

DISCUSSION PAPER

*Preliminary material and interim research results circulated
to stimulate discussion and critical comment*

**The Second Enlargement of the EEC
in Historical Perspective**

by Dudley Seers

DP 158 February 1981



The Second Enlargement of the EEC in
Historical Perspective*

by

Dudley Seers
DP 158
February 1981

The paper suggests that the European Economic Community can only be understood in its historical context, as an attempt to recreate the dominant position of Western Europe in the colonial system - able to obtain the food, raw materials and fuel its needs to maintain its economy and thus its parliamentary system, high wages, etc. To do that requires now a grouping of nations, with a varied resource base and a large market, not merely to achieve technological supremacy but also to bargain successfully. The Second Enlargement, like the First, is logical from this point of view, though it raises more sharply than before the question of how viable an economic zone is, in the long term, if it allows big inequalities to persist or even grow. The momentum of enlargement raises a question about the possibility of a Third Enlargement to cover, at first informally, part of Eastern Europe too.

* This paper will form the Introduction to The Second Enlargement of the EEC: Integration of Unequal Partners, edited by Dudley Seers and Constantine Vaitsos, Macmillan (forthcoming 1981). When chapter numbers are cited in the text, they refer to this volume.

CONTENTS	Page
Introduction	1
The First Two Decades of the EEC	4
The Background to the Second Enlargement	8
A Community Enlarged but Unchanged ?	11
The Requirements of True Integration	13
The Possibilities of Further Development	18
Tables	24

INTRODUCTION

It would be a mistake to discuss the enlargement of the EEC simply in terms of the addition of three more members. We need to see how this fits into the changing pattern of the Community, past and prospective, and to do that we have to go back to its origin, as an attempt to recreate European prosperity and influence in the second half of the twentieth century.

Let us start, in fact, further back with a very brief, and thus over-simplified, survey of the main features of European ascendancy in the colonial period: although these are well-known, we need to recall them if we are to understand the issues raised by the enlargement. The technological leadership, first of Britain, joined by France and later others, made it possible to create a world system in which the manufactures of the leading countries of Western Europe were exchanged for foodstuffs and materials that were considerably cheaper than those produced at home. The development of primary production overseas was also directly profitable because much of the capital and expertise for plantations and mines (and for related systems of railways and docks) also originated in Europe, so profits and interests flowed homewards, as did payments for insurance and freight. These beneficial patterns of trade, services and investment were cemented by cultural links (including the use of the English and French languages) and safeguarded by colonial political systems (ultimately by military power). Western Europe was, moreover, self-sufficient than in the main source of energy, coal.

As always for technological leaders, laissez faire was the appropriate doctrine. On this economic base, an international economic order could be established with considerable freedom of trade and currency convertibility through the gold standard. The 'rules' of this order compelled the colonies (and weaker independent countries) to open their economies up and follow, automatically, economic changes in the big industrial countries - for example, suffering slumps whenever they did.

The hegemony enjoyed by Britain and France, in particular, permitted rising wages at home, a considerable expansion of social services, the development of trade unions and strengthening of parliamentary democracy - four trends which reinforced each other. The expanding fiscal system,

-
1. I am grateful to the following for comments on drafts (though none should be held in any way responsible for the final version): Manfred Bienfeld, Philip Mishalani, Stefan Musto, Marja-Liisa Kiljunen, Constantine Vaitos. Philip Mishalani also helped with the basic research.

together with deliberate policy initiatives, transferred funds not only from the rich to the poor, but also from more advanced regions to those that remained backward. The consequent growth of internal markets, together with the expansion of international trade, enabled the industrialists to take full advantage of economies of scale and reap profits which could be reinvested to sustain the momentum of technological advance: this in turn permitted a consolidation of the cultural, political and military pillars of hegemony.

In retrospect, while the pattern of progress was coherent, it was precarious. Consumers in the metropolitan countries, working class as well as middle and upper, became accustomed to life styles which were opulent by international standards. Since these involved heavy bills for imports of food and materials, the whole system was vulnerable to overseas policies of import substitution or nationalisation, which were only inhibited by colonial rule.¹ It was even more exposed to the emergence of any countries that could challenge the imperial powers.

Even at the turn of the century, the United States economy was starting to produce substitutes for imports from Europe and to compete with European exports in third markets, with the help of cheap and willing immigrant labour. Still, fortunately for Western Europe, this emerging economy could advance by internal expansion: it had the space to develop its own food supplies and enjoyed vast untapped mineral resources.

A much more serious threat came from within Western Europe itself. The benefits of European hegemony were not spread at all evenly across the continent. They accrued mainly to the early industrialisers, especially Britain, the earliest, and the one with the largest and richest empire. In the countries without colonies, wages remained low, social services meagre, trade unions weak and political systems mostly authoritarian. In particular, as Lenin pointed out, a major disproportion arose between, on the one hand, the industrial capacity of Germany, and, on the other, its overseas markets and investment opportunities, and, therefore,

-
1. The local rich, who had mostly been educated in Europe (or in European-style universities) and knew the style of life of the European middle classes, had developed tastes for European products, but many of them, especially the new graduates of local universities, lacked spectacular employment prospects and resented second-class status.

its international influence and internal living standards. After all the doctrine of laissez faire was not so pure that the imperial governments which preached it felt impelled to open up their colonies. The German response was in part a policy of protected and guided industrialisation (with the blessing of List), in part external expansion. The two world wars which originated, and were mainly centred, in Europe should be seen, not as the work of two individual adventurers but as national attempts to wrest hegemony from the older imperial powers.

