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European integration in times of economic hardship: Lessons from history

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Abstract

The EU's integration history is closely linked to economic challenges, particularly hardship. Over the course of more than 70 years, the economy has played a central role in both the narratives of the integration project (as a source of legitimisation) and its various episodes, from the Schuman Declaration to the Green Deal Industrial Plan. This article evaluates the importance of the internal market's promise of 'prosperity' and describes some of the main responses to economic hardship, both failures and successes. Based on these, it concludes with a list of internal and external factors that always seem to be part of the way that further European integration offers answers in times of economic hardship. Given the crucial need to protect the internal market, the role of the EU is to look for (and beyond) what is necessary to supplement and to empower (but not to replace) the role of the member states. If opposing views are channelled towards a synthesis that strengthens the common good and integrates the interests of all stakeholders, economic hardship could ultimately strengthen the EU.

Keywords

European integration history, Economic integration, Social market economy, Member states, Narrative, Internal market

Introduction

'This is a war on our energy, a war on our economy, a war on our values and a war on our future', Ursula von der Leyen (2022) boldly claimed on 14 September 2022 before the

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Members of the European Parliament in Strasbourg. In her State of the Union Address, the Commission President emphasised the role of the EU in supporting Ukraine against Russia as well as the impact of the war on Europe's economy, particularly the rising energy prices and inflation figures. In the aftermath of the Covid-19 crisis, the war is further testing the EU's economic resilience and its remedies for the pandemic, such as the NextGenerationEU recovery fund. Interestingly, von der Leyen combines an appeal for change—'to a digital and net-zero economy'—with a strong belief in the existing, Christian Democratic inspired model: 'As we embark on this transition in our economy, we must rely on the enduring values of our social market economy' (European Commission 2022).

Making the link between European integration and economic challenges—with a mixture of old and new—is as old as the EU itself and part of the Union's DNA. To see this, one has only to refer to the internal market, which is linked with so many other areas, including trade, digitalisation, Brexit, enlargement and state aid rules. Over the course of more than 70 years, the economy has been central, both in times of crisis—as currently, with the war in Ukraine—and in less turbulent times. This article first evaluates its importance given the other central concepts that have dominated the discourse about European integration. Furthermore, it brings some crucial episodes of economic hardship to mind, from the Marshall Plan and the European Coal and Steel Community to the more recent Green Deal Industrial Plan (European Commission 2023). Finally, the article concludes with a list of factors that are always part of the way in which the European integration process provides answers to economic hardship.

One of five narratives

Many ideas have been used to legitimise the European integration process. First and foremost, peace (and war) was central to the first serious attempts immediately after the Second World War to finally end the spiral of violence and revenge on the European continent. After three generations had died on the battlefield and the fight for dominance between France and Germany had brought Europe to the abyss, confrontation was replaced by integration. Because the latter seemed too 'indispensable to the preservation of peace', new organisations, institutions and rules were created (EU 2023). Interestingly, the way considered best to achieve this goal was through a critical part of the economy: its basic resources—coal and steel—which had been central to the war economy. In other words, from the outset the economy was considered essential to building the fundaments of further European integration.

It is therefore no surprise that alongside the narrative of peace—that is, no more war thanks to European integration—the economy itself became a source of inspiration and legitimisation. After the failure of the 1954 plan to set up a European Defence Community (to which peace was key), attention shifted towards the so-called lower politics of economic integration. The 1957 Rome Treaty formalised this agenda by establishing the well-known 'foundations of an ever closer union among the peoples of Europe', immediately followed by the decision 'to ensure the economic and social progress of their countries by common action eliminating the barriers which divide Europe' (Treaty Establishing the European Economic Community, Preamble). Prosperity became a central goal of European integration, next to preserving peace, through the establishment of the four freedoms—goods, services, capital and persons—but limited to the project of market integration.

It was only in the 1990s that solidarity became a central concept too, emphasising the need for efforts to establish social progress. Social policy existed (on paper in the Rome Treaty and through other means, such as the establishment of the European Social Fund), but it had never been a core topic or focus of the integration project. Amidst public criticism, shifting political salience and a strong belief that social progress cannot be separated from economic policies, solidarity gained importance, among both member states and citizens. A new source of legitimisation was found; one that could easily accompany and often soften the purely economic perspective of European integration.

Other old narratives existed too, but did not have as strong an influence as peace (and war) or prosperity and solidarity. Religion, for instance, was largely avoided because it seemed too divisive. From the very beginning it had proved to be a contentious issue as Protestant politicians felt uneasy about the dominance of Christian Democrats among the founding fathers of the European integration project (Chenaux 1990). This sensitivity is still present but has now changed character. Now the Christian heritage of Europe itself is a topic of debate, given the strong rise of pluralism, Christian secularisation and the Islamic faith.

