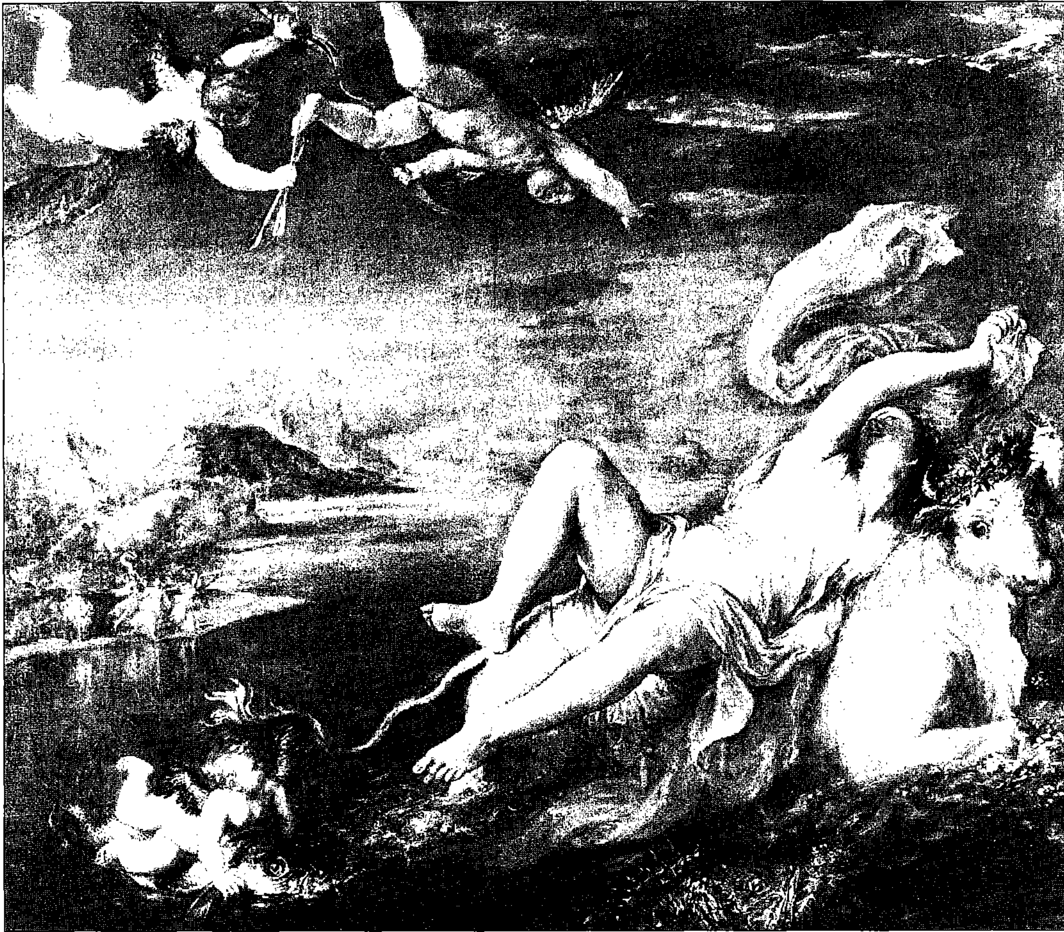
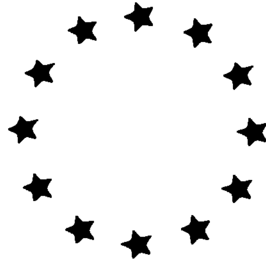


Titian's The Rape of Europa *(1561).*

Europe 1992

The Greeks named Europe for the princess Europa, who, according to myth, so charmed Zeus that he transformed himself into a bull and carried her off from the Middle East to Crete. Zeus promised her that their sons would rule "over all men on earth." Europe has often seemed, in another sense of the word, no more than a myth. Although Europeans have often spoken of their common culture, Europe has been mostly a word on the map, a name for a continent that gave birth to both the world's greatest cultural achievements and its bloodiest wars. Suddenly, however, the elusive goal of European unity seems within reach. The 12 nations of the European Community have agreed to merge into a Common Market by the end of 1992. Many believe that political unity will necessarily follow. And now the dramatic eclipse of communism raises the prospect that Eastern Europe may join. Here, Steven Lagerfeld describes the journey to 1992; Josef Joffe points to the formidable obstacles that remain.



EUROPHORIA

by Steven Lagerfeld

A specter is haunting Europe—the specter of "1992." But unlike the specter of communism invoked by Karl Marx and Friedrich Engels more than a century ago, this one does not inspire dread among the major powers of Europe. To the contrary. They are encouraging it to materialize.

What will actually appear remains a mystery. Some Europeans imagine a Europe economically integrated, a colossus larger than the United States in population (324 million versus 244 million) and nearly its equal in gross national product ($4.6 trillion versus $4.9 trillion). Others, going considerably beyond, envision the eventual development of a politically and culturally unified United States of Europe in which every Parisian or Berliner is a European first, a Frenchman or a German second.

Meanwhile, we Americans look on like confused spectators, alternately cheered or frightened by thoughts of what the grand climax may bring. Will the apparition take form as a fanged and unfriendly protectionist Europe? Will it become a stronger, healthier ally? Or will it remain the benign old ghost we've known for so long?

The drama of 1992 provides endless cause for speculation, but only this much is certain: Europe has not even a ghost of a chance of soon achieving the grand aims of the millenialists. Indeed, it now seems clear that Europe will fall short of the concrete goals its leaders set for 1992. [See box, p. 64.] Whatever is or is not going to happen will take far longer.

Brilliant publicity is making a historic development seem even more earth-shattering than it is. Take the "1992" slogan itself. The official deadline for implementing the program is actually December 31, 1992, which gives the European bureaucrats who are supervising the project, the "Eurocrats," an entire year to hustle stragglers onto the bandwagon. There is a list of exactly 279 directives to be written and implemented. The checklist serves to remind one and all of exactly how far along Europe is on the road to blissful fusion. (Only 145 directives to go!)

And then there is the very term European Community. The 1992 program represents the culmination of what used to be

called the Common Market, but that sounds too, well, common, as if it involved old women in shawls selling vegetables in a village square. By some mysterious process, Common Market has largely dropped out of everyday use, replaced by the sleek and sophisticated term, European Community, or, better yet, simply "the Community." Americans have good reason to worry about U.S. competitiveness in the post-1992 world: The Europeans have clearly learned a thing or two about advertising.

This latest episode in what has been a toddler's wobbly march toward European integration began in December 1985, when the leaders of the EC nations met in Luxembourg to endorse the Single European Act. The Common Market was then in such disarray and its goals so long delayed that hardly anybody noticed. As political scientist Stanley Hoffmann recently observed, the leaders themselves did not seem to understand exactly what they were undertaking. The goals were certainly ambitious. The Act contemplated nothing less than the complete abolition of internal frontiers among the 12, allowing the free movement of people, goods, and capital. "The European Community's 1992 campaign," the London *Economist* cheered last May, "is doing to red tape and government controls what Harry Houdini did to chains, straps and manacles."

The key to achieving all of this is the implementation of the 279 directives. Some of those that have been written are dozens of pages long, dealing with matters as mundane as noise standards for lawnmowers and as significant as guidelines for corporate mergers and acquisitions. These directives are aimed at eliminating three kinds of barriers among the member nations: physical, technical, and fiscal.

The physical barriers—passport checks and the like—are enormous. One study found that a tourist's ordinary 750-mile trip by car from London to Milan takes 58 hours, while a similar journey within the United Kingdom takes only 36 hours. For freight-carriers, the delays are even more excruciating. A trucker hauling a load of goods from Spain to France might be required to present dozens of documents at the frontier to satisfy, among other things, export and import licensing requirements, health and safety regulations, and trade-quota laws (any Japanese TVs in there?). Average wait at European borders: 80 minutes. Total costs: $10 billion annually, not counting $5.5 billion in foregone trade. All of these internal border controls are to be abolished.

Technical barriers range from variations in national standards for such things as fruit juices and jams to national laws which prevent cross-border sales of insurance policies. These are extremely costly obstacles. As things now stand, for example, differing national standards force manufacturers to make seven models of the same TV for the European market.

Finally, there are the fiscal barriers: the separate national tax systems of the EC members. The target here is indirect taxes, such as value-added taxes (the equivalent of sales taxes). Today, rebates and payments of these taxes as goods move from country to country are a major cause of border delays. "Harmonization" is supposed to cut through all the paperwork. But no attempt is being made to harmonize direct taxes on personal or corporate income.

If all of these objectives are achieved, the EC estimates that it will give the collective gross domestic product (GDP) a jolt of up to 6.5 percent spread over several years,

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create as many as two million new jobs, and reduce consumer prices. All told, perhaps a $300 billion payoff. A less optimistic estimate by Data Resources Inc. takes into account the fact that parts of the 1992 agenda are not going to be completed by the deadline. It projects only a .5 percent increase in GDP. Europe will profit, but judging by the behavior of its stock markets, there is no economic bonanza just around the corner.