Although the latter 'won' they were seriously weakened. They were unable to reverse, after the first war, the Communist revolution in Russia. Moreover, the effort to sustain in the inter-war period the whole colonial system (now beginning to be challenged also by Japan), including a re-established gold standard, aggravated the depression in Britain and France and weakened their economies, involving priority for the military superstructure at the expense of the industrial base. Even so, their military strength proved inadequate. In the first war, German imperialism had been defeated very largely by British and French forces: in the second, France collapsed at an early stage, and major roles were played by the Soviet Union and the United States. After the first, only the Austrian and Russian Empires had disintegrated: following the second, none of them survived and Britain and France were jointly humiliated in the Suez crisis of 1956.

The wars had stimulated the tide of nationalism in Africa and Asia and provided opportunities for industrialisation elsewhere, especially in Latin America. Following the advance of the Red Army in 1945, Communist regimes were installed in Eastern Europe, cutting it off politically and economically from the West. Productive capacity in Western Europe had, moreover, been reduced by bombing, and inventories of all types were very low. Britain and France became dependent economically and militarily on the United States, a country which now had its own interest in opening the colonial empires to international competition and establishing a worldwide arena for its clear technological superiority. The US administration established (at Bretton Woods) a system of convertible currencies at fixed exchange rates, with rules in some ways similar to those of the gold standard, but based on the dollar.

-
1. Though the Russian one was recreated with the help of egalitarian rhetoric. (It is beyond the scope of this paper to investigate the realities of its implementation).

The First Two Decades of the EEC

The original aims of the European Economic Community lie rooted in this history. The most urgent objective of its founders were to prevent any more German attempts to snatch hegemony by force, and to check the penetration of Russian influence in Western Europe. In these aims it naturally had the support of the US government, which welcomed the Community's birth. But there was also a more far-reaching objective, to catch up in technological terms and re-establish the economic foundations of hegemony and thus of comfortable life styles and parliamentary democracy, without relying on the United States.

Such an aim was hardly any longer conceivable for individual European countries in the second half of the twentieth century, but a 'third force', capable of 'continuous expansion', in the words of the Speak Report,¹ did not look implausible on the basis of the combined resources and markets of six countries with a total population larger than that of Japan. Ultimately, the Community would, it was hoped, advance to a high degree of economic and institutional integration, including a monetary union and a common defence force, eventually a political union.

The founders also intended that the Community would be a laissez faire system. This would ensure that its industrial structures were made more efficient by exposure to competition, and contribute to the re-establishment of international free trade, which was an essential element in this neo-colonial scenario. Moreover, institutional laissez faire would make it difficult for any really left-wing government of the future to exercise controls and carry out far-reaching social changes (as appeared, at the time, a real possibility in France and Italy).

In the 1960s, all the immediate political and economic objectives seemed to have been brilliantly secured. The Treaty of Rome had consolidated Germany's post-war partition by integrating the economy of the western sectors with those of France and the other founding members. Military power had been not only eliminated but forgotten as a means of settling disputes within the Community, and armed forces

1. See 'The EEC and the World Economy' by Geoffrey Barraclough, Integration and Unequal Development: The Experience of the EEC, eds. Dudley Seers and Constantine Vaitsos, (Macmillan, 1980).

were no longer needed for defence against West European neighbours. Soviet territorial expansion had been contained (though with considerable assistance from the United States, eg, over Berlin) as had the rise of the French and Italian Communist Parties. Economic growth was fast, raising living standards well above even pre-war levels. Although the Community's Common Agricultural Policy (CAP) became increasingly autarchic, the low external tariff on manufactures, together with internal free trade, continued to demonstrate the economic liberalism of the Community's founders. Moreover, the CAP had one great merit: it raised the degree of self-sufficiency in food, and thus reduced dependence on the outside world - whatever one may think of either the equity or the efficiency of the instruments employed. To a considerable extent the old colonial economic links were preserved, or re-established.

There is no way, however, of knowing how much the attainment of these objectives was due to the Treaty of Rome. Economic growth had accelerated to a fast rate long before the Community was founded. It was facilitated afterwards not merely by the continued expansion of the world economy but also by a heavy inflow of labourers from the Mediterranean area who took on unattractive jobs and helped restrain wage increases; they would have come to Western Europe anyway.

It was not the Community as such which re-established colonial-type patterns of trade and investment but its member governments and the transnational enterprises (TNEs). Most of the newly-independent governments overseas, especially in Africa, acquiesced (to a degree) in this. It was the only way their leaders could retain the European life styles to which they had grown accustomed and which the TNEs were reinforcing. European governments had helped to power those sections of the nationalist movement they considered cooperative, especially in countries with rich mineral resources, and were assisting them subsequently. On occasion, especially in Africa, troops were used, but the main means now had to be financial aid and technical assistance.

Even during the negotiations leading up to the Community's first enlargement, which substantially increased the market and its resource base, world economic conditions continued to be favourable. However, as that enlargement approached, the boom was already running out of steam. Britain, Denmark, and Ireland were admitted on the eve of an economic crisis which had been heralded by the breakdown of the Bretton Woods system of fixed exchange rates (a sign of weakening hegemony), and was triggered by the fast rise in oil prices at the end of 1973.

