up a General Council, duly empowered to resolve the interstate conflicts. One peculiar feature of Duc de sully's design was the exclusion of Russia from his frame of European regional collectivity. During the Napoleonic wars, Count Henri de Saint-Simon published his plan on "the United States of Europe" with altogether a new conception. Its full title, given hereunder, is somewhat like:

On the Reorganization of the European society, of the necessity of Reassembling the people of Europe in a single political corps, while conserving to each (state) its national independence."

In this plan, he suggested the establishment of a single European Parliament that apart from resolving the inter-state disputes, could levy taxes as well. On 21 August 1849, while presiding over the Universal Peace Congress, held

in Paris, Victor Hugo proposed a "United States of Europe", a proposal, that was not only ridiculed by Montalambert but also the latter described the author as a "fool". A decade later, another French political thinker, Proudhon suggested that all European States should become federations, with Europe eventually evolving itself into a "Federation of Federations". In 1712, Abbe de Saint Pierre advocated a multistate organization designed to preserve the peace of Europe. Jean-Jacques Rousseau in the eighteenth century, elaborated on this tradition by advocating a federal European League with power to intervene in the internal affairs of the member states.

In the twentieth century, after the First World War, French foreign minister Aristide Briand put forward a scheme for 'European Union' before the League of Nations in 1929. But the idea could not take off as Europe sank into depression, and fascism, that eventually led to the outbreak of the Second World War.

In the aftermath of the Second World War, Frenchmen again took initiative in making efforts for European Unification. Jean Monnet, a French civil servant who was also the founder of "the Action Committee for United States of Europe" devised strategies leading to the establishment in 1951 of European coal and steel community (ECSC) and in 1957 Atomic Energy Authority and the European Economic

Community (EEC). Robert Schuman, the French foreign minister, provided the necessary political strength to turn Monnet's plan into a reality, linking France, Germany, Italy, and Benelux countries in the crucial first step towards the European Community. Since then the French have provided the lead in conceiving grand schemes of regional cooperation leading to unity.

In the 1970s, the French have played a key role in the setting up of the European Council (1974), institutionalizing periodical meetings of the Heads of State/Government and the European Monetary System in 1979. Besides, direct elections to European Parliament began in 1979. In the mid-1980s, the Single European Act was legislated thereby providing a frame for the single enlarged market. In the early 1990s, the Maastricht Treaty was concluded, as a result whereof, the European Community was transformed into European Union.

The first chapter analyses the French role in the origin and evolution of the European Community. It identifies the causes which led to inception of EC in early 1950s. Once the foundation of the EC was laid France and Germany played central role in its evolution. The Community also embarked upon the path of expansion enlarging the community from six to fifteen.

The Second Chapter shows how the Franco-German cooperation led the community out of the oil shocks of 1970s

and Eurosclerosis in the 1980s leading to the enactment of the single European Act and providing a new momentum to the European Integration movement.

The Third chapter analyses the progress from EC to EU, the Maastricht Treaty, its salient features and the Franco German initiatives at the Intergovernmental Conferences 1991, leading to the Maastricht Treaty. It focusses on the debates concerning monetary union and throws light on some of the member states' reservations about single currency. It also analyses new laws of subsidiarity, co-decision making and social chapter.

The fourth chapter analyses the inception of European Union and future prospect of the United States of Europe.



## CHAPTER I

### THE FRENCH ROLE IN THE ORIGIN AND EVOLUTION OF THE EUROPEAN COMMUNITY.

#### 1.1 RATIONALE FOR THE INCEPTION OF THE EC

The Europe that gave birth to the idea of Nation State appears to be well on the way to going beyond it or even rejecting it in practice. Our attempt in the first instant is to try to understand the theory behind this peaceful metamorphose. For history has shown that there have been attempts to unite Europe by force, notably by Napoleon seeking to unite the continent under the French hegemony and Hitler trying to subjugate Europe under the dictatorship of the Third Reich.

The extraordinary phenomenon of European integration is a complex process: before attempting to understand the rationale for integration, we may try to understand the meaning and definition of the term 'integration' itself.

Political integration, has been defined by some theorists as a condition and by others as a process. Still the most

apt definition is perhaps given by Robert Keohane and Stanley Hoffmann who described it as a 'net work'.

In the study carried out by Karl Deutsch the term integration refers to the probability that conflict will be resolved without violence. The central concept is that of a "security Community", in which a group of people have become integrated ; "within a territory", a sense of community, set up institutions and adopted practices strong enough to assume for a long time dependable expectations of 'peaceful change' among its population.

Such conceptualizations of political integration as a 'condition' have been criticised on the ground that they permit only a general discussion of environmental factors influencing integration thus obscuring the role of social change<sup>1</sup>.

For the afore-sighted reasons Ernst Haas argues that

" Political intergration is a process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new centre, whose institutions possess or demand jurisdiction over pre-existing national states. The end result of a process of political integration is the new political community, super-imposed over the pre-existing ones".

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1. Leon N. Lindberg, Political Integration, Political Dynamics of European Economic Intergration, (London: Stanford University, Press, 1963), pp. 102.

But then there are conditions upon which such integration can be achieved. The first pre-requisite is the belief in the compatible value systems, mutually responsive elites, adequate communication channels, pluralistic social structure, high level of economic and industrial development, a modicum of ideological homogeneity and a commitment to a "new way of life". In the later stages political integration requires (a) inception of central institutions, evolution and adoption of centralised policies, (b) The tasks assigned to these institutions must be important enough and specific enough to activate socio economic processes to which conventional international organisations may have no access, (c) These tasks must be inherently expansive, and (d) The member states must continue to see their interests as consistent with the newly emerging enterprise.

The first conceptual frame work relative to European integration was based on 'functionalism'. Traditional functionalism does not aim at the creation of a new supra-state; there is only transfer of competences to a new "functional authority". In order to explain empirical reality, 'functionalism' was transformed into "Neofunctionalism". The unit of analysis for the neofunctionalist is the state and not the system of transactions and their approach is teleological - a single decision making centre for a newly integrated territorially based unit.

Both the functionlist and neofunctionalist models have one

thing in common between them - 'functional imperative', that lends this process a high degree of automaticity<sup>2</sup>. This functional imperative has three components : task expansion, spillover and engrenage. Task expansion refers to increased cooperation in the same area, spillover means cooperation in a new area often of a more salient political character arising out of existing cooperation, and engrenage to indicate locking-in process. But still the neo-functional theory was inadequate to explain empirical reality. Task expansion, spillover and engrenage occurred in a limited way: Pluralistic masses did not follow the elite and national governments remained politically powerful.

But the neo-functionalists have another utilitarian explanation of integrative power. They believe that it would generate a change in attitudes so that loyalties are transferred to a new decision making centre. Integration comes not from pre-existing mass attitudes but from ideological commitments of an elite which promote utilitarian measures of integration, such as common market, and as a result these measures may generate a supportive change in elites and mass attitudes for further integration.

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2. A.J.R. Groom, Neofunctionalism : a case of mistaken identity, The European Union. (Colorado: Lynne Rienner, 1994) pp. 112.

Europe is not merely a geographical phenomenon, but it is endowed with rich civilizational past as well. For centuries it has been built on intellectual and moral traditions. Europe exists in the consciousness of Europeans – a collective consciousness.

Europe is also a collection of nations, each differentiated from the others by language, religion, ethnology, size, resources and ambitions. It is a single yet diversified civilization. But its dream to unify is as ancient as the existence of national rivalries<sup>3</sup>

In the nineteenth century, when Napoleon was trying to unify Europe by force, the conflict between nations and civilizations was latent. Collaboration among great powers, the search for national unity in Germany and Italy, the colonial expansion of England and France, the carrying out of a political and industrial revolution diverted the energies of Europeans.

In the twentieth century the conflict between nations and civilizations became open and well pronounced. Their adventurous ambitions for material dominance increased rivalries between European nations. This led to deadly internecine conflicts.

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3. Winston Churchill, The Sinews of Peace : Post war Speeches (London: Cassel, 1948) pp.8-10  
Winston Churchill, Tragedy of Europe, European Union, (Colorado: Lynne Reinner, 1994) pp. 4-8

For the first time in its history after the treaty of Versailles, Europe stood fragmented, isolated, impoverished and above all exposed to foreign pressures: American capitalism in the West and Marxist ideology in the East.

Some philosophers and statesmen like Lucien Romier became worried about the excesses of 'nationalism' and felt that "Europe is a danger in itself". The Pan-European Union of Count Coudenhove - Kalergi, (1924), aspired to win over an elite to ideals centered around European unification.

French statesman Aristide Briand further championed the cause when on 5 September, 1929, in his address to the League of Nations, stated that peoples that are grouped together geographically like the peoples of Europe should develop a federal bond between themselves.

Further in his "Memorandum on a European organization", he proposed that there may be established, within the framework of League of Nations, a conference, an executive body and a secretariat. Following the end of the Second World War, when Soviet-American rivalry was at its peak, and system of bipolar equilibrium was established the

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4. Lucien Romier, Nations et Civilization (Paris: Simon Kra, 1962) pp. 101

major obsession of French policy was defense against the German threat. French perception of Soviet threat was belated and reluctant.

Georges Bidault, de Gaulle's foreign minister although influenced by his nationalistic conceptions, gradually developed a more flexible outlook. This was evident in his attitude towards Germany and the emerging Western alliance in the late 1940s.

The German policy of the Allies was at first inconsistent. "Defeated Germany must be self-sufficient; at the same time must be deprived of her industrial potential yet pay ample reparations".

As early as 1946, the Americans joined the British in distributing aid to the German population in the Anglo-American zone. The Americans also favoured the reduction of reparations, the restoration of German productive capacity and the repatriation of prisoners of war. The French wanted to secure economic and strategic advantages. They demanded that Ruhr should be treated as a political entity outside political control of Germany and placed under international political and economic control. They renewed this demand at the Moscow meeting, but Britain and America vetoed it.

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5. Alfred Grosser, La IV Republique et sa Politique exterieure (Paris: Armand Colin 1961), pp. 208.

The failure of Moscow Conference marked a reversal in the French diplomatic position. France no longer fluctuated between East and West in her quest for support. Instead, it she definitively joined the western camp<sup>6</sup>. Two development in French domestic politics facilitated this shift. On 4 May 1947, Paul Ramdier dismissed the Communist members of his ministry. In April, General de Gaulle had created the Rassemblement du Peuple Francais (R.P.F), a centrist political formation. The Third Force came into being.

Now the French became more aware of the Soviet threat. The assassination of Jan Masaryk in Prague was a tangible proof of the Russian threat. On 4 March 1948, Georges Bidault discreetly suggested to General Marshall that "Collaboration between the old and new continents be tightened in military matters. On 17 March 1948, treaty establishing the Western Union was signed in Brussels. The parties were France, England and the Benelux nations. This treaty primarily aimed at containing revival of the German militarism.

Both America and France ultimately realized that to counter Soviet threat a strong and united Europe was necessary. But this was not possible by leaving Germany out of this integrated Europe. Hence the US insisted that Germany must emerge strong economically so that

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6. Guy de Carmoy, The Foreign Policies of France (Chicago: University of Chicago Press, 1967) pp. 25.



it could contribute significantly to the defence of Europe Hence the rationale for its membership of the European community as well as of the Atlantic Alliance<sup>7</sup>.

The Berlin blockade and the signing of a series of treaties between the Soviet Union and its satellites provided the necessary stimulus to the western solidarity. On the other hand, European integration aroused systematic hostility in the Soviet Union yet it was precisely the fear of a Soviet invasion that solidified Europe. Soviet pressure as a consequence had an effect that was the very opposite of the one intended. At the height of cold war, Stalin became a powerful federating force among the western allies.

The global strategy that pitted the Western democracies against the Soviet Union and its allies naturally led the United States to lend support to the unification of Europe. Mindful of its military and technological superiority, it feared above all that West Germany's heavy industry might be neutralized or fall under the Russian control. The best guarantee against such a threat was Franco-German reconciliation and the organization of political federation around these two continental states. For these reasons the United States, supported Robert Schuman's 1950 plan for the inception of the European coal and steel community<sup>8</sup>.

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7. Charles De Gaulle, Memoirs of Hope: Renewal and Endeavour (London: Widenfeld and Nocholson, 1971) pp.26-34.

8. Jean Monnet, Memoirs (Paris: Fayard, 1979) pp.47-52.

Franco-German reconciliation was an important prerequisite for the European construction. France realized the fact that West Germany's economic recovery was inseparable from the recovery of Western Europe. By his proposal of 9 May 1950, Robert Schuman opened the way to Franco-German rapprochement. He suggested the establishment of a European Coal and Steel Community. It was an important step in the right direction. In the opinion of Robert Ducci, these were marvelously well chosen sectors from a tactical point of view; at any rate they satisfied the immediate concern of Germany and France, but they were too limited to permit strategic manoeuvres on a large scale. American pressure for German rearmament forced France to make a difficult choice between a German national army and a European army<sup>9</sup>. Jean Monnet who was playing a leading role in the construction of Europe opted for a European army. Monnet advocated a new approach by industrial sectors as well as research in atomic energy for peaceful ends. The Benelux countries took the initiative in suggesting a general economic approach to the common market which the French government supported.

The establishment of European Coal and Steel Community had wide ramifications both in the construction of Europe and

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9. John C. Cairns, France, Illusion, Conflict and Regeneration (New York: New View Points, 1978) pp.24-32

the Atlantic pact. Most importantly it had fulfilled the first prerequisite for the construction of Europe in the form of Franco-German reconciliation. The object was to overcome the rivalry of two nations faced with the virtual collapse of the entire civilization. France realized that it was important to bind Germany by supranational bonds to France and other European states. Once economic interests of Germany are tied with European states, war will become practically an impossibility<sup>10</sup>.

On 9 May 1950, Robert Schuman declared, "Europe cannot be forged all at once, Europe will be created by concrete achievements which first will establish real solidarity. To unify all European nations would require the elimination of the secular conflict between France and Germany; any action undertaken must first of all affect France and Germany.

The declaration further read:

" to this end..... French government proposes to place all Franco-German Coal and Steel production under a common High Authority in an organization open to the participation of the other countries of Europe. This proposal lays the first concrete foundations for a European federation, the indispensable prerequisite of peace".

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10. Pieter Dankert "The European Community, Past, Present and Future" Journal of Common market Studies, (Oxford: Basil Blackwell), Vol. 21, 1985 pp.4-16.

This move was the work of two men - Jean Monnet, who inspired it and Robert Schuman, who assumed the political responsibility for it<sup>11</sup>. The idea of Coal and Steel pool corresponded to the current thought and the need of the situation. In 1949 the idea of coordinating the basic European industries was mentioned at meetings of the council of Europe in Strasbourg and the United Nations Economic Commission in Geneva. Furthermore, the United States was urging France to eliminate restrictions on German industry, especially metallurgy and to clarify its her stand on the integration of Germany into western Europe. At about the same time Washington discussed the question of rearming Germany, whose military potential and industrial power were based on Coal and Steel. Control of German industry could only grow weaker with the passage of time. So the moment had come to find some sort of joint administration. This question was already being raised in certain French Political circles.

The creation of Franco - German Coal and Steel would serve convergent economic and political goals. Futhermore, the formulation of economic goal would facilitate the acceptance of controversial political goals.

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11. Robert Schuman, The Schuman declaration, in Brent F. Nelson, Alexander c-G Stubb eds; European Union (Colorado: Lynne Reinnar Publications, 1994). pp.11.

The French steel industry was afraid lest it should be outstripped by a rival with greater productive capacity, more highly concentrated units and more competitive prices. The coal and steel ratio in France and Germany was such that the two economies were complementary rather than competitive<sup>12</sup>. The French steel industry imported German coke and Germany's steel industry imported French iron ore. It therefore seemed expedient to create a vast mining and industrial complex embracing not only the Ruhr and Lorraine but also the Wallon part of Belgium, Luxembourg and north of France - a region artificially divided by political frontiers. It was believed that a common market in coal and steel would profit by the economic advantage of larger territory in a highly industrialized and densely populated area.

Such an economic policy would forge powerful common interests between the two major national economies. West Germany would be bound to France and to Western Europe by organic ties. France would get full credit for generosity by offering its hereditary enemy the prospect of reconciliation. The moral authority of France was declining at the end of the war owing to a long period of decadence that was political,  
military and economic rather than

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12. Jacques Delors, "German Economic Expansion", European Affairs, (Amsterdam) Writer, 1990. pp.72

cultural. Its reconciliation with Germany, its efforts after 1950 to build European unity, won for it an influence such as it had not enjoyed since the French Revolution<sup>13</sup>. The appeal for solidarity, for forgetting of insults and a restraint of national selfishness - all these were generous ideas that impressed public opinion inside and outside Europe.

At the same time linked to this was the French desire to maintain its identity. Frenchmen have regarded themselves as the leaders of the European civilization. They have developed a distinct French identity over the centuries and pride themselves of being French. As the global order changed and supremacy of the superpowers was established, Frenchmen felt a threat to their identity. They could no longer play a role they had been playing through centuries. France would be too small to influence political decisions and intellectual currents<sup>14</sup>. But a unified Europe could play a dominant role in world politics. It would be a force to reckon with in a global order dominated by superpowers. For France the best way to maintain its identity was by assuming the leadership role in the construction of Europe. In this way French identity could be maintained and through the European Community France could influence both European and world politics.

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13. John Pinder, "Positive and Negative Integration " The World Today (London) March 1968, pp. 12-16.

14. Peter Schemidt, "French Security Policy Ambitions", Aussen Politik (Hamburg) pp. 335-343.

The European Coal and Steel Community also solved the problem of French security. From the point of security this solution was substituted for the reverse alliance since military threat had now shifted to the East. It also provided insurance against a possible rapprochement between West Germany and the Soviet Union. The Germans were badly shaken by defeat. The new democratic institutions had no roots. It might therefore be possible to consolidate these institutions into a community larger than a truncated nation.

