

WHY THE EU WON

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December 2009*

1. Introduction

Why did European regional integration take on a supranational form, rather than involving looser intergovernmental structures, such as a free trade area? Why was the supranational approach considered desirable, and what made it feasible in the European context? During the 1950s, only a minority of European countries -- just six -- were willing to go down the supranational route. The majority of countries preferred intergovernmental cooperation. Why was the situation in which the minority pursued their preferred option, and the majority pursued theirs, not a stable equilibrium? Why was most of EFTA, and most of the rest of Europe besides, eventually incorporated into what is now the European Union? And what, if any, are the lessons for Asia today?

At a very broad level, one can divide the question of "Why the EU Won" into two distinct sub-questions. First, why did the EU-6 choose to go down a supranational route? And second, why did the rest of Europe eventually join them? The answer to the second question is largely to be found in the domino mechanism described by Richard Baldwin in his paper, and so I will deal more with the first question, as well as with the issue of why the United Kingdom decided to apply for EEC membership in the early 1960s. That decision was crucial, as will be seen, in making the already considerable gravitational pull of the EEC irresistible. The paper will therefore focus largely on the 1950s and 1960s, and only deal briefly with the later decades which are covered in detail by Baldwin. For the same reason, I will not dwell on the "deepening" of European integration since the 1980s, which is also dealt with in Baldwin's paper, although I do briefly mention it at the end of Section 3.

This paper argues that the answers as to why Europe adopted a supranational approach to integration have to be found at three distinct levels. First, there are deep structural factors relating to European geography and history, which increased the demand for European integration, expressed in supranational institutions of various kinds. These include Europe's political fragmentation, its relative cultural homogeneity, and the legacies of the Industrial Revolution and the industrial warfare which it ultimately spawned. Second, there are the geopolitical and economic interests of the national governments who had to decide whether to meet this demand, or instead adopt a more intergovernmental framework for regional cooperation. These interests were largely shaped by the afore-mentioned structural forces, and included fears of diminished status on the world political stage, and the important role which agricultural trade had to play in any comprehensive European free trade bargain. Third, one should not forget the role which chance and contingency played, in the form of the negotiating skills (or lack thereof) of particular governments at particular times, and the political composition of these same governments. When comparing the European and Asian experiences, the main focus presumably ought to be on the first two (structural and mid-level)

factors. However, when asking whether the victory of European supranationalism was inevitable or not, and what the key moments were when history might have gone down a different road, one has to take these contingent factors into account as well.

The paper thus begins by sketching some of the fundamental geographical, historical and cultural features of the continent which are of particular importance in understanding both its post-war history, and the extent to which this history does or does not have lessons for Asia today. It next provides a historical narrative which looks in detail at key turning points in European postwar history, and on the interests of the governments whose decisions made the difference. It goes on to ask whether there is a plausible intergovernmental counterfactual, and what this might have looked like, before concluding with some of the key lessons which postwar European history holds for 21st century Asia.

2. Structural factors: history, geography and culture

Size and diversity

Europe is a much smaller continent than Asia, and is in consequence much less diverse. Asia includes five "world regions", as defined by Findlay and O'Rourke (2007): the Islamic heartland in the Middle East; Central Asia, which is also now largely Muslim, but which historically was characterised by entirely different economic and political structures; the South Asian subcontinent and Southeast Asia, each with its own distinctive culture; and the East Asian societies of China, Japan and Korea. Indeed, as a result of Russian conquests, "Eastern Europe" could be considered to be a sixth Asian region as well. By contrast, Europe only includes two of these "world regions", Western Europe and Eastern Europe.

In the Findlay-O'Rourke schema, Western Europe includes all those areas within Europe whose cultures have been influenced by the Roman Catholic Church and the Latin script. It thus includes Poland, Hungary, Finland, the Baltic states, and Croatia. Eastern Europe is defined as those regions whose major formative cultural influences were the Byzantine Empire and the Greek Orthodox Church, and thus includes present-day Russia, Belarus, Ukraine, and most of the Balkan peninsula. While both regions share a Christian heritage, the historical division between the Eastern and Western churches is still relevant, as was tragically demonstrated during the Balkan wars of the early 1990s.

The dream of European unity was traditionally more of a Western than an Eastern European phenomenon. It can be traced back centuries, for example to the proposal of Pierre Dubois in 1306 for an assembly of European princes which would work for peace on the basis of Christian principles (Urwin 1995, p. 2). The Roman Empire was a frequent source of inspiration for advocates of European unity, as was the need to enable Christian Europe to respond more effectively against the Ottoman threat. In later centuries the Enlightenment meant that religion would play a less important role in calls for European unity, and yet it is notable how Christian Democrats were to the fore in promoting the European cause in the six founding member states in the 1950s.

It seems worth pointing out that when several parts of Western Europe were forcibly incorporated into Soviet-dominated "Eastern Europe" after 1945, Soviet rule was challenged there on several occasions. There were uprisings in East Germany in 1953, in Hungary in 1956, and in Czechoslovakia in 1968. Eventually, the election of a Polish Pope in 1978 and the

subsequent foundation of the Solidarnosc trade union in 1980 marked the beginning of the end of the Soviet empire. It also seems worth pointing out that, even to this day, the European Union only incorporates four member states from Eastern Europe: Greece, which was admitted in 1980, Cyprus, admitted in 2004, and Bulgaria and Rumania, admitted in 2007. The experience of EU membership has been difficult in all four cases.¹ An even clearer demonstration of the importance of history and culture comes in the widespread reluctance to admit Turkey to the European Union, despite the obvious strategic attractions of such a course of action. The conclusion is therefore that despite the linguistic diversity of the European Union, and the large number of states included in it, this impressive experience of integration has in fact taken place within a relatively small and homogenous region.

Geography, fragmentation, and war

Geography is crucial in understanding the different historical trajectories experienced by Europe and Asia. Of particular importance in the context of this paper is the extent to which geography has traditionally helped to keep Western Europe politically fragmented. There are a sufficient number of natural barriers within the region, such as the Alps, the Pyrenees, and the English Channel, that would-be conquerors of Europe have found it impossible to unify the continent by military means -- and there have been several such attempts over time, from Charlemagne to Hitler. For Eric Jones (2003), this political fragmentation was a crucial advantage which Europe held over Asia, in large part because of the political and military competition which it implied. It was also more difficult to suppress inconvenient ideas, since a Voltaire could always move to Geneva, and the common European culture then ensured that ideas could move across frontiers even when their originators could not. The European "state system" may thus have helped to promote the Scientific Revolution and the Enlightenment, both of which were important elements in Europe's rise to pre-eminence. It certainly helped to promote military competitiveness, and a European "comparative advantage in violence", without which a seeming absurdity such as tiny Portugal's successes in the Indian Ocean would be impossible to explain.

By contrast, China has been a unified country, more or less, for over two millennia. There have been many other large empires in Asian history: the early Islamic empire, the Ottoman Empire, the Safavid Empire, the Mughal Empire, the Russian Empire, and the Mongol Empire being some of the most famous. One could argue that the current Indian and Chinese states represent more impressive examples of political integration, within comparable regions, than the European Union is ever likely to achieve within Europe. There are thus two points to be made. First, European integration can seem impressive precisely because there was so much fragmentation to begin with. Second, Asian integration would by definition have to take place across very different "world regions", since within several of the Asian world regions there has already been an impressive degree of integration.

The backdrop to postwar European integration is of course the second 30 Years War, as it has been called, which lasted from 1914 to 1945. The political fragmentation which *had* traditionally been a source of competitive strength for Europe became more and more costly with the onset of modern industrial warfare, which increased the suffering associated with war.

¹ For example, the *Financial Times* of July 20, 2009 reported the fears of a panel of EU experts advising the Bulgarian government that unless Bulgaria takes more strenuous action to stamp out corruption, and Brussels and Sofia work more closely together, there is a risk that Bulgaria will eventually fall under Russian influence: see <http://www.ft.com/cms/s/0/9fb8436e-7519-11de-9ed5-00144feabdc0.html>

During the First World War, deaths of military personnel amounted to 1.6% of the total population in Britain. The equivalent figures in France and Germany were 3.4% and 3% respectively (Broadberry and Harrison 2005, p. 27). World War II was immensely more destructive, since it was no longer concentrated along a more or less static front, and involved very heavy aerial bombardment right across the continent. In addition, the Nazis directly targeted civilian populations. The net effect was that, according to one estimate, 48% of total war-related deaths were civilian during the Second World War, as opposed to 19% during the First (Garfield and Neugut 1997, p. 32). Over half a million Frenchmen were killed, over 350,000 Britons, almost 300,000 Americans, and over 4 million Germans.

The timing of the moves towards greater European unity is thus hardly surprising, nor is the strong support of the United States for the process. This history of warfare is also crucial for understanding the importance of the Franco-German relationship as a driver of European integration. Following a century that had seen the Franco-Prussian and two world wars, this bilateral relationship has been of immense symbolic and practical importance. One could speculate that a *rapprochement* between China and Japan might some day play a similar catalysing role in the context of East Asian integration, and the participation of both these powers in the Six Party Talks, APT, EAS, and most recently the Trilateral Summits, may augur well in this regard for the future. It has to be said though that the contrasts between the post-war Franco-German and Sino-Japanese relationships have been, and remain, striking.

Also striking is the strong US encouragement of European integration after World War II, even though regional trade agreements might end up discriminating against it. In contrast, US opposition to Japan's Asian Monetary Fund proposal in 1997 led to the withdrawal of that proposal (even though something very similar emerged twelve years later, with the multilateralising of the Chiang Mai Initiative).² The Cold War is the key to understanding why the Americans were so keen to promote political integration in Western Europe after 1945. It is not clear that they would have similar interests in the context of 21st century Asia, even if political integration were ever to become a realistic possibility there.

The aftermath of the Industrial Revolution: Relative decline

Europe was the first continent to experience the Industrial Revolution. As such, it enjoyed an enormous increase in its relative economic, military and political power. This manifested itself most notably in the overseas empires of the 19th century, particularly those of the British and French. The crucial feature of modern industry, however, is that it is inherently footloose. During the 19th and early 20th centuries, transport costs implied that endowments of coal or iron ore played an important role in determining where industry located, but once transport costs had fallen sufficiently that these inputs were no longer non-traded, the spread of industry across the globe was inevitable, and the relative decline of Europe with it.

Indeed, Europe's primacy was already ending at the beginning of the 20th century, as the United States emerged as the world's largest industrial power. In retrospect, American geopolitical dominance seems inevitable, given its continental economy and coastlines on both the Atlantic and the Pacific. The two world wars hastened the transition from a Western European-dominated world, and by 1945 the two dominant military powers in the world were clearly the US and the USSR. A key question for European statesman was then how to avoid

² Dent, this volume.

being overwhelmed by the Soviet Union, and ignored or condescended to by the United States. Greater unity seemed an obvious solution.

