

Chapter 1: Historical Background

1.1 Early Post-War Period

- Europe in 1945 after War (Dresden Fig 1.1, concentration camps)
- Scale of death almost unimaginable (Table 1.1)



- Economic destruction

Dresden



- Starvation: political instability
- Europe needed racial change.

- ‘Blame Germany’ v proof that Marx was right (communism best) v end nationalism
- Germany and Austria divided into 4 zones (Fig 1.2).
- Last won out: but communism taking hold.
- Also support in West): 1946 elections, 19% in Italy, 29% in France
- USSR the new threat.
- Adenaur (1876-1967), Chancellor when aged 73 to 87 (Box 1.1)

Founding father of post-war Germany



- Franco-German alliance

- First steps: OEEC (Box 1.2 and European Payments Union (Box 1.3)
- Communist take-over of Czechoslovakia, Estonia, etc caused 'alarm' bells in US
- OEEC created under Marshall Plan 1948
- OEEC influence waned in 1952: US then switching to NATO funding
- Contrast to 1930s Dramatic economic recovery (Tables 1.2 and 1.3)
- Strong but 'constrained' Germany (by being part of Europe)
- Italy also keen on Europe to combat fascism and communism

1.2 Federal v Intergovernmental View

- Persist to this day and at core of European disputes

- Countries most affected by War strongest on federal approach (i.e. Germany, France and Italy).
- UK, Denmark, Norway, Sweden and Switzerland against.
- OEEC, Council of Europe and Court of Human Rights all intergovernmental
- ECSC (1952) major federalist move (see Box 1.5). 'Six' joined ECSC.
- Schuman and Monnet the driving forces (see Box 1.4): both French.
- Major success and paved way for Treaty of Rome.
- Germany joined NATO in 1955 and Warsaw Pact formed in response.
- Europe 'needed' more integration: Monnet plan for USE. Treaty of Rome March 1957. UK stayed out.
- EDC and EPC did not happen though (Box 1.6): Monnet the driving force.

Citizen of Europe: German recognition of French 'Founding Father' of Europe

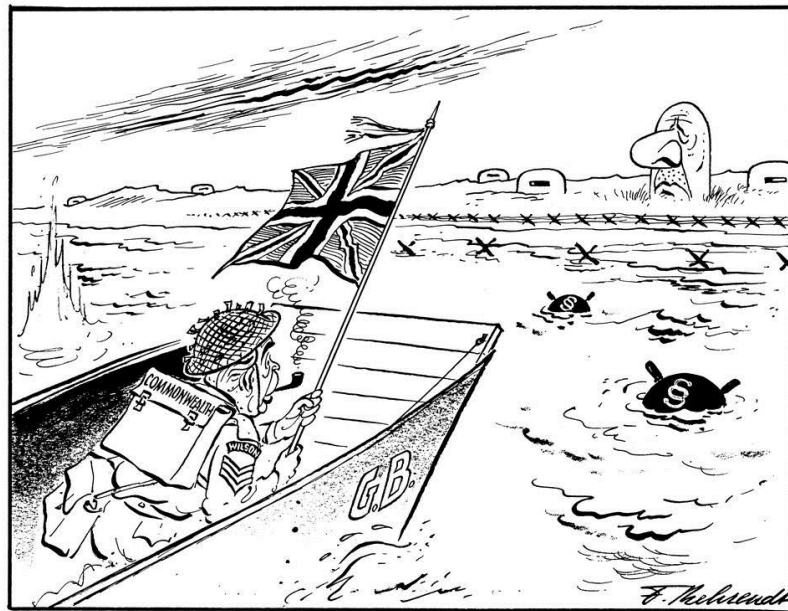


- Treaty extraordinary in its scope (see Ch 2 and photos Fig 1.3).
- Also set up European Court of Justice and European Parliament.
- Response of 'non Six' OEEC members: EFTA in 1960, led by UK (Box 1.7 and Box 1.8).
- Non-overlapping trade circles: EFTA and EU (EEC) (Fig 1.4)

1.3 Regional Domino Effect

- Common market the 'magnet'. 'Bear' story (p. 18)!

- Domino effect/euro in later decades
- UK applied to join in 1961. Also Ireland, Denmark and Norway.
- De Gaulle (Box 1.9), Non! (Fig 1.5, cartoon) 1963 and 1967.



