CHAPTER 5

Core and Periphery from Cold War to Monetary Integration

5.1 Reconstruction of the European Core

Before we turn to the way the European dependency school judged the European integration process, we should revisit the turmoil immediately after World War II, where the origins of the European Union lie. It is easy to see why today's EU mythology stresses the aspect of a peace union. However, peace seems to have been a pacification of the capitalist sphere of interest in Europe which bore the imprint of continuity and block confrontation. The US realpolitik of a war alliance with the Soviet Union had ended with the death of Franklin Delano Roosevelt 1945. His successor Harry Truman returned to the US prewar foreign policy, which had been hostile against the Soviet Union from the very beginning. But other than after World War I, the United States took decisive stance in shaping the international postwar order, arriving in their role as hegemonic power of the capitalist core. Truman's more confrontational stance with the Soviet Union was made possible by the US monopoly of the atomic bomb—which lasted until 1949—and the demonstration (against Japan) that the United States was willing to use it. Reshaping the Western European core, above all Germany against the Soviet Union, the United States allowed significant fractions of the German Fascist elite to regain positions in the Federal Republic of Germany (cf. Weissenbacher 2007: 30ff.). The European Recovery Program (ERP, 'Marshall Plan') belongs to the policy of stabilizing and integrating the Western European Capitalist bloc

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(Haller 2009: 92; Marsh 2011: 13) as does being soft on German War criminals (Schwartz 1990: 406). The ERP had an importance besides the geopolitical function: the stabilization of Western Europe served the investment strategies and the very economic stability of the US economy that had been in full war production as the factory of the Allied armies (Harvey 2004: 188; Panitch and Gindin 2012: 99ff.).

For the European countries that were invaded and exploited by Fascist Germany, there is a bitter irony in the German ERP success story. The economic historian Alice Teichova (1988: 174–178, 188–193) called the economic relations Germany had established in Eastern and Southeastern Europe already before 1938—the year Germany annexed Austria and parts of Czechoslovakia—'informal empire'. World War II would accentuate exploitation. 'Germany's deficits during World War II were mostly robbery at gunpoint', as Albrecht Ritschl (2012), economic historian and advisor to the German ministry of economics, put it. After the war, the United States immediately helped the economy of the defeated enemy Germany to its feet again—at the expense of the victorious but exploited and damaged European countries. All countries that received funds from US ERP had to accept that their claims (reparations, debt) were blocked until Germany had fully repaid ERP funds. Furthermore,

> German pre-1933 debt was to be repaid at much reduced interest rates, while settlement of post-1933 debts was postponed to a reparations conference to be held after a future German unification. No such conference has been held after the reunification of 1990. The German position is that these debts have ceased to exist. (Ritschl 2012)

The United States privileged its former enemy Germany after the war, against the allies and the countries that had suffered immense casualties, destruction, and plundering by German invasion during World War II. Such a war is the most extreme version of core–periphery relations. In pure economic terms it means that modernization of German capital stock and industries during the war was based on robbed resources and slave labor. It belongs to the privileges that it was clear for all allies that the German society would never pay back what German war and occupation caused in European societies. Despite destruction on German soil, Germany was still considered the economic engine of Europe. A European recovery without rebuilding the German economy was deemed not very likely. What was there concerning allied agreement on

partial reparations faded with the cold war (cf. Roth and Rübner 2017). With the vanishing interest in German reparations, also research on the topic suffered. Roth and Rübner (2017: 195) estimate the German total debt relating to World War II at 5.9 (European) billion Euro of 2015, 79% of which (equal to 152.5% of German GDP in 2015) they consider as not compensated. Small countries like Greece appear as extreme cases. The authors argue that Greece remained virtually not compensated, they estimate outstanding accounts at 185 thousand million Euro (2015, ibid.). A limited final compensation (either the amount Germany used as transfer payments to integrate Eastern Germany—1.2 (European) billion Euro—or at least the provisions Germany paid to the functional elite of the Nazi dictatorship—306 thousand million Euro) should be paid to those societies that had remained largely uncompensated although they suffered most by German occupation, and were not able to participate in the core prosperity of postwar reconstruction boom, respectively (ibid.: 198).

The London conference, which dealt with German foreign debt, began in 1951. It can be seen as an example of yet another challenge for countries that had been invaded by Germany. In the negotiations with the new German government, representatives of the invaded and exploited countries met staff from old (Fascist) Germany. The leader of the German delegation in London was Hermann Josef Abs, a member of many supervisory boards of German banks and industrial companies (for example IG Farben, Deutsche Bank), first in Fascist Germany and then in the Federal Republic of Germany (Hilberg 1990: 1259ff.; Czichon 1995: 169ff., 221, 242ff., 370ff., 386; James 2001: 214f.; 2004: 214ff., 224ff.). With the agreement on German foreign debt, signed on February 27, 1953, the German government was able to postpone the reparation issue. When state socialist Eastern Germany was integrated into the Federal Republic, the related international treaty (2 + 2 treaty) alarmed the German government. Such a treaty had the potential to reopen the reparation issue. An internal brief for chancellor Helmut Kohl (dated March 15, 1990, reprinted in Roth and Rübner 2017: 504f.) summarized the German legal opinion on the reparation issue. It states that 'currently none of our former wartime enemies is entitled to reparations'. […] [W]e have only agreed to a provision whereupon '"an assessment of claims resulting from World War II … is postponed up to the final regulation of the reparation question". When the "final regulation of the reparation question" shall occur, has not been regulated in

the London debt agreement'. And also the transition agreement with the three Western allies, the paper continues, only stipulated that reparations should be regulated by a peace treaty of Germany with its opponents or by reparation settlements. Therefore, the document makes clear that 'the federal government and also the government of a future united Germany has an overriding interest to defy any claim on the conclusion of a peace treaty'. Germany's legal opinion argued that (a) there never was a legal agreement to reopen the reparation issue, (b) there was a 'lack of specific, contractually agreed commitments' by Germany, (c) the former enemies had relinquished their claims, and (d) Germany had provided benefits already. Therefore, 'the complex of reparation problems [...] is, 45 years after the end of the war, de facto settled' (ibid.). The Greek government, however, kept die reparation claims open and has re-issued them in 2019 following the findings of a Greek parliamentary commission from 2016 that estimated outstanding reparations of Germany for Greece with 288 thousand million Euro (GFP 2019).

With the German currency reform of 1948, the US Army had introduced the Deutsche Mark and also 'wiped out domestic public debt, the largest part of the 300% of 1938 GDP' (Ritschl 2012). Quite Ironic in the light of today's discussion, the privileged treatment allowed Germany to establish the mythology of being the embodiment of economic virtue:

> The Marshall Plan had an outer shell, the European Recovery Programme, and an inner core, the economic reconstruction of Europe on the basis of debt forgiveness to and trade integration with Germany. The effects of its implementation were huge. While Western Europe in the 1950s struggled with debt/GDP ratios close to 200%, the new West German state enjoyed debt/GDP ratios of less than 20%. This and its forced re-entry into Europe's markets was Germany's true benefit from the Marshall Plan, not just the 2-4% pump priming effect of Marshall Aid. As a long term effect, Germany effortlessly embarked on a policy of macroeconomic orthodoxy that it has seen no reason to deviate from ever since. (Ritschl 2012)

Clearly, European integration was motivated by geopolitical requirements of reconstructing capitalist Europe. Jean Monnet, one of the political operators of European integration, 'owed much to American encouragement', his 'decisive advantage [...] was the closeness of his association with the US political elite' (Anderson 2011: 14):

> Monnet's strength as an architect of integration did not lie in any particular leverage with European cabinets – even if he eventually came to enjoy the confidence of Adenauer – but in his direct line to Washington. American pressure […] was crucial in putting real – not merely ideal – force behind the conception of 'ever greater union' that came to be enshrined in the Treaty of Rome. (Anderson 2011: 17)

To be sure, Monnet himself seems to have been 'remarkably free from the Cold War fixations of the period, looking forward to a united Europe that would balance between America and Russia' (Anderson 2012: 55). The Western European integration process, however, had an economic, political, and military agenda from the very beginning, and received important dynamics from outside in the atmosphere of Cold War and decolonization (Korean War, Suez-Crisis, and Hungarian Uprising). When the United States demanded from France a coherent policy toward Germany, it appears to have been Monnet who came up with the idea of a supranational pooling of coal and steel resources. It was this European Coal and Steel Community (ECSC) that in 1952 formed the nucleus of European integration, which should enable France to politically control what was about to become German economic superiority again (Anderson 2011: 14f. and 21; 2012: 54f.; Moravcsik 1998: 90; Hobsbawm 1996: 241; Leonard 1992: 4ff.; Luif 1988: 3; Scherb 1988: 51ff.).

