Part

I

History, Facts and Institutions

Chapter 1

History

Chapter Contents

Introduction

When this book was being written, in 2018, the European Union (EU) was under enormous strain economically and politically. Britain was quitting the EU, scepticism about the EU was on the rise almost everywhere, and explicitly anti-EU parties were gaining popularity in several large nations including Italy, France, Germany and Poland. The EU, however, was showing enormous resilience. It overcame the global crisis of 2008, the Eurozone crisis of 2010 and the migration crisis of 2015–16. The EU was also acquiring a new relevance, or purpose, that goes well beyond its traditional role as the creator of an ever-closer union whose aim was to avoid war in Europe. EU membership was increasingly seen as critical to helping its members thrive in a hostile global situation.

Authoritarianism and aggressive nationalism were on the rise around the world in 2018. The rules, practices and institutions that had long underpinned global stability, economic growth and peace are under threat. Emerging powers such as China and India are challenging the existing world economic order just as the old order's main architect – the United States – was actively undermining its own creation. After seven decades of peace, Russian tanks were once again crossing borders to seize land from weaker European neighbours. These are trying times for small prosperous nations who find themselves confronted with authoritarian and uncompromisingly nationalistic superpowers. As German Chancellor Angela Merkel phrased it in May 2018: 'It is no longer such that the United States simply protects us, but Europe must take its destiny in its own hands, that's the task of the future.' In the face of this uncertainty, hostility and aggression, the sheer size of the EU matters. With its population of over 400 million people, the EU economy rivals that of the USA and China; it is ten times larger than the Russian economy.

These developments make it more important than ever to understand how and why Europe got to where it is today. The key to this comprehension is a thorough understanding of Europe's quite unique history. For the first half of the 1900s, Europe was wracked by the rise of fascism, communism, two world wars and the Great Depression. In the second half of the 1900s, European economic integration put an end to the turmoil by constructing closer economic cooperation among former enemies. This fostered peace, liberty and prosperity. Economic integration was the way Europe constructed the new reality, but the result was a type of political construction that the world had never seen before.

Quite simply, it is impossible to understand the rather extraordinary things going on today without a firm grasp on Europe's post-Second World War history. This chapter presents the main events in chronological order, stressing, wherever possible, the economic and political economy logic behind the events.

1.1 Early post-war period

In 1945, a family standing almost anywhere in Europe was in a nation that was recently ruled by a brutal fascist dictator, occupied by a foreign army, or both. As a direct result of these governmental failures, tens of millions of Europeans were dead and Europe's economy lay in ruins. Worse yet, this was not new. If the parents were middle-aged, the Second World War would have been their second experience of colossal European death and destruction. Indeed, the Second World War was the fourth time in 130 years that France and Germany had fought horrifying wars. Forgetting about facts like these has allowed populist politicians to belittle how important the EU has been to building the prosperity and freedom that Europeans take for granted.

1.1.1 A climate for radical change

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

It is hard for students born around the year 2000 to connect emotionally with the misery and hardship that opened minds to such a drastic reconsideration. Yet making this connection is essential to really comprehend what is going on in the EU today politically, economically and socially. The internet allows students to see photos (see Figure 1.1), watch videos and listen to original speeches from early post-war years. The website of the Luxembourg-based Centre Virtuel de la Connaissance sur l'Europe (www.cvce.eu) provides access to a vast range of European documents. Just go to 'Historical events in the European integration process

Figure 1.1 London Hospital in late 1940 and Dresden 1945

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(1945–2009)' and click on the 'Resources' tab. See www.jewishvirtuallibrary.org for audiovisual material on the Holocaust, and www.archives.gov for American material. For powerful photos and videos of Germany's experience, go to http://www.hdg.de/lemo/html/Nachkriegsjahre/.

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

Table 1.1 Death and destruction in the Second World War

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

(a) GDP grew during the Second World War.

Source: GDP data from Crafts and Toniolo (1996), p. 4; death toll from https://en.wikipedia.org/wiki/World_War_II_casualties

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

Refugees, hunger and political instability

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

Politically, western Europe suffered governmental and constitutional crises. The French wartime leader General de Gaulle resigned as president in 1946 over a disagreement about France's new constitution. Italy and Belgium saw bitter internal conflicts over their monarchies. Italy abolished its monarchy in a referendum that involved accusations of communist manipulation. The return of the Belgian king sparked riots. If all this seems like the plot of a B-grade apocalypse movie, you should watch some of the online audiovisual material to see just how real it was. Hunger, riots and refugee camps were commonplace all across western Europe – and the people in these camps were not from Syria or Africa, they were Europeans.

1.1.2 The prime question and guiding ideologies

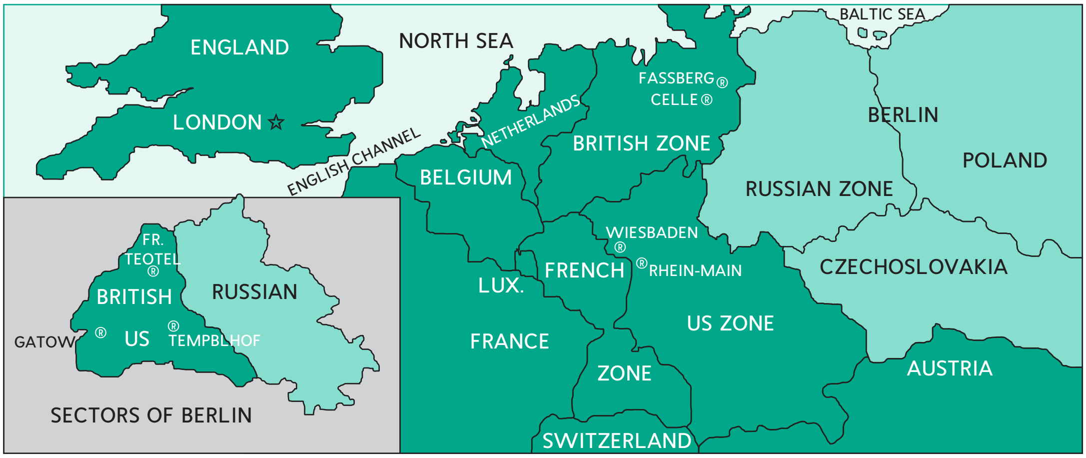
The horror and revulsion arising from this devastation pushed one question to the forefront in the mid-1940s: 'How can Europe avoid another war?' The solutions offered depended on beliefs about the causes of the war. Three schools of thought were in evidence:

1. *Germany was to blame.* Guided by this belief, the so-called Morgenthau Plan of 1944 proposed to avoid future European war by turning Germany into a backward country whose economy was based on agriculture. This was similar to the thinking that guided the solutions adopted after the First World War. The victors, especially France and Britain, blamed the First World War on Germany, and decided they would punish the Germans by taking some German territory and demanding large payments called 'reparations'. After the First World War, the result was a cycle of recovery, resentment and national rivalry that ultimately paved the road to the Second World War.
2. *Capitalism was to blame.* Marxism–Leninism blamed capitalism for most of the world's evils, including both world wars. This belief suggested that communism was the solution.
3. *Nationalism was to blame.* The third school blamed the excesses of destructive nationalism for the war. The solution suggested by this belief was tighter integration of all European nations. While calls for a united Europe were heard after the 1914–18 war and during the 1939–45 war, the school's most famous post-war statement was the 1946 'United States of Europe' speech by Winston Churchill (you can listen to it at www.cvce.eu).

The European integration solution ultimately prevailed, but this was far from clear in the late 1940s. Most European nations were either struggling to re-establish their governments and economies or were under direct military occupation. Germany and Austria were divided into US, UK, French and Soviet zones (Figure 1.2). Soviet troops occupied all of central and eastern Europe. In western Europe, 1945 and 1946 passed with hardly any progress towards the establishment of a post-war architecture, and the economic recovery was going nowhere. Western European governments' limited governance capacities were overloaded by the dismal humanitarian situation.

Things moved more rapidly in the east as the Soviet Union implemented school-number-two thinking. Communism was imposed on the previously independent nations of Estonia, Latvia and Lithuania during

Figure 1.2 The four-way division of Germany



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

the war. By 1948, communist parties had been pushed to power with Soviet help in every country occupied by the Soviet army at the end of the war. The spread of communism, however, went further. Communists took power in Albania and Yugoslavia, and were gaining strength in Greece. Communism had many supporters in western Europe as well. In the parliamentary elections of 1946, for example, communists won 19 per cent of the vote in Italy and 29 per cent in France.

1.1.3 Emergence of a divided Europe: the Cold War

In the early post-war years, the USA, UK and USSR were the key players in Europe's architecture since all other nations were in ruins. America, Britain and the Soviet Union were the only nations that still had the strength to guide events internationally. Even as the war was coming to a close, America and Britain rejected the Soviet's anti-capitalism plans and the wartime alliance unravelled. The Allies-versus-Axis confrontation was replaced by an East–West confrontation called the Cold War. This new conflict dominated economic, political and military thinking in Europe for 50 years. It also ruled out school-number-three thinking (especially the Morgenthau Plan) since restoring German power was essential to standing up to Soviet plans to spread communism to the west. In this way, the Cold War was a key driver of European economic integration.

By 1947, the USA and Britain had concluded that an economically strong Germany would be essential to the defence of liberal democracy in western Europe. This led them to merge the UK and US occupation zones in Germany (see Figure 1.2) into one zone they called 'Bizonia'. France, which had originally favoured the Morgenthau Plan, added its zone in 1948, and the three created a new nation, called West Germany (the Federal Republic of Germany).

In reaction to these western moves, the USSR escalated harassment of westerners travelling to Berlin. Ultimately, the Soviets imposed the famous 'Berlin Blockade' on 24 June 1948. Western powers countered with the equally famous 'Berlin air bridge' (see www.cvce.eu for details and photos). Despite Soviet objections, West Germany (formally the Federal Republic of Germany) was established in May 1949. The Soviet zone then became East Germany (German Democratic Republic).

In summary, the USSR's aggressive promotion of its solution (communism) triggered a western reaction that narrowed the three solutions down to two with an 'iron curtain' between them. East of the iron curtain, the post-war architecture was based on communism, one-party politics and Soviet leadership. To the west, it was built on multi-party democracy, the social market economy and European integration. This division ruled European realities for a half century.

1.1.4 First steps: the OEEC and EPU

From the perspective of European integration, the most important result of the western European effort to resist communism was the so-called Marshall Plan and the Organisation for European Economic Cooperation (OEEC). In reaction to the dire economic conditions that existed in Europe in the late 1940s, and the attendant threat that communists might come to power in Greece, Italy and France, US Secretary of State (i.e. Foreign Minister) George Marshall announced that the US would give financial assistance to all European nations 'west of the Urals'. The main condition for the money was that Europeans had to agree to a joint programme for economic reconstruction. Before the Marshall Plan, European integration was for dreamers. After the Marshall Plan, it became the main road to recovering prosperity.

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

The OEEC started in 1948 with 13 western members of today's EU (Finland was under Soviet pressure to stay neutral and Spain was under Franco's dictatorship) plus Norway, Iceland, Switzerland and Turkey. Germany and Austria were still under Allied occupation, but representatives from the western zones participated. From 1948 to 1952, Marshall Plan aid amounted to $12 billion, with half of this going to the UK, France and West Germany.

The OEEC divided American aid among its members (see Box 1.1), but a far more important role, as far as European history is concerned, was the OEEC's mandate to advance European economic integration. It did this by reducing intra-European trade barriers and improving the intra-European system of payments by establishing the European Payments Union, or EPU (see Box 1.1).

Box 1.1 The European Payments Union (EPU), July 1950 to December 1958

Most European nations were bankrupt after 1945, so trade was generally conducted on the basis of bilateral agreements, often involving barter (that is, the swapping of one type of good, say coal, for another type, say food). The EPU 'multilateralized' these bilateral deals in the sense of pooling each nation's bilateral trade deficits into a single deficit. Each month, EPU members added up their bilateral deficits or surpluses with every other EPU member to determine an overall surplus or deficit with respect to the EPU as a whole. Most members had overall deficits since their economies were suffering from wartime damage (which made exporting difficult), yet they all needed imports to rebuild. The great advantage of this approach was that the need to import from or export to particular nations vanished – all that mattered was the nation's overall trade balance. As a consequence, it became practical to loosen the web of bilateral trade restrictions that had been set up in the early post-war years. In this way, the EPU can be thought of as the real start of post-war European economic integration since it massively liberalized trade flows inside Europe.

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

The Marshall Plan proved to be a critical turning point in the history of European integration. Tentative and ideologically based support for European integration came to be strongly reinforced by western European nations pursuing their own national interests.