The rise in productivity in the industries of Western Europe was slowing down, and the difficulties they now faced, especially older ones such as shipbuilding, steel, textiles and clothing, were aggravated by increasing competition not merely from Japan but also the 'newly industrialising countries' (NICs),¹ which had been attracting heavy TNE investment. Moreover, import-substituting industrialisation was growing throughout the Third World. On the other hand, even in Western Europe itself, some of the dynamic new sectors, especially electronics (including micro-processors) were dominated by TNEs based in Japan and the United States.

The weaknesses in European industry have been aggravated by a fundamental inconsistency between the Community's autarchic policies for agriculture and its laissez faire aspirations for industry. It is not easy to achieve a fast expansion of industrial exports, or avoid penetration of domestic markets, if trade union demands, anyway strong, are stimulated by high prices for what is still the most important wage good, food.² (Have we forgotten so completely the stimulus provided to British industry by the repeal of the Corn Laws that we expect to have no effects on unprotected European industries the Community's price supports for cereals and other farm products?)

Such support, especially in the livestock sector (during a period of economic stagnation), also created embarrassing physical surpluses and placed a heavy financial burden on its budget, inhibiting the growth of social and regional expenditure, which would have assisted industrial restructuring. Very little money indeed was available, either, for the vital sector of energy. Moreover, the severe crisis in 1980 over the net contribution of Britain, the least

-
1. Actually the total penetration by the NICs is so far not very great. See 'The Changing International Division of Labour in Manufactured Goods', World Bank Staff Working Paper no 329, 1979.
 2. US manufacturers have not only benefited from cheap food, but also from controls on the price of domestically-produced oil.

agricultural of the Nine, diverted policy discussion away from the fundamental problems - how the Community economy was to survive in a world gradually becoming more competitive and, of a sudden, politically quite menacing.

The problem was in part exported:¹ barriers were erected arounded the Community to protect not only agriculture, but now also the traditional industries mentioned above. The EEC's effective rates of protection are now higher than those of the United States and broadly comparable with Japan. The Community has also made more use of health regulations, variable duties and quantitative restrictions (ie 'non-tariff barriers') than either of its two main competitors.² A Community cartel has in effect been created in steel. Community subsidies are being used to assist European electronic and communication industries to catch up those of Japan and the United States.

It is now clear that the aspirations of the Community's founders to recreate technological leadership have not really succeeded, apart from a few industries (mainly in West Germany). So economic liberalism has been largely abandoned in reality - if not yet in the Community's rhetoric. Instead, the Community's bargaining muscle, which is a function of economic size, has been used increasingly to contain the penetration of European industrial markets by Japan and the NICs.

The Community has played a growing role in shoring up the colonial patterns of trade and investment. While in its first decade, aid and trade policies were almost entirely bilateral, the Community has been gradually taking these over, institutionalising them in the Lome agreements, and negotiating special treaties with Mediterranean countries.

Integration has in fact yielded benefits in external policy not envisaged at the outset - at least until political

1. See Manfred Bienefeld in Seers *et al*, *op cit*, which discusses the 'externalisation' of the Community's problems.
2. See a paper on industrial protection by Pedro Mendive (*CEPAL Review*, no 10, 1980). However non-tariff barriers of other kinds - eg language and personal contacts - successfully insulate the Japanese market from any foreign competition that might threaten penetration.

union had been achieved. Statements have also been issued on the Community's own position on political issues such as Southern Africa, Iran, Afghanistan and Palestine and it is represented as such at 'summit' meetings. The 'Conference of Foreign Ministers, speaks on its behalf to the European Parliament, United Nations, etc.'

The Background to the Second Enlargement

In the mid-1970s, there seemed no great difficulty about accepting Greece, Portugal and Spain into the Community. The second enlargement would indeed help achieve the original economic and political objectives: a still bigger market would be created, whereas to reject their applications would stimulate the Communist forces evidently alive in each of them. The Nine had digested the rise in oil prices from 1973 to 1975 with surprisingly little difficulty. They provided much of the new import needs of the Arab oil exporters, and their money markets successfully 'recycled' most of the considerable quantity of foreign exchange which the latter could not spend. After a brief check, economic growth was resumed.

However, satisfaction over the resumption of economic growth was premature. At the end of 1978, following the revolution in Iran, oil prices soared again, testing the flexibility of the economies of the Community once more, and more profoundly. Really only that of West Germany passed the test. It is now clear that in other members, especially Britain, institutions and attitudes still reflect the former type of hegemony. It has been possible for rigidities to linger on in both capital and labour markets, for unenterprising management to survive, and for trade unions to resist innovation and redeployment and simultaneously to demand ever-rising levels of living. The steadily growing unemployment and chronic inflation in the Nine (see Table 1) are symptoms of social structures that are fossils from the colonial period.

There are therefore historical reasons for expecting the 1980s to be a difficult decade for Western Europe. In addition, it is doubtful whether world trade in oil will be

1. The O'Kennedy Report (October 1979) summarised progress in this field.

maintained at current levels, even if there is no major war. Consequently, industrial output in Western Europe may well show little net rise over the decades ahead. The prospects would be brighter if an alternative life style, less materialistic and thus less energy-intensive, were adopted, as advocated by Jose Luis Sampedro, but at present this is still very much a minority taste (cultivated in the face of heavy pressures of salesmanship).