An important fraction of the German 'economic miracle'-elite seems to have eyed the integration process critically. Similar to Friedrich Hayek, who envisaged institutional arrangements beyond reach of the susceptible influence of national electorates, ordoliberals, the 'German variant of neoliberalism' (Oberndorfer 2012b: 421), despised propositions for European integration they deemed statist or dirigiste (Anderson 2011: 64f.). The first wave of ordoliberals (e.g. Eucken) and neoliberals like Hayek shared an admiration of the German state theorist Carl Schmitt, and the authoritarian liberalism by the government of Heinrich Brüning (with the emergency law of the Weimar constitution) which laid the ground for the succeeding Fascist government of Adolf Hitler. There is a tradition of questioning parliamentary democracy and repudiating the welfare state and economic democracy that runs from the Weimar Republic to postwar Europe, culminating in a renaissance of Hayek in the 1970s (cf. Chapter 9.3), the authoritarian competition state, and authoritarian constitutionalism (Scheuerman 1997; Oberndorfer 2012a, b).

As Ralf Ptak (2004: 62ff.) pointed out, postwar construction of ordoliberal economists as opponents of National Socialism are apologetic. German neoliberal/ordoliberal economists were able to publish freely in NS times and belonged to advisors of the NS state in questions of economics, market and spatial research, and war economics, e.g. Ludwig Erhard, Alfred Müller-Armack, Walter Eucken.

Ludwig Erhard, Secretary of Economics in the Konrad Adenauer administration and later German chancellor, was one important and decisive figures in continuity and tradition. Erhard 'was a pragmatic in the service of different principals' (Roth 1998: 99) who hired particularly many Nazi-cadres with expertise in economic administration and enemy territory occupation for leading posts in his Ministry of Economic Affairs (Roth 2001: 36; for Erhard's role in Nazi Germany, where he did groundwork for the German social market economy ['soziale Marktwirtschaft'], see Plehwe 1998; Roth 1998, 1999a, b; Wünsche 1999). From 1950, Erhard belonged to the larger ordoliberal current of the neoliberal Mont Pèlerin-Society (MPS). He subsidized MPS and tried to counter macroeconomic regulation models that he perceived dominating in other ministries (Roth 2001: 13f. and 26ff.). Walter Eucken participated in the founding meeting of MPS in 1947, among the ordoliberal 'German School of Social Market Economy' were Müller-Armack and many others (Ptak 2004: 261).

Erhard and the ordoliberal German group took an important role in shaping the European integration process. A decade after WWII, Germany was freed from many of its responsibilities accumulated through German fascism. Western European integration process would allow the Western part of Germany to regain even more room to maneuver in postwar Europe. Stuart Holland, contributor to the EADI network—who was drawing on the Latin American Dependency School (Holland 1980: 114)—and British labor politician, described the German approach to European integration with these words:

> For Konrad Adenauer, as for Walter Hallstein – not only first president of the Commission, but also former West German Foreign Minister – it was important for the Federal Republic to regain a place in the sun of international affairs, but not at the cost of denuding herself of commitment to the dominance of a market economy and the competitive process. (ibid.: 13)

As the study by Thomas Rhenisch (1999: 91ff., 154ff.), shows, however, parts of German industry would have preferred a more functionalist integrative (free trade) solution in the context of the European Economic Co-operation (OEEC) to an institutional integration of EEC6. OEEC was the predecessor of OECD, the important institution of Western European integration and cold war that also administered the European Recovery Program (ERP, 'Marshall Plan'). As far as the Western German government's position is concerned, there was going on—behind the scenes—a stiff quarrel between the foreign secretary, backed by chancellor Konrad Adenauer, and secretary of economics Ludwig Erhard, who also favored a free trade arrangement in a wider context of OEEC including Britain. Erhard considered the OEEC the ideal example of an open liberal integration, while he saw in institutions like the EEC6 integration model, as Rhenisch (1999: 91) put it, 'instruments from the dirigiste torture chamber'. He preferred an economic functional integration instead. Erhard was backed by important fractions of German industries. Representing an uncompromising economic liberal position—against the pragmatic stance of Adenauer and the foreign secretary—Erhard tried to topple or at least postpone the integration concept of the EEC6 before the treaty of Rome. He tried in vain to be authorized with the government's integration negotiations. Only after the treaty of Rome was signed, Erhard's economic ministry received the competence for the European integration (ibid.: 141ff., 152).

Chancellor Adenauer gave priority to foreign and security policy. His position favored EEC which was supported by the influential Bundesverband der Deutschen Industrie (BDI), where German heavy industry was influential, with a positive attitude toward cartels (ibid.: 121; something the ordoliberal Erhard was opposed to). Lastly the BDI seems to have reached a hegemonic position among German industries as far as the 'small European integration approach' (ibid.: 126) was concerned. Furthermore, some of the industrialists wanted to avoid the impression that after having regained sovereignty, Western Germany was no more interested in European integration. Above all, the most powerful economy in Europe would not have to fear competition in the common market. Adenauer's economic advisor Hermann Josef Abs, however, seems to have been in line with Erhard in most or many economic issues critical of the EEC6 integration project (e.g. Rhenisch 1999: 97, 147).

Although Erhard failed to circumvent EEC6 integration, and was unable to determine the government position in this issue, the genesis

between the preparatory 'Spaak-Report' of 1956 and the actual 'Treaty establishing the European Economic Community' (Treaty of Rome, signed in 1957) suggests that the lobbying of Erhard and fractions of German industry showed some success. An exemplary issue, from a development standpoint, was the institution of an 'investment fund'. The Spaak-Report's Section III.1. ('The Investment Funds') displayed a remarkable wording. Under heading two it reads:

> Common development of the less favoured areas, which exist in all the participating States, is a fundamental condition of the success of the common market. In the event of a sudden economic merging of territories of unequal economic development, cheaper labour and the greater productivity of investments do not automatically ensure more rapid progress of the initially less favoured territory and thereby harmonisation of the levels of the respective areas concerned. Indeed, as shown in the case of the unification of Italy after 1860 and the United States after the War of Secession, the disparity in development can go on increasing where fundamental conditions of production development are not initially created out of public funds, i.e. infrastructure of roads, ports, communications, facilities, the financing of schools and hospitals, drainage, irrigation and the improvement of soil productivity. Positive common action in this connection is beneficial not only to the territories it is desired to develop but also to those in a more favourable position, since the latter increasingly benefit from the greater activity resulting from that development and may in this way prevent relations with less favoured territories from jeopardising their wage levels and standard of living. (Intergovernmental Committee 1956: 65)

Erhard repudiated adjustment funds as proposed in the Spaak-Report, and wanted to accept general coordination of national economic policies only (Rhenisch 1999: 148). There was, moreover, broad resistance also among German industrialists against institutionalizing the investment funds. Parts of the industry aimed at watering down the provisions and treated them as preliminary (Rhenisch 1999: 108f.). The German mining industry saw investment funds useful to attract foreign capital to Europe but wanted to impede that it could be used to balance more and less advantaged areas—which was seen as working against the international division of labor (ibid.: 115). Similar arguments were brought forward by the German iron and steel industry (ibid.: 118). Moreover, Adenauer's economic advisor Abs also argued against

maintaining common European investment funds: They would never be able to entirely replace international commercial loans.

