7

The Maastricht Compromise

The Single European Act deliberately created a space. The question that arose between 1986 and the signature of the Treaty on European Union in February 1992 was what would be built upon the terrain cleared by Cockfield and Delors. Margaret Thatcher wanted the space to be developed by the free market, with the minimum of regulation. Jacques Delors, the quintessential French planner, was disinclined to adopt this solution. He wanted to build a towering edifice—a European construction that would substitute the national governments in most areas of policymaking. At the Maastricht meeting of the European Council in December 1991, The Twelve opted for a lopsided three-pillar structure that no architect would ever have designed. The Treaty on European Union, or, as it is familiarly known, the Maastricht Treaty, was a hard-fought compromise that blended a genuine impulse toward a greater supranational organization with the need to safeguard the interests and preferences of the member states.

The impulse for supranationalism owed much to the challenges raised by German reunification in 1989 to 1990, which unambiguously established Germany as first among equals in The Twelve. United Germany had eighty million people—twenty million more than Britain, France, and Italy—and was the natural reference point for the former Communist countries. The unambiguous support of the Bush administration for unification showed that Washington regarded the new Germany as the key element in its European policy. For the first time since the early 1950s, the prospect of Germany breaking free from French tutelage in Europe became a reality—or seemed a reality to anxious diplomats in London

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and Paris. The strengthening of European integration represented by the Maastricht Treaty was thus a symbolic affirmation that Germany intended to continue its postwar commitment to pooling sovereign power. Germany would become even more "European."

At the same time, the Maastricht negotiations and events post Maastricht illustrated that the European Community would be more "German" than ever before. The greatest innovation of the Maastricht Treaty—monetary union—was achieved by transferring the principles and practices of German monetary policy onto a continental scale. Much of the popular hostility to the Maastricht Treaty in Britain, Denmark, and France can be traced to the dislike of this prospect. Since Maastricht, the most important country within the EU has been united Germany, not France. Germany cannot get everything it wants in EU negotiations, but nothing meaningful can be achieved against German opposition.

THE "DELORS PACKAGE" AND THE DELORS REPORT

The Single European Act was expected to lead to a substantial increase in the Community's economic output. A Commission-sponsored report asserted in 1987 that the 1992 initiative, if fully implemented, would produce a noninflationary boost of at least 7 percent in the gross economic output of the Community by 1993 and to the creation of five million jobs.[1]

Professional economists were skeptical of the Commission's claims. Nobody disputed, however, that the 1992 initiative was likely to increase economic activity. The question was—for what end? Delors did not regard economic growth as an end in itself. As George Ross has written, "The Delorist vision saw the market as an indispensable allocator of resources, decision-maker and source of economic dynamism. The market by itself could not, however, guarantee equity, a moralized social order, or full economic success."[2] Delors's primary concern between 1987 and 1990 was to ensure that the gains of the single market were fairly shared out.

In particular, Delors was concerned that shortcomings of infrastructure and investment would hamper the efforts of the Community's least-developed regions to compete in the single market. In addition, Delors had been convinced by the Italian economist Tommaso Padoa-Schioppa that the single market required a single currency to function properly.[3]

Third and most important, Delors believed that the single market ought to lead to increased welfare and social cohesion. Raised in the "personalist" tradition of the French Catholic thinker Emmanuel Mounier, Delors rejected the vision of human society promoted by laissez-faire liberalism.[4]

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As he affirmed in a 1988 book: "There is no sense in competition developing to the detriment of the standards of social protection and the working conditions upon which the European economic model is founded. Europe will not be built if the workers do not feel involved, if social progress is not part of its final objectives."[5]

The Delors Commission acted swiftly in 1987 to 1988 to address the first two of these concerns. In February 1987, the Commission presented the "Delors Package"—in effect, a five-year plan to increase the amount the Community spent on regional development. In all, the Commission's proposals envisaged spending about 60 billion Ecu before the end of 1992; funding for the regions would by then account for one-quarter of all the Community's expenditure. Most of the new spending (63 percent) was to be concentrated on so-called Objective 1 regions (Ireland including Ulster, most of Spain, Portugal, Greece, southern Italy, Sardinia, and Corsica), where economic activity was much lower than the Community average. A lesser proportion of the new money (12 percent) was to be directed at Objective 2 regions that had been hard hit by industrial decline. Areas "fully eligible" for Objective 2 status included South Wales, northwest England, the Walloon provinces of Belgium, the Saarland, Genoa, and the Basque country.[6] Delors boasted that "the sums invested in the first of these objectives are comparable to those mobilized by the Marshall Plan."[7] The remaining 25 percent was to be spent on measures for alleviating long-term unemployment, providing youth training, and modernizing agriculture in certain designated parts of the Community.

Overall, the Delors Package meant a substantial transfer of wealth from Europe's rich heartland to its poorer fringes. Getting it approved was not easy. Regional development could only be paid for by capping growth in agricultural spending (which was opposed by the French) or by increasing the amount of the Community's "own resources" (which was resisted by the British). Had German Chancellor Helmut Kohl not underwritten the costs of this latest expansion in the Community's budget, Delors's scheme would have failed. As it was, it was only approved in February 1988 after several heated meetings of the European Council.

The Delors Package nevertheless did its intended job. The poorer nations that entered the EC in the 1970s and 1980s prospered after 1987. Ireland, for instance, thanks to generous dollops of cash from the CAP and regional aid budgets, improved its infrastructure and raised income levels in the countryside. By the mid-1990s, Ireland boasted an income per head that was rapidly approaching British levels and an 8 percent annual growth rate. Overall, the "Celtic Tiger's" GNP increased by a startling 140 percent between 1987 and 2000. Although only a fraction of this performance was directly due to the effects of the structural

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funds, Ireland's stature as a rapidly modernizing country within the single market made the country more attractive to the foreign, mostly American, businesses whose flood of direct investment was what drove Ireland's acceleration in growth.[8]

Portugal, to give another example, enjoyed a substantial rise in affluence after it joined the Community. As in the case of Ireland, EC membership led both to substantial regional aid investment (over 40 percent of public investment was financed by the EC in the run-up to January 1, 1993) and large increases in foreign direct investment as American and German businesses took advantage of Portugal's low wage costs to export to the rest of the EC. By 1993, well over 70 percent of Portuguese exports were going to fellow member states. Portuguese income per head had been just half of the EC average in 1985; by the end of the 1990s, it was three-quarters of the average. The downside of this increased wealth was that Portugal began to import luxury goods from the rest of the Community and to run a current account deficit—something that was sustainable only if its competitiveness improved. Nevertheless, the first decade of Portuguese membership undeniably contributed to making the Portuguese "mainstream Europeans"—an important point of pride for a country whose authoritarian government had turned it into a backwater.[9]

Delors's second concern, economic and monetary union, was addressed at the Hanover summit of The Twelve in June 1988, when the European Council authorized him to chair a committee of the governors of The Twelve's central banks that had the specific remit of evaluating how a single currency could be introduced.[10] The central bankers were thus not asked to say whether a single currency was desirable but to assess how, technically, such a currency might be introduced.

