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European Economic Integration and its Problems

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FROM THE VERY beginning of the development towards that particular form of economic integration in Europe which has culminated in the so-called European Economic Community (EEC), I have expressed the opinion that this is one of the cases where political enthusiasm is not supported by sound economic reasoning.

In explaining this non-conformist view, I have often begun my exposition by quoting Alfred Marshall. This great British economist of the last generation once said that it is very difficult for an economist to be a patriot and at the same time to have the reputation of being one. This dictum can be equally applied to the case of a man

like myself, who would be pleased to be considered a European patriot. I have indeed experienced how difficult it is for an economist to be a European patriot and at the same time have the reputation of being one. It is curious that such is true not only in the six countries of the EEC (France, Germany, Italy, the Netherlands, Belgium, and Luxemburg), but apparently also in the United States or at least among the more progressive-minded group of Americans. It is, on the other hand, highly significant that the critical view I take of the EEC is anything but that of a *malpensant* in the other part of non-Communist Europe which consists of the seven countries making up the opposite bloc of the EFTA (European Free Trade Association) to which we have to add Spain as the one country which does not belong to either group. In a country like Switzerland particularly, criticism of the EEC reflects the overwhelming attitude of the people. This fact alone is an illustration of the rift which runs throughout this truncated continent which has remained free. Let me state at once one of the most challenging paradoxes of the EEC: it is the fact that this institution has so far, in the name of Europe and European integration, caused Europe to fall into two economic blocs which make it more and more difficult for the people belonging to them to understand each other.

As a European patriot I find it to be my first task to explain the economic integration of Europe as part of a more general movement which goes much beyond the purely economic field. It is a movement for a European community at large and in all possible senses, but mainly political, intellectual, moral, and cultural. As I see it there are three driving motives behind this movement.

The first driving force for a European community is the desire to bring about

peace and harmony between the European nations and to achieve a political and moral integration which would make impossible any further fratricidal struggles within Europe after the tragically senseless slaughter of the two great wars which were European civil wars. The keystone of this integration is of course the Franco-German reconciliation, which has already been achieved to a degree that is one of the few great assets of our time. It is only fair to pay homage to the wisdom and humanity of the French nation which, across the million graves and the bitter memories of the past, extends to the Germans the hand of a friend. As far as the prevention of further intra-European wars is concerned, the drive for European unity is tragically late because the second World War was surely the last which the Europeans themselves could initiate. While there is no longer any question of a local European war, it is enormously important that, in the future, a world conflict will not find Free Europe in two opposite camps. This eventuality is only imaginable as something that could happen between the Communist empire and the Western world as a whole.

This leads us to the second aim of a European striving for unity. It is the desire for the strengthening and consolidation of Europe in this present struggle for the maintenance and survival of the free world. In this struggle, Europe is, of course, herself the primary object as the greatest single industrial area and as a keystone of the cultural system of the Occident.

In making the latter statement, I am well aware of betraying that reawakening of a spirit of European self-assertion which explains the third aim of the general European movement. It is the wish to correct a disproportion which becomes ever more challenging, that between the present economic and financial strength which Europe

has regained to an astonishing degree and her cultural role on the one hand, and on the other her weight in world politics. In view of the present non-political importance of Europe, her political-military significance is still nothing short of a parody, even if we do not take into account the fact that, in the world organization in Manhattan, the countries of Free Europe are a small minority in which countries like Germany and Switzerland, in contrast to Uganda or any other of the new synthetic nations coming off the conveyor-belt, are not represented at all. Since France and its President are exposed to much criticism with regard to economic integration, it should be stressed that de Gaulle's policy can be interpreted as a vast effort to correct the disproportion and to increase the political and military weight of Europe within the Western Alliance and vis à vis the "Third World" of underdeveloped countries.

II

IF WE WANT a just appraisal of the efforts towards economic integration of Europe we should never forget that behind them stands Europe as a cultural, moral and political whole and as the mother-house of a civilization which, in important senses, may be said to have spread over the whole globe. This has two important aspects. One is that Europe as a civilization represents a real cultural unit, in contrast to Asia or Africa, which are hardly more than geographical expressions. The real cultural units in those areas are the Indian, the Chinese, the Japanese and the Islamic civilizations. But the other, equally important point is that Europe as a cultural system presents a unity in diversity. This is a most weighty point that should never be forgotten in judging the problems of European economic integration. What all

Europeans have in common as Europeans finds different expressions in the several national and ethnic groups. In this sense, as in some others, Switzerland as a model of unity in diversity may be seen as a "*Europe en miniature*." Diversity and variety are indeed the very opposite of centrism and monolithic lumpiness and therefore utterly incompatible with despotism and totalitarianism.