1967 – Die Landung in 1944 war auch nicht gerade einfach

- Three (UK, Denmark and Ireland) joined in 1973.
- Last EFTA members signed special trade agreements with EU.
- Two overlapping trade circles now. (Fig 1.6)

1.4 Euro-Pessimism (Fig 1.8)

- Booming European economy 1950 to 1973 ('Golden Age').
- But, dangers of nationalism and War soon forgotten.
- De Gaulle. 'Empty chair' policy. (Box 1.10) Took France out of NATO also.
- 'Luxembourg compromise' of unanimity.
- Slowed down decision-making in EU until 1986, if not 2010.
- Despite this, Werner report in 1971 and EMU by 1980.
- US profligate funding of Vietnam War a worry
- Oil crises of 1970s put paid to this. Reversion to national policies.
- Emergence of non-tariff or 'technical barriers to trade (TBTs).

- Major setbacks to European 'project'.
- Yet, remarkably Spain, Greece and Portugal joined in 1981 and 1986.
- EMS started in 1978, direct elections to Parliament in 1979.
- Thatcher 'revolution' in Europe. Mitterand followed.

1.5 Single Market Programme

- Economic recovery in late 1980s. Emergence of Delors (Box 1.11).



- Single European Act in 1987. Signed by Thatcher.
- TBTs, capital controls etc addressed (see Ch 2).
- New majority-voting rules adopted.
- Focus on capital mobility: new development. Start of euro really.
- ‘Outsiders’ even more excluded now.
- Led to EEA (European Economic Area) agreement in 1989.
- Accepted EU rules, present and future, but did not shape them.
- Austria, Finland, Sweden joined 1995.
- Collapse of USSR a huge factor in change.

1.6 Collapse of Communism

- Huge gaps in economic well-being between East and West.
- Shocking state of East Germany.
- *Perestroika* (pro market reforms) and *Glasnost* (openness) in USSR in late 1980s. Gorbachev.
- *Solidarity* and Walesa in Poland in 1989 (Fig 1.10): not resisted by USSR.
- Reform in Hungary and opening of its borders to West.
- Leipzig peace marches.
- Drain from East Germany: Germany united in 1990.

Peaceful Revolution: East Germans invading the Stasi headquarters on January 16, 1990. The sign says "Down with Stasi, SED dictatorship and Nazism"



- Berlin Wall torn down. (Fig 1.9 and Fig 1.10)
- All risings from *within* country
- Estonia, Latvia and Lithuania in 1990 declared independence from USSR.
- USSR itself split up.
- United Germany welcome.
- Response was more European integration to 'tie' in Germany.
- Huge economic consequences for Germany for 15 years.

- Kohl and Mitterand supported Delors plan for EMU by 1999.
- Delors a hate figure in UK
- Maastricht Treaty 1992 set the agenda.

Mrs Thatcher's handbag and EU



- EMU but also many other changes.
- For example, free movement of capital, stronger Parliament, Social Chapter.
- UK opted out of EMU and Social Chapter.
- Denmark rejected, later accepted (with opt outs on currency and other areas).

- Just passed in France. Warning signs ignored.

1.7 Reuniting East and West

- What was to happen former soviet-controlled East European states?
- Europe Agreements on trade the start.
- Adoption of EU law and practices.
- Reluctance to offer membership.
- Burden on EU budget and concerns about democratic principles.
- Copenhagen 1993: criteria for EU membership set down.
- 10 new members accepted, joined 2004.

1.8 Enlargement: Amsterdam, Nice and Lisbon Treaties

- Going from EU15 to EU25 needed major institutional change.
- Adjusted voting rules and composition of Commission and Parliament in particular (Ch 3).
- Nice Treaty 2001 flawed.
- Nice 'sold' as ending war and tyranny in East and got through.
- But needed two referenda in Ireland (Fig 1.11).
- Laeken Dec 2001 established the European Convention.
- Dominance of d'Estaing (Fig 1.12 and Fig 1.13). Led to Constitutional Treaty in 2003.
- Treaty accepted in Dublin in June 2004. ALL member states signed.

