

John Gillingham, *European Integration 1950-2002: Superstate or New Market Economy?* New York: Cambridge University Press, 2003.

For some, the process of European integration resembles nothing so much as a long-running Broadway play. The actors change, but the roles remain the same, the lines endlessly repeated, the action tightly scripted. So it is in John Gillingham's history of the European Union.

Gillingham's libretto revolves around the conflict between the champions of economic statism and economic liberalism. The lead roles are those of Jean Monnet, the charismatic French technocrat, and Friedrich Hayek, the bookish Austrian economist. Act I, which stretches from the late 1940s through the mid 1970s, is dominated by Monnet and his circle, who responded to the material and moral conditions of post-World War II Europe, which rendered the rapid restoration of liberal market arrangements infeasible, by making enterprise nationalization and indicative planning the order of the day. Controls on international capital flows, whose retention was permitted under the Bretton Woods settlement, gave each government the leeway to elaborate a national plan. But controls did nothing to rebuild Europe's trade or to create confidence that Germany's economic might would be channeled in productive directions; if anything, they stood in the way. Monnet's response was to advocate the creation of a supranational entity, a union of European nations, through which state guidance of the economy could be formulated on a continental scale, intra-European trade could be liberalized, and Germany's economic energies could be reliably channeled. The economic constructs of the Monnetists, from the European Coal and Steel Community to the customs union, were all flawed

to some degree. But together they gave birth to a set of institutions – a commission of technocrats, a representative assembly, and a court of justice – on the basis of which it became possible to organize transnational policies and create the European Union.

Act II, commencing after an interlude of six years, sees the revenge of Hayek, with a helping hand from Margaret Thatcher. By the early 1980s the inefficiencies of state-led planning had become evident, and the special circumstances that had lent legitimacy to statism after World War II no longer animated European leaders. The capital controls that had given European governments the freedom to pursue distinctive national policies had meanwhile lost much of their bite. The expansion of trade, which even diehard Monnetists acknowledged was necessary for prosperity, and the growth of the Eurodollar market, which they did not anticipate, destroyed the feasibility of economic planning in one country. The failed Mitterrand Experiment of 1981-3 drove home the point.

Enterprise privatization and market deregulation thus became the orders of the day. A single European market free of barriers to the internal movement of merchandise, capital and labor, long a vision of Hayek, came to be seen as a solution to the problems of stagflation and high unemployment. A continental market would allow European firms to reap economies of scale and scope. The need to attract footloose factors of production would force national governments to remove barriers to production and innovation. A single currency, a creation with both symbolic and real value for integrating markets and intensifying competition, capped the process in 1999.

But this finale proved anti-climatic for the Hayekians, for it did not reduce the reach of the state nor lead to the devolution of regulatory functions to regional and local governments.

To the contrary, the creation of the single market starting in 1986 led to a sharp expansion in the competences of the European Commission, the EU's proto-executive in Brussels. With benefit of hindsight, this is not surprising. The cross-border spillovers of policies grow more pervasive as markets are integrated. These spillovers create a logic for centralizing the regulatory functions required for the operation of a single market. Even a classical liberal economy must have a trade policy and a competition policy. An integrated market can have only one. As Gillingham notes, Jacques Delors, the EU's head technocrat from the mid-1980s through the early 1990s, saw this as a convenient opportunity to expand the responsibilities of the European Commission and to turn it into the EU's central policy-making organ.

But conferring legitimacy on those responsible for these functions requires creating mechanisms for holding them accountable for their actions. As the powers of the Commission expanded, proposals spilled forth for enhancing the oversight of the European Parliament, strengthening the Council of Ministers, and even directly electing the president of the Commission as ways of redressing the democratic deficit. In the ultimate irony, then, the economic triumph of the Hayekians gave new life to the political integration so fervently desired by the Monnetists.

It is not surprising that Gillingham, previously the author of the definitive history of the European Coal and Steel Community, should see the development of the European Union as a contest between these rival economic models. Not that the author is unaware that others see the process of European integration as first and foremost political and only secondarily as an economic project. One cannot read his book and fail to be impressed, for example, with how long-standing is the French desire to use Europe as a platform for its foreign policy and for

countering the military and diplomatic influence of the United States. Already in the early 1950s Monnet sought to capitalize on this impulse with a scheme for a European Defense Community. He envisaged a European military headquarters and joint armaments production, ideas that are again circulating today. Revealingly, the idea foundered over the absence of political mechanisms to hold its leaders accountable. The European Political Community proposed by Monnet as a framework for the defense community was quickly rejected as a bridge too far.