> One takes care of strengthening confidence in the honesty of national governments as against foreign property and generally foreign rights, one struggles to keep currency and the economy stable then far more capital will be invested in foreign countries than can be achieved by the help of funds or other public subsidies. (Abs, quoted in Rhenisch 1999: 97)

What remained of the Spaak Report's investment fund appears to have been much more in line with liberal economic views. The Treaty of Rome envisaged the establishment of a European Investment Bank, the task of which was 'to contribute to a balanced and frictionless development of the Common Market in the interest of the Community' (EC EUR-Lex n.y.1: 67). Loans and loan guarantees for the capital market should enable projects (a) to make accessible 'less developed areas'; (b) 'to modernize or adapt companies or to create employment opportunities that arise from gradual formation of the Common Market, and which cannot—due to extent or manner—be completely financed by means of the single member states themselves'; (c) in the interest of several member states (ibid.: 67f.). Even if supranational regulations themselves were perceived by some being against radical liberal reasoning, the way the regulations were formulated followed radical liberal reasoning in the central issue of the liberal paradigm: competition. As we will see, EDS authors were very much aware of the fact that policies of industrial and regional development could be undermined simply by arguing violations of the competition principle. Furthermore, the Western German government safeguarded its liberal stance by managing to fill important positions at the community level: Walter Hallstein became first president of the European Commission, and Hans Groeben, a confidant of Ludwig Erhard from the ministry of economics, monitored the competition regulations as competition commissioner (Holland 1980: 13f.). Already in 1959, Groeben intervened in policies he perceived as 'unjustifiable levels of government aid in a problem sector—shipbuilding' (ibid.: 14). Other than the peripheral enlargement countries more than two decades later (see further down below), Italy and France at that time were able to dismiss such advances by the competition commissioner:

> The Italians in particular learned the lesson of this early experience of Commission liberalism, and thereafter simply refused to inform the Commission's competition division of the effective aid which they were giving to their new concentration of steel production in the South. (ibid.: 14)

It is important to see that the EEC/EU ideology had been economically liberal (ordo-or neoliberal) from the days when the integration model was founded. 'By seeking to give substance to every sub-clause in the Treaty', Holland (1980: 14) summarizes,

> as if nothing had really changed since Adam Smith, [the Commission] showed itself insensitive to real needs in basic industry, regional development and – thereby – the distribution of income and employment. It was not simply a problem of legalism on the part of some Commissioners at the time, trained as lawyers, reaching for the Treaty whenever they heard the words 'State aid'. It was the relevance of the liberal capitalist ideology of the Treaties, and especially the Rome Treaty, which was in question.

In the early decades, however, the founding member states were able to resist the ideology advanced by German governments. Although the six founding countries nominally shared the liberal capitalist ideology, the real economic policies diverged. Especially polarized Italy pursued

> policies through public enterprise which in northern Europe would have put it to the Left of the social democrats, [which] was not something which [the Commission] wished to rationalise, far less advertise. (ibid.)

The glue that held together the integration was something else. It was the anti-communist paradigm of the Cold War that also shaped the European integration process. Main protagonists of the integration process were politicians from Christian Democratic Parties, such as Robert Schuman, Konrad Adenauer, and Alcide De Gasperi (Haller 2009: 100ff.). 'Christian Democrats were […], by and large, the initial architects of European integration, and none of them were particularly enamoured with the notion of a national collective directly expressing a general will' (Müller 2012: 40). Such distrust against popular will formed an institutional structure of European integration between liberalism and a supra-national constitutionalism that gave power to unelected executive structures of integration and, by the same token, kept

power at the national government level (Müller 2012: 43f.). 'At no point until—ostensibly—the British referendum of 1976 was there any real popular participation in the movement towards European unity' (Anderson 2011: 16).

5.2 From German Ordo- to International Neoliberalism: Anti-left Bias in the Enlargement Process

Patrick Ziltener (2000: 85ff.) offers an interpretation of European integration that consists of two modes of integration that correspond with two specific forms of statehood. He calls the first phase 'Monnet mode' of integration which lasted from the foundation days of the European Community (EC) to 1973 (which also marked the onset of the first global recession after World War II). In this integration regime, the EC played a supporting and complementary role. It strengthened statehood by invigorating the national state. The supranational level of the EC only gained momentum when statehood was to be transformed after the period of Fordism. Until then a Keynesian development model prevailed which was heavily regulated (monetary sector) and protected (farm sector). Industrial development of Western Europe caught up by using US-American technology ('catching up Fordism') and some protection against the world market. Companies from EC countries competed in the common market but again with some restrictions as far as the Agrarian sector was concerned. Corporatism, welfare state and economic growth secured political support. The crisis years of the 1970s brought a transition phase toward a 'competition state' mode of integration. It was established with the Single European Act in 1987 and gave momentum to the supranational organization of the EC. The European single market process was driven by a changed political environment that enforced neoliberal policies. Based on a new political consensus (flexibilization, deregulation, privatization, monetarism) capital fractions oriented on the world market (TNC, insurance groups, banks) together with other actors (central banks, governments, employers organizations) formed a power block that shaped a market-oriented development path of the European Union (Bieling and Steinhilber 2000: 15).

The change of paradigms from Keynes to neoliberal is well taken. It surely was driven by the restructuring process of capitalism in crisis. The more important denomination between the two models of European

integration seems to be, however, the transition between two hegemonic models, from Pax Americana to Pax Germanica. Furthermore, the 'Monnet mode' of integration did not witness that much of a Keynesian development model in the most powerful European economy Western Germany, where a stiff controversy between advocates of Keynesian and ordoliberal approaches was taking place. Ordoliberal approaches found their ways into the early constitutive documents of the European Communities, with lasting influence on the room to maneuver in peripheral countries and regions as far as regional and industrial policies are concerned. The resistance against Keynesian economic policies was particularly strong in Ludwig Erhard's ministry of economics. But very generally, German industry was against any harmonization of social costs (wages, working hours, etc.) as proposed by the French negotiators. Such social costs were considered inappropriate ('Unkosten') with a strong potential of harming competition. Increasing labor costs toward the French level was a no-go for Erhard and German industry (Rhenisch 1999: e.g. 107, 120, 149ff.). Clearly Western Germany was able to mold integration policy from an early stage on. The Keynesian paradigma of early integration may have been the ability of EC nation states to resist German liberal advances. The model in itself was certainly economically liberal. With this privileged position within the integration model of capitalist Europe, Western Germany was able to pursue a neo-mercantilist economic policy:

> [R]ather than acting on an explicit statement, the choice of export-led growth must be seen as a-logical outcome of the choice of the German authorities to reach full employment by other than Keynesian means. That is to say, Keynesianism is seen as conducive to labor indiscipline, whereas sustaining aggregate demand indirectly through exports, and thereby necessitating price stability, is seen as conducive to labor discipline. The German preoccupation with the supply side should not be underestimated. […] Relatively low wages were then seen as a safeguard against import penetration to discourage consumption of foreign goods associated with a higher standard of living […]. More importantly, low wages implied a depressed domestic market, forcing firms to find external markets and thus generating an "export hypertrophy" […]. All this considered, the trade surplus, a result of export-led growth and wage and domestic consumption compression, became the benchmark of a long-term advantage over competitors. In this respect, Germany can be considered a mercantilist country. (Cesaratto and Stirati 2010: 73)

Nurtured in Pax Americana, Western Germany gained room to maneuver when the US hegemony showed weaknesses in the 1970s. Prominent left authors argued an inner-imperialist competition between the United States and Western Europe (EC). Ernest Mandel (1967) considered it unlikely that 'European capitalists will accept their defeat as inevitable, and that they will not at least try to avert it' (ibid.: 29):

> [T]he growth of capital interpenetration inside the Common Market, the appearance of large amalgated banking and industrial units which are not mainly the property of any national capitalist class, represent the material infra-structure for the emergence of supra-national state power organs in the Common Market. (ibid.: 31).