Pressure for a single currency had been growing throughout the 1980s. France and Italy, to name but two countries, had complained about the economic costs of shadowing the Deutsche Mark in the EMS. Delors capitalized upon this sentiment to put the issue on the agenda—although, once again, he needed Kohl's support. Yet, involving the central bankers was a must. As Tommaso Padoa-Schioppa has written, "Had the Central Banks been excluded . . . [from the Delors committee] . . . they might have taken a more negative view of the prospects of monetary union." In that case, the Italian economist added, it would have been "more difficult" to "produce the document that played, both technically and politically, a role comparable to the Spaak report on the Common Market."[11]

The implementation of the 1992 program, the Delors Package for aiding the poorer regions of the EC, and monetary union added luster to the EC's international image. Following the Hanover summit, opinion formers both inside and outside the Community began to focus upon the EC's future as a

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global economic player rather than on its internal divisions and arguments over the budget process. The *New York Times* expressed the mood well:

> Having set a deadline for lifting all economic barriers by the end of 1992, the European Community has raced ahead in recent weeks to eliminate a large number of obstacles. . . . The Community hopes to remove all border posts so that people can drive from Munich to Malaga without stopping at Customs. And this is only the beginning. Predictions that an all-powerful European president could emerge and hold his or her own against the United States and the Soviet Union are exaggerated, or at least premature. Still, the implications of the economic integration of the 12 nations are immense. . . . Although the unification plan was established with economics in mind, it will inevitably have vast political repercussions. . . . Individually, the nations of Europe find it hard to be seen as equals by the superpowers. It might be a different story with a united Europe of 320 million people.[12]

Nevertheless, had the Delors committee on monetary union finished in recriminations, this wave of optimism in the EC's future would have dissipated as quickly as it appeared. Indeed, there were good reasons for expecting failure. Chairing the committee was by no means plain sailing for Delors, who was no expert on monetary policy.[13] Delors had, moreover, to cope with the attitude of the Bundesbank's chairman, Karl-Otto Pöhl, who was determined to ensure that the committee made no recommendations that might weaken his institution's notoriously rigid stance against cheap money and inflation. Pöhl switched off his earphones and read a newspaper when Delors gave his opening speech in French! Delors dealt with this arrogance by playing "a modest role throughout."[14] His style was "to depoliticize discussions by focusing on very precise technical points, to define the exercise as technocratic."[15] He even spoke in English. Gradually, Pöhl became more cooperative.

Pöhl did not bend on questions of substance, however. The Bundesbank position was based around three cardinal points. First, monetary union would require a central bank that could set interest rates without political interference and that was mandated to keep inflation low. Second, monetary integration should follow general economic convergence: would-be members should have met precise targets for inflation, budget deficits, and currency stability. Third, there should be no fixed timetables that might lead to political pressure for a fudge of the economic criteria for membership. EMU would start when there were enough countries ready to start and not a moment before.[16]

The Delors Report was published in April 1989. Delors himself supervised the published text very closely: "There wasn't a phrase in the final paper which he didn't author."[17] The report advised that the Community

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should move to EMU in three stages. The first stage would begin on July 1, 1990. By then, all the EC's countries would be members of the ERM and would cooperate, through existing institutions, for an unspecified amount of time, to achieve convergence of the main economic indicators. All remaining controls on cross-border capital movements would be abolished in line with the single-market initiative, but currency realignments within the ERM would still be possible at this stage. Stage 2 would establish the "European System of Central Banks," a coordinating body independent both of national governments and other EC institutions. The ESCB would take over the day-to-day running of the EC's existing arrangements for coordinating monetary policy and would plan its own eventual transformation into a central bank. The Council of Ministers would set nonbinding guidelines, by qualified majority voting, for the member states' budgetary policy at this stage. Exchange rate adjustments, while still legally possible, were to be regarded as "last resort" measures. Stage 3 would imply the fixing of exchange rates, compulsory macroeconomic policy guidelines set down by the Council of Ministers and the European Parliament, to avoid stability-threatening budget imbalances by individual member states and the centralization of hard currency reserves and monetary policy in the hands of the ESCB. A single currency would preferably be introduced at this stage.[18]

The conformity of the Delors Report to the Bundesbank's preferred model is evident from this summary. All involved in drawing up the report knew that the Bundesbank's prestige as the constitutionally enshrined defender of the value of the DM was such that the Bundesbank possessed a de facto veto. EMU without Germany was meaningless, but German political elites would not accept EMU without the say-so of the Bundesbank.

Yet conformity was a price that Delors was ready to pay. Simply by saying that EMU was possible, the Delors Report gave momentum to the idea. At the first EC summit after the publication of the report, in Madrid at the end of June 1989, the heads of government agreed to adopt the report as the basis for an intergovernmental conference, though they postponed the decision on when the conference would actually start.

This sudden acceleration toward monetary union was very unwelcome to the British prime minister. At Madrid, Mrs. Thatcher acquiesced in the Council's decision and—after a tense battle with her chancellor and foreign secretary—also committed Britain to membership of the ERM.[19] She did, however, reserve Britain's right to choose for herself when the economic conditions were ripe for entry to the ERM (and not be constrained by the July 1990 deadline) and emphasized that Britain's adherence to the first stage of the process outlined by the Delors Report did not mean that Britain was prepared to sign up to the second and third stages as well.

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Paragraph 39 of the Delors Report stated, "The decision to enter upon the first stage should be a decision to embark on the entire process." In other words: "Taking the first bite committed the diner to swallow the whole meal."[20] Mrs. Thatcher had decided that she would scrutinize the exotic foreign food on offer with care and would pick only the items she was sure she would like.

THE BRUGES SPEECH

The rest of The Twelve were under no illusions that proceeding toward EMU would mean a fight with the British prime minister. They had known for nearly a year what Mrs. Thatcher's vision of the future of the Community was. In the summer of 1988, Delors, newly confirmed for a second term as president of the Commission, had told the European Parliament that he expected that "80 percent" of legislation affecting the Community's citizens would soon be made in Brussels, not the national parliaments. He had compounded this candor by promising the British Trade Unions Congress in August 1988 that social protection and employees' rights would be a primary concern of his second presidency. The Congress, battered by nine years of Thatcherism, greeted Delors's speech with a standing ovation.[21] It was a deliberate challenge that Mrs. Thatcher could not ignore.

Nor did she. On September 20, 1988, she delivered a speech entitled "The European Family of Nations" to the College of Europe in Bruges. The "Bruges speech" is one of the most memorable tirades in contemporary political history—and would have been still more memorable had the Foreign Office not edited out some of the more inflammatory passages of the first draft. But the speech was not merely a tirade. It presented a carefully constructed alternative vision for the development of the EC that the subsequent evolutions of the Community in the 1990s have not entirely eclipsed.

One important point to underline about the Bruges speech is that it was not a nationalist rant. The speech's main thrust was to warn the EC that it was becoming "a narrow-minded, inward-looking club" and was in danger of equating strengthening the EC's institutions with the construction of European identity. For Thatcher, European identity was bound up with the shared experience of the many wars European nations had fought against each other. In these wars, she asserted, Britain had always "fought to prevent Europe from falling under the dominance of a single power." If liberty was today one of Europe's core values, this was largely due to Britain: "Only miles from here in Belgium lie the bodies of 120,000 British soldiers who died in the First World War. Had it not been for that

willingness to fight and to die, Europe would have been united long before now—but not in liberty, not in justice."

In the light of her cultural understanding of European identity, Thatcher reminded her listeners that the countries "east of the Iron Curtain" were also "European" and, crucially, so was the United States. The Atlantic Community, Thatcher stressed in her peroration, was "Europe on both sides of the Atlantic" and Britain, Thatcher implied, would never permit the EC to be built at the expense of the relationship individual European nations enjoyed with their cousin across the Atlantic.

Thatcher's alternative to Delors's vision for Europe was based around five "guiding principles" for action: "willing cooperation between sovereign states"; "encouraging change"; "Europe open to enterprise"; "Europe open to the world"; and "Europe and defense." Her vision for the EC was one in which sovereign nation-states cooperated, within the framework of the EC, to inject a dose of free-market principles into the CAP, to build upon the SEA by accelerating the liberalization of trade within the Community and the ending of state protectionism in such industries as telecommunications and banking, to adopt a liberal common policy in the ongoing "Uruguay round" of trade talks, and to maintain and strengthen Europe's defense in partnership with the United States. It was, in short, a very British appeal "not to let ourselves be distracted by Utopian goals."