If we bear in mind the diversity of Europe we are able to achieve a better understanding of two nations, Spain and England, which in spite of all their differences have many things in common. Among these is their geographical position at the periphery of Europe which has enabled both countries to detach themselves from European affairs and therefore to devote themselves to a world-wide expansion of European influence. They have colonized the globe much as the Ancient World was colonized by Rome. At the same time, we could wish for no better illustration of European "unity in diversity," for both countries are strikingly different in their mores from those of the main continent while their contribution to the fashioning of Europe is immense. Spain, in its geographical semi-isolation, appears original to the point of strangeness to the other Europeans while her influence on European culture has been invaluable. Spain is also a country which has played a role comparable only to England in expanding European influence. England has made a contribution to the European cultural patrimony which is of incalculable proportions, and in the intellectual, political, and economic development of the continent her role has been no less important. In addition England has rivalled Spain as the chief promotor of the Europeanization of the globe.

It is absurd to ask whether England belongs to Europe. But, though it is part of

Europe, it is so in a singular way as a country in a peripheral situation which is linked up to the rest of the world. One of the consequences of this geography is that it is very difficult to find a suitable form for binding England and continental Europe together. The necessity of this bond will be denied by few and surely not by de Gaulle, but its right form has yet to be found. The crisis into which the EEC was plunged a year ago proves that, all things considered, the Brussels institution is not the answer.

III

THE UNIQUE FEATURE of Europe as a combination of a genuine "cultural system" and a "unity in diversity" has, as has already been intimated, far-reaching consequences for the possibilities of European economic integration, its limits, and its dangers.

First of all, Europe, rightly understood, cannot be primarily defined as a vast machine designed for maximum production, and the goal of integration cannot be determined by the output of automobiles or cement. What holds Europe together in the widest sense is something of a spiritual nature: the common patrimony of Humanism and Christianity. Nothing can be more ludicrous than the belief that this bond can be replaced by the bureaucracy of the European Commission and high authorities, by planners, economocrats and technical visionaries. The danger, however, is very real that the true order of values and aims may be reversed and that economic integration may be carried through in such a way that it endangers the real meaning of Europe. This is another of the paradoxes of European integration today.

To preserve unity in diversity—and that is our second point—European inte-

gration has to respect the national personality and cultural individuality of the countries of the continent if it is not to betray the real meaning of Europe. On the political level, therefore, only that form of integration is legitimate which is called federalism and leaves a maximum of autonomy to the individual nation. That precludes any kind of international planning as opposed to the market economy, and even a high degree of interventionism is incompatible with the decentralized form of political union. But there is a great danger that European economic integration by the EEC may act as a steamroller, leveling the national and cultural diversity of Europe.

This is a point which deserves further examination. It is a serious mistake to oversimplify the problems of European economic integration by comparing it either to the development of the United States or to the famous historical example of the German *Zollverein*. The comparison is misleading, for it overlooks the special nature of what we call a nation and it therefore neglects the fact that the United States and Germany offer examples of a common market established *within* a nation. The EEC on the other hand wants to do this, in all naiveté, among nations. A fundamental error is involved in this concept, which reaches colossal dimensions in the case of advocates of world government and of similar utopias. Their protagonists might read with profit Henri Bergson's "Two Sources of Moral and Religion," where they will find profound ideas on the distance between a nation and an international community. Now it is particularly rash to believe that it is precisely by the backdoor of economic integration that national individuality can be overcome. We should remember what Ernest Renan in his classic "Qu'est-ce qu'une nation?" (1882) has said: "Il y a dans la nation-