Europe's diminished status was more obvious to observers on the Continent than in Britain. France, Germany, Italy and the Benelux countries had all been defeated in one way or another during the war.³ By contrast, the United Kingdom had remained undefeated throughout the war, thanks to her insular position and links with the Commonwealth. Not having shared in the common European experience of defeat, and retaining as she did a large overseas empire, it is probably not surprising that the UK was more reluctant to move beyond intergovernmental cooperation than other countries.

The two countries whose relative status was most diminished as a result of the war, apart from Germany, were France and Britain, traditionally great powers. The fact that both countries entered the postwar era still entertaining imperial ambitions, although their empires were irrevocably doomed, is an important part of the background of the period. Churchill proclaimed in 1942 that he had not become Prime Minister in order to preside over the dissolution of the British Empire, while Gaston Monnerville in France stated that "Sans son empire, la France ne serait qu'un pays libéré. Avec son empire, la France est un pays vainqueur."⁴ The hubris of such statements would soon become apparent. As long as they survived, however, these countries' overseas possessions would complicate their relationships both with the United States, and with other European countries. This was particularly true in the British case, but it is no coincidence that de Gaulle was also deeply suspicious of the supranational approach to European integration, something which would have important consequences in the 1960s. The competition between these two declining powers for influence within Europe was a constant feature of the European political landscape in the 1950s and 1960s, and would have important implications at various moments.

The contrast with 21st century Asia is obvious, and will be stressed in the concluding section: Asia is not a declining power, but a rising one, and this is crucial in assessing the prospects for supranational integration there today.

The aftermath of the Industrial Revolution: The role of the state

As mentioned earlier, the Industrial Revolution had greatly increased the human costs of warfare. It also required the mobilisation of large conscript armies. A logical consequence was that the state needed to compensate its citizens, by providing them with services which would increase their identification with the state and ensure their loyalty. The result was a gradual growth of public education -- which obviously attempted to directly create national identities, not always successfully -- and other public services. Another factor leading to the state providing citizens with a greater range of services was globalisation, itself a product of the new steam technologies of the 19th century. This gave rise to a countervailing demand for regulation and social insurance policies which would protect workers against the insecurities, real or perceived, associated with open international markets.

The late 19th and early 20th centuries saw the introduction of a wide range of labour market regulations across Western Europe, for example prohibiting night work for women and

³ So too had countries which did not participate in the initial steps towards supranational policy-making, such as Austria, Norway and Denmark.

⁴ "Without her Empire, France would only be a liberated country. With her Empire, France is a victorious country."

children, prohibiting child labour below certain ages, and introducing factory inspections. They also saw the introduction of old-age pensions, and sickness and unemployment insurance. Huberman and Lewchuk (2003) show that this "labour compact" was more widespread in those European economies which were more open to free trade. This connection between globalisation and social insurance would also be a feature of the post-World War II political landscape, although as Rodrik points out, there is an inherent dilemma for governments here, in that while international economic integration may increase the demand for such policies, it may also through competition make it more difficult for governments to supply them (Ruggie 1982, Rodrik 1998).

The world wars gave a further impetus to the growing involvement of the state in domestic economies, and to the development of social welfare systems. The aftermath of World War I saw a significant extension of the franchise, as well as an increase in the influence of trade unions and Socialist parties. The defeat of Churchill in 1945, and the election of a Labour government, was similarly a reflection of the desire of those ordinary workers who had suffered so greatly during the war to see their lives improve in its wake. Given the experience of the Great Depression, they were hardly going to be willing to leave it to the market: "embedded liberalism" was a logical consequence. Furthermore, since the EU-6 were at roughly similar levels of economic development in the 1950s and 1960s -- at least compared with the disparities in income and industrial development in Asia today -- they all faced similar political pressures.

As Alan Milward (2000) points out, these heightened expectations on the part of ordinary people coincided in most of Europe with the widespread feeling that traditional nation states had failed their people -- they had failed in providing economic security during the interwar period, and they had failed in providing physical security after 1939. The most urgent need for governments was to restore the political legitimacy of the states which they governed, by providing ordinary citizens with the security that they craved. According to Milward, the three crucial constituencies which had to be placated were agricultural voters, whose disillusionment had led them to support extremist parties during the interwar period in many countries, workers, and those dependent on the welfare state. The solution was to provide workers with rising wages and full employment, to ensure rising living standards for the agricultural sector, and to establish modern welfare states.

Accomplishing all three goals required an extension of government intervention in the economy. As Milward says, "in the long run of history there has surely never been a period when national government in Europe has exercised more effective power and more extensive control over its citizens than that since the Second World War, nor one in which its ambitions expanded so rapidly. Its laws, officials, policemen, spies, statisticians, revenue collectors, and social workers have penetrated into a far wider range of human activities than they were earlier able or encouraged to do" (Milward 2000, p. 18).

This in turn provided both direct and indirect reasons for governments to cooperate with each other. One direct reason can be found in the fears of governments during the 1950s that their industries would be placed at a competitive disadvantage vis-à-vis industries in other countries whose social welfare systems were less well developed. A logical response to this fear was to argue, as the French did, that a common market required common social policies. In order to develop such policies, a deeper institutional framework would then be required than

would be the case under a simple free trade area. Indirectly, Milward argues that governments pooled sovereignty, since this was essential if they were to achieve the economic growth they needed. I will return to this argument in the concluding section.

Clearly the state has been an important actor in many Asian economies since 1945. However, to date this has not produced the same pressures for supranational integration in Asia as it did in Europe. Asian economies were able to grow by exporting to Western markets, which were relatively open: they did not need to carve out a large enough regional market via regional integration to promote export-oriented investment. Nor would the defensive motive of protecting firms from being undercut by foreign competition, given generous domestic social welfare provisions, have been much of a consideration in countries who were undercutting, rather than being undercut.

The aftermath of the Industrial Revolution: The role of agriculture

A third consequence of Western Europe's industrial history is that she had become a large net importer of agricultural goods. This was particularly the case of the first industrial nation, Britain, but it was true of the region as a whole as well. Matters had come to a head in the late 1870s and 1880s, when steamships and railroads had led to a "grain invasion" of Europe that soon sparked a protectionist backlash across much of the continent, thus bringing to an end a brief interlude of free trade. This agricultural protection would become a permanent feature of the European landscape. What the grain invasion failed to achieve, the Great Depression accomplished in such traditionally free-trading countries such as United Kingdom and the Netherlands. The British case is particularly relevant for postwar history, and is worth briefly recounting.

The political economy of agricultural protection in Europe in the late 19th century can be summarised in a fairly straightforward manner (Rogowski 1989). Land interests, and hence conservative parties, tended to be protectionist, while worker interests, and hence socialist parties, were predominantly interested in cheap food, and hence favoured free trade. In a capital-abundant country such as Britain, capital, and hence the Liberal party, also favoured free trade. (The fact that capital was scarcer on the Continent then helps explain why business interests were less keen on free trade there, and why protection was adopted.) Conservatives also tended to be imperialists. In 1903, the British Colonial Secretary, Joseph Chamberlain, launched a debate about free trade, in which he proposed that the British Empire become a preferential trading area, which would of course have required imposing tariffs on non-Empire countries. The debate was settled in 1906, when the Liberals won a crushing general election victory, and despite the widespread trade restrictions associated with World War I, Britain resumed a mostly free trade stance in the 1920s.

Then came the economic crisis of 1929 and its aftermath. In 1931, a new National Government dominated by Conservatives came to power in Britain. Almost immediately, the government introduced protection on manufactured goods from non-Empire countries. This measure of discrimination in favour of the Empire was however of no great use to the Dominions, whose exports to the UK were mostly agricultural. In 1932, therefore, it was agreed at Ottawa that while Empire goods would continue to be admitted into the UK duty-free, new duties on non-Empire goods such as wheat would be introduced in Britain so as to afford a measure of protection for the Empire in the British market. In this way, Chamberlain's vision was finally realised. Of course, none of this provided British farmers with any great protection,

since their Canadian and Australian counterparts were so much more productive than they were. They were thus guaranteed a minimum price for their output. However, the British market price reflected the fact that Empire food was being admitted duty-free, and that because of the United Kingdom's historical commitment to cheap food the government did not wish to raise that price. British farmers therefore obtained their guaranteed prices by means of a subsidy, known as a deficiency payment, equal to the difference between the average market price and the guaranteed price.

After World War II, all European countries experienced severe food shortages. They did not have the foreign exchange to import large quantities of food, but in any event governments now wished to achieve food self-sufficiency for strategic reasons. The result was that in the early postwar period, widespread agricultural intervention was the norm across Europe (Tracy 1989, Chapter 11). Governments promoted agricultural production by a variety of means: guaranteeing farm incomes, and encouraging agricultural investment and better farming practices. They also guaranteed prices for farmers. This meant raising domestic prices above world levels, which in turn meant insulating domestic agricultural markets from world markets by means of strict import controls. In the United Kingdom, on the other hand, deficiency payments remained the policy tool of choice, allowing farmers to benefit from higher prices while maintaining the advantages of cheap food, and allowing Commonwealth countries access to British markets. (This of course increased the direct cost to the British Exchequer)

By the early to mid-1950s, food shortages were becoming less of a problem, and food surpluses started to emerge as a result of the guaranteed prices. At the same time, low farm incomes remained a problem, with rising productivity and outmigration being insufficient to bridge the gap between agricultural and non-agricultural incomes. Faced with the inherent contradictions of the situation, agricultural policy in Europe became "increasingly complicated" (Tracy 1989, p. 219). The result was an agricultural sector in which government intervention was becoming more and more intrusive during the course of the 1950s.

No European government of the 1950s could have contemplated a liberalisation of agricultural production. There were therefore two logical choices facing politicians wishing to liberalise European trade. The first was to liberalise trade in industrial products alone, maintaining existing national agricultural policies. The second was to liberalise intra-European trade in agricultural products, but to replicate at the European level these national agricultural policies -- in other words, to develop some sort of a Common Agricultural Policy. Such a policy would require a great deal more intergovernmental cooperation than a mere free trade area. It would require decision-making rules on setting minimum agricultural prices facing farmers, and one can well imagine that the prices favoured by different countries would differ as well. It would probably also need rules for financing the consequences of surplus production.