Tensions with the rest of the world, including 'developing' countries, are growing. The energy constraint, in conjunction with a still rapidly rising world population, is turning the world economic contest into almost a zero-sum game. This is being played with increasing ferocity. The first generation of post-colonial political leaders and officials in Africa and Asia is being replaced by a new cohort who are more acutely aware of historic grievances and determined that they will not remain the world game's biggest losers.

This is the rather unhelpful context of the negotiations over the applications of Greece, Portugal and Spain to join the Community. One thing we soon noticed in our work is that the implications of the enlargement have not been properly studied, or even widely appreciated, in either the existing members or the new ones. In the former, some groups are aware of how the enlargement may affect their immediate material interests - farmers, for example, producing 'Mediterranean' products. Others hope for allies in the dogfights of Community politics.¹⁾ Hardly anybody, however, except perhaps in West Germany²⁾ has grasped the magnitude of the project. Still fewer are ready for the short-term sacrifices that would integrate Western Europe for the longer term. On the other hand, few realise the potential advantages. Not only would the Community market be bigger; the population would be younger, with a high proportion of those more capable of adjusting to political changes and to the rapidly shifting pattern of the demand for labour.³⁾

-
1. See Chapter 2 by Christian Deubner.
 2. See the work of the German Development Institute, referred to in the Chapter by Stefan Musto.
 3. It would also not have to face the prospect of population decline. By 1977, the average completed family size had already declined below the replacement level (2.1) for all the existing members of the EEC (except Ireland). (People, vol 7 no 1, IPPF, London, 1980, based on estimates by Institut National d'Etudes Demographiques, Paris).

In the Three, when the applications were made, the justifications appeared vague and largely speculative: membership would 'reinforce democracy' or 'strengthen free enterprise'. Such beliefs hardly seemed a sufficient basis for a step which involved a considerable sacrifice of sovereignty. Here too the social and economic requirements of full integration are still only dimly appreciated.

While the applicants have certain dynamic industries, especially Spain, able to penetrate more deeply the markets of the Nine, parts of their manufacturing and agricultural sectors are hardly capable of survival inside the Community. (See Payno et al forthcoming.¹) The shock of joining could well strengthen, not weaken, authoritarian tendencies.

enlargement comes at a time when the Community's institutions are evidently in need of reform, when many of its own industries need considerable structural change to become competitive on world markets and when its economy is stagnant. "The crisis of the Community is likely to become the central issue of the southern enlargement and not the other way round".²

On top of this, the enlargement also reinforces the already pressing need for a redefinition of the Community's role vis-a-vis non-members, especially the 'developing' countries. The Community has already in some ways damaged their interests. The implications of the enlargement for the Arab countries of the Mediterranean, the ACP states and the Asian NICs, are that extending concessions to the new members will entail withdrawing them from parts of the Third World. Examples are provided by manufactures such as textiles and steel, farm products such as wine and olives. The more migrants enter the Nine from the Three, the fewer will come from elsewhere. The more West European capital is invested or lent in the new members, the less will be available for the Third World.

Here again, the task is simply a bigger version of one that faces the Community anyway - finding ways of reconciling the fundamental needs of Western Europe with those in 'developing countries'. The problems of the latter are not merely pressing on humanitarian grounds; markets and

-
1. The Second Enlargement of the EEC: The Prospective New Members; Macmillan, forthcoming.
 2. See Francois Duchene in Chapter 2.

sources of materials are essential to a continent with an economic structure shaped in the colonial period. Indeed, precisely because basic foodstuffs and energy have become so expensive in the Community, its industries more than ever need continued access to cheap sources of another major determinant of industrial costs, raw materials. The practical dilemma facing the EEC is how to reconcile the maintenance of such access with the protection of West European industrial output and employment. The balance of interest is, moreover, not identical for all its members: the West German government is primarily concerned with keeping foreign markets open, a British government of any kind must give a heavy weight to the problems of precarious industries at home.

In the absence of Community leadership, member governments will no doubt set up national barriers to protect employment in sensitive industries, make their own trading arrangements - and raise difficulties over the admission of Spain. The French government, in particular, shows signs already of taking this route, with its bilateral Middle East deals and the presidential references to the problems posed by Spanish entry.

A Community Enlarged but Unchanged?

As pointed out above, social contrasts have been mitigated, up to a point, within each of the Nine over the past century, largely through the growing power of fiscal systems that depended on the economic benefits of West European hegemony. However, the Community itself has conspicuously failed so far to reduce the inequalities in the Nine. The standard of living in, say, Sicily continues to be very far removed from that in Hamburg, more so in many respects than when the Community was founded. The concentration of economic power now seems in some ways comparable to that in the Hapsburg Empire, where it was one of the causes of the latter's downfall. Unemployment is especially high in peripheral areas. The Community's founders, being deeply conservative, did not see the need for a strong fiscal system, which might have been easier to wrest from member governments in the early, dynamic years. The tacit assumption was that the profits of growth would 'trickle down' sufficiently to solve regional problems, a proposition for the most part discredited in other continents, and obviously now in Western Europe too.