alité un côté de sentiment; elle est âme et corps tout à la fois: un Zollverein n'est pas une patrie." And then follows a phrase which seems to have been written with an eye on a certain mass-production of "nations" today: "Une nation est un principe spirituel, résultant des complications profondes de l'histoire, une famille spirituelle, non un groupe déterminé par la configuration du sol . . . L'homme ne s'improvise pas. La nation, comme l'individu, est l'aboutissant d'un long passé d'efforts, de sacrifices et de dévouements." All that has an important bearing on the problem of European economic integration. It should be obvious, then, how dangerous is the boldness of those who believe in the so-called "institutional" method of integration, which consists of devising a sort of common European government (including a European monetary system and central bank) and which expects the supranational authorities to make short shrift of national sovereignty. This is the source of the undeniable truth in de Gaulle's much maligned phrase about "l'Europe des patries." In fact, there is a profound and noble wisdom in this sentence which is only a restatement of a famous dictum of Montesquieu. We shall see later that here lies one of the grave mistakes of the whole concept of the Common Market.

Why is the Common Market so different from the German *Zollverein*? Stating the differences is one way of throwing light on the major problems of the Common Market.

The first difference stems from the fact that a customs union within a nation is quite a different thing from that between nations. In fact, the high order of economic integration such as the Common Market seeks to accomplish presupposes a politico-moral integration of a correspondingly high order. This existed in the case of the *Zollverein* (as it did in Switzerland when,

in 1848, she abolished the internal customs barriers), but it surely does not exist in the case of the EEC. Even the Benelux (the Belgium-Luxemburg and Netherlands customs union) is far from having overcome the difficulties, in spite of their common Burgundian origin, stemming from the coexistence of three different nations. In Germany, political unity was ardently desired by all Germans, and it is that which made the *Zollverein* possible. It is incorrect, however, to suppose that it was the *Zollverein* which had made the political union desirable and possible. Or taking the case of Switzerland, it would be ludicrous to believe that she owes her birth as a nation to a previous union of cantonal cheese-dairies created in the Middle Ages. Switzerland is rather that country which Renan had particularly in mind when he said that a nation comes into being as a community of men who are conscious of a great common past and looking to a great common future. Switzerland's origin lies in the common struggle of peasants and townspeople for freedom against her feudal and absolutist neighbors. While it took centuries for Switzerland to develop into a nation, economic integration was the very last step. It happened in 1848 when, as I mentioned, the abolition of the internal customs barriers made Switzerland a common market.

The second difference between the *Zollverein* and the EEC is that the former was set up in a liberal era, in a liberal spirit and under the leadership of one country, Prussia, which, at that time, was pursuing a liberal commercial policy based on the famous Prussian tariff of 1818, which was a free-trade tariff *avant la lettre*. It is peculiar, however, to the EEC that liberal-minded countries (like the Benelux countries and Germany) have to accept the influence of decidedly protectionist countries (France and Italy).

Thirdly, because the *Zollverein* was the result of a liberal era and inspired largely by a liberal spirit, the absence of any sort of planning or even a strong measure of interventionism contrasts strikingly with the very opposite tendency of our time. The permanent heads of the EEC are mostly socialists and ingrained interventionists in harmony with the stances of most of the component governments. Its president, Walter Hallstein, a German professor of private law, strongly believes in what he calls the "presence of the state," a belief which corresponds to his outstanding talent for highly organized administration. But how will it be possible to achieve a real common market in the interventionist climate of the twentieth century and to make semi-collectivist policies international? Does the present degree of the political and moral integration of the six countries of the EEC, let alone of other eventual members, permit this?

Fourthly, the *Zollverein* knew no problems of monetary policy and balances of payments, since the member countries had a metallic standard, which provided the mechanism for constant and frictionless adjustment of disequilibria. The conditions within the EEC are very different. There is no international monetary order which, by its mechanism, combines convertibility with constant readjustment of disequilibria. As a consequence, the Rome Treaty of 1957 presents the unique feature of an economic union which allows members with balance-of-payments troubles to revert to exchange control and other measures which actually would suspend economic integration. The other eventuality which is topical today is that the member states, indulging in reckless monetary policies like Italy (and to a lesser degree France, in spite of her much-vaunted "planification") will "export" their inflation to other countries observing a higher

degree of monetary discipline, for example Germany. In view of this monetary disintegration, it is thought that a common monetary system of the six countries of the EEC is necessary. But, here again, it is obvious that such a system supposes a common economic, financial, and social policy, which is inconceivable without a real merging of national governments into one supranational state—which is a mere phantom. Even if this were not so, there is an overwhelming likelihood that if the states should agree on a common course of monetary policy, those with less monetary discipline would prevail over the few others which had more. It is disease, not sanity, which is infectious. It is always the slowest ship in a convoy which determines the speed of the group.