It seems evident that the initial British desire to limit intra-European integration to an industrial free trade area was perfectly rational, given these choices. First, there was Britain's relationship with the Commonwealth to be considered. Second, Britain's preferred deficiency payment system, which protected consumer interests at the expense of the taxpayer, was very different from the policies of raising domestic consumer as well as producer prices favoured by countries such as France and Germany. One would not need to appeal to a heightened British distaste for supranational institutions, therefore, to understand the U.K.'s preference for EFTA. As regards the original six members of the EEC, simple economic considerations can also help

to understand why they opted for an agreement covering agriculture as well as industry. Europe as a whole was a food importer, but within Europe there were regions which relied heavily on food exports. German industries stood to gain from industrial free trade since Germany was an industrial exporter. However, agricultural exports were very important for France and crucial for the Netherlands, so any sensible bargain involving these three countries would have to incorporate agriculture as well as industry. It followed that a Common Agricultural Policy of some sort was inevitable.

The argument is not that agriculture made regional integration easier, since agriculture has been an obstacle to European free trade for nearly a century and a half. Rather, the argument is that, given that agriculture had to be a part of the new Common Market for political reasons, a logical implication was the development of institutions which would be able to organise Europe-wide government activity in this sector. In Asia, agriculture has hindered moves towards free trade; for example, agricultural considerations prompted the Japanese government not to support the EVSL approach to meeting APEC's Bogor Goals, with the tacit approval of other East Asian nations (Dent, this volume). Indeed, Asian countries have tended to adopt the favoured approach of the British, namely to limit free trade agreements to industrial products. Such a policy would have been attractive to German industrialists in the 1950s, but would have been anathema to the French and Dutch.

The world economic context

In 1945, the world was emerging from three appalling decades which had seen two world wars and the Great Depression. All three catastrophes led to widespread restrictions on trade, which tended to become locked in as a result of the political process (Findlay and O'Rourke 2007, Chapter 8). The result was that the post-war world economy was highly fragmented, characterised by inconvertible currencies, high tariffs, and widespread quotas. To be sure, 23 states signed the General Agreement on Tariffs and Trade in 1947, with the purpose of encouraging "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade." The initial negotiation round, in Geneva, saw 123 bilateral trade agreements being reached, but by the 1950s the GATT process had stalled, in part as a result of the free rider problems associated with the Most Favoured Nation clause (Irwin 1995). On top of this, the 'dollar shortage' problem meant that moves to make European currencies convertible necessitated a regional approach, embodied in the European Payments Union. The net result was that regional trade agreements were a desirable option for export-oriented economies, such as the Netherlands, who wanted to see trade liberalised more rapidly than could be achieved at the global level. German industrialists might have preferred a wider free trade area, but the EEC could be seen by them as a second best solution. (Even more important in the German context, however, was the opportunity afforded by the EEC for re-establishing the Federal Republic as a normal country.)

In contrast, the world economy today is highly globalized. Asian export sectors do not have the same interest in regional trade agreements as their European colleagues did fifty years ago, given that they can already export to markets worldwide. It is perhaps not surprising, then, that finance rather than trade has been the focus of Asian regional initiatives in recent years. Even if the Chiang Mai Initiative evolves into an Asian Monetary Fund, however, this will not require the supranational political institutions of the EU, any more than does the IMF.

3. European integration: a brief narrative

I now provide a brief narrative of some of the key turning points in the history of postwar European integration. By 'turning points', I simply mean points in time when history might have gone one way, but actually went another, as a result of political choices that were made then. Since much of the history is well known, and covered in such standard sources as Urwin (1995), I will not attempt to provide anything approximating a comprehensive account. Rather, the purpose is to pick out key episodes which can help us to understand what the main impulses were behind European supranationalism, and at what points in time history might plausibly have evolved differently. In achieving the former purpose, the emphasis will be on the structural and mid-level factors which helped to determine European governments' fundamental interests during this period. In achieving the latter, the emphasis will be more on contingency and chance. As already mentioned I will focus on the 1950s and 1960s, since later decades are the focus of Baldwin (this volume). So as to speed the narrative, an extensive timeline is given in Table 1.

Britain at the heart of Europe

The late 1940s saw a burst of institutional innovation in Western Europe.⁵ By the end of the decade three major international organisations had been created, in the economic, security and political spheres. All three included the United Kingdom as a leading founder member, and all three operated on essentially intergovernmental lines. At the same time, future battle lines were already being drawn between federalists and advocates of intergovernmental cooperation.

The origins of the Organisation for European Economic Co-Operation (OEEC) are largely American. When the United States decided in 1947 to provide Marshall Aid to Europe, one of the things that it insisted upon was that the European Recovery Programme be administered by the Europeans themselves. The OEEC was set up for this purpose in 1948, and involved 17 European countries who would be the key players in the manoeuvres and counter-manoevres of the succeeding decade. It is helpful to classify these countries into three groups. First, there were "the Six": the three Benelux countries, France, Germany and Italy.⁶ Second, there were the "Other Six": the three Scandinavians (Denmark, Norway and Sweden), the two neutral alpine states (Austria and Switzerland), and the UK. Third, there were five peripheral and less industrial countries: Greece, Iceland, Ireland, Portugal and Turkey.

Although the initial purpose of the OEEC was to find ways of disbursing Marshall Aid across its members, it also had a remit to advance European economic integration. According to the Convention establishing the Organisation, members undertook to "achieve a multilateral system of payments, and co-operate in relaxing restrictions on trade and payments between one another" (Article 4); to reduce tariffs and other trade barriers (Article 6); and to study the possibility of "customs unions or analogous arrangements such as free trade areas" (Article 5) (Maher 1986, p. 25). The Americans working with European officials at the time had strongly urged them to consider the formation of a customs union, but while several European countries

⁵ In discussing postwar European history, I will tend to use "Western Europe" to refer to those parts of Europe west of the Iron Curtain, as is common practice -- despite the fact that as alluded to earlier, "Western Europe" is in a long-run historical perspective a rather broader concept.

⁶ Initially, Germany was represented at the OEEC by two delegations representing the Anglo-American Bizone, as well as the French occupied zone. There were thus 18 participants, rather than 17, in the original OEEC. In 1949, the British, French and American occupation zones were merged to form the Federal Republic of Germany, henceforth referred to for simplicity as "Germany". In addition, that portion of the Free Territory of Trieste which was under Anglo-American control also participated in the organisation, until it was handed back to Italy in 1954.

were willing to contemplate such a move, the British were not. Article 5 thus represented a watered-down version of what the American sponsors of the OEEC had wanted (Camps 1964, p. 7). In accordance with the wishes not just of Britain, but of the Scandinavians and the Low Countries (Urwin 1995, p. 20), the organisation was strictly intergovernmental in nature – contrary to the wishes of France. Decisions were taken by the Council of Ministers, and required unanimity.

The OEEC was largely successful in achieving its objectives. Notably, the establishment of the European Payments Union in 1950 greatly facilitated the establishment of a multilateral trade system and the eventual resumption of convertible currencies, without which the adoption of more ambitious free trade proposals would have been impossible. The OEEC also made considerable progress in removing non-tariff barriers to trade amongst its members.

NATO was another organisation where American input was crucial by definition. The history of postwar European security integration starts in 1947, when France and the UK signed the Treaty of Dunkirk, in large part to protect themselves from any future German aggression. The following year the three Benelux countries joined France and Britain in signing the Treaty of Brussels, a 50 year collective security agreement which also called for "collaboration in economic, social and cultural matters" (Urwin 1995, p. 32). Initially, European federalists hoped that the Brussels Treaty might form a hard core around which further integration might be built, but this was never a realistic option given British preferences. Indeed, like its Dunkirk predecessor, the Brussels Treaty was also largely focused on protecting its members against Germany.

As it was, the Brussels Treaty soon became redundant, due to Western European weakness and fears about the Soviet Union. Even countries such as Denmark and Norway began to feel that they required an American security umbrella, having seen the conditions which the USSR imposed upon Finland in the 1948 peace treaty between those two countries (*ibid.*, p. 23). The result was the signature of the Atlantic Pact in 1949, establishing NATO, by 12 countries: the five Brussels Treaty countries, three Nordics (Denmark, Iceland and Norway), Italy and Portugal, and Canada and the United States. Greece and Turkey were admitted three years later.

The third major European organisation to be established in the 1940s was intended by its supporters to be political in nature. In 1948, two months after the signature of the Treaty of Brussels, a Congress of Europe was held in The Hague to promote the cause of European union. A European assembly was one of the key demands at the meeting. All of this would presumably have come to naught if several continental governments -- notably in Belgium, and in France where a pro-European government came to power later that year -- had not taken up the call. Despite the fact that an Englishman, Winston Churchill, was prominently associated with the demand for a European assembly, the British Labour government was hostile to the idea. Eventually however a compromise was found which, one might speculate, left a long-lasting imprint on the structure of European institutions. In 1949, the Council of Europe was established as a two-tier structure, involving both a European assembly, meeting in public, which is what the federalists wanted, and a ministerial committee meeting in private, and making decisions on the basis of unanimity, which is what the British wanted. The Consultative Assembly, as it was called, and which met in Strasbourg, became a focal point for pro-federalist politics during the 1950s. However, the structure of the Committee of Ministers ensured that

the Council of Europe would become an organisation based on intergovernmental cooperation. Its major contribution was in the area of human rights, with the European Convention for the Protection of Human Rights and Fundamental Freedoms being signed in 1950, and European Court of Human Rights established in 1959.

A British politician surveying the European scene in 1950 would probably have felt quite pleased. Western European was being stabilised, economically and politically, with the active support of the United States. A web of interlocking institutions had been created in order to facilitate this, in particular the OEEC and NATO, with Britain a leading member of both. And while the federalists had obtained a European assembly, the organisational framework that had been erected to date was intergovernmental rather than supranational.

The path to Rome

As we know, things were soon to take a very different turn. In May 1950 Robert Schuman announced a proposal to pool Western Europe's coal and steel industries, and have them administered by a new supranational authority. His declaration also stated that "Europe must be organised on a federal basis". All European countries were invited to participate in the venture, but only "the Six" did so. The result was the Treaty of Paris, establishing the European Coal and Steel Community, signed in 1951. Ratification was completed the following year. The ECSC was committed to establishing a common market in coal and steel, without tariffs, quotas, restrictive practices, discriminatory subsidies or other measures, and with a common tariff on imports from the rest of the world. It also took on functions in areas not directly related to trade, such as investment, research, health and safety, and the housing and resettlement of workers.

The ECSC established an ambitious supranational institutional framework. Four institutions were created: the High Authority, the Council of Ministers, the Court of Justice and the Common Assembly. The High Authority not only administered the Community, but was given decision-making power. In addition, it had the power to fine firms in breach of the Treaty, and to collect production levies. The Authority had nine members, and decisions were made by simple majority voting. It was thus a clear example of a supranational institution. The purpose of the Council was to coordinate the actions of the High Authority and of member states. It was made up of one minister representing each state. In some matters its consent was needed, and it made decisions on the basis of either unanimity or weighted majority voting. The Court of Justice was charged with making sure that the Treaty was respected, and had the power to annul the actions of the other institutions. Finally, the Common Assembly was a purely advisory body, which did however have the power to dismiss the High Authority.