It was a speech, moreover, that drew three lines in the sand. The first such line was a rejection of supranational government in Europe. Her speech's most memorable sound bite was, "We have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level, with a European super-state exercising a new dominance from Brussels." The second was an assertion of the British state's right to police its borders: it was a "matter of plain common-sense that we cannot totally abolish frontier controls if we are also to protect our citizens from crime and to stop the movement of drugs, of terrorists, and of illegal immigrants." The third was a warning that Britain would not adopt the Rhineland "social market" model of capitalism. The EC did not need "new regulations which raise the cost of employment and make Europe's labor markets less flexible and less competitive." Britain "would fight attempts to introduce collectivism and corporatism at the European level."[22]

These three anathema were not chosen casually. They were the areas in which the Commission and the more actively integrationist of Britain's European partners were most intent on pooling or delegating sovereignty. When Mrs. Thatcher made her speech, the Delors committee was beginning its deliberations. The second area, the abolition of border controls, was already proceeding via the so-called Schengen agreement between the Benelux countries, Germany, and France. In June 1985, in pursuit of a

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decision made in principle by the June 1984 Fontainebleau summit, these countries had agreed that they would gradually diminish frontier checks on vehicles crossing their borders—including vehicles from other Community countries or even nonmember states. Despite some of the problems that arose from this policy—the Netherlands had, for instance, much more liberal drug laws than the other Schengen countries and the accord facilitated the circulation of soft drugs purchased in Dutch cities—the original five were determined to press on with this policy. In June 1990, they signed a full-blown treaty that confirmed that they would abolish all internal borders before January 1, 1993, and that made provisions for joint policing of the frontierless zone thus created. The Schengen "group" also committed themselves to gradually harmonizing their laws on immigration, asylum, drugs, and other issues.

The Schengen group's commitment to open borders presented many problems for other EC countries: the issue of IRA terrorism made joining impracticable for any British government in the late 1980s. But Mrs. Thatcher, in the Bruges speech, was intent on underlining a point of principle. In her view, immigration, asylum, and drugs were issues that would be decided by the British Parliament in perpetuity. Moreover, her commitment to the free movement of peoples throughout the single market was not to be taken to mean that she believed movements of people should go unmonitored. Deciding who could, and who could not, enter Britain was a sovereign right of the Westminster Parliament that could not be surrendered.

The third area excluded by the Bruges speech from Community action, social policy, went to the heart of the Thatcherite "revolution" in the British economy. Since 1979, Thatcher had pushed the deregulation of British business. By the late 1980s, British business had the least onerous level of welfare provision in the EC, and the trade unions had been squashed by a series of laws that limited their right to picket and to organize, let alone take part, via German-style supervisory boards, in the management decisions of major companies. For the rest of The Twelve, Britain's position was an unfair competitive advantage—so-called social dumping. Despite the blunt warning of the Bruges speech, the Commission pressed ahead in 1989 to put social rights at the heart of the EC's agenda.

The outcome of this Commission activity was the Community Charter of Basic Social Rights for Workers, a "solemn declaration" of principle that was presented in its final form to the December 1989 Strasbourg European Council and was approved by all the member states, with one predictable dissenter.[23] The Charter identified twelve broad rights that everybody working in the EC ought to possess. These were (1) the right to freedom of movement (EC citizens should be able to move from one country to another and take up jobs on the same terms—social security,

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tax, and so forth—as locals); (2) the right to employment and fair remuneration; (3) the right to improved living and working conditions; (4) the right to adequate social protection against unemployment, illness, and so forth; (5) the right to freedom of association and collective bargaining; (6) the right to vocational training throughout the worker's career; (7) the right of men and women to equal treatment not only in pay but also in education, training, social protection, and career opportunities; (8) the right to worker information, consultation, and participation; (9) the right to health and safety protection in the workplace; (10) the right to protection of children and adolescents; (11) the right of the elderly to a pension providing a decent standard of living; (12) the right of the disabled to be given opportunities for work training and social rehabilitation.

Mrs. Thatcher described the social charter as "quite simply a socialist charter."[24] In 1990, the Commission proposed draft directives to ensure minimum standards across the Community in the rules concerning the employment of part-time workers, the length of the working day, and the duration of maternity leave. Britain, which was faced with by far the largest bill for introducing this legislation, took the directive on part-timers all the way to the ECJ and strongly resisted the other two in the Council of Ministers. Ultimately, all three directives were implemented, but the British government had made its point. It would fight social policy legislation tooth and nail.[25]

By the time of the Strasbourg summit in December 1989, then, Britain was fighting the rest of the Community on several fronts. Britain was opposed to giving up its currency, opposed to surrendering its right to police its own border, opposed to turning the single market into a social market. It was increasingly clear, moreover, that Britain would have few allies in these struggles. At Strasbourg, in addition to welcoming the social charter, The Twelve took the decision to begin an intergovernmental conference on EMU in December 1990.

GERMAN UNIFICATION AND ITS CONSEQUENCES

Strasbourg was the first European Council since the breaching of the Berlin Wall. At Strasbourg, The Twelve decided to establish a European Bank of Reconstruction and Development (EBRD) to help finance the economic recovery of the nations of Central Europe. More generally, the collapse of communism gave new impetus to the movement toward the political integration of Europe. Convinced federalists now urged the national governments to give the EC a political dimension that would enable it to "act as a stronger unit" and to fill the vacuum left by the end of the Cold War. The European Parliament began agitating for a political dimension

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to the IGC as early as November 1989. In an unusual event, some 250 MEPs and delegates from the various national parliaments met in Rome on November 27–30, 1989, for a European "assizes" in which proposals to strengthen the Community's central institutions, notably the Parliament, were debated. In March 1990, the Parliament's ideas took shape in the so-called Martin I report, in which a committee chaired by the Socialist deputy David Martin proposed that the treaties should be revised to include European political cooperation (foreign policy), strengthened Community competence in social and environmental policy, systematic use of QMV in the Council of Ministers, European citizenship, and a substantial increase in the power of the Parliament.[26]

Important though the Parliament's pressure was, the most powerful impulse for greater political integration came from President François Mitterrand. French foreign policy was initially dubious at the prospect of German unification, not least because West Germany itself did not initially pay enough attention to French sensibilities. Helmut Kohl's Ten-Point Plan to deal with the collapse of East Germany, announced on November 28, 1989, and envisaging the creation of a "contractual community" between the two Germanies that would gradually advance to confederal status, was not cleared with the French government in advance. Mitterrand was livid at what he saw as an act of disrespect, not least because Kohl had also asked, the day before, that the decision to start an IGC on monetary union be postponed until December 1990. This decision caused "consternation at the Elysée." The French, but not only the French, worried that Kohl was trying to wriggle off the hook.[27]

For these reasons, the Strasbourg European Council, as Kohl underlined in his memoir of German unification, greeted the great events in Germany with diffidence. Only the premiers of Ireland and Spain welcomed the new situation in Germany.[28] On December 31, 1989, Mitterrand called for the construction of a European confederation that included the newly liberated states of Eastern Europe. This proposal put a cat among the pigeons. The president of France was interpreted as suggesting that German unification was so menacing an event that the EC was no longer an adequate institutional vehicle to restrain an enlarged Germany.[29]

German unification, as Karl Kaiser explained at the time, was an issue that raised four major concerns. How could worries about the power of a unified Germany be assuaged? How could Germany be unified while remaining in Western structures of integration? NATO membership was a particularly knotty issue. How could unification be achieved without the imposition of restrictions on German sovereignty? Last but not least, how could unification take place without the convocation of a major international conference featuring all of Germany's wartime adversaries?[30] The solution to this last question was, in February 1990,

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to institute the so-called 2+4 talks between the two Germanies acting in concert and the four major wartime allies (Britain, France, Russia, and the United States). At the risk of oversimplifying, the solution found to the other three questions—at any rate so far as the nations of Western Europe were concerned—was ultimately accelerated integration of the European Community. Germany would be allowed to reunite so long as it promptly pooled much of its new power in the institutions of a strengthened European Union.

