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Weathering the Storm

The EC during the 1970s

The 1970s and early 1980s are often regarded as years in which the integration process stalled or even went backward. This is exaggerated. In institutional terms, the chief innovation of this period was the creation of the European Council—regular summits of the heads of state or government—which (as de Gaulle had foreseen) rapidly became the EC's agenda setter. Yet the supranational institutions of the EC consolidated their position, too. The Court of Justice successfully asserted the supremacy of legislation emanating from the Community over national laws and confirmed its view that the Treaty of Rome had conferred rights on the citizens of the EC's member states. The Assembly obtained the first prerequisite of parliamentary status by being chosen by direct election in June 1979, although its powers remained purely consultative. The EC also experimented with intergovernmental cooperation in the field of foreign policy, although results were mixed.

Perhaps the most striking achievement of the Community in the 1970s, however, was a negative one. It did not fold when the postwar boom came to a crunching end. The EEC, as chapter 3 underlined, owed its creation at least in part to the benign economic environment created by the United States. The U.S. security shield allowed Europe to spend less on defense; the U.S. economy sucked in European imports and was a source of substantial direct investment; trade was conducted in dollars, with the United States leading the way in making trade freer. In the 1970s, some elements of the Pax Americana began to break down. Nevertheless, the Community held together with remarkable tenacity. There was no return to economic nationalism despite the conditions of "stagflation" (high inflation and low, or negative, growth) that prevailed throughout most of the Community for much of this period, and despite the fact that currency fluctuations distorted the newly created common market. The adoption of the European Monetary System in 1979, with its creation of a nominal European currency (the Ecu), was an important symbolic achievement of the 1970s, although it did not work as its authors intended until the mid-1980s. Roy Jenkins, the British Social Democrat who presided over the European Commission from 1977 to 1981, even contended that the EMS "has been the central channel from which most subsequent European advance has flowed."[1]

The truth is that the 1970s are seen as a decade of stagnation for European integration more for the decade's failure to live up to expectations than for its actual shortcomings. The coincidence of Charles de Gaulle's retirement from politics in 1969, Willy Brandt's innovative new government in Bonn, and the election of a "pro-European" British premier in Britain in June 1970 appeared to provide an opportunity for building a European Union, with its own currency and able to act as a significant independent player on the world stage. These ambitions were revealed as vain by the 1970s, a fact that has blinded scholars to the real consolidation that nevertheless took place.

THE HAGUE CONFERENCE AND ITS CONSEQUENCES

Enthusiasts for European integration hoped that the Community, post–de Gaulle, would take immediate strides toward greater unity. The same desire motivated de Gaulle's successor, Georges Pompidou, who was determined to give his own imprint to French policy. One of Pompidou's first acts as president was to propose a meeting of The Six's leaders to discuss how to go beyond the degree of integration already achieved with the common market.

This meeting took place at The Hague on December 1–2, 1969. At The Hague, the gathered heads of government decided to push ahead in five crucial policy areas: financing the Community, which would finally be provided with its "own resources"; strengthening Community institutions, in particular the Assembly; the creation of an economic and monetary union; "political unification," which the foreign ministers were asked to study; and the enlargement of the Community through negotiations with would-be entrants Britain, Ireland, Denmark, and Norway.[2]

The small print of the first of these objectives was decided in April 1970 when The Six decided that the EEC would be funded by levies on imports into the Community and by the transfer from national governments of up to 1 percent of the receipts from value-added tax (VAT). The French government ruled out, however, any suggestion that the establishment of "own resources" should lead to an increase in the budgetary powers of the Parliament.

The next three of these objectives generated detailed reports by distinguished members of the European establishment. A committee chaired by the Christian Democrat prime minister of Luxembourg, Pierre Werner, dealt with an economic and monetary union. The Werner Report was presented at the end of October 1970. Its main conclusion was that "economic and monetary union is an objective realizable in the course of the present decade, provided the political will of the member states to realize this objective, solemnly declared at the Conference in the Hague, is present."[3] The report set tough immediate targets, however. Between January 1, 1971, and the end of 1974, it recommended that the council of economics and finance ministers should become the "center of decision" for economic policy within the Community: national governments would be obliged to conduct fiscal policy within the guidelines laid down by the Council, while member states' central banks were charged with "progressively narrowing" the "margins of fluctuation" between Community currencies by intervening on the financial markets.[4]

The Werner Report left the question of a common currency open. Economic and monetary union could be "accompanied by the maintenance of national monetary symbols" (this ugly phrase is entirely typical of the report's abstract language), but it was suggested that "considerations of a psychological and political order militate in favor of the adoption of a single currency."[5]

In short, the report envisaged the Community's economy being managed at Community level. As the report stated: "The center of decision for economic policy will exercise independently, in accordance with the Community interest, a decisive influence over the general economic policy of the Community."[6] Such a shift of core economic responsibilities from national governments to collective decision making had political implications that entailed "the progressive development of political cooperation," but the report did not specify what this might mean in concrete terms, except to underline that the "center of decision" would have to be subject to the European Parliament.[7] Werner's report was accepted in principle by the Council of Ministers in the spring of 1971, although not without many reservations being aired.

The powers of the European Parliament were the concern of a report by Professor Georges Vedel, a French political scientist, who was asked in April 1971 to propose measures of constitutional engineering to strengthen the legislative and supervisory role of the Community's parliamentary institutions. Vedel proposed a two-stage extension of powers. In stage 1, he urged that the Parliament should be given powers of "codecision" (veto) over all matters concerning the revision of the treaties, the admission of new members, and the ratification of international agreements and actions taken by the Council under article 235 of the EEC treaty. He argued that the Parliament should possess powers of "suspension" over all proposals to harmonize national legislation. In a second stage, codecision powers (for example, the power to block decisions of the Council of Ministers) would be extended to the Parliament in this sphere, too.[8]

The third report to emerge in response to The Hague summit's final communiqué was actually the first to be published. The foreign ministers of The Six outlined proposals for greater cooperation in foreign policy in July 1970, and on October 27, 1970, they issued a four-part plan of action to increase "political cooperation" (EPC) between the states.[9] Despite some leaden rhetoric in the preamble, the plan's actual recommendations were extremely limited. The member states pledged:

> To ensure, through regular exchanges and consultations, a better mutual understanding on the great international problems;
> To strengthen their solidarity by promoting the harmonization of their views, the co-ordination of their positions, and, where it appears possible and desirable, common actions.

In pursuit of these ends, the foreign ministers advised that they should meet "at least every six months," unless the "gravity" or "importance" of the agenda required a summit of heads of state or government. A "political committee" of government-nominated officials should meet four times a year to prepare their masters' agenda. Within two years, the foreign ministers were to issue a second report that assessed how much progress had been made toward political cooperation among The Six—or rather, as Britain, Denmark, Ireland, and Norway had by then begun entry negotiations, among The Ten.

FROM SIX TO NINE

The foregoing description of the developments set in train by The Hague summit is important background for the enlargement negotiations, which began in earnest at the end of June 1970, following the surprise victory of Edward Heath's Conservatives in the British general elections of that month. The would-be entrants were striving to join a club that had great ambitions for its future. Europe intended to become an economic union with strengthened centralized institutions and, perhaps, a common currency.