The beginning: Officials celebrate the inauguration of the European Coal and Steel Community in 1952. At right is Jean Monnet, the father of modern unity efforts and the ECSC's first president.

Economists' forecasts are even more unreliable than usual because so much about the ultimate shape of Europe after '92 remains uncertain. Even if the EC could write *finis* to every one of the 279 directives on January 1, 1993, it still may find itself poorly prepared to compete in the global economy. The causes of "Eurosclerosis" have little to do with markets. The world is a market, and West Germany (*not* Japan) is already the world's largest exporter. The fact that the United States is a "single integrated market" did not spare it from paying dearly for overregulation and corporate flabbiness during the 1970s, and European industry today is generally far more heavily regulated, far more coddled, and far flabbier than American business was only a decade ago.

Of course, the abolition of frontiers within Europe will lower costs for the big multinational firms that already operate across borders—not only European companies but the likes of IBM and Toyota—and allow smaller ones to forage for new business. What the Europeans need more than anything, however, is a large dose of what John Maynard Keynes called the "animal spirits" of capitalism to get them into the competition in computers, biotechnology, and other emerging industries. They already have efficient producers; they need good innovators. This is what British Prime Minister Margaret Thatcher and members of the Bruges Group have been arguing.* But most Europeans still seem determined to keep capitalists in zoos.

Ideally, '92 should be good for the entire world economy as well as for Europe. Not only should foreign business find new markets in Europe, but European firms should become more competitive on a global scale. The worry is that the Europeans will compensate for the lowering of internal trade barriers and the painful adjustments this will inevitably require by creating even stouter walls—quotas, domestic-content rules—against outsiders. This is the Fortress Europe scenario.

American anxieties on this score fluctu-

*The Bruges Group is a London-based organization of free-market-oriented intellectuals. Created after Mrs. Thatcher's famous September 1988 speech in Bruges, Belgium, attacking the notion of a European "superstate," the Bruges Group generally favors the 1992 initiative, but fears that Brussels will use it to increase regulation of European business.

ate from week to week. At stake is the nation's largest ($76 billion) market for exports. Early in 1989, Washington and American business were up in arms when the EC banned imports of American beef from cattle that had been fed growth hormones, erasing in one fell swoop $100 million in U.S. exports. The EC was not deterred by the absence of scientific evidence that the hormones are harmful to humans. Needless to say, this raised U.S. suspicions that the Brussels bureaucracy was actually more concerned about the health of Europe's cattle industry than the well-being of its citizens.

At the same time, Willy de Clercq, the EC commissioner in charge of external trade, was talking recklessly about the principle of "reciprocity," or what we Americans call "managed" trade. And France's Socialist prime minister, Michel Rocard, was moaning and mixing metaphors about "a Europe of the jungle, a house open to the four winds, a plane without a pilot." Reciprocity has many meanings. But what de Clercq had in mind was the antithesis of free trade. Like many other Europeans, he favors tit-for-tat trade policy: We'll let you sell $1 million worth of steel here if you let us sell $1 million worth in your country.

But Mr. de Clercq is gone now, and, for a variety of reasons, the prospects for free trade are a little brighter. In April, the EC backed off from a plan that would have required reciprocity in banking. Under the plan, U.S. or other foreign banks would have been able to operate like European banks, with headquarters in, say, Paris and branch offices throughout the EC, only if European banks had the same privileges here in the United States. The problem is that even American banks don't have those privileges in the United States. Under federal law, banks must be chartered in every state in which they operate; they cannot simply receive a charter in one state and open branches in the other 49. So the EC proposal would have required either a change in federal law (and the structure of American banking) or the forfeiture of the European market. Fortunately, the EC was persuaded to drop reciprocity, at least for the moment. But it has warned that it will monitor the treatment that European banks receive in the 50 states (and other countries), and may think again about reciprocity if it feels that they are suffering discrimination.

Although it received very little attention in the press, the United States dodged another very large bullet—a cruise missile, really—last September. Once again, four-legged creatures that go "moo" were at the center of the controversy.

U.S. pharmaceutical companies have developed a hormone-like substance called Bovine Somatotropin (BST), which turns ordinary dairy cows into blue-ribbon milk producers. EC Agriculture Commissioner Raymond MacSharry worried that BST would enable Europe's largest dairy farmers to drive smaller operators out of business. Nudged by Europe's environmentalist Green movement, MacSharry proposed a subtle change in the rules of the game that could have had very far-reaching consequences. Normally, decisions about whether to allow imports of substances like BST are governed by three criteria: the safety, efficacy, and quality of the product. MacSharry suggested creating a fourth criterion: socioeconomic impact. If adopted, the new criterion would allow the EC to ban imports of BST—even if it were proved safe, reliable, and effective—on the (dubious) ground that it would hurt Europe's small dairy farmers.

Of course, that is the kind of thing the EC does anyway, but now it must resort to subterfuge to do so. (Last June, for example, the EC adopted new "quality" stan-

COMPARING THE U.S. AND THE EC

	Population (Millions)	GDP Per Capita ($)	Gov't Expend. (As % of GDP)	Unemp. Rate, 1988	Percentage of Land in Agriculture	Population Per Sq. Mile	TV's Per 1,000 Pop.	Trade with U.S., 1988 ($ Billions)	U.S. Trade Surplus/ (Deficit) ($ Billions)
Belgium Luxembourg	{10	11,802 14,705	52 44	10.2 1.7	47 49	319 133	301 253	{11.9	{2.9
Denmark	5	13,241	58	- 5.6	66	119	386	2.6	(.7)
France	56	12,803	52	10.3	58	102	402	22.3	(2.1)
West Germany	61	13,323	47	6.2	48	245	379	20.8	(12.2)
Greece	10	6,363	43	7.4	70	76	174	1.2	.1
Ireland	4	7,541	55	17.6	81	51	260	3.6	.8
Italy	57	12,254	50	11.9	58	190	255	18.4	(4.8)
Netherlands	15	12,252	60	9.5	54	356	467	19.7	5.5
Portugal	10	6,297	44	7.0	48	111	157	1.4	.06
Spain	39	8,681	42	20.1	62	77	322	7.4	1.0
United Kingdom	57	12,340	44	8.3	77	233	534	36.4	.4
United States	244	18,338	37	5.4	46	26	813	..	..

Sources: *World Development Report 1989*; U.S. Department of Commerce; Organization for Economic Cooperation and Development; Statistical Offices of the European Community; *Statistical Abstract of the United States 1989*.

dards for canned sardines which Moroccan fishermen cannot easily meet but that Spanish and Portuguese fishermen, just by coincidence, can.) Under MacSharry's proposed "fourth criterion," the EC would not be forced to defend its protectionist dodges. And while the potential European market for BST is relatively small, consider what damage the fourth criterion might do if it were applied to other areas—who knows, maybe even to America's multibillion-dollar soybean exports to Europe.

In September, the EC avoided a final decision on BST but banned the use of the substance for 15 months. In 1991, however, a final decision is due on BST and, far more important, the fourth criterion.

While individual U.S. industries have shrieked when their interests have been threatened by EC actions, American business no longer seems to be greatly alarmed by the possibility of a Fortress Europe. "For those that can meet the challenge," *Fortune* magazine enthused last April, "Europe will be an exciting new frontier of growth." Big Business in particular has always treated Europe as a single market, and it has been putting its chips on 1992. (U.S. direct investment in Europe rose from $79 billion in 1983 to $126 billion last year.) Its great concern is that U.S. subsidiaries in Europe receive the same treatment under Community law that EC companies receive. So far so good.

But the great surge of American investment in Europe is partly related to a second worry, that a united Europe will erect even more import barriers than the individual countries already maintain. Here the precedents are less encouraging. The suave assurances of EC officials that they mean to block only Japanese imports only reveal how little they value and understand free trade. The EC's new domestic-content rules for semiconductors, for example, will create "forced investment," as manufacturers are compelled to open new plants in Europe rather than in the United States or elsewhere. Intel, a large American computer chip-maker, has already begun building a $400 million plant in Ireland.

The face of the new Europe—fortress or something else—is not simply going to appear out of the mists on New Year's Day, 1993. It will be built piece by piece, as a result of a thousand-and-one independent negotiations over obscure trade matters such as BST. And it is worth pointing out that few sturdy fortresses have been built so haphazardly. There are already some gaps in the earthworks that have been thrown up so far. In October, when the EC announced its new "nonbinding" quota limiting American-made fare to 50 percent of what is broadcast on European television stations—the most alarming of all EC trade actions so far, affecting a $2 billion U.S. market—Spanish, Greek, and Portuguese officials privately told the U.S. government that they would ignore it.

The United States, the EC's largest foreign trading partner, finds itself in a curious position as 1992 approaches. After World War II, Washington nudged Western Europe toward some form of integration, seeing a united Europe as a stronger bulwark against the Soviet Union and as a hedge against another conflagration in what John Foster Dulles, President Dwight D. Eisenhower's secretary of state, once called the "rickety fire hazard" that was Europe.

