European Integration, 1950–2003

Integration is the most significant European historical development of the past fifty years, eclipsing in importance even the collapse of the USSR. Yet, until now, no satisfactory explanation is to be found in any single book as to why integration is significant, how it originated, how it has changed Europe, and where it is headed. John Gillingham corrects the inadequacies of the existing literature by cutting through the genuine confusion that surrounds the activities of the European Union and by looking at his subject from a truly historical perspective. The late twentieth century was an era of great, though insufficiently appreciated, accomplishment that intellectually and morally is still emerging from the shadow of an earlier era of depression and modern despotism. This is a work, then, that captures the historical distinctiveness of Europe in a way that transcends current party political debate.

John Gillingham is currently Professor of History at the University of Missouri, St. Louis. His previous book, Coal, Steel, and the Rebirth of Europe, 1945–1955 (Cambridge, 1991), received the George Louis Beer Prize of the American Historical Association as the best book on the history of foreign relations published that year.
To Barbara
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Economic and political integration has been a basic fact of European life for more than fifty years and will probably remain so in times to come. Its importance as a formative influence in the history of this period compares only to that of the Cold War and may loom even larger now that the Soviet Union has collapsed. The movement toward transnational regional cooperation in Europe has not only contributed to the revival, transformation, and rejuvenation of a battered civilization but remains as well a source of hope for the future. The integration process has not always been smooth, neat, pretty, or economically and politically costless, yet it has helped bring Europe to the cusp of a new era. The ancient but renewed civilization is leaving behind the slowly collapsing world system of the first half of the twentieth century, which it largely created – a system centering on national megastates and industrial economies wrenched into shape by the requirements and dislocations of total war. Europe is now advancing into a new, politically contested yet generally peaceful competitive world order whose broad contours are slowly becoming visible beneath the surface of events. The economic and political integration of this civilization has served as a mechanism for adjusting to international change and has also shaped global institutions and markets through a process of competitive emulation, reciprocal adjustment, and mutual adaptation. Europe has again become a force for world progress.

Three solid, specifically European historical accomplishments can be attributed in part to integration. One of them, palpable though difficult to quantify, is economic growth and welfare gains generally; another, impressive though imperfect in execution, is the extension and reinforcement of democratic government under law throughout much of the continent; and still another – immense, though hard to disentangle from a broader geopolitical, technological, and economic setting – is peace. The specter of war between the former European great powers has been banished and that of armed conflict between the smaller nations relegated to the periphery of events. This is the greatest single accomplishment to which European integration has contributed.

How integration has developed in Europe, or might develop, remains a source of confusion and controversy. Historical writing about the subject is in its infancy. No previous book examines the subject over its entire fifty-year history and within the broad contexts of its times.1 A consensus is lacking for the meaning of the very term “integration,” which can refer to either a process or an
outcome according to the situation, describe an essentially political or economic phenomenon (as determined by the academic background of the discussant), and lead to something better or worse (or nowhere at all) depending on the mood of the editorialist. The misunderstanding that surrounds the subject stems at one level from the inscrutable operating methods of the European Union itself, at another from the shortcomings of the scholarly literature, and at still another from its polymorphous, mutable, and refractory character. But its causes are even deeper.

The trauma of the past still casts a shadow over a civilization deformed intellectually and morally by an era of wars, depression, and modern despotism. The events of the early twentieth century continue to shape perceptions of the past fifty years; whatever may have been accomplished since 1945 still appears trifling by comparison to the horrors and culminating tragedy of the three decades that began with the outbreak of the Great War and ended with Hitler’s suicide in the Führerbunker and atomic bombings of Hiroshima and Nagasaki. The contours of the late twentieth century thus still lack historical definition. The effort to capture and define the essential character of these fifty years as a historical period is overdue. This book will argue that the previous half-century was an era of transition not only from material ruin to immense wealth and from institutions to markets, but also from bureaucratic thrall to a freedom within reach but not yet grasped. A new, still partly unsuspected realm of possibility is now unfolding, thanks to an invisible hand that is no longer lamed. The wonders and triumphs of the nineteenth century provide only pale intimations of what the future can hold.