To sum up, by substituting organic bonds for the traditional rivalry, Robert Schuman's proposal tended to satisfy France's need for security in the face of German potential. An association between France and Germany would promote the long-term goal of a federated Europe. Schuman's declaration was very well received in Germany and Chancellor Adenauer hailed it as a "magnimous gesture on the part of France towards Germany"<sup>15</sup>.

The magnitude of the objectives called for new methods and means. There were debates mainly on three options on how to build European unity : the mechanism of the market or organized integration; a union of sectors or a union of nations, whether to give priority to political or economic considerations.

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15. Guy de Carmoy, *ibid* . no. 6 , pp.74

The discussion of these options highlighted the significance of the new terms that had appeared in the political vocabulary, such as integration and Supranationalism, which were considered more practical than the old terms of confederation and or federation.

The option which was mostly debated was, should efforts be made to achieve economic integration in the hope of eventually achieving political union? Friedrich List writing in the nineteenth century, had this to say: "Commercial union and political union are twin sisters : one cannot be born without the other".<sup>16</sup>.

With the failure of the European Defense Community (E.D.C.) 1954, the road to military Europe was closed for a long time and the road to political Europe as well - because opposition to a European army was also opposition to a prefederal concept of foreign policy. But the road to an economic Europe remained open. France had already begun to take that road with the ECSC, and she was to continue on it. European economic integration - "La relance Européenne" - began in the spring of 1955 as soon as the Paris Accords on Western European Union were signed.

In 1955, the Benelux countries took initiative in promoting a new start for Europe. The memorandum of Benelux countries was studied by the Council of Ministers of the ECSC at Messina.

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16. M. Marchal, L' Europe Solidaire (Paris) 1985, pp. 150.



According to the document, "the progress made by the E.C.S.C. revealed the need to widen the common market to include areas similar to those already covered by the organization"<sup>17</sup>. The Benelux countries believed that widening of common market would not be successful unless a more general integration was attempted. To this end they suggested creation of an economic community to work towards a common market by gradual elimination of quotas and tariffs and the harmonization of financial, economic and social policies of the member countries.

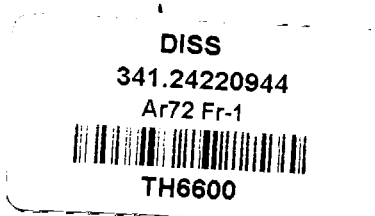
The resolution adopted on 3 June 1955, at the Messina conference declared:

"the governments recognize that the time has come to enter a new phase in the construction of Europe. They are of the opinion that European construction must first be achieved in the economic domain". It went on, "we must work towards the establishment of a United Europe, through the development of common institutions, the gradual merger of national economies, the creation of a common market and increasing harmonization of social policies".

A committee of intergovernmental delegates was asked to prepare the way for a common market and a joint organization for peaceful development of atomic energy. This six power committee was presided over by the Belgian foreign minister Paul - Henri Spaak, with its headquarters in Brussels.

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17. Commission of the European Communities, A Survey of Economies of Scale, Economic Papers, Luxembourg October, 1988, pp.7-10



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The "Spaak Report" was a remarkable document which was both a resume of the suggestion of experts and an analysis of the philosophy of the common market. It provided a solid basis for future negotiations. At the end of May 1956, the delegates met in Venice. Christian Pineau the French foreign minister, approved the initiation of preliminary negotiations on two treaties, one creating the EEC and the other Euratom.

Publication of the Spaak Report facilitated negotiation between France and its partners. The plan for common market was presented as a cohesive and balanced whole, embracing every factor of production and all sectors of the economy. The Preamble stated:

"The purpose of the common market is to create a vast area for common economic policy, a powerful productive entity that will permit continuous expansion, increasing stability, rapid improvement in the standard of living and the development of harmonious relations among participating nations".

Two years after the Messina Conference France approved the creation of the European Economic Community (E.E.C) by a large majority. This action contained the seeds of a revolution in the economic life of France and continental Europe.

The rationale for the creation of Euratom must be viewed from two stand points: America's policy of eliminating secrecy from the civilian use of nuclear energy and Europe's fear of shortage of energy. The two nuclear superpowers sponsored the creation of an International Agency for Atomic Energy with its

headquarters in Vienna. The industrialised nations of western Europe were extremely interested in the application of the nuclear techniques. Following a report by the organisation of European cooperation (O.E.E.C) in 1956, the council of the O.E.E.C established in December 1957 the European Agency for Nuclear Energy. Its main purpose was to organize technical cooperation by creating joint enterprises.

According to its sponsors, Euratom had more ambitious objectives. According to Pierre - Olivier Lapie, it should "promote the creation of a new industry by providing it with scientific, technical, material, commercial and institutional foundations<sup>18</sup>".

The Spaak Report defined the objectives of the common market in almost identical terms. To achieve these goals, the document said, it was absolutely necessary to merge the separate markets. Such a merger would, "through an increasing division of labour, eliminate the waste in the utilization of resources and by giving greater assurance of access to supplies, help to give up unprofitable productions". It further added,

" In any branches of industry, national markets offer no opportunity to achieve the optimum production which monopolistic enterprises permit. The advantage of a large market is that it reconciles mass production with the absence of monopoly<sup>19</sup>".

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18. Pierre Olivier Lapie, Les Trois Communites (Paris: Fayard, 1960) pp. 143.

To achieve a merger of markets and smooth transition from national markets to a single market, the customs union which created a common external tariff met the first prerequisite, economic union the second.

Most of the responsibilities of the European Economic Community devolved upon two key institutions, the Council of Ministers and the Commission.

To sum up, the rationale for the inception of the EC was as varied as different organs of European construction. The rationale for the construction of Europe was linked to the Atlantic Alliance, the changing global order dominated by two super powers, the threat of Soviet Communism, Europe's insecurity and its desire to become a major international power, French desire to maintain its identity through a Unified Europe, French quest for security and its development and the German eagerness to rise from the ruins of the world war. For all these and construction of Europe, Franco - German reconciliation was a prerequisite, which was immediately fulfilled as the situation demanded. Now for the progress and strengthening of European construction Franco - German Cooperation was required.

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19. Official Publication of the European Communities, Single Market, (Luxembourg, 1993) pp.12-15.

## 1.2 FRANCO-GERMAN CENTRALITY IN THE EVOLUTION OF EC

France's partners in the O.E.E.C were concerned with the question of whether de Gaulle, who had vehemently criticized the Treaty of Rome, was really interested in getting the common market underway. But on the other hand de Gaulle had come to realize the fact that common market can be possible means of helping France to become a dominant power on the continent. Early in 1960 his outlook coincided with that of the Commission, which wanted to consolidate an institution that was still fragile.<sup>20</sup>

Members of the O.E.E.C. also wondered about France's ability, given the critical state of its balance of payments, to put into effect by 1 January 1959, the tariff regulation prescribed in the Treaty of Rome.

Both the fears were dissipated, one by the French monetary reform, which included new economic policy and devaluation of franc and the other by Franco-German rapprochement.

On 13 February 1960, well ahead of time the Council of Ministers approved a common external tariff. After the signing of the North Atlantic Treaty, the policy of western powers, towards West Germany was founded on three principles : integration of the Federal Republic into a western complex of military, political and economic institutions, on German rearmament, preparation of eventual reunification of Germany.

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20. Charles de Gaulle, *Memoirs of Hope, Renewal and Endeavour 1958-62* (London: Weidenfeld and Nicolson, 1971) pp.44-47.

After 1958 three factors influenced the West German situation. The launching of the common market tightened the bonds between Germany and its partners in the EEC, Soviet pressure over the problem of Berlin tended to call into question the quadripartite status of the city, and finally General de Gaulle attempted to impose his personal conceptions about the functioning of the Atlantic pact and the political and economic construction of Europe.

The general's attitude towards Germany fluctuated between distrust and confidence. His friendly feelings towards Chancellor Adenauer, which were reciprocated, plus the international situation, impelled him to center his strategic policy on Franco-German cooperation. He began to implement this policy from the time of his interview with Adenauer at Colombey on 14 September 1958.<sup>21</sup>

Franco-German Cooperation was also in the interest of Germany. Germany was dependent on the west and Chancellor had no intention of conducting an autonomous foreign policy. On the contrary he sought the moral support of a more independent continental partner.

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21. Jean Charlot, The Gaullist Phenomenon (London: George Allen and Unwin, 1971) pp.72-75.

The general purpose of the Franco - German Cooperation was, from the French point of view, to insure West German support for the launching of the common market. This was important to the French economy. De Gaulle also wanted an ally when the time came to implement his ideas on the construction of Europe. In return, France would back the Federal Republic in its resistance to Soviet pressure. It would also support any attempt contemplated from time to time by UK and the United States, to accept a compromise solution over Berlin and status by Germany.

The crisis began when on 27 November, 1958, a Soviet memorandum suggested to western powers that West Berlin should become a demilitarized free city. At the height of the crisis General de Gaulle chose the moment to expound his views on Berlin crisis and the entire German problem. This was the moment when acting like a true friend he could win the friendship and support of the German people.

In a press conference on 25 March 1959, he reminded his listeners that three closely connected questions have been raised by Moscow: West Berlin's communication system, the formal division of Germany and neutralization of Germany. Before entering into more detailed discussion, he defined the climate of Franco-German relations:

"Germany as she exists at present, in no way threatens us ..... we can believe that she constitutes an essential element in the life and progress of Europe and the entire world. Furthermore, France and Germany have decided to cooperate. Chancellor Adenauer's policy coincides with our own". He could not allow, he said, the city of Berlin to be subjected to the "Pankow System".

He refused to recognize East Germany as a free state and finally pledged for the reunification of Germany. He also backed Germany in its rejection of the British suggestion of 'disengagement<sup>22</sup>'. Thus de Gaulle was only one of the three Western allies to recognize the Oder-Neisse line as the eastern border of Germany.

In the second phase of Berlin crisis in 1961, when the Berlin wall was erected, the Germans were worried about American intentions, which it could not oppose openly.<sup>23</sup>

De Gaulle took a quite different view from that of the Americans. In a press conference he said, "Let the Soviets stop threatening, let them help to reestablish a detente instead of hindering it". Again in his press conference on 15 May 1962, a new note was sounded on the nature and aims of Franco - German relations.

"There is a solidarity between France and Germany. The immediate security of the two peoples depends on this solidarity. One has but to look at the map to be convinced of this. Any hope of uniting Europe in the political, economic and military domains rests on this solidarity. Therefore the destiny of all of Europe from the Atlantic to the Urals depends on this solidarity. For if it is possible to establish in Western Europe an organization that is solid, prosperous and dynamic, then we can once again look forward to equilibrium in Europe with the Eastern States and once again we can look forward to a truly European cooperation".

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22. James L. Richardson, Germany and the Atlantic Alliance (Cambridge. Mass: Harvard university Press, 1966) pp.69, 268.

23. Henry A. Kissinger, The Troubled Alliance (New York : Mc Graw-Hill, 1965), pp.69.



The Franco-German solidarity was made to appear as the key to the construction of Western Europe and ultimately, all of Europe. During the ensuing months, the tightening of Franco - German political bonds was the primary objective of both Chancellor Adenauer and General de Gaulle. From July 2 to 9 the Chancellor paid an official visit to France. The General returned the courtesy, visiting Germany from 4 to 9 September. Both visits were marked by official welcomes and enthusiastic public demonstrations.

In answer to President Luebke's welcoming speech upon de Gaulle's arrival in Bonn, the General responded by extolling the union of France and Germany, first "in the face of Soviet desire for domination", next as "bulwark of power and prosperity" for an alliance of free world; finally

" it should ease tensions by heralding an international understanding that will enable all of Europe to create equilibrium, peace and progress from Atlantic to Urals. The necessary condition for such a union is a vigorous, strong Western European community, essentially a single and identical Franco-German policy".

Speaking in Hamburg to the officers of the German staff college, de Gaulle explained the purpose of Franco-German Cooperation.

"And now a colossal world threat has arisen. The Atlantic Alliance that was organized to contain it will be useless unless the Frenchmen and Germans on both sides of the Rhine are in agreement".

He quoted the German writer Zueckmayer: "Yesterday it was our duty to be enemies, today it is our privilege to be

brothers".

The official communique published in Bonn on 7 September 1962, stated that France and Germany "are convinced that their future is bound up with the gradual development of a united Europe". It announced that "practical steps will be taken by the two governments to tighten the bonds that already exists in many domains". The ensuing negotiations were based on a French memorandum of 19 September which suggested that an institutional character should be given to Franco-German cooperation by carrying out some of the provisions of the Fouchet plan. The German answer of 19 November stressed that military cooperation between the two nations should be worked out within the framework of NATO. The two foreign ministers met in Paris on 16-17 December 1962 to give finishing touches to a treaty of cooperation. Thus de Gaulle, having failed to convince the six of the EEC hoped to achieve a union of states on a bilateral basis.

A few days before signing the treaty de Gaulle held his famous press conference of 14 January 1963. He used the occasion to reject publicly the American offer of Polaris missiles and to exclude the UK from the EEC. In enthusiastic terms he described the exemplary nature of the Franco-German cooperation:

"Two great peoples who fought each other terribly and for a long time are now drawn together in an identical impulse of affection and understanding. What is actually happening is a kind of mutual discovery between two neighbours in which each perceives the value, merit and dynamism of the other".

The treaty of cooperation was signed in January 1963. The treaty provided for meetings twice a year between chiefs of state

and heads of government, quarterly meetings between foreign ministers, regular meetings between the authorities of the two countries responsible for defense, education and youth. The meetings would cover a large field.

" The two governments would consult each other on all important questions of foreign policy and primarily on matters of common interest, with the object of arriving at a joint decision as far as possible".

Problems relating to the European Community, East - West relations and NATO were listed under the heading of matters of common interest. In the domain of defense, the competent authorities were to make every attempt to adjust their strategic doctrines, increase exchanges of army personnel and work together on armaments<sup>24</sup>.

Thus Franco - German relations are traditionally viewed as the cornerstone of the European edifice. Franco - German relations also went through some bad patches when their opinions varied and there was mistrust and loss of confidence. But these were overcome in the interest of both and in the interest of Europe. As a result Franco - German relations acted as a barometer, as it were, of the dynamism or, on the contrary the stagnation of European spirit. Not that friendly relations between Germany and France are enough in themselves for the political construction of Europe, but they are certainly a necessary condition.

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24. Herbert Tint, French Foreign Policy since the Second World War (London: Weidenfeld and Nicolson Ltd, 1972) pp.57-60.

Besides, from its very beginning the construction of Europe has been placed under the banner of Franco - German relations. It is significant from this point of view, that it should owe so much to a man like Robert Schuman, who was profoundly influenced by the two cultures, and who was to suffer personally from the confrontation between France and Germany.

The reconciliation sealed by De Gaulle and Adenauer in 1962-63, and which had already been a reality for a number of years was cemented by the Paris - Bonn axis. Despite some setbacks the entente between the two capitals survived, without apparent difficulty, despite changes in men and political parties took place both in Paris and Bonn. The Franco - German solidarity no doubt played a part in the spectacular conversion to the European idea of not only a country such as Great Britain but also a certain number of French politicians. And that this effect has also played no small part in the opening of a new phase, one which led to the adoption of the technological community, EUREKA, and the signing of the Single European Act (SEA) and finally leading to the Maastricht Treaty <sup>25</sup>.

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25. Dankert Peter, "The European Community - Past, Present and future". Journal of common market studies vol 21 nos. 1 and 2 (Oxford: Basil Blackwell), 1989, pp7-10.

Whenever Europe was in danger of a breakdown, the line between Paris and Bonn was restored. French President (a socialist) went in the middle of the election campaign to give support to the German Chancellor (a Christian democrat) in the Bundestag and at the 20th anniversary of the signature of the Elysee Treaty, in favour of deployment of Euromissiles. It was the Franco - German determination which enabled this operation to take place, despite formidable campaign launched by the Soviet Union.

Again when the talks on agricultural and monetary issues could not succeed between the twelve and was on the verge of collapse, it was as a result of intense consultation between the leaders of France and Germany that the deadlock was broken. The momentum thus generated enabled the agricultural council, the following night, to settle hitherto burning question of farm prices for the coming agricultural year.

The Franco - German solidarity remained alive because of a willingness on both sides to succeed, despite whatever pressures brought on them. The agricultural sector required strong Franco - German cooperation as both were equally attached to it as what was termed as Franco - German 'rural sphere. Cooperation in this sector proved to be a major contribution to the political and economic construction of Europe.

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26. Brigouleix Bernard, "The Franco-German cement to the EC edifice", European Affairs (Amsterdam) no.3/87 autum pp.18-20.

French and Germans are also beginning to embark on a fresh exchange of ideas in the field of defence. The project for a new generation of helicopters was agreed in 1987 in Paris by the two defence ministers. Messrs, Giraud and Worner, can be of interest to all their European partners. The same could be said for the idea of an integrated Franco - German fighting unit. A joint military exercise of some 22,000 French soldiers and 55,000 German soldiers took place in South Germany : subsequently it was announced that a 'Common Council' of security and defence was to be established between France and Germany in January 1988. The objective was to complement 'American defence' of Europe with autonomous European defence based on the concept of deterrence.

There remains the immense field of industry and technology. French and Germans have joined hands to launch and carry out such major ventures as the Airbus and Ariane. Paris and Bonn whose engineers and economists have largely developed the habit of reflecting and working together have a great deal to offer Europe in this connection.

There remains also, as regards the awareness of cultural identity and exchange of young people, leading to a better knowledge of one's partners. In short, one can see that despite slightly bitter and disillusioned views, France and Germany in tandem have more or less much to propose to Europe. Franco-German solidarity can be best summed up with the well - known saying of saint - Exupery : "Love is not looking at each other,

rather it is looking together in the same direction"<sup>27</sup>.

### 1.3 Four Phased Progression of the EC

(a) Customs Union In interpreting our definition, distinction should be made between integration and cooperation. The difference is qualitative as well as quantitative. Whereas cooperation includes actions aimed at lessening discrimination, the process of economic integration comprises measures that entail the suppression of some forms of discrimination. For example the international agreements on trade policies belong to the area of international cooperation, while the removal of trade barriers is an act of economic integration. Distinguishing between cooperation and integration, we put the main characteristics of the latter - the abolition of discrimination within an area - into clearer focus and give the concept definite meaning without unnecessarily diluting it by the inclusion of diverse actions in the field of international cooperation<sup>28</sup>.