This is closely related to a fifth point. The *Zollverein* was an economic union of countries quite similar in their economic structure and in their economic policies. There was no contrast between countries with much and those with little monetary discipline and also none between those with reasonable and restrained trade unions, on the one hand, and unreasonable and unrestrained trade unions, on the other. There was no gulf between essentially liberal countries, such as Germany or Switzerland today, and others committed to a high degree of planning and nationalization; between those believing in a full-fledged welfare state (as Italy today, where the workers have to pay almost half of their salary for social services) and others such as Germany and Switzerland stressing the primacy of individual responsibility. This contrast presents the picture of the European countries today. The striking heterogeneity of their economic structures and policies tends to bring about the result that an economic integration of a high order—which the EEC aspires to in contradistinction to the rival

organization of the EFTA—generalizes those policies which correspond to the line of the least political and social resistance. Nobody needs to be told any longer where this line is in our progressive age. It is again what we may call the “law of the convoy”: it is likely that the highest degree of inflation in any member country will be adopted by the others along with the longest paid vacations and the greatest measure of intervention or planning. That is what, in the EEC, goes under the name of “harmonization.”

The sixth and last point in our list of differences between the *Zollverein* and the EEC is that the former, under the prevailing influence of the rather liberal commercial policy of Prussia, did not entail an increase of protection because, at that time, the common tariff did not have to consider excessively protectionist interests of some influential members. By and large, internal economic integration did not have to be bought by less integration with third countries. That is why the *Zollverein* can be said to have been outward-looking and “open” rather than “closed.” The opposite is true of the EEC. To create the organization it was necessary to strike a compromise between the liberal and the protectionist states and to buy the latter’s adherence through concessions which assured some vested interests a privileged position within the EEC. One of the extreme cases of this compromise was the absurd protection given, within the whole group, to a semi-tropical product like rice which is grown at high cost in Italy and France. That is the reason that the discriminatory effect of the Common Market is felt all the more by third countries, in Europe as well as overseas.

IV

THIS COMPARISON of the EEC with the German *Zollverein* provides useful prepa-

ration for a better understanding of the problems involved in European economic integration today, especially since many people see in it more parallels than differences. It is the differences, however, which make us grasp the enormous difficulties of the present attempt to do, at least for a part of Europe, what the *Zollverein* seems to have done, a century ago, for a single nation. It appears no less helpful to clear up another confusion to which the idea of European economic integration gives rise.

Fundamentally, economic integration between nations means to create, on an international level, the most *elementary conditions of economic integration* existing within the national economy. If nobody doubts that the states of the United States are economically integrated it is because, within the national frontiers, the essential community of markets, prices and payments without which we cannot speak of a “national economy” is assured by what is called, internationally, multilateralism, as well as by the basic liberty of exchange of goods and services. In this most meaningful sense, Europe has enjoyed economic integration in the past when free convertibility at stable exchange rates together with the virtual absence of quantitative trade controls (import quotas and exchange control) and a moderate height of customs tariffs assured a minimum of international community of markets, prices, and payments. But this European integration of the past was an “open” one because it was inseparably bound up with worldwide economic integration. This—European as well as global—international economic integration has been destroyed by exchange control, state trading, import quotas and all the other measures of economic nationalism which developed during the last decades together with collectivism and inflationism.

European economic integration, there-

fore, meant essentially *reintegration*, i.e., the restoration of a state of international trade and payments which had existed before and which had given place to international economic disintegration. As the latter had sprung from a certain course of national policies, reintegration could be only the result of a change of those policies. In fact, European integration in the sense which really matters has been achieved since one country after another—the last among the important ones having been France in 1958 when de Gaulle made an end of the political near-anarchy of the Fourth Republic and gave Jacques Rueff the opportunity to repeat the German “miracle”—followed the example of Switzerland, Germany, Italy and Belgium by returning to the market economy and monetary discipline. It was the latter combination which made possible, at the end of 1958, the restoring of convertibility of European currencies, thus fulfilling the prime condition of international economic integration.