Recent historical scholarship has not been particularly kind to the ECSC (Gillingham 1995). One of Monnet's major aims – and one which was entirely shared by the Americans, who had enthusiastically backed the project – was the decartelisation of German heavy industry, and the High Authority was given widespread powers to bring this about. The attempt proved a complete failure, partly because the needs of the Korean War implied that a costly reorganisation of German industry could not be contemplated. New national cartels were formed; and indeed, the formation of the ECSC prompted "advanced cooperation (between steel producers from different countries) beyond anything known either before or during the war", including the formation of the International Steel Export Cartel in 1953, which was able to set minimum prices for a higher percentage of community output than its pre-war counterpart had managed to achieve (*ibid.*, p. 161).

Nor did the ECSC succeed in creating a single market for coal and steel. Domestic coal subsidies and price controls remained, given the importance of coal prices for ordinary families as well as industry, while steel tariffs were not eliminated. German exports to non-ECSC European countries grew more rapidly than exports to the ECSC (Boltho and Eichengreen 2010). As late as 1959, when mild weather caused the accumulation of large stocks of coal, ECSC member states began controlling imports, including from other member states. The High Authority attempted to declare a state of crisis which would have allowed it to lower imports and production, but found these attempts blocked by the Council (that is to say, by the national governments) (Urwin 1995, p. 54).

Nor did the ECSC provide the institutional blueprint for future European institutional development, except superficially. The four institutions it established – the High Authority, Council of Ministers, Court of Justice and Common Assembly – do indeed correspond well to the Commission, Council, Court of Justice and European Parliament of our own day. Indeed, the Court of Justice and Assembly became institutions of all three Communities (ECSC, EEC and EURATOM) in 1958, and are thus the direct precursors of today's equivalent institutions. The Court of Justice in particular has played a crucial role, ensuring that the Communities developed on the basis of the rule of law. It was thus essential in maintaining the supranational character of the Communities, although obviously it would not have had the influence that it did had the member states not agreed to be bound by its rulings. (The fact that they did has proved crucial for subsequent developments, but *ex ante* they might not have.) Similarly, the High Authority and Council were merged with the corresponding bodies of the EEC and EURATOM in 1967, becoming the Commission and Council of the European Communities. Thus, in one sense the ECSC did provide a blueprint. However, the Treaty of Rome changed the institutional structure sufficiently that the EC would eventually develop into a much less supranational, and much more intergovernmental, organisation than the ECSC.

Nevertheless, the ECSC was an important development. For Gillingham, its crucial contributions were: first, to permit the reintegration of Germany into Europe, as a state which could sign treaties with others on the basis of equality; and second, to provide politicians and negotiators with valuable lessons on the process of negotiating and implementing experiments in integration. It also provided the political framework within which German heavy industry could be allowed to revive without threatening Germany's neighbours – although Boltho and Eichengreen (2010) speculate that the importance of achieving this was so great for the West that some other means would have been found to accomplish the same goal in the absence of the ECSC.

The second major development during this period had both Asian and American origins. The outbreak of war in Korea in June 1950 prompted an increasingly overstretched US, which had for a while been concerned about Western European military weakness in the face of the Soviet threat, to call for West German rearmament within NATO. This prospect obviously horrified the French and other victims of Nazi aggression. The solution, proposed by the French government in October, and known as the Pleven Plan, was to set up a common European army, so that Germany could contribute to NATO without doing so under a separate German command. This was to be done within a European Defense Community which was to involve similar supranational institutional structures as the ECSC. Once again the Americans were supportive, while the British refused to become involved; the Germans only did so on the basis

that the Western Allies end their occupation of Germany and return it to full sovereignty (Urwin 1995, p. 62).

In turn, the EDC sparked negotiations on an over-arching European Political Community to which both the EDC and ECSC were to be subordinate. However, the French had always viewed the Pleven Plan as the lesser of several evils, and remained opposed to German rearmament, while their involvement in the Indo-China war did nothing to heighten their desire for giving up military sovereignty. Eventually, in August 1954, the French National Assembly rejected the EDC treaty, and with it the EPC fell as well. The problem of how to handle German rearmament was therefore solved in the manner that the British had always wished: the expansion of the 1948 Brussels Treaty to include Germany and Italy, while removing the anti-German language of the original. (In a sense this is the military equivalent of the Boltho-Eichengreen argument regarding the ECSC noted earlier: given the stakes, non-supranational methods of reincorporating Germany into the family of nations were likely to be discovered, should the need arise.) The treaty establishing the resultant organisation, the Western European Union, was signed in October 1954. The WEU came into being, and Germany joined NATO, in May of the following year.

For supporters of European integration, this sequence of events must have seemed a debacle. However, the debates surrounding the EDC led fairly directly to the Messina process and the EEC (Milward 2000). The Netherlands, as a low tariff country, were not particularly happy with the trade liberalisation programme of the OEEC, despite the fact that they favoured more liberal trade. As a low tariff country, the removal of quota restrictions disproportionately liberalised Dutch trade, while leaving the trade of such high tariff countries as Britain and France relatively unaffected. As a result, it was difficult for the Dutch to expand their manufactured exports, while agricultural exports, which were important to the country, were excluded from the ongoing liberalisation efforts.

The solution was to engineer a reduction in tariffs in the Netherlands' major export markets. It seemed difficult to envisage progress being made within the context of the OEEC, where unanimity was required, and during the 1950s the GATT process was essentially stalled (Irwin 1995). On the other hand, the Dutch had found that their interests had been well protected in the negotiations leading to the formation of the ECSC, two of whose members (Belgium and Germany) were, by a happy coincidence, the Netherlands' largest export markets, and two of which were large high tariff countries (France and Italy). It was therefore entirely logical for the Netherlands to propose, in 1952, that the EDC and EPC should form a customs union. Discussion of the Beyen Plan, named after the Dutch foreign minister who proposed it, was wide-ranging and covered many of the issues that would eventually be tackled in later negotiations. One notable feature of the Plan, on which the Dutch insisted, is that there would be no scope for national governments to determine the pace of trade liberalisation -- rather, a precisely defined schedule would be written into the treaty. This would become a central part of the Treaty of Rome bargain.

Two points are relevant here in the Asian context. First, Asian exporters are operating in a world that is already largely globalized, under the auspices of the WTO. They therefore do not have the same incentives as did European export interests during the 1950s to push for regional free trade, especially since the ultimate consumers of what is produced in 'Factory Asia' have largely been found outside the region. Second, the fact that the Netherlands were not

convinced that their partners could be relied upon to deliver on their promises did not lead to a breakdown of negotiations, but rather to the development of supranational institutions designed to lock in mutual concessions. In turn, those supranational institutions were valued by other participants in the negotiating process for their own sake. If the latter is not true in the Asian context, one wonders how easy it would be to negotiate regional trade arrangements there, which would of necessity (given that industrial trade is already largely liberalised) have to focus on sensitive sectors such as agriculture.

As soon as the Mendès-France government which had been responsible for the defeat of the EDC fell from power in France, in February 1955, Beyen revived his customs union proposal. In June 1955 the foreign ministers of the Six met at Messina and agreed to set up a committee, headed by Paul-Henri Spaak, to study the establishment of a common market and a nuclear energy community. The Spaak Committee became a treaty drafting committee in May 1956, and in March 1957 the Treaty of Rome was signed, establishing the European Economic Community and EURATOM. As Baldwin (this volume) points out, the economic ambitions of the treaty were considerable: not just to establish a customs union, but also *inter alia* a Common Agricultural Policy (which, as suggested above, was a logical consequence of the former), the free movement of capital and labour, common competition rules, and the harmonisation of social policies.

The institutional structure of the EEC differed in one crucial respect, however, from that of the ECSC. In the ECSC, the supranational High Authority made the decisions, although it had to consult with the Council on certain issues. In the EEC, it was the Council – that is, the intergovernmental body representing the member states – which had the power to make decisions, while the Commission could formulate proposals which the Council of Ministers then discussed. The Treaty of Rome thus established two new Communities which were far less supranational than the ECSC, although it retained the Court of Justice. On the other hand, the Treaty also envisaged a gradual transition from unanimity or weighted majority voting to simple majority voting by 1966. No sooner did that date arrive, however, than the Luxembourg Compromise reinstated unanimity as the basic decision rule, as a result of the Empty Chair crisis of the previous year. The treaty was seen at the time as a victory for those governments who believed in an intergovernmental, rather than a supranational, vision of Europe, and de Gaulle's subsequent actions further strengthened that intergovernmental reality.

From Plan G to de Gaulle's first veto

Despite all this drama, the OEEC had not gone away (yet), and remained the basic building bloc of Western European economic integration -- even though it had become much less important after the ending of the Marshall Plan in 1952, and was also becoming a victim of its own success in dismantling quantitative restrictions on trade and moving European currencies towards convertibility. Moreover, Britain remained a leading European power, and the hope remained among several members of the ECSC that Britain might join with them in moving towards a customs union and common nuclear community. Indeed, Britain had signed an association agreement with the ECSC in 1954. The Six therefore invited Britain to participate in the work of the Spaak Committee, and the British accepted the invitation. They were present at the first meeting of the Committee in July 1955, and participated for the next five months.

There were two main differences between the British position and that of the Six (Camps 1964, Chapter II). The first, and most important, was the British preference for a free

trade area as opposed to a customs union. The Six opposed a free trade area on the grounds that it would require the maintenance of internal border controls to monitor compliance with the rules of origin, something which they wish to avoid "for psychological and political as well as for practical and economic reasons". The common external tariff would also have a "unifying effect", and "be useful in GATT negotiations" (*ibid.*, p. 39). For the British, on the other hand, a customs union was problematic precisely because of the common external tariff, with the difficulties that this implied for maintaining Britain's traditional preferences vis-à-vis the Commonwealth. The second difference had to do with institutions. Following the collapse of the EDC, there was scepticism among several continental countries regarding the desirability of new supranational institutions, and indeed the word "supranational" was scrupulously avoided by Spaak in the course of the negotiations (p. 41). On the other hand, the Six agreed that some new institutional structure was required, whereas the British favoured continuing to work within the framework of the OEEC.

Eventually, in November 1955 the British withdrew from the Spaak Committee, and for the next two or three months displayed a hostile attitude towards the work of the Six. Telegrams were sent in November to both Germany and the United States, attempting to dissuade them from supporting the common market project on the grounds that it would be both economically and politically divisive. Similar arguments were made at an informal meeting of OEEC delegates which had been convened by the British for the purpose -- greatly angering the governments of the Six (Schaad 1998, pp. 44-45). The United States made it clear to Britain that it did not approve of this attitude, and supported the creation of both EURATOM and a European common market. By January or February 1956, the initial hostility was being replaced by a realisation that six might well succeed in forming a customs union, and that Britain needed to find a way to work with it. However, Macmillan's attempts to sabotage the customs union project, and the fact that these had been abandoned largely because of US pressure, helped to create a climate of suspicion among the Six regarding British intentions, which made it much more difficult for Britain to achieve her subsequent objectives (Kaiser 1996, pp. 91-92).