Economic integration can take several forms that represent varying degrees of integration. These are free - trade area, a customs union, a common market, an economic union and complete economic union. In a free trade area, tariffs (and quantitative restrictions) between the participating countries are abolished,

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27. Phillips Griffiths eds; Contemporary French Philosophy (Cambridge: Cambridge University Press, 1987) pp.87.

28. Bela Balassa, The Theory of Economic Integration in Alexander Stubb eds; European Union (Colorado: Lynne Reinner, 1994), pp.126.

but each country retains its own tariffs against nonmembers. Establishing a customs union involves, besides the suppression of discrimination in the field of commodity movements within the union, the equalization of tariffs in trade with non - member countries. At the same time customs duties between member states are removed.

In the twentieth century no significant customs Unions were formed until the end of the second world war, although several attempts had been made to integrate the economies of various European countries. Political obstacles were the main cause for the failure of these projects.

The interwar period has witnessed a considerable degree of disintegration of the European and world economy. On the European scene the mounting trade and payments restrictions since 1913 deserve attention. Ingvar Svennilson has shown that, as a result of the increase in trade impediments, the import trade of the advanced industrial countries of Europe shifted from the developed to the less developed economies of this area, which did not specialize in manufactured products. This shift implies a decline in the competition between the industrial products of the more advanced economies and a decrease in specialization among these countries. But lessening of specialization was characteristic not only among more advanced European economies but also of European economy as a whole. This development can be demonstrated by trade and production figures for the period of



1913 - 38. While the value of commodity production in Europe increased by 32 percent, intra-European trade increased by 10 percent. The formation of Economic Community and customs union can be regarded as a possible solution for the reintegration of European economies.

Another factor responsible for the disintegration of European economy has been the stepping - up of state intervention in economic affairs in order to counteract cyclical fluctuations, sustain full employment correct income distribution and influence growth. Plans for economic integration are designed partly to counteract the element of discrimination inherent in the increased scope of state intervention.

A related argument regards the establishment of customs unions as desirable for mitigating cyclical fluctuations transmitted through foreign trade relations. The foreign trade dependence of the European common market countries, for example, decreases by about 35 per cent if trade among six countries is regarded as internal trade. The memory of depression in the 1930s gives added weight to this argument. However, for this proposition to be valid, there is need for some degree of coordination in counter - cyclical policies among the participating countries<sup>29</sup>.

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29. Maclenan Malcon, "The Common Market and French Planning", Journal of common market studies (London) vol.3 no.1 , 1989 pp.23-46.

Last but not the least, it is expected that integration will foster the growth of European economies. This outcome is assumed to be the result of various dynamic factors, such as large - scale economies. This outcome is assumed to be the result of various dynamic factors, such as large - scale economies on wider markets lessening of uncertainty in intra - area trade and a faster rate of technological change<sup>10</sup>. In this regard, the increased interest in economic growth has further contributed to the attention given to the possibilities of economic integration. Establishment of the customs union was an important step in this direction.

The Rome treaties establishing the European Economic Community (EEC) and European Atomic Energy Community (Euratom), together with the Paris treaty establishing the European Coal and Steel Community (ECSC) formed the constitution of the European Community. The European treaties all have the same objective - economic expansion and higher standards of living, accompanied by political union of the peoples of Europe.

The EEC Treaty's immediate objectives were the establishment of a customs union with free movement of goods between member states, the dismantling of quotas and barriers to trade of all kinds and free movement of persons, services and capital.

Beyond this the treaty provided for a number of common policies on matters such as agriculture, transport and

competition, the harmonization of legislation, a social policy and an external trade policy.

In its endeavours to attain four great freedoms (free movement of persons, goods, services and capital), the Community started with the tackling of problems such as the right of establishment, free movement for all workers, harmonizing national legislation and gradually creating a single market<sup>30</sup>.

During the first few years after the signing of the EEC treaty, substantial achievements were made. The first cut in customs duties in trade between member states were made on 1 January 1959. All these customs duties were to be abolished gradually according to a time table set out in the EEC Treaty. In trade with the rest of the world, a common external customs tariff is gradually set up at the same time. The economic progress made by the Community and continuing desire for closer cooperation brought political cooperation back into the lime-light.

The first regulation on free movement of workers from member states within the Community came into force on 1 September 1961. It opened up frontiers to job seekers from all the member states and protected them by giving them the same rights and obligations as nationals of whatever country they go to.

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30. Official Publication of the European Communities, "The Single Market", (Luxembourg) 1993, pp.22-23.

Ever since the EEC Treaty came into force, the elaboration of common agricultural policy was a cornerstone in European integration, on a par with the establishment of a customs union.

The GATT multilateral trade negotiations began on 4 May 1964 with the Community taking part in them. These negotiations which took place under the name of Kennedy Round resulted in substantial cut in international customs duties. The Community's external tariff was reduced by between 35 to 40 percent, depending on the product and was lower than the tariffs of its major trading partners. The negotiations ultimately ended on 30 June 1967 with a general reduction in customs tariffs by all the world's major trading countries and in new conditions for developing trade in agricultural products.

The customs union was finally completed on 1 July 1968, eighteen months ahead of the timetable in the EEC Treaty. All customs duties were removed in trade between member states. But the system of preferential tariffs remained based on competition and production. At the same time the Community finally set up its common external tariff.

(b) First Expansion of EC from Six to Nine 1972

The Treaty of Rome declared that it intended to confirm the solidarity between peoples of Europe and desire to ensure the development of their prosperity. Thus by pooling their resources to preserve and strengthen peace and liberty, called upon other

peoples of Europe who shared their ideal to join in their efforts.

In other words, the Community was open for other European countries to join if they fulfilled certain criteria. The first enlargement of the European Community took effect on 1 January 1973. The most important member which joined the European Community was the United Kingdom. Since the inception of the European Community, the UK did not show much interest in joining the EC. This was more because of its Commonwealth affiliations and Atlantic relations. The other two countries that joined the Community along with UK are Denmark and Ireland. Thus the Community from 1973 became a Community of nine.

Economically and commercially the Community of Nine became a power to reckon with on the world stage. The United States invited the enlarged Community to a new multilateral trade negotiations within GAAT in September 1973. The Soviet Union, originally hostile to the Community, began to take a more realistic view of things and recognised realities in Europe<sup>31</sup>.

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31. Official Publication of the European Communities, Europe and the challenge of enlargement, (Luxembourg, 1992), Supplement 392, pp.7-10.

(c) Second expansion from nine to ten (1980)

The second enlargement raised a series of new problems for the Community because of the differences between levels of development in applicant countries and in the Community. Once these countries become part of the Community, latter will have to bear the cost of their development. On the other hand enlargement will confirm the political basis for the integration of Europe and will strengthen the Community's position in the world.

In the Athens, Greece and the Community signed the treaty of accession. Greece became the tenth member state of the Community with effect from 1 January 1981. Greece's entry inaugurated the Community's expansion southwards.

The Greek accession was spread over a five - year transitional period during which the Greek economy was to gradually adjust to the higher economic level in the Community. For this Greece was given substantial, financial Community backing. Greece's membership added 9.2 million to the Community's population, raising it to 269 million.

The Community's activities in relation to the third world also expanded considerably. The Community extended its agreements with associated states. In July 1973 negotiations were held not only with Yaounde' Convention countries, which since 1972 included Mauritius, but also with twenty seven other de-

veloping countries of Africa the Carribbean and the Pacific (ACP), twenty four of them Commonwealth countries. The main object was to broaden the Yaounde conventions following the Community enlargement, to take in countries that have special relations with United Kingdom and few other countries.

On 2 January 1973 free trade agreements came into force between the Community and some of the EFTA countries that have not joined the Community. The countries were Austria, Portugal Switzerland and Sweden. Agreements with other EFTA members, Iceland, Norway and Finland came into force later. The EFTA countries thus enjoyed a customs union with the Community but did not participate in the community's common policies.

The Community also entered into agreements with the Maghreb countries (Tunisia, ALgeria, and Morocco) in April 1976 and with Mashreq countries (Egypt, Syria, Jordan and Lebnon) in January 1977. By the agreement made with Israel in May 1975, the Commission implemented its global Mediterranean policy.

The agreement with Southern Mediterranean countries provided for the reduction or removal of customs duties on most of the products that Community imports from them it also provided for economic, technical and financial cooperation as regard to Magreb countries which has 800,000 of their citizens working in the Community ; and it also guaranteed the same working conditions and social security rights enjoyed by the nationals of the Community.

(d) The Third Expansion from ten to twelve 1986

Portugal and Spain applied for membership of the Community in March and July 1977 respectively. Both Spain and Portugal got the membership of the Community in 1986. This was the third expansion of the Community: the Community of ten was transformed into the Community of twelve.

These new countries had recently returned to democratic fold which enabled the Community to expand southwards. To the population of 269 million of the Community, 9 million was added by Portugal and 35 million by Spain, thereby raising the Community population to 313 millions<sup>32</sup> .

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32. Official Publication of the European Communities, "Steps to European Unity ", (Luxembourg, 1981), pp.14-16.



## CHAPTER II

### The FRANCO - GERMAN CO-OPERATION IN PREPARING BLUEPRINT FOR EUROPEAN UNION : THE Single European Act, 1986-A case study.

#### 2.1 Raison d'etre for Progression from EC to EU

##### (a) Two energy Shocks of the 1970's

The oil crisis of 1973-74 was triggered by the oil embargo of October 1973. This embargo was initiated by a group of Arab oil-exporting countries in retaliation to the United States and West Europe's support of Israel during the Arab - Israeli war of 1973. Soon after the embargo, oil spot prices soared to levels which were unprecedented in the history of oil production. The range of bids for auctioned crude oil by Iranian, Libyan and Nigerian governments was somewhere between \$17 to \$24 per barrel in December 1973.

Even though the period of oil embargo was brief and supply conditions returned to normal at the end of 1973, the price of crude oil remained permanently at this new level <sup>1</sup>. Even the world wide recession of 1974-75 did not have a signifi-

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1. A.P. Jacquemin and H.W. de Jong, eds., Theoretical elements for an introduction of Petroleum economics', in market, corporate and the state, (Hague: Martinus Nijhoff, 1976) Also see Cyrus Bina, The Economics of Oil Crisis (London: Merlin Press, 1985) pp. 1-8.

cant impact on the oil price structure.

Many theories have been put forward to explain the causes of the oil crisis. The traditional view of the oil crisis as argued by Raymond Vernon was because of the low cost of the crude oil relative to other sources of energy. Consequently, he assents that as national incomes of consuming nations increased during the last two decades, their demand for energy increased correspondingly. But since crude oil was cheaper than other sources, demand for crude oil grew faster than the demand for other sources and this in combination with the supply interruption resulted in crisis.<sup>2</sup>

After the Second World War, the need for quick reconstruction of Western Europe, on one hand, and the existence of cheap sources of oil in the middle East, on the other, led to the gradual displacement of coal industry in Europe. This substitution, as R. Prodi and A. Clo indicate, resulted in (a) rigid controls over coal market, (b) a lack of common energy policy and separate rules for coal and oil markets and (c) lack of adequate legislative rules for the limitation of entry of multinational oil companies in the European market.<sup>3</sup> Therefore, the European market was flooded with cheap Middle East oil and gradually the

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2. Raymond Vernon, "An interpretation", London: Dedalus, Fall 1975) pp. 1-14.

3. Romano Prodi and Alberto Cloo, 'Europe', (Dedalus, Fall 1975), pp. 92.

dependence of European economies on imported oil was established.

The entrance of the so-called independent oil companies during the 1950s and 1960s was another source of crisis. Edith Penrose also points out that the OPEC countries (oil producing countries) gained bargaining power vis-a-vis all the oil companies. In addition the growing dependence of the United States on Middle Eastern oil in general and Arab oil in particular, was added to the background of conflicts over the establishment of the 'State of Israel'. Coupled with inflation in industrial countries and world wide confusion in the international monetary system, these conditions resulted in further disarray.<sup>4</sup>

Some theorists like Norman Girvan who believe in dependency theory of oil crisis point out that the oil crisis of 1973-74 was the manifestation of the crisis in the world capitalist economy which came about with the OPEC offensive of 1973-74. Girvan thus forms power - relations framework to explain the sudden increase in the 'posted price' of crude oil in 1973-74. Such a power struggle in the context of world economy is said to be the manifestation of economic nationalism of the 'Third World' countries

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4. Edith Penrose, "The Development of Crisis", London : Dedalus, Fall 1975 pp. 39

in order to gain a 'nearly equal role' in their relationship with the industrial powers of the center.<sup>5</sup> As a result, such a crisis is seen to be consequence of struggle for 'national economic sovereignty' on the part of the primary producing countries in general and OPEC in particular. Hence, 'Economic Nationalism' was said to be the motivating force behind the sudden increase in oil prices, prior to and during the embargo period. The oil crisis was not caused by an actual shortage of crude oil but instead initiated for the sole purpose of increasing its price.

Some theorists believe in a 'conspiracy theory' behind the oil crisis. This view is based on the idea that the U.S. government, in collaboration with the international oil companies and OPEC, intentionally brought about the oil crisis of 1973-74. As a result, the focus of the above argument is on the differential impact of the four-fold increase of the oil prices on the U.S. economy on the one hand and the economies of Western Europe and Japan on the other. U.S. balance of payments was adversely affected by the price rise, but it was negligible compared to what happened to the balance of payments of West European and Japanese economies. The conspiracy theorists argue that U.S.

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5. Norman Girvan, 'Economic Nationalism', London : Dedalus Fall 1975, pp. 1,4,5.

government must have initiated the process of the price hike in order to hurt the West European and particularly Japanese economies. Thus the oil crisis of 1973-74 is seen to reflect the desire of domination of the United States over the globe, a .pa domination which since world war II was obtained by undercutting such countries as the United Kingdom.<sup>6</sup>

Whatever may be the causes behind the energy crisis of 1973-74, it severely affected the economies of West European countries and the world economy already hit by recession, the European leaders felt the need for other alternatives. It made them realize that it was only through European unity and a strong European monetary system they could face such crises in future.

The second oil crisis struck Europe in 1979-80, as it was beginning to take real stock of the harmful effect of the first oil crisis of 1973. All the countries in the European Community were confronted with the same problems related to balance of

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6. Michael Tanzer, "The Energy Crisis" Monthly review Press, (New York), 1974 pp. 17-18.

Michael Tanzer, "The Race for Resources" Monthly Review Press, (New York), 1980 pp. 108-10.

payments, inflation, the budget and unemployment.

The second oil crisis, born of the Iranian Revolution, once more underlined the vanity of the hopes periodically provided by some surpluses on the market "rather than the rise in prices, it is the appearance of new sources of fragility which seems to us to deserve attention". The foregoing quotation, taken from the annual report of the Institute Francaise des Relations Internationales,

exactly expresses the concern of the European Commission about the energy challenge.

The Iranian crisis set oil prices alight when there was no world shortage. The headon clash between Iraq and Iran highlighted one of Europe's particular problems: because of their dependence on one of these two states for their oil supplies, certain EEC countries went through a difficult period for their supplies.

The European Commission proposed to the governments an indepth study of the future construction of Europe. The second aspect of energy challenge, the rational use of energy, was an absolute must to enable a revitalization of European and world economic activity during the 1980s.

The manner in which Europe responded to the challenge of energy in particular, and to that of its dependence on raw mate-

rials in general, was to have repercussions throughout the world. How could Europe solve the energy problems of developing nations if it could not make better use of its own resources.

In diagnosing the energy problem of the EEC and analysing the perspective for the 1980s and 90s, the European Commission came to one crystal-clear conclusion: the level of investment was totally inadequate to answer future needs. If the economy revived, the Community countries which would not have made necessary investments would have once again required to increase their oil imports. The price may rise and these rises in turn may neutralize the beneficial effects of an economic revival.<sup>7</sup> According to the Commission it was necessary to get together some 500-600 billion dollars to satisfy the restructuring of energy demand and requirements of energy supply.

(b) Technology lag in the later 1970s and early 1980s

People in Europe took some time to realize that a new technological revolution was imminent. This technological revolution was mainly based on the information and telecommunications industries. Not only the European nations remained behind in this technological revolution, but they were

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7. Ralf Dahrendorf, Europe's economy in crisis (London: Weidenfeld and Nicholson, 1982), pp.126-27.

also criticized for having allowed the disappearance of or dismantling of the steel industry, the shipyards and textile industry in Europe.

Europe lagged behind USA and Japan and was in great need for scientific progress, more so because of its fewer natural resources and more serious demographic problems.

Europe's basic option in the changing world was specialization, as its applied industrial technology was inadequate for the needs of international competition. This was primarily because of Europe's social and cultural reservations about the effects of technology on employment and social life.<sup>8</sup> Secondly, state intervention in Europe was losing a lot of its impact by being divided between concurrent projects.

In industrial terms, the 1970s and 1980s is viewed as a period of turbulence. The two energy shocks which, symbolically, marked an end to the period of fast growth of industries such as bulk chemicals, plastics and artificial fibres, all predicated upon plentiful supplies of cheap oil, and badly shook the other

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8. N. Nugent, The Government and Politics of European Community (London: Macmillan, 1989) pp 24-26.



engine of post-war growth - the motor car. As these fast-growth industries of the 1950s and 1960s matured, they were replaced by new industrial sectors, in particular by electronics and its associated activities - semi - conductors, computers, telecommunications and consumer electronics - and by the new, fast-growth chemical sectors - the high-value-added sectors of speciality chemicals and pharmaceuticals.