In the case of Britain, Prime Minister Heath's task was to show his continental counterparts—especially France—that Britain was prepared to go along with such a major expansion in the EEC's activities. Actually, crisis-hit Britain was desperate to join on almost any terms. British GNP per head had declined to three-quarters of the average for The Six ($2,170 versus $2,557).[10] In his book *Missed Chances*, Sir Roy Denman, a senior Foreign Office official who was part of the British negotiating team, commented wryly: "No sensible traveler on the sinking *Titanic* would have said, 'I will only enter a lifeboat if it is well scrubbed, well painted and equipped with suitable supplies of food and drink.'"[11]

The negotiators on the other side of the table drove a hard bargain. Britain (and the other would-be entrants) was asked to accept the *acquis communautaire* (the accumulated body of Community law) in toto. There would be no opportunity to try and remake the Community in Britain's image: Britain had to accept the main Community policies whether she liked them or not (and in many cases, she did not). Nevertheless, Britain strove to find workable transitional arrangements in sensitive areas such as imports of dairy produce from New Zealand and cane sugar from the West Indies, fishing rights, and the size of the British contribution to the Community budget.[12]

Of these, the last was unquestionably the most important. Since Britain was a major importer of non-Community agricultural produce (New Zealand lamb, beef from Argentina, Canadian wheat), she risked having to pay, under the terms of the agreement on financing the Community reached in April 1970, substantial sums into the Community while receiving (since the EC's budget was dominated by the CAP and Britain had a small agricultural sector) little in return. In all, the EC initially proposed that Britain should contribute a fifth of the Community's budget.

Britain's counterproposal was to pay 3 percent of the EEC's budget in the first instance and gradually increase that figure year by year. This suggestion prompted President Pompidou to declare: "The British have three qualities among others: humor, tenacity and realism. I have the feeling that we are slightly in the humorous stage."[13]

The issue was eventually resolved by deciding that Britain's contribution would rise to approximately 19 percent of the budget over five years from a starting point in 1973 of just under 9 percent. The underlying assumption of this deal, however, was that agriculture would decline as a share of the EC's budget and that Britain would also benefit from Community subsidies to help regional regeneration. So long as agriculture dominated the EC's expenditure, the British contribution to the EC's finances was a bomb waiting to explode. It was in fact informally agreed that the budget deal could be renegotiated if an "unacceptable situation" arose later in the 1970s.[14]

The compromise over the budget issue was reached only after a May 1971 summit meeting between Pompidou and Heath.[15] Thereafter, the negotiations proceeded relatively smoothly and reached a successful conclusion in June 1971. Britain promised to harmonize her food prices up to Community levels by "1 January 1978 at the latest" and to abolish duties on EEC products in five stages between January 1, 1973, and July 1, 1977. The Common external tariff was also to be introduced in progressive stages and was to come into full force on July 1, 1977.

The question of entry to the "Common Market," as the EC was habitually dubbed in Britain until the mid-1980s, at once became a political battlefield. British politics is traditionally highly partisan, with cross-party collaboration being rare. Over EC entry, however, tribal loyalties broke down.

This ability of the European issue to upset traditional allegiances was shown in October 1971 when the House of Commons debated the terms of entry obtained by the government. Only a revolt against the party whip by sixty-eight pro-EC Labour MPs enabled Heath to win the vote.[16] In all, the Commons debated EC accession for 173 hours in 1971 to 1972. The European Communities bill passed its third reading by a narrow majority of 301 to 284 on July 13, 1972, and the bill received the royal assent on October 17, 1972. On the eve of British entry, an influential right-wing weekly opined, in an article provocatively entitled "Unconditional Surrender," that "Heath has done what Napoleon and Hitler aspired but failed to do."[17]

Ireland and Denmark, not least because agriculture played a large role in their economies, had fewer doubts than Britain over the wisdom of entering the EEC. In the 1960s, the EC's protectionist stance over agriculture had worsened Denmark's severe balance-of-payments problems and had inflated the country's welfare costs since the Danish state had to prop up flagging farm incomes. Entering the EC thus made good economic sense for the Danes, although the decision to enter was controversial within the country and especially within the ruling center-left coalition headed by Prime Minister Jens Otto Krag. Denmark was a keen Atlanticist and supporter of Nordic unity and was dubious of French ambitions to build a separate European identity in foreign policy. The Danes were also proud of their highly developed welfare state and feared—without justification—that the "Danish model" would be dismantled. Only the reflection that economic necessity would anyway compel Denmark to reduce the generosity of its welfare state, in the absence of the higher national income that EC membership would bring, persuaded Danish voters to agree to membership.[18]

Ireland stood to benefit even more than Denmark from the CAP, since new markets were opened to Irish agricultural products and rural incomes stood to rise considerably. The downside was that membership meant opening up the Irish domestic market to industrial competition, but it was on the whole a price the Irish government was prepared to pay, not least because membership would enable it to attract foreign direct investment: a potential agent of modernization. Politically, Community membership enabled Ireland after 1973 to escape from its economic dependency on Britain (in 1973, two-thirds of Irish exports still went to Britain) and thus, in a sense, complete the break from her colonial past. EC membership would "create interdependence with Europe, rather than establishing the autarky of myth; again, this was preferable to absolute reliance on the UK." Ireland voted by a plebiscitary majority to join the EC just five months after entry terms had been agreed.[19]

Britain, Ireland, and Denmark (but not Norway, whose electorate's opposition to the EC's fishery policy had led to rejection of membership in a referendum in September 1972) entered the EEC on January 1, 1973. Even before formal accession, however, the three new member states were invited to Paris to take part in a major summit confirming the relaunch of the Community.

The declaration issued by the heads of state and government at the end of the conference on October 21, 1972, boldly presented the EC as a self-confident organization of states that was taking a coherent and independent approach to the world's major problems. As the preamble to the declaration said, "Europe must be able to make its voice heard in world affairs, and to make an original contribution commensurate with its human, intellectual and material resources." The Nine committed themselves to the fundamental principles of democracy, to the establishment of monetary and economic union, to an "improvement in the quality of life as well as the standard of living," to "increase [their] effort in aid and technical assistance to the least favored people," and to the development of international trade and to the promotion of détente with the countries of Eastern Europe. Most strikingly of all, The Nine stated:

> The construction of Europe will allow it, in conformity with its ultimate political objectives, to affirm its personality while remaining faithful to its traditional friendships and to the alliances of the Member States, and to establish its position in world affairs as a distinct entity determined to promote a better international equilibrium, respecting the principles of the Charter of the United Nations. The Member States of the Community, the driving force of European construction, affirm their intention to transform before the end of the present decade the whole complex of their relations into a European Union.

This lofty vision of the Community's future was backed up by a sixteen-point plan for action. In the field of economics, The Nine committed themselves to the Werner Report's timetable, to coordinated policies for fighting inflation, and to obtaining greater stability in the world's currency markets. The Nine further agreed to give a "high priority" to correcting the "structural and regional imbalances that might affect the realization of Economic and Monetary Union." To this end, they agreed to set up a regional development fund before the end of 1973. The establishment of this fund had been the British government's chief priority for the summit.

In foreign affairs, they committed themselves to increase the quantity and improve the quality of their aid to the developing nations; to the "progressive liberalization" of tariff and nontariff barriers via the GATT; and to taking a coordinated position in the ongoing Conference on Security and Cooperation in Europe—a negotiation that eventually led, in 1975, to the Helsinki Declaration on Human Rights, which Italian premier Aldo Moro signed on behalf of the EC.[20] The foreign ministers of The Nine would meet four times a year, instead of twice, and would produce, by June 30, 1973, a second report on "political cooperation."