If, like charity, European economic integration had to begin at home it was not unimportant that this indispensable national action was assisted by international action on the regional scale of Europe. It is here where the OEEC (Organization of European Economic Co-operation) and the EPU (European Payments Union) came into the picture. Their beneficent function was to help the various governments abandon their wrong collectivist-inflationist course and to prepare themselves for the right one (the non-inflationist market economy). OEEC and EPU certainly were products of what the economist calls “regionalism,” but it was a regionalism fundamentally different from another kind which began with the Schuman Plan and of which the EEC is the final step. The first kind of economic regionalism was “open,” the second “closed.” The first

meant, moreover, that, if integration was started on the “regional” level, this was only a beginning which, by its very nature, was capable of gradual “universalization.” By way of such a “nuclear approach,” OEEC and EPU have been building a bridge which has led from regional to universal economic integration. There was nothing in their conception—and that is why they represent, at the same time, an “open” regionalism—which stood in the way of extending them to an even wider group of countries. That is precisely what happened. As the “liberalization” of trade which the OEEC had promoted for Europe was finally extended to the Dollar Area and the rest of the world, so the EPU was preparatory to the restoration of intercontinental convertibility.

Now it should be obvious why, taking over the idea of the Schuman Plan, the EEC represents the other kind of a “closed” regionalism. Its most ambitious scope finds expression in two facts: it is “institutionalized” to a high degree and it is a closed bloc, an exclusive club whose strict rules make the entry of new members one of the most difficult accomplishments on earth. In fact, no newcomer has been allowed into either club, and it is hard to believe that this might happen even within Europe, to say nothing of countries outside of Europe. To be highly institutionalized and to be a closed bloc are only two aspects of the same thing: because the EEC (like the European Coal and Steel Community set up by the Schuman Plan) is—and promises to become even more so in the future—an enormous administrative machine whose center at Brussels, the European Economic Commission, employs more than 7,000 people. It must therefore presuppose a *corps d'esprit* and a knife-edged balance of coordinated interests which prevent it from opening the door.

Both kinds of economic regionalism, the former OEEC plus EPU, as well as the new EEC, involve discrimination against the rest of the world. But the discrimination of the first sort is such that it can be easily fused into a system of universal non-discrimination; it even prepares that process and is thus destined to make itself superfluous. The discrimination of the second sort of regionalism, however, is such that it has the most stubborn vitality. It is here to stay, and the best one can hope to do is to whittle it down as far as possible.

To have not seen clearly enough this essential distinction may be one of the most convincing—perhaps, too, most flattering—explanations for the astounding enthusiasm with which both the Schuman Plan and the EEC have been accepted and promoted by the Americans, at least until quite recently.¹ It is strange to realize today that, by setting up and promoting the OEEC and the EPU, the United States has been organizing with zest a vast trade discrimination against herself. But that has been justified by the great success of this “nuclear approach,” the fruits of which the Americans themselves could enjoy. So why not go further and give every support to the EEC after the OEEC seemed to have spent its force? It is a pity that Americans did not realize that they were giving their blessing to something entirely different. When they began to see that, this time, they had helped to organize a very different kind of discrimination against themselves, it was already too late.

V

WHILE IT HAS been always easy, in Europe as well as in the United States, to arouse a kind of naive political enthusiasm for that form of European economic integration which was initiated by the

foundation of the EEC, economically experienced people in all countries could not fail from the outset to perceive not only the pros but also the cons of that enterprise. There were three groups of problems which had to be considered.² The first concerns the possible consequences of the union for the economic policy of its members. How grave they may be has already been intimated at an earlier point when I mentioned the “law of the convoy.” The second group of problems concerns the monetary relations between the members. The third group touches upon the eventual repercussions of the regional bloc upon the rest of the world and the consequences of the regional free trade (which is only another term for discrimination against third countries) for the economy of the member countries. The latter questions have been authoritatively analyzed by Jacob Viner in his now almost classic book on *The Customs Union Issue* (1950) which has familiarized every student in this field with the essential distinction between the “trade-creating” and the “trade-diverting” effects of a customs union.