The development of microprocessors brought down the costs and size of computers to levels at which computers became a consumer durable in the home as much as a business machine in the office and could be incorporated into robots on the production line. The strong links between electronics and defence meant that in Europe the development of these new technologies was restricted

only to defence application particularly in France and U.K., which were big defence spenders. But the defence industries tend to ignore the mass market; as the emphasis switched to civilian application - for example using electronics to monitor and correct the performance - the initial advantage of the French and the British receded. Only Germans, Swiss and Swedes apply the new technology in civilian use and were challenged not as much by USA as the Japanese, who combined broad-based capabilities in engineering with highly efficient production management and a readiness to innovate.

The real 'performers' are of course firms, not countries within any market. Firm performance is constrained, on the one hand, by established institutional arrangements - for example, Company law, competition and trade policy, banking practice, education and training practice, regulations and standards - and on the other, by the number, size and behaviour of competitors.™

By the 1980s the dominant market structure in all the main European industrialized countries was oligopolistic, with many national markets dominated by two or three large firms, surrounded by the plethora of small firms. The treaty of Rome aimed, of course at changing national focus of production, with gradual abolition of internal tariffs within the Community: the assumption had been that the national oligopolists of yesteryear would become competitors within the wider common market, with concomitant changes in national industrial sectors. Until the 1980s little regrouping took place.

There were one or two cross-country mergers - Dunlop - Pirelli in tyres, Hoesch - Hoogovens in steel - but with little success. Instead the general economic climate of the 1970s, marked by the oil crises, recession, stagflation and rising unemployment,

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9. Padoa - Schioppa, Efficiency, Equity, and stability (Cambridge: Cambridge University Press, 1987) pp 44-52.

caused countries to look inwards not outwards, priority being given to preserving markets and employment. A multitude of non-tariff barriers emerged to keep national markets separate, with larger firms buttressed by subsidies and other special privileges, particularly by public purchasing contracts.<sup>10</sup> Recession and government sponsored nationalisation led to thinning of ranks, but those that survived became aptly known as 'national champions'. What was needed was a more outward looking production directed towards global market.

By the early 1980s, therefore, little had changed: national oligopolies still ruled. The crisis in steel and ship-building industry caused the EC Commission to intervene to prevent subsidies getting out of hand. Even chemicals; a major growth industry of the 1960s was in trouble, with substantial over-capacity and called for a crisis cartel to be organized by the EC.<sup>11</sup>

The failings - or lack of competitive edge - of the European electronic industry were already apparent. 'The national champi-

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10. D. Mc Aleese External trade Policy of the EC, paper presented to the Senior Policy, 1989. on policy' had led to a considerable fragmentation of markets at

11. D.K. Brown, "Trade preferences of developing countries: a survey of results" Journal of development studies 24(3), London 1988.

a time when 'Research and Development' (R & D) costs were escalating and product life shortening. Increasingly it was apparent that firms such as GEC, Plessey, ICL, Bull, even Philips and Siemens, could no longer afford to develop the next generation of products on their own: their markets, albiet guaranteed, were just too small to justify the up-front R & D and start-up costs. A great deal of change took place in the European motor industry in the 1980s. Recovery after the second oil crisis was much slower than the first and it exposed underlying weaknesses in several European auto producers, triggering off an unprecedented wave of rationalisation. First Rover and Fiat and later Peugeot and Renault found that overoptimistic investments had left them with too much capacity, too many workers and unsustainable levels of overhead. All the European firms and their respective<sup>12</sup>

All the European firms and their respective governments, were convinced that adequate scale was essential for survival, and that boosting capacity was therefore a risk worth taking to ensure a place for their 'national champion' in the auto oligopoly of the future. Faced with too much capacity, chasing too few customers, however, each in the end faced the need to retrench to survive.

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12. Adam Smith, 'The Market for Cars in the enlarged European Community in 'Unity with Diversity in the European economy: (Cambridge University Press for CEPR, 1990), pp 60-64

During the first half of the 1980s about one million units of production capacity were closed down, much of it outdated and inefficient, and the four firms named above reduced their overheads and break-even levels output by a total of 1.8 million units. Many other plants were retooled with lower manning levels, the number of products offered was rationalized and a series of successful models such as Fiat Uno and Peugeot 205, were introduced. The effect was that some 420,000 people left the European motor industry between 1980 and 1986.

Retrenchment at home was mirrored by retrenchment abroad. Volkswagon closed its assembly plant in the US after a decade of operation, while Renault sold its stake in American motors after loosing a great deal of money and closed its plant in Mexico. As a result the European mass producers were now dependent on their home region only.

Peugeot was unable to sustain Talbot, acquired from Chrysler in 1978, as a third product range, and Rover, Alfa Romeo and SEAT eventually proved too small to survive on their own. Honda took 20 per cent stake in Rover. Saab and Jaguar also succumbed and were taken over by General motors and Ford respectively.

In the field of electronic industry, European firms lagged behind the technological leaders in the USA and Japan in several sectors. Major electronic producers found themselves by the

1980s situated in a rapidly growing industry characterised by deep technological and market uncertainty, high risks and accelerating R & D investment costs. New innovations continued to generate new products and markets. To survive, firms were often forced to change management direction, to respond to shortening product life cycles, and to invest heavily for the future.

Electronics industry was undoubtedly future industry of the 1980s and 1990s. The turnover of world electronic equipment industry grew from just over \$ 150 billion in 1980 to an estimated \$ 582 billion in 1990. <sup>13</sup>

Turning to regional shares, Europe accounted for roughly \$134 billion or 23 per cent of total equipment sales in the later 1980s, compared with \$ 214 billion (37 per cent) for the USA and \$ 164 billion (28 per cent) for Japan, and rest of the world accounted for \$ 70 billion (12 per cent).

Since the early 1960s, when the rapid growth of sales of semi conductors, computing and consumer electronics began, Europe failed to keep pace with the investment and innovation dynamic of

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13. J.P. Horne, P.R. Masson, "International economic Cooperation and Policy Coordination", Finance and Development 24(2) New York, 1987, pp 105-110.

USA and Japan.

A number of case studies for particular countries and Europe as a whole testify to the region's weakness in electronics. Henry shows how, despite U.K.'s lead in computing in the 1950s and 1960s, domestic firms failed to commercialise their innovations and were overtaken by US the firms.<sup>14</sup> O'Brian demonstrates the poor performance of European - owned computing firms. Cawson and Sharp illustrate how European firms were overwhelmed by Japanese companies in consumer electronics.

As far as the balance of trade in electronic was concerned, Europe's positive balance in 1975 was transformed into a deficit of approximately \$ 5 billion by 1985 and reached a massive \$ 21.9

billion in 1987. The largest components of the deficit were computers (\$ 12 billion), consumer electronics (\$ 8 billion), and semi - conductor components (nearly \$3 billion).

Europe's weakness in electronics reflects a long term failure to participate in growing commercial markets, to export

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14. James Williamson, "The Failure of World monetary Reform": 1971-74, (London: Nelson, 1977), pp 117.

overseas and to make technological investments necessary to maintain parity or catch up with the world leaders. The case of semi conductors was especially important as chip technology is crucial for all electronic products. Europe's competitive performance in chips was very weak compared with the USA and Japan. Europe's share of world sales fell from 16 per cent to 10 per cent between 1980 and 1988.

Until the mid - 1980s most European companies' investment strategies for semi conductors were cautious and limited in scale and scope. European manufacturers concentrated on low - volume, domestic markets. A fairly large portion of output was in mature, discrete components (eg transistors) rather than integrated circuits. Production was oriented towards in - house custom needs, rather than the large - volume international commodity markets. In 1980 for example, the share of external component sales in total revenue was less than 5 per cent for Philips, Siemens, Thomson, AEG - Telefunken and Plessey.

In contrast US multinationals followed aggressive marketing and production strategies within Europe during the 1970s, maintained a constant technological lead and made large investments in new generation of chips such as memories and microprocessors. Tariff barriers erected by Europe encouraged US producers to increase inward investment in France, Germany, Netherlands, Italy



and UK.

The US lead in manufacturing process technology for standard components spilled over to other segments of the chip industry. With each successive wave of chip innovations, technological and financial barriers to entry increased, making it more and more difficult for European products to recapture lost markets.

Another aspect that made European firms lag behind was fragmentation of European market in the 1980s. Compared with the large US and Japanese markets, the larger US and Japanese home markets were useful for building up economies of scale in R & D, production and marketing.

Thus European technology in the 1970s and 1980s lagged behind the US and Japanese technologies and it was only after lot of efforts on the part of French and Germans and initiation of projects like Esprit and Eureka could lessen the gap and enable Europe to compete with the US and Japan.

(c) EUROSCLEROSIS

The model of development of post war golden age was centred around 'Taylorism', based on scientific management ideas of F.W. Taylor.

As the United States emerged as the hegemonic world power, 'Fordism' or the American way', became the technological and social paradigm that the other nations in the West adopted.

There were two important aspects of the Fordist era. First, mechanism of redistribution operated in favour of less developed areas: nation states played a major role in the transfer of resources to less developed areas, via regional policies. Second, there were attempts to divert investments to less developed areas, while full employment growth in the more developed regions stimulated and presupposed migration from less developed areas and countries.<sup>15</sup>

The economic crisis in the 1970s and mid 1980s in Europe was to a large extent a crisis in the development model, known as Fordism, which explains the Western growth in the post-war golden age. Rates of growth slowed down and unemployment increased, as did inflation rates. As a result of breakdown of the Fordist model in the early 1970s, two mechanisms ceased to operate: an earlier wave of production investment in less developed areas

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15. L. Albrechts, F. Monlert, P. Roberts eds, 'Regional Policy at the Cross Roads: European Perspectives' (New York: Jessica Kingsley, 1989), pp 84-86

came to an end, while the rise in unemployment in developed areas closed off opportunities for emigration. As a result the regional economies were forced to rely more on their own resources and different economies choose divergent development and adjustment strategies. Competition among local authorities increased. With these changes solidarities that had existed at national level and that had underpinned the distribution and transfers of resources under Fordism were eroded, as individuals came to view themselves as a part of localised community and beyond it of a competitive world.<sup>16</sup>

The cause of breakdown of Fordist model was twofold. In the realm of work organisation, Taylorism prevented the active involvement of the mass workers in the conduct and improvement of production. The rate of productivity growth that engineers and technicians could secure slowed down, and involved even higher investment costs. As a result rate of profit fell, as did investment. The level of unemployment rose. What followed was a crisis of welfare state which had been developed to cope with lower rates of unemployment rather than mass unemployment of the late 1970s and early 1980s.

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16. G. Benko Q, Mick Dunford, "Industrial change and Regional development" in Robert Boyer, eds, The search for Labour Market Flexibility: The European Economics in Transition (London: Clarendon Press, 1991) pp 94-96

To raise productivity, firms sought economies of scale via strategies of internationalisation, and to raise profit they sought out lower-cost suppliers and low-cost production sites in Third world countries. The 1971 switch to floating exchange rates, and subsequent reduction in levels of control over international financial movements, opened the way for the growth of international private banking. International trade grew faster than domestic markets. The connection between the wages a firm paid and the size of the market it serviced was weakened: wages came to appear more as a cost and less as an element of demand for national output.

In these conditions the link between the international pattern of productivity growth and the national macro economic mechanism was weakened with the rise of monetarism internal demand stagnated, and with the internationalisation of the post-oil shock, so did the world demand.<sup>17</sup>

In order to reduce its balance of payments each nation sought larger real wage reductions than its rivals, and to improve its capital account each nation introduced ever higher

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17. Herbert Giersch, "Eurosclerosis - What is the cure?", European Affairs No.4/87, (Amsterdam) Elsevier.

interest rates to attract international deposits. To the earlier supply-side problems were added the demand-side difficulties of the double sided crisis of Fordism.

In these circumstances the operational weakness of state economic intervention intensified. Towards the end of the 1970s significant changes in the organisation, character and goals of national states were set in motion. In almost all countries there was an increase in the importance attached to private initiative, a disengagement of the state from economic sphere and a growth in economic initiatives at the local level. What resulted was a paradox: globalisation of economic activities proceeded alongside a localisation of development strategies. Automatic rights embodied in Fordist wage-labour relation were dismantled. In addition the solidarities that had existed at national level eroded with increased competition at local level.

The decades of the 1970s and 1980s which were the years of economic crisis and new technological revolution, showed three key features.

- (1) Investments made earlier proved unprofitable, whole industries were rationalised, capital was written down, workers were laid off with the increased internationalisation of capital and search for cheaper production sites on one hand and the concentration of

investments in new processes and products in existing establishments on the other, there was a reduction in volume of mobile investment flows.

- (2) There was an acceleration in the development of new technologies, processes and products. These new technologies were centered on two principles: the principle of integration and real time control, which depends on communication and coordination and the principle of production flexibility. With these changes, major changes in work organisation and the structure and location of economic activities took place.
- (3) There was a change in the relationships and allocation of investment funds between industrial, commercial, financial and land and property development activities. In particular, industrial enterprises were subordinated to commercial and marketing functions, producer services and an increasingly independent financial sector.<sup>18</sup>

These developments involved persistent differentials in

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18. Mick Dunford, "Socio economic trajectories, European integration and regional development in the Ec" in David Dyker eds, The European economy, (London: Longman, 1992) pp 102-104.

output and productivity growth rates across sectors. As a consequence, the shares of different industries in output and employment changed. Deindustrialisation went along with the rise of new growth ensembles (high technology industries and producer services). In these circumstances map of economic development was transformed and inequalities reinforced.

In the industrial sector structural changes resulted in a transformation of job patterns. In production, numbers of direct production jobs fell, while in industry as a whole the ratio of priproductive jobs (in making, design, sales and distribution) to production jobs increased. The growth of industrial sector services and marketed services, the high skill content of these jobs and concentration of these jobs in major cities was a major factor in the polarisation of economic activities.

As a result in the 1970s and early 1980s the unevenness of development in Europe increased, with different regions following different courses in the face of the breakdown of Fordism. In the context of liberal market integration these two realities mutually constrained one another. On the one hand, the need to maintain a trade balance forces the lower productivity areas in the peripheral zones of Europe to grow more slowly so as to limit imports, and to hold down wages so as to increase exports. On the other hand in the high-wage, high productivity zones, economic activities are generally more competitive outside

of the most labour-intensive sectors. However, the threat posed by competition from low wages areas limits the extent of redistribution of income and leads to over-cautious approaches to growth. At the level of Europe as a whole the consequence is relative stagnation. Eurosclerosis was in fact more Ec sclerosis, as the superior growth and unemployment records of some non-EC European countries suggests.

Apart from socio-economic reasons and failure of a regional policy, there were other reasons which led to the stagnation of European economies. Primary among them were the failure of national strategies for economic growth and the transformation of the left in European politics. First, the traditional models of growth and economic management broke down. The old political strategies for the economy seemed to have run out. After the growth of the 1960s, the world economy entered a period of stagflation in the 1970s. As extensive industrialisation reached it's limits, the existing formulas for national economic development and the political bargains underpinning them had to be revised. It was not simply that the price of commodity rose, but that the dynamics of growth and trade changed.<sup>19</sup>

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19. Wayne Sandholtz John Zysman " 1992: Recasting the European bargain in Brent Nelson, Alexander Stubb, eds, The European Union (Colorado : Lynne Reinner, 1994), pp 200-204.



Growth had been based on the shift of resources out of agriculture into industry, industrial development had been based on borrowing from abroad the most advanced technologies that could be obtained and absorbed. Suddenly, many old industrial sectors had to be closed, as in case of ship building. Others had to be transformed and reorganized. Old corporate strategies based on mass production had to give way to strategies of flexibility and adaptability. In short, during 1970s, national executive and administrative elite found themselves facing new economic problems without adequate models for addressing them.

The 1970s and early 1980s was therefore the era of Europessimism or Eurosclerosis. Europe seemed unable to adjust to the changed circumstances of international growth and competition after the oil shock. In contrast United States and Japan recovered very soon. Japan's growth, which had originally been sustained by expansion within domestic markets, was bolstered by the competitive export orientation of major firms in consumer durables. New approaches to manufacturing created substantial advantages. In the United States, flexibility of the labour market - meaning ability to fire workers and reduce real wages - seemed to assure jobs. Japan experienced productivity growth, the United States created jobs. Europe seemed to be doing neither and feared being left behind in competition with both by the U.S. and Japanese in high technology.

For Europe, the critical domestic political issue was jobs and the problem was said to be labour - market rigidity. Rigidity did not lie in worker's attitudes but were embedded in government policy and industrial practice. In most of Western Europe, the basic post war political bargain involved governmental responsibility for full employment and a welfare net. Consequently, many European companies had neither the flexibility of their American counterparts nor the flexibility of Japan displayed in redeploying its labour force.

As unemployment rose, the old growth model built on a political settlement in each country was challenged - initially from the left by strategies of nationalization with state investment, and then from the right by strategies of deregulation with privatization.

For a decade beginning with the oil shocks, the external environment for Europe was unstable or turbulent but its basic structure remained unchanged. While the United States was unwilling or unable to assure a system of fixed exchange rates, it remained the center of the financial system even as it changed the rules. The European Monetary System was an effort to create a zone of Currency Stability so that the expansion of trade inside Europe could continue. In the 1960s and 1970s, a long

debate on technology gaps and the radical extension of American multinational power did not provoke joint European responses. European Community was not altered, it was stretched to preserve its original objectives in the original context. The international economic turbulence and fear of a relative decline in competitive position did not provoke a full-blown European response.<sup>20</sup>

The question remains: why did national policy change, why did perception of choice evolve, the range of option shift?

Policy failures must be interpreted, it can be assigned many meanings. National perceptions of position are filtered through parties and bureaucracies, shaped and flavoured by factions, interests and lobbies. In 1983, the French Socialist party was divided between those led by Laurent Fabius, who concluded that pressure on the Franc was a reason to reverse policy direction and to stay within the European Community, and those like Chevènement, who felt the proper choice was to withdraw from the European Monetary System(EMS), even if that resulted in an effec-

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20 A. Boltho, The European Economy: Growth and Crisis, (London: Oxford University Press, 1982)

tive weakening of the Community. The French response to the currency crisis was a political choice made in the end by the President.