The change that has taken place over the past fifty years of European history has resulted from a contest over policy making within a larger struggle between two principles of social, political, and economic organization: the state and the market. The West provided the setting for this struggle for the three decades after the war. Since the death of Mao, the “opening” of China, the collapse of the Soviet bloc, the beginnings of market reform in India, and the discrediting of state-led economic development in Latin America, it has become global. Within Europe, it has taken place at the level of ideas, institutions, and occasionally even hand-to-hand combat. Though sometimes constructive and beneficial, the tension between these two poles is responsible for the zigs and zags characteristic of the integration process— not to mention many sidesteps along the way. Europe has not always been at the forefront of progress; change has often originated abroad and its pace has often been faster elsewhere. Yet the overall trend is clear: The market principle has gradually supplanted that of the state in Europe’s long march from the economy of war to that of peace. In The Commanding Heights (1998), Daniel Yergin and Joseph Stanislaw captured the better part of this fundamental truth but failed to appreciate the full significance of another part. The shift has entailed more than the displacement of one power by another. The market does not so much occupy the “commanding heights” (described by Marx) as erode and level them by allowing a logic to operate that diffuses power, modifies institutions, generates new values, and sustains itself when allowed or enabled.
to work properly. The market process is slowly, even grudgingly, giving rise to a different kind of civilization in Europe and in the world generally.

There have been four stages in the history of European integration. The first one featured the founding of the European Economic Community (EEC) in the 1950s within the framework of American globalism and against the background of German economic revival, as well as the arrested development of these new institutions owing to the incompatibility of federalism with the mixed-economy welfare state. The second one brought about a “regime change” – the 1970s shakeout of the world monetary order inherited from the era of statism and warfare – which, by decade’s end, witnessed the emergence of a liberal substitute wherein the state was unharnessed from the economy, nationally and internationally, and the mutually reinforcing bonds between the two levels weakened. Regime change set the stage for a quantum jump in the integration process. At the third stage, the 1980s, a new market system – though contested by socialists and “corporatists” – took root in individual countries worldwide and in Europe thanks to the force of globalization, the revival of economic liberalism as a doctrine, and the “spontaneous order” resulting from the exchange process. In the fourth stage – during the final decade of the century – the integration process suffered a series of eventually correctable setbacks that, however, still imperil the Community. These reversals result from misguided policy, malfunctioning Community governance machinery, and a breakdown of cooperation between the member-states (intergovernmentalism) that is itself partly the consequence of the European public’s growing alienation from the Brussels institutions.

Since 1950, the integration process has advanced on three levels: as the result of interplay of forces nationally and internationally as well as regionally in Europe. One can term this phenomenon an “asymmetrical three-level interdependence game” if it is understood that the process is always in flux, that neither origins nor outcomes can be predicted, and that human agency and random events are inescapable variables. A cycle of change can start or end with events in the marketplace, competitive emulations of them, institutional adaptations to them, or preemptive anticipations of them. The notion of a three-level game has explanatory but not predictive value; in it, economics is bound inextricably to politics. Yet the process is at the same time fundamentally economic in character. This book will argue on the basis of economic logic and historical example that, in the absence of a demos – a sense of (European) nationhood – only one integrative approach can work: “negative integration,” which takes place either through markets or institutions created to make markets operate properly (Marktkonform). Although other prerequisites may be necessary for the success of this “negative” approach, its alternative – “positive integration,” the organization of Europe by means of bureaucracy and regulation in order to compensate for market failure – has never succeeded and cannot do so under present circumstances.