- French leaders saw the Franco–German integration as a way of counterbalancing US–UK influence on the Continent while at the same time making sure that a reindustrialized Germany would become an economic partner rather than a military adversary.

- The UK and the USA supported European integration as the best way to counter the spread of communism in Europe.
- German leaders embraced European integration as the surest route to re-establishing Germany as a 'normal' nation (Germany was recognized as an independent nation only in 1955).
- Italian leaders also welcomed European integration, which provided them with an ideological counterbalance to communism and helped shut the door on Italy's fascist past.
- The Benelux nations (Belgium, the Netherlands and Luxembourg) were happy about anything that reduced the chances of another Franco–German war.

European integration got a new boost in 1949, when the USA said it would keep paying only if the OEEC made greater efforts to economically integrate Europe. The main demand was that the OEEC accelerate the liberalization of trade among its members. Up to this point, Marshall Plan money was mainly used to finance European countries' dollar deficits in the EPU (see Box 1.1). This spending had a very pro-trade effect, but the USA wanted deeper liberalization – hoping that it would accelerate Europe's economic recovery. Responding to this pressure, the OEEC nations removed quantitative trade restrictions among themselves.

This OEEC trade liberalization was important in at least two ways. First, the liberalization fostered rapid growth in trade and incomes. Indeed, the 1950s as a whole were marked by spectacular growth in the exports of manufactured goods and in incomes. Several nations on the Continent grew at rates that are now seen only in rapidly industrializing Asian economies. Second, this rapid growth made economic integration look like a wondrous economic policy and this, in turn, shifted mindsets. Europe's leaders came to view European integration as an idea that made as much sense economically as it did politically. In particular, it helped gradually shift the thinking of Britain towards a pro-EU stance.

This change in mindset was momentous. In the decades following the First World War, especially during the 1930s, economic growth was viewed as a competition between nations. In this competition, trade barriers played a central role as each nation sought to protect its domestic market for its own industrialists (the policy was called protectionism). In a sharp turnaround, the reduction in trade barriers that came with European integration fostered exports and industrial growth. Income rose at a spectacular rate and intra-European imports and exports expanded even faster. This experience firmly established a belief that European economic integration provided important economic benefits.

1.1.5 The drive for deeper integration

The OEEC was an economic success, but would it prevent another war between France and Germany? And a new war was very much on people's minds. In the 1940s, people very clearly remembered how the end of the First World War in 1918 created conditions that led, just 20 years later, to the Second World War. Many also remembered that grievances that arose from the 1870 Franco–German war contributed to the First World War. The OEEC and EPU produced booming imports and exports and rising incomes but some OEEC members felt that European integration would have to be much deeper to make a new war unthinkable.

The problem was that European nations disagreed sharply on how European integration should move beyond the OEEC and EPU.

1.2 Two strands of European integration: federalism and intergovernmentalism

At the time of writing, in 2018, feelings about Europe were diverging. Many feel that EU integration has gone too far, that too much control has been handed over to EU decision-making bodies in Brussels. Others feel that deeper integration is the only way to tackle the challenges facing today's Europe – everything from stagnant growth and high youth unemployment, to mass migration, the rise of China and the decline of American global leadership. This divergence is most definitely not new. The debate over whether we need 'more Europe' or 'less Europe' has been going on since the 1950s.

While it was clear by the late 1940s that European integration would be the foundation of western Europe's post-war architecture, a serious divide emerged about what this integration should look like. The heart of the matter was the trade-off between European integration and national sovereignty.

The debate was over how much power should be 'pooled', that is, handed to joint decision-making bodies at the European level, and how much power should be keep at the national level.

The fundamental debate, however, goes even further back and even deeper. In some EU member states, like France, many decisions are taken at the national level – the curriculum for schoolchildren, for instance, is set in Paris for all French schools. By contrast, the responsibility for education is at the provincial level (called *Bundesländer*) in Germany. The problem facing the leaders of European integration was, in essence, which areas they wanted to centralize (like education in France) and which they wanted to keep decentralized (like education in Germany).

Even today, this division defines the debate over European integration. The centralizers are called 'federalists'; the de-centralizers are called 'intergovernmentalists'. The British who voted to remain in the EU tended to be in the federalist camp, while those who voted to leave tended to be in the intergovernmentalist camp.

Federalists felt that national sovereignty and the nation-state constituted a fragile system prone to warfare. Since time immemorial, European states had been engaged in intermittent struggles for dominance – struggles that typically involved the invasion of other European nations. As industrialization made killing much more 'efficient', the cost of these struggles rose to the point where no one could win. To these thinkers, even democracy was insufficient to prevent horrifying wars. Hitler, after all, gained his first hold on power through democratic means. To prevent another cycle of recovery and national rivalry that might lead to a third world war, these thinkers believed that nations should be embedded in a *federalist* structure – a supranational organization embodied with some of the powers that had traditionally been exercised exclusively by nations.

Other European nations, led by Britain, continued to view nation-states as the most effective and most stable form of government. To them, European integration should take the form of closer cooperation – especially closer economic cooperation – conducted strictly on an *intergovernmental* basis, that is, all power would remain in the hands of national officials and any cooperation would have to be agreed unanimously by all participants.

Not surprisingly, the federalist school was most popular in European nations where the nation-state failed the population most spectacularly, where failure here is measured in terms of wartime death and destruction (see Table 1.1). This group included the original six members of the EU: Belgium, the Netherlands, Luxembourg, France, Germany and Italy.

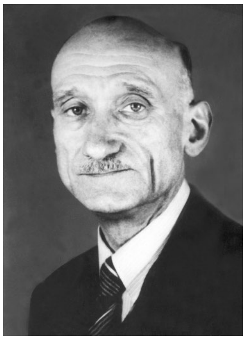
People living in nations whose wartime governments avoided foreign occupation and/or catastrophic loss of life tended to maintain their traditional faith in the nation-state. This included the UK, Denmark, Norway and Iceland, as well as the neutrals: Ireland, Sweden and Switzerland. Fascist dictators in Spain and Portugal ruled until the 1970s, so the question was long postponed in the Iberian Peninsula, but when they joined they were typically pro-integration federalists. Finland and Austria were also pro-integration but Cold War pressure from the USSR kept them from joining the EU until the Cold War ended in the late 1980s.

1.2.1 Two early extremes: Council of Europe and the ECSC

Intergovernmentalism initially dominated the post-war architecture. In part, this was simply a matter of timing. The only major European nation with a truly effective democratic government before 1947 was Britain, and Britain was a firm believer in intergovernmentalism. This is one important reason why the first three organizations – the OEEC, the Council of Europe and the Court of Human Rights – followed the intergovernmental tradition. The OEEC was strictly intergovernmental (i.e. one nation, one vote, with unanimity required to agree anything), and the 1948 'Congress of Europe' established two intergovernmental structures: the Council of Europe (1949) and the Court of Human Rights (1950) – both of which continue to function today. They are, however, entirely unrelated to the EU.

The first big federalist step came in 1952 with implementation of the so-called Schuman Plan, which proposed that France and Germany should place their coal and steel sectors under the control of a supranational authority called the European Coal and Steel Community (ECSC). This plan was inspired by the 'father of European integration', Jean Monnet, but promoted by French Foreign Minister Robert Schuman. As these two are considered 'heroes' of European integration, it is worth learning a little bit about them. As a bonus, their careers and personal histories provide a revealing glimpse into how different Europe was back then (see Box 1.2).

Box 1.2 Robert Schuman (1886–1963) and Jean Monnet (1888–1979)



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

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

© Popperfoto/Getty Images

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

Setting up the ECSC was a radical move. Coal and steel were then viewed as the 'commanding heights' of an industrial economy and crucial to a nation's military and industrial strength. Joining the ECSC was an enormous transfer of power from the national level to the supranational level. This transfer of power was not an accident, it was the point of the whole exercise. Schuman explicitly justified his plan as a means of rendering future Franco–German wars materially impossible. Nations could not go to war if they did not control the industry that made modern war possible.

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

The ECSC submerged the role of nation-states to an extent that seems unimaginable from today's perspective. Its institutions were the model for those in today's EU so they are worth understanding (see Box 1.3).

Box 1.3 The European Coal and Steel Community (ECSC)

Crucial decisions such as pricing, imports, exports and production of all the national coal and steel sectors were placed in the hands of the ECSC's High Authority, which can be thought of as the executive branch of the ECSC. This body, the forerunner of today's European Commission, consisted of officials appointed by the six Member States. As is true for EU Commission today, this was a very federalist institution. ECSC officials were appointed by their governments but were supposed to be independent, and they pledged to defend the general interests of the Community rather than the interests of their own nation.

The High Authority's decisions, some of which were made by majority voting, were subject to limited control by national governments via the 'Council of Ministers'. This body, a model for the EU's Council of Ministers, consisted of one representative of each nation. Oversight was also provided by the 'Common Assembly', whose members were appointed by national parliaments. Loosely speaking, the Council was like the US Senate (where states are represented) and the Assembly was like the US House of Representatives (where the people are represented). There was also a judicial branch consisting of the 'Court of Justice', tasked with ensuring compliance with the ECSC Treaty (known as the Treaty of Paris) and providing interpretations of the Treaty where necessary. Lastly, the ECSC had a consultative body with members of what we would today call civil society: firms, workers, consumers and dealers.

1.2.2 Expanding the federalist track

European events moved quickly in the late 1940s and early 1950s. In the same year that Schuman proposed the ECSC to prevent another Franco-German war, NATO was set up to guard against a possible Soviet attack on western Europe. This was not a theoretical possibility. the USSR was ideologically committed to replacing capitalism with communism worldwide. Having made good on this promise in east and central Europe, many feared that west Europe was next. With East–West tensions rising steadily and the Cold War threatening to become a real war, it became clear that Germany would not only have to be allowed to regain its industrial might, it would have to rearm. This created a new problem that had to be solved.

Since many Europeans, including many Germans, were still uncomfortable with the idea of an independent Germany that was both economically and militarily strong, integrating Germany into a supranational Europe seemed a natural way forward. The federalists' first instincts were to do with Europe's national armies what they had done with Europe's national coal and steel production, namely place them under a supranational institution.

Failed supranational integration: the EDC and EPC

To deal with the full rearmament of Germany, the Six negotiated a new treaty that would create a European Army and place it under the control of a supranational authority. The new institution, which was to be called the European Defence Community, had a structure similar to the ECSC. The creation of a new army, however, raised many issues that had been ignored in creating the ECSC.

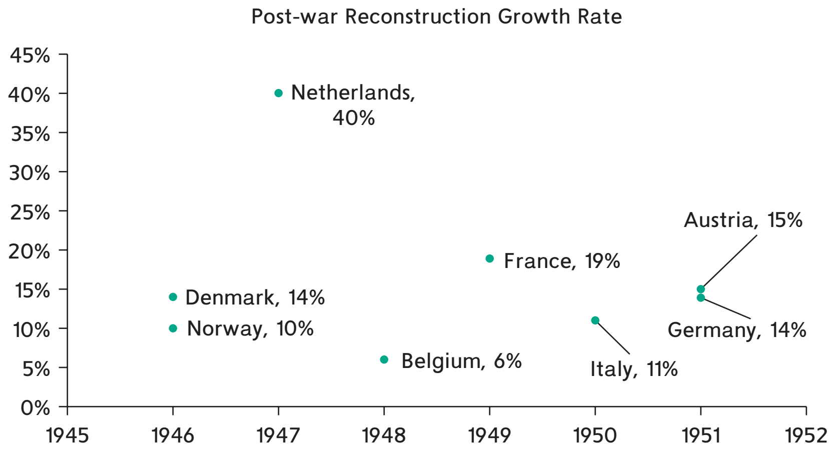
A European army would make it difficult for the Six to conduct fully independent foreign policies. It would also have required a substantial budget and thus taxation and spending authority. Most importantly, the soldiers would have to be firmly under democratic control. The last item led to the drafting of plans for an even more ambitious federalist institution – the European Political Community (EPC). The EPC, if it had come into effect, really would have been something like the United States of Europe. As history would have it, both the EDC and the EPC failed.

By the time the EDC treaty came up for ratification in 1954, Europe was a very different place from what it had been in 1945, or even 1950. Economically, the Six were experiencing growth like the world had never seen. As Figure 1.3 shows, the Six had managed to get their economies back on track by the late 1940s via almost miraculous growth, and the high growth rates continued into the 1950s. In German, this period is called the *Wirtschaftswunder* (economic miracle).

The spectacular rise in standards of living restored many Europeans' faith in their governments. In a very real sense, the economic growth fostered by European economic integration rescued the European nation-state (Milward, 1984). This restored faith, however, reduced popular support for transferring sovereignty to the European level – especially for something as critical as military and foreign policy.