- French and Dutch rejected it in 2005 (Fig 1.14).
- Fear of enlargement and globalization at heart of rejection.
- Revised Lisbon Treaty accepted again by ALL governments June 2007.
- Too many concessions to France, UK and Poland ('bully' tactics work)?
- Rejected in referendum in Ireland in 2008 but accepted in 2009.
- Czech difficulties with Klaus in 2009. German Constitutional Court.
- UK Conservative Party attitude. Referendum in 2017, trying to reverse parts of Treaties
- Making workings of EU more efficient and increasing global projection of Europe (G3 not G2).
- Also increasing powers of European and National Parliaments.

Lisbon Treaty: tram that was used to transport the leaders



- Financial crisis 2010-13 (most of Module B).
- Led to further integration of EU.
- Banking, fiscal and political union next? Monet's vision to be realized?
- Fiscal Stability Treaty 2012. Outside EU framework
- Multi-speed Europe emerging?
- Germany, France, Italy and Spain around 250m people.
- Combined also won Olympics 2016 medal count!

- Economic sovereignty a myth in age of globalisation? Only together can states counter multinational companies, terrorism, climate change and so on
- Collapse of euro predicted in 2012 and 2013
- Also bicycle theory 'dusted off'.
- Federalist v intergovernmental debate in full swing again.
- UK preparing to exit EU, while others want to join
- Brexit Negotiations



Barnier and Davis: Chief Brexit Negotiators



How do they deal with this though?

- Future for 'City' if Brexit?
- Franco/German 'engine' reignited?
Macron and Merkel
- Juncker speech to European
Parliament, 13th Sept 2017
- Continuing Ukraine Crisis



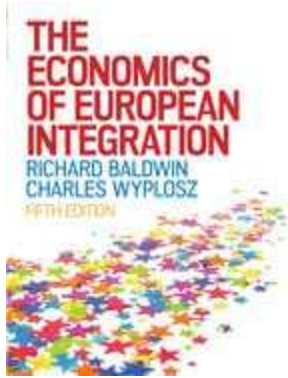
- Key Players 2017-2019



Merkel and Juncker



Macron and Tspiras: At the 'Home' of European Democracy, Sept 2017



Chapter 2: Facts, Law, Institutions and Budget

2.1 Economic Integration

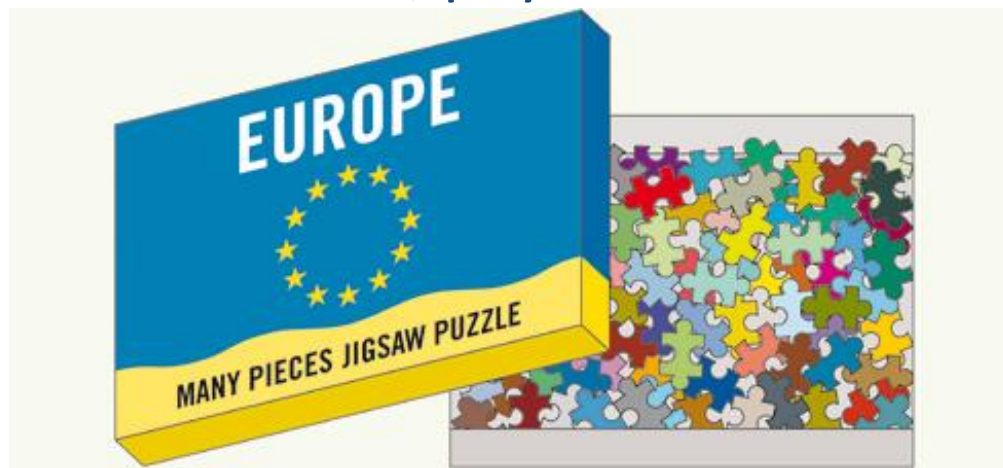
- Focus on economic integration as stepping stone
- Treaty of Rome Articles far reaching (Box 2.1, Box 2.2, Box 2.3 and Fig 2.1)
- ‘Ever closer union’ the underlying objective: UK objections



Signing of Treaty of Rome 1957

- Free trade in goods: no tariffs, quotas or TBTs.
- Common trade policy: CET implies pooling of sovereignty.
- Ensuring undistorted competition.
- No state aids, harmonization of regulatory laws.
- Harmonization of taxes.
- Competition policy central: no price fixing, no preferential treatment of national industries, etc.