At the same time, American (and other) diplomats of the day were convinced that autarkic trading blocs, such as Japan's Greater East Asian Co-Prosperity Sphere, Britain's Commonwealth "sterling bloc," and Germany's special arrangements in Eastern Europe, had contributed to the outbreak of the war. Virtually nobody anticipated that Europe itself might someday

threaten to become a protectionist trading bloc. Today, much of Washington's old enthusiasm for European unity is gone. While the diplomats in the U.S. State Department murmur politely encouraging things about 1992, their pin-stripe suits are damp with sweat. At the Commerce Department, under Secretary Robert A. Mosbacher, good manners have been abandoned. Mosbacher has demanded, rather implausibly, an American "seat at the table" where the EC is establishing its trade policies. Led by Carla Hills, the U.S. Trade Representative, government trade negotiators are hoping for the best, even as they take a hard-nosed attitude toward the Europeans.

During the 1950s, Washington largely stood aside for fear of seeming to meddle. It applauded as the Europeans took their first step toward unity: the treaty creating the European Coal and Steel Community (ECSC) in 1951. This was a French initiative, inspired by Jean Monnet, a smallish, dapper economist—something of an Anglophile, if that can be said of a Frenchman—who had spent most of his career in public service outside of France and had preached the need for a united Europe since the 1920s. There was a clear economic motive behind the ECSC: The French feared the eclipse of their steel industry as West Germany's revived. But as Monnet wrote, the higher purpose was "to make a breach in the ramparts of national sovereignty which will be narrow enough to secure consent, but deep enough to open the way towards the unity that is essential to peace." By that he meant essentially peace with Germany. The quest for Franco-German rapprochement is also central to 1992.

Soon after the creation of the ECSC, Monnet and others engineered several bold attempts to form stronger pan-European unions. These foundered on nationalist sentiment. The European Defense Union was scuttled in 1954 by Gaullist French legislators, who couldn't bear to see French troops serve under non-French generals. As a kind of compromise, six European nations—Belgium, France, the Netherlands, Italy, Luxembourg, and West Germany—signed the Treaty of Rome in 1957, thus giving birth to the Common Market. The treaty created the European Economic Community (EEC) with the long-term aim of "establishing a common market and progressively approximating [harmonizing] the economic policies of the member states." (The name was officially shortened to the European Community in 1967, although common usage has changed only recently.) That meant abolishing tariffs and other barriers to the free movement of people, services, and capital within the EEC. Left out—or at least left ambiguous—were efforts to integrate not only the markets but the economies of the six nations. That would require, for example, the creation of a single currency and a unified tax system, and Europe's leaders were not yet prepared to surrender that much national sovereignty. They still aren't, despite Monnet's prediction that growing economic cooperation would lead to political union.

Eisenhower himself had hailed European unification as "a new sun of hope, security and confidence . . . for Europe and for the rest of the world." Even so, the EEC was born only a dozen years after the end of World War II; Europeans were not about to embark upon a utopian adventure. The Common Market puttered along, as had been hoped, and accomplished its first great task, the elimination of intra-EC tariffs, in 1968, more than a year ahead of schedule. There progress more or less came to a halt.

The oil-price shocks of the 1970s and the rise of Japanese competition turned the Common Market nations inward. Each vainly sought its own solutions to the de-

WHAT'S SPROUTING IN BRUSSELS?

BRUSSELS—The young Eurocrat squeezed into a tunnel-shaped office in the European Community's drab headquarters building could hardly tear his eyes away from the documents overflowing his desk. At 6:30 in the evening he seemed unfazed by the prospect of another all-nighter. He was, after all, building a new Europe.

"We used to be seen as these awful, overpaid, underworked bureaucrats," the German banking expert said cheerfully. "Now we can hold our heads up. We're the people with ideas."

After years of stagnation and inactivity, the thousands of functionaries who work for the European Community couldn't be riding a bigger wave. The impending fusion of 12 nations into a "single integrated market" has put them in charge again. They not only have something to do, it's something important.

"Five years ago, I was considering whether I should go to the private sector. I wouldn't dream of doing that now," said a British foreign-trade functionary.

The implementation of the 1992 project, a massive undertaking requiring 279 new Europe-wide directives that must make their way through a complex, seven-stage approval process, has the halls of the sterile Berlaymont building buzzing. From trucking to banking to taxes to television, the separate markets of Western Europe are being opened up to reforms and competition, and the new rules of the game are being written here.

One new regulation will wipe out a third or so of the German trucking industry, the official in charge of drafting it says, with a hint of satisfaction in his voice. Another will change the way Italy trains its dentists. Another will overturn a Danish prohibition against tin cans—unless the Danes succeed in getting an exemption; it's a hot issue in Denmark.

The importance of these rule changes has brought dozens of American companies and law firms to Brussels, to monitor and to lobby the European Community. Not only are these enterprises hiring former U.S. diplomats to open doors, they are stealing some of the EC's best and brightest for the same purpose. (A conservative estimate is that there are 20,000 European and foreign lobbyists working in Brussels.) In cases where retirement and pension rules discourage the ex-Eurocrats from accepting large salaries, private-sector employers offer free chauffeured limousines and other extravagant perquisites.

Brussels itself is bulging at the seams with an influx of hopeful favor-seekers. The city's famous two- and three-star restaurants—where lunch is generally a three-hour affair—are overflowing with lawyers, lobbyists, and officials. Real-estate prices, though still low by European standards, have tripled during the past three years. And speculators are obviously hoping for more. Whole residential neighborhoods near the EC buildings are boarded up and shuttered; developers are holding on to the once-cozy town houses, awaiting even higher prices before reselling them or replacing them with office buildings.

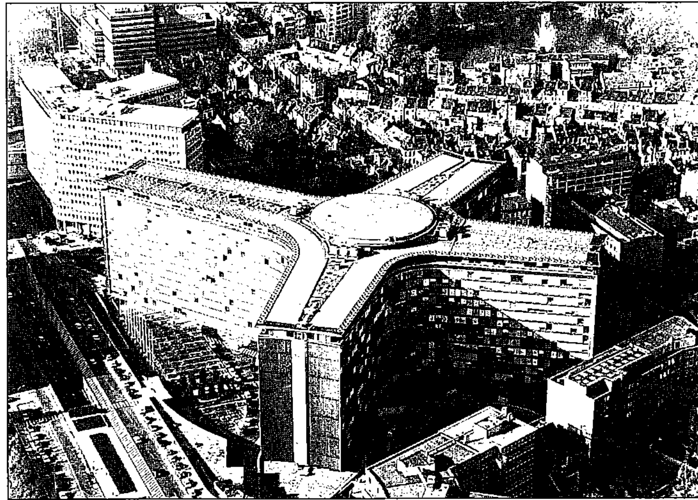
Despite the surge of enthusiasm, the 18,000 employees of the EC, never famous for their efficiency, remain bound by bureaucratic tradition. The entry a few years ago of Spain and Portugal, in fact, has made the machinery of the European Commission and its sister body, the European Parliament, more cumbersome than ever. With nine official languages and a staff composed of citizens of all 12 countries, the EC is a living Tower of Babel, in danger of gagging on its many tongues.

At an informal level, the problem is less severe. Low-level staff meetings are usually held in French or English, the de facto working languages at the Berlaymont. But when the higher-ups get involved, national pride steps in and few demean themselves by speaking tongues other than their own. That means 12 interpreters if six languages are spoken at a meeting, 27 if all nine are used. (Why do those combinations not make mathematical sense? Because some languages can't be translated directly into some others. Few interpreters are fluent in both Greek and Danish, for instance. So the speaker's language must be routed through a more common tongue first.)

Just to make things more difficult, the Germans are under new instructions from home to demand that all documents be presented in German as well as French and English, no matter how low-level the meeting or transitory the issue. They've been known to walk out of conferences or refuse to participate if their native tongue isn't used, even though many of them speak three or four languages fluently.

Squabbles aside, the Eurocrats remain on the list of Belgium's best-paid employees. Many earn over six figures in dollars, and, though his

salary is not public information, Jacques Delors, the president of the European Commission, is said to earn more than President Bush. No wonder that some of Europe's steepest restaurant and taxi prices can be found in Brussels and Strasbourg, France, the home of the European Parliament.



The Berlaymont Building

The Parliament is no less Byzantine than the Commission. Made up of 518 directly elected members from all EC countries, it holds its full sessions in Strasbourg, more than an hour from Brussels. Is that hard on the legislative body's staff? Ask them if you can find them—they're based in Luxembourg, more than 100 miles from Strasbourg.

With dreams of traveling less, Parliament has authorized the construction of a huge new complex, including a legislative chamber, in Brussels. Work has been underway for months, but France and Luxembourg have not agreed to the move, and they have the power under EC law to veto it indefinitely. When asked what the building will be used for if Parliament never shows up, EC staff members mumble something about a convention hall.