Finally, the nine heads of state or government made several suggestions for the "reinforcement of institutions." The final paragraph of the declaration requested the institutions of the Community to draw up a report, before the end of 1975, on how to transform the EC's existing institutional structure into a European Union.[21]

Edward Heath judged that "overall, the summit provided the impulse for the next stage of the Community's development."[22] The British certainly fully expected to play a leading role in developing the Community. The official diplomatic report on the Paris summit by Ambassador Nicholas Soames gloated that the summit had marked the end of France's "moral ascendancy" within the Community and the dawn of a new phase in which a "central triangle" of Britain, France, and Germany would be a "directoire de fait" of Community policy.[23] Both this characteristic Foreign Office vainglory and the wider hopes raised by the Paris summit and by the enlargement of the Community were to prove a chimera. The Nine were swiftly knocked off course by the perennial instability of the world's currency markets and by the economic forces unleashed by the October 1973 oil shock.

MONETARY TURMOIL 1971–1974

The optimism of the Paris summit with respect to a monetary union flew in the face of the experience of The Nine on the currency markets since the publication of the Werner Report. At the beginning of the 1970s, the industrial economies were characterized by a set of imbalances that made the conduct of macroeconomic policy extremely difficult. A domestic consumption boom in the United States had led to an outflow of dollars as Americans bought freely from Europe and Japan. Investment overseas by American companies added to the outflow.[24]

The EC, as the world's second largest market, was a particular beneficiary of American investment. This outflow of dollars mattered since the United States had committed itself at the 1944 Bretton Woods conference to buy dollar holdings in gold at the fixed price of $35 per ounce. The dollar, in other words, was literally as good as gold. By the early 1970s, however, the gilt was coming off the greenback. Policymakers realized that if foreign countries decided to swap their accumulated dollars for bullion, the United States would risk a run on Fort Knox. Central bankers and private investors around the world held far greater amounts of dollars than the United States could pay in gold (the EC member states alone held about $16 billion in their central banks), and they were beginning to become skittish at the United States' persistent failure to balance its books.[25]

The inflow of dollars presented major domestic problems for the EC countries, especially Germany, the new "number one in Europe," whose currency, the Deutsche Mark (DM), had emerged in 1968 to 1969 as a magnet for footloose international capital. Germany had to revalue the DM upward by 9 percent in October 1969, although the decision had been the cause of prolonged political debate before and during the October 1969 general elections.[26]

Germany took this step because the large trade and investment surpluses being generated by the cheap mark were socially disruptive (profits were running well ahead of wage rises and the workers were unhappy) and potentially inflationary. Germany had endured one of the worst inflations of all time in the 1920s, and the consequent loss by the German middle class of its savings had been one of the key factors that had propelled the Nazis to power. West Germany's 1949 Basic Law therefore made price stability a constitutional imperative. Once Bonn had revalued, however, it began to press the United States to reduce the high levels of public and consumer spending within the American economy, even if this meant slower economic growth for the United States and the world in general.

The Nixon administration took a different view. Nixon's treasury secretary, the Texan John Connally, argued that countries such as Germany and Japan were exploiting the openness of the American economy to amass artificial trade surpluses. The solution, in his view, was for a measure of protectionism for American manufacturers, for America's allies to take on more of the costly burden of their own defense, and for the Europeans and the Japanese to boost growth within their domestic economies in order to suck in American exports. Presidential elections were due in 1972, and neither Connally nor Nixon wanted to risk a recession.

As Diane Kunz commented, "Nixon decided to put the domestic economy first and let the international chips fall where they might."[27] In a broadcast from Camp David on August 15, 1971, President Nixon ended dollar convertibility for gold, imposed a "temporary surcharge" upon imported goods, and gave tax breaks for investment in plant and machinery "made in the USA."

Nixon's action predictably led to a general strengthening of European currencies. But this strengthening was not symmetrical. That is to say, some currencies, notably the DM, increased in value more than others. France, for instance, limited the rise of the franc against the dollar by selling francs on the currency markets and by imposing exchange controls on the movement of capital. This move also improved France's competitiveness against West Germany, since a weaker currency was a de facto trade barrier that decreased the cost of exports from France and made its imports more expensive. In October 1971, the West German finance minister, the notoriously verbose Karl Schiller, publicly (and pithily) attacked France for following "Colbertian" policies.[28]

Nixon's démarche had, therefore, both opened up cracks within the Community and threatened to cause a breach in transatlantic relations.[29] Faced with a trade war in which everybody would be a victim, the industrialized nations sensibly backed away from the brink. On December 17, 1971, a meeting at the Smithsonian museum in Washington of the so-called Group of Ten, the ten largest economies, agreed to across-the-board revaluations against the dollar in exchange for the suspension of the import surcharge. In order to take some of the tension out of exchange rate movements, the Smithsonian meeting agreed that currencies would be free to fluctuate up to 2.25 percent above or below a "central value" against the dollar before central banks intervened in the currency markets. This device became known as the "tunnel."

It was a device that did not satisfy the West German government. The mark was soon bumping against the roof of the tunnel, while other countries, notably France and Italy, dragged along the floor. Accordingly, on March 7, 1972, The Six, joined by Britain, formed the "Snake within the tunnel." EEC states promised to restrict fluctuations between their own currencies to just 1.125 percent above or below their central value by intervening on the currency markets to shadow the DM. The Snake was thus an attempt to lash the EEC's currencies together like boats in a harbor that would rise and fall together as the dollar tide advanced and ebbed.

Britain's economic weaknesses, however, were such that she was not economically robust or politically stable enough to stick to the regime imposed by the Snake. Sterling joined the Snake in May 1972, just as gloomy balance-of-payments figures and the unconvincing figure of Chancellor

Anthony Barber unleashed a storm of speculation against the pound. On June 23, the pound was forced to float free (and promptly plunged, although high British inflation soon eroded any competitive gains that devaluation was able to give British industry).

In March 1973, the falling dollar caused further tensions. Six EC states—West Germany, the Netherlands, France, Belgium, Luxembourg, and Denmark—jointly floated upward against the dollar; only Italy was forced to drop out. This decision to float as a group undoubtedly reflected the European countries' "aspirations for European unity."[30]

Such aspirations retained some residual force only so long as France tied itself to the others. The oil shock in the autumn of 1973, which quadrupled the price of crude to $11 a barrel, put paid to France's membership. Unable to contain market movements against the franc, France left the Snake in January 1974. In a December 1974 meeting in Paris, The Nine bowed to the inevitable and consigned the Werner Report's timetable for monetary unification to the Greek kalends.

The inability of Britain, France, and Italy to peg their currencies to the DM reflected investors' fears about inflation. Any kind of fixed exchange rate regime among states is impossible to maintain if there are gross disparities in inflation rates, since high-inflation countries are bound to suffer an incremental loss of competitiveness—and thus risk losing markets and jobs to their less-profligate trading partners. As Peter Ludlow has felicitously remarked, the inflation performance of the Community states in the mid-1970s bore more resemblance to the final classification in a Western European subgroup in the World Cup–qualifying competition, with Germany at the top and the United Kingdom and Italy no less securely at the bottom, than to an association of more or less equal states progressing harmoniously and happily toward union.[31]

At bottom, this uneven level of economic performance was a question of domestic political stability. The Community was in fact split along ideological lines. In Germany, politics was based upon broad acceptance by all political forces, including, crucially, the trade unions, of a social market economy in which private enterprise coexisted with high levels of state-provided health care, insurance, and social security. In Britain, France, and Italy, such consensus over the fundamental character of the polity did not exist.