While it is not feasible on this occasion to pursue the analysis, I merely stress the fact that the EEC always meant forming a bloc within the world economy; that it meant freeing trade within narrow geographical limits, and that this limitation creates problems which are completely new as compared with those that arise from a general freeing of trade. While the economic union opens some doors it closes others, and the question always is whether it opens more than it closes or the other way round, and whether the doors it opens are as important as those it closes.

In short the disadvantages of the EEC, no less than its advantages, were unmistakable and so the two always had to be weighed against each other. But that is

particularly difficult in this case, because such an assessment must find not only an answer to the most intricate economic questions but also take into account the possible losses and gains outside the economic sphere. It must indeed assign outstanding importance to them. While some people become enthusiastic at the idea of maximum production of material goods, others are unable to overcome the disquieting feeling that the EEC is a kind of supranational economic and administrative apparatus which operates with a formula alien to Europe's real nature, and which thereby does violence to the latter. The whole concept appears to these critics—among whom I find myself—as spiritually empty, like the postage stamps of a common pattern which some European countries issue to give expression to the “idea of Europe” without finding any meaningful symbols for it. These critics fear “the big hotch-potch” of a *Europe une et indivisible*, a *Jacobinical*, *Saint-Simonian Europe*, which might steamroll out of existence everything that is individual in the realm of political, cultural and social order.³ In their eyes, the EEC bids fair to become an enterprise in which some people with blueprints, statistics and computers destroy, in the name of “Europe,” what is left of Europe in the real, i.e., meta-economic sense. It is characteristic that nowhere is this felt more strongly than in Switzerland, where a sense of a right order of values and the resistance to uniformity are still particularly strong.

On the other hand, it may legitimately be asked whether the EEC may be justified as an institution promoting the political unification of Europe and, in particular, the friendship between France and Germany. This raises a very delicate question. In this respect, there is, in my opinion, a good case for the Schuman

Plan which, indeed, at a crucial point in the postwar development, may be said to have been instrumental in overcoming some initial resistance on the French side against the Franco-German reconciliation. It is less easy, however, to assert that the EEC has been indispensable for establishing the friendship between French and Germans. It may even have the opposite effect, to the extent that a clash of interests in the EEC between the French and the Germans may create irritation rather than amity. There is much reason to fear precisely such a development in connection with the recent efforts to extend the Common Market to the agricultural sector.⁴ One of the principal aims of France in joining the Common Market has been to use, under the shelter of the quasi-autarchic system of the EEC against agricultural imports from third countries, the big German market to sell profitably the large and still growing surpluses of French agriculture. But this must inevitably lead to a collision of interests between French and German farmers. Either the French win, in which case many thousands of German farmers will know that they owe their ruin to the French, or the Germans win, in which case the French farmers will curse out the Germans.

However that may be, one point is clear, and it is of outstanding importance. Precisely because the EEC has been praised as the great promoter of European union and because it owes so much of its impetus to the appeal of that great aim, the more weight was to be attached to the danger that its inherent discrimination against non-member countries might paradoxically produce the opposite effect. What was to be feared from the beginning was that the EEC might entail a splitting of Europe in so far as a wall of tariffs and other obstacles to trade would be built between the countries of the EEC bloc and

the rest of Europe. Then what should be mortar would turn out to be dynamite, and what should be integration would reveal itself to be disintegration.

We do not know whether the architects of the EEC were fully aware of this danger when they did their work. At any rate, they ought to have asked themselves whether there are not most serious reasons which make it impossible or at least more difficult for other European countries to join the EEC. Great Britain, Switzerland, Austria, the Scandinavian countries, Portugal and Spain, all, for one reason or another, do not fit into the pattern of the Rome Treaty. As for Switzerland, almost without exception, all Swiss are perfectly aware of the fact that its membership in the EEC is incompatible with the inner political structure of the country (federalism, a multi-national composition, the direct democracy) and with her external independence. To join the Brussels club would be suicide for Switzerland, and that so few in the EEC countries understand this is for the Swiss only further proof of the gulf which divides their tradition of communal liberty from that of the six countries of the EEC which with the exception of the Netherlands embody the opposite tradition of centralized bureaucracy. The Swiss are tempted to ask themselves why their forebears defended their liberty at Sempach, Morgarten, Grandson and Murten against feudalism and absolutism if their descendants in the twentieth century should finally surrender to a German professor. If Switzerland's membership in the EEC would strike at her very existence and national individuality a mere association would be likely to have the same result.