By the spring of 1956, concerns about the customs union project started to become more widespread within the OEEC. A customs union involving just six members of the organisation would be discriminatory. Furthermore, the success of the organisation in dismantling quantitative restrictions on trade left low tariff countries such as Denmark, Sweden and Switzerland (as well as the Benelux countries) feeling that they were now at a competitive disadvantage vis-à-vis those countries that retained higher tariffs. This meant that they had an interest in securing lower tariffs independent of whatever the Six might agree amongst themselves. A Europe-wide free trade area would thus have had considerable appeal for such countries. The notion of an OEEC-wide free trade area, incorporating the EEC, eventually became government policy in Britain in early 1956, where it was known as "Plan G".

Some British officials seem to have hoped that Plan G might undermine the customs union project, by providing a more desirable means of expanding industrial exports to opponents of supranationalism in Germany, such as Ludwig Erhard, whose liberal instincts led him to favour as wide a free trade arrangement as possible. Whether this was the main motivation for the Plan G, or whether it was a reactive attempt to deal with the consequences of the customs union project in a way that minimised the negative consequences for British industry, and her relationships with the Commonwealth, is a matter of controversy (Kaiser

1996, Moravcsik 1998, Schaad 1998, Ellison 2000).⁷ The truth may have varied over time. According to Warlouzet (2008, p. 40), there were three distinct camps within British government circles. The first favoured the free trade area proposals because of the benefits they would imply for British industry. The second favoured them in the hopes that they would undermine the common market. The third opposed them, on the grounds that they were incompatible with Britain's global position in the world, the role of sterling, and the Commonwealth. Only after the Suez crisis of November 1956 did a general consensus emerge in favour of the free trade area. What mattered, of course, were European perceptions of British motivations, and here Macmillan's original hostility to the Messina process meant that key actors such as Spaak remained deeply suspicious of Plan G, even after the British government had come around to the view that it would be a complement to, rather than a substitute for, the EEC.

This British debate, however, should not obscure the fact that when the Spaak Committee reported in March, it also suggested that a customs union involving the Six could establish a free trade area with the other OEEC countries, and that other countries were also keen on a free trade area. The upshot was that in July 1956 the OEEC Council of Ministers decided to set up a working party to study the possibility of an OEEC-wide free trade area including a customs union involving the Six. Among the issues which the working party had to consider was whether agriculture should be included in the proposed free trade area. Britain objected to this, given its ties with the Commonwealth, while other countries such as Denmark and the Netherlands strongly favoured the inclusion of agriculture. Another interested party was Ireland, who would clearly have benefited from being able to export agricultural goods to the rest of Western Europe. However, the Irish Department of Agriculture took a realistic view: "The deliberations of the Six have shown that if agriculture is to be included in a free trade area it would be preferable that this should be done on the basis of a Common Market under which essential safeguards such as harmonisation of agricultural policies, market organisation, etc, could be extended to meet the special problems of farmers" (Maher 1986, p. 55). Given that there was little prospect of Britain accepting such common policies, the Irish conclusion was that any European free trade area would necessarily involve industry only.

The British initially hoped that the European free trade area negotiations would take place simultaneously with those establishing the Common Market. Crucially, it soon became clear that the Six would push ahead with the negotiation and ratification of the Treaty of Rome, leaving serious discussion of a free trade area to later. This was due to the fear that the prospect of a European free trade area might undermine support for a common market, particularly in France and Germany (Camps 1964, p. 102).

Following the publication of the working party report in January 1957, the OEEC Council of Ministers decided in February to enter into negotiations regarding the establishment of a European Free Trade Area. Again, the British hoped for speedy negotiations so that the free trade area and the customs union might come into effect simultaneously, thus avoiding any trade discrimination within the OEEC. Again, the Six resisted any attempt to slow down the Treaty of Rome negotiations, or to change any of its provisions in order to accommodate the

⁷ According to Ludlow (1997, p. 27), in October 1956 Erhard tried to persuade the German cabinet to suspend the Treaty of Rome negotiations in favour of the free trade area alternative. He was overruled by Adenauer and the Foreign Minister, Walter Hallstein, for whom the political benefits of a supranational arrangement were primordial.

free trade area negotiations -- despite the objections of Ludwig Erhard. The following month the Treaty of Rome was signed, and it was ratified by the French Assembly in July.

Trade liberalisation within the EEC was now due to begin on 1 January 1959, which added a sense of urgency to the free trade area negotiations. In October 1957, the OEEC Council decided to establish the Maudling Committee in order to "secure the establishment of a European Free Trade Area which would comprise all Member countries of the Organisation; which would associate, on a multi-lateral basis, the European Economic Community with the other Member countries; and which, taking fully into consideration the objectives of the European Economic Community, would in practice take effect parallel with the Treaty of Rome" (Camps 1964, p. 135). This objective had the strong support not only of the "Other Six", but of Germany and the Benelux countries as well.

This placed France in a serious dilemma (Lynch 2000, Warlouzet 2008). From 1956 onward, the Algerian war had placed its government finances and balance of payments under pressure. France had not been particularly keen on trade liberalisation to begin with, and these developments made it even less keen. On the other hand, it seemed clear that pressure for trade liberalisation would grow in the years ahead, and in that context the EEC offered important economic as well as political advantages. Trade liberalisation would be gradual; regard would be taken for the French concern that its industries would not be competing on an unfairly tilted playing field; and important side payments would be put in place, notably the Common Agricultural Policy and the European Development Fund which would make money available for French overseas territories. Crucially, the bargain involved trade liberalisation first, and side payments later, which was one way of making sure that France would comply with its side of the bargain.

The free trade area contained all of the costs associated with trade liberalisation, and none of the benefits. It thus had very little to offer the French government. Even worse, by providing German industry with an alternative way of expanding its exports, it might undercut German willingness to deliver on those aspects of the EEC bargain which were of particular interest to France. The French were therefore hostile to the proposal from the beginning, but could not initially afford to torpedo it for fear of the international opprobrium, inside and outside the EEC, which this would entail.

However, from January 1958, the new EEC Commission, which had strong federalist sympathies, and above all wanted to avoid the EEC becoming a mere free trade area, emerged to become another force strongly opposed to the free trade area proposals. Even more importantly, a history of British diplomatic ineptness meant that France was not as isolated as it otherwise would have been. For example, the initial British insistence on excluding agriculture from the negotiations left it completely isolated among the 17. For Kaiser (1996), British diplomatic mistakes were crucial in explaining the failure of the free trade area negotiations. According to Ellison (2000), a key error was to not take sufficient account of other countries' interests in designing Plan G, with British policy makers being more focussed on what was required in order to achieve domestic consensus. For Camps (1964), the key to explaining the eventual outcome was a determination among the Six to preserve their political unity. The accounts in Lynch (2000) and Warlouzet (2008), on the other hand, suggest a far more fluid bargaining situation, in which the outcome might have been different almost until the very end. In October 1958, the EEC Council of Ministers agreed a common approach on the free trade

area, suggesting that free trade area participants agree to limit their external tariffs within a band on either side of the EEC's common external tariff. It took some adroit French diplomatic manoeuvring, combined with a direct challenge by de Gaulle to Adenauer to demonstrate his commitment to the EEC by rejecting the free trade area, before the French were able to effectively veto it. Even still, the price they had to pay for German acquiescence was the restoration of French franc convertibility, which in turn required a rigorous French austerity plan, and a devaluation of the franc.

This, then, is one potential turning point in the history of European integration. If Britain had played its cards differently, might an OEEC-wide free trade area have come into being, and if so, might this have undermined the political consensus within the Six in favour of the EEC bargain?

EFTA and EC enlargement

Almost immediately, discussions began in Geneva to see if it would be possible to salvage a smaller free trade area from the wreckage of the Maudling negotiations. The countries concerned were the "Other Six" (Denmark, Norway and Sweden, Austria and Switzerland, and the United Kingdom) and one peripheral country, Portugal.⁸ Formal negotiations began in June 1959, and the Stockholm Convention establishing the European Free Trade Area was signed in January 1960.

The Stockholm Convention committed member states to establish an industrial free trade area by 1970. It contained no commitments regarding trade barriers erected against third parties. It was and remains a purely intergovernmental organisation, whose sole institution was a Council of Ministers which would meet only rarely, supported by a small secretariat. It thus fully reflected British preferences. The result was that the OEEC was now divided into three groups: the EEC, EFTA, and the rest (Greece, Iceland, Ireland and Turkey). Greece and Turkey would soon seek associate membership of the EEC, while Ireland would establish a bilateral free trade agreement with the UK in 1965. Iceland joined EFTA in 1970.

It is important to understand that the purpose of EFTA in the eyes of the British was not to serve as a permanent alternative to the EEC, but as a temporary bridge to it (Kaiser 1996, pp. 101-107). On the one hand, the British hoped that by presenting a united front, the "Other Six" might maintain some cohesion, and avoid being "eaten up, one by one, by the Six", as Macmillan put it (pp. 101-2). Denmark in particular, with its heavy reliance on German as well as British markets, was seen as being potentially vulnerable to falling within the EEC orbit. Less defensively, the hope was also that the continuing importance of EFTA markets for German industry would lead that country to put pressure on its partners (that is, France) to agree to a trade agreement between the two blocs. EFTA was thus conceived of as a new tactic to achieve the British objective of a Europe-wide free trade area.

In the first year of its existence, therefore, EFTA was largely concerned with trying to re-launch Europe-wide discussions on free trade. These efforts came to naught, however, disappointing British hopes for the organisation. There followed one of the most startling reversals of policy in postwar European diplomatic history: Harold Macmillan's decision in July

⁸ Finland was also involved in the discussions. However, the latter state was not even a member of the OEEC, and given its relationship with the Soviet Union would have to content itself with associate membership of EFTA, beginning in 1961.

1961 to apply for EEC membership. There were several reasons for this, and there is considerable historical debate as to which were most important. Urwin (1995, pp. 117-120) lists three economic considerations of importance. First, the UK traded more with the EEC than with EFTA, and in the absence of a wider free trade agreement which took account of British interests EEC membership might be required in order to protect Britain's export trade there. Second, Commonwealth trade was becoming less and less important and attractive for the UK, as colonies achieved their independence and opted to pursue inward-looking trade and development policies. Third, the EEC was at this stage experiencing a golden age of economic growth, which not only heightened the importance of its markets to Britain, but strengthened worries about British economic performance. The hope was that industrial competition with Germany would serve to improve productivity at home.