As it turned out, the French parliament killed the EDC initiative by failing to ratify the treaty that would have implemented it. Since the EPC was linked to the EDC, France's rejection of supranationality killed the EPC as well.

Figure 1.3 Post-Second World War reconstruction



Source: Author's adaptation of data published in Nicolas Crafts, Gianni Toniolo, 'Postwar growth: an overview', in Nicholas Crafts, Gianni Toniolo (eds), *Economic Growth in Europe since 1945* (1996) © Centre for Economic Policy Research 1996, published by Cambridge University Press.

Rejections of the EDC, however, left the challenge of German rearmament unresolved. The challenge became even more pressing when the Allied occupation of Germany formally ended in 1955, and West Germany became an independent member of NATO. By this point, it was clear that the ECSC would not be enough to make another Franco–German war unthinkable. Having failed in their efforts to integrate West Germany directly into defence and political communities, European leaders turned their minds to broader economic integration – the European Economic Community.

The idea was to expand the coverage of economic supranationality from the coal and steel sectors to the whole economy. Given the revival of Europeans' faith in their national governments, the new institution would hand over less national sovereignty to the supranational organization. Nevertheless, the goal of this new body would be eventual political unification of Europe. What changed was the means of achieving the goal, not the goal itself.

Creation of the EEC

Foreign Ministers of the Six met in Messina in June 1955 to start a process that soon led to the signing, on 25 March 1957, of two treaties in Rome: the first created the European Atomic Energy Community (Euratom); the second created the European Economic Community (EEC). Because the EEC eventually became much more important than Euratom, the term 'Treaty of Rome' is used to refer to the EEC treaty. Britain partook in the preliminary meetings but dropped out in October 1955 since its leaders at the time could not accept the supranationality that EEC membership would imply.

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

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

These steps towards deeper federalist integration among the Six triggered a reaction among other west European nations who would not or could not join the EEC. Britain led this reaction by forming the European Free Trade Association, or EFTA.

1.2.3 Intergovernmental track: from OEEC to EFTA

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

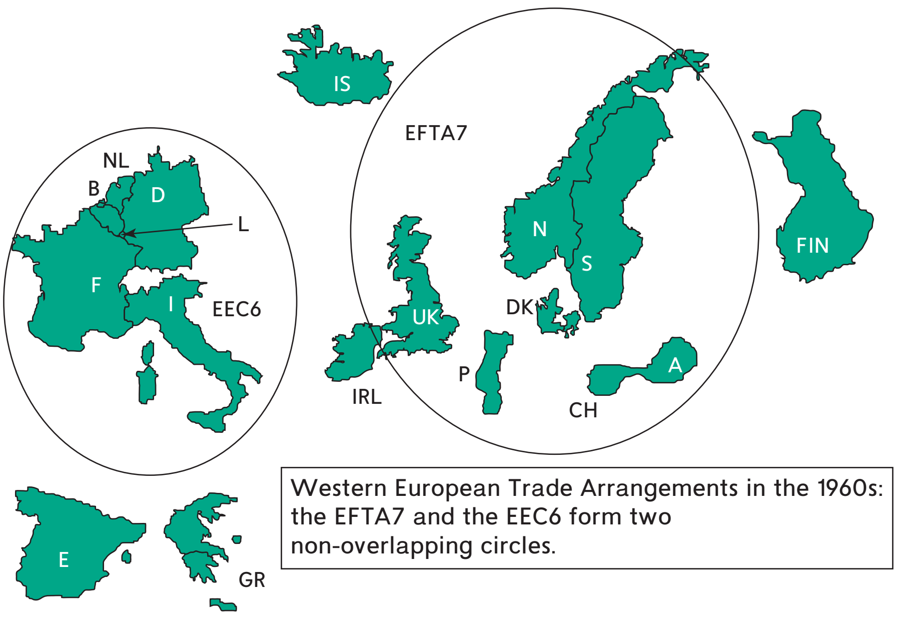
Fearing discrimination and marginalization, seven OEEC nations formed their own bloc in 1960 called EFTA. With EFTA in operation, all western European democracies had joined one bloc or the other. The exception was Ireland, which was already tightly integrated economically with its major trading partner (the UK), and had no interest in deeper integration since it had won full independence from Britain only in 1948.

1.2.4 Two non-overlapping circles: Common Market and EFTA

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

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

Figure 1.4 A Europe of two non-overlapping circles



B = Belgium, NL = Netherlands, D = Germany, L = Luxembourg, F = France, I = Italy, E = Spain, GR = Greece, IS = Iceland, IRL = Ireland, UK = United Kingdom, P = Portugal, N = Norway, DK = Denmark, S = Sweden, CH = Switzerland, A = Austria, FIN = Finland

Source: Baldwin (1994)

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

At the beginning of the 1960s, EFTA-based and EEC-based firms had roughly equal access to one another's markets as the preferential tariff cutting had only just begun. As the barriers began to fall within the EEC and within EFTA (but not between the groups), discrimination appeared. This discrimination meant lost profit opportunities for exporters in both groups. Importantly, the relative economic weight and economic performance of the two circles were far from equal. The GDP – and thus the potential market size – of the six EEC nations was more than twice that of the seven EFTA nations (EFTAns) and the EEC incomes were growing twice as fast. The EEC club was far more attractive to exporters than the EFTA club. Accordingly, the progressive reduction of within-group barriers generated new political economy forces in favour of EEC enlargement, but how did discriminatory liberalization create these forces for inclusion?

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

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

1.3.1 First enlargement and EEC–EFTA FTAs

In 1961, the UK applied for EEC membership – just six years after walking away from the Messina talks. There are many reasons for this change of heart. In 1955, Britain half expected the EEC to fail just as the EDC and EPC had before it. Moreover, British wartime successes hung heavy in the air. Clement Attlee, former UK Prime Minister, spoke for many Brits when he said Britain had just rescued four of the Six from the other two. Thinking changed once the EEC was up and working well. UK industries faced the reality of rising discrimination in Europe's largest and fastest-growing markets. The British government had to react; EFTA was not a substitute for free trade access to the EEC market.

Britain's unilateral decision to apply for membership in the EEC tipped over more dominoes. If the UK was to jump from EFTA to the EEC, the remaining EFTA members would face discrimination in seven markets, not just the Six. The point is that since the EEC is a customs union, the UK would have had to adopt the same tariffs that EEC members had against non-EEC members. That, in turn, would mean having to re-impose tariffs on imports from the remaining other EFTA members. This possibility led some of the other EFTA nations to change their attitude towards EEC membership; Ireland, Denmark and Norway quickly followed Britain's unilateral move. The other EFTA nations did not apply for political reasons, such as neutrality (Austria, Finland, Sweden and Switzerland), lack of democracy (Portugal), or because they were not heavily dependent on the EEC market (Iceland).

While Germany was broadly in favour of UK membership, France was opposed to it. In a renowned January 1963 press conference, French President Charles de Gaulle said 'non' to this first enlargement attempt. The four EFTAns reapplied in 1967 and de issued another famous 'non', but, after he retired, the four EFTA applications were reactivated. After many delays, membership for the four was granted in 1973, but only three joined since Norway's population refused EEC membership in a referendum. The UK also held a referendum on membership in 1975.

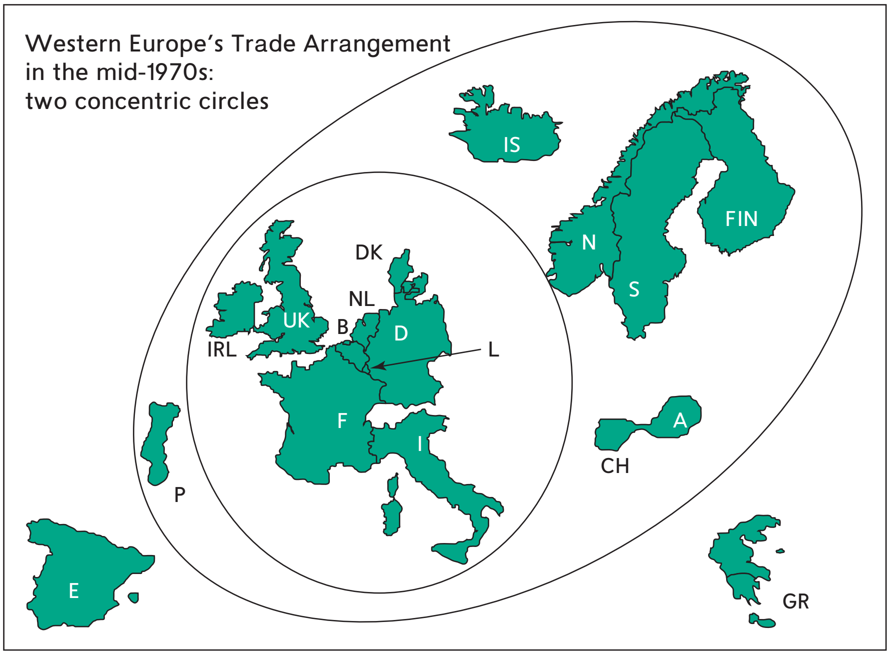
Britain joined the EEC under a centre-right, Conservative government, but new elections brought a centre-left, Labour government to power in 1974. The left wing of Labour was, at the time, vehemently anti-EU since some of its leaders were pro-Soviet and anti-capitalist, and they viewed the EEC as both anti-Soviet and pro-capitalism. Many Labour leaders worried EEC membership would prevent them from implementing socialist industrial policies. Other elements of the Labour Party were pro-EU. The divisions were almost as strong back then as they are now inside Britain's Conservative government. Some Labour ministers campaigned for membership and others campaigned against. Today's Labour leader, Jeremy Corbyn, for instance, voted against membership. As it turned out, EEC membership won two-thirds of the vote, and the UK stayed in the EEC.

The impending departure of four EFTA nations to the EEC was anticipated well in advance and this triggered a secondary domino effect. The 1973 EEC enlargement meant a swelling of the EEC markets and a shrinking of the EFTA markets. Firms based in the remaining EFTA states would suffer a disadvantage (compared to their EEC-based rivals) in more markets and enjoy an advantage (over their EEC-based rivals) in fewer markets. Accordingly, EFTA industries pushed their governments to redress this situation. The result was a set of bilateral free trade agreements (FTAs) between each remaining EFTA nation and the EEC. These took effect at the same time as the EEC enlargement, so the three joining the EEC did not have to raise tariffs against the remaining EFTA members.

Notice that this change of heart by the remaining EFTA nations does need some explaining. The stance of, say, Sweden towards an FTA with the then-EEC was a matter of top-level political calculation. It may seem strange, therefore, that the calculations of Sweden's political elite led them to sign an FTA in 1972 with the EEC9 when they had not found it politically optimal to sign one in the preceding decades with the EEC6. The explanation, of course, is that tighter integration among a nation's trade partners (in this case between the UK, Denmark and Ireland and the EEC6) altered the economic landscape facing Swedish exporters. This reshaping of the economic landscape got translated into a new political landscape.

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

Figure 1.5 A Europe of two concentric circles



Note: See Figure 1.4 for abbreviations and source.

1.4 Euro-pessimism

Although the EEC's economic integration proceeded smoothly, European integration stagnated soon after the trade liberalization was completed. The Community was rocked by a series of political crises in the 1960s, soon to be followed by economic shocks in the early 1970s. The political and economic shocks together created a period known as 'Euro-pessimism' (1973–86).

1.4.1 Political shocks

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

The issue came to a head as the final stage in the Treaty of Rome's transition period approached (1 January 1966). At this stage, the voting procedures in the EEC's key decision-making body, the Council of Ministers, were scheduled to switch to majority voting (see Section 3.3.1). For the President of France, Charles de Gaulle, it was unacceptable. Majority voting would mean that France might be forced to accept a policy it had voted against if most of the other members wanted the policy. De Gaulle, in short, was not a federalist and he rejected the supranationality that majority voting implied.

In the end, de Gaulle forced the other EEC members to accept his point of view in the so-called Luxembourg Compromise. Henceforth, unanimity was the typical rule in EEC decision-making procedures. The insistence on consensus radically reduced the EEC's ability to make decisions (see Chapter 3 on decision-making efficiency) and the problem only got worse as the EEC expanded to nine in 1973.

1.4.2 Failure of monetary integration

The late 1960s saw the USA running a monetary policy that was irresponsibly inflationary. It was basically printing money to pay for the Vietnam War without raising taxes. Since all major currencies were linked to the dollar at the time (via the global fixed exchange rate system called Bretton Woods), US inflation was transmitted into inflation in Europe and elsewhere. This, in turn, led to the gradual breakdown of the global fixed exchange rate system between 1971 and 1973. See Chapter 14 for details.