Yet there is no need to assume either that the conditions that have dictated such outcomes are necessarily permanent or that the integration phenomenon cannot undergo future metamorphoses. The development of a demos through
successful transnational economic cooperation and problem solving is by no means impossible in the future. The integration process has indeed been mutable, polymorphous, and refractory over the past half-century: it has changed substantially over time, can take different forms, yet is also stubborn and resistant to change. This maddening (indeed, seemingly perverse) combination of features rules out prediction and generally has made fools of those who have tried to map out the future.

The priorities of European institutions have shifted, their size and responsibilities have grown, and the machinery of governance itself has developed in ways not foreseen or laid out in either the Treaty of Rome or antecedent and subsequent treaties. The process of integration cannot be identified with a specific set of institutions such as those headquartered in Brussels; neither can it be understood apart from the particular national political cultures that constitute Europe (and changes within them) or from broad international trends. The tradition of divorcing studies of the European Union from these surrounding contexts not only makes for arid texts; it can by default exaggerate the importance of official policy making and lead to unrealistic assessments of what the authorities in Brussels can or should do. Such estimates should be made in light of alternative lines of development, national and international contexts, and the possibility of exogenous shocks – and with the awareness that ideas can and do change.

There is no precast model for a historical study like the present one, which features the market as principal actor and is international in scope. This work has nonetheless drawn heavily from two important literatures that play vital supporting roles in the story. The dominant school of political economy, the neoliberal institutionalist approach of political science, focuses on the systemic level of interstate relations – on “what governments do” in the international system, especially with regard to finance and commerce – and centers on the creation and operation of global regulatory mechanisms. Its normative concern is with how, by means of “negotiated cooperation,” governments and organizations adapt to change in the market. The analysis of such institutions is an important feature of the story that will unfold in these pages. Neoliberal institutionalists are, however, only secondarily interested in the workings of the market mechanism.

This is the concern of mainstream neoclassical economics, which combines rational utility maximization and general equilibrium–based perfect competition as a measurement standard. It arms the historian with powerful methods and valuable insights, but its applicability is limited. The static approach is ill equipped to deal with temporal change and compares idealized, modeled, stylized, or fictional conditions to real-life “imperfections.” These, however, are givens in historical analysis, which must examine not hyperrational actors with perfect foresight but rather fallible human beings – men and women living in difficult, troubled, or otherwise “suboptimal” circumstances and limited to decisions made on the basis of imperfect knowledge.

The starring role in the present account goes to another camp of economists, a more heterogeneous group of “classical liberals” whose research and writing,
though not the work of specialists in the international field, is replete with implications for it. “Classical liberals” are not, as the term suggests, purebreds – although they trace their pedigree back to Adam Smith – but rather mixed breeds of the tough, friendly, and occasionally vicious garden variety of mutt familiar to most people in most times and places. Those in this group posit an “interdependence of orders”: the interpenetration and mutual reinforcement of the economic, the political, and the legal. This venturesomeness into new neighborhoods can produce unlikely combinations of features, but its offspring remain, nonetheless, all dogs. Stronger or better breeds may well develop from the muddy gene pool in the future. Although “classical liberals” move in many different directions – and some are surely headed in the right ones – economics remains the core discipline in their thinking. *Homo œconomicus* has not disappeared from their accounts but merely retreated from view because it is not yet fully developed. Classical liberal economists like Friedrich Hayek have roamed far and wide and into fields as remote as neurobiology in order to understand the workings of the human mind. Raising imperfect man from the primeval slime of ignorance into the impeccable, orderly, and antiseptic laboratory of perfect rationality is what ultimately drives the classical liberal agenda.