In fact, the EEC could hardly have come into existence if the fear that it might split Europe had not been allayed through the promise that a "bridge" would be

built. It was through the so-called Great Free Trade Area (which ought to comprise both the EEC and the other European countries in the same way as the latter are now joined together in the EFTA) that this promise was supposed to be kept. I can vouch for the seriousness of this promise, for it was Professor Hallstein himself who, at that time, stopped in Geneva on his return from Rome after the treaty of the EEC had been signed and assured me that my fears about the splitting of Europe were unfounded because of the Great Free Trade Area which was certain to come. Unfortunately, this check proved to be without funds to cover it, and the EEC began its existence with a broken promise. It was the French government which wrecked the idea of the Free Trade Area, and the United States government was short-sighted enough to lend its support to this maneuver.

When the idea of the Free Trade Area had been dropped, and by way of riposte the Little Free Trade Area (EFTA) comprising the outside European countries had been established, a new hope arose. The EEC itself, it was announced, was going to close the gap by absorbing the rest of the countries of Europe after the back of the EFTA had been broken through the United Kingdom's unfaithful entry into the EEC. The outside countries received a more or less friendly invitation to knock on the door at Brussels and to apply, hat in hand, for admission to the Club. The days of the EFTA seemed to be numbered, and every memory of the time when there used to be talk about the all-European roof provided by the Great Free Trade Area was dismissed with a pitying smile. That "associative" solution likely to comport with the nature of Europe having been ruled out, people prepared to make the "imperial" solution a reality; which meant that now it was the EEC which

would drive the strayed sheep into its fold through the pressure of increasing discrimination.

The United Kingdom had indeed been prepared to initiate this new phase by joining the EEC. Its doing so was to set the example. All the greater was the shock when such speculation came to grief with the French President's veto on January 14, 1963, a fateful date for the EEC. Far from understanding the deeper reasons of the collapse, and from wondering whether the concept of the "imperial" solution had not been the fundamental error, most people were tempted to put the blame on France. But gradually it was seen that this facile view would not stand up to conscientious scrutiny. The French veto had only brought to light an inherent crisis.

In fact, it was precisely one of the EEC's most important and most vaunted principles which had been the compelling reason for de Gaulle's resistance to England's entry into the EEC. I refer to the linking of European economic integration with the international policy through which the EEC was to be made a means of politically integrating Europe.

It was this unfortunate principle in the design of the EEC which inevitably caused a country as politically important and as politically singular as the United Kingdom to raise a problem of high policy with the widest implications from the outset. It requires boy-scout innocence to expect the French President not to have regarded the eventuality of a British entry into the Brussels club primarily from the standpoint of political considerations. If it had been a question of admitting Great Britain into the definitely non-political club of the EFTA it is hard to imagine that France, supposing she were a member of this group, would have raised strong objections.

The fact is that economic integration

has become a political issue within the EEC, and this at a moment when the political union which it is supposed to prepare does not exist even as a clear project. The result has been that a political divergence has led to economic separation. But there is a further cause of the present conflict. It lies in a second basic fault of the EEC. This is its perfectionism. In fact, the EEC sets out to achieve maximum fusion of the national economies concerned, including their agriculture, and this aim leads into an almost inextricable maze of problems. Pursuing this maximalist aim, the EEC seeks to centralize the economic, financial and social policies of its members and to make them uniform. In those circumstances a conflict arises between such a supranational construction with its perfectionism and maximalism, and the natural life of the nations. This conflict sets narrow limits to any possible extension of such an economic union. At the same time, it has the inevitable consequence that the maximum internal integration can only be achieved at the cost of a progressive isolation from other countries. *The more integration increases in depth, the more it must lose in breadth.* In other words, the more the member governments must subordinate themselves to a common economic policy, the more the bloc must be confined to those countries which are already so close to each other as to make such maximum integration not altogether unrealistic.

The EEC's two capital errors—its political aspects and its perfectionism—are the reasons why this form of European integration has in the first place a fatal tendency toward bloc formation, and why in the second place it cannot be induced to follow a liberal policy in its external relationships. The latter tendency is most pronounced in the case of the integration of agriculture which is now being under-

taken in spite of conditions very different from those in industry.