Exchange rate stability was widely viewed as a critical factor supporting the rapid post-war growth in trade and international investment (and the rising prosperity these brought). This was true in general, but it was especially important in the EEC. The fixed exchange rate system prevented EEC members from offsetting the market-opening effects of European integration with a competitive devaluation. Since exchange rate stability was viewed as critical to European economic integration, the EEC searched for ways of restoring intra-European exchange rate stability. To this end, it established the Werner Committee, which designed a step-by-step plan for European monetary union. EU leaders adopted the Werner Plan in 1971 with a goal of implementing a monetary union (like the one the Eurozone nations share today) by 1980. This was not to be.

The economic environment for this new European monetary arrangement could not have been worse. Months after it was launched, the Yom Kippur War in the Middle East triggered an oil boycott of America and some European nations (a boycott meant that OPEC members refused to sell oil to these nations). The boycott forced these nations to buy oil on the open market and the result was a very sharp rise in oil prices. This price hike had a ruinous economic impact on western Europe. Consumers switched their spending from domestically made goods to imported oil and this crashed the demand for goods. The result was falling incomes and rising unemployment. On top of this, the oil price rises provided a big inflation shock. Most European nations adopted expansionary monetary and fiscal policies to compensate for the economic downturn and these further fuelled inflation.

The net result was falling incomes and rising inflation – a very bad combination that came to be known as 'stagflation'. And the bad news was not over. Just as the world was recovering from the 1973 oil shock, the Iranian Revolution produced a second massive oil price hike, in 1979. This further aggravated stagflation and produced a debilitating series of exchange rate crises. As a result, the Werner Plan was put on hold for ever. This monetary integration failure and the poor economic performance were key features of Euro-pessimism, but there was more.

1.4.3 Failure of deeper trade integration

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

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

Stagflation, teamed with the failure of the initiatives to forge deeper monetary and trade integration, created a gloom over the 'European construction'. Many inside and outside Europe suspected that the ideals that had driven European integration since the late 1940s were dying or dead. Yet there were some bright spots in European integration.

1.4.4 Bright spots

During the Euro-pessimism years, Spain, Portugal and Greece all adopted democratic governments, thus rendering them eligible for EEC membership. Greece joined in 1981, followed by the Iberians in 1986. Things also started looking up on the economic integration side. The European Monetary System (EMS) started operation in 1978 and was successful in stabilizing intra-EEC exchange rates. This was not as deep an integration as foreseen in the Werner Plan, but it demonstrated that the EEC was resilient to setbacks and capable of creative adaptation. Another bright spot came when EEC financing was put on a firm footing with two budget treaties (1970 and 1975; see Chapter 2 for details), and democratic control of the EEC was enhanced in 1979 when the EU Parliament was directly elected for the first time; previously, its Members of the European Parliament (MEPs) were drawn from the members' national parliaments.

The economic malaise of the 1970s turned a corner in the 1980s when US and European central bankers decided to fight inflation. They did so by inducing a long, hard recession, which was painful for a couple of years, but it set the stage for an economic rebound. Starting in 1984, economic growth resumed.

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

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

This favourable economic climate was matched with the arrival of a talented promoter of European integration, Jacques Delors. As President of the European Commission from 1985 to 1994, Delors kick-started European integration by pushing for the 'completion' of the 'internal market'. The point was that of all the economic integration promised in the Treaty of Rome, only the tariff liberalization was fully implemented. All the other elements – such as the free movement of labour, capital and services – were still on the to-do list. Delors called this new initiative the 'Single Market Programme', to contrast it with the most common name used at the time for the EEC – the Common Market.

Delors' plan, which was widely welcomed, was launched with great speed. The policy proposal (or White Paper) was published in the middle of 1985 and, by July 1987, all Member States had ratified the resulting treaty which was called (somewhat confusingly) the Single European Act. This treaty was the biggest leap forward in economic and political integration since the Treaty of Rome.

The Single Market, however, is not just a historical relic that students have to master for the exam and then forget. In 2018, the Single Market was one of the most contentious – and most misunderstood – issues in the Brexit negotiations. The economic fallout of Brexit depends critically on whether Britain stays in the Single Market, only stays in the Customs Union, or ends up with no special integration with the EU. Moreover, the struggles that went on within the British government between 2016 and 2018 are a repeat of the struggles that faced several other European nations in the late 1980s and early 1990s; these historical experiences have important implications for both the UK and the EU in today's Europe.

1.5.1 The Single Market Programme

In 1985, EU firms enjoyed duty-free access to one another's markets because they were all inside the Customs Union. This meant that there were no tariffs or quotes imposed on any trade between EEC members. The lack of tariffs, however, did not mean that there was fully free trade.

Intra-EC trade was shackled by a long list of trade-inhibiting barriers such as differing technical standards and industrial regulations, capital controls, preferential public procurement, administrative and frontier formalities, VAT and excise tax rate differences and differing transport regulations, to mention just a few. Although the vast majority of these policies seem negligible individually, the confluence of their effects served to substantially restrict intra-Community trade.

Likewise, the free movement of services – which was guaranteed in principle by the Treaty of Rome – was far from being a reality, again largely due to national prudential and safety regulations. Service providers typically were required to possess local certification and the requirements for such certification often varied across nations. Moreover, the certification process was often controlled or influenced by the national service providers, which had an economic interest in excluding foreign competitors via this certification process.

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

- Further liberalization of trade in goods by streamlining or eliminating border formalities – from 1993, trucks could roll right through EU borders without having to stop for customs checks or to fill out VAT forms.
- Harmonization of VAT rates within wide bands so as to reduce the incentive for cross-border VAT fraud.
- Liberalization of government procurement so all EU firms could compete on an even footing when selling goods and services to any EU government.
- Harmonization and mutual recognition of technical standards in production, packaging and marketing to reduce the need for checking goods as they crossed intra-EU borders.
- Removal of all capital controls and increase in capital market integration via some harmonization of regulations.

The Single European Act also implemented important institutional changes. To clear the decision-making log-jam that had held up similar integration initiatives in the 1970s, the programme included a major change in the way the EU made its decisions on things like new laws and new regulations. The key was to move away from the unanimity principle (which had become the de facto norm after the Luxembourg Compromise) and towards the majority voting that was envisaged in the 1958 Treaty of Rome. But this was not for all decisions, but decisions concerning Single Market issues would be adopted on the basis of majority voting instead of on a basis of unanimity (see Chapter 3 for a discussion of EU decision-making procedures).

This change in voting procedures unleashed a massive wave of TBT liberalization and thus gave a big boost to further trade integration.

The resulting changes and common regulation made it much easier for EU firms to rely on supply chains that crossed borders within the Single Market. Firms in the auto, aerospace and machinery sectors took full advantage of this. The existence of these cross-border supply chains is one of the reasons that many economists in the UK argued so strongly for staying in the Single Market.

Focus on capital mobility

From an economic perspective, the most novel aspect of the Single Market was its focus on capital mobility; other features can be viewed as deepening or extending integration initiatives already agreed. While some EU members had already unilaterally liberalized their restrictions on international capital flows, many others were very reluctant to do so since international capital flows had been associated with disruptive economic crises in the 1920s and 1930s. The Single Market Programme ruled out all remaining restrictions on capital movements among EU residents by 1988. This set the stage for a number of important financial, banking and exchange rate crises in the 1990s and 2000s. It also had the unintended consequence of pushing the EU towards a single currency.

The Single Market Programme unleashed a political economy snowball effect that eventually led to the euro. Simple macroeconomic logic (explained in Chapter 13) tells us that, without capital controls, nations must choose between controlling their exchange rate and controlling their monetary policy. Since exchange rate stability was considered paramount, EU members chose to sacrifice national control over their monetary policy in order to keep exchange rates stabilized (this was done in the context of the EMS). But once nations were no longer actively using monetary policy, national objections to centralizing monetary policy decisions in a European central bank were greatly weakened. Moreover, the exchange rate crises of the 1990s convinced many European leaders that creating a single currency would be a good way of preventing them.

1.5.2 The EEA and the fourth enlargement

The Single Market was a powerful boost to the integration of EU members, but the non-member European (especially the EFTA nations) worried that their firms would face discrimination. In the new world of international supply chains, EFTA firms could adjust by moving their production inside the Single Market. In other words, the Single Market triggered 'investment diversion' like the Customs Union had triggered trade diversion in the 1960s. As in the 1960s and early 1970s, the diversion triggered a domino effect as EFTA firms prompted their governments to offset that discrimination by seeking closer ties to the EU.

This is exactly the sort of political economy forces that drove the UK government in 2018 to try to retain access to the EU's Single Market even as the UK leaves the EU. The experience that other nations had with such efforts in the past provide important lessons for today's policymakers. As it turned out, three solutions emerged. Some EFTA nations joined the EU (Austria, Finland and Sweden), others sacrificed national control over a wide range of policies to gain access to the Single Market (Norway, Iceland and Liechtenstein). This is called the 'Norway option' in the Brexit debate.

The Norway solution was the outcome of a long negotiation that led to the creation in January 1989 of the European Economic Area (EEA) agreement. The EEA essentially extends the Single Market to EFTA economies (apart from agriculture and the Common External Tariff). For the EFTA nations, like Norway, the Single Market access was the benefit. The cost was that they had to adopt all EU laws and regulations pertaining to the Single Market without having any formal representation or power to influence the policies. They also had to pay contributions to the EU budget. That is why the EEA is sometimes described as the option where post-Brexit Britain would have to 'obey and pay with no say'.

The Swiss government wanted to join the EEA, but its people rejected the agreement in a referendum. The final outcome that exists today is a messy set of compromises that emerged from years of negotiation. This lets Swiss firms participate in some but not all aspects of the Single Market. As in the EEA, Switzerland has no voting rights over new Single Market rules that it must follow, and it must make a contribution to the EU budget. This is sometimes call the Swiss Option.

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

As it turned out, almost none of the EFTA nations was happy with the EEA compromise on 'obey and pay but have no say'. The end of the Cold War lifted the Soviet restraints that had kept Austria and Finland out of the EU, and erased the importance of Cold War neutrality that had kept the Swiss and Swedish governments from joining. In fact, by the end of the EEA negotiations, Austria, Finland, Sweden, Norway and Switzerland had all applied for EU membership. They completed the EEA talks and signed the deal, but for them, the EEA was to be a transitional arrangement.

As mentioned, Swiss voters rejected the EEA in December 1992, effectively freezing their EU application. Accession talks with Austria, Finland, Norway and Sweden proceeded and were concluded successfully. Norwegian voters rejected full EU membership in a referendum and so the country ended up with the EEA by default.

These drives towards deeper European integration were launched while the Cold War was in full swing, but they came to fruition in a very different world.

1.6 Communism's creeping failure and spectacular collapse

The division of Europe into communist and capitalist camps was cemented, quite literally, in 1961 by the construction of the Berlin Wall. Indeed, the wall became the symbol for Cold War forces that were, as mentioned, a key driver behind European integration in the early phases. A common saying at the time was that European construction was meant to keep the Americans in, the Russians out and the Germans down. That oversimplifies things enormously, but it captures the basic reality – early European integration was an economic project on the surface, but deep down it was a military, political and foreign policy project.

For decades, millions of troops and billions of dollars of weapons were aligned East – West in anticipation of a new war. Imagine what a shock it was to European integration when all that went away without a single shot being fired. The whole East – West division, the whole Cold War conflict, just melted in the late 1980s and early 1990s – and it happened because of economics. It is a great story.

In 1961, living standards on the two sides of the wall were not too dissimilar but by the 1980s western Europeans were living far better than those in eastern Europe and the USSR. At the time, it was clear that the West's economic system (free markets and an extensive social welfare system) when teamed up with its political system (multi-party democracy and freedom of the press) provided a far better way of life compared to the East's system of planned economies and one-party rule.

While this 'creeping failure' of communism was apparent to the central and eastern European countries (CEECs), Soviet leaders repeatedly thwarted reform efforts via constant economic pressure, and military force when that failed. Soviet tanks, for instance, crushed independence movements in Hungary in 1956 and Czechoslovakia in 1968 (back then the Czech and Slovak republics were one nation). By the 1980s, however, the inadequacy of the Soviet system was so clear that it forced changes inside the USSR itself. The USSR adopted a policy of pro-market reforms (*perestroika*) and openness (*glasnost*), which diminished interference in the affairs of the Soviet republics and the CEECs.