Despite its bizarre politics, the European Parliament is a lean machine in some respects. It has a total of about 3,200 staff aides, compared to about 18,000 for the U.S. Congress. The most important committees, dealing with such issues as taxation and monetary policy, have six staffers at the most. The average committee staff in the U.S. House of Representatives numbers in the fifties or sixties, with some staffs exceeding 100.

Like the Commission staff members in Brussels, members of Parliament are increasingly feisty these days. Seated by party, not by country, they bicker over the wording of bills, jeer at the president (a Spaniard named Enrique Baron Crespo) in the time-honored style of backbenchers throughout Europe, and openly read newspapers while business is being conducted in the chamber. Once a docile rubber stamp for the Commission, Parliament reached new levels of obstreperousness last fall when a rightist member loudly and lengthily protested what he saw as a procedural slight to his party. He went on at such length that Baron cut off his microphone, but the rightist continued until he was removed by ushers.

Parliament features more famous faces than before as well. Former Minister Willy de Clercq, French arch-rightist Jean-Marie Le Pen, and French Communist leader Georges Marchais—all are members, as are several lesser-known British lords and ladies and a descendant of the Hapsburg dynasty.

The leaders of the 12 European member nations view the increasing power of the EC bureaucracy with some misgivings. British Prime Minister Margaret Thatcher, for one, has decried the possibility of a "European super-state exercising a new dominance from Brussels." Other countries couldn't be more pleased with the prospect of a stronger Brussels.

Italy, for instance, has been a strong advocate of expanding the single market into an all-encompassing political union. That is because the Italians, who have seen one government after another topple since the end of World War II, have reason to believe that the Brussels bureaucracy might do a better job of running Italy than the Italians have.

—*Anne Swardson*

Anne Swardson is a business reporter for the Washington Post. *She visited five EC nations recently under a fellowship from the Eisenhower Foundation.*

Wrapped in the flag of Europe: Jacques Delors, the president of the European Commission.

cade's recessions, energy shortages, and chronic inflation. It was during this period that "nontariff" barriers (e.g., quotas) proliferated, aimed against both outsiders and fellow members of the Common Market.

The Common Market was not entirely moribund. In 1973, three new members joined the original six: Denmark, Ireland, and Great Britain. (Greece entered in 1981, and Spain and Portugal joined in 1986.) Or, to use the EC's overblown terminology, which frequently sounds like mumbo-jumbo borrowed from the Loyal Order of Moose: First there were the Six, then Enlargement, then the Twelve.

In 1978, the EC created the European Monetary System. Responding to the destruction of the postwar Bretton Woods international monetary system by President Richard M. Nixon during the early 1970s, the member nations agreed to coordinate the foreign exchange rates of their currencies.* By minimizing fluctuations in, say, the value of the Belgian franc compared to the German mark, the system lowered the risk of doing business across borders and encouraged trade within the Common Market. The system is not without costs: Participating in it basically means marching in step with West Germany's powerful *Bundesbank*, which sits like an elephant on inflation, oblivious to the temptation of low interest rates and economic expansion.

At the same time, a new European Currency Unit was created. Some day, it may serve as the EC's universal currency. For now, however, it is used only in a few paper transactions. The *ecu*, as it is sometimes called—some would like to rename it the *monnet*—has been minted in small quantities and is legal tender only in Belgium. (It is worth about $1.10.) But even at the Brussels airport, at last report, you can't buy a newspaper with one.

Despite these accomplishments, the EC was so paralyzed by quarrels among its members that the Council of Ministers refused in 1982 to pay for an official celebration of the 25th anniversary of the Treaty of Rome. Pieter Dankert, the Dutch president of the European Parliament, compared the EC to "a feeble cardiac patient whose condition is so poor that he cannot even be disturbed by a birthday party."

Three years later the patient was fit to chase nurses around. The Europeans realized that they were being left behind as the world economy began to recover from the global recession of the early 1980s. Instead of being a comfortable Number Two to the friendly United States, they faced the prospect of straggling in at Number Three behind a surly America and remote Japan. They were (and still are) combating high unemployment. Europe's basic industries—steel, autos, and the like—were no match for the Japanese and other Asian competitors. Far worse, Europe was falling further and further behind both Japan and the United States in computers, semiconductors, electronics, and a host of smaller high-tech industries. While Ronald Reagan was declaring it to be morning

*Britain, with its special ties to the United States and its historical ambivalence about close involvement with continental Europe, long delayed joining the EMS. Recently, however, Prime Minister Margaret Thatcher tentatively agreed to throw the pound into the EMS pot.

again in America, Europeans were still struggling along with their flashlights.

In 1984, Wisse Dekker, president of Philips, the Dutch electronics giant, declared that the failure to complete the "homework" given in the 1957 Treaty of Rome was the source of Europe's distress. He proposed to realize the promise of the Common Market with a plan he prematurely dubbed "Europe 1990." The Common Market had been launched during the 1950s for reasons of state, over the opposition of much of European business, which was then wed to local markets. "Now the situation has been reversed," observed Giovanni Agnelli, the chairman of Fiat, "it is the entrepreneurs and corporations who are keeping the pressure on politicians to transcend considerations of local and national interest. We believe that European unity is our best hope for stimulating growth and technological innovation, and for remaining an influential presence in the world."

The project got the capable leader it needed in 1985, when Jacques Delors, a former finance minister in the Socialist government of France's François Mitterand, became president of the EC's Commission, or executive arm. (He was recently appointed to another four-year term.) Delors, one of the architects of Mitterand's disastrous scheme to nationalize large sectors of French industry, was a very curious choice. But he seemed to grow larger than life in a job that had only diminished other men.

Delors immediately set out to "complete the internal market." By June 1985, he and Lord Cockfield, an EC commissioner from Britain, had drafted the White Paper which laid out the 1992 program. By the end of the year, they had won the endorsement of the 12 leaders of the EC nations for what was called the Single European Act. It committed the 12 nations to the 1992 program, and it introduced a crucial reform in the governing institutions the EC had created since 1957. Today, there are four key institutions:

- *The Council of Ministers.* The EC's supreme body, it is comprised of the 12 leaders of the member nations (or their representatives), with final power to approve or disapprove EC actions.
- *The Commission.* Now headed by Delors, it is the EC's executive branch, with 17 Commissioners (the equivalent of cabinet secretaries) appointed by the Council and some 12,000 "Eurocrats," headquartered in Brussels.
- *The Court of Justice.* Based in Luxembourg, it is the EC's 13-member "supreme court." It deals chiefly with trade and business disputes involving both governments and individuals.
- *The Parliament.* Sitting in Strasbourg, France, its 518 members are elected by popular vote in the EC countries. The Parliament is the only democratic body in the EC organization, and the only body that lacks a clear function. Controlling about 30 percent of the EC's $50 billion budget, it has few other powers. Ever hopeful, ever helpless, the members sit in eight political groupings from left to right, rather than in national delegations.

The big change wrought by the Single European Act was the limitation of members' veto powers. Before the Act, any nation could veto any proposal in the Council. Now, the veto power is sharply limited. Most decisions are reached by "qualified" (i.e. weighted) majority votes. This new chemistry encourages the members to compromise rather than play "chicken."

The Act also broadened the powers of the European Parliament, transforming it from a 98-pound weakling into a 99-pound one. Now it can veto petitions for EC membership and trade agreements with non-EC nations. And it can request changes in

directives and regulations drawn up by the Commission, although these alterations are subject to the Council's approval.

European enthusiasts hope that these new powers will transform Parliament into something more than the glorified university eating, drinking, and debating club it has been. But in the parliamentary elections held last spring, only 59 percent of the European electorate bothered to vote—not bad at all by American standards, abysmal by European ones.

In EC-speak, Parliament's shortcomings and the problems they represent are referred to as the "democratic deficit," as if they amounted to nothing more than a troublesome budget item. But as many observers have pointed out, Parliament may be the key to the European adventure. So far, the business of European integration has been conducted largely over the heads of most Europeans, by politicians and unelected technocrats like Delors. Even though Europeans are generally far more willing to concede autonomy to the state than Americans are, the technocratic drift of the '92 effort could ultimately be its undoing. Outright opposition to 1992 is now scattered. By majorities of around 80 percent, Europeans have long supported greater integration—in the abstract. But they could be in for a big surprise when more and more of the '92 directives are implemented: when French beers find their way into West German stores, or when British (or American or Japanese) companies buy out Spanish manufacturers, or when Dutch electronics workers are laid off because plants are shifted to low-wage Greece. The EC itself has estimated that completion of the '92 program could cost Europe 250,000 jobs per year during the first years of the plan—although many more would also be created. And what if a recession comes along?

But even if Europe fails to realize the dream of unity, some of Americans' worst fears about a protectionist Europe may still come true. It is entirely possible that a Disunited States of Europe will choose a more protectionist course. Long before Mr. Delors came along, the EC created a Common Agricultural Policy (CAP), a program of subsidy and protection so enormous ($33 billion) and comprehensive that it dwarfs the U.S. farm program. Under the CAP, Europe subsidizes crops, supports farm prices, limits certain imports, and heavily subsidizes exports (i.e. "dumping"). European crop subsidies, for example, launched Italy into competition with California in the kiwi fruit market; because of European export subsidies, American farmers have lost substantial markets for wheat and chicken in Egypt. Overall, CAP costs American farmers billions of dollars in exports annually. It is a major target of U.S. trade negotiators. The Europeans know that it is a scandal-ridden pork barrel, but they stand by it.