Common market and efforts to create a common financial market reflected for Mandel (ibid.: 35) a 'tendency […] of the legal superstructure adapting itself to changed property relationships, i.e. the appearance of a type of capitalist property having outgrown the limits of the old national state on the European continent'. He deemed a socialist solution possible:

> Both the tendencies of capital concentration and of obsolescence of the national state on the European continent are indicators of over-ripeness for socialist solutions: the need for a planned economy based upon collective ownership in the framework of a Socialist Federation of Europe (which would both be limited, of course, to the six Common Market countries). (ibid.: 37)

Nicos Poulantzas (2008: 255) saw in the argument of Mandel and others a 'decline being considered tendentially as the end of this hegemony'. He, in contrary, maintained that 'certain forms of this hegemony' were retreating, 'with Europe occupying the position of dependent or satellite imperialism': 'American hegemony has not ceased to be affirmed'. Giovanni Arrighi considered the hegemonial crisis of the United States in the 1970s a 'signal crisis' that marked the end of a period of material expansion and a caesura toward a period of financialization that also brought a temporal restoration of hegemony of the leading capitalist power (Arrighi 2010; Silver and Arrighi 2011). For Mandel (1967: 33), the 'main test [for the Common Market and its structures] will be a general recession in Western Europe'. And indeed the first global recession

after World War II in the 1970s would turn out as a caesura also in Europe. But it looked more like a German than a European awakening. This awakening was safeguarded by limitations to democracy in Cold War Western Europe. Such shortcomings were most distinctive in Western Germany, argues Anderson (2012: 54),

> emerging from Nazism and confronting East Germany on the front line of the Cold War. There American influence was always strongest, and the battle cries of the Free World in its struggle against Totalitarianism rang loudest.

5.2.1 German Anti-communism and Western Integration

Also within the EADI-network, there was awareness of 'the political awakening of West Germany' (Duchêne 1982: 25). West Germany was 'the undisputed economic superpower of Western Europe', as Christian Deubner (1982: 43) put it, 'whose interests and policies exercise a dominating influence on the character of intra-EEC economic and political relations'. It supported a liberal political and economic doctrine to be enshrined into the treaties and regulations of Western European integration (cf. Chapters 5.1 and 5.2.2).

> On the political plane, West German forces are especially sensitive to any movements which endanger the principles of bourgeois parliamentary democracy and capitalism. This is accompanied by a rigid anti-communism, resulting partly from Soviet communism's role in the eastern part of a divided Germany, and partly from the West German ruling Social Democratic Party's (SDP's) very specific need to isolate its left wing from communist leanings. (Deubner 1982: 44)

Ingrained during fascism and cold war, as Duchêne (1982: 25) observed, the anti-communist sentiments in West German society were influencing the southern enlargement of the EC in the 1980s. Parties on the left that were critical of EC membership were marginalized.

> All parties in West Germany, and the government itself, have demonstrated an almost hysterical opposition to leftist alliances, including communists or other left-socialist forces, coming to power in the applicant countries. This attitude is the other side of the coin of close and cordial relations with the governments and Socialist Parties of the applicants. This close relationship

> is used to impress West German anti-communism and anti-leftism on the Socialist Parties and the governments in all too persuasive terms. It may for example be partly responsible for the immovable resistance of the Portuguese Socialists to an alliance with the local Communist Party. (Deubner 1982: 47)

West German support of transforming the Fascist Portuguese regime was one of soft intervention (above all, by organizations of the German Social Democratic Party, cf. Deubner 1982: 46ff.). After the 'Revolution of the Carnations' in 1974, however, the Portuguese socialists inherited a difficult economic situation and faced increasing resistance. The export-led growth strategy had 'led to a fourfold increase in foreign-trade deficits between 1964 and 1973' (Woodward 1983: 185), these 'deficits were compounded between 1974 and 1976 […] by political retaliation against the revolution' (ibid.) of the bourgeoisie (in Portugal and abroad). In 1978, Portugal had to agree to an IMF sponsored austerity program, consequently in

> December 1979, the Socialist party was defeated in national elections, and less than six years after the revolution, government economic policy was growing progressively more conservative. (Woodward 1983: 186)

In Greece, Konstantinos Karamanlis, who had vehemently pursued Greek EEC accession before the dictatorship of the colonels (1967–1974), won the general elections of 1974 with the newly founded conservative Nea Dimokratia and pursued NATO- (1980) and EC membership (1981). In the year Greece entered the EC, ironically, Andreas Papandreou—leading the Panhellenic Socialist Movement (PASOK)—won absolute majority in the Greek Parliament. PASOK may have been the party in Europe, 'which has formulated a programme nearest to the concept of self-reliance', argued Heinz-Jürgen Axt (1985: 93). Papandreou had campaigned against EC membership and for disentangling the dependency on the United States. EC membership was seen as leading to further integration into the world economy in a subordinate position. Harsh realities of global economic crisis, and international and domestic resistance seems to have impaired PASOK's policies of self-reliance (Pollis 1985: 207ff.; cf. also Pollis 1983: 215ff.). Anti-communism and anti-leftism, summarized Deubner (1982: 47),

> blinds the German government and parties to the very important points made by [EC-critical left wing] parties, especially the Portuguese Communists and the Greek PASOK (which have both opposed their countries' applications for Community membership), against excessive optimism about the benefits of eventual membership, and of the exclusive orientation of their countries' economies towards the highly industrialised states of Western Europe which it probably implies.

5.2.2 *Pax Germanica Builds on Continuing Liberal Economic Paradigm*

The United States was able to establish a lasting stake in European integration by military and security means, because European integration had an overlap with NATO from the very beginning. Five of the inner six EU integration countries that formed the ECSC in 1951 (the cradle of today's EU), had also been founding members of NATO in 1949. The sixth member, (Western) Germany, that had been the European aggressor of World War II, joined NATO already in 1955, three years before the inner six founded the European Economic Community (EEC). Only six of 28 EU members (still including UK) today are not NATO members (Austria, Cyprus, Finland, Ireland, Malta, Sweden), all the others joined NATO before becoming EU members. The 'systematic affinity of West German foreign and economic policies to those of the United States' (Deubner 1982: 44f.), however, did not prevent West Germany to occupy political spaces where the United States did withdraw. 'West Germany is becoming a major force in the Mediterranean in her own name or through the Community', argues Duchêne (1982: 25f.):

> Hers is essentially a security policy to reinforce or replace waning American power in the area. In recent years she has given the impression of being the only West European state to have a systematic political strategy in Southern Europe and the means and determination to carry it through.

Pax Germanica started replacing, however, Pax Americana as hegemonic power in European integration. This includes the new role of the D-Mark as European anchor currency after the United States was not able to defend the Bretton Woods System any longer. The ordoliberal legacy of West Germany was seen as an advantage during the caesura to

the global neoliberal paradigm: West Germany did not need to struggle to escape the neoliberal take-over, like the Mitterrand government in France (Duchêne 1982: 25).