The main head of Community expenditure, the CAP, has turned out on balance somewhat regressive. Although the regional and social funds have redistributive aspects, their effect is negligible because a large part of their outlays too are made in the richest countries, and anyway, they have little to spend, certainly not nearly enough to offset the cumulative

divergence that takes place within any economic space. Moreover, the Community's most notable economic initiative in recent years, the European Monetary System, could, like the gold standard, easily increase rather than reduce inequality, in the absence of policies to stop this happening.¹⁾

The political representatives of the Nine evidently see their role (and indeed their careers require them so to do) as one of safeguarding living standards and employment levels in their own countries, now under increasing threat, due to the precarious state of West European hegemony, against Community policy which might impinge on these. So Community politics continues to consist of quibbles about which nation will gain what in the short term. At the time of writing, the Community's basic response to the problem posed by three poorer recruits seems to be: 'What must we concede to them?', not 'What do they need to become fully integrated into the Community?' This is true even of the West German establishment, who have most to gain economically from increased access to new markets.²⁾

If however, the political will and leadership to assimilate Sicily have been lacking, why should we expect them to appear on the scale needed to develop most of Portugal, especially in a period when governments are dedicated to restrictive financial strategies? In concrete terms, even if there are no major changes in the Community, sacrifices will be required from many in the Nine whose jobs are anyway precarious (eg textile workers) or who rely on subsidies from the Community budget (wine producers, for example). Some of those currently benefiting from the regional and social funds would be affected because, even if these were considerably increased, entirely new operational criteria would have to be employed. We must expect competition for the Community's meagre financial resources between the Three and the poorer regions of the Nine.

Yet if there are no major reforms in the Community, there will be, after the enlargement, serious dualism, indeed a sort of colonial system. In the poorer group which already suffers whenever a government of the core adopts financially restrictive policies, the effects could be more severe if they give up the possibility of adopting measures to protect the national economy. Wage levels would stay much lower than in the Nine, and the new members would continue to depend heavily, perhaps increasingly, on tourism and labour migration. During the envisaged transition period, legal barriers will remain, but, ultimately, one result of a two tier community would presumably be an uncomfortably heavy migration towards West Germany and France. Another would be the increased likelihood of genuinely left-wing parties taking power after all, or only being prevented from doing so, as in the past, by right-wing repression - and neither

-
1. See the introduction to "Integration and Unequal Development" op.cit.
 2. See Chapter 3,
 3. See the chapter by Carlo Secchi,

process would necessarily stop at the Pyrenees. Lastly, Community business would become even more difficult to transact than at present, further impairing its capacity to deal with external challenges: the exact constitutional arrangements for the enlarged Community have yet to be defined, but the new recruits will hardly lack ways of making known their needs if these are neglected.¹ The EEC would not be the first Community to disintegrate.

The Requirements of True Integration

There is an alternative scenario, that of true integration. This would require capital to finance the reconstruction of the agricultural and industrial sectors of the new members² and a reformed fiscal system with a much larger budget. Although the economic argument of the Brandt Report, that it is in the interests of rich countries to help the development of the poorer, and that 'massive transfers' of funds would flow back to the donors in export orders stimulating their industries, is open to various political and economic objections (see Dudley Seers, 'North-South: muddling morality and mutuality', Third World Quarterly, October 1980), these are less cogent when the argument is applied inside Europe: here there really are some 'mutual interests'.

A truly integrated Community, especially of twelve, would be able to develop further its role as a policy maker in industry. It could follow the logic of dear food and set limits to the penetration of European industrial sectors, without losing access to overseas markets or sources of supply. (Retaliation is less feasible, the larger the Community). Community regulation of industrial activity will surely be applied to an increasing number of industries, developing into a policy of increasing Community self-reliance, the logical counterpart of the self-reliance strategies, especially 'South-South' cooperation, or 'collective self-reliance', which are increasingly (and understandably) being promoted in the rest of the world.

-
1. Because of this possibility, there has been some talk of a formal junior category of membership with fewer responsibilities but also fewer rights (which has indeed been considered also for Britain). But can political stability in the Mediterranean be bought so cheaply?
 2. A 'Marshall Plan' for the Mediterranean was adopted by the West German Social Democratic Party, though not the West German Social Democratic Government.

Moreover, it would be desirable - if politically possible - to use such regulation to create some space for the expansion of industries, especially new ones, located in Southern Europe.

In a more homogenous Europe, the European Currency Unit could become the strongest of currencies, impervious (which it is not currently) to a dollar that fluctuates violently. Not merely much trade, but also considerable transactions for services would be internal. Then the ECU would provide the base for world trade as a currency of both account and settlement. Indeed the EMS could eventually develop some of the functions of a European Central Bank with its own reserves, capable of reinforcing Community economic policies, eg for recycling the OPEC surpluses.

Could such a Eurocentric scenario be combined with a constructive approach to relations with the 'Third World'? It would not be hard to improve on past performance. Our contribution to overseas development since the war may well have been on balance negative, even since decolonisation. The beneficial effects of aid have been outweighed in many cases by the consequences of political support, mentioned above, for governments that fit into a 'western' dominated world economy. In many of these (eg Zaire), populist regimes have been subverted and repressive and inegalitarian regimes established and supported. Much European capital and covert political support has also been extended to the government of South Africa, affecting the whole of the southern part of the continent.¹

The impact varies of course, but in general high technology is injected into the 'modern' sector, aggravating geographical dualism and economic inequality.