- Standardise regulations blocking competition (i.e. remove TBTs).
- Unrestricted trade in services. Not yet achieved.
- Capital mobility: rights of establishment; physical investment.



- Macroeconomic co-ordination: reduce exchange-rate fluctuations.
- EMS in 1979 and euro in 1999.
- European Semester in 2013: much more co-ordination of fiscal policies
- CAP: Huge sector in 1950s. Part of German/French pact. (Ch. 9)
- Social policies

- Political agreement difficult and perhaps EU policies not needed?
- Regional Policy; need balanced growth in EU for it to survive and prosper (Ch. 10)
- Taxation; common base v common rates. Apple decision related to former and NOT latter
- Quantifying European economic integration (Fig 2.2).
- What counterfactual the problem

2.2 EU Structures pre- and post-Lisbon

- Federalists v intergovernmentalists again: or vanguard v 'doubters'
- Brexit has brought all of these issues 'centre-stage'.
- Worries re creeping competences and 'community method'.

- European Court given power to interpret Treaty of Rome.
- Confusion in UK with European Court of Human Rights (not part of EU)
- Court could introduce laws to achieve Treaty objectives .
- Worry also of multi-speed Europe or 'variable geometry'.
- Allowed some to proceed in certain areas (e.g. Schengen Accord (Fig 2.3), euro zone).
- Also association status with EU; for example, Norway and Switzerland. Not in EU but still de facto part of it
- UK to be in similar position in future?
- Fiscal Stability Treaty for euro zone outside EU framework also
- Three Pillars but one 'roof'. (Fig 2.4)

- Pillar 1 relates to Single Market and EMU and majority voting applies.
- Pillar 2: Foreign and Security policy. Unanimity required.
- Pillar 3: Justice and Home Affairs. Now in Pillar 1. Opt outs though.
- Many grey areas still and law not clear often until tested in courts.
- Response to euro crisis could dramatically change whole structure.
- And hasten moves to political union.
- Implications of UK exit: others follow and EU collapses or new impetus to greater integration?

2.3 EU Law

- Court of Justice unique in world (Fig 2.5)



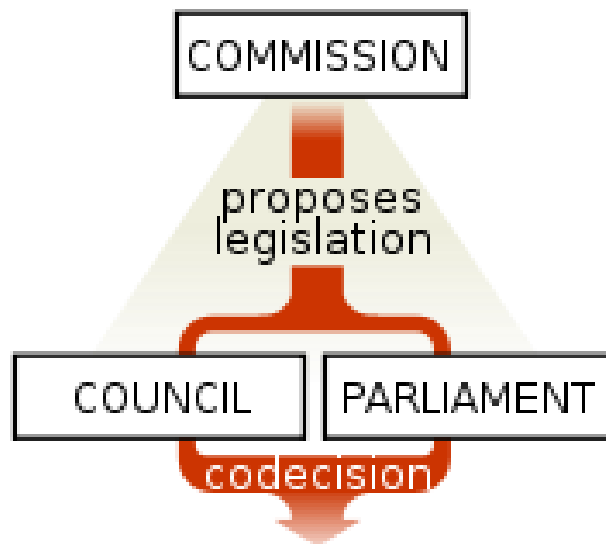
- Can overrule national courts and often does, especially in relation to trade and competition issues
- Uses case law to establish principles
- EU now has enormous mass of laws, rules and practices
- Three principles: direct effect, primacy of EU law and autonomy of EU legal system. (Box 2.6)
- EU law applies automatically and *directly* to EU citizen.
- Primacy. Overrules national law where latter contravenes EU law.

- Autonomy. Can hear cases without having to go to any national court.

2.4 'Big 5' Institutions

- *European Council*: President, Van Rompuy (Box 2.7, Fig 2.6), now Tusk, former PM Poland
- Heads of state and deals with broad parameters of EU policy
- 'Conclusions of Presidency' document at end of each meeting.
- Put into legal format though only after Council Meetings.
- Council of European Union or *Council of Ministers* (Fig 2.7)
- All elected officials. Main task is to adopt new laws.
- QMV for 80% of decisions
- Approval Parliament also required for most new laws (see Chap 3).