The authors of the European dependency school recognized the confrontational make-up and the ideological bias of a European integration process rooted in the cold war period. Regulation and the laissez-faire principle coexisted in the founding years of European integration. The founders of the EC, as Dudley Seers (1982: 4) put it, intended an 'institutional laissez-faire system', which 'would make it difficult for any really left-wing government of the future to exercise controls and carry out far-reaching social changes'. Similar things were observed for the economic framework. Laissez-faire was seen as the 'appropriate doctrine' (Seers 1982: 1) for technological leaders. This 'would ensure that its industrial structures were made more efficient by exposure to competition, and contribute to the reestablishment of international free trade, which was an essential element in this neo-colonial scenario' (Seers 1982: 4). '[T]he core of the liberal capitalist ideology', wrote Holland (1980: 4),

> hungover from Smith and the eighteenth century still stood, incarnate, at the Treaties of the European Communities. And that theory served a major political end in cementing and legitimizing the capitalism which the United States had underpinned through Marshall Aid and the NATO since the postwar settlement. (ibid.: 4)

And this European integration was constructed irreversibly, which is why, argues Holland (1980: 6),

> so many internationalists are opposed to Community supranationalism. They question whether one model of the economy and society, such as that enshrined in the Community Treaties, is relevant to the changing structures of the economy and society over time.

The policy of competition was written as a fundamental ideology into the Treaty of Rome in 1958. It could always be used as an argument against regional and industrial policies that would 'distort' competition as soon as such policies would be communitarized. With a few specified exemptions, Article 92 (1) of the 'Treaty establishing the European Economic Community' codifies that

> any aid granted by a member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between member States, be deemed incompatible with the Common Market. (English translation by Holland: 1980: 12; original languages Dutch, French, German, Italian, cf. EC EUR-Lex [n.y.1])

Article numbers changed over the years and so did treaty reforms, but the content remained the same (cf. EC EUR-Lex [n.y.1]). The hands of the member governments were tied since exceptions to this regulations were decided upon by the Commission (Holland 1980: 12).

On the other hand, common agricultural policy (CAP) was characterized by high regulatory policies and subsidies, which made the Community increasingly autarchic (Seers 1982: 4). The distributive system of EC social and regional funds was judged insufficient; the rich club of the six original member states of the European Community (EC6) unwilling and unable to eliminate regional disparities. The idea that a 'trickle-down' principle would be able to solve regional problems was related to a possible disintegration, because within the EC '[t]he 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' (Seers 1982: 10):

> 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. (ibid.)

5.3 Integration of Unequal Partners

Authors writing in the EADI network (before and during the second enlargement) assessed the future of peripheral countries within Western European integration pretty soberly. The results of EC policies in overcoming the disparities within EC6 and then EC9 were considered meager, they were rather seen as increasing regional inequalities and perpetuating structural imbalances (Eßer et al. 1980: 61f.; Secchi 1982; Seers 1982: 10, cf. also Chapter 4). Interestingly, the analysis of

statistical data by Marja-Liisa Kiljunen (1980: 212) suggested that the main reason for the absence of convergence was the increased divergence among national economies. The primary responsibility for development policies had been left with member states, the disparities within states did not change dramatically. That supports the thesis of a 'Keynesian integration model' up to the 1970s. The liberal make of the EC/EU, however, had been implemented in the Treaty of Rome (establishing the European Economic Community on January 1, 1958) already, carrying provisions that could be used when the Keynesian model lost momentum. Kiljunen (1980: 212f.) puts down what would later become a problematic aspect of the 'competitive region'-paradigm of the European Union that pushed back state intervention in regional development:

> [T]he underlying economic philosophy of free play of market forces, expressed in the Treaty (Article 3(f): 'competition shall not be distorted in the Common Market') is not easily compatible with policies which would involve public intervention in aid of weaker regions, both at national and Community levels. The member states were not and are not free to give whatever kind of financial assistance they might wish to regional development; the cases in which aid is compatible with the Common Market, including regional aid, are mentioned in Article 9.2. So that the aid does not 'distort competition', it is monitored by the Competition Policy rules which restrict the amounts of investment subsidies given to various regions. The Commission may, if necessary, call for withdrawal of state aid granted to particular firms to prevent any 'distortion of competition'.

In 1980, however, with the changes from Keynesian toward neoliberal paradigm still only proceeding, Kiljunen (1980: 213) could argue:

> As the free play of market forces has not reduced the gaps between Community regions, more exceptions to the principal rules have been made to tackle the problem of regional imbalance.

The EC took up initiatives for regional development only with the first enlargement in 1973 which coincided with the global economic crisis of the 1970s. The 'first enlargement in 1973 incorporated Ireland, which was hardly on par with the other member states of the EC, and the United Kingdom, which by then was beginning to be seen as a post-industrial society in the throes of decline' (Pollis 1983: 203). A regional development fund was created in 1975 (Kiljunen 1980: 213f.).

Britain seems to have pushed for such a fund due to adaptive difficulties of the industries in some of its regions: Staying in the Community, which it had joined only two years earlier, appeared too costly otherwise (Zingel 1976: 59). Similar to Yugoslavia, which had installed its regional development fund a decade earlier, measures to tackle regional disparities were implemented once the period of high economic growth was over (Weissenbacher 2005: 85ff.). If one takes the budgetary implications of 'cohesion' and 'integration', the EC Commission was aware of the redistributive task. It commissioned a study (MacDougall Report 1977), that calculated the funds necessary to reduce inequality. The MacDougall Report considered the 'redistributive power' of interregional transfers 100% 'if the effect of such transfers was completely to equalise regional or state per capita average incomes' (ibid.: 60). The average 'redistributive power' the core countries (studied for the report) used for their respective own domestic regions in 1975 amounted to 40%. If the European Community had applied similar measures in 1975 toward a 'redistributive power' of 40% in the EC, it would have spent 2% of the overall community GDP. This 'redistributive power'

> would have financed a large part or all of the current balance of payments deficits of the beneficiary states in the year in question. Thus very significant macroeconomic effects would have been achieved by expenditure amounting to about three times the actual size of the Community budget. (ibid.: 61)

The real 'redistributive power', the EC applied in 1975, however, had only 1%, 'i.e. one-fortieth of the average found in maturely integrated economies' (ibid.: 61). Of course, this was still the EC9 before the southern enlargement, when polarization of the integration model further increased: 'The receiving states would have been Italy, the United Kingdom and Ireland, the paying states being the remaining six member states' (ibid.: 60). Lastly, the overall budget of the EU commission never reached 2% (only 1%)! The MacDougall Report of 1977 (ibid.: 60ff.) called the situation of the EC pre-federal but strongly advised that even if the EC was not to be expected to spend redistributive measures comparable to a nation state of the core, it still needed to act because the southern enlargement would aggravate the situation. Deep integration and redistributive mechanisms both belonged to a successful integration model:

> Inter-regional redistribution produces a reasonably equitable sharing of both the cyclical and secular fortunes of an economic union, and thereby helps to maintain its political unity; it helps as far as possible attainment of comparable economic performance between regions; it compensates for the inability of regions or states to use trade or exchange rate policies in the management of their economies, and it limits the extent to which migration has to serve as part of the economic adjustment process. In all mature federal states, on the other hand, the counterpart of these powerful equalisation mechanisms is a mature political structure with a federal government and parliament and other federal agencies. (ibid.: 61)

Among the EDS authors, it was clear that the peripheral countries that entered the Western European integration with the second enlargement faced economic crisis and an increasingly liberal EC that was not much prepared to tackle yet more regional disparities. The EC structure changed from an institution with one and a half peripheral countries (Ireland and the Mezzogiorno) to one with four and a half (adding Greece, Portugal, Spain), increasing the population in peripheral countries from 10 to then 25% of the Community's population. '[A]ny serious policy commitment on equalisation of incomes [did require] transfers from north to south' (Duchêne 1982: 28). The European Commission, however, had been unable to tackle the existing uneven development of member states, let alone the task of such an 'enlargement of unequal partners'. It was aware that there was an integration problem but its policy consequences reflected the liberal construction of the EC and its institutions. The European Commission recommended, as Pollis (1983: 206) pointed out,

> aid be given to the three from the EC's social fund and from the European Regional Development Fund (ERDF), a recommendation that ignores the intense competition that already exists for these limited monies among the developing regions within the EC.