In all three countries, political forces committed to the state direction of the economy were a key variable in the equation. Italy had been wracked by violent strikes and labor unrest since the "hot autumn" of 1969: its successful Communist Party, which was exercising a de facto veto over government policy by the early 1970s, actually represented a force for comparative moderation in industrial disputes. The Heath government in Britain was brought down in 1973 to 1974 by striking miners and power workers. The Labour government headed by Harold Wilson (1974–1976) subsequently followed an expansionary policy of boosting public spending, increasing nationalization, appeasing union pay demands, and imposing crippling levels of taxation on the better off. These policies provoked sky-high inflation and a sterling crisis. In October 1976, the British government, like many Third World countries since, was obliged to beg for a substantial loan from the International Monetary Fund (IMF). In France, the opposition Socialists and Communists formed the "Union of the Left" in 1972. Its platform promised the state control of the economy via public ownership of the banks and the introduction of high-cost measures of social welfare. In all three countries, in short, inflation-fighting measures of the kind that appealed to the Bundesbank were a recipe for social unrest. It was this fact, above all others, that took monetary unification off the agenda and dampened the rhetoric of European unity so common at the beginning of the decade.

FOREIGN POLICY INITIATIVES AND THE TINDEMANS REPORT

The levels of political instability in Western Europe and the acrimony induced by the falling dollar were the main reasons that Henry Kissinger—then national security adviser in the doomed Nixon administration (Kissinger became secretary of state in September 1973)—decided to make 1973 the "Year of Europe" for American foreign policy. In a speech given in New York on April 23, Kissinger argued that a new era in transatlantic relations was dawning. Western Europe's economic revival and economic unification was "an established fact"; the USSR had reached "near-equality" in the military balance of power; Japan had emerged as a "major power center." New problems, such as "insuring the supply of energy" were coming to the fore. By the time President Nixon made a scheduled tour of European capitals at the end of 1973, Kissinger wanted the United States and its allies to have worked out a new "Atlantic Charter" in which the Europeans committed themselves to making a bigger contribution to the West's cause. Kissinger considered that Europe's "new generation" was less committed than their parents to "the unity that made peace possible and to the effort required to maintain it." Kissinger emphasized that the United States supported European unity—but expected "to be met in a spirit of reciprocity" in trade matters. The United States would not withdraw unilaterally from Europe—but, in turn, expected "a fair share of the common effort for the common defense."[32]

In his memoirs, Kissinger insisted that the U.S. government had "conceived the speech as a summons to a new period of creativity among the industrial democracies."[33] In Europe, however, this initiative was greeted with a "thundering silence."[34] When, in June 1973, the Nixon administration signed the Soviet-American agreement on the prevention of nuclear war and intensified détente among the superpowers without so much as consulting the Europeans—who, after all, had most to lose if better U.S.-Soviet relations led to American troop withdrawals—relations became still more chilly. French foreign minister Michel Jobert was especially angered by Kissinger's snub.

The EC's commitment to building a common foreign policy, however, only made the situation worse. The Nine's foreign ministers met in Copenhagen on July 23, 1973, and decided to prepare a document responding to Kissinger's initiative by September. This document, which underlined the EC's role as a "distinct entity" in world affairs, was drawn up without consultation with the Americans and was transmitted to the United States via the Danish foreign minister (Denmark was chairing the Council of Ministers). The Nine then refused to have any bilateral or informal conversations with the United States on the issue. Kissinger regarded this attitude as a deliberate bid by the Europeans—and in particular the French—to take advantage of President Nixon's domestic travails to assert its foreign policy independence from the United States.[35] It is at least as likely, in fact, that the episode simply illustrated the empirical limits of the infant EPC process.

Tensions between the United States and Europe intensified in October 1973 when Syria and Egypt attacked Israel in an attempt to recapture territory lost during the 1967 "Six-Day War." The decision by the Organization of Petroleum Exporting Countries (OPEC) to boycott those Western countries that supported Israel in the conflict—the United States and the Netherlands were singled out—tightened the screws still further. The EC was placed in the uncomfortable position of having to choose between its American ally and the suppliers of what had become since the late 1950s its main source of energy generation.[36]

The governments of The Nine chose to back the Arabs. Having almost unanimously forbidden the United States to make use of European bases for military flights to Israel, the EC's foreign ministers declared on November 6, 1973, that Israel should give back the territory it had held since 1967 and should take into account the "legitimate rights of the Palestinians." This position was in line with several UN resolutions on the Palestinian question, but in Washington the EC's stand "conveyed the implication that when faced with the economic, social and political consequences of a sustained oil embargo the Nine had chosen the path of appeasement at any price."[37]

Proponents of greater political cooperation noted, however, that The Nine had for the first time reached a common position on a major issue of foreign policy. A December 1973 summit of The Nine's leaders, called by Premier Anker Jørgensen of Denmark after pressure from Paris and

Bonn, underlined this novelty by asserting The Nine's "common will to see Europe speak with one voice" in foreign affairs. The Nine's leaders approved a "Document on the European Identity" drawn up by their foreign ministers: this document, while long on rhetoric, was adamant about the EC's desire to develop an independent role in world politics.[38] The summit further announced that The Nine intended to press ahead with a dialogue with the oil producers in order to achieve a "global regime" that would balance economic development in the producer countries with a stable oil supply for the industrialized world at "reasonable prices." The Arab countries welcomed this conciliatory approach.

As a respected French commentator subsequently pointed out, the diplomatic crisis provoked by the oil shock "revealed the gap between the ambitions proclaimed for Europe and its capabilities for real action."[39] By backing the Arabs so openly, the EC had chosen to play hardball with the United States. Certainly, it had more than lived up to its aspiration in the 1972 Paris summit to "establish its position in world affairs as a distinct entity determined to promote a better international equilibrium."

The American response was blunt. In December 1973, speaking just before the Copenhagen summit, Kissinger stated, "Europe's unity must not be at the expense of the Atlantic Community."[40] Kissinger, prompted by Helmut Schmidt, subsequently proposed creating a consumers' organization of the largest industrial nations, whose members would pool their oil reserves and would coordinate their responses to any further price hikes by the OPEC producers' cartel.[41] In February 1974, the largest industrial countries gathered in Washington, D.C., to discuss the American scheme.

The Washington conference was a shambles from the European point of view: Bino Olivi records that "nobody who attended [the conference on energy] will easily forget the grim spectacle of disunity and disorder in the Community's ranks."[42] American speakers from President Nixon down drove home the point that isolationism was likely to gain ground in the United States if Europe persisted in appeasing the Arab countries.[43] This hard American line split—as it was clearly intended to—the French (the keenest supporters of EC–OPEC negotiations) from the Germans and resulted in an embarrassing row between Jobert and Helmut Schmidt, who accused the French government of putting Europe's relationship with the United States in jeopardy.[44]

In the end, every EC state except for France joined the American-sponsored International Energy Agency in November 1974. Earlier, in June 1974, The Nine also acknowledged that the United States would be informed and consulted during the formulation of any major European foreign policy initiative.[45]

The political outcome of the oil shock was, in other words, reminiscent of the Fouchet negotiations. Europe was not yet ready for the French vision of an independent European foreign policy. At the first whiff of grapeshot, its ranks had scattered.

By the end of 1974, therefore, the grand design of the October 1972 Paris summit, of achieving a European Union by the end of the 1970s, was looking somewhat battered. Monetary unification was a nonstarter, hamstrung by the inability of The Nine's governments to combat inflation and by the fragile state of social peace in some member states. The objective of a common foreign policy had proved unworkable on its first trial. Europe was looking more like a loose pan-national trade organization than the serious force in world affairs its leaders aspired to create.