Not as controversial as religion, culture could have become a source of inspiration for European integration. In reality, it never has. The emphasis has always been more on cultural diversity, although initiatives have taken place to enhance exchange and debate. With the exception of some specific economic needs (such as protecting the European film industry from the dominance of Hollywood), culture has never been a sphere of integration. This certainly applies to a common European history. With the accession of countries in Central and Eastern Europe, attention has shifted and the horizon has certainly broadened, but using history as a source of integration is widely seen as too risky. This does not, however, exclude initiatives to 'celebrate' the existing diversity and attempts to explore what is common (House of European History 2023).

In the late 1980s another narrative became increasingly important: democracy (often accompanied by human rights and the rule of law). Interestingly, this had close links with the economy and the single market as it was long claimed that the one cannot be established without the other. The most recent concept used as a source of inspiration and legitimation is 'crisis'. In this narrative European integration is generally justified as the common answer to multiple crises (migration, Covid-19 etc.). But here too, the economic perspective is always present, often even dominant, as the way in which challenges are handled by the EU is to use its toolbox of economic integration instruments. This is the result of 70 years of market integration, in good times and bad, as the EU's history shows.

Ten of many episodes

After the Second World War, European integration was largely the result of the Cold War between the US and the Soviet Union. Western European countries were vulnerable given their military exhaustion, political decline and economic ruin. The continent was divided and Stalin's Red Army was only 500 kilometres away from The Hague, Brussels and Paris. The US came to the rescue, not entirely altruistically: loans had to be repaid and the exportation of consumer goods to Europe would certainly help the American economy to make the change from war to peace. Alongside the establishment of NATO, the US Secretary of State George Marshall proposed an economic relief programme, the European Recovery Programme. Better known as the Marshall Plan, in 1948 it became a permanent organisation with the aim of stimulating further economic integration. However, this did not get off the ground until the Schuman Declaration of 1950. The creation of the European Coal and Steel Community—supranational in nature and focused on sectoral integration—was the first real success for economic integration in Western Europe. Not insignificantly, the British remained outside the Community, but the Americans wholeheartedly supported this French initiative to counter post-war economic hardship.

The Rome Treaty built on its success. To further integrate the German recovery while compensating for the loss of colonial power, the scope of economic integration was broadened. In 1958 the European Economic Community was launched. Its goal was to realise an internal market in 3 stages within 12 years. Moving away from merely a customs union required a common external trade policy as well as a common competition policy and triggered integration in areas such as transport and agriculture. Since then, the integration train has not stopped, and has increasingly involved all kinds of economic sectors and certainly new ones such as telecommunication.

The idea of strengthening the internal market by moving to an economic and monetary union had emerged by the end of the 1970s but failed due to the effect of a decade of economic and social crisis. Rising energy prices and the subsequent upsurge in inflation tore the member states apart. The power was in the capitals, not the Brussels institutions. A common response seemed politically impossible. The '*sauve qui peut*' adagio brought integration to a standstill—this stagnation being dubbed 'eurosclerosis' (Giersch 1985)—despite the (mainly economically driven) enlargement with Denmark, Ireland and the UK in 1973.

A breakthrough took place in the second half of the 1980s under the leadership of European Commission President Jacques Delors. The 1985 Dooge Report paved the way by critically assessing the state of the Community's economy, which was 'now in a state of crisis and suffer[ing] from serious deficiencies. In addition, however, the Member States [had] become caught up in differences which [had] obscured the considerable economic and financial advantages which would be obtained from the realization of the common market and from economic and monetary union' (Ad hoc Committee for Institutional Affairs 1985, 11). Supported by the European Roundtable of Industrialists and with the support of national governments, a new treaty—the Single European Act—provided the means to relaunch the economic integration project. To be able to compete with the US and Japan all kinds of barriers had to be removed to create a true single market by the beginning of 1992. This project was called Objective 1992 and pushed the internal market to a new level. A few years later it was supplemented by the Maastricht Treaty, which introduced an Economic and Monetary Union (EMU) to avoid the further dominance of the German economy and its currency over the economies of Western Europe. The EMU, however, was designed according to a German model, with an independent central bank that was expected to keep inflation low.