The main architect of this strategy was Chancellor Helmut Kohl. In a key speech in Paris on January 17, 1990, he invoked a metaphor much used by Konrad Adenauer and stated that "the German house must be built under a European roof." This speech was followed up by a series of meetings and telephone calls with Mitterrand (but also with Italy's premier, Giulio Andreotti, who had deeply disappointed Kohl by initially taking a deeply negative view of a united Germany), in which the two leaders and their staffs worked out a plan of action. Following the March 1990 elections in East Germany, which Kohl's Christian Democrats, by turning them into a referendum on unity, won easily, Kohl and Mitterrand put European political integration on the EC's agenda. On April 19, 1990, a week before a meeting of the European Council in Dublin, Kohl and Mitterrand jointly wrote to the Irish prime minister, Charles Haughey, to urge the convocation of a second IGC on political union "parallel with" that on EMU and with the fourfold objective of strengthening the democratic legitimacy of the EC, making its institutions work better, ensuring "unity and coherence" in the EC's political action, and defining and implementing a common foreign and security policy. They further urged that the preparatory work for the IGC on monetary union be accelerated, with the objective of ratifying any changes made by the two IGCs before January 1993.[31]

This move, not least because Kohl accompanied it with a promise that Germany would pay for the costs of unification and would not ask—at any rate immediately—for increased voting rights to reflect united Germany's higher population, defrosted Kohl's peers in the European Council. The Dublin Council "warmly welcomed" German unification and in effect authorized a fast-track enlargement of the Community to admit East Germany, so long as its absorption into West Germany did not disrupt the goal of constructing a single market by December 1992.[32] Adding a new dimension to the colloquial expression "to work like a Trojan," a team of Commission officials labored frantically throughout the summer of 1990 to prepare the legal framework for accession.[33] On August 28, 1990, the Commission presented a legislative package that ensured that 80 percent of extant European law would be effective on the territory of former East Germany upon unification, which took place in October 1990. The remainder would be enacted by January 1, 1993, with some

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limited derogations being permitted until 1995 for environmental legislation. Thanks to this feat of administrative competence, the Commission became a "major (if silent) actor in the unification process."[34]

It should be said, however, that the decision to absorb East Germany so quickly was based upon heroic assumptions about the strength of its economy. A document submitted to a second Dublin European Council in June 1990 remarkably argued that the "macroeconomic implications" of German unity were broadly benign. Absorption of East Germany was not expected to lead either to increased transfers of resources or to higher inflation. Overall, it was thought that the absorption of East Germany would have "a significant positive impact" on the Community's economic activity.[35] Portugal would never have been treated so leniently or analyzed so superficially (nor, subsequently, were Poland, Hungary, and the other former Communist states). In fact, unification led both to an inflationary consumer boom and the collapse of East German industry—both of which had severe repercussions for the economy of the rest of the Community (see chapter 8).

AN OBSTACLE REMOVED

German unification, and the concomitant push for greater political union, pushed Thatcher into open rebellion against the direction being taken by the Community. In July 1990, a British newspaper published the leaked minutes of a seminar held some months previously between Thatcher and half a dozen academic experts on modern Germany. The minutes of the meeting asserted that "the way in which the Germans currently used their elbows and threw their weight about in the Community" suggested that "a lot still had not changed" from the days of Hitlerism![36]

If anybody was determined to ensure that united Germany did not repeat the errors of the past it was Chancellor Kohl. But it is easy to understand why Thatcher lost her cool. From London, it must have seemed as if events were skidding hopelessly out of control. At the second Dublin summit in June 1990, The Twelve committed themselves to transforming the Community "from an entity primarily based on economic integration and political cooperation into a political union."[37] In addition, the European Council dismissed a British plan to introduce a so-called hard Ecu as a substitute for a single currency. Under this scheme, the Ecu would have had a fixed value against each of the currencies of The Twelve, and banknotes denominated in Ecu would have been freely redeemable in any Community country. Citizens of the Community and businesses could thus get used to working with a common currency and, over time, a climate of opinion favorable to giving up individual national currencies

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might have asserted itself. Britain's partners, however, regarded the plan as a complication that would only lead to unnecessary delay.

After Ireland, the presidency of the EC passed to Italy. Just before the first summit of the Italian presidency, at Rome on October 27–28, 1990, Britain joined the ERM at a parity of 2.95 DM to the pound. Thatcher went to Rome expecting to be congratulated for having kept her word. Instead, the Italians organized the so-called ambush in Rome. Eleven out of twelve states committed themselves to starting stage 2 of the EMU process on January 1, 1994, thus setting a specific deadline for moving toward currency union. Thatcher flatly refused to accept this development. The summit's final communiqué also made specific suggestions for transforming the Community into a Union, extending the number of areas of competence in which the new Union could act, empowering the European Parliament by adding to its legislative powers, and precisely defining European citizenship. It added that a consensus had emerged on the need for a common foreign and defense policy for the Community. After each of these commitments, the communiqué was punctuated with an asterisk indicating that the British government reserved its position pending the debate due to take place in the IGC.[38]

The Rome summit thus left no one in any doubt that the battle announced in the Bruges speech was about to be joined. It would be Britain against the rest. At a press conference immediately after the summit, Mrs. Thatcher promised that she would use the government's majority in the House of Commons to block ratification of any treaty that was not in British interests. *The Sun* newspaper, in a moment of inspired chauvinistic wordplay, reported her comments with the headline, "Up Yours, Delors!"

Speaking in the House of Commons two days later, Thatcher cranked the rhetoric up further. She claimed that the Commission was trying to "extinguish democracy" and create a federal Europe by the back door: "If you hand over your sterling, you hand over the powers of this parliament to Europe." In front of a House hypnotized by the "sheer force of her presence," she declared that her answer to Europe's federalists was, "No, no, no!"[39]

The British negotiating position was thus clear. Had Thatcher remained as British prime minister, there could have been no Maastricht Treaty—or else, the other member states would have been driven to establish some new treaty arrangement superseding the EC altogether and excluding Britain.

But Thatcher did not remain as prime minister. Her intransigence was the last straw for senior pro-Community members of her government, notably former foreign secretary Geoffrey Howe, who resigned from the government and delivered a stinging parliamentary rebuke of Mrs. Thatcher's European policy. Thatcher's opponents rallied around

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the candidature of Michael Heseltine, a noted enthusiast for European integration and a former defense minister, when he challenged Thatcher for the leadership of the Conservative Party in November 1990. Heseltine received 152 votes in the contest, Thatcher 204, four votes short of the number (65 percent) required to win on the first ballot.

Thatcher's failure to win outright provoked a cabinet rebellion. Thatcher stepped down and in a second ballot, the chancellor of the exchequer, John Major, beat Heseltine to become leader of the party and hence, given the Conservatives' majority in the House of Commons, prime minister. Had just two of Heseltine's supporters voted for Thatcher in the first ballot, the result might have seemed a vindication of Thatcher's policy on Europe, and the rest of the EC might have faced a revitalized British prime minister in the two IGCs—an instructive reminder of the importance of contingency in political events.

Although there were other important reasons why Thatcher had lost the confidence of her party, Europe was the touchstone issue. Though John Major at once asserted that he wanted Britain to be "at the very heart of Europe," the British government was obliged to negotiate during the IGCs with one eye always on domestic public opinion and the opinion of the Thatcherites in the parliamentary party and in the cabinet.

THE "HOUR OF EUROPE"

The two IGCs were very different from each other. The IGC on EMU, which could work from the template of the Delors Report, was relatively smooth going. Three issues were crucial: When would the European Central Bank be established? What would the criteria of national economic performance be to qualify for EMU, and how rigorously would they be enforced? How would the British question be resolved? In November 1991, the Community's finance ministers agreed that the treaty would contain a specific provision regarding Britain, although the final formulation was left to the decisive Maastricht summit of the heads of government in December. On the other two questions, Germany for the most part got her way.