There were also important political considerations, which have been more stressed by several authors. Particularly important was the attitude of the United States (Camps 1964, Kaiser 1996). Regional trade arrangements in Europe imposed a direct economic cost on the United States, but the US had always been willing to pay such a cost if that were necessary in order to obtain moves towards European political integration. On the other hand, a European free trade area which did not involve supranational political elements offered economic costs, with no corresponding political benefits, and the same was true of EFTA. The United States was therefore hostile to the latter organisation, while remaining strongly supportive of the EEC. Gradually, British policymakers began to realise that if they wished to retain a special relationship with the United States, they would need to join the Common Market, rather than remaining aloof from it. For Camps this was "a very important -- perhaps the controlling -- element in Mr. Macmillan's own decision that the right course for the United Kingdom was to apply for membership" (p. 336).

Kaiser (1996) stresses the importance to Macmillan of maintaining British aspirations to world power status, in the context of the clear decline in Britain's relative prestige and power. Since the war, Britain's claims to a special status had rested on its lying at the intersection of three overlapping circles, "the three great unities of the world. The unity across the Atlantic, the unity within the British Commonwealth and Empire, and the unity with Western Europe" (Kaiser 1996, p. 2). In the mid-1950s the need to maintain the special relationship with the Commonwealth precluded the United Kingdom joining the EEC, but five years later everything had changed. The Commonwealth had changed fundamentally, as a result of decolonisation, and was no longer of particular help in maintaining Britain's great power status. Staying outside the EEC risked making Britain a marginal player in Europe, and risked weakening the transatlantic relationship as well. EEC membership, on the other hand, would lead in Macmillan's view to leadership of the EEC (!); to a strengthening of the relationship with the United States, in that Britain would be able to ensure that the EEC did not develop in an anti-American direction; and thus to American support for Britain retaining her independent nuclear deterrent (pp. 129-31).

While the British may have been motivated by a mixture of economic and political considerations, Macmillan's decision to apply for EEC membership triggered three other applications that were clearly economically motivated. The British market was sufficiently important to Denmark, Ireland and Norway that all three lodged membership applications to Brussels. In the Irish case this was despite a policy of neutrality, motivated by the border dispute with the UK, which had led them to remain outside NATO. As had been the case during

the discussions about a European free trade area, there was a division of opinion between France and the other five EEC member states regarding the merits of these applications, and once again de Gaulle eventually vetoed the applications, in January 1963. The result was a sharp deterioration in relationships between France and her partners, and an equally sharp improvement in the functioning of EFTA, which decided to speed up the abolition of internal tariffs by three years. Britain's image in both Europe and the United States improved sharply, and her independent nuclear deterrent was saved. As Kaiser puts it (p. 203), "At the diplomatic level... the failed application was a full success for the British government."

Why did de Gaulle veto British entry? As in the case of why the British decided to enter, and consistent with France's status as a former imperial power with aspirations to preserve its status on the world political scene, there is a debate about whether political or economic motivations dominated. On the face of it, the French decision seems surprising, since the Gaullists shared Britain's traditional scepticism regarding supranational institutions: the British would have been useful allies for them in that regard. Indeed, one factor which suggested to the British that 1961 was a good time to try to enter the EEC was precisely the fact that they might be able to work with de Gaulle, and shape the evolution of the Community in a manner that would be to their liking.

The geopolitical explanation of de Gaulle's veto attributes to the French president rather similar beliefs regarding the impact of British entry as those held by Macmillan and outlined above. In particular, the General was not anxious to see French influence within the EEC diminished in favour of Britain. On the contrary, viewing Europe as "a lever with which France could move the world", he had (unsuccessfully) attempted to negotiate an intergovernmental "union of European states" involving the Six, which would have been headquartered in Paris and promoted the development of a more independent European foreign and defence policy. Furthermore, de Gaulle shared Macmillan's view that the United Kingdom might serve as a Trojan horse representing US interests within the Community. Needless to say, he was as negative about this prospect as Macmillan was positive.

Moravcsik (1998, 2000a) argues, to the contrary, that economic motives are the key to understanding de Gaulle's veto. Crucial for French acceptance of the Treaty of Rome was the assurance that a Common Agricultural Policy would be set up providing French farmers with markets in Germany, as well as high prices. However, the precise details of this policy had not yet been settled, in particular the question of how it would be financed. De Gaulle's fear was that if the British entered the EEC before the final details of the CAP had been negotiated, France would not succeed in obtaining the favourable terms which she required. If France later relaxed her views on British entry, this was not just because the General was forced to resign in 1969, but because the CAP as we know it today had already been "locked in".

The fact that the British vociferously objected to their budgetary contributions to the EC once they had entered in 1973 does give a certain credibility to this argument, although their preference for widening rather than deepening the Union could also be taken as evidence in favour of the Trojan horse view. Presumably both high politics and commercial interests mattered in the formulation of French policy, a point which Moravcsik (2000b) concedes in a reply to his many critics.

For whatever reason, the EC opened membership negotiations with Denmark, Ireland, Norway and the UK in 1970.⁹ The negotiations were concluded in January 1972, and the first enlargement of the EC took place a year later. However, it did not involve Norway, since that country's voters rejected EC membership in a referendum. Strikingly, the initial hopes that EFTA would facilitate the negotiation of a free trade area between the Six and the rest of Europe were realised at precisely the same time that Denmark and the UK quit the organisation. By this stage EFTA was a fully functioning industrial free trade area, and it was generally accepted that the UK's former partners could not find themselves facing tariff barriers in Britain as a result of that country's joining the EC. The EC therefore negotiated separate free trade agreements, involving most industrial goods, with the remaining EFTA countries (Austria, Iceland, Norway, Portugal, Sweden and Switzerland, as well as Finland). In this manner, one could argue that EFTA had fulfilled its historical purpose.

The focus of this paper is on the early decades of the EC, so I will now be brief. Greece joined the Community in 1981, after two decades as an associate member. Five years later, Portugal and Spain followed suit. On the other hand, Greenland left the EC in 1985, following a referendum in 1982. However, 1985 also saw a major breakthrough with the adoption of the Single European Act, which envisaged the creation of a true single market by the end of 1992. The Single European Act also marked an important shift toward supranational decision-making, in that it extended the scope of qualified majority voting within the Council of Ministers, thus speeding up decision-making. There followed a major burst of activity by the Commission and the member states, sweeping away many obstacles to a single market. This soon prompted a reaction by EFTA member states, which feared being left at a competitive disadvantage in the new single European market. In 1989, Austria applied for EC membership, and officials from the two blocs started negotiating a European Economic Area which would enable EFTA member states to benefit from the EC single market while remaining outside the Community. In this way, the EC could be deepened without the difficulties of enlargement.

The ploy was not successful. In order to benefit from the single market, EFTA countries had to accept EC legislation affecting it, with the EC Court of Justice providing legal arbitration. What had been designed as an alternative to EC membership became a waiting room: of the six EFTA members in 1986, Austria, Norway, Sweden and Finland all decided that EC membership was preferable. (The issue became moot in Switzerland when a referendum rejected EEA membership in 1992). If it had not been for Liechtenstein joining in 1991, and Norway's voters rejecting EC membership for a second time the following year, EFTA would have been reduced to a rump of just two countries.

The next wave of accessions came as a result of the collapse of the Iron Curtain. Once again, the attractions of the EC's single market, its regional policies, and the promise of political stability which EC membership held out were irresistible for the newly liberated countries of Eastern Europe. Despite great hesitation among the more federal-minded Western Europeans, they were eventually admitted, along with Malta and Cyprus, in 2004 and 2007. The deepening of supranational institutions within the European Union since 1990 can to a certain extent be regarded as part of a grand bargain between "wideners" and "deepeners". Key political figures in Europe in the late 1980s, such as Delors, Kohl and Mitterrand, favoured deepening European institutions, and feared that enlarging to the east would make this impossible. The result was

⁹ The four countries had submitted membership applications in 1967, and had again been vetoed by de Gaulle. On this occasion, however, their applications had remained dormant, rather than being withdrawn.

the Treaty of Maastricht and subsequent efforts to increase the supranational character of the Union, which remain ongoing.

4. What was the counterfactual? Was there one?

The narrative above identified one key potential turning point in European history: the failure of Britain's Plan G, which would have maintained the economic unity of the OEEC by creating a Europe-wide free trade area. In particular, it has been argued that the failure of this plan owed a lot to British diplomatic mistakes, notably Macmillan's ill-judged attempt in the winter of 1955 to sabotage the nascent Messina process, and the British failure to appreciate the implications of their isolating themselves, by arguing for a free trade area excluding agriculture.

The latter point, however, ignores the fact that it was genuinely difficult, if not impossible, for Britain to envisage an agricultural free trade arrangement with Europe in 1955. Both its economic ties with the Commonwealth, and its deficiency payment system, seemed insuperable obstacles at the time to such an arrangement. On the other hand, the suspicion of British motives which was created in late 1955 seems to have been an important obstacle to the European free trade area project, which, even as it was, survived as a going concern until late 1958. Would it have been more difficult for the French to veto the project, or for Adenauer to support the French, if the British had played their cards differently? And if so, what would the implications have been for the EEC?

These are difficult questions for a mere economist to answer. What seems certain is that the window of opportunity for such an alternative plan to have undermined the EEC project, by providing a cheaper way for German industrial interests to expand their export markets, was extraordinarily short. The Messina conference was held in June 1955, the Spaak Report was made public in March 1956, and negotiations on what would become the Treaty of Rome started in June 1956. If things moved as speedily as they did, this was in large part because the EDC negotiations had already covered a lot of the terrain. By June 1956, it was clear that the Six would not allow any alternative free trade area proposal to interfere with the process on which they had embarked. The decision of the OEEC to set up a working party to study the European free trade area proposal, in July 1956, was thus too late to prevent the Treaty of Rome. Is it really plausible to suggest that the British could have reacted swiftly enough to provide an alternative plan, and set in motion an alternative negotiating process, by January or February 1956? And even if they had been able to do so, the OEEC operated (according to British wishes) on the basis of unanimity: would the Benelux countries have acquiesced in such a development?

On the other hand, perhaps the British might have succeeded in the more modest goal of negotiating a free trade area including the EEC as one of its constituent elements. One can ask, however, what difference this would have made to future developments. After all, by the early 1970s such a free trade area had effectively come into being, but this did not prevent the enlargements of the 1980s and 1990s. Once the decision had been taken to deepen the Community, via the Single Market Programme, it became too expensive for EFTA members to remain aloof from the EC. The key question is probably whether membership of such a free trade area would have sufficiently protected British industrial interests in Europe that Britain would not have felt compelled to apply for EEC membership in 1961. Once Britain had joined in 1973, it seems clear that the gravitational attraction of the EC was such that it would prove

irresistible for smaller countries in the long run; Macmillan's decision to apply was thus a real turning point. The answer to the question probably depends on the extent to which Britain's application was motivated by geopolitical as opposed to economic factors.