Classical liberalism has produced no overarching historical theory of its own but instead hypothesizes a process of market-generated change (spontaneous order) that provides an analytical starting point. From this seed have grown offshoots that have, in turn, led to breakthroughs in the understanding of how markets and institutions interact: ORDO-liberalism, public choice theory, and the new institutionalism. These schools have, for their part, provided the theoretical basis for a promising new political science approach – historical institutionalism – that has begun to influence European integration scholarship. The present account can be regarded as a preliminary attempt to demonstrate the utility of classical liberal–based theories to historical study on a macro scale, one that runs across a long stretch of time as well as a broad swath of circumstance and deals with an issue of cardinal importance to Europe’s past, present, and future.

The book is shaped like a funnel. Its scope broadens, deepens, and goes more thoroughly into national cases as it moves toward the present and traces the rise of integration – resulting from the contest between market and state – as it has developed from the realm of pure thought into a force that both influences the lives of Europe’s peoples and is influenced by them. Part I describes the origins of European integration at the levels of ideas (Hayek versus Monnet), institutions (those market-conforming ones created to promote free trade and currency convertibility, as opposed to those market-correcting ones built on the *dirigiste* model of the French Plan) – as well as the institutionalization of integration – against a backdrop of the German “economic miracle.” Part I concludes with the twenty gridlock years that ensued from the failure of “positive integration.”

Part II centers on the watershed event of the era, the regime change. This change resulted from the collapse of the international monetary regime that was designed at the wartime Bretton Woods conference and of the embedded liberal postwar system that supported the mixed-economy welfare state and its sequel.
The replacement of this system by a new market-based substitute enabled the integration process to descend from the realm of abstract ideas into the sphere of action; transformed the Brussels institutions from talk shops into agents of economic, social, and political transformation in individual nations; kept Europe abreast of world change; and set the stage for its development as an economic and (in a remote future) political union. Part II also provides a theoretical account of why the progress of integration required regime change.

Part III describes the most dynamic period in the history of European integration. The 1980s was a decade of liberalization that featured catalytic interaction of change at the international, national, and European levels as well as the struggle over the future of Europe between M. Delors and Mrs. Thatcher, as waged within both the European Union and individual nations. The contest pitted the ascendant market principle against an entrenched corporatism and socialism and – within the Community – set liberalizers who advocated geographical expansion (“widening”) against market correctors (“deepeners”) committed to institution building.

Part IV is concerned with the uneasy standoff reached in the 1990s between globalization and European protectionism, the crippling leadership problems that spread through the Community, the rising tide of public discontent with governance from on high, the policy errors of the EU – as well as the hazards its present state of disarray poses to the progress of integration, Europe’s fitness for the challenges of tomorrow, and its ability to meet the promise of the future. The chapters of Part IV successively examine the development of Community institutions, the relationship between member-states and Brussels, eastern expansion (Enlargement), and the present economic challenges facing the EU.

A few words about language are especially relevant to this study. The subject of integration has a distinctly postmodern flavor; for much of its fifty-year history, the argument that only words have meaning is often persuasive. Language capture has been an important part of the European story. For nearly thirty years “integration” – to the extent that it implied more than the existence of a farm subsidy program (the Common Agricultural Policy) and the existence of a customs union – was only a verbal reality, as was the vocabulary invented to describe and analyze it. Thanks to the coinages of political experts and the customary usages of bureaucrats, such words (and the ideas behind them) have taken on a life of their own: they have shaped perceptions, guided discourse and discussion, defined future agendas, and, under the right conditions, been incorporated into laws, policies, institutions, and even constitutional principles. As with the use of any jargon, meaning can easily be lost in Brussels-Volapük. Euro-words may imply either more or less than evident, mean different things to different people, or simply mean nothing at all. It is thus necessary to cast official language aside whenever possible and use standard terms and common measurements in order to demystify ideas, events, and deeds as well as provide bases for comparison.