But the French, embarrassed by the climb-down over Suez forced upon them by the United States, refused to let the idea die. Charles De Gaulle, however much he distrusted Monnet, saw his countryman's European project as a way of escaping the domination of the Americans. Subsequent French governments sought to advance this idea by making a Franco-German Defense Union part of the 1963 Elysee Treaty and again when proposing the creation of a Eurocorps in 1992. *Plus ca change*, as they say.

Of course, a key difference now, when the idea of a European defense union is again being mooted, is the change in Germany's geopolitical circumstances. In 1963, with the Soviet army on the Federal Republic's doorstep, the Bundestag added to the Elysee Treaty a preamble stating that the new agreement should not be allowed to affect Germany's NATO commitments. Three decades later Germany similarly insisted that the Eurocorps be placed in the NATO framework. But today, the Soviet threat long since having disappeared, NATO is perceived as less central to German security. Mr. Schroeder can more comfortably side with the French when they argue the need for European countries to act in concert to counterbalance the United States. A theme of Gillingham's history is the role of the Cold War in shaping the process of European integration; it guaranteed U.S. support while both motivating and constraining the European

response. As the Cold War becomes history, it is correspondingly less likely that the goals of U.S. foreign policy and European integration will dovetail and more likely that the European project will acquire its own distinctive geopolitical flavor.

That the Franco-German alliance traditionally served as the motor for European integration suggests that this shift will have profound consequences. No significant advance in the process of European integration has been possible without support from both France and Germany, from the Coal and Steel Community to the euro. And when France and Germany have set their minds on further integration, the rest of Europe has found the pressure irresistible. Italy was always happy to have competent government from Brussels rather than something less from Rome, as Gillingham observes. Economically, Belgium, Luxembourg and the Netherlands were too closely tied to their larger neighbors to do anything but go along. This makes the mini-summit to discuss modalities for closer defense cooperation, held at the end of April by the leaders of France and Germany together with their counterparts from Belgium and Luxembourg, a potentially portentous event.

At the same time, the current stage set is very different from that constructed by the play's original producers. Britain is now firmly a member of the European Union, and just as De Gaulle feared it has a different vision of European integration, one that countenances fewer compromises of sovereignty and insists on closer ties to the United States. Political normalization allowed Greece, Portugal and Spain to join the EU in the 1980s. The end of the Cold War allowed Finland, Sweden and Austria to join in the 1990s. Next year the greatest enlargement yet will expand the EU from 15 to 25 members. Already the new members are represented at the constitutional convention meeting in Brussels, and increasingly their shadow

hangs over Europe's other deliberations.

Thus, France and Germany, even together with their Benelux friends, are now but a small minority of EU member states. Donald Rumsfeld's reference to "Old Europe" may be politically incorrect, there is the fact of 18 small current and future member states, dominantly Central and Eastern European, meeting together in April prior to the Athens EU Summit to agree on a common position on the institutional future of their union. Notwithstanding President Chirac's rebuke of the new members when they expressed their support for U.S. policy toward Iraq, it is clear that their sheer number makes it difficult for Paris and Berlin to dictate decisions that must be taken by a qualified majority of member states, and even by unanimity, in an enlarged European Union.

France and Germany, with cover from the Benelux countries, could conceivably attempt to push ahead on their own. The euro and the Schengen passport agreement demonstrate the feasibility of some EU member states taking further integrationist steps in advance of others. Not surprisingly, the idea of "reinforced cooperation" – of some countries moving ahead more rapidly in areas like defense and foreign policy – is in the air.

But to think that the problem can be solved in this way is to misunderstand the policy problems that will occupy Europe's leaders in coming years. The pressing need will not be to establish a European military headquarters, an armaments agency, and a joint army so that Europe can match the ability of the United States to project force in an Iraq-like situation. There is unlikely to be consensus, even within Old Europe, on the desirability of doing so. Germany may be a different place than it was before the end of the Cold War, but the country's history continues to shape and constrain its foreign policy. It remains understandably more reluctant

than France to project military force abroad. France and Germany's shared opposition to the Bush Administration's unilateralism on Iraq does nothing to paper over this difference.

Homeland security is another matter. Here European countries do share a common interest. But this is a realm where there exists a particularly great imbalance between Europe and the United States.

It is not that Europe lags in technology or administrative capacity. Rather, it lags in organization and incentives. The efficiency with which different U.S. federal agencies coordinate their efforts to enhance homeland security may be criticized, but at least those agencies are federal. Although internal security is a competence of the EU, having been recognized as the Union's "third pillar" (along with the first and second pillars of economic and foreign policies) in the Treaty of European Union initialed in Maastricht in 1992, in practice Europe's borders with the rest of the world are still controlled by the individual member states. A terrorist entering Europe via, say, Italy is free to move through Europe courtesy of the Schengen agreement. Similarly, radioactive material concealed in a container unloaded in Naples can be freely transported throughout the continent, courtesy of the single market agreement, which by design eliminates most inspections of trucks and their contents at Europe's internal borders.