As far as European integration was concerned, the switch in Soviet policy to non-intervention was critical. Pro-democracy forces in the CEECs flourished and eventually won the day. It started in June 1989 when the Polish labour movement 'Solidarity' forced the Polish communist government to accept free parliamentary elections. The communists lost and the first democratic government in the Soviet bloc took power. Moscow's hands-off approach to the Polish election triggered a chain of events that revolutionized European affairs. The Berlin Wall was torn down in November 1989, and by the end of 1991 this bloodless revolution was over. Democracy had spread to Poland, Hungary, Czechoslovakia and East Germany, and the three countries that the USSR had annexed during the Second World War – Estonia, Latvia and

Lithuania – declared their independence. Finally, the Soviet Union dissolved itself with the former Soviet Republics becoming independent nations or merging with Russia. This put an end to Russian interference in Europe until it annexed, in 2014, a part of Ukraine called Crimea.

The European Union reacted swiftly to this geopolitical earthquake by providing emergency aid and loans to the fledgling democracies.

1.6.1 Maastricht Treaty, the euro and German unification

The collapse of the Soviet-bloc landscape started a chain of events that massively changed the EU. With the wall gone, unification of the western and eastern parts of Germany was the natural next step. But this raised a new challenge that was not unlike the one created by German industrialization and rearmament in the 1950s. A unified Germany would be a behemoth. With 80 million citizens and 30 per cent of Europe's output, Germany would be more than a third larger than the other big EU nations (France, Britain or Italy). This raised many fears, ranging from a disturbed political balance in the EU to the unlikely, but still scary, spectre of German militarism. As in the 1950s, many Europeans, including many Germans, felt that German unification would best be teamed with a big increase in the forces tying EU members together.

Riding high on his success with the Single Market Act in 1986, Jacques Delors seized this historical moment and proposed a radical increase in European economic integration – the formation of a monetary union. Delors firmly believed that creation of a single currency would lead to further economic integration, and eventual political integration. The steps towards deeper integration that were taken among Eurozone members during and after the Eurozone Crisis of 2010 (see Chapter 19) are a testimony to his foresight on the further economic integration. Brexit, by contrast, is a warning that political integration is not the inevitable endpoint of deeper economic integration.

The idea of a single currency was quickly championed by French President François Mitterrand and German Chancellor Helmut Kohl. After extensive negotiations, the EU committed itself to a target of forming a monetary union by 1999 and adoption of the euro by 2002. This commitment was made in the Treaty of Maastricht (signed in 1992).

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

- created EU citizenship; this included the right to move to and live in any EU state (the Treaty of Rome only guaranteed the right to work in any Member State) and to vote in European and local elections in any Member State;
- strengthened EU cooperation in non-economic areas, including security and defence policy, law enforcement, criminal justice, civil judicial matters, and asylum and immigration policies;
- strengthened the power of the European Parliament (whose members were directly elected by EU citizens) over EU legislation thus reducing the control of member nations' governments;
- introduced the 'Social Chapter' which expanded the EU's social dimension by introducing policies on workers' health and safety, workplace conditions, equal pay and the consultation of employees.

The immense size of the changes was recognized by a change in name. Before the Maastricht Treaty, people called it the European Community. After the Maastricht treaty, people called it the European Union.

From today's perspective the most obvious change was the replacement of national currencies with the euro, which is the topic of Part V of this book. This chapter deals only with the aspects that are essential to understanding subsequent developments.

Maastricht ratification difficulties

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

Treaty experienced great difficulties with ratification. Some nations, like Britain and Denmark, demanded explicit exceptions from the commitment to join the monetary union. Britain got its exception in advance; Denmark got theirs after the Danes rejected the Treaty in a referendum. After the exception was granted, the Danes voted again and approved it. Ratification took almost two years, the Treaty came into effect only in November 1993.

The collapse of communism not only triggered monetary integration, it also triggered a massive change in the EU's trade integration.

1.7 Reuniting East and West Europe

Given that almost every other nation in the region had free trade access to the enormous EU market, free trade agreements with the EU were a commercial necessity for the newly independent central and eastern European countries (CEECs). The strategic goal of CEEC leaders, however, went far beyond new free trade agreements.

CEEC leaders at the time felt unsure that the new situation in Europe was permanent. Russia under President Gorbachev seemed to pose no threat to the newly independent nations, but they worried that things might change under future Russian presidents. If this happened, and some sort of 'iron curtain' was again drawn across Europe, each CEEC wanted to be sure that the curtain would, this time, be drawn to the east of its border, not to the west. This is why they all wanted to join both the EU and NATO. Once again, the EU was being seen as a foreign policy project – not just an economic project.

1.7.1 First steps: the Europe Agreements

Each CEEC announced that its goal was to join the EU. The EU, by contrast, was reluctant in the early 1990s. Sidestepping the membership issue, the EU started signing bilateral free trade agreements, Association Agreements (also called Europe Agreements), with the CEECs in 1991 and the process was completed by 1994. The switch from plan to market was extremely disruptive for some socio-economic groups, but the ultimate prize of EU membership provided an important political anchorage that kept the pro-market reforms on track in the CEECs.

The Europe Agreements stopped short of offering EU membership – reflecting the profound ambivalence that many West Europeans initially felt towards eastern enlargement in the 1980s. Most of the hesitation was due to the economic nature of the CEEC. The CEECs were poorer and more agrarian. Since the EU spent about 80 per cent of its budget on poor regions and farms, making the CEECs members would require a bigger budget or cuts in spending in EU members in west Europe. Moreover, taken together, there were about 300 million people living in the CEECs, so an eastern enlargement would entail a vastly larger expansion than the earlier enlargements.

The EU officially ended its hesitancy on CEEC membership at a June 1993 meeting in Copenhagen. That is where the EU's key political body – the European Council – decided that CEECs could become EU members subject to the membership criteria. These so-called Copenhagen Criteria for membership are the ones that are still applied today, so they are worth understanding. They are: (1) political stability of institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities; (2) a functioning market economy capable of dealing with the competitive pressure and market forces within the Union; (3) acceptance of all EU economic and political rules (known as the 'acquis') and the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

1.8 Preparing for eastern enlargement: a string of new treaties

Once the EU15 leaders confirmed that the CEECs would eventually join, the next order of business was to get EU institutions ready for this massive enlargement. The EU's institutions – which had been designed for six members and were straining to work with fifteen – had to change if they were to continue to work with a dozen new members. This started a chain of events that eventually ended in adoption of the Lisbon Treaty in December 2009.

The process was politically painful for the existing EU members since almost every change helped some EU15 nations but hurt others. For example, the EU's traditional decision-making process deliberately gave a share of voting power to small countries that was far out of line with their share of the EU population. This practice was started in the 1950s. Back then it made sense from a political-balance perspective. The EEC consisted of three big nations (France, Germany and Italy) and three small ones (Belgium, Netherlands and Luxembourg). The basic sharing didn't change with enlargement but since most of the CEECs were small or tiny, the old power sharing rule would have given enormous power to small countries and taken it away from big countries. Any change in power shares, however, creates winners and losers – and the losers objected strenuously.

While there was a shared understanding of the institutional challenges that eastern enlargement posed, there was little agreement on the solutions. This basic dilemma marked the four attempts at reform made by the EU over a 16-year period (Amsterdam, Nice, Constitutional and Lisbon Treaties). Moreover, the disagreements highlighted by the negotiation of these treaties picked up on the disagreements that had plagued European integration since the beginning – big members vs small members, federalists vs intergovernmentalists, poor members vs rich members, and agricultural vs industrial members.

1.8.1 The four treaties

The 1996 IGC produced the Amsterdam Treaty in 1997. Ambitions for the Amsterdam Treaty were high – the mandate was to agree all the necessary enlargement-related reforms, but it came up short. The Amsterdam Treaty is best thought of as a tidying up of the Maastricht Treaty. The substantive additions included a more substantial role for the EU in social policy formation (former UK Prime Minister Tony Blair cancelled the British opt-out). The powers of the European Parliament were modestly boosted, and the notion of flexible integration, so-called closer cooperation, was introduced (see Chapter 2 for details) so that sub-groups of members could proceed with deeper integration on their own. The key enlargement-related reforms were not settled but were still pressing, so EU leaders agreed a list called the 'Amsterdam leftovers'. They also agreed to launch a new IGC in 2000 to deal with the Amsterdam leftovers.

After the year-long preparation of the IGC 2000, EU leaders met in Nice in December 2000 to wrap up a new treaty that was supposed to deal with the Amsterdam leftovers. At 4 o'clock in the morning, after the longest EU summit in history, EU leaders announced political agreement on a new treaty. The result – the Treaty of Nice – was not a success.

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

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

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

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

Eastern enlargement and the Constitutional Treaty

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

In light of the difficult Nice Summit, the Laeken Council also decided on a novel working method. It convened the 'Convention on the Future of Europe', which came to be known as the European Convention, consisting of a large number of men and women representing current and prospective Member States, the national parliaments, the European Parliament and the Commission. The Convention's output was to be the point of departure for the IGC 2004 that would draft the actual treaty (as required by EU law). The Laeken Declaration, which was in essence the political guidance for the next attempt to reform the EU, included a crucial novelty – it mentioned the word 'constitution' in a way which suggested that the next treaty might be a constitution for the EU.

The European Convention was run by former French President Valéry Giscard d'Estaing with the assistance of a former Prime Minister of Italy and Belgium. By mid-2002, President Giscard d'Estaing had redefined the Convention's purpose into a constitution-writing convention. The new goal was to present the EU heads of state and government with a fully written constitution. As it turned out, this new constitution proved to be an overreach by European federalists.

The process of turning the Convention's draft into an EU treaty did not start well. Differences that had been papered over in the Convention emerged immediately when the document was considered by EU member governments. As it turned out, the differences could not be bridged. This failure to agree, in turn, had enormous consequences. The whole reform process was designed to adopt reforms before enlargement happened, but the failure of the Convention to produce an acceptable treaty meant that the reform would have to take place after enlargement (the enlargement had been scheduled for 2004).

All EU members – including the ten members that joined in 2004 – agreed that institutional reform was a must, so the Irish government, which took over the EU Presidency in 2004, made a new attempt to rewrite the European Convention's draft. Skilful diplomacy led to a grudging and difficult but ultimately unanimous acceptance of a new draft at the June 2004 summit of the EU25 leaders. With this high-level political compromise in hand, the IGC completed its work and the so-called Constitution Treaty was signed in Rome in October 2004. But this new Treaty did not pass the approval of EU citizens. French and Dutch voters rejected it in referendums, derailing the whole project. In reaction, EU leaders suspended the ratification process and declared a 'period of reflection'.

This rejection was a very clear and very obvious sign that the changes in Europe, changes that had come with the fall of the Berlin Wall, had forever changed the nature of the EU itself. Before, the EU was a fairly small club of rather prosperous west European nations. After, it was a large club of nations with much greater differences.

The Lisbon Treaty

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

The process was relaunched when Germany took on the rotating EU Presidency in 2007. Guided by forceful German leadership, EU leaders declared the Constitutional Treaty to be dead and agreed on the basic outlines of its replacement. The result was the Lisbon Treaty, named after the city in which it was signed in December 2007.

The Lisbon Treaty included all the main institutional reforms that were in the Constitutional Treaty but they were repackaged in a very different way. All the grandiloquent language and gestures to supranationalism were dropped. All references to symbols of statehood were jettisoned – the flag, the anthem and the like. The word 'constitution' was banished. This reflected a very real shift in attitudes of Europeans. The old days, where many Europeans instinctively supported more Europe, were over.

This had been true in the western Member States since by the 2000s; most west Europeans trusted their governments to do the right thing. Transferring sovereignty to the EU was a cost, not a benefit as it had been in the early years. Moreover, the citizens and leaders of the new CEEC members grew up in a world where they had been taught that school-of-thought number two was the right one (capitalism was to blame for the Second World War) – not school-of-thought number three, as was the case in west Europe. As a result, the belief that aggressive nationalism was harmful was not something that was firmly fixed in central and eastern European ways of viewing the world. If anything, bad memories were related to the lack of national control during the Soviet era, not aggressive nationalism before the Second and First World Wars.

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

To justify holding a new vote, the Irish government obtained promises from fellow EU leaders that directly addressed the concerns of certain segments of the Irish electorate. With these promises in hand, the Irish reversed their 'no' in October 2009. The Treaty came into effect in December 2009. The Lisbon Treaty instituted many important changes, and it is the Treaty that is in force today, so it is worth understanding (the key features are addressed at length in Chapters 2 and 3).

An old saying in European affairs is that Europe is constructed one crisis at a time. This certainly rings true for the European history covered up to here. Today's Europe is the sum of the solutions to past crises, and the process is continuing. Just as the crises arising from the fall of the Berlin Wall were winding down, Europe experienced a new set of crises that were economic in their origin but political in their effect. The solutions were still a work in progress at the time of writing this book in 2018.