Another language issue arises from the need to use words that mean different things to different audiences, beginning with “liberal.” As employed here, it
should not be confused with the American synonym for “socially and politically progressive.” The term should be understood broadly in the traditional European sense as an ideology of open markets and small government under law and responsible for the provision of public goods. The meaning of the term should be understood with reference to ends rather than means; it does not necessarily imply the adoption of specific policies. The term “embedded liberalism” refers in the text to the specific coinage of John Ruggie to describe a state-based, mixed-economy system designed to protect liberal values. “Neoliberal” is the most easily misunderstood member of this word family. In this book the term refers strictly to those politicians of the 1980s and 1990s who adopted liberal policies opportunistically and without openly identifying with the ideology behind them.

A final word on language is that this book will use many of them, even at the risk of alienating each of its specialized readerships along the way. Historians may be bored by political or economic theory, and social scientists may feel weighted down or distracted by excessive factual detail. This is an interdisciplinary study, one purpose of which is to demonstrate the relevance of different social science literatures to the overall concerns animating each of them, but especially to historians. Its author, as a member of their guild, has also felt obliged not to omit or otherwise “model” any aspect of the subject that might abstract it from reality. He has further tried hard to cast his net broadly – providing anecdote and example to illustrate the complexity and diversity of the subject matter – and to provide accurate descriptions of institutions and procedures even at the risk of burdening the text. He can only express regret that the EU governance machinery is excessively complicated and often operationally opaque – and promise to do the utmost possible to explain matters simply. In return for the reader’s patience, he will (even while suffering from stage fright) also try to entertain. The journey is long. Let’s make it pleasant.

The author has a number of apologies. He cannot for reasons of space present an overall survey of national developments as they relate to Europe’s economic and political unification, federation, or coordination but must instead deal with specific cases that are broadly representative of trends and traditions within the European Union, provide insight into the diversity of Europe’s national political cultures, expose particular problems facing the Community, or are fundamental to its overall development. Such judgments are somewhat invidious. The big countries – Germany, France, Great Britain, Italy, Spain, and Poland – necessarily get a disproportionate amount of play. A concern with length has likewise dictated selectivity regarding the treatment of EU-related topics. Exclusions are necessary. The author deeply regrets not being able to discuss any of the following important topics in sufficient detail: trade and Mediterranean policy; the special problems of Turkey, Cyprus, and the “second tier” of accession nations; cultural, internal security, public health, environmental and bio-tech policy; foreign aid and assistance; fisheries; and gender issues.

Few historians write about the present. The integration story cannot, however, be properly told as if broken off thirty years ago – the lapse of time normally
Preface

required before archives are unsealed and made accessible to research. The re-
striction on access has heretofore prevented the historical literature from advanc-
ning beyond the 1960s. Although the source base for the first twenty years of the
present study is largely archival, that for the next three decades cannot be. The
author has drawn material for these years from a warehouse-bursting profusion
of official and semi-official publications; financial and business newsletters and
printed material falling under the general rubric “trade press”; scholarly and
semi-scholarly books, articles, and papers; the writings of journalists, commen-
tators, and other experts; and numerous autobiographies and other firsthand
accounts. Although much of this evidence was retrieved as “hard copy,” large
additional amounts have been downloaded from electronic data bases (EDBs).
Without access to such sources, it would have been impossible – for reasons of
both time and money – to write a book of this scope. Certain EDBs provide
hard-copy pagination, but others do not. Here it has been necessary to make
approximations.