The IGC on political union was altogether more acrimonious. The Commission and such enthusiastic proponents of European federalism as Belgium, Italy, and the Netherlands pushed hard for institutional changes that would have established the EC's "federal vocation" beyond argument, while France and Britain resisted any alteration to the essentially intergovernmental character of the EC.

The Commission and the more federalist member states preferred the forthcoming treaty to be a "tree." By this, they meant that any innovations

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would be incorporated, on the model of the single-market clauses of the SEA, into the existing treaty texts as new chapters. France and Britain, by contrast, were insistent that the new treaty should be built around three "pillars," the so-called Greek temple approach. The first of these pillars was the existing EEC treaty, as amended by the SEA and reinforced by the inclusion of EMU. The second pillar would be justice and home affairs; the third, foreign policy. The last two would remain areas of intergovernmental cooperation over which the Commission, the Court of Justice, and the Parliament could exercise no authority.

In the end, the "Greek temple" won this argument hands down, despite a September 1991 move by the Dutch, egged on by the Commission, to start their presidency of the Council of Ministers by presenting an overtly federal draft treaty that demanded increased powers for the European Parliament and incorporated foreign policy into the EC's list of competences.[40] Only the Belgians supported this initiative, which plainly came too late in the negotiations to be feasible. After September 1991, the pillar approach was the only one possible.

Delors's preference for making foreign policy an integral part of the Community framework was linked to the EC's lamentable performance during the Persian Gulf and Yugoslavian crises during 1991. Yugoslavia represented a "tragic failure" in which the Community ended up "aggravating the crisis it was supposed to solve."[41] It is in fact a measure of the scale of the challenges facing the EC's leaders in 1991 that the two IGCs—themselves hugely important developments that required the member states' full attention—were often overshadowed during the year by the twin foreign policy crises dominating the headlines. Both in the Gulf and in Yugoslavia, the EC proved quite unable to frame a common policy and stick to it (or, in the case of Yugoslavia, make it stick).

In the case of the Gulf crisis, which blew up in August 1990 when the Iraqi leader Saddam Hussein invaded Kuwait, the EC unanimously agreed to impose economic sanctions on Iraq. The EC also warned the Iraqi dictator that any attempt to "harm or jeopardize" the safety of the citizens of EC countries in his power (there were several thousand, mostly workers in the oil industry) would provoke a "united response from the entire Community."[42] The EC also pledged substantial sums in aid to the frontline states most directly menaced by the Iraqi army (Egypt, Turkey, Jordan). It nevertheless took the EC until October before the finance ministers agreed to a package worth $2 billion. The Greeks even apparently tried to get their partners to charge interest on the loan to Turkey![43]

The EC's common front soon began to unravel, however. France got its hostages out separately by a murky unilateral deal; Germany tacitly backed the freelance diplomacy of the veteran German statesman Willy Brandt, who flew to Baghdad shortly after the October 1990 Rome Euro-

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pean Council had decided that the individual states would not negotiate separately for the release of their hostages. On January 14, 1991, France proposed that the crisis could be resolved, after an Iraqi withdrawal from Kuwait, by a Middle East peace conference. Her Community partners were less outraged by the content of this plan than by the fact that France did not deign to inform them in advance.

When war broke out, the EC countries, Britain and France apart, contributed little to the military effort and France, which was not integrated into NATO's command structure, was the source of a good many problems for the American-led operation. Germany was handicapped by its Basic Law from deploying troops outside the NATO area of command. In the end, Germany sent a token force of air personnel and some fighter aircraft to Turkey, although German checkbook diplomacy did pay for almost one-third of the final cost of the war. Italy similarly had to contend with a vociferous antiwar movement—which included the Church—and a constitutional provision against participation in war. Italy's parliament eventually agreed to participate in an "international policing operation" and dispatched three warships and a fighter squadron to the Gulf, where the airmen in particular took an active operational role and suffered one loss. The Dutch navy made a similar small-scale contribution. Insofar as the ability to project military force is one of the classic distinguishing features of a state, Europe's more gung ho federalists were forced to recognize that in this regard at least a united Europe did not yet begin to exist.

Delors's desire to integrate foreign and defense policy into the Community framework started from this fact. Speaking in London in March 1991, Delors argued that the war against Iraq had shown that "once it became obvious that the situation would have to be resolved by armed combat, the Community had neither the institutional machinery nor the military force to allow it to act as a community." He appealed for the Community to "shoulder its share of the political and military responsibilities of our old nations" by reinforcing the Western European Union (WEU). Delors contended that the EC could "take over" the "mutual assistance" clause of the 1948 Treaty of Brussels (see chapter 2) and incorporate it into the EC treaty framework. The European Council would decide broad foreign policy guidelines by unanimous vote, but specific actions would then be decided by a qualified majority voting in the Council of Ministers. Delors was insistent that the Americans, who had voiced worries that this creation of a European defense identity would become a rival to NATO, need have no fears. The new Europe would be willing "to shoulder a larger burden than before"—which had to be in American interests.[44]

The Americans were skeptical. Delors's speech prompted the United States to reiterate three conditions that its chief defense spokesmen had

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already presented as limitations upon a future European defense structure: first, there should be no European caucus within NATO; second, that non-EC members of NATO (such as Norway and Turkey) should not be marginalized; third, no European defense structure alternative to NATO should be established.[45] Britain strove during the political union negotiations to find a middle way between Delors's position and the American stance by suggesting that the WEU—kept resolutely free from any entanglement with the EC—might become a forum for European cooperation in "out-of-area" operations such as the Gulf War. In the jargon, the WEU would be a "bridge" to NATO, which would remain the chief forum for defense cooperation among the countries of Western Europe.

The Americans' suspicion of an independent European foreign policy was fueled by the attitude of the French government, and Delors personally, during the so-called Uruguay Round of international trade talks that had begun in 1986. At the end of 1990, the talks were sinking into mutual recrimination over agriculture, textiles, and so-called audiovisual services (television and films). The member states were divided over what line to take during the trade talks. In France, at least, the determination was strong to preserve the amount of subsidies paid to farmers through the CAP and to fight for the retention of the October 1989 "television without frontiers" EC directive that obliged the member states to "ensure, where practicable and by appropriate means" that "a majority proportion of their transmission time, excluding the time appointed to news, sports events, games, advertising and teletext services" were reserved for "European works."[46]

In 1990 to 1991, farming and television became big issues for French public opinion, with accusations of Anglo-Saxon cultural imperialism being bandied by politicians and intellectuals of both the right and left. Delors himself fanned the flames. At a press conference after the Rome II European Council in December 1990, Delors accused the Americans of treating the EC "as if it had the plague" and said that he would not be "an accomplice to the depopulation of the land."[47] It was hardly the ideal moment for Delors to be hinting at European foreign policy independence.

The EC's failure during the Gulf conflict to act as a Community, mixed with the excitement generated by the ongoing political union negotiations, prompted the EC's misguided attempt from the spring of 1991 to settle the brewing crisis in Yugoslavia. To quote Ross: "Yugoslavia . . . was the first real test since the Gulf War of the EC's capacities to act internationally. Much was at stake. The test would be seen as a measure of the Community's ability to practice a common foreign and security policy."[48] Given its track record, one might have expected the EC to approach the boiling cauldron of Yugoslavia with some prudence.

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Instead, the Community jumped in with both feet. It decided that it would back the effort of the president of the Yugoslav federation, Ante Markovic, to preserve Yugoslavia as a "confederation of sovereign republics, akin to the European Community of the Balkans."[49] In April 1991, in pursuit of this goal, the first of many EC "troikas," representing past, present, and future EC presidencies (in this case, the foreign ministers of Italy, Luxembourg, and the Netherlands), went to Belgrade and offered a substantial aid package to the Yugoslavs, if only they would stay together.