The European Commission was aware of the 'sharp differences in level of economic development between the three European Mediterranean countries and the core members' (ibid.: 1983: 205), but an ideological bias seems to have prevented it from deeper, more structural reforms. The commission was, as she called it (ibid.: 206), a 'technocratic decision-making organ [...] rooted in liberal economic thought, which provided in earlier centuries the philosophic rationale for emergent

capitalism' (ibid.: 206). While there was widespread skepticism as far as growth and welfare for the new members were concerned, not only among EDS authors (Deubner 1982: 47), core country Germany would not be harmed by the enlargement. Other than in the cases of France and Italy, the accession of the Southern EC3 would bring no competition to its agrarian production. Its advanced industrial production, on the contrary, was rather likely to be a competitive problem for the EC3. Yet another story were the changes in the EC division of labor deemed necessary for sustainable integration of the EC3, and their cohesion with core countries:

> Much more important are the apprehensions of indirect affects harming West German economic interests as a result of changes in the EEC's internal and external trade and industrial policies which might become unavoidable. (Deubner 1982: 50)

Due to the genesis of its integration, the Western European integration model had been neglecting its uneven development and was institutionally unprepared for dealing with accessing peripheral countries. What made matters worse was the fact that the second enlargement was proceeding before the background of a political and economic crisis. At that point immediate consequences of the accession of EC3 were seen difficult to be isolated from overall economic processes.

The Western European integration process had started, as Stefan Musto (1982: 68) from the EADI network pointed out, as a rich club of industrialized countries in a time of economic growth and did

> not include the instruments required to protect a Community of countries at different levels of development against serious backwash effects or even a tendency towards disintegration at a time of relative economic stagnation. It is becoming more and more evident that existing and growing imbalances resulting from the dynamic impact of regional concentration and the structural economic disparities imply permanent structural crises.

Only in Spain, there were signs of deepening vertical integration in the manufacturing sector which set up favorable conditions for a modernization of the productive structure. Greece and Portugal were not able to establish a process of sustained industrialization. Moreover, they were caught in the trap of low wage production where already

then countries of the global periphery were forcing their ways into the market. It was already clear that such tendencies would undermine the productive structure of peripheral Europe if the European division of labor remained unchanged. The structure of the production (small and medium sized companies) suggested a further deterioration if all protective measurements inside the Communities would be lifted after accession. The global recession brought a slowdown in economic growth and had resulted in a more hierarchical production structure in the EC9 with increasing regional disparities (cf. Chapter 4). Similar dynamics were being expected for the 1980s:

> Enlargement will not in itself cause this problems, but it will aggravate and accentuate them. In the present circumstances, it would seem difficult to lessen their effect, since the Community, being geared in every way to the needs of highly developed industrial countries, does not have sufficient structural policy instruments. […] The strategic question is not how the negative consequences of enlargement should be offset with the present division of labour – using some kind of crisis management as it were – but what new forms of the division of labour are needed to eliminate the disintegrating effects of the structural imbalances in the Community. (Musto 1982: 70)

Although EC membership was an important step in the history of these countries, among EDS authors it was also seen within the general trend of integrative gravity the countries were drawn into, during the decades before:

> Economic growth had accelerated to fast rates 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. (Seers 1982: 4)

Greece signed an association agreement with the EC in 1961 (as did Turkey in 1964), Portugal was a founding member of EFTA in 1960 (EFTA countries Great Britain and Denmark switched into the stronger model of integration EC in 1973), and 'Spain's overtures to the international economy after 1959 indicate a similar direction to accession' (Vaitsos 1982b: 244; cf. Holman 2002: 408). Alternatives to Western

European integration were not readily available. Greece's Western affiliation was decided upon immediately after World War II (Pollis 1985: 200).

Portugal and Spain, as Fascist dictatorships, were certainly not likely candidates for Comecon membership. Portugal, to be sure, did not pursue an option of a stronger orientation toward its former colonies (the last of which became independent only with the end of the Fascist regime), as economic area outside Europe. A non-allied affiliation would have brought the aura of third world-organization, furthermore the heterogeneous non-allied movement was too weak to offer a serious stance against core capitalist dynamics. Even Socialist Yugoslavia, one of the main protagonists and Greece's neighbor, could not escape the integration gravity of the Western European integration model (cf. Weissenbacher 2005). In the era of Cold War, the second enlargement was still a geopolitical project. The EC did shield peripheral countries from some turbulence of global structural imbalances but obviously not from the effects of the new international division of labor that shifted low wage production toward Asia.

The EC internalized the polarizing structure of international capitalist production, with consequences for the future of the integration process, as Constantine Vaitsos (1982b: 234ff.) from the EADI network pointed out.

> When addressing development issues, the theory of regional integration stresses the 'polarisation' or 'backwash' effects of market integration. The more unequal the initial development levels of prospective partners, the stronger tend to be the propensities to concentrate key activities and decisions in relatively more advanced areas. (Vaitsos 1980: 33)

Unsurprisingly, the structural imbalances increased to the extent to which peripheral countries/regions entered the EC. Consequently, a common (balancing) EC industrial policy ranked top on the agenda of dependency authors dealing with integration (as we will see in the following chapter). But a common industrial policy has remained a desideratum, indicating that 'community' ends where competition begins (cf. Deubner 1982: 52f.; Vaitsos 1980: 33).

Postwar boom and labor shortages in the core had fed some expectations in the possible arrival of modernization theorist promises. 'The apparent prosperity', writes Pollis (1983: 212),

> in Greece, Spain, and Portugal, the illusion of affluence, the availability and consumption of goods, and the increase in per capita income were all consequences of this overall worldwide prosperity emanating from the core.

But the underlying structural imbalances between core and periphery in Europe had remained unchanged and began to show more clearly with the crises of the 1970s and 1980s. 'At least prior to the socialist government in Greece', writes Pollis (1983: 210), it

> is evident that both the EC and governments of the three Mediterranean countries […] share the underlying economic and political premises regarding the desirability of enlargement as being beneficial to all in the long run.

5.4 The Absence of Common Industrial Policies

The German Development Institute (GDI) had pursued a variety of studies on the second enlargement of the European Community in general, and acceding countries in particular. The nature of industrial policies before the second enlargement, again, fits the analysis of single national policies in a 'Keynesian' development model. While GDI acknowledged successes in developing productive structures in France and the Netherlands, the Community performance as a whole was seen critical. The member states (EC 6) had not been willing to integrate their industries into a coherent production apparatus. As long as the postwar situation offered sufficient room to maneuver for economic expansion, this situation was seen unproblematic. With the crisis of the 1970s, however, disadvantages opposite to the United States and Japan became visible (Hillebrand 1978: 26ff.).