Thus the second aspect of changed domestic political context was the shift in government coalitions in a number of EC member states. Certainly the weakening of the left in some countries and the shift from the Communist to the market - Socialist left in other helped to make a possible debate about market solutions to Europe's dilemma. <sup>21</sup>

Given the absence of effective international institutions to manage such interdependence, governments in the early 1980s were tempted to withdraw the political guarantee of full employment and rely for the restoration of prosperity upon internationalized markets for goods and services, as well as upon a deregulated national market for Labour. The temptation spread from US to Europe. It started with more or less forceful attacks on the "rigidities" accumulated during three decades of mixed economy. In many cases, this included dismantling or at least disregarding the structures of collective bargaining and compromises among

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21. Robert Baldwin, 'The Growth effects of 1992', Economic Policy, No. 9., (Luxembourg) 1989.

domestic interests. When this proved politically impossible and did not progress very far, the inability of governments to deliver on employment, growth, price stability and international competitiveness created an atmosphere of 'Europessimism' or 'Eurosclerosis', which spread throughout Europe during the first half of the 1980s.

Thus the *raison d'être* for progression from EC to EU was primarily due to economic reasons. The failure of post-war international institutions to govern global economy led European governments to try domestic solutions to their problems. When that failed they turned to supranational institutions and the result was "project 1992".

The agreements of 1985 that established the goals of completing Europe's internal market by 31 December, 1992, came from different processes and motivations. They did not merely spill over from previous technical deliberations but imposed a different multilateral, cross-sectoral, political dynamic upon the process of regional integration. In so doing, they radically changed the structure of incentives for the participation of organized interests at the European level.

Moreover, contrary to numerous previous initiatives, the Single European Act was quickly followed by significant changes

in the behaviour of business firms, which entered into numerous mergers, acquisitions plant locations and marketing arrangements. There was important shift in the expectations of mass publics who began to imagine moving about unimpeded in an enlarged social space. These factors increased the visibility of and potential stake in the European process for business interests as well as for workers, consumers, environmentalists and policy makers of all sorts.<sup>22</sup>

European integration gained new momentum in the mid-1980s as a result of an alliance between two broad interests.

(1) Those of large European firms struggling to overcome perceived competitive disadvantage in relation to Japanese and US capital.

(2) Those of state elites seeking to restore at least part of national sovereignty they had gradually lost during the growth of international interdependence.

The firms seem to have come to the conclusion that using

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22. Andrew Moravosik, International Organization 45(1), World Peace Foundation and Massachusetts institute of technology, 1991.

their clout in national political arenas to protect themselves from foreign competition through subsidies, discriminatory technical and health standards, or privileged access to public procurement contracts had become counterproductive, given the increased size of production and the volume of investment required to sustain world market competitiveness.

Instead of trying to benefit again from the economic nationalism that had ground the integration process to a halt in the 1970s, big business throughout Europe became willing in the 1980s to join forces with political and administrative elites that were under pressure to seek a supranational pooling of eroded national sovereignties in order to recapture autonomy with regard to the United States and organise a competitive response to the Japanese challenge.<sup>23</sup>

In return for business going along with the 1992 project, governments conceded that the future integrated European political economy would be significantly less subject to regulations - national or supranational - than under the corpo-

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23. Stephen James, "Economic Policy after 1992: introduction" in David Gowland, Stephen James eds, Economic Policy after 1992 (Broomfield: Dartmouth Publishing House, 1991) pp 44-46

rate arrangement of the 1960s and 1970s. That meant assuring business interest that supranational sovereignty would be used primarily for external reassertion, not for internal intervention. Instead of relying exclusively, as before, on the cumbersome process of harmonizing norms and conditions throughout the Community, a novel method of defining and governing the internal market known as "mutual recognition" was adopted for cases in which agreement could not be reached. For all practical purposes, this amounted to a subtle form of deregulation and is obviously inimical to any resurgence of Euro-Corporation.

While economic changes have triggered the 1992 process, security issues may shape its outcomes. Europe's economic relationship with the United States has been embedded in a security bargain that is being reevaluated. This is not the first reassessment of their alliance, but it is the internal reform and external overtures to dismantle the ties that underpinned US European economic relations are being reconsidered in Europe. . But we need not look deeply into the security issues to understand the origins of the "1992 movement", though some believe that the nuclear horse - trading at Reykjavik accelerated the 1992 process.

We hypothesize that structural change was a necessary, though not a significant, condition for the renewal of the European project. It was a trigger. Other factors were equally



necessary and, in combination, sufficient. First, 1992 emerged because the institutions of the European Communities, especially the Commission, were able to exercise effective policy leadership. International structure shifts and a favourable domestic setting provided a motive and an opportunity for restarting the Communities, the Commission played the role of policy entrepreneur. The renewed drive for market unification can be explained only if theory takes into account the policy leadership of the commission. To be sure, Commission did not act alone; a transnational industry coalition also perceived the need for European level action and supported the commission's efforts. The Commission, aided by business, was able to mobilise a coalition of governmental elites that favoured the overall objective of market unification. Member governments were receptive to the 1992 initiatives because of domestic political context in the member states, which had altered in ways that made European-level, market oriented initiatives viable. The most important elements of the domestic political setting were the failure of existing, purely national economic strategies, the decline of the left, and the presence of vigorously market-oriented governments on the right. Without these shifts, an Ec base response to the changing international structure would have been politically impossible.<sup>24</sup>

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24. Frank Mc Donald, Stephen Dearden, 'European Economic Integration' (London: Longman, 1992) pp 130-40.

France once again took the initiative in 'relaunching Europe'. After 1983, Mitterrand embraced a more market-oriented cooperation. Mitterrand had also relentlessly worked to make European monetary system a possibility: All Socialist parties began to seek market-oriented solutions to economic ills. In this setting, the European Community and the mechanism of inter-governmental negotiation in which Franco-German initiative made the Single and European Act a Conference to draft a treaty that would amend the institutional framework. The White Paper was published in July 1985.

The White Paper called for a programme of legislation to be implemented to create an Internal Market by the end of 1992. The well known set of three hundred (later reduced to 279) legislative proposals to eliminate obstacles to the free functioning of the market, as well as the analysis that led up to and followed it, expressed a clear perception of Europe's position. European require - in this view - the creation of a continental market.<sup>25</sup>

The White Paper's programme had the political advantage of setting forth concrete steps and a deadline. The difficult

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25. Butt Philip, Implementing the European Internal Market: Problems and Prospects RIIA, Discussion Paper no. 5, London, 1989 (a). pp 12-14.

political questions could be obscured by focusing on the mission and by reducing the issues to a series of apparently technical steps. In a sense the tactic was to move above and below the level of controversy.

Implementation of the White Paper required a separate initiative: the limitation expressed in the Single European Act, of national vetoes over the community decision. At its core, the Community has always been a mechanism for governments to bargain. The Eurocracy was a standing constituency and a permanent advocate of European solutions and greater unity/ Proposals from the European Commission transformed this new orientation into a policy perspective and direction. When Jacques Delors took office as President of the European Commission in 1985, he consciously gave evidence of his vision that would reignite the European idea.

## 2.2 Cockfield Report

In 1984 the European Parliament issued a draft treaty on European Union. This called for political and economic changes, in particular the creation of an internal market and the reform of decision making procedures of the Ec to make them more democratic. At the Fontainebleau summit of 1984, two committees of Adonnino and Dooge were set up. Both called for institutional change and Dooge called for creation of an internal market. Jacques Delors in January 1985 in his statement to the European

Parliament called for the elimination of all frontiers within the community with 1992 as a possible target date. The Commission embodied its proposal in its White Paper on the completion of the Internal Market drafted by Lord Cockfield. The White Paper was approved and agreement was reached on calling an inter-governmental paper and Single European Act gave the appearance that changes in the Ec market were irreversible and politically unstoppable.

The White Paper prepared by Lord Arthur Cockfield, Commissioner of Internal Market listed three main types of barriers to be eliminated.

(1) Physical barriers - frontier controls and customs formalities.

(2) Technical barriers - restrictions on economic activities resulting from national rules and regulations. These include technical specifications which hinder or prevent trade in goods; rules and regulations governing services which hinder or prevent non-domestic companies from trading across frontiers; discriminatory public procurements rules which limit tendering for government contracts to domestic companies and legal obstacles faced by foreign companies seeking to set up subsidiaries in other member states.

(3) Fiscal barriers - the need to adjust value-added Tariff

(VAT) and excise duties as goods across EC frontiers. This is necessary as member states operate new different coverages, and levy different rates of VAT and excise duties.<sup>26</sup>

### 2.3 Enactment of the SEA in 1986 and its ratification

The agreements reached at the Intern-governmental Conference in 1985 resulted in agreement on the Single European Act (SEA). The SEA was approved by all member states in 1986 and took effect from 1987.

The SEA was a compromise between two countries such as France and Germany which wanted a new Treaty on European Union and the UK and Denmark which did not want a new Treaty, but simply implementation of the White Paper in order to create Single European Market (SEM).

The SEA is basically a limited set of changes to the Treaty of Rome which allows for majority voting in the Council of Ministers in areas connected to establishing the Internal Market, and also has some vague references to European Monetary

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26. EC Commission, Completing the Internal Market: The White Paper, Office for Official Publications of the European Communities; Luxembourg, 1992 pp 10-12.

Union(EMU), Political Union and other policy areas such as environment.<sup>27</sup>

The main thrust of the SEA was to establish the Single European Market by 31 December 1992. When the SEA was approved it was considered to be a poor substitute for a new Treaty on European Union, but given the opposition of the UK and Denmark it was the best that could be achieved. However, the SEA resulted in dramatic increase in the activities of the Ec, and it has led to a chain of events which have focused attention on the EC as being one of the most successful and dynamic economic agencies in the world.

At the heart of the 1992 programme lies Article 13 of the SEA: 'The internal market shall comprise an area without internal frontiers in which free movement of goods, persons, services and capital is ensured in accordance with the provisions of the Treaty.

This was simply reformulation of the original commitment, in the Treaty of Rome, to establish a common market. The major difference was that there was the political will, and a detailed

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27. P. Cecchini, The European Challenge: 1992 The Benefits of a Single Market (Aldershot: Wildwood House, 1988), .

gramme with a practical method of implementation, to achieve the objective. Basically its programme involves the removal of all legal barriers to the free movement of goods, services, capital and labour. The theoretical basis for this rests on economic models which predict that there will not be any welfare gains available from removing these barriers.

The SEA links liberalization of European market with procedural reforms. The first half of this reform package, incorporating 279 proposals contained in the EC Commission White Paper, aims to create "an area without internal frontiers in which free movement of goods, persons, services and capital is ensured". To realize this goal, European leaders committed themselves to addressing issues never successfully tackled in a multi national forum, such as comprehensive liberalization of trade in services and the removal of domestic regulations that act as non-tariff barriers. Previous attempts to set detailed and uniform European standards for domestic regulations had proved fruitless with this in mind the 'White Paper' called for a 'new approach' based on "mutual recognition" - a less invasive form of liberalization whereby only minimal standards would be harmonised.<sup>28</sup>

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28. M. Emerson, M. Aujean, M. Catinat, A. Jacquemin, 'The Economics of 1992', (Oxford: Oxford University Press, 1988) pp 37-39.

The second half of the SEA reform package consists of procedural reforms designed to streamline decision making in the governing body of EC, the Council of Ministers. The SEA expands the use of qualified majority voting in the council of ministers, abolishing the right to veto, although only on matters pertaining to the internal market. The national veto exists in other domains, but most of the three hundred directives for 1992 can be adopted by qualified majority. As a result, disgruntled domestic interest groups have lost the source of leverage on their governments; the national veto no longer carries the clout once it did.

Perhaps equally important, the Single European Act embodies a new strategy towards national standards that were an obstacle to trade within the Community. The SEA adopts the principle affirmed in the famous Cassis de Dijon case. That principle holds that standards (for foodstuffs, safety, health, and so on) that prevail in one country must be recognized by others as sufficient.

The SEA also codified for the first time supporting policies that would be needed to enable the single market to function smoothly and in the interest of all sections of the population. These included environment and especially, social policy.



The SEA also reinforced the notion of social and economic cohesion between the rich and poor regions of the Community, so that they can enjoy full benefits of the single market.

The motivation and intention of the SEA can be read in two ways. On one perspective, the SEA can be seen as resulting from a determination on the part of member states to increase the scope and pace of integration. This would be achieved in part by returning to the intentions of the founding fathers, with the creation of a genuine internal market and the reinforcement of the initial institutional balance, including a return to majority voting in the Council of Ministers to speed up decisions required for the completion of internal market.

From a rather different angle it is possible to see SEA as little more than the necessary framework for the achievement of the main goal, which is the creation of an open, competitive, liberalised and deregulated European market, providing for greater freedom of movement of goods and capital, and the extension of the competitive disciplines which alone would permit European enterprises to compete globally with the Japanese and Americans.

The SEA's introduction of a cooperation procedure involving

the European parliament strengthened the parliament's role.

Finally, and perhaps most importantly, the impact of the SEA was such that many people began to believe and expect that Europe will change. It has been possible for the Commission, and others, to argue that the implementation of the programme will inevitably result in change in a great many related areas. Those like John Palmer, think that 'as a direct consequence of 1992 a new European political agenda or more accurately a series of different and to some degree competing agendas is being created'. Thus the single European Act committed the Community to a great deal more than just the creation of a single market.

At the heart of these changes was the French initiative supported by German cooperation. France strove for economic integration of Europe right from the days of customs union in 1968. France played a very important role in establishing the European Monetary System in 1979 which was the only flame of hope burning during the dark days of Eurosclerosis.

French franc underwent two devaluations in 1981 and 1982 to streamline its currency within the EMS. The decline of communist party allowed Mitterrand to align himself with moderate socialists. French economic decision making was thus vested in the hand of Michel Rocard, Delors and others, who backed by French

technocracy were firm in their belief that France must work with Europe to achieve its economic goals.

Jacques Delors assumed the Presidency of the Commission of the European Community in January 1985. Prior to his appointment to the Commission, he was elected to the European Parliament (1979) and served as a minister of finance (1981-84) in France. Delors' energetic and visionary leadership contributed significantly to the revival of the Community in the 1980s and early 1990s. Under his watch, the Community took several significant steps, including the creation of the single market, European Economic Area, the negotiation and implementation of the Single European Act and the Maastricht Treaty.

His initiatives and achievements reflected French public thinking which can be seen in his popularity in France. He was tipped to be the next President of France after Mitterrand.

It is also a fact that France alone could not have shaped the destiny of Europe without the support of Germany and the cooperation of other EC member states.

## CHAPTER III

### THE MAASTRICHT TREATY(1992); HALTING MARCH TO THE ACTUALIZATION OF THE EUROPEAN UNION (1993)

#### 3.1 The Franco-German Initiative in the 1991 Intergovernmental Conferences.

The economic momentum generated by the Single Market established through the Single European Act (SEA) surprised not only the "enthusiastic integrationists", but also the "reluctant integrationists". The latter also came to realize its benefits. It encouraged the European Community to convene a new Intergovernmental Conference (IGC) dedicated to examining the broader implications of Economic and Monetary Union. (EMU).

The Commission's working document on EMU was presented on 20 March 1990 and tabled for the Community deliberations at the 28 April Dublin European Council summit. The Commission initiative had been signalled as early as June 1988 at the Hanover European Council meeting which reaffirmed the progressive realization of Economic and Monetary Union: the

subsequent Report by the Delors Committee provided the June 1989 Madrid European Council meeting with a three-stage plan for achieving EMU. This debate led to the 1990 decision to launch IGC which was formally ratified at the June 1990 Dublin European Council summit. 1

The second Intergovernmental Conference on Political Union was held as a response to the EMU decision. France and Germany believed that there should be a balance between economic integration and political integration. Economic integration could not function in a political vacuum. Nor it could functionally be dynamic without its match of political dimension.

At the Dublin European Council meeting it was agreed that a parallel IGC would be convened along with the EMU IGC. Both were to commence on 14 December 1990 and conclude in June 1991. However it was extended to the end of 1991.

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1. Bulletin of the European Communities, The Single Market and Community: Preparations for the intergovernmental conference, (Brussels), 23 March 1990, pp.8-9

The concept of "Federalism" was once again on the agenda, as the Luxembourg Draft Treaty indicated and the Community committed itself to a further examination of its institutional relations and expansion of policy competences. <sup>2</sup> At this juncture the Community had to make a choice between deeper integration or increased intergovernmentalism.

The Intergovernmental Conference in December 1990, in its first meeting, adopted the Commission's draft treaty on EMU as the basis for discussions. The Luxembourg Presidency's Draft Treaty on the Union in June 1991 established a framework for discussions which was to end in December 1991 at the Maastricht European Council meeting. The draft treaty showed the progress made in both the Intergovernmental Conferences.

Both the Intergovernmental Conferences covered wide range of topics such as principles of Union, common citizenship, institutions, foreign policy and relations with third

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2. Draft Treaty on the Union 1991 presented by the Luxembourg presidency to the "conference of the representatives of members of the government states—Political, Economic and Monetary Union." Luxembourg, 18 June 1991.

world countries as well as specific treaty revisions required to achieve EMU. 3

Behind the Franco-German cooperation at the Intergovernmental conferences lay a variety of reasons. Germany had become economically powerful and was preparing ground to lead Europeans, atleast in monetary matters. Since 1988 the Bundesbank had become the de facto European Central Bank, and it wanted the future European Central Bank to be shaoped after its own institutional/operational model. Deutschmark had become the strongest Currency in Europe and was already recognised as the "anchor of stability", in the European hard currency zone. The fall of Communism in Eastern Europe and disintegration of the Soviet Union opened up the prospects of EC's enlargement. The Federal German Chancellor , Helmut Kohl, in his speech in Paris, made it clear that Western Europe might have Centred around Paris but a wider

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3. Robert Gingsberg, Foreign Policy action of the European Community. ( New York ; Lynner Reinner, 1991) pp.117-21

Europe would be centred around Berlin.\*

This was not acceptable to France. France wanted to lessen Bundesbank's hegemony. On the other hand, Britain had refused to accept France's and Commission's proposal for a European Central Bank, which also required consolidation of European federal government.