- Decides also on foreign (e.g. aid, Fig 2.8) and peace-keeping issues.
- Presidency of the EU: Commission V Council v country PM.
- ‘Foreign minister’. Ashton (Box 2.8) but Mogherini now
- *European Commission*: propose and initiate, administer/implement.



- And provides surveillance and enforcement of competition law
- ‘Guardian’ of EU and ‘Standard-bearers’ for EU integration

- Membership and Size of Commission an issue in Lisbon Treaty (Fig 2.8).
- Chosen together and for five years
- Must be approved by EU Parliament.
- Commission nominated by national govts but not as representatives.
- Juncker had no role in who appointed but had power to allocated briefs
- Ministries or DGs. About 17,000 employed, less than Vienna city council.
- Right of initiative crucial. Huge consultation though.
- Executive powers in Competition; biggest trading block in world
- Brussels the ‘world capital’ of competition and regulatory policy.
- Others follow when it sets standads
- Consensus decision making.

- *European Parliament* (Fig 2.9). Increased legislative power and ‘check’ on Commission.

Ukip members turn their backs on EU anthem, Beethoven’s ‘Ode to Joy’, at opening of new Parliament, June 2014



- ‘Conscience’ of EU.
- Smaller nations over represented
- Not organized on national but EU party basis.
- Location rows. Strasbourg v Luxembourg v Brussels.
- Council and Parliament the democratic controls.

- Low turnout though and fought on local issues.
- *Court of Justice* (Fig 2.10). Settles disputes.
- Unexpectedly large impact on EU integration.



German Constitutional Court

- Courts v parliament also in every country.
- Legislation v case law

2.5 Legislative Processes

- Co-decision procedures (Box 2.9).

- Interaction between Commission, Council and Parliament.
- Role of national parliaments: ‘yellow’ and ‘orange cards’.
- Enhanced co-operation or ‘variable geometry’. (Box 2.10 on divorce)
- May be way forward in future, especially dealing with euro crisis and Brexit.
- Better all on board? Or just key players like France, Germany and Italy?
- 200m in these countries alone. Why not form a new EU with just these three? Or with four or five?

2.6 Some Important Facts about EU



- Huge variation by country (Fig 2.11).
- Big six: Germany, France, UK, Italy, Spain and Poland
- Medium-sized countries: 8 – 11 m.
- Ireland not much bigger than greater Barcelona or Milan.
- Same story with incomes. Small, tiny and miniscule economies. (Table 2.1)
- Huge variation in income per head (Fig 2.11 and also see later, Ch. 10)
- Link to Regional Policy. Fears of 'Golden Triangle'

- EU similar in size but larger than US: EU v US the valid comparison? Sports (Olympics, tennis and golf) science, Nobel Prizes, military. EEA v AEA)

2.7 Budget

- Spent on what? Sources of finance? Which countries get most? How is budget decided?