In another pre-Delors venture in cooperation, England, France, and West Germany in 1966 created a consortium called Airbus Industrie to compete with Boeing and McDonnell-Douglas in the global civilian aviation market. By 1972, the Airbus A300B took to the skies, and today the consortium manufactures high-quality products which claim about 25 percent of the world market for airliners, most of it wrested from its two U.S. competitors.

European breasts swell with pride when Airbus is mentioned. Yet the consortium has been on the dole for 20 years. Subsidies from the five European governments that now participate (Spain, the Netherlands, and Belgium have joined the consortium) have run into the billions—Boeing estimates $15 billion over the first 18 years—although the exact amount remains a secret. The consortium operates like a monu-

mental corporate "share-the-wealth" chain letter. Fuselage sections, nose landing-gear doors, ailerons, and other components are built at 67 different plants scattered throughout the five nations, then ferried by giant cargo planes called Super Guppies to the central plant in Toulouse, France. After assembly, each Airbus is flown to Hamburg, West Germany, where its interior is fitted. Then back to Toulouse for delivery—sometimes at prices below cost, critics charge—to the customer.

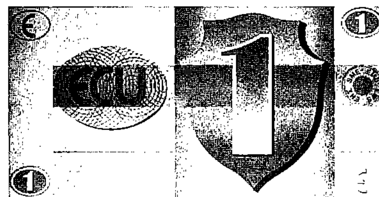
Europlanners seem to think that this is a terrific way to create 200,000 jobs and strike a blow at the Yanks, never mind the fact that European taxpayers (and America's unsubsidized workers) are footing the bill. They would like to see more ventures of its kind. Thus, last fall's quota on imports of U.S. television shows came with a cherry on top: a $275 million handout to foster a European answer to Hollywood.

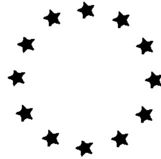
These are not encouraging models of intra-European cooperation. Add to them Delors' controversial plan for what is called a Social Dimension—an expensive and all-embracing European welfare state—and one can easily imagine the EC seeking a cozy, protected, but ultimately suicidal retirement from the world marketplace.

But a variety of factors will probably prevent the Europeans from erecting an impregnable Fortress. Some of the EC nations (West Germany, Britain, and the Netherlands) have traditions of relatively free trade, and all have various needs for foreign goods. The Irish, Danes, and Dutch, for example, have no domestic auto industries of their own. As a result, they lust after Toyotas and Nissans. Jagdish Bhagwati, an economist at Columbia University and the author of *Protectionism* (1988), argues optimistically that their huge overseas investments now give European (and other) corporations every incentive to oppose protectionism. The same is increasingly true of governments. The global economy is blurring national distinctions—American trade negotiators, for example, now find themselves trying to keep open foreign markets for Honda automobiles built in Ohio. And Bhagwati also points out that in this new environment, protectionism is largely futile. World trade grew very rapidly even during the protectionist 1970s.

All of this suggests only that at best Europe's markets during the 1990s will not be much more closed than they are today. Some observers believe that a slight opening is even possible. At this point, one can only guess. But a significant dismantling of protectionist policies now seems out of the question.

European unity was conceived in the name of peace and international amity, designed to end the divisions among nations that led to two world wars. For it to end up as little more than an elaborate support for outmoded protectionism would be worse than disappointing. It would be tragic.





TOO LITTLE, TOO LATE?

by Josef Joffe

Three years from now, on January 1, 1993, Western Europe will be "born again." The 12-state European Community (EC) will turn into the Single Integrated Market (SIM). This new creation will unite some 320 million people with a combined gross domestic product of about five trillion dollars and will stretch from Cork to Calabria, from the Atlantic to the Aegean. As a trading bloc, it will surpass all others in the world. Even today, the (external) exports of the EC dwarf those of the other two giants, the United States and Japan. The EC is good for 20 percent of world exports, followed by the United States with 15 percent and Japan with 9 percent.

The process of Euro-fusion is known by the shorthand symbol of "1992." By the end of that year, supposedly, everything will be in place for the "Big Bang" of 1993. A dream will then come true: the free movement of capital, people, and goods—untrammeled by national governments and their legions of customs, immigration, and health inspectors. In theory, it will no longer matter whether a physician is a *docteur* (French), *Doktor* (German), or *dottore* (Italian). All will be able to set up shop in Copenhagen without the permission of Danish authorities—though in practice they will have to learn Danish before being able to tell their patients to "Say aaah...." *Crème fraiche* from Normandy will arrive on the dairy shelf of a Munich supermarket without passing through the rigorous pasteurization procedures prescribed by German law. Spanish *tinto* will compete with Greek *retsina* and British *riesling* (yes, there *is* English-made wine) on a "level playing field," as a key 1992 shibboleth has it. By 1993, West Europeans may even tackle one of the most frightful tasks of all: the design of a SIP—a "single integrated plug" to fit every electrical outlet between Portugal and Greece.

So will "1992" be like "1776," when the 13 colonies decided to bid farewell to George III and set up the United States of America? By no means. After all, the former colonies took another 11 years to agree on a common constitution, and even by 1787 they did not really amount to one nation, indivisible. *Real* integration eluded the United States until 1865, when, after four years of fratricidal civil war, force of arms decided the question of whether there was truly *e pluribus unum*. Real *economic* integration in the United States was not achieved until the early 20th century. It took the completion of the transcontinental railway to draw the two coasts into a single market. And though Americans never had to battle with francs, marks, lire, pounds, and pesetas, they had no "central bank" until the Federal Reserve System was founded in 1913.

Come 1993, West Europeans will have at least as far to go as the young American nation did. They will have no common currency—apart from the ethereal European Currency Unit (ECU). They will have no "European Bank" to determine interest rates and money supplies for the entire Community. Instead, 12 central banks will

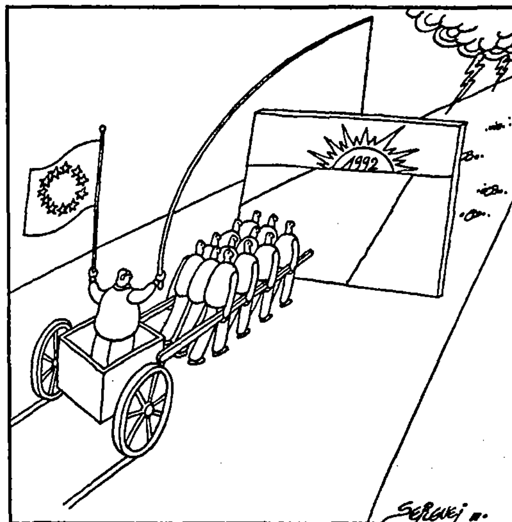
try to grope their way toward "monetary union"—a task so overwhelming even to contemplate that it has been postponed until the late 1990s. West Europeans won't have a single "federal" income tax, and it is very doubtful whether they will be able to impose the same "value-added tax" (the European version of a sales tax) on all 12 countries any time soon.

Nor will the Community have "harmonized" the myriad national laws—not even those that pertain only to economic intercourse and regulation. Already, the contentious issue of indirect taxation has been postponed beyond 1993, and the same goes for the abolition of border controls.* There are just too many rules and regulations in search of "harmonization." That is why the "founding fathers," the experts of the EC Commission in Brussels, have left national product safety standards and other obstreperous issues in abeyance—trusting that they will be resolved on a case-by-case basis in future suits brought before the European Court.

The American analogy falls apart completely when it comes to the question of political governance, to the much talked about "single integrated government" (SIG). To be sure, a European Parliament already meets in Strasbourg. But the "real" parliament is the Council of Ministers in Brussels, which represents not electorates but states. This is where sovereignty lies and will remain—or, more precisely, where sovereignty is shared *ad hoc* by 12 independent governments. Whatever the European Commission (the "executive") does must be sanctioned by the Council of Ministers, and though the emissaries of the 12 states can theoretically outvote one another through a "qualified majority vote," this is not what happens in practice. The unwritten but ironclad rule is that no nation shall be outvoted if it chooses to proclaim the issue at hand as one of "vital national importance."

*This reflects profound differences in historical development. The British would like to remain in charge of their borders because once a person is inside the country, he is hard to track down—given that the UK, like the U.S., knows neither identity cards nor registration with the authorities at the place of residence. The continental countries have both, which makes border checks less vital.

The European Parliament in Strasbourg, on the other hand, has virtually none of the classic functions of a real parliament. It cannot make laws, appoint the executive (the Commission), or vote taxes—the three prerogatives that have made legislatures in the democratic world one of the three pillars of power next to the executive and the judiciary.