It was this state of disarray in the EC's objectives that pushed the new French president, Valéry Giscard d'Estaing, to launch a crucial institutional initiative in September 1974. Giscard in effect dusted off the Fouchet Plan, but in new, informal, communitarian form, by once again proposing what de Gaulle had always insisted was the only way of taking major decisions among the states: frequent, organized meetings of the heads of the responsible governments. Giscard, however, showed more sensitivity to the preoccupations of the Dutch, Belgians, and Danes, not to mention the Commission, than had the general. Over the next three months, Giscard and his team of negotiators laboriously convinced their counterparts in the Community of their good intentions: France was not making a power grab, just seeking to make the EC work better.[46] At a December 1974 summit in Paris, The Nine agreed to institutionalize their occasional summits and hold them more often. The European Council, as the new body was to be called, would meet three times a year, and while not formally part of the EC's machinery, would provide the EC with an agenda-setting forum.

It did this, and it did more. From the off, the European Council became the Community's strategic decision maker. It gave the EC focus—a kind of de facto Cabinet—and hence provided a mechanism for policy innovation, as opposed to policy implementation. Since December 1974, all new treaties, not to mention key decisions on enlargement, monetary union, and foreign policy, have emanated from the European Council. This fact is anathema to many enthusiasts for a federal Europe, who would prefer nation-states to wither away, not run the show, but so it is.

A second important—though some might say somewhat belated—decision taken by the Paris summit was to ask one of their number, the then prime minister of Belgium, Leo Tindemans, to head an inquiry to "define what was meant by the term European Union."

The Tindemans Report, which was sent to the European Council on December 29, 1975, represented a major act of rethinking about the nature of European integration. European Union, Tindemans argued, implied that "we present a united front to the external world" in "all the main fields of our external relations," including foreign policy. It implied that the EC would have a common economic and monetary policy and that Europe would institute regional development programs to "correct inequalities in development and counteract the centralizing effects of industrial societies." It implied "social action" to "encourage society to organize itself in a fairer and more humane fashion" and to protect Europeans' civil rights. To achieve these tasks, European Union implied institutions "with the necessary powers to determine a common, coherent and all-inclusive political view, the efficiency needed for action, the legitimacy needed for democratic control."[47]

Tindemans envisaged a "step-by-step" approach to European unification and essentially placed the onus upon the governments of the member states to launch initiatives through the newly established European Council.[48] Specifically, in the field of foreign policy, Tindemans recommended that the meaningless distinction between "political cooperation" and "Community business" should be abolished. The member states should cooperate among themselves in the European Council to hold down defense costs and monitor crises—Portugal was a particular worry at that time—within the European region.[49]

In the field of economic and monetary unification, Tindemans presciently suggested that monetary integration might be advanced by allowing those countries that were capable of economic and monetary union to press ahead, using the Snake as a starting point. Tindemans further hoped that the European Council would proceed to coordinate its members' internal monetary policy (money supply), as well as budgetary policy and strategies to combat inflation.[50]

Tindemans was anxious to make Europe "a more discernible reality" to its people.[51] He advocated the introduction of a European passport, free movement across frontiers, the simplification of procedures for refunding medical expenses, increased student exchanges, and the harmonization of educational qualifications. In general, the EC, prompted by the European Council, should try to give Europe its "social and human dimension."[52]

Tindemans also advocated limited, but shrewd, reforms to the institutional structure of the EC. At Paris in December 1974, The Nine had agreed, despite British and Danish reservations, to permit the direct election of the European Assembly. Tindemans approved this decision and made several recommendations for extending the Assembly's powers. The Assembly should gradually be given a "power of proposal" by allowing it, in the first instance, to address resolutions to the European Council. It should take a higher public profile by staging "state of the union debates" twice a year, to which prominent national politicians should be invited. Voting by qualified majority, Tindemans argued, should become the norm for the Council of Ministers. The European Council should appoint the president of the Commission, who would appoint the rest of his colleagues in consultation with the Council. The Assembly would gain the right to approve the new Commission in a formal vote of confidence, and the Commission itself—which since the defeat of Hallstein had stagnated somewhat under the presidencies of Jean Rey (Belgium), Franco Maria Malfatti (Italy), Sicco Mansholt (Netherlands), and François-Xavier Ortoli (France)—would become a more activist body.[53]

Europe's federalists would have preferred Tindemans to present a draft constitution for Europe: plainly, his recommendations fell far short of this. His report was still strong beer, however. Tindemans's report was on the agenda for the four meetings of the European Council subsequent to its submission. No concrete action resulted. Instead, the member states would take a number of cautious sips over the next fifteen years until, with the Treaty of Maastricht, a Europe very similar indeed to Tindemans's prescriptions was actually enacted.

THE EUROPEAN MONETARY SYSTEM

The first such sip was the creation of the European Monetary System (EMS). Essentially a more inclusive version of the Snake, the EMS was brought into operation in January 1979 by diplomatic initiatives on the part of key member states within the European Council. The creation of the EMS owed much to the efforts of three key figures. Helmut Schmidt, who had succeeded Willy Brandt as chancellor of the Federal Republic in May 1974, was the decisive actor. Valéry Giscard d'Estaing, who had become president of France in the same month, and Roy Jenkins, a former British finance minister who became president of the European Commission in January 1977, played important supporting roles. A scheme as ambitious as the EMS could not have overcome the many vested interests opposed to it in the late 1970s in the absence of the high quality political leadership that Schmidt, Giscard, and Jenkins provided.

Schmidt was the chief driving force. Schmidt became engaged with the question of monetary unification out of pique with the weak performance of the new American president, Jimmy Carter, whom he describes as "idealistic and fickle" in his memoir *Men and Powers*.[54] Schmidt was alarmed by what he regarded as Carter's amateurish foreign policy and infuriated by the Carter administration's studied neglect of the dollar. In the first half of 1977, the dollar resumed its slide in the currency markets. By mid-1977, it had skidded to DM 2.35 and would decline to below DM 2.0 by the end of the year and DM 1.76 by September 1978 (under Bretton Woods it had been worth DM 4.20). Nobody knew where the dollar's fall would stop. The dollar "seemed not so much to be floating as drowning."[55] The risk was that the OPEC countries, whose coffers were by now awash with dollars, would stash their newly acquired wealth in European currencies and in the DM in particular, thus making Germany artificially uncompetitive.[56]

As usual, the problem was the American trade deficit, which topped $31 billion in 1977. The Carter administration asserted that its deficit was due to the overly cautious policies of the European economies and urged the Europeans to act as a "locomotive" for growth. Schmidt dismissed this theory as a "Loch Ness monster" that "surfaced from the depths" whenever the dollar was in difficulty.[57] Throughout 1977, West Germany came under intense international pressure to stimulate its economy and cut its substantial trade surplus by sucking in imports. At the May 1977 summit of the leading industrial nations, Schmidt was forced to pledge that Germany would aim for 5 percent growth in its economy—a target that was impossible without increasing inflationary pressures within the economy.[58] Nevertheless, the DM strengthened against the dollar disproportionately in 1977 to 1978. The dollar's slump, in short, was pricing German industry out of its main markets.