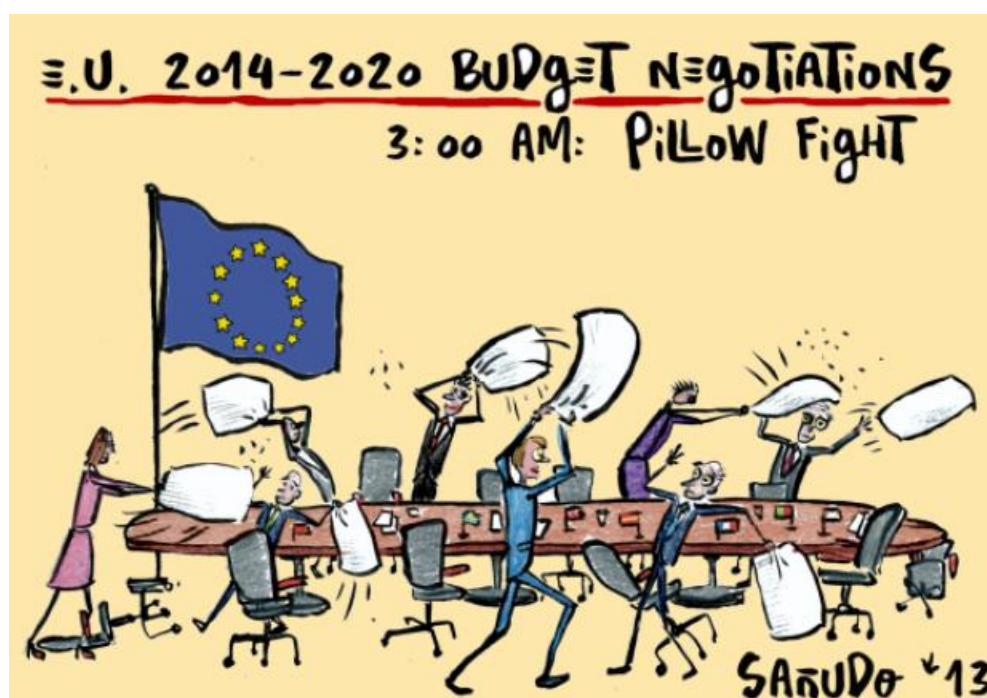


- Expenditure. Agriculture (46%), poor regions (31%) and other things (23%). (Fig 2.12)

- Others. Other internal policies (7%) such as R & D, trans-European infrastructural projects.
- Spending on farming 60 times that on foreign aid.
- Administration (7%): all EU institutions employ only around 30,000, tiny really.
- Just 1 % of EU GDP: less than 2% of total EU PSE.
- Regional v agriculture since early 1990s. (Fig 2.13)
- Net payments by member state rarely exceed 0.1% of GDP.
- Per capita v total expenditure in each country (Fig 2.14) Former better.
- Big variation but totals tiny.
- Main benefits by far are free trade and economic stability and growth:

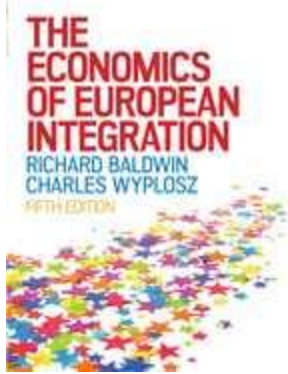
which increase GDP maybe by 5% over several years.

- *Revenue sources.* (Fig 2.15)
- Historic evolution.
- Proportion of VAT receipts and GNP based contributions the key now.
- Contributions by state (gross v net).
- German net contributions.
- Budget process (see pp. 84/85)



Pattern for all EU decisions?

- Seven-year budget plans: 2014-2021



Chapter 3: Decision Making



3.1 Task Allocation and Subsidiarity

- Different levels of government: decision making AND voting rules
- Within a country also, e.g. US, Germany or Switzerland.

- Subsidiarity: decision making as close to the people as possible
- Within countries again: Scotland v UK, Catalonia v Spain, Kerry v Ireland (latter ends at M50 charge!)
- Individual sovereignty v state (e.g. wearing helmets on bikes, planning laws)
- Proportionality principle: action should be minimal.
- Burden of proof on proposers not opponents.
- National parliaments the ‘watchdogs’ re subsidiarity.
- Need flexibility, or else Treaty votes every few months.
- Competences in practice (list in Table 3.1).
- Exclusive to EU, shared, support/coordination.

- Lisbon made clearer the boundaries.
- Often though only decided in courts.
- Co-ordination is 'soft' power and has only peer-effect force.

3.2 Theory Fiscal Federalism



'The history of fiscal federalism may offer the euro zone some lessons' *Economist* 11th Feb 2012. Will Sarkozy be back!

- Big issue in US, Germany and Canada for decades

Basic Trade-Offs (3.2.1)

Need Common Rules for Free movement of goods, services people and capital (pro central decision making)

- This is the over-riding need in EU but not in book!
- How can you have the ‘game’ of football or trade or free movement with centrally-decided rules of engagement
- Apple decision: enforcing rules of engagement and ensuring a level playing field
- Also safety issues, information and so on.

Diversity and Local Informational Advantages (Pro Local)

- Box 3.1 (separate acetate): density of public bus service example.