A community of twelve would have less need for the resources of the Third World. It would of course be even more dependent on imported oil than the Nine, and, especially if most of the additional Western Hemisphere capacity is absorbed by the United States, it will be heavily dependent on the Middle East. But its very economic size, provided it develops further its capacity for united action, would

1. Banks and their subsidiaries in the EEC (more than 200 altogether) lent a total of more than \$10 billions to South Africa in 1972-8 (Bank loans to South Africa 1972-8, United Nations, 1979)

help strengthen its bargaining power and facilitate agreements with the oil producers of the Middle East that could cover guaranteed supplies at stable (indexed) prices in return for greater technological support and closer political cooperation.

In other respects, a bigger Community would be able to meet more of its own requirements (see Table 2)¹, though still a big importer of key industrial materials, such as copper, wood, cotton and wool², and there are considerable possibilities of further mineral development in the Three.

Provided these are exploited, the customary interventions of its member governments in the political and economic affairs of other countries, which is certainly becoming less feasible, might seem less necessary. This could be much more important to the Third World than what happens to the volume of capital flows. It could in fact well be to everyone's benefit if the European TNEs, engaged in manufacturing and certain minerals, were induced to invest inside the Community, especially along its periphery, rather than outside it. Governments elsewhere are much less capable of protecting the national interest by rejecting socially undesirable projects put forward by the TNEs, or by controlling their operations (eg by checking 'transfer pricing'), or by ensuring that technology, of the right kind, is gained.

-
1. It would, for example, be able to supply more of its own needs of semi-tropical fruits and vegetables, such as citrus and tomatoes. What is a threat to parts of the Third World is an opportunity for Southern Europe. On the other hand the agricultural surpluses of the Nine could more easily be absorbed - provided, of course, the CAP is reformed so that enlargement does not lead to big increases in the Three in the production of foodstuffs already in surplus, and the Three's income rises sufficiently. Capital flows to the new members would also help generate much-needed orders for the equipment industries in the present Community.
 2. The Community would also be more self-sufficient in antimony, manganese, mercury and tungsten.

Similarly, types of aid that have primarily political or commercial justifications (constituting a large fraction of the total) could also well be reduced, with advantage to both sides. The purpose of much aid at present is to gain political or commercial advantage over other European countries: if more were channelled through the Community, this motive would largely disappear. (Direct aid from OPEC sources, less politically or commercially oriented, could gradually take its place). Moreover, much technical assistance is now really superfluous - and some of it leads to inappropriate transfers of technique, damaging the recipients.

Perhaps the most constructive European policy in the 1980s would be increasingly to allow the countries of the Third World to solve their own development problems - in sharp contrast to the paternalistic self-interest of European Third World policy in the past three decades. One of the most significant implications of the second enlargement is that it permits, and may compel, a degree of disengagement. This would assist the 'delinking' now being increasingly espoused in the Third World. As a corollary, a more autonomous Western Europe could play a positive role in establishing a viable world economic order, with international taxation gradually taking the place of aid. If European TNEs invested less abroad, members of the EEC would be less intent on their defence in UNCTAD; indeed the Community would be more likely to develop an interest in monitoring the behaviour of TNEs based in the United States and Japan. Our continent could also if it solves its economic problems continue to provide academic liberties in research and teaching from which those in other parts of the world, where these are now rare, would also benefit, directly or indirectly.

Yet there is a big question mark about the internal foundations of the integrationist scenario. To what extent do people feel themselves 'Europeans', willing to transfer patriotic loyalties to European institutions (as most United States minorities have been prepared to accept assimilation)? This is already a fundamental question about the Community of Nine, and will be raised more acutely in one that is bigger. How it is answered in any Community is probably in the end a necessary condition of viability (though far from a sufficient one), and the larger and more heterogeneous the group of countries, the more important it is.

An intuitive, but hardly controversial, reaction is that the sense of being a European does not seem, anywhere in the continent, nearly strong enough to carry a big political superstructure. We must not forget the linguistic frontiers which are more durable than customs barriers, nor the trad-

ditional enmities, eg between the British and the French. A Briton, say, who goes 'to Europe' for his holiday, perceives contrasts not similarities, and may well take shelter in a group of compatriots on a package tour. Such cultural variety helps explain the strength of nationalist resistance to the policies that would integrate the Community.

A visitor from Africa or Asia is, however, likely to be struck by the similarities in life styles in Europe - brands of consumer goods, clothing fashions, architectural design, popular music and (by comparison with the rest of the world) values and attitudes, including a lingering belief in the rule of law. The ideologies of European Communists and Conservatives seem to us far apart, even within a country, but this contrast looks a good deal less striking when we turn to the values and attitudes of (say) Iranian mullahs or the cadres of the Khmer Rouge or Argentine Generals or many of the African dictators. Because of common legacies and experiences in Europe (covering the Three as well as the Nine) cultural differences are really quite marginal relative to those separating it from other continents.

Moreover, we should not fall into the trap of assuming that circumstances will, or even can, remain unchanged. (Economists have become accustomed to economic dynamics but often marry it to static political analysis). The factors that have increasingly produced Community policies and led the Community to act as a bargaining agent will continue to operate in the coming decades. Civil and international wars, especially in the Middle East, are likely to become more frequent. The interests of the United States and Western Europe seem unlikely to start converging: indeed political trends in the United States seem bound to lead to growing friction. Moreover, there may well be more regimes like those of Idi Amin and Bokassa, and incidents in the Third World that have shocked public opinion (like the assassinations of Europeans in Katanga) may grow more frequent. There will inevitably be some strengthening of the Commission's staffwork on external policy.