What has been said about EC regional policies is also true for industrial policies in the European Community:

> The treaties of Rome make no reference to any common industrial policy. On the contrary, intervention in the industrial sector is qualified in negative terms as a policy intended to secure the removal of all types of constraints, barriers, and interventionist measures that could distort the conditions designed to ensure free competition within the Community. With the exception of the goods referred to in the European Coal and Steel Committee (ECSC) treaty, which are subject to regulation by Community

> authorities, and also the partial exception of new technologies and energy for which the Commission assumes a certain number of responsibilities in terms of coordination and funding, **the treaties prohibit in principle all types of measures or subsidies that could result in any distortion of competition, the fundamental ideology pursued by the Community's founding fathers** [highlighted by RW]. (Musto 1985: 87f.)

Again, this underlines the liberal-conservative nature of the Western European integration process that engraved competition into its founding treaties. As with the Community's regional policy, common industrial policy initiatives started with the first enlargement 1973 when distortions in the postwar accumulation regime were already being felt (Musto 1985: 85ff.). The First Summit Conference of the Enlarged Community in Paris 1972 declared that it intended to establish a common foundation for the Community's industry:

> Economic expansion which is not an end in itself must as a priority help to attenuate the disparities in living conditions. It must develop with the participation of both sides of industry. It must emerge in an improved quality as well as an improved standard of life. In the European spirit special attention will be paid to non-material values and wealth and to protection of the environment so that progress shall serve mankind. (European Council 1972: 15f.)

But member states seem to have been hesitant to follow the declaration of Paris (Hillebrand 1978: 34). The Mediterranean peripheral countries were not part of these discussions. It was clear for members of the European dependency school that the strong divergence in the industrial structures of the EC9 and the second enlargement EC3 were difficult to overcome, and that Community membership would reduce the ability of national policies at the periphery (confronted with competition from the core). In order to prevent social polarization, Community policies should 'extend social control over investment and distribution sufficiently to contain emerging contradiction' argued Bienefeld (1982: 109) from the EADI network. Two scenarios were being put forward by researchers from GDI (Musto 1982: 80ff.; Eßer et al. 1980: 62ff.). Either the Community would remain a club of core countries with decreasing room to maneuver and a kind of permanent crisis management, because regional polarization would increase with

future accessions (cf. Eßer 1978b), or it pursued an internal development strategy that demanded an exceptional effort with a massive (not gradual) investment push in the periphery leading to a more decentralized production structure. If such a productive structure was not being established, more redistributive policies (than existing capacities) were seen necessary (due to growing disparities). At GDI, efforts to establish a balancing European industrial policy with 'the creation of comparable modern and effective industrial production structures in the various member states' (Musto 1981: 261f.; 1982: 76) were considered necessary, in order to maintain and improve the level of Community integration. Furthermore the implementation of such policies were considered more cost-efficient than increasing redistributive efforts (Eßer 1977: 65).

The industrial structure of the acceding countries of the second enlargement (EC3) was not large and not modern enough to face peripheral integration or economic crisis. Development, growth, and exports prospects of traditional labor intensive industries (like textiles, clothing, leather, and food processing) in terms of productivity, research, technology, and capital intensity were considered low. Yet such industries of Greece, Portugal, and Spain still represented important sectors and dominated some of their regions. As a share of overall industry they had 55% in Greece, 43% in Portugal, and 25% in Spain, in 1974. Such productive structures were seen as problematic in a global competitive context. Low wage production was more and more taken over by the global periphery in the new international division of labor. By the same token, these traditional sectors were not easily to be replaced for social reasons: Alternative industries were hard to implement in order to substitute employment and income. Furthermore these traditional industries belonged to a category of industries considered sensitive by the European Community (Musto 1982: 77f.). The GDI examined four sectors of sensitive Community industries: steel, shipbuilding, textiles and clothing, and synthetic fibers. The 1970s showed the contradiction between already established core country industries running into crisis and peripheral industries only being in the process of establishing such industrial sectors. While the Community used dirigiste and protective measures to deal with crisis prone over-production, the (future) acceding countries could still need expansive efforts, above all for the linkage-effects between steel and other industries. With the benefit of hindsight, the advice given by GDI sounds like wishful thinking:

> [I]t would […] be appropriate for the Community to permit the acceding countries to continue industrialisation in these sectors to meet their own requirements and to provide active support for this process in so far as it makes for structural improvement of production. The expansion and modernisation of these sectors in Southern Europe can have very positive consequences for the competitiveness of the industries they supply. So semi-industrialised prospective new members should not refrain from expanding industry simply because the corresponding industry in neighbouring industrialised countries has been 'sensitive' for some time. (Musto 1982: 79f.)

GDI researchers (Eßer et al. 1980: 10) suggested a differentiated strategy:

> The industrial development of a partly industrialized country can be facilitated best by simultaneously opening the domestic market for development, import substitution, increasing and diversifying exports.

The EC should allow acceding countries to develop their young industries up to the level of self-sufficiency and waive own protectionist measures against their competitive export industries (Eußner 1983: 12). The advice to the European periphery by mainstream economics, namely following the comparative advantage principle—and thereby stimulating low-wage production for the European periphery—was seen particularly futile in the case of the European integration: Eßer (1977: 52ff.; Eßer et al. 1980: 63ff.) pointed at contradictions in policies suggested to European peripheral countries and the economic reality between core and peripheral countries within a future community on the one hand side, and between the community and the world market, on the other. The European periphery should not try and compete in the framework of the global division of labor, because an integrated Europe might then have to become (more) protectionist in favor of its periphery's low-tech production. Moreover, extreme levels of low wages in Europe, necessary for global competition, had only been achievable under dictatorship and not in a European integration model that boasted democratic values. Conflicting interests between core and periphery inside a future community were clearly envisaged because, as a matter of principle, industrialized countries supported free trade in order to gain new markets but were protective as far as their own critical sectors were concerned.

Protective measures that were judged ‘structurally conservative’ in such core country sectors were classified ‘relevant development policies’ in peripheral countries (cf. the sensitive sectors above).

Clearly the need of a common industrial policy was seen at GDI, a policy that envisaged planning of European productive structures in a way that developed the industrial structure of peripheral economies, and reduced development disparities in the EC (Table 5.1). Musto (1982: 85ff.) referred to a sideline of mainstream economic theory building that considered comparative advantage, free trade and competition not as a matter of principle beneficial in economic integration: ‘agreed specialization’ by Kiyoshi Kojima (1970).

Table 5.1 Dual strategy to reduce development disparities in the EC

	Goal category I: reduction of intra-community development disparities	*Goal category II: reduction of regional disparities in member states*
Community measures	Agreed specialization in modern growth industries	Replenishment of the regionally effective Community funds
	More intensive transfer of technology	More intensive promotion of peripheral regions
	Greater incorporation of the periphery in the establishment of integration industries	Promotion of small and medium industry in disadvantaged regions
	Tolerance vis-a-vis the vulnerable infant industries of the applicant countries	Development of Community criteria and new regional promotion instruments
	Change of industrial structure, modernization of potentially competitive branches of production	Employment-oriented industrialization in the disadvantaged regions
National measures taken by individual member states on the periphery	Intra-sectoral specialization for substitute (and not complementary) exchange of goods	Securing a minimum level of living in all regions
	Building up of infant industries for export	Improvement of the quality of live, establishment of social services
	Measures to protect the domestic market against third country imports	Agglomeration tax on non-priority industries in conurbations

Source Musto (1982: 86)

Kojima (1970: 316ff.) considered 'agreed specialization' of industries most promising between countries with similar productive and consumption structures (and more difficult to be agreed upon in cases where they are not) but Musto (1982: 86f.) saw it as a 'pre-condition—in spatial areas of economic integration—for the progressive removal of structural imbalances'. Economic integration without 'agreed specialization' would lead to agglomeration in particular areas (Kojima 1970: 310).