- Local information best, but

Scale Economies (Anti)

- Bigger the bus company the lower the cost per km? (Box 3.2).
- Balance depends on slope of curves and extent of scale economies

Spillovers: from one country to another (Anti)

- Euro example: positive benefits for ALL nations
- Environment, terrorism, illegal trade, competition other major examples
- Tax competition example: negative for all.
- No excise competition between Ireland and Greece.(Box 3.3)

Democracy as a Control Mechanism (Pro, politics close to people)



- Elections a discipline/check.
- In politics, whole package v specific measures.
- ‘Parish pump’ politics danger though.
- Higher the level of government the wider the package.
- True at local govt. level in Ireland?
- Local v national v EU: all forms of democracies flawed, including EU. For example, unelected upper house in UK and first past the post system

Jurisdictional Competition (Pro)

- Vote with one's feet by migrating.
- Tiebout model

From Theory to Practice (3.2.2)

- In practice always judgmental: no clear or simple answers, despite populist claims.
- Huge scale economies to an EU defence force.
- But many countries (including Ireland) object.
- Example of recognition of pension, divorce and property rights.

3.3 Economical View of EU Decision Making

Qualified majority voting (3.3.1)

- The actual distribution of votes (Fig 3.3): Nice, and Lisbon, post 2014.

EU ability to act: decision-making efficiency (3.3.2)

- Need precise definition
- Inability to act though caused euro crisis and now the refugee crisis
- Inability to act caused by member states NOT by 'Brussels'
- Concept of 'passage probability' (Table 3.2): note error. 27 countries implies 134 million possible outcomes!
- 80% of EU legislation by 'co-decision'.
- Qualified majority (71%) Council of Ministers and simple majority in Parliament

- Assume always vote on national lines.
- Probability depends on:
 - Number of countries (6, 15, 25, etc),
 - Distribution of votes by country, and
 - Majority threshold (51% or 60% or 71% for example): 100% if veto.
- Simple example
- Fig 3.4 charts effect of number of countries on probability.
- 21.9% in EU 6, 7.8% in EU15, 2.3% in EU 29! Under Lisbon up to 12.2%.
- Nice Treaty: 71% of votes still but higher share to big states.
- As well as half of all states and 62% of population ('triple lock')
- Is passage probability a useful measure though?

- EU has and does work: usually at last minute and in response to a crisis though: see all-night ‘pillow fights’ cartoon earlier
- Role of Commission and Parliament.
- What about ‘horse trading’?
- Also, intensity of preferences, agenda fixing, and ‘moral suasion’.
- Veto power the most serious blockage to decision making.
- But not covered in book!

3.4 Distribution of Power between Member States

- The ‘populist’ version of the story is in image below, but soon to be without UK flag!



- How to measure power though?
- Veto the ultimate power.
- Share of Council vote v share of budget a good indicator?
- Parliament not important here (see Box 3.4).
- Cannot ignore any more especially since Lisbon: remember it is the conscience of the EU (e.g. Apple decision)

- Budget must be ‘sold’ to each national electorate.
- High correlation. But budget just over 1.3% of EU GDP.
- Major benefits by far may be through increased GDP.
- Other limitations: three countries with 20, 40, 40 share of vote.
- All have same power to block (i.e. if 50% the threshold). Always need two countries to support.
- If threshold raised to 75%, first country has no power.
- Luxembourg Case (Box 3.5)
- Branzhaf Index (3.4.3) measures ‘probability of a country being able to block a decision. Same results as with ‘crude’ measure. (Table 3.3 and Box 3.6)

- Power shifts following Lisbon (3.4.4) (Fig 3.6).
- Huge political reaction: in Poland and Spain in particular

3.5 Legitimacy in EU decision making

UK detachment from EU



- Each country puts on a display of protecting the national interest against Brussels, whatever latter means.

- EU an extraordinary enterprise: *voluntary* pooling of sovereignty
- Experience of two wars, and perhaps now banking, migration and terrorist crises the keys.
- Is voting distribution in Council fair or legitimate though?
- Citizens v nations.
- Former or latter, or some combination of both?
- Power of veto in certain areas was critical to joining EU.
- Yet, veto means Ireland (1% of EU pop.) can block wishes of 99%.
- US Congress example: Senate (same number of members by State regardless of size) and House of Representatives (strictly according to population). German example more complicated.

- Fair power distribution by citizen: but only where veto does *not* apply.
- Also, Big Six account for vast bulk of population.
- Does not, to repeat, consider the veto issue.
- Nor problems with referendums (for example, Lisbon in Ireland, Brexit vote).

Mr Monti in firing line



A policy problem also within countries