Despite being in a position to dictate terms, Germany had to cooperate with France because of certain reasons. The German government faced a dilemma between various policy choices. High interest rates brought Germany into competition with the United States to capture a share of world savings. The Bundesbank had become increasingly worried about the rise in inflation as a result of German unification and migration of former East Germans into West Germany. The exposed uncertain foreign policy of Germany in Central and Eastern Europe made international investors apprehensive about Germany's policies and they voted against

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4. Jonathan Story and Marcello de Cecco, "The Politics and the Diplomacy of monetary union 1985-91" in Jonathan Story, eds, The new Europe: Politics, government and economy since 1945 (Oxford: 1993) pp.336-37..1s2



Duetschmark<sup>2</sup>. They favoured the dollar after the US consolidated its position in the Gulf, following Iraq's defeat. The financial crash of 1987 accompanied by angry exchanges between Bonn and Washington exposed the Federal Republic's isolation and forced it to cooperate with the Exchange Rate mechanism (ERM) partners. These conditions led Germany to cooperate with France at the Intergovernmental Conferences.

France felt the need to rapidly move to European Central Bank as it was facing subordination to the Bundesbank. The Bank of France fell under the jurisdiction of the Ministry of Finance and its adoption of hard currency policy was recent. The general elections were approaching in 1993 and the unemployment rate was near by 10 percent.

The Franco-German cooperation proceeded on the basis of an understanding between the Federal Chancellor Kohl and the French President Francois Mitterrand in December 1985 at Luxembourg, that France would agree to liberalize foreign exchange controls if Germany would commit itself to achieving the goal of monetary union. The EC Summit held at Paris

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5. Deutsche Bundesbank, Auszüge aus Presseartikeln , 27 April 1989.

in 1972 had already approved "the objective of the realization of economic and monetary union". Both France and Germany agreed that full benefits of single market could not be achieved in absence of a monetary union.

After the elections of 1988, President Mitterrand diverted his energies towards establishing an ECB. In this way he hoped to dilute the powers of the Bundesbank and set a policy for France.

Similarly in April 1989 Helmut Kohl set up a new cabinet in Bonn which committed itself to a more assertive stance in EC and European affairs\*

At the Franco-German Summit in November 1987 it was agreed to establish an economic and financial policy council within the framework of Franco-German Treaty of 1963<sup>7</sup>. The council was initiated against Bundesbank's opposition. The council was to meet three times a year and was to be at-

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6. Helmut Kohl, L'Europe est Notre Destin (Paris: Fallois, 1990) pp.21-24.

7. L'Anne Politique, Economique et Sociale en France, Paris 1987, pp.467-70.

tended by the Economics and Finance Ministers, as well the two Central bank governors. A second proposal advanced in Rome, was for all currencies to join ERM, and for an ECB to be set up as a central coordinator for European currency policy<sup>8</sup>.

The success of 1992 programme and German unity gave a new impetus to the European unification movement. The German EC Presidency of early 1988 achieved agreement in June on liberalization of capital movements by July 1990. In April 1989, Bonn unilaterally decided to withdraw the withholding tax on bank deposits, while Bundesbank raised interest rates. Then in October 1989 EC Commission President Jacques Delors and EC member states demanded a "qualitative leap" forward to political union as the only means of binding Germany.<sup>9</sup>

Despite differences between Paris and Bonn, the two reached agreements at the EC summits of Strasbourg on 8-9 December 1989 and 28 April 1990. EC pledged support for

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8. Financial Times (London) 25 February 1988.

9. La Semaine Europeene, 20 October 1989.

the German people to "refind unity through self determination", and Kohl agreed to an intergovernmental conference on monetary union in December 1990.

At the Dublin European Council on 28 April 1990, a signal was given for a parallel intergovernmental conference on political union. Kohl stated in Paris in January 1990 that "our common aim must be to build up the EC as the kernel of future European peace order".<sup>10</sup>

The Finance Ministers held a meeting at Antibes in September 1989 to prepare for the Intergovernmental Conferences. When the intergovernmental conference was launched in December 1990, all agreed to speed up the drive to price stability. While France insisted on promoting ECU, Germany proposed to make the move to stage two, starting in January 1994, dependent on "lasting progress towards convergence, especially in price stability and public finances". In 1994 the Central Bank governors were to be upgraded as "council", leaving the decision to move to an European Central Bank (ECB) until 1997. The French proposal suggested "heightened growth without inflation", through the creation of "economic

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10. Le Monde, (Paris) 19 January 1990.

government of Europe"<sup>11</sup>.

At the Intergovernmental Conference France proposed strengthening of the EC Presidency, and the European Council and also setting up of an European Senate made up of national parliamentarians. The Federalist camp was led by Germany and its ambition was to strengthen the Commission, Court of Justice and the Parliament.

The European Parliament won Helmut Kohl's backing for an increase in its powers by the June 1994 elections.

France championed the stage two, where budgetary, monetary and exchange rate policy were to be coordinated, through a strengthening of the role of the Council of Ministers.

With the work done at the Intergovernmental Conferences all sides were satisfied. The French won Germany's commitment to a single currency. The Germans won agreement for an ECB based on their own design. Britain won an escape clause that would allow it to opt in. Spain won a promise for the flow of more structural funds to poorer states. Most

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11. Agence Europe, 20 March 1991  
Agence Europe, 31 January 1991.

significantly France and Germany glossed over the fundamental problems that had surfaced and agreed to hold a political union Conference.

The purpose of the IGC on political union was to deal with all aspects of the foreign and security policy, leading in time to a common defence policy<sup>12</sup>. A common foreign and security policy would allow Europe to act effectively in the world important affairs<sup>13</sup>.

The Intergovernmental Conferences transformed the negative image of Brussels bureaucratic community into a positive expression of community citizenship applicable to everyday life. The SEA legally recognized the existing informal legitimacy of the EPC (European Political Cooperation) and the IGCs abolished this distinction entirely. Both the Intergovernmental Conferences reaffirmed the exclusive and central role played by the Commission and supported the principle of consolidating rather than diversifying decision

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12. Bulletin of the EC, Intergovernmental Conferences: Contributions by the Commission. (Luxembourg), 2/1991, pp.14-18.

13. Agence Europe, 23 march 1991

### 3.2 Saliience of the Maastricht Treaty: Economic, Monetary and Political Union

In concluding the Treaty on European Union the Heads of State or Government took the historic decision to introduce the ECU as the Single European Currency before the end of the decade. A single currency supplementing or replacing the 12 national currencies will complete the process of Economic and Monetary Union (EMU). This union will be of great benefit to the ordinary citizens and will strengthen the position of the Community in the world. Perhaps at the beginning of 1997 or by 1999, the final shape of EMU will emerge.

Economic and Monetary Union means that the currencies of the member states are tied irrevocably to one another at the same exchange rate. There can be no more devaluations or revaluations of individual currencies. Secure in this knowledge, private individuals and companies will be better able to reap the benefits of the large internal market. In a monetary union, the currencies of each member country must at all times be convertible with the currencies of other member states and no national restrictions may be imposed. Banks and insurance companies could then operate in every member state with no restrictions (integrated financial markets).<sup>15</sup>

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15. Bulletin of the European Communities, 'Report of the committee for the study of Economic and Monetary Union' 22 April 1989, pp 8-9.

The frontier-free single market established at the start of 1993 is part of economic union. Competition between companies must be guaranteed by a strict competition policy. In an economic and monetary union, the Member states economic policies will have to be even more closely coordinated than before because different developments in different places, particularly in relation to inflation and national debt, could jeopardize the fixed exchange rates. In order to assist the economically weaker countries and regions, particularly those remote from Community's centre, in bringing their economies up to community levels, the wealthier member states must support them financially (economic and social cohesion).

Irrevocably locked exchange rates within an economic and monetary union will mean a saving on currency conversion costs. The prospects for economic growth and thus for employment and prosperity will be brighter as demonstrated in a report drafted by the Commission. Prices will remain more stable. The economically weaker regions will have a better chance of catching up if they are able to link their own development efforts to those of the Community. Economic and Monetary Union is also advantageous for government finances, because with lower inflation and fixed exchange rates, interest rates will be lower. If the ECU-like the US dollar and the Yen - becomes an important international currency, banks and other enterprises will be able to conduct a large portion of their international business in the European



currency. They will then economize on currency conversion and forward exchange cover. Central Banks too will be able to make savings on foreign currencies<sup>16</sup>.

The European Community had already taken significant steps along the path towards economic and monetary union. Since the 1969 Hague summit EMU has been official objective of the Community. In 1971 the Werner plan (named after Luxembourg's Prime Minister) was a first attempt to bring about economic and monetary union in stages. Following the turbulence of early and mid 1970s the idea of European Monetary System (EMS) with the single currency, ECU came into being. EMS came into force in 1979 with the launching and successful evolution of the EMS, the Community began to put into place one of the major components of the new frame work that was needed to replace the shattered or weakened structures of post-war order. Within the macroeconomic and monetary sphere, France's readiness to accept the logic of European economic integration anchored in Frankfurt was most significantly demonstrated in the month preceding the EMS realignment of February 1983. The abandonment of the economic policies associated with the first place of the Mitterand Presidency was an

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16. Bulletin of the EC 1989 European Council: Madrid 26-27 June 1989, pp 8-17, also see

Bulletin of the EC, 1992: A pivotal year, Address by Jacques Delors, President of the Commission to the European Parliament, Luxembourg, 1/1992.

event of European significance<sup>17</sup>. The Heads of the State or Government took a decisive step towards Economic and Monetary Union in June 1988, as stated earlier they set up a high ranking committee of experts chaired by the President of the EC Commission Jacques Delors to examine ways and means of gradually bringing about EMU. The decision to set up this committee was prompted by the entry into force one year earlier of the Single European Act. In April 1989, the committee of experts concluded its work and published a report (the Delors Report), which became the basis for further action. The Report outlined the conditions for the creation of an economic and monetary union and proposed a stage by stage plan. In June 1989 the Madrid European Council set the date of 1 July 1990 for the beginning of Stage 1 of economic and monetary union, a target which was met. The first stage saw the removal, with few exceptions, of all restrictions on capital movements between member states. Coordination and multilateral surveillance of the economic policies of the member states was intensified and cooperation between Central Banks was stepped up through the committee of governors of the Central Bank.

It was also decided at the Madrid Summit to call a conference of the governments of member states to draft treaty provisions for the next stages of Economic and Monetary union. IN December 1990 - in parallel with a conference on political union

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17.Sonia Mazey and Michael Newman eds;Mitterrands' France (New York : Croom Helm), 1987 pp 55-60

- the government representatives began their work, it culminated a year later in the draft amendments aimed at establishing Economic and Monetary union.

The urgent need to coordinate the economic policies of the member states with a view to monetary union became apparent shortly after the signing of the Maastricht Treaty. In the autumn of 1992, after more than five years of stability in the European monetary system, the pressure exerted by a world - wide slackening of economic activity and the protected debate on the Maastricht Treaty resulted in a crisis of confidence with massive speculative movements on the currency markets<sup>18</sup>. As a consequence the Spanish Peseta and Portuguese escudo had to be devalued while Italian lira and pound sterling temporarily had to leave the EMS.

Another crisis occurred in August 1993, when the pressure on currency speculation was so severe that the narrow 2.25% bands of the EMS had to be discontinued and replaced by bands 15% wider. Despite these developments, the Heads of State or Government confirmed the time table for economic and monetary union laid down in the Maastricht Treaty and initiated the preliminary work

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18. Bulletin of the EC, European Council: Madrid 26-27 June 1989, Brussels pp 8-17

for the second stage scheduled to begin on 1 January 1994. In October 1993 the Finance Ministers arrived at a broad consensus on the content of legislation for the second stage.

At the Edinburg Summit of December 1992 and the Copenhagen Summit of June 1993, wide ranging initiatives were taken to revive economic growth, e.g. improvements to the economic policies of the member states and cheaper loans from European Investment Bank (EIB) to encourage investment in projects of value to the Community such as roads, tunnels or railway lines or to promote small and medium businesses. The desired effect is to restore basic conditions propitious to the accomplishment of economic and monetary union. In Copenhagen, the Heads of State or Government also began to deliberate on ways and means of strengthening economic growth, reducing unemployment, improving international competitiveness of European economy in the medium and long term<sup>19</sup>. Once the first stage of economic and monetary union had been successfully introduced, the Heads of state or Government mapped out the next stages in the Maastricht Treaty on European Union.

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19. Office for official Publications of the European Communities, European Union Luxembourg, 1993 pp 16-27.

making structures<sup>14</sup>.

### Political Union

The European community is the worlds largest trading power and yet the role it plays in the major issues of world politics remains limited.

The Community's efforts to give economic integration a political dimension dates back to the early years of 1954 when the French National Assembly rejected the Treaty on establishment of a European Defence Community. After several fruitless attempts in the early 1960's a new initiative was taken by the Heads of State or Government meeting in the Hague in 1969. In 1970 they approved the Davignon report. The result was the establishment of regular meetings between Foreign Ministers and their political chiefs of staff. This

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14. William Wessels, "EPC after the Single European Act : towards a European foreign policy via treaty obligation ", in M.Holland eds; The future of European Political cooperation & essays on theory and practice (London: Macmillan, 1991) pp.142-59.

marked the beginning of the European Political Cooperation (EPC)<sup>20</sup>.

At the Paris Summits of 1972 and 1974, further moves were undertaken towards more cooperation but the report drawn up by the former Belgian Minister for foreign affairs, Leo Tindemans, at the request of Heads of state or Government (Tindemans Report) was not put into effect.

Political crises such as Gulf war, the Yugoslav civil war and collapse of the Soviet Union prompted the Community countries to make greater effort to find a joint political approach.

The common foreign and security policy as agreed to as part of the Treaty on European Union will give the Community more clout on international scene. As the Community, unlike individual member states, is not a state, its common foreign and security policy will develop gradually. Foreign policy and above all security policy belong to those areas in which member states pay particular attention to their

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20. William Wessels, *ibid* , no. 14, pp.142-59

sovereignty<sup>21</sup>.

It is difficult to define common interest in these areas because only two member states, France and United Kingdom, have nuclear weapons. A further problem is that not all Community countries belong to the North Atlantic Treaty organisation (NATO) and the Western European Union (WEU)

In the Maastricht treaty, the Heads of State or Government agreed that, in order to safeguard the European identity, a common foreign and security policy must be developed. While the main thrust of this policy is still predominantly in the area of intergovernmental cooperation, its implementation is closely linked with the Community as most foreign-policy decisions require Community instruments, such as

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21. Commission of the EC, Commission opinion of 21 October 1990 on the proposal for amendment of the Treaty establishing the European economic community with a view to political Union (Brussels, 1990)

Robert Dehousse and Weiler, "EPC and the Single European act: from soft to hard law?" in M.Holland (eds), The Future of European political cooperation: essays on theory and practice. (London Macmillan, 1991) pp.78-84

economic cooperation, financial assistance and sanctions.

According to the Maastricht Treaty the principles and general guidelines for the common foreign and security policy will be laid down by Heads of State or Government in the European Council. For the time being, decisions must be unanimous. The European Council can, however, declare that certain areas of the common foreign and security policy should be subject of joint action. This would mainly occur in cases where current events made it particularly urgent for common interests to be defended - in the case of export controls on arms for example. In the event of joint action the Council may rule that, on specific issues, decisions can be made by qualified majority and do not require unanimity.

To make it easier to adopt a common position the member states have declared that, even where decisions require unanimity, they will, wherever possible avoid the use of veto if there is in fact qualified majority in favour. Even where no joint action is agreed, the member states are still required to coordinate and comply with the foreign and security policy of the Community.

Defence matters are to be taken care of by the WEU.



(West European Union). Despite the end of cold war, Community states have reaffirmed the need of NATO as an essential part of European security. There should be close cooperation between NATO and WEU. A review is to be conducted at the Intergovernmental Conference planned for 1996<sup>22</sup>.

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22. Draft treaty on the Union, presented by the Luxembourg Presidency *ibid*, no.2, (Luxembourg)  
R.Gingsberg, *ibid*, no.3, pp.120-27.

### 3.3 Principle of Subsidiarity and Co-decision making

The united Europe is not intended to become a unitary state with rigid structures. The diversity of individual countries, regions and cultures which have evolved over many years is to be maintained. This objective is clearly spelled out in the Treaty on European Union.

A central feature of this policy is the principle of Subsidiarity, according to which the Community should deal only with those matters it is better equipped to deal with than the member states and the regional and local authorities. A typical example of community matter is environmental protection, since noise and pollution are not halted by state borders.

Subsidiarity - which is being applied increasingly in the individual Community countries with regard to relationship between central government and the regions and districts - also guarantees that the state is better able to understand and take account of citizens' needs.

Subsidiarity is not only neglected in many of the Treaty's individual provisions, it is also an overriding requirement of the Community' procedure for achieving the objectives of the European Union.<sup>21</sup>

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21. Robert Keohane and Stanley Hofmann, "Conclusions: Community politics and institutional change" in W.Wallace (eds); The dynamics of European integration (London: Pinter), 1990 pp.80-87.

The Treaty states: "The objectives of the union shall be achieved as provided in this Treaty .... while respecting the principle of Subsidiarity". It continues, "In areas which do not fall within its exclusive competence, the community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by member states and can therefore, by reasons of scale or effects of the proposed action, be better achieved by the Community. Any action by the Community shall not go beyond what is necessary to achieve the objectives of this Treaty'.

The debate concerning the Maastricht Treaty and the critical questions from the public prompted the Heads of State or government, meeting at the European Council in Edinburgh in December 1992, to define a comprehensive approach on how the principle of subsidiarity should be applied. Detailed explanations, guidelines and instructions regarding the procedures which the Community institutions were to follow in their daily practice were thus introduced to clarify the general rules laid down in the Treaty on European Union.