1.9 Global and Eurozone crises and institutional responses

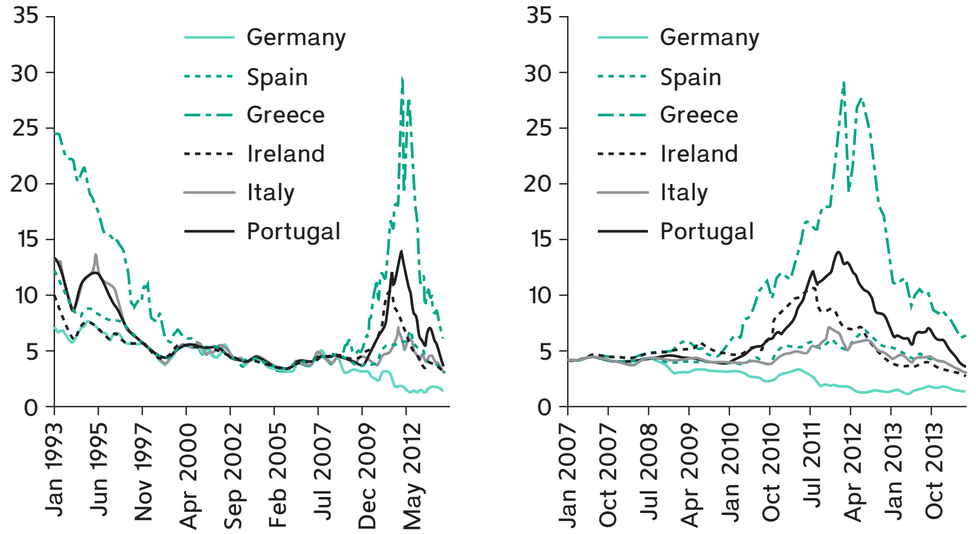
European economic integration during the 1990s and much of the 2000s was smooth sailing despite the 'Treaty troubles' discussed above. EU growth was good, unemployment was low, and inflation was low and steady. This period has been called the 'Great Moderation'. It seemed that superior monetary policy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

An indicator of these happy economic times was a convergence of Eurozone long-run interest rates with the low levels achieved by Germany (see Figure 1.6). The economic logic here is simple. Long-run interest rates reflect the interest rate that investors demand for locking up their money for 10 years or so. Traditionally, nations with unstable monetary and economic policies – Greece, for example – would have to pay higher interest rates to convince investors. Think of it like the odds at a roulette table. If you bet on black the reward for winning is double your money because the chance of winning is almost 50 per cent. If you bet on a single number, the payoff for winning is much higher because the odds of winning are much lower. If gamblers were not compensated for the higher risk, no one would bet on a single number. Likewise, if Greek bonds did not pay a higher reward than German bonds, no one would buy Greek bonds since they are riskier than German bonds.

The fact that the Eurozone erased the difference between Greek and German bonds in the late 2000s, as Figure 1.6 shows, demonstrates the enormous confidence that smart money placed in the solidity of the Eurozone. But this confidence turned out to be misplaced.

In many nations, especially the USA, the UK and Ireland, the Great Moderation encouraged investors to borrow money to invest. The key here is that they were not just investing their savings, they were actively taking on new debt to invest in risking things like housing. This investment strategy, which is called 'leverage', makes borrowers vulnerable to shocks. It was like an average person taking out a second mortgage on their house and then investing the loan in risky stocks. If the stock market goes up, the lucky borrower/investor can pay off the second mortgage and pocket some winnings. If the stock market goes

Figure 1.6 Eurozone long-run interest rates, 1993–2014



Source: Authors' elaboration on ECB data

down, the unlucky borrower/investor can end up losing their house to the mortgage lender. What goes for individuals also goes for government borrowing and bank borrowing.

The Global Crisis starts in 2008

This leveraged investing happened in the USA in an extravagant way. American financial institutions, including banks, radically increased their lending to home buyers with very poor credit. In autumn 2007, confidence in these so-called 'subprime loans' evaporated, causing huge financial stress for banks and other investors who had made such loans. The US government responded by helping the fragile lenders. The policies delayed the day of reckoning but, in doing so, they magnified the problem as the bad debt became concentrated in the hands of very few banks and financial institutions. The day of reckoning came in autumn 2008.

On 15 September 2008, a major US bank, Lehman Brothers, was caught between a rock and a hard place. It had loans to repay but could not convince enough investors to lend it the billions it needed to pay off the old debts. Instead of bailing out Lehman Brothers as they had bailed out banks in 2007, US authorities left it to go broke. At the time, there was some sense in this solution. The idea was to teach other banks that they should be more careful. As history would have it, however, the tactic backfired spectacularly. It set off the largest crisis since the Great Depression. Indeed, the shocks from this crisis – the so-called Global Crisis – were still echoing around the world in 2018.

The crisis started with a massive panic in financial markets. In the days following Lehman's collapse, all sorts of lenders just stopped lending. They feared that other banks and financial institutions would go broke, so they refused to lend. The refusal to lend, however, validated their fears since in today's financial system, banks have to borrow every day to pay off the borrowers they borrowed from yesterday.

In this situation, fear of a crisis can – all on its own – create a crisis. When new lending halts suddenly, banks cannot pay off what they owe and so they go bankrupt. When lenders see banks going bankrupt, they stop lending. It's a sort of snowball effect. The days following Lehman's bankruptcy witnessed the formation of the biggest and fastest-moving snowball that the world has ever seen. Basically, all large US banks were technically bankrupt the next day. To avert a new Great Depression, the US government bailed them out. But this radical move spooked investors – especially since few people understood what was going on. Fear spread, stock markets crashed and world trade fell dramatically. This created a worldwide recession that turned the US financial crisis into the Global Crisis.

While the recession hit Europe, and the financial crisis spread instantly to Britain, Europe was not, at first, caught up in the financial panic. In the early days, it seemed like the Eurozone had shielded Europe from what was, in September 2008, considered an Anglo-American crisis. This was not to last.

The Eurozone Crisis starts in 2009

The Lehman failure and global recession was a wake-up call to European investors lulled into overconfidence by the Great Moderation. They resumed their old tactic of charging higher interest rates for lending to weaker nations. As the right panel of Figure 1.6 shows, interest rates started to diverge between, for example, Greece and Germany (the right panel is the same as the left panel but shows fewer years for the sake of clarity). This started a new snowball rolling – this time in Eurozone financial markets. The result was the so-called Eurozone Crisis.

Two 'bombs' set off the Eurozone crisis. In January 2009, a very large Irish bank went bankrupt due to its inability to borrow money to finance the massive loans it had made to property developers inside Ireland. To avoid a crisis, the Irish government agreed to nationalize the bank. This didn't make the bad debt go away, it simply changed the bank's bad debt into Irish government bad debt. The trouble with this solution was that the bad debt was so large that it threatened to bankrupt the whole country. The failing bank, it turned out, was too large to be allowed to go bankrupt, but it was also too large for the government to save. As in a double drowning, the drowning bank pulled down the government that swam out to save it. Then the second bomb fell. In October 2009, the newly elected prime minister of Greece announced that his predecessor had 'cooked the books' concerning the size of the Greek national debt. The next day, the markets viewed the Greek government as being much riskier, so its borrowing rate rose steeply.

In the usual snowball way, when investors questioned the solvency of these nations, they demanded higher interest rates in compensation, but the higher rates fuelled fears about the nations' solvency. On top of this, financial markets began to fear that the crisis-struck nations might abandon the euro and allow their currencies to fall in value. This fear simply added to the likelihood of a debt meltdown and thus pushed long-run interest rates even higher.

To stop the snowball, the two nations asked for emergency loans from other EU nations and the International Monetary Fund (IMF). These events spread fear beyond Greece and Ireland, triggering new snowball effects. In the end, an emergency lending package had to be given to Portugal in May 2011, to Spanish banks in July 2012 and to Cyprus in May 2013 (see Chapter 19 for details).

Deeper Eurozone integration as a solution

As so often happened in the past, the Eurozone crisis made policymakers realize that a single currency required deeper economic and institutional integration than they had agreed to in the Maastricht Treaty. Chapter 19 provides more details but, in a nutshell, the key outcome was a massive institutional reform that ended up transferring significant amounts of sovereignty from Eurozone nations to Eurozone decision-making bodies. There were new restrictions on the tax and spending policies of Eurozone nations, and a shift to banking oversight by the European Central Bank for large financial institutions (instead of national oversight). A procedure was adopted that allowed bad banks to go broke without all of their investors losing all of their money, and a Eurozone-level bailout fund was established (the European Stability Mechanism).

In 2018, we could say that the 2009–10 Eurozone crisis was over, even though some tensions remained. The critical moment was when ECB President Mario Draghi announced in a speech that the ECB would do whatever it took to keep the Eurozone from breaking up. That erased the fears and brought interest rates back towards normal levels. But financial fragility still haunts the Eurozone. In particular, national debt levels are very high in nations like Italy, so another fear-driven snowball effect is a real possibility.

Just as the Eurozone crisis started to fade, Europe faced a huge shock that came from a very different direction.

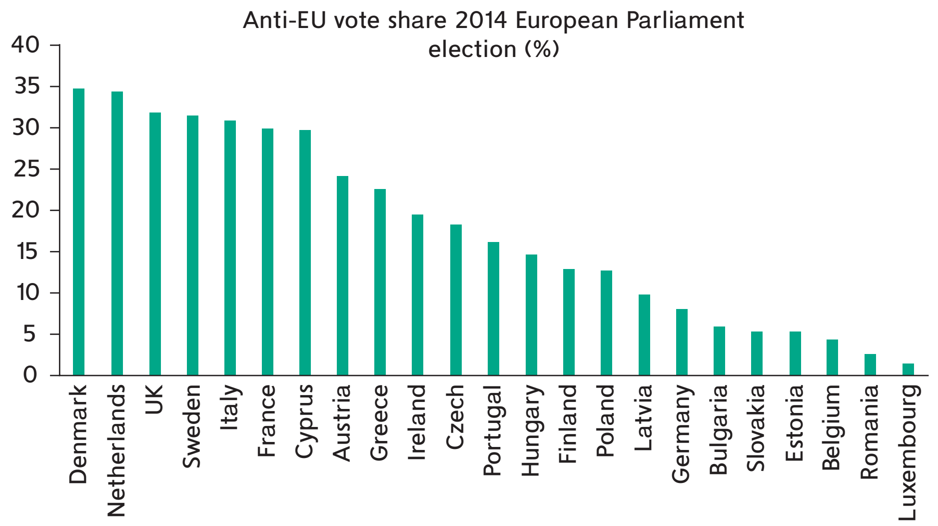
1.10 The rise of Euroscepticism

The end of the 2010s finds the EU in a difficult position. Something like the Euro-pessimism of the 1970s has returned, but with a big difference. In the 1970s, the pessimism concerned the EU's *ability* to implement deeper economic integration. Today, the pessimism is not about whether the EU can advance economic integration, it is about whether it should be stopped or even reversed.

In an international setting that is more unstable than at any time since the 1930s, nationalism and anti-EU rhetoric is becoming commonplace. The US President is questioning American commitment to NATO four years after Russian military forces brought a part of Ukraine (Crimea) under Russian control using tactics reminiscent of those employed by the Soviets in central and eastern Europe in the 1940s and 1950s. On top of this, war and civil strife in the Middle East and North Africa are pushing refugees into countries around the eastern Mediterranean including Greece, Italy and Turkey.

Some European political parties are winning large vote shares in national and European elections by calling for the break-up of the Eurozone and/or the EU, and this is not new. Figure 1.7 shows, for example, that Eurosceptic parties won many votes in the 2014 election of the European Parliament. In 9 of the 28 EU members, anti-EU parties won over a quarter of the vote – and this was before the 2015 migration shock that boosted anti-EU feelings in many nations.

Figure 1.7 Anti-EU parties' vote shares in 2014



Note: The share was zero for Croatia, Lithuania, Malta, Slovenia and Spain.

Source: Based on data from Figure 1 of Emanuele et al. (2016).

The 2019 elections for the European Parliament will give us another pan-EU look at populism, but the trend from national parliamentary elections suggests that populism is spreading. Table 1.2 shows the share of votes won by far-right parties in selected EU nations in the national parliamentary elections that took place between 2002 and 2017. In seven of the twelve nations, the far-right increased its shares. In Austria, Hungary, Finland and Sweden, the increase was by a massive amount, over 10 percentage points.

Quite simply, dissatisfaction and distrust of Europe's political establishment has risen to alarming levels and it is not clear, at the time of writing, where it is all going. This is clearly something new and important in the history of European integration, so it is worth looking at in depth.