Notwithstanding the best intentions of the Italian border police, decentralization creates a free rider problem. Italy will suffer only some of the adverse consequences for European security when it economizes on spending on border inspection. The rest will be incurred by its partners in the European Union. This is not to pick on Italy; it is the structure of incentives that creates a tendency to under-invest in internal security.

France and Germany cannot solve this problem by themselves so long as they value the internal market within which people and products circulate freely. Doing so requires the cooperation of all countries participating in the single market. And the only way of assuring this – of durably solving the free rider problem and ensuring an adequate investment in homeland security – is by transferring responsibility for European security policy to the European Union and empowering an EU agency to organize the relevant resources, including if necessary a single EU security service and border control force.

The question is where to locate these responsibilities, and specifically whether to vest them in the president of the Commission or the president of the Council. Should this expanded executive authority be assigned to a Council president who would serve a significantly longer term in office than the current six months and derive his authority from the national governments that are the Council's members? Or should it be assigned to the president of the Commission, who would derive his authority from the European Union as a whole? This is the fundamental question facing the constitutional convention.

EU member states have tended to divide on it along lines of country size. Most small countries prefer strengthening the president of the Commission, an institution in which the tradition of a commissioner for every country has guaranteed them voice. The large countries prefer strengthening the president of the Council, since they anticipate that the non-rotating president will be a former prime minister of a large country who will be partial to their views. Valéry Giscard d'Estaing, the president of the convention, has sided with the large countries.

But there is really no question of which option dominates if security is to be a European priority. Imagine, God forbid, some future European equivalent of 9/11 requiring a rapid



response. It is hard to imagine that this could be organized by laboriously assembling 25 European heads of state and gaining their unanimous consent to a specific set of actions by the president of the Council. No Council president would have the power to call an abrupt end to the discussions of the assembled heads of state and act unilaterally. Even the strengthened Council president Mr. Giscard has in mind would only have powers of “preparation and consultation.” He could not take decisions on his own. Such capacity could, however, reside in a strengthened president of the Commission, the EU’s executive, who would have the ability to respond in the manner of the president of the United States. Jacques Delors recognized all this, according to Gillingham, when he slipped the third pillar into the Maastricht Treaty in 1992 as a rationale for strengthening the Commission.

The constitutional convention could address worries about compromises of sovereignty by specifying the limited circumstances under which the Commission president could exercise his new executive authority. It could give the Council the right to switch on and off the president’s powers to take unilateral steps to protect Europe’s internal security. It could reassure those afraid of a power grab by decisively assigning other responsibilities, like the power to tax and redistribute income, to national governments, where they belong.

Ultimately, however, a Commission president with new powers would be regarded as legitimate only if he was accountable to Europe’s citizens. In their proposal to the convention, the small countries that favor strengthening the president of the Commission recommend that he be chosen by a college of electors selected by the European Parliament and national parliaments. Better still would be to leave to the individual member states how to choose their electors. Countries with a tradition of subjecting EU treaties to a referendum might wish to select them by

popular vote. Others that regard matters involving the EU as more technical or obscure might wish to delegate this power to the national parliament or government. Sovereignty would be better preserved by leaving this decision to the individual states. If and when there developed a stronger European *demos*, more member states could opt to choose their electors by popular vote, as happened over time in the United States. The political basis for decision making in the EU could evolve at a pace chosen by Europe's citizens.

To be sure, there are obstacles to political reform along these lines. Most European countries have little experience with the presidential form of government. They have deep reservations about pooling their sovereignty even to this limited extent, as Gillingham emphasizes throughout his tome. The idea that 25 proud sovereign states would suddenly see the need to counterbalance U.S. military might and foreign policy influence as sufficient grounds to abandon their national prerogatives is naive, given the long history of the Europe's failed defense and foreign policy initiatives, not to mention the uncomfortable fact that there is no agreement on the nature of the European alternative.

But internal security is another matter. Security in one country is no more feasible than socialism in one country when the country in question is as small, open, and intimately linked to its neighbors as the typical EU member state. Terrorist threats to the European homeland may yet provide a compelling rationale for the centralization of consequential policy functions and for the political integration necessary to lend legitimacy to those chosen to carry them out. If so, a common foreign policy may eventually enter, after some period of time, through the back door.

Barry Eichengreen is George C. Pardee and Helen N. Pardee Professor of Economics and

Political Science and Director of the Institute of European Studies at the University of California, Berkeley. He is author (with Erik Berlof, Gerard Roland, Guido Tabellini and Charles Wyplosz) of *Built to Last: A Political Architecture for Europe* (London: CEPR).