One would certainly not want to conclude that there was anything inevitable about the development of supranational institutions in Europe. Any complete account of the history of postwar European integration would have to take account of the role of chance and contingency, as well as of the governments and individuals who were involved in the negotiations at the time. For example, it was surely significant that Christian Democrats were in government in all six founding member states during 1950-1952. This transnational network "fulfilled multiple functions, not least creating political trust, deliberating policy, especially on European integration, marginalising internal dissent within the national parties, socialising new members into an existing policy consensus, coordinating government policy-making and facilitating Parliamentary ratification of integration treaties. These and other functions together provided crucial guarantees for the exercise of what political scientists have called entrepreneurial leadership by politicians like Robert Schuman and Konrad Adenauer, for example, by limiting their domestic political risks in a decisive way to facilitate bold and at times extremely controversial policy choices." In turn, these choices reflected a common project of middle-class Catholic elites "for creating an integrated Europe based on a curious *mélange* of traditional confessional notions of occidental culture and anti-communism and broadly liberal economic ideas" (Kaiser 2007, pp. 9-10).

One can also speculate about whether France would really have signed up to the EEC had Charles de Gaulle been in power between 1955 and 1957 – given his statements at the time, one would have to doubt this. Nor would the EEC project have passed in France if the Mendès-France government had not fallen in 1955, to be replaced by a government which included more "pro-European" members such as Robert Schuman. There was thus in retrospect a crucial window of opportunity, which was exploited to the full.

The most plausible counterfactual is therefore one in which the Treaty of Rome was never signed. What would have happened then? As indicated earlier, the actual working of the ECSC was disappointing, and in the absence of the common market project, this might have led to a gradual disillusionment with the supranational project. Europe would then have been left with the OEEC, on the one hand, and the GATT on the other. European currencies would have moved to convertibility, as actually happened, and quantitative restrictions on trade would have been gradually dismantled, again as actually happened. Europe would then have been left with a situation in which, as noted above, low tariff countries such as the Netherlands or the Scandinavians would have felt increasingly frustrated with the status quo.

What would the options then have been? One possibility would have been to pursue European tariff reductions, but that would have been problematic in several respects. First, as we have seen, the Americans would have been hostile to such an approach. They would have argued, and the British might well have agreed, that the appropriate forum for trade liberalisation was the GATT. Second, even if Europe had been willing or able to pursue regional trade liberalisation without providing the US with the countervailing political benefit of political integration, what form would such liberalisation have taken? The British would have insisted on excluding agriculture, as a result of their relationships with the Commonwealth. Indeed, in the absence of a Common Agricultural Policy, to replace the existing patchwork of national policies,

it is hard to see several other countries being willing to liberalise agricultural trade either. But this would then have led to another problem: why would countries such as France or Italy or Denmark or the Netherlands have agreed to a bargain in which they opened their industrial markets to German exporters, without receiving access to a wider market for their own agricultural output?

By a process of elimination, therefore, one could argue that in the absence of the EEC there would not have been any moves to European regional trade integration. After all, the British proposals for a European free trade area, and EFTA itself, were reactions to the creation of the EEC: would they really have happened in its absence? European trade liberalisation from the 1960s on might then have been conducted mainly within the context of the GATT. This in turn might have had consequences for the GATT itself: how would its liberalisation efforts have fared if instead of an EEC presence, the French, Italians and others had participated in a purely national capacity?

It is hard to say. On the other hand, it seems safer to argue that there would have been serious costs to Europe in the 1980s and 1990s of not having the EC, involving as it did not just a customs union, but agricultural policies, regional policies, and a legal framework all of which were attractive to peripheral countries emerging from dictatorships. The consolidation of democracy in Iberia, Greece and Eastern Europe remains the greatest achievement of the EU, and one which could not have been obtained by a free trade area.

5. Why the EU won, and lessons for Asia

The question of why Europe developed supranational institutions has been a topic of heated debate among political scientists for decades. What does economic history have to contribute to this debate?

The most notable feature of the European economies between 1945 and 1973, when most of the events described in this paper occurred, was their extraordinarily rapid growth rate. This was the European "Golden Age", the *trentes glorieuses* during which time Europe's economies grew more rapidly than they had ever done before, and have ever done since. To a large extent, this economic miracle can be conceptualised as a convergence on the American economic frontier, and was driven by the importation of best practice technology embodied in a rising capital stock. Very high levels of investment were thus a crucial part of the recipe for economic success during the period.

Barry Eichengreen (2007) has argued that political institutions were crucial in achieving these high levels of investment. On the one hand, high levels of profit were required in order to finance the investment, and this required wage restraint on the part of workers. Workers would be prepared to do this only if they could be sure that firms would reinvest their profits, rather than paying them out as dividends. On the other hand, investment would only make sense in an environment where wages did not run ahead of productivity. Without mutual trust, workers would not restrain their demands for higher wages, and firms would not reinvest, leaving everyone worse off.

The solution was to devise a series of domestic political institutions which would ensure that all sides were locked into fulfilling their part of a grand bargain between labour and capital.

Workers were compensated for wage restraint by the expansion of the welfare state, and employers were monitored by both workers and the government to ensure that they invested. This corporatist solution presupposed the very high levels of government intervention in society and the economy which Alan Milward correctly pointed to as a defining feature of this age.

Domestic political institutions, however, were not enough. Many investments would only be profitable if firms could be sure of being able to export their output. They therefore needed guarantees that other countries would not impose trade barriers, as they had done in the 1930s. Institutions to prevent protectionist backsliding were thus crucial to European growth strategies at this time, and such institutions were of necessity international. In developing such institutions, policymakers had to grapple with several difficult issues.

First, as stressed several times already, agriculture would have to be included in any free trade agreement, if the agreement were to be of interest to countries such as France and the Netherlands. But if agriculture were to be included, then that necessarily implied a European agricultural policy which would replicate the extremely interventionist policies which already existed at the national level. Institutions would need to be devised, therefore, which would set minimum prices, organise the disposal of surplus output, insulate Community markets from those of the outside world, and so on. The small secretariat which EFTA established in Geneva would clearly not have been sufficient for this purpose. Even more importantly, decision-making rules would be required to reach agreement on what were bound to be divisive issues, or alternatively decision-making authority would have to be delegated to some supranational body such as the Commission.

Second, in developing free trade arrangements it was essential that the domestic social welfare systems which not only underpinned governments' political legitimacy, but their economic growth strategies as well, not be undermined by the development of Europe-wide free trade. Today, with the development of worldwide multinational firms, we are familiar with arguments about tax and regulatory competition undermining social protection. Similar concerns were prevalent in the 1950s, even absent frontier-hopping firms. Would firms in high tax jurisdictions be placed at an unfair disadvantage vis-à-vis their competitors in more liberal jurisdictions? As Milward puts it (2000, p. 216), "The problem genuinely was how to construct a commercial framework which would not endanger the levels of social welfare which had been reached...The Treaties of Rome had to be also an external buttress to the welfare state."

Third, as we have seen, the Dutch insisted that the Treaties incorporate a built-in and irreversible schedule of tariff reductions, since as Beyen argued "tariffs would not be lowered except by a supranational authority which had been set up to enforce a preordained, irrevocable course of action" (p. 187). The experience of EFTA suggests that this was not in fact the case, a point which EFTA's supporters made frequently during the 1960s. On the other hand, getting the Nordics and Britain to liberalise was one thing, getting the French to liberalise was perhaps another. The difficulties in achieving APEC's Bogor Goals suggest that in certain circumstances, ex ante commitments to achieving regional free trade are indeed not sufficient to guarantee its realisation. In any event, what mattered was that key policymakers in the Six agreed with Beyen's assessment.

Fourth, the fact that the commitment to free trade had to be irreversibly locked in had further consequences for the negotiations. Quoting Milward again (p. 210), "had it been

possible for France to commit itself only to the first four-year stage (of tariff cuts) and then, if it wished, withdraw, the fears that the tax, social security and wage burden on French manufacturing costs would remain much higher than in Germany would not have had to be translated into demands for prior harmonisation and these into the beginnings of a European Community social policy." Even more important, perhaps, since we are still waiting for such a social policy, were the side payments made to France in exchange for her agreeing to an irreversible schedule of tariff liberalisation, notably the Common Agricultural Policy. A big problem from a French point of view was that whereas the liberalisation schedule was explicit, the clauses in the Treaty relating to the CAP were vague. The key French focus in EC negotiations during the 1960s was thus to secure access to German and other markets for her farmers, on favourable financial terms. In particular, since German farmers were less productive than French ones, Germany wanted high minimum prices, which would lead to a great expansion of French agricultural production. Unless Germany shouldered the resultant financial burden, the consequences for French government finances would be severe.

For Moravcsik (1998, 2000a) this was why the French eventually supported delegating agricultural policies to the supranational Commission in Brussels. This would lock in the benefits of the CAP, preventing German or eventually British policymakers from diluting it. This is just one example of Moravcsik's more general thesis that the purpose of supranational political institutions was to prevent countries from later reneging on those parts of international agreements which they found most unappealing. Whereas earlier theories of European integration suggested that policymakers were not always fully aware of the long-run consequences of their actions, such as the decision to set up a supranational Court of Justice answerable to no one but itself, for Moravcsik the irreversible nature of such decisions was the whole point. Thus, in negotiating the Treaty of Rome, countries attempted to pool or delegate sovereignty, that is to render decision-making supranational, where they had vital interests that were not necessarily shared by their partners.

As has already been pointed out several times thus far, export interests throughout Europe were a powerful lobby group encouraging governments to overcome these various obstacles, since the alternative route to freer trade, namely the GATT process, did not seem to be producing the desired results.

Such an economic account can help to explain the supranational choices made by the Six, and economics can also help explain why the EC eventually sucked in most of the rest of Europe, despite the instinctive dislike of supranational institutions across much of the continent. The basic argument is simple enough, and has considerable empirical evidence to support it (Baldwin 2003, 2004). The EEC accounted for no less than 59% of Western European GDP in 1957 (Maddison 2003), and economic growth was more rapid among the Six than in Britain. As soon as the Six started to liberalise internally, British manufacturers feared that they would be left at a disadvantage. When the initial preferred solution of a Europe-wide free trade area failed, Britain eventually decided to apply. This inevitably led to the applications of Denmark, Ireland, and Norway, which could not afford to find themselves discriminated against in the British market. The other EFTA members had always wished to achieve a free trade agreement with the Six, again for reasons of trade discrimination (this was particularly true of Austria), and were able to finally achieve this with the enlargement of the EC in the early 1970s, by pointing to their pre-existing EFTA relationship with the UK. Fear of trade discrimination was clearly important in motivating Austrian and Nordic applications to the EC in the late 1980s and early

1990s, with the Single European Act providing the spur which initial moves to cut tariffs had done in the British case in the early 1960s. This domino effect, as Baldwin terms it, clearly does well in explaining the motivations of the smaller countries, where the low politics of commercial advantage were predominant.