There will, no doubt, be more incidents in Western Europe itself like the riots of Iranian students and murders of exiles from Libya and the Middle East. Cooperation between EEC anti-terrorist agencies will continue to grow and must eventually lead to an agreement on extradition.

The competition of Japan and the NICs will predictably affect additional European industries. Overseas countries will be able to satisfy a growing fraction of their own

industrial needs. The Community's need for inexpensive and secure supplies of energy is hardly likely to abate. Joint action in defence of what will be seen as European interests in an increasingly insecure world must become more common. The need for such joint action would reinforce the case for redistributing economic power within the Community, so that it would present a united front to the outside world.

Jean Monnet and other progenitors of the Community might well even approve such development as the way to achieve in the 1980s their ultimate aim - European peace, prosperity and independence. Such a Community would be, of course, less 'liberal' than they envisaged, but one must allow for the likely effects on their thinking, too, of the events and trends of the past decade, especially the greatly increased strength of OPEC and the Iranian revolution. (The last quarter of this century is making mercantilists of us all - really the only question is what to protect: the nation or the continent?).

The Possibilities of Further Enlargement

I would like in closing to offer some personal speculations about future patterns in Europe that arise out of the previous analysis. The Community's founders might now in fact be thinking on a still bigger scale, planning to maintain the momentum by following this stage of enlargement with others. Does not the basic politico-economic rationale of the Treaty of Rome, and of the first two enlargements, also apply mutatis mutandis to a still bigger Community?

An immediate issue is posed by the possible Turkish application. The economic task of integrating Turkey into the Community would be formidable in view of social and economic standards in some provinces deep in Asia, compared to which even North Portugal seems highly developed. The population size, more than 40 million, and the rate of population growth, are by no means assets in view of these economic and social levels. Indeed, the task of truly integrating Turkey into the Community would be so great as to weaken the resolve to tackle the much more manageable absorption of Southern Europe. Moreover, Turkey raises more profound problems on the criteria of cultural traditions - not only from the linguistic angle. Political stability is precarious. The country is very different from the Nine in senses which the Three are not. The case for a positive response to a Turkish application would have to rest almost entirely on military grounds.

But there are other ways of tackling strategic vulnerability. The Community does not have to wait passively for the fundamental division in Europe itself to be eased. The most

important task is still, as in the 1950s, to eliminate the danger of war. But the war would no longer be Franco-German: the obvious danger now is of a war between the Soviet Union and the United States, with Europe as the battlefield. This prospect would become considerably less threatening if the countries of Eastern Europe were brought increasingly into a broader European economy.

An economic grouping on this scale - not necessarily taking the form of a mammoth Community - would naturally be much more independent of the United States, and could more easily protect distinctive European interests. Indeed without close affiliation to either power it could attract Austria and Finland too, and the governments of Norway and Sweden might, some time in the coming decades, find remaining outside a more united Europe unsafe - as might a future Labour government in Britain.

This would be a market of the size beyond the dreams of the founders of the EEC. It would have a combined product of \$2,500 billion (1977 figures), against \$1,900 bn for the United States and \$740 bn for Japan. An economy of this size would be still more self-sufficient than one of a dozen (see Table 2), especially in iron ore, copper and wood. (The additional countries are ones which never became so dependent on colonial patterns of trade). Here again, the potential for self-sufficiency would be yet greater if we allowed for the resources that could be developed.

Eastern Europe would, moreover, because of its unsuccessful farming record, provide a natural outlet for the agricultural surpluses of the western countries. Its pent-up demand for meat, dairy products and wine is high, whereas it could help meet Western Europe's needs for maize. The demographic consequences would be similar to the second enlargement: the total population would be younger and more dynamic as well as much larger.

A group covering the whole continent would carry correspondingly greater weight in international negotiations and could exercise a powerful influence for world peace by breaking the United States/Soviet polarity. Its interests in world stability would make it a better instrument than

1. Within Eastern Europe, only its industrial core, East Germany, shows demographic patterns like those of the Nine.

OECD (or 'Group B' in UNCTAD), in which the United States is dominant, for working out a compact with the Third World. Any enlargement of the EEC reduces, moreover, both the need and the temptation for its governments to intervene with aid programmes. If the European resource base were really big, many authoritarian Third World regimes could be weakened.

If there were parallel political convergence in due course, starting with non-aggression pacts, both NATO and the Warsaw Pact would gradually become obsolete. Medium-range nuclear weapons could be eliminated. After all, neither Western nor Eastern Europe has aims identical with its patrons, nor any interest at all in being destroyed in the furtherance of such aims. Indeed much of the need for arms expenditure in both parts of Europe would vanish, although such a scenario presumably requires the revival, in a new form, of the European Defence Community to cope with external threats, and a greater self-sufficiency in some arms, notably military aircraft.

There are obvious difficulties. Would the ideological constraints not be too great? What would be the attitude in other countries to a Germany which was reunited - de facto if not de jure? Would not the Soviet government veto such a development? Would the cultural heterogeneity not be too great?