The Stability and Growth Pact, which entered into force in 1999 to monitor economic and fiscal discipline within the euro area, largely failed in the first decade of the EMU. Member states that did not comply got away with this in the absence of coercive measures or sanctions. The same was true of the Lisbon Strategy (or Agenda), a plan to make 'the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion' by 2010, as the EU was 'confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy' (European Council 2000). The 'open method of coordination', in which member states voluntarily cooperated to achieve certain goals based on benchmarking and soft instruments, had clearly failed.

The financial crisis, which triggered a sovereign debt crisis within the euro area, revealed the weak spots in the EMU. Austerity measures further deepened the economic and social malaise, especially in member states such as Greece, Cyprus, Portugal, Spain and Italy, as well as Ireland and Hungary. Lessons were learned in two ways: flaws in the design of the EMU were repaired while Keynesian politics returned to the heart of EU decision-making. Eventually the decision was taken not to issue 'Eurobonds'; instead the Juncker Commission launched its 'Investment Plan for Europe', focused on strengthening 'the real economy' through, for instance, public infrastructure projects. On his accession as Commission President, Juncker (2014) stated,

> [D]uring the crisis, which was not a crisis of the euro but a debt crisis, we had to repair a burning plane whilst flying. This was not easy . . . but we did manage to keep the whole Eurozone intact. . . . But we also made mistakes. Repairing a burning plane mid-air is no simple matter; you sometimes get your fingers burnt.

Brexit did not undermine the internal market. On the contrary, under the leadership of the European Commission the member states stayed united in defending the interests of Ireland as well as the integrity of the single market. Brexit did, however, lead to economic disruption but, compared to the EU, much more harm was done to the UK itself. The Covid-19 pandemic proved to be a much greater challenge for the European economy. However, very quickly a taboo-breaking recovery plan was set up, named 'Next Generation EU' (NextGenEU), which involved the issuing of common debt and the introduction of EU-wide taxes to finance this. The money is meant to be spent on the 'twin transition': towards a digital and carbon-free Europe by 2050. In other words, it is a plan to fundamentally change the economy.

The Russian invasion of Ukraine has put this agenda, but also the European economy in general, under severe pressure. Rising energy prices and high inflation rates risk transforming our societies in a way that makes them less social and less oriented towards renewables. To respond to unfair Chinese competition and the attractiveness of the US's Inflation Reduction Act, von der Leyen has recently launched the Green Deal Industrial Plan, which emphasises the continuity of the EU's economic model, 'Because the strength of our social market economy will drive the green and digital transition' (von der Leyen 2022).

Conclusion

What lessons can be learned from the EU's economic history, its narratives and various episodes? First of all, European integration is not triggered by economic growth or success. Rather, the opposite is true. As in most policy areas, the EU steps in when member states fail to overcome their own problems. However, this is a necessary but not sufficient condition for European 'intervention', as is shown by the period of eurosclerosis. Other factors matter greatly too, particularly competition with other economies, such as those of the US, Japan or China. The race to stay competitive or even strengthen the EU's position in the global economy has clearly been a powerful trigger for European integration. Furthermore, hostile political conditions—that endanger the geopolitical role of Europe—are also important, as was proven during the Cold War, and more recently during the Russian invasion of Ukraine.

More endogenous factors matter too, for instance, quantitative decline, such as the shrinking demography, lack of raw materials and labour shortages, which have to be compensated for by the 'quality' of the internal market (i.e. trade intensity, high-skilled labour or business-friendly regulation). Divergence among national governments—particularly about the role of the state in the economy—is a serious challenge to a common approach, and it also causes internal competition between the member states. The latter often proves to be short-sighted (offering immediate benefits) and therefore is not easily matched by the strategic thinking (long-term gains) proposed by EU institutions, especially the European Commission. A common plan with a catchy title (e.g. Objective 1992, the Lisbon Agenda or NextGenEU) certainly helps to sell projects of further economic integration to the wider audience.

Often the right circumstances are needed to make an idea fly. For instance, during the European Convention, '. . . Germany was strongly opposed even to addressing the question of what economic governance might look like at the EU level; a decade later, it was Germany that took the initiative to promote a legal framework based on fiscal discipline' (Vitorino 2012, i). Equally, economic integration may take place during a crisis that is not economic in origin, such as the health crisis caused by the Covid-19 pandemic. Given its crucial role to protect the internal market, the task of the EU is then to look for (and beyond) what is necessary to supplement and to empower (but not replace) the role of the member states—which still hold key competences and instruments—as they deal with economic hardship. Further integration can bring opposing views towards a synthesis that strengthens the common good and integrates the interests of all stakeholders, including the smaller member states, small and medium-sized enterprises, and vulnerable groups in society. When this happens, economic hardship can ultimately strengthen 'the enduring values of our social market economy' (von der Leyen 2022).

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