However, the application of Subsidiarity principle, important though it may be, should serve only to ensure a rational distribution of powers between the Community and member states

and in no way to reverse the process of European Unification.<sup>22</sup>

To prevent subsidiarity from restricting the Community as regards its current commitments or from impeding its further progress, a set of 'basic principles', adopted in Edinburgh lays down clear limits to prevent any abuse in this respect. The European Council stressed, for example, that Subsidiarity may not be invoked to call into question the powers of the Community as defined in the Treaty and the interpretation of its provisions by the Court of Justice. Subsidiarity must, moreover allow for an extension of the Community's field of action where circumstances so require. Even if the application of subsidiarity means increased responsibilities for the member states rather than for the community, the member states will still have to abide by their general obligations under the Treaty. In particular, subsidiarity does not relieve member states of the obligation to ensure that, once measures have been adopted at Community level, the Community rules are correctly applied. Guidelines' for the Community's legislative procedures should ensure that the subsidiarity principle is actually applied in practice. In other words every time the commission makes a proposal for a community measure and likewise when that proposal for a community measure.<sup>151</sup>

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22. Joseph Fitzmaurice, : an analysis of the European Community's Cooperation procedure", Journal of Common market studies, (London), 26, 1988 pp.24-28.

and likewise when that proposal is subsequently examined by the council, it must be shown that the objectives concerned cannot be adequately achieved at national level. Even if the Community does then take the initiative, it must confine itself to what is strictly necessary. Financial or other burdens must therefore be kept to an absolute minimum. In implementing Community measures, the member states must retain the greatest possible freedom of decision. As regards the legal form to be taken by Community legislation, the directive, which leaves detailed implementation to the member states, should be given preference over the regulation, all the detailed provisions of which are directly applicable in the member states. The Commission should involve the member states more closely in drafting the proposals.

Subsidiarity will apply not only with respect to the future. Even before the Edinburgh summit, the Commission had drawn up a list of existing Community legislation to be repealed or at least reviewed with a view to simplification.

The rules governing the application of the Subsidiarity principle will have to be set forth in an agreement between the main community institutions, i.e. European Parliament, Commission and Council.

Another example of how seriously subsidiarity is taken in

the Union Treaty is the importance attached to the regions. The Heads of State or Government decided to set up a special committee of the Regions. It will comprise representatives of regional and local authorities and have advisory status. It will work together with the existing Economic and social committee.

#### Co-decision making

The European Community's decision making process often comes under attack. Criticism focuses mainly on the European Parliament's limited powers. Community laws (regulations and directives) are passed by the Council (made up of ministers from each member state) on proposals from the commission. For a long time, the Council - unlike any parliament - always met in closed sessions. In many cases, the European Parliament's only right is to deliver an opinion. The Council can also take a decision against a majority opinion of Parliament. Only in connection with the adoption of Community budget does the Parliament have more rights. Many of the Community's legal acts are directly applicable in the member states. This situation is termed as the community's 'democratic deficit', because, unlike a normal parliament, the European Parliament, which since 1979 has been directly elected, cannot determine Community law while the individual national parliaments are unable to exercise effective control over government's policies on European issues.<sup>23</sup>

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23. Kevin Featherstone, "Jean Monnet and the democratic deficit in the European union", Journal of common market studies (oxford) vol.32 no.2 June 1994, pp.11-14.

The single European Act, which came into force in 1987, was a direct response to this criticism, revising the treaties to extend the powers of the European Parliament. A cooperation procedure was introduced which enables parliament to reject or alter the Council position. However, the final decision still remains with the council. This new cooperation procedure was applied in particular in connection with the legislation for completion of the internal market. The Single European Act gave the Parliament the right to give its assent to or reject treaties for the accession or association, of non-member countries.

The initiation came largely from France, which played a major role in keeping the spirit of democracy alive in the EC and helped in abolishing what is called "democratic deficit" in the European Union. The constitutional revision in France led to enhancement of power of Parliament in France, after its eclipse by the Fifth Republic executive. Following article 88(3) both deputies and senators now ensure that government will no longer be able to negotiate European laws incorporating provisions of a legislative nature as it pleases. This has been interpreted as a complete break with the French tradition of the executive being sole player in international negotiations. The two houses of Parliament will henceforth be able to vote on resolutions and not just express opinions. If this enhancement of Parliament in EC affairs enshrines 'in a basically Jacobinist constitution',

France's acceptance of the institutional consequences of European construction also reflects an enhancement of democratic accountability. It may serve to strengthen both national and supranational democracy. By reinforcing the legitimacy of (French) accountability to National Parliament, EC legitimacy which derives from the governments of its member states is also strengthened.<sup>24</sup>

France initiated changes in the territorial bases of policy making to strengthen the Community. Efforts were made in France to deconcentrate and decentralize decision making.

The Treaty on European Union further extends the powers of the European Parliament. In many areas Parliament now has the right of co-decision. This applies to decisions relating to the internal market, the free movement of workers, some aspects of the right of establishment, the multiannual framework research programmes, general programmes on environmental protection, the development of trans-European networks, measures relating to consumer protection and promotion of public health and culture. In the main, these are areas for which the Community has been granted new responsibilities. The new legislative procedures give the European Parliament, the possibility in the event of difference of opinion with the Council, of seeking a compromise can be found. Parliament, in practice, enjoys a right of veto.

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24. Robert Ladrech, "Europeanization of domestic politics and institutions: The case of France", Journal of common market studies (Oxford) Vol.32 no.1, March 1994, pp.4-6.



Thanks to the new co-decision procedure and the cooperation procedure implemented since the SEA came into existence in 1987, the European Parliament is now able to exert far more influence over Community legislation.<sup>25</sup>

In future, Parliament will also have a say in the appointment of the President and members of the Commission. Not until the Parliament has given its consent can they be appointed to their European offices. In order to increase Commission's ties with Parliament, as of 1994, the Commission's term of office will be increased from four to five years, thus coming into line with Parliament's own five-year term.

In future, therefore, each newly elected Parliament will have to endorse the appointment of the new Commission. Thus the make-up of the commission will become an issue in European election campaign.

Parliament will also have greater influence over the conclusion of Community treaties with other states and international organizations. Under the new Treaty, Parliament will have to give its assent not only to treaties of accession and association but also to all international treaties which have substantial financial or contractual implications.

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25. Peta Ludlo, 'Beyond 1992' European Affairs (Amsterdam) no.3/88, autumn, pp.15-30.

In addition, Parliament has been granted a limited right of initiative. It will be able, by majority decision, to ask the Commission to submit proposals specific matters.

One of the Parliament's new rights is to set up a committee of inquiry if it feels that Community Law has been infringed. It can also accept petitions from individual or legal persons and appoint an ombudsman. This ombudsman can receive complaints from individuals or legal persons and carry out appropriate investigations.

Parliament is also to draw up proposals for a uniform European electoral procedure in all member states. Provision is already made in the treaty on European Union for a further broadening of Parliament's rights. The inter-governmental conference planned for 1996 is to examine how the scope of co-decision procedure can be extended.

The number of members of European Parliament is also to increase with the subsequent enlargement of the European Union.

#### 3.4 Inter-governmental divergences on EMU and social chapter

The European Community has embarked on a path leading to the eventual replacement of member countries currencies with a

single European currency. A single currency is a necessary condition for the creation of a Single European Market. Alternate forms of monetary union, involving less than complete integration and the retention of national currencies has been rejected as incompatible with the objectives of Single European Act. In order to understand complexities of monetary union, we must first define and understand the meaning of monetary union.

A group of countries may be perceived to constitute a monetary union if they experience identical rates of interest and inflation. That is, the definition of monetary union describes a set of monetary characteristics which implicitly involve the 'as if assumption', that there exists a single currency throughout the union. It follows, therefore, that a monetary union is compatible with member countries retaining their national currencies provided the following conditions are satisfied:

(a) There are no restrictions to the movement of capital across the union,

(b) Member countries financial sectors are perfectly integrated.

If the national currencies are not replaced by single union currency and the 'as if assumption is met', then intra-Union rates will be fixed even if they are de Jure not fixed.

The turmoil in foreign market of late 1960s was perceived by the EC member countries as placing in jeopardy the successes achieved in establishing a customs union and common agriculture policy. It was believed that fixity of exchange rates was necessary for the consolidation and development of these achievements. Thus the EC adopted in 1970 the Werner Plan which envisaged the creation of a European monetary union through 'the irrevocable fixing of parities and the total liberalisation of capital movement', by 1980. The Werner plan placed emphasis on the fixity of exchange rates and complete freedom of capital movements.

The collapse of the International Monetary Fund (IMF) system in March 1973 and oil shock of 1973-4 resulted in EC member countries abandoning the implementation of the Werner Plan.

Disenchantment with exchange rate flexibility and the recognition that inflation cannot be controlled through uncoordinated monetary policies generated the political will in France and Germany to press for the formation of a regional monetary system. With the agreement of the other EC countries, except the UK, the EMS came into existence in March 1979.

The objective of the European Monetary System was defined to be then creation of a 'Zone of monetary stability in Europe' through the monetary cooperation among EC member countries.

The twin objectives of the EMS were of reducing the

volatility of intra-EC exchange rates and of effecting a permanent reduction in member countries' inflation rates.

The success of EMS provided a strong impetus to the process of European integration. But with it came the recognition that the ability of the system to facilitate this process is limited.<sup>26</sup> There emerged a consensus that such are limitations of the EMS that the system cannot provide the monetary framework required for the creation of Single European Market. Thus the Single European Act committed the signatory countries to the objective of monetary union. In the spring of 1989 the Delors Report on economic and monetary union in the European Community was published. It recommended a three-stage process for the formation of monetary union. Though the report could be interpreted as advocating an exchange rate union, it is now accepted that it recommends a currency union.<sup>27</sup> The EC has adopted the Reports' proposals that member countries' currencies be replaced by a Single European Currency and that a European Central Bank, with responsibility for the Community's monetary and exchange rate policies, be established.

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26. David Tres and N. Thygesen, European monetary Integration :From European Monetary System towards European Monetary Union (London: Longman, 1992) pp.87-93.

27. Jacques Delors, Report on Economic and Monetary Union in the European Community, office for the official publications of the European communities, (Luxembourg) 1989. pp.24-29.

While a currency union involves perfect monetary integration among the member countries, this is not necessarily the case with an exchange rate union. The experience of Netherlands amply demonstrates this. The Netherlands has fixed the exchange rate of its currency against the German Mark since 1983 and has systematically adjusted its monetary policy to policy changes in Germany. There are no restrictions to capital movements between the two countries while there exists a high degree of integration of real sectors of their economies. It could be argued, therefore that the conditions for an exchange rate union between Germany and Netherlands are satisfactory. However, this is not the case. Dutch interest rates are persistently higher than Germany's. Fixity of exchange rates and complete freedom of capital movement between the two countries have not resulted in the Guilder and the Mark becoming perfect substitutes. Exchange rate uncertainty persists and is reflected in the observed rate differential. The creation of a currency union, by eliminating exchange rate uncertainty may be expected to result in a more efficient allocation of resources in the union in a variety of ways.

First, the elimination of exchange rate uncertainty will enhance the efficiency of the price mechanism as a resource allocator. Volatile and unpredictable exchange rates result in difficulties in interpreting the market's signals. Resources are

misallocated and unemployment is higher than it would otherwise be. A currency union is likely to lead to a reduction in member countries' natural rate of unemployment.<sup>28</sup>

Second, the elimination of exchange rate uncertainty will stimulate the manufacturing sectors of member countries. Third, the elimination of exchange rate uncertainty will stimulate competitive forces in the union. Fourth, the elimination of exchange rate uncertainty is likely to yield benefits in terms of higher growth rates of intra-union trade and investment. Further, in a currency union no government of a member country can manipulate the money supply growth rate for electoral purposes. A currency union by eliminating the political business cycle can be said to possess anti-inflation properties.<sup>29</sup> The Delors recommendation in favour of the creation of a European currency is consistent with the objectives of the Single European Act. The 1992 programme aims at the improvement of resource allocation in the Community through the removal of barriers to the movement of goods, services, capital and labour.

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28. David Gres, "Paradigms for Monetary Union of Europe", *Journal of Common market studies*, Vol. 27, no. 3, 1989, pp. 219-30.

29. Robert Vaubel, "Monetary integration theory" in G-Z et al., *International economics*, (London: Longman, 1988) pp. 102-8

The ultimate goal is the complete integration of the Community and the creation of Single European Market. Such an objective would be ill founded if the process of integration did not aim also at the Community's complete monetary integration which can only be achieved through the establishment of a European currency union.

There are some inter-governmental divergences on the issue of currency union. Opponents of the creation of a European currency union to be found mainly in the UK, have directed a variety of criticisms, not always of an economic nature, against EC decision to proceed with the implementation of the principal proposals of the Delors plan. Some have concentrated on emphasising the implications of member countries no longer being able to employ monetary and exchange rate policies in pursuit of domestic economic objectives.

Even the most ardent advocates of exchange rate flexibility no longer maintain that it is feasible for a country to pursue independent policy objectives in isolation from rest of the world. It may be argued, that the lack of success experienced by the UK in the 1980s with its attempts to control the money supply growth rate was due to special factors. Whatever the merits of this line of reasoning, it ignores a significant development in economic agents' behaviour. The internationalisation of financial and money markets and the technological revolution in telecommunications have resulted in economic agents increasingly



holding diversified portfolios. The implication of this trend is that even if a country could control the money supply growth rate it would not be able to control the domestic long run inflation rate. Only international monetary policies can ensure the control of inflation.

There continues to exist an element of uncertainty as all EC member countries are not at the same level of preparedness to proceed at an identical pace towards the final stage of European monetary unification. Similarly, the process of monetary integration must be accompanied by progress towards political integration. In the absence of the latter, it is doubtful whether complete monetary integration, in form of a currency union, will be achieved.

It is argued with ample justification that Germany, France, the Netherlands, Belgium, Luxembourg and Denmark have achieved a sufficient degree of monetary convergence that could immediately proceed to form a currency union. On the other hand Portugal and Greece are not yet even members of the EMS. Thus, there is growing support for the proposal of 'two-speed' Europe, especially in Germany. What is envisaged is that at least the above six mentioned countries will form a currency Union by the end of the decade, while the remaining EC countries enter into an EMS type relationship with the union until they have converged sufficiently to become union members. If it were to occur, the economic and political cohesion of the Community would be undermined. Be

that as it may, there remains the problem that countries may not be ready to join the currency by the end of the decade. One suspects that the solution will ultimately rest on political rather than economic considerations. The European Central Bank cannot function in a political vacuum.

Germany has insisted that monetary union must be accompanied by political union. German currency Mark being the strongest currency in the union has to bear the maximum burden of weak currency countries.<sup>30</sup> Lately the change of governments in some EC countries have changed the approach towards the currency union.

#### Social Policy

The large internal market, like economic and monetary union will only be accepted by the citizens of the Community if it does more than just open up new opportunities for businesses. The further development of the Community must, for example, also contribute towards solving one of today's most pressing social problems - the continuing high level of unemployment - and towards strengthening the social rights of workers (the social dimension of the internal market). The member states accepted long ago that worker's rights need to be extended.

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<sup>30</sup> George Bilson, Why the Deutschmark Could trouble the EMS Euromoney, ( London ), 1979 pp.8-10

This involved providing common base of minimum social rights. The original Community treaties made special provision for a social policy. The EEC Treaty, for example, established the social fund.

With the commitment to the completion of the Single European Market (SEM) by 1992, and the passage of the Single European Act, interest was rekindled in the social implications of evolving EEC policies. Much broader issues were addressed, with a commitment to the harmonisation of national provisions in regard to health, safety, environmental and consumer protection.(Articles 100a and 118a), and to policies fostering 'the economic and social cohesion of the Community (Articles 130a-130e). Articles 118 b also committed the Community to the encouragement of a 'social dialogue' between management and labour i.e. the creation of a European dimension to industrial relations.

The movement towards the SEM was recognised as having implications for employment throughout the Community. Changes in costs and relative prices, stimulation of new technology and the general level of economic growth, were all factors which would determine the employment consequences of the Single Market.

However the consequences for employment remained ambiguous, especially in the absence of a comprehensive external trade policy. Nonetheless a study by DG II (Social Europe 1988) did allow the Community to isolate the characteristics of those

industries and regions most likely to be affected by the completion of the SEM. Five indicators were utilized to identify the vulnerable sectors - the level of non tariff barriers, the spread of real productivity and pre-tax prices across the Community, the proportion of member states' demand met by Community imports, and the proportion of a sector's turnover accounted by small business.

These variables allowed the identification of two industrial sectors where the impact of the SEM was likely to induce considerable restructuring<sup>31</sup>. Firstly where there currently exist high levels of intra-EC imports but significant non-tariff barriers. It is a sector dominated by large firms and characterised by state involvement, either as owner or as principal customer, and includes telecommunication equipment, computers and office equipment. The opening up of public procurement will profoundly effect this sector, encouraging the emergence of integrated European firms. This will have uncertain consequences for employment, a situation reinforced by the impact of new technology<sup>32</sup>.

The second vulnerable sector identified in the study is also characterised by high non-tariff barriers, but with very little

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31. Office for official Publication of the European Communities, The Single Market, (Luxembourg, 1993) pp.7-9.

32. Commission of the European Communities, Social Europe, the Social dimension of the internal market, (Luxembourg, 1988) pp.17-20.

intra-EC trade. Again these industries - ship building, railway equipment, iron and steel, pharmaceuticals - are usually principal suppliers to government agencies or are state owned. There are large price and productivity differences. Opening up of public procurement procedures should result in a significant increase in intra - EC trade and industry restructuring.

In the tertiary sector, particularly financial services, the development of single financial market may have important consequences.

The second, and complementary element to analysing the impact of the SEM is the regional dimension. The expected enhancement of economic growth will not benefit all regions equally, and even before the structural changes arising from might increase. A regional competitiveness is likely to be influenced by a number of factors. Firstly, the qualifications skill mix of the labour force, which might be undermined by outward migration. Secondly, the infrastructure, estimated to be 40-60 percent below the EC average standard in some regions. Finally, Labour costs and differences in labour productivity are often greater than differences in wage levels, and the leveling up of wage levels with economic integration may undermine the competitive position of some regions. Two types of areas might therefore be identified as being particularly vulnerable to structural problems; the underdeveloped mainly rural areas and

the regions where there is concentration of declining heavy industries. These arguments have focused upon three issues - social dumping, illicit work and wage costs.