According to Roy Jenkins, Schmidt's central role in the decision to launch a monetary initiative in Europe was essentially a reaction to his growing conviction of American incompetence. It gave Schmidt "some escape from his frustration at knowing better how to run the world than Carter or Brezhnev or Callaghan [British prime minister 1976–1979], but mostly feeling himself inhibited by his country's past from trying to do so."[59]

Other countries regarded the imposition of a monetary straitjacket in Europe as beneficial for their economies. Certainly, Giscard's support was motivated by this conviction. When Giscard became president of France, he initially tried to impose austerity in order to combat soaring inflation rates. The ensuing surge in unemployment panicked his government, which pumped subsidies into troubled industrial sectors. But this largesse was a temporary blip in policy. Giscard had lost faith in the power of the state to deliver economic growth without inflation. As he wrote in a stimulating 1976 book of prescriptions for French democracy, economic activity was like the human organism: "If each breath we draw, each step we take, had to be the result of conscious decision, illness would soon follow."[60] The trouble with the French economy, Giscard contended, was that the "brain"—the state—was trying to do too much.

When, in August 1976, Jacques Chirac, Giscard's prime minister in France's semipresidential system, resigned over policy differences, Giscard turned for a new premier to former European commissioner Raymond Barre, whom he knew to share his economic liberalism fully. In September 1976, Barre introduced a tough program of tax increases and public spending cuts designed to take demand out of the economy. France had embarked upon the road of making herself authentically competitive as an economy, instead of relying on currency devaluation to do that job for her. Measures of monetary integration could only help this program. They lashed France to the German economy and gave the French government an opportunity to depict its painful reforms as a necessary sacrifice. It was both idealism and realism that led Giscard to state unambiguously that France's "number one task" was to make economic and monetary unification a reality.[61]

In the case of Roy Jenkins, pressing for greater monetary unification was a means of launching his presidency of the European Commission. Jenkins had become president of the Commission as a result of his impressive leadership of the "Britain in Europe" campaign during the referendum on EC membership called by Prime Minister Harold Wilson. The referendum had been Wilson's way—and, probably, was the only way—of reconciling the war to the knife within the Labour government between "pro-marketeers" like Jenkins and the "anti-marketeers" of the left who, in many instances, wanted Britain's withdrawal from the Community to be the prelude to the imposition of a socialist siege economy.[62]

On June 5, 1975, after a lengthy campaign, Britain had voted on whether or not to stay in the Community. To the surprise of many observers, the majority in favor of staying in was strikingly large: 67.2 percent said "yes." Jenkins, who had worked tirelessly for a "yes" vote and had put the case for a positive vote in the final televized debate, emerged from the campaign with his standing as a statesman enhanced.

Jenkins was first sounded out for the presidency of the Commission, on the initiative of Helmut Schmidt, in January 1976. When he failed to succeed Wilson as leader of the Labour Party (and hence prime minister) in March 1976, he indicated his willingness to do the job and was formally appointed by the European Council in June 1976.

Jenkins did not begin his new job well. He was quickly brought face-to-face with some Euro-realities—the first and foremost being that "in Brussels, outside a narrow field of coal and steel and agricultural decisions . . . nothing much happened unless a majority of governments could be persuaded to join in leaning on the lever."[63] By mid-1977, his performance was being belittled by *The Economist*, which seems to have jolted him out of a self-pitying mood of gloom and despair. At the end of July 1977, he decided that his presidency needed a theme and that that theme would be economic and monetary union.[64]

Jenkins's commitment to monetary union was first systematically aired in public in Florence on October 27, 1977, during the first Jean Monnet lecture at the European University Institute. His speech advanced a powerful case for the economic benefits of a monetary union in Europe. Drawing upon the recently published work of a Community-sponsored committee of academic economists, he also sketched a fascinating picture of the political implications of monetary union. Jenkins envisaged a "multitiered," confederal Europe whose heart was a central government, small by the standards of major federal states such as the United States or Germany, which was spending about 5 to 7 percent of gross Community product. This central administration would occupy itself with "those aspects of external relations where intercontinental bargaining power is called for"; a much-increased regional aid policy; high-tech industries such as aerospace; and politically sensitive industries such as steel, shipbuilding, and textiles. A common energy policy would also be required.[65]

Jenkins was under no illusion of the "political implications" of what he was saying. He was proposing as great a step forward in the degree of integration as the "last generation" of European leaders had faced when they signed the Treaties of Rome. Like them, Jenkins believed that such a step was necessary if the EC member states wished to preserve the substance of their national sovereignty:

> Do we intend to create a European union or do we not? . . . There would be little point in asking the peoples and governments of Europe to contemplate union, were it not for the fact that real and efficient sovereignty over monetary issues already eludes them to a high and increasing degree. The prospect of monetary union should be seen as part of the process of recovering the substance of sovereign power. At present we tend to cling to its shadow.[66]

Jenkins's Florence speech was initially dismissed as Euro-rhetoric by a skeptical press. The commissioner for economic affairs, his predecessor as president of the Commission, François-Xavier Ortoli, was far more cautious. A lengthy and somewhat scholarly document on "The Prospect of Economic and Monetary Union" submitted by the Commission to the December 5–6, 1977, meeting of the European Council reflected Ortoli's views rather than Jenkins's by calling for a gradualist five-year program of economic convergence.[67] The Council itself approved the Commission's document "with satisfaction," but it is doubtful that the leaders of The Nine had, at this stage, engaged with the arguments in any detail.

By December 1977, therefore, The Nine had accepted that monetary union, like good health and fine weather, was in principle a good thing. But they had certainly not committed themselves to pursuing the economic policies that would be necessary to bring it into being. Jenkins says in his biography that "reproclamation of monetary union had done well in providing me with a message, but I was far from confident that it was going to provide Europe with a monetary advance."[68] What turned Jenkins's vision into at least partial reality was the intervention of Helmut Schmidt. On February 28, 1978, Jenkins had a routine meeting with the German chancellor. Schmidt startled Jenkins by stating that if the Union of the Left were defeated in the forthcoming March 1978 elections in

France, he would propose in response to the dollar problem "a major step towards monetary union; to mobilize and put all our currency reserves into a common pool, if other people will agree to do the same, and to form a monetary bloc."[69] This decision represented a significant change of direction for Schmidt, who had greeted Jenkins's original speech with skepticism, saying that he was in favor in principle of economic and monetary union but "not if it meant German inflation going to 8 percent."[70]

Having committed himself to pursuing greater integration in the monetary field, Schmidt proceeded with singular individualism to formulate his ideas. His cabinet, the Bundesbank, and most of the governments of the EC, including Britain, were kept in ignorance of his thinking until the Copenhagen European Council on April 7–8, 1978. Only Giscard was let into the secret during a meeting at Rambouillet on April 2, at which the two leaders, "like two dramatists preparing a performance in which they themselves were to be the most important actors," carefully plotted out the strategy and tactics they would use at the summit.[71]

At Copenhagen, Schmidt proposed that the EC should back up the Snake by creating a European Monetary Fund, similar to the International Monetary Fund, with member states pooling approximately 15 to 20 percent of their reserves to provide cash for interventions in support of economic restructuring in member states' economies. He further suggested that EC currencies should be increasingly used instead of dollars for interventions on the exchange markets and that the so-called European Unit of Account (EUA, the instrument used by the EC to calculate members' contributions and farm prices) should become a proto-currency. EC states should settle their debts to each other in EUAs and should issue debt denominated in this notional "Euromoney."

The other European leaders, Britain's James Callaghan aside, welcomed Schmidt's proposal with varying degrees of comprehension and enthusiasm. Schmidt's proposal, which by now had been elaborated upon by a duo of trusted advisers, was formally adopted—and publicized for the first time—at the subsequent Bremen summit in June 1978. In a coup for the French government, the EUA was renamed the "European Currency Unit," or Ecu, at Bremen. The Ecu, Giscard smugly revealed, had been a coin in medieval France.