In retrospect—but not only in retrospect—this policy of dangling carrots before the republics of Yugoslavia was doomed to failure from the beginning. Comparatively wealthy Slovenia and ultranationalist Croatia were determined to split away from Serbia. Moreover, it was obvious that Serbia would not allow these two republics to defect from the Yugoslav federation without safeguarding the considerable Serb minorities in Croatia. On May 30, 1991, Serbian leader Slobodan Milosevic warned, on the eve of a visit to Belgrade by Delors and Luxembourg premier Jacques Santer, that Croatia would have to surrender the territories inhabited by ethnic Serbs if it wanted independence.[50] Civil war was therefore inevitable unless the republics could be prevented from fighting. The carrot of economic aid was manifestly not enough in this regard: Europe needed to wield a big stick as well. But Europe had no stick. All Delors and Santer could offer was aid and closer relations, provided Yugoslavia remained a federation with a single market, currency, and central bank; a single army; a single foreign policy; and a system of guarantees for human rights. In the prevailing political climate in Yugoslavia in the spring of 1991, these conditions were utopian.

Slovenia and Croatia declared independence at the end of June 1991. Fighting broke out immediately between the Serb-controlled Yugoslav army and the insurgent republics. The EC appeared monumentally unaware of its limited ability to influence the conflict. Jacques Poos, the Luxembourg foreign minister and president of the Council of Ministers, triumphantly proclaimed, "This is the hour of Europe. It is not the hour of the Americans."[51]

Poos's rhetoric was a sham. Neither an EC-imposed arms embargo on Yugoslavia, nor the so-called Brioni Agreement, which was signed on July 7 and bound the warring parties to effectuate a cease-fire, stopped the fighting for any length of time. Under the Brioni accords, EC observers were to be allowed into the war zones of Slovenia and "possibly also Croatia." Dressed in white, which won them the sobriquet of "the ice cream men," these brave individuals (they were unarmed and unescorted; several were killed) were well placed to monitor breaches of the Brioni Agreement by all parties throughout the summer of 1991.

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On September 1, the EC negotiated "a window of opportunity." The EC threatened the Serbs, whose brutality had by now led to their being widely regarded as the villains of the piece, with "international action" unless they agreed to a new cease-fire and permitted EC monitors to enter Croatia. A peace conference, chaired by Lord Peter Carrington, a respected British diplomat, began on September 7 at The Hague.

Carrington put forward a draft peace plan on October 18, 1991. Backed by the United States and Russia, Carrington proposed independence for all of Yugoslavia's republics on the basis of the existing frontiers in conjunction with comprehensive guarantees for safeguarding the human rights of ethnic and national groups who found themselves on the wrong side of a border. The plan was simply disregarded on the ground, where the Serb minority within Croatia were fighting for union with the Serb motherland and were not willing to accept the restitution of a Croat rule they despised.[52]

From November 1991 onward, the UN and, increasingly, the United States, became the chief outside mediators in the Balkans' crisis. Community action (or inaction) in Yugoslavia had, by the time the heads of government met in Maastricht on December 9, 1991, undermined "any credible common foreign and security policy."[53] The much-vaunted foreign policy pillar of the Treaty on European Union amounted to a set of hopes and half-promises. In the defense field, The Twelve agreed that the common foreign and security policy (CFSP), which superseded European Political Cooperation (EPC), "shall include all questions related to the security of the Union, including the eventual framing of a common defense policy, which might in time lead to a common defense." The WEU was requested to "elaborate and implement decisions and actions of the Union that have defense implications," but the policy of the Union would "not prejudice" the obligations of "certain member states under the North Atlantic Treaty and [shall] be compatible with the common security and defense policy established within that framework."

The treaty did bind the states to "define and implement" a CFSP and to "refrain from any action that is contrary to the interests of the Union or likely to impair its effectiveness as a cohesive force in international relations," but nothing explained how the member states would do this. The treaty merely prescribed that "member states shall inform and consult one another within the Council . . . in order to ensure that their combined influence is exerted as effectively as possible by means of concerted and convergent action." After Maastricht, The Twelve agreed to formulate a common foreign policy toward those areas—Eastern Europe, the Balkans, and the Middle East—that most directly impinged upon them.[54]

Before the treaty had even been signed, however, Germany illustrated just how far rhetoric about "concerted and convergent action" actually

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extended by unilaterally granting diplomatic recognition to Croatia and Slovenia. The Twelve had already agreed to recognize, by January 15, 1992, the independence of any of the Yugoslav republics that could meet a series of tests concerning their policy toward human rights, guarantees for minorities, democratic government, the peaceful negotiation of border disputes, and so on. An eminent French jurist, Robert Badinter, had been charged with assessing the republics' performance by these standards and with making recommendations. Yet without waiting for Badinter's findings, Germany abruptly recognized Slovenia and Croatia on December 23, 1991, although as a sop to the rest of The Twelve Germany stated that diplomatic relations would only begin on January 15.[55]

Germany's high-handedness was motivated by fear that Badinter would not give semifascist Croatia a passing grade. Indeed, when he reported in early January, he approved only Slovenia and Macedonia. The Community proceeded anyway to recognize the sovereign status of Slovenia and Croatia, but did not recognize Macedonia, because the Greeks, who were nervous about Macedonian irredentism, were opposed.

The EC, in short, after spending more than six months trying to hold Yugoslavia together, had by January 1992 endorsed the U.S. policy of dismantling it. Bosnian president Alija Izetbegović was informed that Bosnia would be recognized, too, if a simple democratic majority of Bosnians voted for independence. Peace in Bosnia had been maintained for the previous forty years by subordinating a majoritarian view of democracy to the constitutional need to preserve the delicate ethnic power balance among Bosniaks, Croats, and Serbs.[56] If Bosnia declared independence, without first allowing its predominately Serb areas to secede, its Serb community, backed by Serbia itself, was bound to revolt. Sure enough, once the referendum had been held on March 1, 1992, and a majority obtained for independence from Belgrade, clashes swiftly began in rural districts. After the EC states and the United States recognized the new Bosnian state on April 5, 1992, the conflict rapidly became the most barbaric military campaign seen in Europe since the downfall of the Nazis.

Yugoslavia was clearly a tragedy waiting to happen. Yet the EC's interventions probably made a bad situation worse. As Simon Nuttall has written, the EC aspired to be the deus ex machina of the Yugoslav crisis: the god that descends from the clouds in a Greek tragedy and sets all to right.[57] But gods possess overwhelming force and the will to use it. The EC had neither. During the Yugoslav crisis, the EC more closely resembled an overcivilized teacher struggling to separate schoolyard bullies. Unable to clip the Yugoslavs around the ear, the EC was reduced to pleading ineffectually for good behavior from the sidelines until its most powerful member state decided the farce had gone on long enough. The

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authority with which Germany acted in December 1991 was a potent reminder to the rest of The Twelve of the need to bind united Germany tightly within European institutions.

THE TREATY ON EUROPEAN UNION

The treaty that emerged from the last-minute negotiating scramble among Europe's leaders during the Maastricht European Council on December 9–10, 1991 was a constitutional lawyer's delight—and an unreadable nightmare for any normal human being.[58] Yet public opinion in Europe soon grasped that Maastricht—officially the Treaty on European Union (TEU)—meant an unprecedented voluntary cession of national sovereignty. Long used to thinking of themselves as Belgians, Spaniards, Italians, or Germans, individual Europeans discovered that they had been transformed into citizens of a European Union (EU). This pleased some but infuriated others (especially Danes). Under Maastricht, every member state except Britain and Denmark in principle relinquished its long-term right to make its own monetary policy (and, in the short term, committed itself to meeting austere fiscal targets); every state except Britain acknowledged that it would abide by common Community standards in the field of social policy.