The genesis of the Rome Treaty has already shown that a bloc with such ambitious aims can come into existence only after extremely difficult and lengthy weighing of all the conflicting interests. It was therefore to be foreseen that any extension of the bloc by the admission of new members would be incomparably more difficult if it should upset the delicate balance of interests established among the old members. A new addition would not only disturb the political balance, it would also jeopardize the highly unstable equilibrium between economic interests. All this happened in the case of the United Kingdom. There is no country whose accession was so likely to excite conflicts of political interests, and no country was so weighed down as was the United Kingdom with special economic interests which had to be adjusted, not only to the artificially harmonized interests of the EEC countries, but also to those of countries overseas. That is why it was always unlikely that the efforts to bring the United Kingdom into the EEC would be successful, and why it is even more unlikely that they will be successful in the foreseeable future. Even if that improbable event should occur, possibly at the excessive cost of cooling the happily established friendship between France and Germany, it would still not solve the problem of general discrimination which results from the EEC.

No one can be in doubt any longer about the seriousness of the situation as it emerges, if considered without illusions. The gravest consequence of the EEC is the splitting of Europe. Seven years have already elapsed since the Treaty of Rome

was signed and yet the moat which runs across Europe has grown steadily wider and deeper. The hard experience gained from the British failure ought at least to confer one benefit by having taught us all a lesson. The "imperial" solution to the problem of amalgamating Europe, the method by which the EEC forces the outside countries to join under pressure of increasing discrimination, has never been satisfactory, and the result so far is zero. The "imperial solution" must now be dropped in favor of the "associative" and "liberal" solution which follows the course of co-ordination and not of subordination. One way to do this is by establishing the Great Free Trade Area which may still be realized if the EEC governments should be willing. The EFTA has shown by its practical experience that a free trade zone is technically perfectly feasible. This task would be immensely facilitated if the EEC were reasonable enough to follow the example of the EFTA and give up the Herculean struggle for the integration of agriculture which, if at all, can only be achieved by the agricultural autarchy of the EEC with its incalculable consequences for the rest of the world. The GATT negotiations ("Kennedy Round") should be vigorously used to whittle down the industrial tariffs between the EEC and the other countries in Europe and overseas.

Such a course would appear to offer the best prospect now of resolving the present crisis of European economic integration. At the same time, and independently of the economic integration, everything should be done to promote the political and cultural integration of Europe—the keystone of which remains the friendship and co-operation between France and Germany.

I am quite aware of other motives behind the general American sympathy for the European bloc-building. Quite aside from the purely political enthusiasm there is no gainsaying the fact that in the United States, as in Europe, a sort of vulgar gigantolatry and technolatry, a sympathy for big organizations and a vague progressivism are important factors.

²Since I find it impossible in this space to do justice to that issue I may mention some of my publications where the reader will find a fuller analysis. Besides chapters of my book *International Order and Economic Integration* (Dordrecht, Holland, 1959, pp. 255-232 and 259-269), I refer to two essays which I published, in 1958 and 1959, in the annual *Ordo* (Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft, Düsseldorf and Munich) and to my paper "Les problèmes fondamentaux du régionalisme économique," *Revue économique et sociale* (Lausanne), September 1963.

³The great Swiss historian *Jacob Burckhardt* foresaw this when he wrote in a letter of July

20th, 1870 to a German friend: "The people of today have, in large strata of the society, already unconsciously given up nationality, and they really hate everything diverse. If need be they will sacrifice all original letters and cultures to 'through night-trains'." (Jacob Burckhardt's Briefe an seinen Freund Friedrich von Preen, 1864-1893, 1922, p. 24). The "through night-trains" may stand today in Europe for many things. They may mean "economic growth" and "standard of living," although it belongs to the folklore of the Common Market to believe that it is the only means of achieving those ends. They may also stand for the additional 50 million automobiles, the 50 million television sets and the 135 million radio sets of which recently an American statesman has spoken wistfully as one of the results to be expected from the EEC.

"This is a large problem of its own with which I cannot deal here. I refer to my paper on "Agrarintegration und EWG," *Agri Forum* (Munich), February, 1964.