Between June and December 1978, Schmidt's proposal was nibbled away in the meetings of the finance ministers and central bankers. The final version, agreed at the Brussels European Council on December 4–5, 1978, jettisoned the idea of a European Monetary Fund and limited itself to widening the membership of the Snake and fine-tuning its mechanisms. The core element of the new EMS was the exchange rate mechanism (ERM), which, at any rate, in theory was to be based upon the Ecu. The Ecu was defined as a "composite currency" whose value was determined by merging together the currencies of the member nations according to a complex formula based on three criteria: percentage of gross Community product contributed; percentage of Community exports; and overall size of the economy. Members of the new system would be obliged to limit fluctuations of their currencies to within 2.25 percent above or below their par value against the Ecu. Italy, however, was allowed to join in a special "band" that allowed the lira to fluctuate as much as 6 percent above or below par for a limited period of time. The same offer was made to Britain, which refused to join, and to Ireland, which broke its postindependence currency union with Britain and joined at the same 2.25 percent rate as everybody else.

The Ecu's role, however, was more nominal than real since, at the behest of the Bundesbank, the "central rate" was to be used to "establish a grid of bilateral exchange rates" among participating currencies. In other words, member states' central banks, as well as monitoring their currencies' standing against the Ecu, had also to ensure that they did not breach the 2.25 band against all other participating currencies. The rules of the Snake, in other words, had been slightly loosened. To suit an increased membership, a slightly wider margin of fluctuation was now being permitted. But the member states were still signing up to a system in which they were obliged to tie their currencies to the value of the mark. If the mark continued to rise against the dollar, the rest of Europe's currencies would rise against the dollar, too, and the member states would therefore tend to trade among themselves more, strengthening the Community as an economic force.[72]

This point is very important. Giscard accepted the idea of a bilateral grid of exchange rates during a Franco-German summit in Aachen in September 1978, which was accompanied with a great deal of pomp and ceremony. Giscard and Schmidt visited the tomb of Charlemagne, and Giscard famously said, "Perhaps when we discussed monetary problems, the spirit of Charlemagne brooded over us."[73] This ostentatious "Euroclaptrap," to use the words of one of the EC's most outspoken and well-informed critics, has been interpreted as being a mere device to help sell the EMS in France.[74]

There is no doubt some truth in this, but it is too reductive. Schmidt was, as usual, thinking long term. According to his biographer, the German chancellor "urged skeptics" to see the EMS "in the political context of the next fifteen or twenty years." He did not regard the niceties of the EMS as "technical monetary questions" but as "political, economic and psychological matters of the first importance."[75] The EMS was enabling Germany to stem the tendency of the mark to overshoot in value, and it did provide the franc with a potential framework for austerity (although the version agreed at Brussels left plenty of room for countries to drop in and out of the system and for periodical revaluations of the member currencies). But, at least in the minds of its creators, the EMS was also laying the foundations for a European economy that was less vulnerable to outside shocks. One can see why they regarded such an achievement as one that transcended narrow national interests.

The EMS eventually got under way, three months behind schedule, in March 1979 after a somewhat futile squabble with France over its effects on farm prices. Britain did not join: the Labour government believed that without the weapon of competitive devaluation, British industry would never be able to withstand the full force of continental competition and unemployment would rise to politically unsustainable levels. When the Conservatives, under the leadership of Margaret Thatcher, won the May 1979 election, they were skeptical of entry for the opposite reason: they wanted a virile pound in order to squeeze inflation from the British economy. As Roy Jenkins dryly remarked in his biography: "In fact under both of them Britain enjoyed for several years a higher rate of unemployment and inflation than any participating country."[76]

BEYOND THE COMMON MARKET

The EMS was a far cry from the plans of the Werner Report at the beginning of the 1970s.[77] The Nine were not using a single currency, nor were centralized institutions in Brussels carrying out macroeconomic policy. The national governments and the central banks of the nine member states continued to be Europe's main economic actors. Yet it was not a negligible event either. The Nine (or eight out of the nine) had, with varying degrees of enthusiasm, signed up to the notion that Europe's economic future lay, at any rate in economic terms, in becoming West Germany writ large: an association of social market democracies trading freely among themselves and committed to budgetary austerity.

This cooperation on the economic front was matched by a gradual and, in retrospect, significant consolidation of the legal status of the Treaty of Rome by the Court of Justice. *Van Gend en Loos* (see chapter 3) had established that the treaty conferred rights directly upon the citizens of the member states and that member states were infringing those rights when they passed laws that did not conform to the EEC treaty. The implication of this position was that Community law took precedence over national law. Insofar as Dutch law already acknowledged the primacy of international law over national law, where the direct effectiveness of international law could be shown to exist, for the Netherlands at least the question was now settled. There were, however, other EC states—for example, Italy—where there was a constitutional presumption of the primacy of national law. In *Costa v. Enel* (case 6/64), a case in which a lawyer from Milan refused to pay his electricity bill because he considered that the Italian government had infringed several provisions of the EEC treaty when it nationalized the electricity industry, the Court of Justice ruled, contrary to the arguments put forward by the Italian government, that it was fully entitled to decide whether the law nationalizing the power industry was in conflict with the EEC treaty. The Court argued that by signing the EEC treaty the member states had made "a permanent limitation of their sovereign rights, against which a subsequent unilateral act incompatible with the concept of the Community cannot prevail."[78] None of this helped Signor Costa, however, since the Court also ruled that the Italian government had not in fact breached the treaty.

In the 1970s, this principle of primacy for Community law was reinforced by two other major cases. In *Internationale Handelgesellschaft v. Einfuhr und Vorratsstelle Getreide* (case 11/70), the ECJ, responding to a German court that regarded an EC regulation incompatible with the German Constitution, controversially ruled that the "validity of a Community measure or its effect within a member state cannot be affected by allegations that it runs counter to either fundamental rights as formulated by the Constitution of that state, or the principles of a national constitutional structure."[79] In *Amministrazione delle Finanze dello Stato v. Simmenthal* (case 106/77), the ECJ clarified the procedural implications of the doctrine of primacy by insisting that national courts, whenever they were faced with a conflict between a national norm and a Community measure, had the duty to give "full effect" to Community regulations without waiting for new legislation or the rulings of national courts of appeal to resolve the question for them.[80] This ruling was intended to guarantee the efficacy of Community legislation in countries such as Italy, where governments might otherwise have kept the offending norms on the statute books pending an appeal to the country's Constitutional Court, or the death of the plaintiff, whichever might be the sooner. The ECJ was not prepared to let countries with byzantine legal systems use procedure as a backdoor form of protectionism.