Little effort had been made to discover whether the citizens of the new Union actually wanted the innovations of the treaty or even to explain what the innovations were. The Treaty on European Union was a fait accompli dictated by the needs of high politics. Unsurprisingly, the voters in several countries of the Community—notably Denmark and France—decided to punish such presumption (see chapter 8).

This was ironic since one of the negotiators' main concerns had been to render the institutions of European integration less remote from the citizen. The treaty's preamble stressed that the decision to establish a Union would mark "a new stage in the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen." The buzzword during the negotiations was *subsidiarity*. What this meant was that the Community would take action "only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or the effects of the proposed action, be better achieved by the Community."

The principal innovation of the Maastricht Treaty was monetary union. In substance, the member states agreed that they would move toward EMU in three stages. Stage 1 was held to have begun on July 1, 1990; stage 2 was to start on January 1, 1994, in accordance with the decision of the October 1990 Rome summit. In stage 2, a European Monetary Institute

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(EMI) was to be established. The EMI's key task was to monitor, in conjunction with the Commission, the progress being made by the member states toward meeting the convergence criteria in advance of an examination in 1996 of their progress.

There were five criteria in all. Would-be members

- were restricted from running annual government deficits of more than 3 percent of GDP at market prices;
- could possess a national debt no greater than 60 percent of GDP;
- were bound to keep inflation within 1.5 percent of the average of the three "best-performing member states" for a full year prior to the examination;
- could boast a currency that had "without severe tensions" respected the "normal fluctuation margins" of the ERM for at least two years; and
- had maintained for a full year an average nominal interest rate on their long-term government debt that did not exceed by more than 2 percent the average of the three best-performing member states.

The treaty allowed for some flexibility, however. Failure to meet the 3 percent annual deficit criterion could be condoned if the offending state had got its deficit down "substantially and continuously" to a level not much in excess of the 3 percent requirement; alternatively, if a usually prudent state was in breach of the 3 percent rule, allowances could be made. Exceeding the permitted total of national debt could be forgiven if the debt/GDP ratio was "sufficiently diminishing and approaching the reference value at sufficient pace."

If seven out of twelve member states met the five criteria, the European Council could move to stage 3 of EMU in 1997, although the treaty allowed for a delay of one year if too few nations had passed the test. If a critical mass of seven countries had still not been achieved by the end of 1997, the virtuous remainder were committed to press on with stage 3 from January 1, 1999. They were obliged, in short, to take the irrevocable step of fixing the relative value of their currencies and to introduce a common currency. The only way, therefore, that member states with sound macroeconomic fundamentals (e.g., Germany) could wriggle out of their commitment to the common currency was to take the irrational decision to run their economies in deliberate breach of the convergence criteria. By contrast, the only way countries such as Italy, whose annual budget deficit was over 9 percent of GDP and whose accumulated public debt was over 120 percent of GDP, could hope to meet the standards set by the convergence criteria was to tread unaccustomed paths of austerity rapidly.

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Britain was the main exception to the iron rule of irrevocability.[59] Britain was specifically given the privilege of "opting in" to stage 3 "by a separate decision of its government and Parliament." The question to join or not to join would become over the next few years an open wound in the body of the British body politic, and in particular in the Conservative Party. But it is difficult to see what alternative Prime Minister Major had. Major had to satisfy his party's Thatcherite wing (and with an election due in 1992, he could not possibly take any step that would split his party) and handle his European partners' reluctance to allow Britain special privileges. The opt-in formula allowed everybody to save face and was something of a personal triumph for the prime minister.

In stage 3 of EMU, the European Central Bank (ECB) and the European System of Central Banks (ESCB) would be finally established. The ESCB was to be composed of the ECB and the central banks of the member states. Its primary objective was to conduct monetary and exchange rate policy in such a way as to maintain price stability, and its institutional independence was to be absolute.

The ESCB was to be governed by the decision-making bodies of the ECB. These were the Governing Council and the Executive Board. The latter of these bodies was to consist of a president, a vice president, and four other members, all appointed for an eight-year term by the European Council. The Executive Board was to be responsible for the implementation of monetary policy in accordance with "the guidelines and instructions laid down by the Governing Council," which was to be composed of the members of the Executive Board and the governors of the participating national central banks. The politically sensitive task of raising or lowering interest rates was the key duty of the Governing Council. Each member of the Governing Council was to have one vote, with decisions being made by a simple majority.

The ESCB's powers also included the right to set minimum reserve requirements for banks and other credit institutions established in member states and "exclusive right to authorize the issue of bank notes within the Community," but it did not contain exclusive power to conduct external exchange rate policy, which was reserved for Ecofin, the finance ministers' committee.[60]

Overall, the new treaty reflected Teutonic principles of monetary rigor. Tough macroeconomic targets had been set for would-be members; the new ECB would be institutionally mandated to deliver low inflation. German policymakers were not entirely happy, however. The decision to set a definitive date for stage 3 of the EMU process raised the suspicion—correctly, as it turned out—that political pressure to fudge the convergence criteria to allow as many countries as possible to join would be immense as stage 3 drew near. But since this concession had been put on the table

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at Maastricht by Chancellor Kohl, who saw it as a symbolic way for Germany "to demonstrate . . . its will to bind itself to Europe," doubtful German voices could only mutter.[61] It is almost certainly true, too, that Germany's negotiators thought that the convergence criteria could not possibly be blurred enough to allow Italy—the real problem case, since Greece was not even a member of the ERM—to enter.

Insulating the ECB from political pressure unquestionably added to what commentators were beginning to call the EC's "democratic deficit." Unlike the Bundesbank or the U.S. Federal Reserve, the ECB-ESCB was not subjected to the power of a national legislature able to amend—or threaten to amend—its statutory powers.[62] The statute establishing the ECB was a treaty between the member states of the European Union and thus could only be altered by all the member states acting in concert together—a distinctly unlikely hypothesis. The only nod in the direction of accountability was a requirement that the ECB should publish quarterly reports and send an annual report on its activities to the European Parliament, which could then debate it.

It was a thin democratic veneer. At Maastricht, the nations of the new Union had potentially contracted out the task of steering economic output to a clique of bankers whose training, culture, and personal convictions predisposed them to make monetary stability a priority over growth and employment. It was an astonishing thing for the heads of government to do. For if the ECB's pursuit of monetary stability were to lead to economic stagnation, the people who would carry the can for the resulting unemployment would continue to be Europe's politicians.

The ECB-ESCB was by far the most important innovation in the Maastricht Treaty, even though, in 1991, it was still a mirage by comparison with the omnipotent Bundesbank. Nevertheless, the treaty contained other significant novelties. The European Parliament finally obtained the right to codecision it had been denied in the SEA. It was now to have the last word on all legislation dealing with the free movement of workers, the provision of services, culture, education programs such as Community-financed student exchanges, consumer protection, trans-European infrastructure, the Community's highly complex programs to stimulate scientific research and development, and, most important of all, measures harmonizing national legislation for single-market purposes.

The Parliament also obtained the right to request the Commission to submit new policy proposals (though not the right to propose measures itself) and won the right to approve any changes in its own size or composition. The Parliament was given the important new power of being able to pass an initial vote of confidence in a new Commission, and the Commission's own term of office was extended to five years in order to coincide with the life span of the Parliament. In sum, insofar as the Maastricht

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Treaty strengthened the supranational institutions of the Community, it did so by giving new authority to the Community's legislature, rather than its executive (the Commission).

The European Council was formally brought into the Community's decision-making structure for the first time. The Council was to "provide the Union with the necessary impetus for its development and shall decline the general political guidelines thereof." The European Council's actions remained outside the EC framework, however, and hence outside the jurisdiction of the ECJ, which itself at Maastricht gained the power to find member states that ignored its rulings in contempt of court and to fine them. Earlier, in 1988, the ECJ had been strengthened by the creation of a "Court of First Instance" to help it cope with the huge growth in cases in the wake of the SEA. Last—and certainly least—a consultative Committee of the Regions was set up to provide subnational tiers of government a voice in the policymaking process.