From Le Monde, *Paris.*

II

Why all the fuss, then, about 1992? There won't be a European Bank, there won't be a European Currency, and there won't be a single rule-making power—all of which are logically necessary to make 12 separate markets into a truly common one. Nor will there be a federation with true centralized power—at least not for a very long time, if ever. Twelve states will con-

tinue to exist, along with their national governments and frontiers. Customs borders will vanish and a few supranational institutions such as the Commission, the European Court, and the European Parliament will encourage cooperation. But in many respects, 1992 will be little more than 1957—a quarter-century later.

In 1957, the original six EC states (France, the Federal Republic of Germany, Italy, Belgium, the Netherlands, and Luxembourg) concluded the Treaty of Rome. The agreement provided for a perfect customs union in stages. That it was not achieved according to the original schedule was the fault, first, of the six early birds who resisted implementation and, then, of the six latecomers (Britain, Denmark, Greece, Ireland, Portugal, and Spain) who asked for exemptions and special treatment. Leveling trade barriers that should have been removed years ago, 1992 is in many ways old business; what is new about it is its attack on "invisibles" like national health, product, and environmental standards, all of which hamper free trade and the opening of a Community-wide market for professional services.

The sound and the fury result, then, less from fact than from expectation. And from a resurgence of hope. In 1985, after years of stagnation and "Europessimism," the European Community suddenly developed new energy. This surge inspired the Single European Act of 1985—the "constitution" of the Single Integrated Market. The new *élan* galvanized the imagination of the West Europeans—and struck fear into the hearts of Americans and Japanese. Europeans hope, while Americans and Japanese suspect, that this is just the beginning: the first step toward a truly united Europe. Ensconced behind towering protectionist walls, so it is thought, the 12 will go on to build the "United States of Europe," rivaling the superpowers and dominating all commercial competitors.

The hopes and the apprehensions are equally exaggerated; 1992 will not be the *annus mirabilis* of the European Community. If history is a guide, 1992 will not be the take-off point from which European integration soars unswervingly toward perfection. Ever since the venture began in 1951 (with the European Coal and Steel Community), "Europe" has been the story of hopeful starts and grinding halts—the story of nation-states seeking the economic benefits of scale without having to pay the ultimate political price: the loss of national sovereignty. Inevitably, such an enterprise generates more cant than candor. Candor would require admitting that the "teleology" of Europe—what it is to become—is shrouded in deepest darkness. And for good reason: Neither François Mitterand nor Helmut Kohl nor Margaret Thatcher, to name but three key players, wants to legislate himself or herself out of existence. Nor do their compatriots want to become the equivalent of Michiganders or Californians; that is, Europeans first and Frenchmen, Germans, or Britons second.

The nation-state is alive and well in Europe. It is not about to crumble like yesterday's doomed empires. And while the West Europeans know in their hearts what they do *not* want—the sacrifice of their statehoods on the altar of European unity—no-

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body can agree on what it *does* want beyond 1992. Indeed, the "constitutional debate" has just begun: between "states' righters" and "communitarians," between free traders and protectionists, between champions of *laissez-faire* and advocates of *dirigisme*, between aficionados of the free market and advocates of welfarism. In each of these debates, the British appear to be on one side and the 11 other nations on the other. But if this were the case, the 11 could easily cajole or bully Margaret Thatcher into submission. They cannot because they do not speak with one voice, let alone think with one mind.

Take Mrs. Thatcher's opening volley in the constitutional debate, delivered in her speech at Bruges, Belgium, on September 20, 1988. "Europe should not be protectionist . . . " she began. "It would be a betrayal if, while breaking down constraints on trade to create the single market, the Community were to erect greater external protection. We must make sure that our approach to world trade is consistent with the liberalization we preach at home."

While the French and the Italians are traditionally and instinctively protectionist (there are virtually no Japanese cars to be found in Paris and Rome), the Dutch and Germans are not (though West German capital and insurance markets are nicely sheltered by informal cartels). Likewise, the Spaniards, who are past the industrial takeoff point and depend on large tourist earnings, are more fervent free-traders than the Portuguese and Greeks, whose economies in many respects are closer to those of the Third World than those of the First. Such a collection of countries, ranging so widely in economic development and commercial interests, won't easily agree on a common trade policy, let alone on the European equivalent of the Smoot-Hawley Tariff.*

*The infamous American tariff of 1930 which imposed onerous duties on many imports.

Or take the "*dirigisme* versus *laissez faire*" debate. "We have not successfully rolled back the frontiers of the state in Britain," Thatcher observed in Bruges, "only to see them reimposed at a European level . . . . The Treaty of Rome was intended as a charter for economic liberty. Our aim should not be more and more detailed regulation from the center; it should be to deregulate, to remove the constraints on trade and to open up." A French official has put the issue thus: The British are building an internal market for the consumer (with low prices and high real wages), while the French are building one for producers (with high profits and low vulnerability to outside rivals).

In fact, the debate is not two-sided but three-cornered. Its antagonists are economic liberty, state intervention, *and* social welfare. It reflects one of the oldest ideological struggles in European history: between the classic liberals and free-marketeers like Adam Smith, David Ricardo, and Joseph Schumpeter, on the one hand, and mercantilists, socialists, and Catholics like Jean Baptiste Colbert, Karl Marx, and Jacques Maritain, on the other. The former believed that the individual was the rightful center of all economic activity, that the greatest individual gain equalled the greatest common good. The latter wanted to shift the focus to the collective—in order, variously, to strengthen the state in its rivalries with other states (the mercantilists), to favor one class over another (the Marxists), or to ensure that a quantum of social justice would temper the ravages of economic competition (the Catholic advocates of "subsidiarity").

Although "1992" will not resolve these ideological differences, it is safe to bet that the New Europe, with a long history of state intervention behind it, will not end up looking like Reagan's America of deregulation

From Munich's Süddeutsche Zeitung.

"Show your violin," says Mrs. Thatcher. Extracting a baton from her case, she clearly did not come to play along with the others.

and welfare cutbacks. Still, it is not just Thatcher versus everybody else, but the oldest game in the history of the nation-state: the one in which states with very different traditions and cultures try to assert themselves against others. The French, coming out of the mercantilist-absolutist tradition of a Louis XIV, instinctively favor statism. The Germans, however, look back to a very brief history of centralized decision-making and are therefore more inclined to contemplate power-sharing among autonomous institutions. The German *Bundesbank*, for instance, is the most powerful national bank in Europe not just because it commands the almighty deutschmark but because it is virtually independent of the government. France's central bank enjoys no such independence. So it is hard to see how the French and Germans will ever agree on a European Bank for the monetary union they contemplate.

France and Germany are both more collectivist than Britain—but in very different ways. Roughly speaking, in France it is the state that is strong; in Germany, it is society. Whether it is "industrial policy" or its opposite, a policy of competition and diversification, the Parisian bureaucracy inevitably takes the lead. Power in Germany, by contrast, flows from neo-corporatist roots: Large organized interests (labor, business, public employees, peasants) have habitually exercised—and will retain—veto power over public choice. As a consequence, the protectionist instincts of the two countries make for distinctly different policies.

While the French are external protectionists, the Germans are internal protectionists. Paris will typically pick a strategic industry, define it as being in the "national interest," and then seek to shelter or strengthen it against the international market—even at the expense of groups and firms at home which are not so favored. Given the cataclysmic changes suffered by Germany during this century, the basic German consensus is stability *über alles*: Nobody must lose. Hence designated winners are not so much nurtured as known losers are subsidized—whether coal, steel, agriculture, Paris, or the EC likes it or not.

Alternatively, if change is unavoidable, losers must be bought off. French, British, Italians, and others care little about shop-closing hours. In West Germany, though, an ancient federal law prescribes in detail the times when consumers are allowed to buy certain goods. A recent attempt to keep stores open on Thursday evenings unleashed a national storm, pitting shopkeeper associations and retail clerk unions against (badly organized) consumers. The outcome was a draw: Hours that were added on Thursday night were lopped off Saturday afternoon. Similarly, the veto pre-

rogative of large, well organized groups will lead Bonn to fight tooth and nail against any European company law that grants unions less power than they have under German "co-determination law," which provides workers equal representation on boards of firms above a certain size.

The point of these examples is that even when two nations like France and Germany are similarly positioned along the collectivist-individualist scale, policies at home and in Europe can differ profoundly. And since the road to 1992 and beyond must be travelled by states driving not simply in tandem but in convoy, progress will be slower than some hope and others fear. Possibilities for collision lurk around every corner.

Which is why Thatcher, speaking in the name of realism, rightly raised the "states' rights" issue in her Bruges speech in September 1988. "Willing and active cooperation between sovereign states is the best way to build a successful European community. To try to suppress nationhood and concentrate power at the center of a European conglomerate would be highly damaging.... It would be folly to fit [the EC countries] into some sort of identikit personality." Her words brought howls of condemnation from "good Europeans," but in fact the British prime minister merely pointed out the obvious.