Table 1.2 Far-right parties' vote share (%) in national parliamentary elections, 2002–17

	National parliamentary elections (various years)					
	1	2	3	4	5	6
Austria	10	15	28	24		
Denmark	13	14	12	21		
Hungary	5	2	17	20		
Finland	2	4	19	18		
Netherlands	17	6	6	15	10	13
Belgium	14	14	8	4		
France	13	6	14	13		
Sweden	1	3	6	13		
UK	2	5	13	2		
Italy	5	11	4	0		
Germany	0	2	2	4		
Portugal	0	0	0	0	1	

Source: Based on data from Davis and Deole (2018).

Populism and its causes

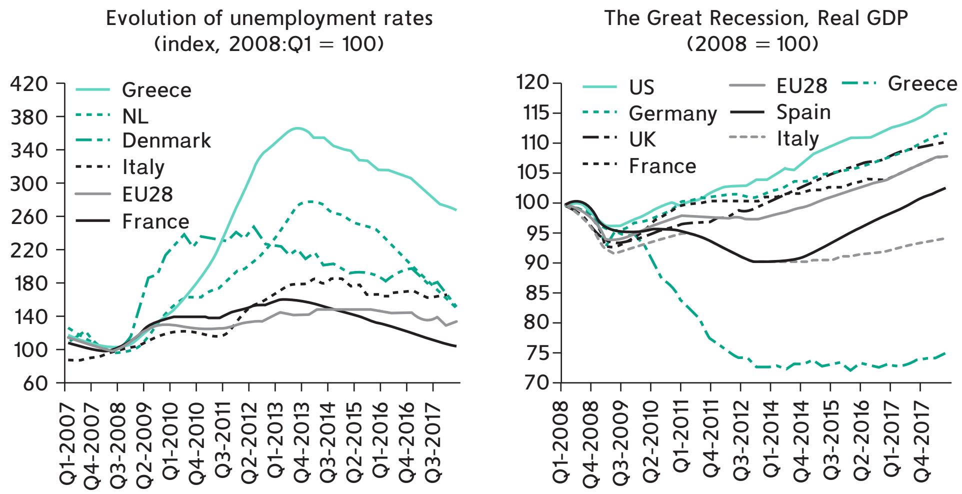
Recent research, like Dustmann et al. (2017), shows that distrust of mainstream leaders, political parties and institutions is the key factor underpinning the rise of populism and Euroscepticism. There are many causes of this rising distrust, but the lingering economic difficulty experienced by many Europeans is one of the most obvious causes.

Economic hardship that started with the Global and Eurozone crises has lingered for a decade. For the EU28 as a whole, unemployment soared from 2008 and peaked only in 2013 just before the European Parliament elections. The high levels of unemployment stayed high for nearly a decade – much longer than is typical for standard economic downturns. That's why this period is called the Great Recession.

Joblessness has come down slowly, but even in 2018, the EU28 unemployment rate had only just returned to what it was a decade earlier. Unemployment rates are quite different in different countries even in the best of times, but what matters within a nation is the change in joblessness. Danes care about whether it is harder to find a job in Denmark than it was before, not whether it is easier to get employed in Denmark than, for example, Spain. One way to focus on unemployment's evolution (rather than its overall level) is to re-base all the unemployment rates to 100 at the beginning of the Global Crisis in early 2008. The results, shown in Figure 1.8 indicate that unemployment is still much higher today than it was before the crises. In some nations, like Italy, Spain, Greece and Denmark, it is more than 50 per cent higher. In more concrete terms, the figures mean that millions of EU citizens have been unemployed for years due to these shocks and the lack of corrective economic policies.

In terms of income and output, the Great Recession was also great in a bad way. The EU28 as a whole saw real GDP (a measure of total economic output and income) drop by 5 percentage points in 2008 and stay below the 2008 level for six years. Some nations recovered more quickly, like France and Germany; others took longer, like the UK and the Netherlands. Spain recovered only in 2017 but Italy and Greece have still not recovered. Greece in particular looks like it has slid into a new Great Depression. This is the way economies normally behave. Incomes go through cycles of ups and downs, but the downs have rarely lasted this long. For comparison, the US economy recovered its pre-crisis level in 2010.

Figure 1.8 Lingering unemployment and slow recovery during the Great Recessions



Source: Author's elaboration of data downloaded from OECD.org; unemployment figures are for unemployment of all people over 15 years old.

Note: Real GDP figures are for the nation, not per person. You can update these figures by visiting www.oecd.org.

When economic hardship like this lasts for a decade, some voters very naturally start to distrust the ability and/or motives of mainstream politicians. These doubts, in turn, create a fertile environment for populism – especially among citizens who had low levels of trust to begin with. In Europe, the heightened doubts opened minds to radical changes. To many Europeans, the EU – or at least the Eurozone – was to blame, since its rules imposed fiscal austerity that prevented the worst-hit nations from increasing spending to stimulate their economies.

The rise of populism, however, is not mechanically linked to economic conditions. In some countries, the trigger issue was immigration.

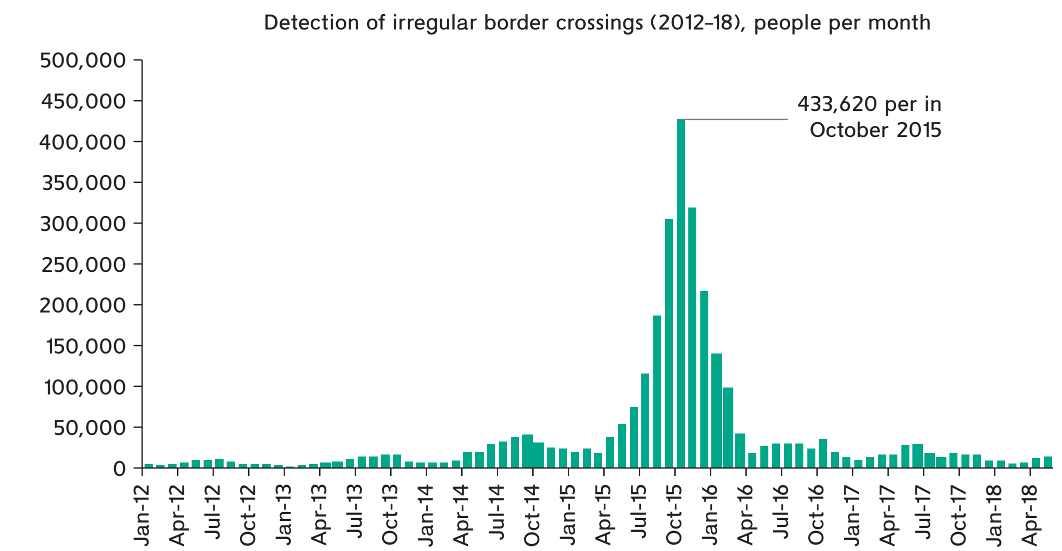
The migration shock

Just as the Eurozone crisis started to fade and unemployment started to fall, the EU experienced a new shock that is sometimes called the migration crisis of 2015–16. War and general economic and political turmoil in the Middle East and North Africa sent a medium-sized wave of migrants into Europe starting in 2014. This was followed up by a gigantic wave in 2015 and early 2016. Most of these migrants arrived in Greece, Italy and Spain by sea, and Hungary by land. Many of them moved to Germany and other northern EU Member States. The EU and its members were not prepared. Europe had adapted to dealing with a steady stream of refugees, as Figure 1.9 shows, but it was overwhelmed when the inflow rose to hundreds of thousands of people per month. This had political consequences since mass migration is a sensitive topic in almost all nations.

Migration is about much more than economics. Mass migration does, and always has, created strong reactions in most nations. In some people, the suffering of refugees triggers heartfelt solidarity with fellow human beings in need. Other people fear that the newcomers will overrun their communities and undermine their way of life. This can lead to a backlash, or even hatred and violence. In many EU nations, populists exploited this fear to win more votes by appealing to nationalism and identity politics. Xenophobia, which was long considered a fringe sentiment in Europe, became commonplace. In 2017 and 2018, even mainstream politicians were using words that would have been unthinkable before the migration crisis.

The migration crisis was particularly difficult for the EU since the ideal of frontier-free trade – which had been in action since the 1990s – was never matched by the complementary institutions and policies that

Figure 1.9 The 2015–16 migration crisis



Source: Author created using publicly available data.

would have been necessary to deal with the external migration crisis. This can be thought of as a situation that was similar to the one that arose during the Eurozone crisis. The euro worked fine in the economically favourable climate of the 2000s, but it fell into crisis when it was hit by big shocks. In the case of migration, there were two key EU shortcomings. First, removing internal border checks on people made the EU's external borders a matter of common concern to all members. If external migrants came in via, say, Greece, they could end up in Denmark, given the lack of intra-EU border controls. Despite this, very little was done at the EU level to reinforce the EU's external borders. The main responsibilities were left to individual Member States. This led to investment in border controls in the frontier members that was sub-optimal from the perspective of the EU as a whole.

Second, the rules for managing asylum requests were not designed to handle hundreds of thousands of requests per month. The basic principle of the EU's asylum system (the Dublin System) is that an asylum seeker can only apply in one EU nation, and that should normally be the EU nation where the asylum-seeker first entered. These rules, which were workable when arrivals were in the range of thousands per month, broke down during the migration crisis. Within the space of a year, over a million immigrants arrived in a handful of EU nations – and these were nations that were either poorer than average (like Hungary), or economically suffering from the economic crises (like Italy and Spain), or both (like Greece). Ultimately, the crisis was halted when the EU agreed to pay billions of euros to Turkey to take back refugees who were refused asylum. This deal almost immediately slowed the pace of migration from Turkey, and since Turkey was the largest transit country, the deal ended the crisis.

These two factors made it easy for populists to blame the EU for disruptions that came with mass migration. But what is populism?

Populism as a backlash

Populism is not an ideology or set of specific beliefs in the way communism or capitalism are. Some European populists, like Podemos in Spain, promote leftist solutions to Europe's problems. Others, like the National Front in France, embrace far-right programmes. The core of populism is a general sense that 'the people' are pure and 'the elite' are corrupt or inept. Populist leaders win votes by telling the people that they have been taken advantage of by the elite. The solutions that populists promote can be left, right or anything except mainstream. Their ideas do not have to make economic sense, and they do not even have to be well understood by voters.

Much of populism is driven by an urge to vote *against* something, not *for* something. Populism, in other words, is a form of 'anti-ism' – a poorly focused urge to lash out against the status quo. The EU is a particularly convenient part of the status quo to lash out against. Few people really understand what the EU does (as we have seen during the two-year long Brexit discussions) and national leaders have for years blamed the EU for painful but necessary national reforms. On top of this, many voters think that the EU is run by faceless, unelected bureaucrats – most of whom are foreigners who are out of touch with citizens' daily concerns.

One of the most common ways that populists exploit the rise in citizens' distrust is to blame foreigners. That, plus the migration crisis, is why anti-immigration forms a core element of populism and Euroscepticism. Indeed, some of the anti-EU parties, like those in Italy, have stopped being anti-euro and started focusing voters' anger on migrants. Migration was a big issue in the most spectacular result of Euroscepticism – Britain's decision to exit the EU.

Brexit

With the June 2016 vote to leave the EU, British exit, or Brexit, showed that Euroscepticism was much more than a passing fad. It had become a history-shaped phenomenon.

Brexit was a huge shock. As in many EU nations, anti-EU sentiments have been around for a very long time in Britain, but they were considered fringe views. British voters are typically sensible and cautious, and the government is typically deliberative and careful. Britain is the sort of country where, for example, it took ten years to decide whether the extra runway that London needed should be built at Heathrow or Gatwick. This is why the Brexit vote was such a shock to the European project.

Lessons from Brexit must be handled with care. It is important to note that the push to hold a Brexit referendum was not driven by populism, even if its outcome was definitely effected by populism. It started as a political gamble.

The UK party in power in 2016 was the Conservative Party, also known as the Tories, led by prime minister David Cameron. The Conservative Party had long suffered a deep schism that mirrors the federalist versus intergovernmentalist divide that has been present in Europe since the late 1940s. Pro-EU Tories favour integration and cooperation, including some supranationalism. The anti-EU wing of the Tories favours an extreme version of intergovernmentalism similar to the version that kept the UK from joining the EEC back in 1958. Cameron held the referendum in a cynical bid to reduce the power of the anti-EU wing of his party. It was a gamble to maintain the cohesion of one British political party. Cameron lost the gamble and lost his prime minister-ship, but the damage will harm the UK as a whole for years to come – or at least it will according to most economic studies, including those done by the British government (UK Treasury, 2016).