Nor, indeed, was it prepared to allow legislative lethargy to block the uniform application of Community legislation. Case 148/78, *Pubblico Ministero v. Ratti*, is a good example of the ECJ's attitude in this regard. Signor Ratti, a manufacturer of solvents and varnishes, had packaged and labeled his products in accordance with guidelines contained in two EC directives, which the Italian government had not yet transformed into Italian law. The Italian authorities prosecuted him for not following Italian law in this area. The ECJ ruled that a member state "may not rely, as against individuals, on its own failure to perform the obligations which the directive intends," although it exonerated the Italian government over the directive on varnishes, since the deadline for implementation had still not expired.[81]

One final case from the 1970s should be cited to show the ECJ's willingness to interpret the EEC treaty in defense of the citizen. *Defrenne v. Sabena* (case 43/75), in which a Belgian air hostess sued the national airline because she was being paid less than male stewards doing the same work, led the ECJ to rule that "the principle of equal pay forms part of the foundations of the Treaty." Article 119 of the treaty was unambiguous on this point. The ECJ, moreover, citing article 117 of the treaty, which says improving working conditions and a rising standard of living for workers is a goal of the Community, meant that pay could not be leveled down but had to be leveled up.[82]

The net effect of the ECJ's case law between 1964 and 1978 was, in retrospect, immensely significant. In the first place, it prevented the member states from undermining the liberalizing thrust of the EEC treaty by domestic legal cavils. Member states could not pretend that the treaty's provisions, or legislation passed in accordance with the treaty's procedures, did not have a direct effect on the citizens of the member states, nor could they lawfully obstruct the effectiveness of EC regulations and (well-worded and appropriate) directives with national principles, practices, and procedures. In the second place, in Weiler's words, it meant that "Community norms that produce direct effects are not merely the law of the land, but the 'higher law' of the land."[83] The EEC treaty had obtained "an authority similar to that of a constitution in a federal system."[84]

By comparison with the ECJ, the European Assembly registered an only modest increase in its powers and status in the 1970s. Nevertheless, the institution did secure the gain that it had been most adamantly pressing for since its very formation: direct election. The Paris summit of December 1974 conceded the principle of direct election (for which the Assembly had been actively pressing since 1960). With a nod to the Vedel Report, the summit communiqué also stated that "the competence of the European Assembly will be extended, in particular by granting it certain powers in the Community's legislative process."

Ironically, the failure of the EC to make progress on a common foreign policy and to achieve monetary union in a sense robbed proponents of a larger role for the Assembly of their strongest argument: the need to make the Community's procedures more democratic and more transparent. Had the EC evolved during the 1970s into the European Union envisaged at the 1972 Paris summit, the case for a genuine European legislature armed with powers of scrutiny, veto, and proposal would have become unanswerable. But as David Marquand argued at the time, "Although large numbers of critically important decisions are now taken by the

Community authorities, integration has not yet gone far enough to make the undemocratic nature of the system either obvious or intolerable."[85]

In September 1976, the foreign ministers of The Nine approved the European Elections Act. The Assembly was enlarged from 198 members to 410, and a five-year term between elections was agreed. Seats were distributed to the member states with little regard to the relative size of national electorates: Britain, Federal Germany, and Italy, whose electorates were all just over 40 million voters, were given eighty-one seats apiece—but so was France, whose electorate was only 33.3 million. The Netherlands, with twenty-five seats for 9.3 million voters, could feel hard done by in comparison with Belgium (6.3 million and twenty-four), Ireland (2.1 million and fifteen), and Denmark (3.5 million and sixteen). Luxembourg's mere 200,000 voters were given six representatives in the revamped Assembly.[86]

Article 5 of the act permitted members of the Assembly to belong both to their national parliaments and the European body. Member states were free to draw up their own electoral systems for the vote pending a proposal from the Assembly itself for a uniform electoral procedure. Since these provisions revised certain articles of the EEC treaty, the member states were obliged to submit the European Elections Act to national parliaments for ratification.

In most countries, ratification was a formality. In Britain and France, however, ratification became the center of a major political debate over the threat supposedly posed by direct election of the European Assembly to national sovereignty. Gaullist and Communist opposition meant that the French government was only able to ratify the European Elections Act by making it a vote of confidence.[87] In Britain, ratification took until 1978 and was only passed after a clause was included stating that "no treaty providing for any increase whatever in the powers of the Assembly will be ratified by the United Kingdom unless it has been approved by an Act of Parliament."

There was also a major battle in Britain over the choice of electoral system. The strong anti-Europe faction within the Labour Party meant that premier James Callaghan was reliant on Conservative votes for the passage of the European Elections Act, and the Conservatives' price was retention of the British first-past-the-post electoral system. Direct elections were postponed from the spring of 1978 to June 10, 1979, as a result of this British reluctance to embrace any form of proportional representation and the consequent need for the UK Boundaries Commission to design eighty-one new Euro-constituencies.

The election campaign itself disappointed supporters of European federalism by being predominately "local" in tone. In Italy, the national election took place the previous week, and the two polls inevitably merged into a single campaign. In France, the election became a referendum on the EMS and granted both the Gaullists and the Communists a platform for a frenzied denunciation of the European project—hardly the advertisement for European unity that federalists wanted. The Communists' electoral manifesto said that the country's leaders wanted "France, dismembered and weakened, to be integrated and drowned in a West European conglomeration led by Federal Germany, and ultimately controlled by the United States."[88] Jacques Chirac, the Gaullist leader, not to be outdone, ranted too against "this Europe which is dominated by Germano-American interests."[89]

Turnout varied from country to country. There was 90 percent turnout in Belgium; well over 80 percent in Italy. At the other extreme, turnout in Britain was just 33 percent. Overall, a respectable 60 percent of eligible European citizens voted.

The newly elected Assembly certainly reflected the full diversity of political opinion within The Nine. The Socialists, with 109 seats, narrowly beat the European Peoples' Party (Christian Democrat: 105) to become the largest contingent in the Assembly. The British Conservatives, who took sixty seats, allied with four Danish right-wingers to provide the next largest group. Communists, Liberals, and Gaullists completed the list of major formations within the Assembly. The ideological lineup of the new Assembly, however, was less important than the fact that there was a large majority of Euro-federalists in almost every grouping. The European Parliament, as it now began to be known, would become in the early 1980s a hotbed of activity for more rapid movement toward European political and economic integration and for an increase in its own powers.

These supporters of European federalism, in the European Parliament and outside, were largely responsible for establishing the myth that the 1970s had been a decade of failure for the Community. As Moravcsik has remarked, this characterization is "true only from a federalist perspective that focuses on the institutional centralization of administrative and democratic decision-making."[90] True, the Community had not lived up to the aspirations of The Hague and Paris summits. But politics is the art of the possible, and the wish lists of October 1972 were never going to be attained in the international environment engendered by American domestic crisis, the oil shock, and the collapse of Bretton Woods. What in retrospect is surprising is that Europe survived—survived, moreover, with much of its idealism intact. None of The Nine withdrew from the Community, none established a socialist siege economy, eight signaled their intention to "deepen" their economic cooperation in the EMS and all of them accepted a strongly supranational interpretation of the EEC treaty in relation to national law. Three new members joined the Community (and stayed in it); the new members would shortly be joined by three former Mediterranean dictatorships who regarded the EC as a force that could stabilize and protect their fragile democracies.

The seventies, in short, were, to quote Moravcsik once more, a "decade of both consolidation and innovation."[91] They underlined that Europe's national leaders, working through institutionalized summit meetings, could make substantive progress toward achieving fuller economic integration. The necessity for enhanced economic integration, moreover, seemed evident. If Europe were to insulate herself even partly from an unstable global economy, she had to trade more within her own boundaries—a goal that implied broad agreement over macroeconomic fundamentals. This latter lesson was still imperfectly learned in 1979, but between 1979 and 1986, the commitment to freer intra-Community trade, sound money, and budgetary rigor that was implicit in the EMS bargain became the policy of choice for most of the Community. This agreement on fundamentals was reached, however, only after France had flirted with a form of doctrinaire socialism that was antithetical to Community principles and after Britain's new leader had slammed her handbag on the table and demanded her money back.