Unlike the 13 American colonies, which had relatively little history of their own in 1776, the European 12 are nation-states or former empires whose history goes back as far as the demise of Rome some 1500 years ago. By 1400, Britain and France were distinct *nation*-states, not just royal possessions of the Tudors or Valois. The 12 speak nine different languages, vernaculars that are older than their separate statehoods. Ages ago, these now separate nations were part of a common Latin civilization (except for parts of Germany that were never conquered by Roman legions). But what have Portuguese and Greeks in common today—except, ironically, Japanese "durables" and the products of American pop culture? It is not the *Chanson de Roland* but the TV show *Dallas* that provides instantly recognizable images and metaphors throughout Europe.

Nor are any of the 12 governments about to slink away. Thatcher made only a self-evident point when she stressed "willing and active cooperation between sovereign states" as a necessary condition of Europe's evolution. It is a safe bet that no public-opinion majority would be found for the "United States of Europe" if sovereignty were jeopardized. How many Germans or Frenchmen would be willing to see Bonn or Paris become like Albany or Sacramento? And what common language would the Europeans speak? Charles de Gaulle, Margaret Thatcher's spiritual predecessor, used to suggest the non-existent *Volapük* in order to make fun of the European ideologues. But a synthetic language it would have to be. And to get an idea of how difficult it would be to come up with a new Esperanto, one need only consider the struggle involved in deciding upon a uniform cover for the European passport—one whose color had to be different from any used by the 12 governments. (The color finally decided upon was burgundy.)

III

The Community's history of fitful starts and grinding halts dramatizes two problems. One is obvious: Integration can only go as far and fast as the *sacro egoismo*—the "sacred egoism"—of nations allows. The other problem is less obvious but no less profound. Western Europe has chosen a

path to unity that knows no precedent. It is not political will that fuels the engine but economic necessity. It is not the Philadelphia Constitutional Convention or Bismarck's Prussia that will bring unity out of diversity but, if you will, Karl Marx and the "modes of production." Economic forces—the need for economies of scale or for international competitiveness—are supposed to lead the way; political institutions are expected to follow. In Marxist terminology, it is the "sub-structure" that will determine the "super-structure."

Marxist terminology, however, is no longer in vogue. The contemporary, non-revolutionary version of economic determinism is "functionalism," the reigning creed of Europeanists since integration's infant days during the early 1950s. Functionalism banked on what one could describe as "unification on the sly." The process would begin with the merger of certain sectors such as coal and steel. Such mergers would soon generate irresistible pressures for the integration of more and more sectors. This is known as the "spill-over effect": If there were free trade in steel, functionalists reasoned, how could cars be excluded? If Volkswagens were to sell duty-free in France, why not chablis in Germany? And once goods travelled freely, the invisible barriers of indirect taxes and internal regulations would have to go. Then there would remain national monetary policies, which distort trade; so they would have to be harmonized and brought under a common monetary authority. But since monetary authority is the sacred preserve of autonomous governments, this last rampart of national sovereignty would have to fall in order to allow the forward march of economic integration.

The theory appears both logical and plausible. But compare its premises with the historical record of integration elsewhere. What has driven the process in the past—economics or politics, Marx or Bismarck? If we turn to the two best known instances of unification, the United States of America and the second German Reich (1871–1918), economics does not look like the preordained winner. In both cases, political choice (or, in the German case, imposition*) *preceded* the integration of the economy. In post-1871 Germany, it was not the "hidden hand" of the market, much less functional necessity, but the iron fist of Berlin that forced a centuries-old world of autonomous kingdoms, principalities, duchies, and free cities into one nation and then into one market. "Blood and iron" achieved what the Reich's paltry predecessor, the North German Customs Union (*Zollverein*), could never do: They created a powerful state in all of Germany. This state then proceeded to tear down customs barriers, impose a common currency, sweep away the many restraints on trade put in place by kings, guilds, and associations, and replace them with new nation-wide laws and regulations.

In terms of brute state power, the young American republic was a spindly adolescent compared to the muscle-bound German Reich. But even in the United States, a supreme political act—the fusion of 13 ex-colonies under an overarching general will as laid down in the 1787 Constitution—preceded and shaped what would come afterwards: economic integration, territorial expansion, and what one might call the dismantling of conflicting internal rules and regulations pertaining to agricultural production (i.e. the abolition of slavery). The market did not make the state. The opposite is in fact the case. The growth of central government's power in the United States is the history of the government's expansion into the market via countless regulatory laws and agencies—the Interstate

*The process of German unification has aptly been called "the conquest of Germany by Prussia."

AN 'F' FOR EFFORT?

An uncharacteristic gloom permeated the European Commission's latest (September 1989) progress report on the 1992 agenda. The report also shows how complex are the obstacles to the "single integrated market."

Of the 100 directives, regulations, and other measures that were supposed to be "implemented" and in effect throughout the EC as of September, the Commission reported, only six were actually in force in all 12 nations. Spain and Portugal have fallen far behind their partners; Greece, Italy, Belgium, and Ireland are also lagging badly. In Italy and Portugal, for example, none of the EC directives regulating pollutants from autos has been put into effect. Although the report does not say so, this reflects a major fault line in the EC. The relatively poor nations which have joined the EC looking for an economic lift—Spain, Portugal, Greece, and Ireland—are going to be reluctant to pay the costs of the strict standards for safety and health favored by the wealthier nations.

Even when laws are on the books, the Commission found, compliance is often far from exemplary: "It is . . . shocking that national bureaucracies all too often continue to regard Community nationals as foreigners and, in practice, deprive them of their rights of establishment and residence through nit-picking interpretation of rules."

The European Court of Justice, meanwhile, is having "alarming" difficulties making violaters toe the line. Nine nations have ignored Court rulings. The Greeks, for example, have defied a decision that requires them to drop restrictions on foreign architects and surveyors; the West Germans are in violation of a 1987 Court ruling outlawing 16th-century purity laws that bar imports of many non-German beers.

There is trouble at the top, too. The European Council is tied in knots over the elimination of various border controls and the "harmonization" of indirect taxes. French resistance is a major cause of the tax deadlock. Harmonization would require Paris to reduce its steep value-added taxes and other indirect levies and to rely much more on its income tax, which French governments since the Revolution have been loath to do.

The Commission warned of "a worrying lack of progress." What it did not say is that it now seems clear that major elements of the 1992 program will not be in place on time.

Commerce Commission, the Federal Trade Commission, the Federal Communications Commission, the Federal Reserve System, and a host of others.

The historical record, then, does not point to the primacy of economics over politics. The record suggests that the reality of West European integration will always fall short of the functionalist dream—unless the states do what they show no sign of wanting to do: merge their sovereignties into something that is more powerful than each and all.

Not even the dream of 1992 will be realized by New Year's Day 1993. For in order to have a truly common market, the 12 will need a truly common monetary and fiscal policy. Yet a nation's fiscal-monetary mix determines the pace of unemployment and inflation at home, and these are factors of great weight when electorates decide on the fate of their governors.

It is doubtful that any government in Western Europe will want to let go of the levers of the economy. Functionalist theory proclaims that the governments have no choice because the nation-state, pushed and pummeled by an increasing number of transnational forces, is no longer in charge of its economic destiny. But if this is true, why would governments compound the problem by offering up further powers to a supranational body? Pre-

cisely because the nation-state has been battered by transnational forces beyond its reach, it now seeks to recapture control, not to relinquish it.

Force may be the only effective unifier, as history again suggests. In America's case, George III forced the colonies into unity; in Germany's, it was Bismarck who brought about unity through "blood and iron." But in the contemporary West European setting, there is neither a dreadful enemy nor a formidable unifier. Instead of facing overwhelming pressure to unite, the West Europeans may soon find themselves faced by a powerful reason not to. The reason comes in the form of an irony: Just at a time when Western Europe is trying to grow bigger, it is finding that it may become something that is still too small.

The irony consists of two parts. First, even as a perfect customs union, Western Europe may be too small economically. After all, more and more goods and services are being produced and distributed on a *global* rather than a national or even regional level. Second, as the ideological division of Europe wanes along with the Cold War, Western Europe may become too small politically. The ultimate irony may well be that a united Western Europe, both as an institution and as a dream, is approaching obsolescence just as the 12 are poised for their Great Leap Forward.

Consider, for instance, the global scale of production and consumption. The threat posed to the EC by this development is that market forces, given current trends, will outleap institution building. One key motive for 1992 is to present European producers with an open market of 324 million consumers so that they can profit from economies of scale and acquire competitive muscle. Yet the ultimate economy of scale may soon be measured in global terms. Companies may well end up requiring a far larger base than even the Europe of the 12 can offer. Already, the "concentration of capital," as Marxist terminology has it, is bursting through national and continental confines, as the sustained rush toward global corporate alliances and mergers continues.

Take an example which may prove typical of future trends. In 1989, the West German Post Office opened bidding for the installation of a private mobile telephone network in the Federal Republic. The race was entered by seven consortia—not one of them purely European, let alone German. Among the contenders: Olivetti (Italy), Shearson Lehman (U.S.), BCE Mobile (Canada), Cables and Wireless (Britain), Lyonnaise des Eaux (France), Comvik (Sweden), and various German banks and companies. Big Business, it is obvious, already operates on a global rather than a continental scale.