Faced with the loss of market shares and firm relocation, there will be downward pressure upon social conditions (i.e. wages, social security, minimum labour standards etc). This fear led to the demand for minimum wage levels, social security provisions and minimum health and safety guarantees.

Illicit work concerns work outside of the formal labour markets' tax and social security system and is most frequent

among those who are already employed. Those firms within the Community which employ labour force illicitly will reduce the labour costs and gain competitive advantage in production, undermining social security, and safety regulations. Therefore, the Commission has taken a number of steps to minimise such occurrences, common administrative & 'standards' have been adopted for taxation and social security contributions across both regions and forms of employment.(e.g. part-time, temporary workers)

The Community's policy in social area may be seen as seeking to fulfill three broad roles. Firstly, harmonisation of national policies, especially in areas where it offers obvious advantages, e.g. labour mobility. Secondly, encouraging convergence, both through its own discussions and encouragement of inter-state co-operation. Finally the Commission can act as a focal point for spreading of innovatory experience throughout the Community, with

the commitment to the completion of the SEM added urgency was given to the Commission's 'watchdog' role in anticipating the social consequences of restructuring. The Commission is also a direct participant in fostering the necessary adaptability in the labour market<sup>33</sup>.

Although the Treaty of Rome had laid down the fundamental freedom of movement of all workers and the right of establishment in any economic activity across all member states, a succession of secondary legislation has been required to give concrete form to these principles. Any EC national may now reside in any member state to seek employment accompanied by his family (Directive 68/360/EC), establish firm or provide services (73/148). In addition any worker and his family will receive equal treatment in respect of social security, housing, access to education and training etc. Regulations 71/1408 and 72/574 established three basic principles: firstly, the application of a single body of legislation in each case; secondly, retention of all accumulated rights and entitlements (i.e. transferability); thirdly equal treatment between domestic nationals and citizens of other member states<sup>34</sup>.

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33. Irwin Gordon and Arthur Thirwall, European Factor Mobility, Trends and Consequences (London, Macmillan, 1989) pp.22-24.

34. W. Molle and V. Mourik, "International movements under Conditions of economic integration: the case of Western Europe", Journal of Common market studies, Vol. 26, March 1988 pp.48-52.

The Commission is also pursuing a number of general policies aimed at enhancing worker mobility. In particular it is seeking to establish comparability of vocational qualifications beginning with hotel and catering, motor vehicle repairs, construction, electrical, agricultural and textile trades. Minimum skill requirements are being defined for training qualifications. Directives have already established mutual recognition of diplomas for doctors (1975), nurses (1977), dental practitioners (1978), veterinary surgeons (1978) and pharmacists (1986). The Community has also established Sedoc (Regulation 68/1612), a European system of employment information exchange. The need to establish minimum European standards for health and safety has now been accepted as essential to fair competition within the SEM.

In February 1988 the Heads of state accepted the proposed reform of the structural funds and doubled their appropriation, in real terms, from ECU 7 bn in 1987 to ECU 14 bn in 1993. The European development Fund will focus upon support for productive investment, modernisation of infrastructure and studies of the potential for physical planning at the Community level<sup>35</sup>. European Structural Fund will concentrate upon assisting young people and the longterm unemployed, expanding employment and providing

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35. B. Laffan, "Policy Implementation in the European Community, the European Social Fund as a case study", Journal of Common Market Studies, Vol.21, June, 1993. pp.18.



workers with vocational skills. Some concrete progress has been made with the regulation on the European Economic Interest Group (EEIG).

The social charter addressed both the conditions necessary for the completion of the SEM, and attempts to create the social guarantees that the Commission regards as essential to maintain broad political support for these developments i.e 'social cohesion'. The social charter includes the following commitments:

1. The right to work in the EC country of one's choice
2. The right to a fair wage
3. The right to improved living and working conditions
4. The right to social protection under prevailing national systems.
5. The right to freedom of association and collective bargaining.
6. The right to vocational training
7. The right of men and women to equal treatment.
8. The right of workers to information, consultation and participation.
9. The right to health protection and safety at work.
10. The protection of children and adolescents.
11. The guarantee of minimum living standards for the elderly.
12. Improved social and professional integration for the disabled.

The action programme associated with the social charter also seeks the 'Continuation and development of dialogue with the social partners and consideration of the need for collective agreements at the European level. As a result, between 1985 and 1991 the European Trade Union Confederation (ETUC), the union of Industries of the European Community (UNICEF), and European Centre of Public Enterprises (CEEP) have adopted a number of joint opinions on matters such as vocational training, the new technologies, labour market adjustment problems and European collective agreements<sup>36</sup>.

Despite all these measures the Commission felt that social dimension of the internal market was being neglected. A great many proposals made by the Commission under its social action programme were not enacted by the Council. This was the reason why almost every member state wanted to go further than ever before with the Treaty on European Union. As the United Kingdom does not consider it necessary for the Community to be given responsibility for social matters, a special procedure was decided upon. The 11 member states wishing to see a more

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36. Robert Read, "The Single European Market, Does European mobility matter?", International Journal of Manpower, vol. 12 no. 2. PP.36-41, 1991. Also see

Stephen overturf, The Economic Principles of European Inte-  
gration (New York: Praeger, 1986) pp.33-37.

comprehensive social policy concluded an agreement stating that they wanted to continue along the path laid down in the 1989 social charter. In a joint protocol the United Kingdom agreed that the other member states could proceed with the common social policy. The UK will not obstruct the 11 partners in this area. It will not vote on these matters and legislation adopted in this way will not be applicable in the United Kingdom.

In a Community such as the European Union, the richer and more developed regions must shoulder part of the burden of structural adjustments in the less advantaged regions and redeployment in the older industrial sectors. In an economic and monetary union, economic and social cohesion is even more important because different national economies can be held together more effectively in a common monetary zone if the differences between them are not too great<sup>37</sup>.

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37. Peter Venturini, 1992: The European Social dimension, Commission of European Communities, (Luxembourg 1989). pp.10-13.

Hest Warner, EC Social Policy in Practice, Journal of Common Market Studies vol. 23, (Oxford) December 1984, pp.23.

### 3.5 Deepening and widening of the European Union

The Treaty on European union provided that any European state that pursues the path of political of democracy may apply to become a member of the Union. The principle of a Union open to European states that aspires to full participation and which fulfill the conditions for membership is a fundamental element of European construction.

The European Council in Maastricht agreed that negotiations on accession to the Union on the basis of the Maastricht Treaty agreed in can start as soon as the Community has terminated its negotiations on own resources and related issues in 1992<sup>38</sup>.

A state which applies for membership must satisfy three basic conditions of European identity, democratic status and respect of human rights. Another set of criteria relate to the applicant state's acceptance of the Community system and its capacity to implement it. As the Community's legal, economic and political framework has developed, the obligations of membership have become progressively more difficult to fulfill. The obligations presuppose a functioning and competitive market economy, and an adequate legal and administrative framework in the public

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38. Arnold Hass, 'Maastricht- The beqining or end of a development', Aussen Politik (Hamburg) vol.44 no.3, 1993, pp.27.

and private sectors. An applicant country without these characteristics cannot be fully integrated.

Applicant states should also accept, and be able to implement the common foreign and security policy as it evolves over the coming years. An applicant country whose constitutional status, or stance in international affairs, renders it unable to pursue the project on which the other members have embarked cannot be satisfactorily integrated into the Union.

Future accession will take place in conditions different from the past:

- (a) Completion of single market with no internal frontiers
- (b) Creation of European Union
- (c) Economic and Monetary Union and the move to single currency
- (d) The introduction of common foreign and security policy

For certain countries, negotiations for accession could be opened with the prospect of satisfactory conclusion within a reasonable period of time. This refers to countries whose state of preparation for membership is well advanced, and whose integration into the Community system should not pose major problems.

For other countries a period of preparation would be necessary before the possibility of membership could realistical-

ly be envisaged. For these countries the Community will promote their economic and social development in such a way as to facilitate their eventual integration into the Community. The deepening of political dialogue with them will also be pursued. The accession negotiations, which can then commence, must be conducted in such a way as to contribute to the strengthening of the Union. The accession of new members will increase its diversity and heterogeneity. It is made clear that widening must not be at the expense of deepening. Enlargement must not be a dilution of Community's achievements<sup>39</sup>.

Enlargement will bring additional languages to the Community, thus enriching its cultural diversity. But it will at the same time complicate its work: In a Community of 20 member there can be as many as 15 languages.

In 1994 fourth enlargement of the Community took place. Three countries namely Austria, Finland and Sweden joined the European Union taking the total number of countries to fifteen.

The European Council considers that the EEA agreement has paved the way for opening enlargement negotiations with a view to

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39. Office for official Publication of the European Communities, Europe and the challenge of enlargement (Luxembourg) 3/1992, pp.14-20.

an early conclusion with EFTA countries seeking membership of the European Union.

In this context the European Council discussed the applications which have been submitted by Turkey, Cyprus and Malta. The European Council agrees that each of these applications must be considered on its own merits.

With regard to Turkey, the European Council underlines that the Turkish role in the present European political situation is of the greatest importance and that there is every reason to intensify cooperation and develop relations with Turkey in line with the prospect laid down in the association agreement of 1964 including a political dialogue at the highest level. The European Council asks the Commission and the Council to work on the basis in the coming months.

Relations with Cyprus and Malta will be developed and strengthened by building on the association agreements and their application for membership and by developing the political dialogue.

As regards relations with central and Eastern Europe, the European Council reaffirms the Community's will to develop its partnership with these countries within the framework of European agreements in their efforts to restructure their economies and

institutions. The political dialogue will be intensified and extended to include meetings at the highest political level. Cooperation will be focused systematically on assisting their efforts to prepare their accession to the union which they seek<sup>40</sup>. The Commission will evaluate progress made in this respect and report to the European Council in Edinburgh, suggesting further steps as appropriate. The Commission presented its report 'Europe and the challenge of enlargement'.

With the other countries of Europe who have not applied for membership, the Community is framing agreements of various kinds appropriate to their situation. That is the case with Poland, Hungary, Czech Republic and Slovak Republic, with whom 'Europe agreements have been concluded. Negotiations for new agreements on trade and cooperation have been signed with the Baltic republics and ALbania. For these countries, such agreements can offer the possibility of improving their economic integration and strengthening their political cooperation with the Community.

Article 237 of the Rome Treaty, and Article O of the Maas-tricht Treaty, say that any "European state may apply to become a member". The term European has not been defined. It combines geographical, historical, and cultural elements which

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40. Noetzold, "The Eastern Part and Europe: Peripheral or essential component of European Integration", Aussen Politik (Hamburg) vol.44, 4/93, pp.326-33.



~~all~~ contribute to the European identity. The shared experience of proximity, ideas, values and historical interaction cannot be condensed into a simple formula, and is subject to review by each succeeding generation. The Commission believes that it is neither possible nor opportune to establish new frontiers of the European Union, whose contours will be shaped over many years to come<sup>41</sup>.

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41. Bulletin of the European Communities, "Research after Maastricht: an assesement, a strategy", (Luxembourg) , 2/1992, pp.15-18.

Conclusion : Inception of the EU (1993) : Prospects of  
"United States of Europe"

More than ever before in its history, the European Community has become a major actor in world affairs. It has been propelled into this position by external and internal factors.

The collapse of Communism in the former Soviet Union and in the Central and Eastern Europe presents the Community with new challenges and new responsibilities on its own doorstep. The pace of economic and political change in other regions of the globe also calls for rapid responses.

Brought about by the near universal rejection of one - party ideology and the bankruptcy of centralized economic planning, a new world order is emerging. But it still has to be defined. Clearly the Community is defined to become one of its principal actors. The disappearance of one of the two superpowers which controlled the global balance of power is leading to a multipolar world and to new relationships among nations and regions. Within Europe itself, questions of security and immigration are being posed in new ways<sup>42</sup>.

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42. Office for the official publication of the European Communities, "Europe in a changing world", (Luxembourg) 1993, pp.8-12.

At the same time, the globalization of the economy is creating a state of interdependence and a growing realization that trade problems need to be solved wherever possible in a multilateral framework.

The Community was set up thirty seven years ago. Its objective was to create a common market in which four freedoms, viz; free movement of goods, services, capital and people could be attained freely. Its principal external responsibility was for running a unified trade policy. Over the years, the Community has grown from a commercial and economic power to become political force as well.

Its trading partners have increasingly sought a political dimension to their relations with the Community. EC member states themselves started coordinating their national foreign policies from 1970 onwards in what became known as European political cooperation. The Community was called upon to assume a political role in keeping with its growing economic importance.

The Community has also achieved its aim of creating a frontier-free internal market. This has added to its sheer economic weight and strengthened its role in world trade. The existence of this single market has required the Community and some of its trading partners to adjust and redefine their relationships so that all can draw benefits from this big step forward in European liberalization<sup>43</sup>.

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43. office for official publication of the European communities, The Single Market, (Luxembourg), 1993, pp.8-10.

The Community along with United States and Japan, represents one of the three pillars on which global system of pluralistic democracy and market economy is built. Solutions to specific international economic and even political problems will depend on a common approach by all three.

With the single market now in place, the Community stands on the threshold of a new phase of development. The extent to which the vast legislative programme was actually adopted on time surprised even the most enthusiastic supporters of 'project 1992', with hindsight, it will probably seem that the Community was fortunate in having a period of economic growth coupled with relative political stability in order to achieve its main single market objectives.

The period in which single market is actually being shaped is quite different, with economic recession in some member states, political turmoil and instability in the former Yugoslavia and in some republics of the now defunct Soviet Union.

The debate on the ratification of the Maastricht Treaty revealed dissatisfaction in some sectors of public opinion with the Community's plan for Economic and Monetary Union and political union. The currency upheavals of 1992-93 raised questions about the time table for reaching EMU. Given current economic and political uncertainties, the consolidation and development of

the single market must be EC's first priority.<sup>44</sup> It remains its greatest achievement and will serve as the basis for future initiative. The single market is a vital element in the Community's strategy to boost economic growth, stimulate competitiveness and create jobs. Its very existence enhances the chance of success of efforts undertaken by the community and the member states.

A smooth-functioning of the Single Market will accelerate the pace of European economic recovery when it comes. It will also help restore confidence in the Community's ability to achieve goals set in the Maastricht Treaty.

The Treaty on European Union is to be followed before the year 2000 by further steps towards European unity. This is the course charted by the Maastricht Treaty itself. The member states have declared their intention of calling another intergovernmental conference in 1996 to take new decisions in the light of the experience gained by them. Explicit provisions have been made for a review of the scope of co-decision procedure and for an evaluation of the provisions on the common foreign and security policy, including the agreements on defence policy. A new incentive could also be provided by the first evaluation, .

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<sup>44</sup> Office for official publication of European Communities, The European Union, (Luxembourg) 1993, pp 22-24.

planned for 1996, on the question of whether the Community is to move into the final stage of Economic and Monetary Union, with a common European currency. (ecu)

Several member states and the Euro-Parliament feel that political union, in comparison with economic integration, has made little progress so far. Political pressure has however increased after the elections of 1994 to the Euro-parliament.

At this stage, it is difficult to envision the extent the of enlargement of the Community and also the new reforms that might follow. There has to be a change in the institutional setup form because structures and institutions of fifteen cannot be adjusted with that of twenty or thirty member states. It can be expected that cross-border problems such as environmental protection, the battle against diseases, migratory movements, climatic disasters and international crime will force the Community to take further joint action. 45

The role of France has been, is now and will always be in the fore-front of the building of Europe. Fourteen years of socialist rule under Mitterrand supported by EC Commission

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45 Raymond Barre, "European Preparedness for the next millennium" European Affairs(Amsterdam) no.1, 1987, pp.12-14

President Jacques Delors has seen the European Community's transformation into European Union. Under the initiatives of Jacques Delors and political support provided by Mitterrand, the Single European Act was passed and its goals were successfully achieved. Both of them struggled hard for a 'Social Europe'. The Maastricht Treaty and its ratification could be hailed as the most important step towards the construction of Europe.

The ratification of the Maastricht Treaty was the ultimate test of member states' willingness to surrender their sovereignty in the form of abandoning or supplementing their national currencies with a single European Currency. Both Francois Mitterrand and Jacques Delors extended strong support for a single European currency.

But now both Delors and Mitterrand have relinquished their respective seats of power: what effect this change may have on the future of Economic and Monetary Union is difficult to divine at this stage.

In France - the country which matters most - change of power has taken place. After a gap of fourteen years right wing candidate Jacques Chirac has come to power defeating the socialist candidate Lionel Jospin. Being supported by Gaullist Party, Jacques Chirac is not expected to be very sympathetic towards the structures of supranationality especially the single currency.

He intends to call a national debate on single currency. He is also not very sympathetic towards a social Europe. In this regard he may find a potential partner in the United Kingdom - a country which shares the same view on these issues. Hence what has so far been a Franco - German cooperation could turn into a Franco - British Cooperation.

However, the economic benefits of the Single Market cannot be denied. It was the '1992 programme' that brought Europe out of the economic crisis of early 1980s. It increased European competitiveness, increased the living standard of people and increased employment. How can a structure such as Single Market be denied by Chirac which has increased employment - an issue which is of prime importance in France and on the issue of which he himself was elected. It was the dynamism generated by the success of the Single Market programme that inspired the Community to extend integration into the critical but sensitive areas of EMU and political union. The notion of creating a single currency is a logical extension of the single market, with the removal of trade barriers, the transaction costs of changing money from one currency to another became a major item.

Conditions and necessity can reverse policy decisions if it is in the interest of the people of the country and the Community at large. How far this will be true for Jacques Chirac only time will tell. Much will also depend on the outcome of the Intergovernmental conference programmed for 1996.



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