As we have seen, there is a historical debate about whether commercial considerations also fully explain the motivations of Britain, which along with France maintained the aspiration to play a leading role on the world stage, and did not have the luxury of regarding Europe's security architecture as essentially exogenous. A considerable literature argues that the primary purpose of European supranational institutions was to permit the re-emergence of German heavy industry and military power, both of which were essential to the West as it waged the Cold War, without this threatening the security of Germany's European neighbours. The ECSC and abortive EDC can both be seen in this light, as well as EURATOM: according to Adenauer, "A German attempt at a national nuclear production would be met with the greatest mistrust abroad".¹⁰ Even the EEC could be rationalised as a way of tying an increasingly economically powerful Germany into a common European framework. European integration thus resolved the dilemma of how to accommodate Germany within Europe, a dilemma which had led to the breakdown of the Congress of Vienna political settlement with such disastrous consequences for the continent.

While social scientists enjoy such stark oppositions as "economics versus geopolitics", historians are probably more comfortable inhabiting a world in which multiple motivations may matter at different levels of the political process. Fortunately, the purpose of this paper is not to adjudicate between such alternatives, but to see what, if any, are the lessons for Asia. The lessons all seem to point in the same direction.

As pointed out in the introduction, Asia is a vastly bigger and more diverse continent than Europe -- more diverse not just culturally, which history suggests matters, but more diverse politically as well. This of itself would seem to rule out European-style supranational institutions for the immediate future, at least for the continent as a whole. But the historical context is also completely different. Asia is not a declining giant which feels the need to unite against rising threats from the rest of the world. Rather, it is home to the two undisputed rising giants of the 21st century, China and India, and it is hard to see either of these surrendering much sovereignty, except in the context of tightly defined economic bargains bringing benefits to both parties.

Furthermore, the economic context is completely different today. Countries such as China cannot be characterised as having modern European style welfare states, and the question of how to reconcile these welfare states with increasing levels of trade is hardly going to prompt a search for pan-Asian social policies. Nor is it going to be necessary, one supposes, to develop an Asian Common Agricultural Policy in order to deepen regional trade integration. Even more importantly, regional trade integration has already occurred, in the industrial sphere, with the development of 'Factory Asia' exporting into a largely liberalised global economy. No need for supranational institutions there.

¹⁰ Cited in Eilstrup-Sangiovanni and Verdier (2005, p. 108).

Initiatives such as the Chiang Mai Initiative may prove very beneficial to the region, but do not require much in the way of supranational institutions. As noted earlier, international financial cooperation via the IMF has not required global supranational institutions either. The reason that trade integration required such institutions in Europe, it has been argued here, is that the decision to liberalise trade required a series of inter-related bargains, on such sensitive subjects as agricultural policy, that in the absence of such institutions the bargains would have broken down. Even more fundamentally, issues like agricultural or social or regional policy could not be delegated to independent bodies like the European Central Bank -- these are highly political issues, and thus required European political decision-making structures.

The discussion thus far has been positive rather than normative. European supranationalism was facilitated by a set of unique historical, geographical and economic circumstances. Their absence in the Asian context may indeed mean that similar developments are unlikely there. However, geopolitical and security considerations suggest that closer political cooperation in the region would be extremely beneficial. Asia and the world as a whole have a mutual interest in avoiding the type of international struggle that has typically taken place in the transition from one geopolitical equilibrium to another. Particularly alarming in the context of European history is the prospect of Sino-Indian naval rivalry, motivated by the need to keep trade routes open, and to avoid being encircled by one's rival. This is precisely the kind of worry that led to Anglo-German arms races a century ago, and which played an important role in triggering World War I (Offer 1989). In this context, clear regional and global commitments to an open international trading system are as important from a security standpoint as they are economically.

Trying to develop supranational strategies to tie down either India or China today are as unlikely to succeed as they would have been in the context of pre-1914 Germany. Asia just has to do better than Edwardian Europe did in accommodating their rise. In this regard, the ARF, and in particular the ongoing Six Party Talks, are a very hopeful sign.

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Table 1. Timeline

Year	Economic Treaty	Participants	Security treaty	Participants	Political treaty	Participants	Other event
1947			Treaty of Dunkirk	France, UK			Marshall Plan & CEEC
1948	OEEC established	Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, UK, Western Germany*	Treaty of Brussels	France, UK + BENELUX 3			Benelux comes into effect (treaty signed 1944)
1949			Atlantic Pact: Nato	Belgium, Denmark, France, Italy, Iceland, Luxembourg, Netherlands, Norway, Portugal, UK (+ Canada and US)	Treaty of Westminster: Council of Europe	Belgium, Denmark, France, Ireland, Italy, Netherlands, Luxembourg, Norway, Sweden, UK	British, French and US occupation zones in Germany merged to form Federal Republic of Germany
1950							Outbreak of Korean War and Plevan Plan. Publication of Schuman Plan.
1951	Treaty of Paris: ECSC	Benelux 3 + France, Germany, Italy					
1952			Greece and Turkey join NATO				European Defense Community Treaty signed
1953							Draft treaty for European Political Community presented
1954	Association Agreement between ECSC and UK	France, UK + BENELUX 3 + Germany, Italy	Treaty of Brussels amended in Paris: Western European Union	France, UK + BENELUX 3 + Germany, Italy			French Assembly rejects EDC Treaty: EDC and EPC collapse
1955			Germany joins NATO				Messina conference and establishment of Spaak Committee.
1956							Spaak Report published and EEC/Euratom negotiations start. UK formulates 'Plan G'.
1957	Treaty of Rome	Benelux 3 + France, Germany, Italy					Maudling Committee established to negotiation European FTA
1958	Spain becomes associate member of OEEC						France terminates Maudling negotiations
1959							EFTA negotiations
1960	Stockholm Convention: EFTA	Austria, Denmark, Norway, Portugal, Sweden, Switzerland, UK					OEEC
1960	Convention on the Organisation for Economic Co-operation and Development. OEEC becomes OECD in 1961.	OEEC 17 + Spain + Canada and US					
1961	Associate membership of EEC for Greece						Denmark, Ireland, UK apply for EEC membership
1961	Associate membership of EFTA for Finland						
1962							Norway applies for EEC membership. EEC adopts basic rules for CAP.
1963	Associate membership of EEC for Turkey						De Gaulle vetoes UK application
1965	AIFTA	Ireland, UK			Merger Treaty: unifies executives of 3 communities, establishes European Communities.		Empty Chair crisis.
1966			France withdraws from NATO integrated military structure				Luxembourg Compromise and agreement on CAP.
1967							Second application by Denmark, Ireland, Norway and UK. Vetoed by De Gaulle.
1969							De Gaulle resigns
1970	Membership of EFTA for Iceland	Austria, Denmark, Iceland, Norway, Portugal, Sweden, Switzerland, UK					EEC opens negotiations with Denmark, Ireland, Norway, UK
1971							EEC opens negotiations with Austria, Iceland, Portugal, Sweden, Switzerland
1972	Treaty of Accession: Denmark, Ireland, Norway, UK. Norwegian referendum rejects EC membership.						
1972	Denmark and UK quit EFTA	Austria, Iceland, Norway, Portugal, Sweden, Switzerland					
1972	Special Relations Agreements	(Benelux 3 + France, Germany, Italy) + Austria, Iceland, Portugal, Sweden, Switzerland					
1973	Denmark, Ireland, UK join EC	Benelux 3 + France, Germany, Italy + Denmark, Ireland, UK					
1973	Special Relations Agreements	(Benelux 3 + France, Germany, Italy) + Denmark, Ireland, UK + Austria, Iceland, Norway, Portugal, Sweden, Switzerland					
1974							UK demands renegotiation of terms of accession
1975							UK negotiations concluded and accepted in referendum. Greece applies for membership.
1976							EC opens negotiations with Greece.
1977							Portugal and Spain apply for membership.
1978							EC opens negotiations with Portugal.
1979	EFTA-Spain FTA signed.						EC opens negotiations with Spain.
1979	Treaty of Accession: Greece.						EMS established.

Year	Economic Treaty	Participants	Security treaty	Participants	Political treaty	Participants	Other event
1981	Greek membership of EC.	Benelux 3 + France, Germany, Italy + Denmark, Ireland, UK + Greece					
1982			Spain joins NATO				
1984	EC-EFTA FTA. Luxembourg Declaration on broader cooperation	Benelux 3 + France, Germany, Italy + Denmark, Ireland, UK + Greece + Austria, Iceland, Norway, Portugal, Sweden, Switzerland					
1985	Treaty of Accession: Portugal and Spain						
1985	Portugal leaves EFTA	<i>Austria, Iceland, Norway, Sweden, Switzerland</i>					European Council adopts SEA. Greenland leaves EC
1986	Portugal and Spain join EC	EU 12: Benelux 3 + France, Germany, Italy + Denmark, Ireland, UK + Greece + Portugal, Spain					
1986	Finland joins EFTA	<i>Austria, Iceland, Norway, Sweden, Switzerland + Finland</i>					
1987							SEA comes into effect. Turkey applies for membership.
1989							Austria applies for membership. Upheaval in East. Start of negotiations on European Economic Space/Area.
1990							Cyprus and Malta apply for membership. Germany reunited.
1991	Liechtenstein joins EFTA	<i>Austria, Iceland, Norway, Sweden, Switzerland + Finland + Liechtenstein</i>					Sweden applies for membership. Maastricht summit agrees EMU process.
1992	Treaty on European Union						Finland and Norway apply for membership. EC and EFTA sign EEA agreement.
1994							EEA enters into force
1995	Austria, Finland, Sweden leave EFTA	<i>Iceland, Norway, Switzerland, Liechtenstein</i>					
1995	Austria, Finland, Sweden join EU	EU 15: EU 12 + Austria, Finland, Sweden					Schengen agreement comes into effect.
1997							EU starts membership negotiations with Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia
1999			Czech Republic, Hungary, Poland join NATO				EMU starts
2002							Euro notes and coins
2004	Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia join EU	EU 25: EU 15 + Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia	Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia join NATO				
2005							Accession negotiations start with Croatia and Turkey. FYR Macedonia becomes candidate country.
2007	Bulgaria, Romania join EU	EU 27: EU 25 + Bulgaria, Romania					
2009			Albania and Croatia join NATO				Iceland applies for EU membership

Source: Urwin (1995, pp. 266-273), <http://www.efta.int/content/about-efta/history>, other sources cited in this paper.