The number of policies decided at Community level increased. The Commission was given powers to propose legislation in well-defined areas of education, culture, environment, health, transport, and telecommunications. The right of the Community to pass legislation by QMV on workers' rights and other measures of social protection, which Britain flatly rejected and which almost caused the collapse of the summit, was the subject of a special protocol to the treaty, brokered by Dutch premier Ruud Lubbers and signed by the other eleven member states, which thus gave Britain an opt-out to add to its opt-in on monetary union.[63] When one considers that Britain had also ensured that there was no reference to the Union's "federal vocation" and that foreign policy decision making was left firmly in the hands of the member states, the triumphant comment by a British government spokesman that the Maastricht summit was "game, set and match" for Britain becomes comprehensible, though it was much resented by Delors and other European leaders. Prime Minister Major returned to London to cheers from even the most anti-European British newspapers—though that did not stop them subsequently from demonizing the treaty as a sellout of British national sovereignty.[64]

A final feature of the Maastricht Treaty that deserves extended discussion is the inclusion of Justice and Home Affairs (JHA) as the second pillar. The Treaty on European Union agreed that strictly intergovernmental cooperation was to proceed on a wide range of areas. The Twelve agreed that asylum policy, border issues, immigration questions, drug addiction, international fraud, judicial cooperation in both civil and criminal matters, customs cooperation, and the sharing of police intelligence were all matters of common interest and could be the object, assuming the unanimity of the member states, of joint action by the member states. To this end, a JHA Council of Ministers was established after Maastricht.

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In the 1990s, JHA, after a slow start, was one of the growth areas of European cooperation. The Union affirmed, in the 1997 Treaty of Amsterdam (see chapter 8) that one of its core objectives was to become "an area of freedom, security and justice."[65] By this, the member states meant, specifically, freedom of movement, security from cross-border crime, and judicial cooperation between national legal systems in criminal and civil cases. Quite a lot has been done in the first two of these areas. By the end of the 1990s, the Schengen Treaty, with its small library of related accords and agreements, had been adopted by almost all the member states (Britain and Ireland remained outside, although Iceland and Norway, despite not being members of the EU, both joined) and had been incorporated into the first pillar of the Treaty on European Union. Just as in the United States, it is now possible for a non-European citizen to fly into any airport within the Schengen area and, once admitted, have passport-free liberty of movement from one member state to another. Increased freedom of movement, of course, potentially benefits criminals more than honest citizens. As a consequence, in 1995, the member states agreed to establish Interpol, an information clearinghouse to facilitate cross-border inquiries into specific crimes (drugs, illegal immigration, money laundering), which began work in October 1998. Interpol's remit has been further added to since 1998 in response to the growing frequency of cross-border crime, and since 9/11 cooperation against terrorism has given a further incentive to construct common policies in the sphere of citizen security. A "European arrest warrant" became law in 2003.

MAKING SENSE OF MAASTRICHT

The Maastricht Treaty left the EU as a remarkable hybrid polity of an entirely new kind. It was not a federal state but a confederation with a unique structure of government. The political scientist Alberta Sbragia made a successful effort to translate the EU's institutional structure into American terms in her book, *Euro-Politics*:

> For Americans to begin to grasp the differences in institutional structure between the United States and the Community, they need to imagine a collective presidency composed of governors, who make the strategic decisions on the development of the constitutional and political system (the European Council); a cabinet (the Commission), which exercises a monopoly over policy initiation as well as considerable leadership, but which is chosen by the states' governors; a very strong Senate (the Council of Ministers), comprising top political leaders chosen by the governors and having the right to amend or veto all proposals made by the cabinet; and a weak House of

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> Representatives (the European Parliament) elected by voters but having the right neither to initiate nor veto most policy proposals.[66]

Moreover, by the end of the 1990s, when monetary union had been completed, one could add to Sbragia's comparison a powerful Federal Reserve (the European Central Bank) composed of national central bankers and accountable for its actions to no directly elected body. It is worth underlining just how immense the institutional innovation had been since the Fontainebleau European Council in June 1984. In the early 1980s, the EC had been an intergovernmental organization primarily concerned with agricultural questions—which meant, inevitably, that it spent much of its time arguing over matters opaque to ordinary citizens. It had pretensions to higher things, but the gap between the rhetoric of European federalists and the reality of the EC's institutions was an abyss. Less than eight years later, scholars were talking of the "European Union" as a polity of a new kind that would exercise a growing influence and importance in world politics—which is the main reason why "EU studies" became so suddenly fashionable in American universities in the 1990s.

The question is, what prompted this undeniable speed-up in the pace of integration? What led The Twelve to strengthen the Community's supranational institutions so markedly? The answer to this question, as usual, is a combination of national self-interest, genuine idealism, and geopolitical concerns. Andrew Moravcsik is surely right to stress the element of self-interest in the decision to press ahead to monetary union.[67] Europe's nations wanted monetary union not just because it would make the single market more efficient, though that was a consideration, but because it would enable them to regain a measure of monetary sovereignty from the Bundesbank. The German government was prepared to concede this demand, but the price of this major concession was that the Maastricht Treaty imposed German levels of macroeconomic discipline and institutional independence.

The fact that the member states, Britain and Denmark apart, acquiesced in this abdication of sovereignty in such a sensitive area cannot be fully explained, however, without making reference to the European idealism of the leaders who were in charge of the negotiating process. Key leaders were convinced, to use a phrase coined by Jacques Delors in his immediate reaction to the fall of the Berlin Wall, that the EC was the "center of gravity of European history."[68] Leaders such as Andreotti, Kohl, Lubbers, and Mitterrand shared this conviction. When the sudden emergence of a uniting Germany became a reality, their first thought was that "it was necessary to make concessions to sustain momentum towards European political unification and make it irreversible."[69] They responded to German unification in European terms. This is what made

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Mrs. Thatcher stand out: as N. Piers Ludlow has commented, Thatcher was as "opposed to European integration as she was to German unification." As he adds, this fact "goes a long way to explaining her essential isolation on both issues."[70]

But underlying the need to make concessions was not just an ideological leaning toward supranational government. The Maastricht Treaty, like the Schuman Plan, was also made with an eye to the changing geopolitical realities of the continent. In the face of the prospect of the reestablishment of a reunited Germany, Europe's leaders considered that they had no choice but to anchor Germany into the West.[71] As a result, they tacked on a series of major innovations in the political sphere to a treaty on economic union to which most of them were already willing in principle to subscribe.

The German government was decisive. Helmut Kohl and other members of the German political elite were acutely conscious of their neighbors' fears. This is why Germany's commitment to the political unification of Europe did not end with the Maastricht Treaty. In December 1992, Germany solemnly amended article 23 of its Basic Law (Constitution) to make the completion of a European Union bound to "democratic, legal, social and federal principles" the official goal of the German state. History should not be written in the subjunctive mood, but there can be little doubt that if the Berlin Wall had not fallen in November 1989, the IGC on political union would not have been put on the table with such abruptness by Kohl and Mitterrand. Monetary union was already a gigantic step forward for the Community. Delors himself subsequently (and perhaps uncharacteristically) admitted that the EC perhaps "shouldn't have made a treaty on political union, it was too soon" and argued that the Community, in addition to monetary union, should have contended itself with a "small treaty" clarifying the role of the EC's main institutions.[72]

Yet after Maastricht, in the 1990s and early 2000s, the European Union's member states raised the bar of their collective ambitions still higher. One might have expected the 1990s to be dominated by digestion of the huge changes explicit in the Maastricht Treaty. Instead, the Union sought both to "deepen" its existing powers (that is, to increase the range of activities decided by the Union) and to "widen" its membership to encompass the new democracies of Central and Eastern Europe. In retrospect, the post-Maastricht decade was characterized by overambition, although at the time the EU's progress often aroused enthusiasm and even euphoria.

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