The book owes its genesis to research done as a Fellow of the Woodrow Wil-
son Center in 1991–1992. My apologies for the delay. I hope to have produced
something that trumpets like an elephant rather than squeaks like a mouse.
The academic year 2000–2001 that I spent as a visiting scholar at the Minda de
Gunzburg Center for European Studies at Harvard University was the most stim-
ulating intellectual experience of my life. Though none of their owners can be
counted on to agree with more than a single word of the text, voices from Har-
vard echo throughout this book. It is unfair to mention only a few names – my
debt to so many is so great – but I’ll do it anyway. Andrew Moravcsik, Paul Pier-
sen, George Ross, and Charles Maier have all taught me more than they realize.
My apologies to the dozens of Harvard people who are not mentioned here. Tim
Josling gave the project a big boost by inviting me to Stanford University for two
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both the libraries and archives of the Hoover Institution were unfailingly helpful
in enabling me to retrieve critical material quickly, and Helen Solanum was es-
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to my dear friend, Peter Acsay, who discussed the progress of this project with
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Bruce Caldwell, Victoria Curzon Price, Fred Fransen, Michele Rutledge, Razeen
Sally, and Larry White. The usual disclaimer applies: None of the aforemen-
tioned individuals is responsible for any shortcomings that remain in the text. My
thanks, finally, to the Research Board of the University of Missouri for enabling
me financially to spend ten to twelve hours a day, seven days a week for 52 weeks
at the monitor in my home dungeon.
### Abbreviations

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<td>3G</td>
<td>third generation</td>
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<td>Amcham</td>
<td>American Chamber of Commerce</td>
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<td>APP</td>
<td>Approved Personal Pension</td>
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<td>ASI</td>
<td>Adam Smith Institute</td>
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<td>BFI</td>
<td>British Federation of Industry</td>
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<td>BNOC</td>
<td>British National Oil Company</td>
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<td>BoBa</td>
<td>Bundesbank</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>Communist Party of Italy</td>
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<td>CPS</td>
<td>Centre for Policy Studies</td>
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<td>CSFP</td>
<td>Common Security and Foreign Policy</td>
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<td>European Central Bank</td>
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<td>European Recovery Plan</td>
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<tr>
<td>ERT</td>
<td>European Roundtable of Industrialists</td>
</tr>
<tr>
<td>ESPRIT</td>
<td>European Program for R &amp; D in Information Technology</td>
</tr>
<tr>
<td>ETUC</td>
<td>European Trade Union Confederation</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EURATOM</td>
<td>European Atomic Energy Commission</td>
</tr>
<tr>
<td>EUREKA</td>
<td>European Research Coordinating Agency</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>FP</td>
<td>Framework Program</td>
</tr>
<tr>
<td>FSAP</td>
<td>Financial Services Action Plan</td>
</tr>
<tr>
<td>FU</td>
<td>Freedom Union</td>
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Abbreviations

FUBAR f***ed up beyond all recognition
GATT General Agreement on Tariffs and Trade
GDP gross domestic product
GM grant maintained
GNP gross national product
HDTV high-definition television
HI historical institutionalism
ICU International Clearing Union
IEA Institute of Economic Affairs
IGC intergovernmental conference
IMF International Monetary Fund
INI Instituto Nacional de Industria
IRI Institute for Industrial Reconstruction
IT information technology
ITO International Trade Organization
LO Landesorganisationen
MAD mutually assured destruction
MEDF Mouvement des Entreprises Françaises
MFA Multi Fiber Agreement
MFN most-favored nation
MLF Multilateral Force
MTEP Medium-Term Economic Policy
MTFS medium-term financial strategy
NBER National Bureau of Economic Research
NEB National Enterprise Board
NEP New Economic Policy
NHS National Health Service
NIDC National Industrial Development Council
NTB counterrbarrier
NTMA New Transatlantic Marketplace Agreement
OECD Organization for Economic Cooperation and Development
OECC Organization of European Economic Cooperation
OMA Orderly Marketing Arrangement
PDA preliminary draft budget
PTT public postal service
QMV qualified majority voting
R&D research and development
RTT réduction du terme de travail
SAGE Software Action Group for Europe
SAP Svenska Arbeider Parti
SEA Single European Act
SERPS State Earnings Retirement Pension Scheme
SFM single financial market
SPD Social Democratic Party
TEA Trade Expansion Act
TENS R&D and infrastructure construction
TEU Treaty of European Union
UMTS Universal Mobile Telecommunications System
VER Voluntary Export Restraint
WAP wireless application protocol
WC Washington Consensus
WTO World Trade Organization