Also, it is no longer clear whether Volvo, Toyota, IBM, or BP are "national" corporations in any meaningful sense. They produce world-wide, their shares are traded world-wide, they sell global rather than national products, and their loyalties are no longer necessarily focused on their home countries. If IBM, for instance, does well, its workers in the United States do not necessarily do better as a result; it is more likely that IBM's profits go up because it has shifted jobs to lower-wage locales. The day is not far off when American, French, or German cars will be *world* cars, subject only to modifications required by local tastes—as Japanese and Korean consumer electronics already are.

The implications of globalization are still unclear. But they do not necessarily make Big Business (or consumers) into faithful allies of national governments or regional institutions like the European Community. Economic necessity, viewed by functionalists as the motor for *European*

integration, may impel producers toward open trade and investment—toward the global widening of economic frontiers rather than to their regional tightening. To maximize profits, the modern corporation does not necessarily need what Brussels is building. And just as business long ago learned to ignore national frontiers, so may it learn to circumvent and leapfrog whatever obstacles the EC puts in its way.

From Amsterdam's De Telegraaf.

Who next? Austria and Turkey have already applied for membership in the EC, and others are sure to follow. So are troubling questions: Should neutrals be allowed in? Members of the Warsaw Pact? The EC refuses to rule on any applications until after 1992.

Political developments pose equally salient challenges to the future of the EC. In many respects, the European integration venture is a child of Joseph Stalin and of Harry S. Truman. Beginning with the Marshall Plan in 1948–51, the United States pushed West Europeans toward integration in order to create a bulwark against the Soviet Union on the continent. Unwillingly, Stalin also played a crucial part. His looming presence overshadowed ancient rivalries and fears which had kept Europe at war for centuries—especially the "arch enmity" between Germans and Gauls. The United States, playing the protector, helped put these enmities to rest. Germans and French could reach across gulfs of resentment and blood to join hands in the common European enterprise because, for the first time, there was suddenly a player in the system more powerful than either.*

But the Cold War is waning. And with its passing, the 40-year-old ligaments of the Western system in Europe—NATO, a separate West European consciousness—are loosening, too. Suddenly, Gorbachev's Soviet Union is knocking at the EC's doors in Brussels. Austria wants in. So does Turkey. The Swiss, Swedes, and Norwegians will not want to be left out forever. And Hungary and Poland are positioning themselves for association. Will the 12 want to keep them out? And if they don't, what will happen to West European unification?

Only one thing is beyond doubt. More members equals less homogeneity; and the less homogeneity, the slower the ascent to the summit of political union. It is precisely for this reason that some EC countries may want to keep newcomers out. But at least one key player in Western Europe will oppose exclusivity.

That player is West Germany—a country that has been *in*, *of*, and *with* the West during the past 40 years but which, at the same time, has been powerfully pulled eastward. The reasons are obvious. First and

*For an elaboration, see my *The Limited Partnership: Europe, the United States and the Burdens of Alliance* (Cambridge: Ballinger, 1987), ch. 5: "Alliance as Order."

foremost is the fact of the postwar partition of Germany. For a long time, that issue seemed to be settled within the framework of "bipolarity." But as bipolarity recedes, the "German question" once again moves to the forefront. The crumbling of the Berlin Wall is only the most visible and dramatic example of this. If the "de-Sovietization" of Eastern Europe continues, what use is the German Democratic Republic (GDR) to Moscow? Moscow most likely will no longer need the GDR as *the* strategic brace of its East European empire. If the democratization of the Soviet bloc continues (no foregone conclusion), and the GDR continues the reforms that are moving it away from Prusso-Socialism, what is left to legitimize the GDR's existence as a second German state?

Regardless of such possible developments, the postwar system in Europe has become fluid enough to throw the German question wide open. And while outright reunification is the least likely outcome, "reassociation" or "confederation" is not. Whatever happens, the Soviet Union will always retain veto power over Germany's evolution, and that forces West Germany to be scrupulously deferential to Moscow's imperial sensitivities.

Such deference will have consequences for the West European venture. For as Bonn strengthens the walls of its West European house, it will presumably take care not to build too high or too fast. If and when Washington and Moscow disengage from Europe, even a benign Soviet Union will not look kindly on a West European superstate that replaces the United States as the counterweight to Soviet power. Nor will Bonn want to close the EC's doors to East Germany and *Mitteleuropa*, that mythical locale of Central Europe, which, in the imagination of some Germans, Czechs, Poles, and Hungarians, is the true cultural and political home of their nations.

Meanwhile, West Germany's traditional role in Europe is changing, regardless of events in the East. Forty years ago, of course, West Germany was a defeated, occupied, and discredited half-nation. In order to come out from under unilaterally imposed controls, the young Federal Republic had to become a partner in multilateral and voluntary ones. That is why the new German state became a compulsive joiner—in the hope that it could regain sovereignty by submerging itself in the Western community, be it the European Coal and Steel Community, NATO, or the European Economic Community. For the Federal Republic, self-abnegation was the very condition of self-assertion.

The success story of the European Community during the 1950s and '60s cannot be divorced from the unique, but transient, state of its soon-to-be most powerful member. Unable and unwilling to translate its growing economic weight into political muscle, the Federal Republic acted as paragon of integrationist virtue. As long as the Cold War was at its coldest and West Germany's moral rehabilitation was incomplete, deference to allies—especially to France—was the keystone of German foreign policy. Bonn paid more into the EC's communal kitty than it got back in so-called rebates; it yielded to France on matters of agriculture and "high politics"; and throughout, the Federal Republic chose communal discretion over nationalist valor.

But with the fading of the Soviet threat and the dimming of memories of World War II, the Federal Republic has begun to act like a "normal" nation. In the past, only De Gaulle would fling his veto against the Community; during the 1980s, West Germans have displayed similar petulance, often for relatively trivial reasons—such as blocking a minuscule drop in EC cereal

prices. Bonn, in short, has begun to "re-nationalize" its foreign policy precisely when the Community is poised to leap toward *more* supranationality.

Just as West Germany's eager Europeanism served as motor of integration in the past, its new role, welded to its enormous economic and political clout, may well act as a brake in the future. After 1992, the next scheduled step is monetary union. Today, the West German *Bundesbank* acts as the *de facto* manager of the European Monetary System (EMS), which seeks to keep members' parities in lockstep. Informally, in fact, the EMS has become a deutschmark zone, beholden to monetary discipline meted out by the *Bundesbank*. This being the case, it is difficult to see how the EC will go forward to a unified monetary authority. Will the West Germans relinquish their dominance? If not, will the others accept it *de jure* and not just *de facto*?

As Western Europe prepares for its Great Leap Forward, it becomes increasingly clear that it will not jump as fast or as far as some people think. Western Europe remains what it has always been: a collection of sturdy nation-states in search of more integration where tolerable bargains among 12 sovereignties can be struck.

It is clear, too, that West Europeans must act in a world that is changing more rapidly and profoundly than the Community's "founding fathers" could possibly have foreseen. With a globalizing market exerting its pull and an emancipating Eastern Europe beckoning, the Community may well become too small economically and politically.

And, finally, the ascent to the summit of supranationality becomes not easier but harder with each stride forward. It does so because each step takes the West Europeans into more difficult terrain, where the shadows of national autonomy loom ever more menacingly. The dream of European unity may be older than the European nation-state, but the dream has not yet been able to overcome the reality of national sovereignty. And no matter how battered and outmoded that reality is said to be, its longevity bears a message. It is a message of persistence, and it will not be drowned out by 1992 or any other future assaults on the ramparts of sovereignty in Europe.

FURTHER READING

The **Memoirs** (Doubleday, 1978) of Jean Monnet, the EC's "founding father," and Serge and Merry Bromberger's **Jean Monnet and the United States of Europe** (Coward-McCann, 1969) provide historical perspective on today's integration efforts. **European Unification: The Origins and Growth of the European Community** (European Community, 1986), by Klaus-Dieter Borchardt, is a compact account. Max Beloff's **The United States and European Unity** (Brookings, 1963) describes U.S. attitudes towards European integration through the Kennedy administration; Richard J. Barnet's **The Alliance** (Simon and Schuster, 1983) is a more general account of European-American political and economic relations. **The European Challenge, 1992: The Benefits of a Single Market** (Gower, 1988), by Paolo Cecchini, is the EC's official vision of the fruits of an integrated Europe. **The 1992 Challenge From Europe: Development of the European Community's Internal Market** (Nat'l. Planning Assoc., 1988) by Michael Calingaert, a former U.S. Foreign Service officer, is the best overview; **Europe 1992: A Practical Guide for American Business** (U.S. Chamber of Commerce, 1989) is a readable (and optimistic) nuts-and-bolts guide. American press coverage of European events has been spotty; *The Economist*, the British weekly which circulates widely in the United States, is the layman's best source of up-to-date information.