Let us take these in turn. The economies of the EEC are being increasingly 'managed', despite the proclaimed ideology, whereas 'free' markets and decentralised decision making are spreading in the East, again whatever the proclaimed ideology, and these ultimately imply political changes that would in turn reinforce this trend. Otherwise the internal contradictions of socialism seem unresolvable.¹

Integration in the real sense is slowly happening anyway. The TNEs have been embarking on joint ventures in Eastern Europe, and West European (especially West German) brands are increasingly visible. The governments of COMECON have been borrowing heavily from the private banks of the West.

1. See, for example, S. Brucan, (Professor of International Relations at the University of Bucharest) "The strategies of development in Eastern Europe" (IFDA Dossier 13, 1979, Nyon), Apparently a conflict has grown up between the emerging socio-economic system and the old political system.

Much West European currency is circulating in Eastern Europe. Tourist and student exchanges grow, and there is now considerable seasonal Polish labour working in West Germany. Greater integration into Western Europe would undoubtedly have a growing popular appeal, especially if the Community developed proper mechanisms for social development and used them in Southern Europe.

Certainly formal affiliation poses great difficulties. But this is not really the issue. The early relations between the Nine and each of the Three consisted of specially tailored agreements, which ran for years before the latter applied in turn for membership; meanwhile the economic logic of integration continued to operate. That could also be the pattern for developing relationships with the governments of Eastern Europe, as is already happening with Yugoslavia. Various stages of association are possible, short of full membership but involving closer economic and political links and permitting, eg access to the European Investment Bank. Such stages might well last for some time. Eventually a government might apply for formal membership and be followed by others, one at a time. Anyway, the Community could hardly face a big further enlargement until it has digested Southern Europe, which must take a decade at the least.

Relations between the Germanies in particular are surely going to continue their gradual convergence, even if there are temporary setbacks, and despite the likelihood that reunification is still some decades away. Not merely are there strong cultural ties between East and West Germany: consumption levels and styles are less dissimilar between them than within either Western or Eastern Europe. There would indeed be a certain logic in a German economy as the geographical hub of an integrated Europe, with its internal trade stimulated by the new Rhine/Danube Canal.¹ This development might not appear such a political threat to neighbouring countries, provided adequate mechanisms had by then been created for spreading the profits of the core, and also truly democratic controls, especially a consid-

-
1. The Nazis' plan for a 'New Order' was politically unacceptable to the people of other European countries and the attempt to impose it by force not merely immoral but inefficient: still, economically, it had a certain rationale.

erable strengthening of the European Parliament.¹ The second enlargement might turn out to have the additional historical justification of compelling the Community to remove institutional obstacles to its further expansion.

No doubt the Soviet government would view such a suggestion with anxiety, but it is clearly not completely in control of developments in Eastern Europe. It cannot provide the capital, technology and markets these countries need to meet consumer aspirations (now, not even all the oil they require). If integration is gradual, the costs of intervening, especially by military action, to stop any particular step might well appear to the Soviet government too high. (The basic arguments that must have persuaded Stalin of the dangers of trying to make these countries part of the Soviet Union, like the Baltic States, would still seem cogent). Besides, a neutral bloc to the South-West, which the Soviet government might see as a partial 'Finlandisation' of the continent, would permit a greater concentration of Soviet military power along the lengthy frontier with China.²

Certainly the affiliation of Northern and Eastern Europe would increase the Community's cultural diversity. But cultural patterns in all the countries concerned show certain similarities, reflecting common religious origins (whatever the official attitudes to these), not to speak of the common membership several of them once shared in the kingdoms of Central Europe - none of which is true of Turkey (unless one counts its former domination of the Balkans).

To sum up, an expanding Community, with growing internal homogeneity, self-sufficiency and bargaining power, provides one coherent answer to the historic challenge which the loss of empire has posed for Europeans. In this way welfare services and political democracy could survive the coming

-
1. The status of this at present reminds one of that of the English Parliament under Charles I - until he needed his budgets approved.
 2. Is it anyway quite inconceivable that political developments within the Soviet Union will ultimately lead to links between the Community and the European Soviet Republics?

decades without any colonial or neo-colonial system. But its political feasibility depends on whether the necessary leadership and a sense of European identity, which are still notably absent, are summoned into being by the deepening world crisis.

TABLE 1 Average rates of unemployment and changes in retail prices in the Nine, 1971-80

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980 ³
Unemployment ¹	2.1	2.4	2.5	2.9	4.3	4.9	5.3	5.5	5.6	7.7
Retail prices ²	+ 5	+ 5	+ 6	+ 13	+ 13	+ 11	+ 11	+ 8	+ 10	+ 15

1 Percentages of economically active civilian population.

2 Change from previous year.

3 Based on data for June.

Sources: Basic Statistics of the Community, EUROSTAT, EUROPE, 28 July 1980.

TABLE 2 Self-sufficiency in key industrial materials of the Nine, the Twelve and Europe, 1977

	Population ² (m.)	GDP (\$ bn.)	(Percentages) ¹				
			Iron ore	Copper ore	Roundwood	lint cotton	Greasy wool
The Nine	260	1,629	29	1	89	0	23
The Twelve	314	1,792	30	8	90	15	29
Europe (excluding USSR)	479	2,504	41	45	95	10	39

1 Production as percent of apparent consumption

2 1978.

Sources: World Bank Atlas, Washington, 1979
FAO Production and Trade Year Book, Rome, 1978
World Mineral Statistics, London, 1979

For further information on IDS Publications and a free catalogue, contact:

IDS Publications
Institute of Development Studies
at the University of Sussex
Brighton BN1 9RE
England