The outcome of final vote was largely unexpected. About 52 per cent of voters choose the 'Leave' option, while about 48 per cent chose the 'Remain' option. This outcome is a classic example of 'populism as anti-ism'. The referendum did not ask what voters were for, only what they were against. The exact question on the ballot was: 'Should the United Kingdom remain a member of the European Union or leave the European Union?' The possible answers were just: 'Remain a member of the European Union', or 'Leave the European Union'. The meaning of 'remain' was clear, but the meaning of 'leave' was absolutely unclear. During the referendum campaign, the Leave side could not agree a common position on what sort of economic, political and security relationship the UK should have with the EU after it left. The most mild Eurosceptics assured voters that the UK would stay in the Single Market. The most extreme Eurosceptics wanted a clean break, so that the UK's trade relationship with the EU would be no closer than Japan's.

While similar in its anti-ism, Brexit populism was an unusual form of Euroscepticism in another way. There was no clear leader; no strong charismatic figure that people could trust and associate with Brexit. There was, in short, no Marine Le Pen or Viktor Orban. In fact, once the Leave camp won the vote, all the Leave campaign leaders walked off or were pushed off the political stage. The task of leaving the EU was handed to a distinctly uncharismatic, lifelong politician who actually voted against Brexit – Theresa May. Given that leaving would surely be the largest economic and political challenge faced by the UK since the Second World

War, and given that it was pushed so strongly by Tory party Eurosceptics, it is odd that none of the Eurosceptic Tories emerged to lead the UK during this trying time. But why did Brits vote to leave?

An exit poll (a survey taken of voters leaving the polling station on the day of the referendum) found that the Leave voters were on average older, less educated and less employed than the Remain voters. For example, 73 per cent of 18 to 24 year olds voted Remain while 60 per cent of over 65s voted Leave. A majority of Britons with jobs voted Remain while a majority of those who were retired or without jobs voted Leave. The vote was not along party lines. About 40 per cent of Leave voters were from the Conservative Party while about 20 per cent were from the Labour Party (the rest were from the far-right UK Independence Party, or unaffiliated).

Most striking of all, many of the Leave voters had no idea of the economic consequences of their vote. According to an exit poll conducted on the day of the vote, 69 per cent of Leave voters thought the decision 'might make us a bit better or worse off as a country, but there probably isn't much in it either way'.

The exit process

Britain's exit from the EU is governed by Article 50 of the Lisbon Treaty (see Box 1.4). This sets a limit of two years on the exit negotiations, which can only be extended by a unanimous vote of the other 27 EU members. Technically, there are two parts of the Brexit negotiations: a 'divorce', and a 'remarriage'.

Box 1.4 The Brexit Process and Article 50 of the Lisbon Treaty

Article 50 of the Lisbon Treaty (technically known as the Treaty on European Union) states that members can leave the EU. The Article is quite short and many details are left unclear, at least in part, since most people thought it would never be used. Brexit proved that most people were wrong.

Britain triggered the process on 29 March 2017 and this set in motion a negotiation for a 'withdrawal agreement'. Article 50 states that the exit happens when the withdrawal agreement enters into force, or two years after the process is triggered (whichever comes first). Since the EU–UK negotiations have been very slow, the two-year limit will almost surely be the binding constraint and that means that the UK will be outside the EU on 30 March 2019. There is, however, a legal loophole that allows the negotiations to stretch longer than two years, but this would require all 27 other members of the EU to agree to the extension. Since getting 27 countries to agreement unanimously on anything is very difficult, this loophole is likely to be used only in extraordinary circumstances.

The withdrawal agreement is the first part of the challenge. By autumn 2018, when this book was written, the main withdrawal issues had been provisionally agreed. This clarified how large the UK's payment would be to cover financial commitments that it had already made as a member, the rights of EU citizens living in the UK and the rights of UK citizens living in the EU.

The third part of the withdrawal agreement requires more explanation as the issue was almost entirely overlooked during the referendum campaign. Brexit would, under normal rules, require a border to be set up between Ireland, which is and will remain a member of the EU, and part of the UK known as Northern Ireland. The problem is that the lack of a border between Ireland and Northern Ireland was a key part of the peace deal that ended decades of violent conflict in Northern Ireland. Since all parts of the Irish island were members of the Single Market, removing the border was administratively simple, but after Brexit it will not be simple unless Northern Ireland stays in the Single Market. This peace deal, the so-called Good Friday Agreement which was signed in 1998, put an end to killings and bombings driven by the conflict between radical elements of the Catholic minority in Northern Ireland and radical elements of the Protestant majority. Making sure that no border would be reimposed after the UK left the EU was the third element of the withdrawal agreement that was provisionally signed in March 2018 (provisionally since, as is true with all international negotiations, nothing is fully agreed until everything is fully agreed).

According to Article 50, the withdrawal agreement should take account of the framework for the UK's future relationship with the EU. Britain wanted to interpret that as meaning that the future trade relationship should be part of the bargain, but the EU side insisted that it only meant that the future relationship would be specified where it was essential, as in the case of the Irish border. Indeed, Article 50 explicitly says that the future trade relationship between the exiting member and the EU should be conducted under the Treaty's provisions governing the EU's talks with external countries. Thus the UK–EU future trade agreement will be negotiated under the same legal authority as, for example, the Canada–EU trade agreement that was signed in 2017, and it can only start after the UK has exited.

One of the many things left unclear by Article 50 at the time it was triggered was whether Britain could change its mind before 30 March 2019 and decided to cancel Brexit. In December 2018, the European Court of Justice ruled that it could, however at time of going to press the decision of the UK government in this respect was unclear.

The divorce settles rather technocratic issues such as how much the UK has to pay for the future and past spending commitments it agreed to when it was a member, and the status of EU citizens who are long-time residents in the UK and vice versa. This divorce part, formally called the withdrawal agreement, should also take account of the future relationship between the UK and the EU, but the new relationship should be negotiated once the UK is no longer a member of the EU. While the terms of withdrawal were difficult, the really hard part is the terms of the remarriage.

The EU has been very clear that the UK cannot pick and choose among elements of the Single Market. The EU has maintained that there are three basic options. The so-called 'Hard Brexit', or the WTO option, would involve the UK exports of goods and services being treated as those of any other WTO member, say the USA or China. The exact implication of this would vary by sector and product since EU restrictions on imported goods and services vary, but it would involve an overall very large increase in the barriers to trade between the UK and the EU.

The second option would be a 'deep' free trade agreement of the type the EU has with Canada. This would provide tariff-free trade in goods, but exporters and importers would still face many technical and frictional barriers that arise with the imposition of border controls. The UK service sector, especially financial services, would suffer severely under this option since most of the barriers in services are regulatory and the UK would be outside the EU's regulatory network.

The third, or 'Soft Brexit', option would involve the UK staying inside the deep economic cooperation arrangement of the Single Market. That is the choice that was made by today's members of the European Economic Area agreement, like Norway. This would minimize the economic disruption, but it would also commit Britain to a deep economic relationship with the EU without having a political voice inside the EU. Britain would also have to continue contributing to the EU budget. A study by professors at the London School of Economics estimated that the Hard Brexit option would lower UK incomes by about 2.6 per cent while the Soft Brexit option would lower them by only 1.3 per cent (Dhingra et al. 2016). These figures are in line with most other estimates of the economic cost of Brexit.

The ruling Tory party was so badly divided on Brexit that the critical issue of Britain's post-Brexit trade relationship with the EU didn't come up for a Cabinet discussion until 18 months after the vote. When this book went to press, the issues seemed to have been settled among Tory party members in July 2018, but the agreement led two senior ministers to resign. More worrying was that the basic political agreement among British Conservative politicians contained elements that the EU side had repeatedly rejected. In the summer of 2018, the ultimate outcome was absolutely unclear.

1.11 Summary

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

European integration has always been driven by political factors. In the early days, the political factors included a desire to prevent another war between France and Germany, to lock a revitalized and rearmed Germany into a European superstructure, to prevent the spread of communism to west Europe, and to guard against military threats from the USSR. In more recent decades, the main push came from a desire to share the fruit of integration with the newly democratic nations in central and eastern Europe.

While the push factors were always political, the means were always economic. Starting with the European Coal and Steel Community and the European Economic Community, Europe's founders believed that tighter economic integration would set off a snowball effect that would bring Europeans ever closer as people and nations. They believed that economic integration would foster political integration, and political integration would solve Europe's problems.

There have been three really big increases in European economic integration. The first was the formation of the customs union from 1958 to 1968. This eliminated tariffs and quotas on intra-EU trade in goods. The second was the Single Market Programme, implemented between 1986 and 1992, which eliminated many non-tariff barriers, harmonized regulations, and liberalized the movement of labour and capital within the EU. Finally, the Economic and Monetary Union introduced a single currency for many EU members. It also set up the institutions, rules and practices necessary to run a monetary union. Each of these three big steps was accompanied by significant increases in political integration in the sense that EU members pooled increasingly large shares of their national sovereignty over the relevant economic policies.

Each of these steps towards deeper integration – but especially the customs union and the Single Market Programme – engendered discriminatory effects that triggered reactions in non-member nations. Just as the knocking down of one domino triggers a chain reaction that leads to the fall of all dominoes, the discriminatory effects of EU integration have created a powerful gravitational force that has progressively drawn in all but the most reluctant Europeans. This is why the EU expanded geographically as it deepened economically. Brexit, however, changed this.

The last decade has reversed, or at least complicated, this historical narrative of an ever wider and ever deeper Europe. Euroscepticism was on the rise at the time of writing this book in 2018 and it was not clear where it would end. Parties calling for the break-up of the EU have won large vote shares and are participating in governing coalitions of some member states. The most extreme version of Euroscepticism so far has been Britain's vote to exit the EU. In 2018, the Brexit process was not going well inside the UK. The Brexit negotiations have been entangled for two years in the complicated politics of Britain's Conservative Party. The rest of the EU has looked on with a combination of wonderment and puzzlement.

One thing that Brexit has taught Europe is how right the founders were. Economic integration is a powerful force driving political integration – so powerful that it is proving exceptionally difficult for Britain to undo the political integration without doing massive harm to its own economy. This is a reality of European economic integration that students will come to appreciate as they read our book. EU integration is extremely complex and many parts of the integration are deeply intertwined in ways that make them hard to separate.

Self-assessment questions

1 Draw a diagram (or diagrams) that graphically shows the major steps in European economic integration, along with dates and the names of the countries involved. Be sure to discuss explicitly the removal of various barriers to the movement of goods, labour and capital.

2 Draw a diagram like Figure 1.4 that shows the current state of trade arrangements in Europe, including all European nations west of the Urals.

3 Make a list of all the EU treaties (with dates) and provide a 10-words-or-fewer explanation of each treaty's major contribution to European integration.

4 What were the main changes in the Lisbon Treaty aimed at adapting the EU to the increased number of members that came with the eastern enlargement?

5 Some European integration experts subscribe to the so-called bicycle theory of integration, which asserts that European integration must continually move forward to prevent it from 'falling over', that is, breaking down. List a sequence of events from 1958 to 1992 that lends support to this theory.

6 Explain how Cold War politics accelerated European integration in some ways but hindered it in others, such as geographic expansion of the EU.

7 Explain when and by which means the organization that is known as the European Union has changed names since its inception in 1958.
8 Make a table showing the dates of all changes in EU and EFTA membership.
9 Define populism and explain how Euroscepticism differs from Europessimism.
10 Write out a timeline for the main events in Brexit starting with the June 2016 vote and running all the way up to the present.
11 Write out a timeline for the European migration crisis.

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Further reading: the aficionado's corner

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For a good, general description of the development of European integration, see:

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Useful websites

The European Parliament's 'factsheets' provide an excellent, authoritative and succinct coverage of many historical institutions, policies and debates. For example, it has pages on the historical development of the Parliament's role, on historical enlargements and on every treaty. See www.europarl.eu.int/factsheets/default_en.htm.

Very detailed information on any topic concerning the EU can be found at http://ec.europa.eu/index_en.htm.

A good glossary can be found at http://europa.eu/legislation_summaries/glossary/.

Details on specific treaties (including handy summaries) can be found at http://europa.eu/about-eu/basic-information/decision-making/treaties/index_en.htm.

For Marxist–Leninist thinking on capitalism, imperialism and war, see this tract by Leon Trotsky at http://www.marxists.org/archive/trotsky/1939/09/ussr-war.htm.

The Truman Library website www.trumanlibrary.org/teacher/berlin.htm is a good source for early post-war background documents online.

The Centre Virtuel de la Connaissance sur l'Europe provides a complete and well-organized website for documents, photos, videos, etc. on virtually every aspect of European integration at www.cvce.eu.

The German Historical Museum (DHM) provides photos and videos of Germany's wartime experience at www.dhm.de/lemo/html/Nachkriegsjahre/DasEndeAlsAnfang/.