'Agreeing' on allocation of industry was possibly the only immanent hope—in a European community with a liberal institutional structure—to foster industrial development in the periphery. As we will see in this Chapter 5.5, planning was all but absent in capitalist Europe, it just happened inside transnational companies beyond democratic control. At GDI there were massive doubts that a policy of balancing industrial development would materialize (cf. Eßer 1977, 1978a). The obstacles to the goal of reaching a balanced European industrial structure, as pointed out by Musto (1982: 76), seem to have haunted European integration policy ever since. Other than the agricultural sector that was highly regulated, the Community followed very liberal industrial policies. The acceding countries were to close the gap to the core countries by themselves and depended on the industrial strategies they adopted. But they were to be in line with the principle of competition. Comparative advantage aiming at low-wage production was seen ineffectual as to compete in a European Community that aimed at no internal and very low external trade barriers, and a common EC competitive regime that would impair the room to maneuver for autonomous national (infant) industrial policies (Hillebrand 1978: 39). Conflicting interests as to how far the Community was willing to support efforts to modernize the production apparatus were clearly predicted:

> In this respect the short-term export interests of the present highly industrialised members will conflict with the long-term integration interests of the Community as a whole: the conquest of the applicant countries' markets by the core countries of the Community would jeopardise the further industrial development of these countries and therefore perpetuate the structural imbalance of an area seeking integration. (Musto 1982: 76)

Adamantia Pollis (1985: 209f.), writing in Musto's network, argues that the EC commission's proposal for an integrated Mediterranean program had already envisaged for Greece

> the strengthening of those very sectors that would preclude the future autonomous industrialization of Greece. Emphasis is placed on the expansion of the fishing industry […]; expansion of agriculture by increasing productivity […]; and last, the expansion of the tourist industry […]. Little considerations was given to crop diversification, which would increase Greece's food self-sufficiency, as an alternative to continued specialization in a limited number of export crops that are in competition with similar products from other Mediterranean regions. The question of the development of Greece's industrial sector was largely ignored, undoubtedly premised on the doctrine of comparative advantage, since it is widely accepted that Community membership is destructive to Greece's non-competitive industries, albeit potentially beneficial to Europe's multinationals. In fact, the national bourgeoisie was opposed to membership for this very reason.

Without a coherent 'development and integration concept' (Eßer 1977: 65), peripheral countries within the European Union would face similar situations as countries in the global periphery. A laissez-fare industrial policy would be the 'appropriate doctrine' for the 'technological leaders' of the core, as pointed out by Seers (above), international free trade would wipe out the less efficient production structures in the periphery by competition, which was part of a 'neocolonial scenario'. It was obvious for GDI researchers that access to core markets had not brought and would not bear good chances for countries at the European periphery—such as Greece and Portugal—to increase industrial exports in order to earn enough foreign exchange to build up own industrial bases (Eßer 1977: 63). But also the question of Community funds for re-distribution of wealth gained by core countries was seen pessimistically. The status quo and the perspectives regarding development instruments, aid, and funds were perceived insufficient and ineffective (Musto 1982: 83ff.; Eßer 1977: 64f.). All in all GDI analyses led to intriguing conclusions, namely that

> enlargement will not pose any fundamentally new problems for the structure of the Community or its ability to function. But it will aggravate existing agricultural, industrial and regional problems […]. Secondly, in a heterogeneous area seeking integration but involving unequal partners there will be a growing tendency for structural disparities to become consolidated or to worsen, resulting in increasing internal imbalance and external inflexibility. Thirdly, a new balance […] can only be achieved

> through the improvement of structures in the weaker partner countries and thus the gradual elimination of the intra-Community development gap. Fourthly, such structural improvement cannot be effected either with the aid of rigid harmonisation arrangements [...] or through political abstinence on the part of the Community and a reference to free world trade. What is needed is greater scope for national policies to solve domestic structural problems [...]. Finally, this leads to a plea for the partial regionalisation and renationalisation of problem-solving mechanisms [...]. (Musto 1982: 87)

5.5 Corporate Integration and the European Division of Labor

We have seen that peripheral countries were not able to copy and reproduce core countries' capitalist development due to ever changing processes of global capitalism as a whole. Transnational companies (TNC) gained importance as players in global capitalism (cf. Chapters 2 and 4.2). World market developments had furthered the integration of many aspects of modern economics into the sovereignty of TNC, like input to production, internal market, decision-making, consumption, and cultural harmonization. Taxation belongs to the problems that arise from this kind of integration and internalization: Where is an input into production produced, and where is it accounted for? Where are profits being taxed? Where is the value being added (in a high or low-wage area)? Concentration and decision-making processes of corporate central planning can impair the ability of policy-making to counter polarization and backwash effects. Protection of company knowledge can also vanish hopes on spread effects of investments (Vaitsos 1980: 28ff.). Referring to the legal framework of the Treaty of Rome regarding competition and harmonization regulations (corporations, patents), Vaitsos (1982a: 137) argues that the EEC's industrial sector

> largely serves as a mechanism to provide freedom, facilitate and institutionalise the process of corporate internalisation. [...] [T]he functioning of the EEC is noted for the overwhelming absence of common commitments on locational and other key industrial policy matters. This is obviously a completely different situation from the spirit and practices of the CAP [Common Agricultural Policy, RW].

The distribution of power as regards such companies (and their countries of origin) was to the disadvantage of peripheral countries. In the European arena, the dominant core country Western Germany, again, seems to have been able to deal well with postwar difficulties:

> In spite of the massive inflows of foreign direct investment into West Germany in the last twenty years, the structural deformations experienced in other developed Western European countries have not occurred. With the notable, and significant, exceptions of oil and crucial production chains in electronics, West German industrial complexes have been competitive enough to keep up their market shares in oligopolist competition. In many cases, foreign corporations located in West Germany have become the R&D centres for the [TNC] network covering sister companies in Western Europe. This underlines the dominance of the Federal Republic in this respect, too. (Schlupp 1980: 189)

With structures of peripheral capitalism, the story was entirely different. Peripheral integration into TNC networks (United States and European) happened before actual European integration processes. Vaitsos (1982a: 143) indicates

> that Greece, Portugal, and Spain, before entering the EEC, registered levels of foreign penetration comparable with, and in many cases higher than, those of the existing EEC members. The transnationals have not been waiting for the entry of Southern Europe into the EEC to expand their operations in these three countries. Under existing international economic relations, the forces of corporate integration have already established significant inroads in the European economies whether or not formal regional integration took place.

Other members of the EADI network, and the Birmingham and Durham networks, respectively, came to similar conclusions: Transnational capital had influenced significantly the European peripheries' regional form of development. It penetrated Portugal from the late 1950s where it reinforced national monopoly structures without modernization of industries (Holland 1979: 142f.). Greece conceded TNC favorable conditions in taxation, for interest rates on bank credits, and on profit repatriation in 1953 (Pollis 1985: 204). In Spain 'industrial upgrading' of the national industry had 'created an industrial structure dependent on TNCs' (Muñoz et al. 1979: 166). The Spanish case seems

to echo the analysis of Cardoso and Faletto: There was talk of a 'new dependence' as a price for the 'new vitality' foreign capital had 'injected' to Spanish capitalism (Muñoz et al. 1979: 166). Also the Spanish bourgeoisie was unable to fulfill the modernization theorists' visions:

> Given its obvious weakness, this system could only be upheld by increasingly strong doses of 'public order' and political authoritarianism. The State felt the need to compensate for the obvious weaknesses of the bourgeoisie and the limited success of industrialization. (Muñoz et al. 1979: 167)

Greek industrialization was especially

> characterized by an important inflow of foreign capital and technology since there was none to speak of in the country. Furthermore, planning which was formally introduced in the early 1960s has never played any important role, free market forces being the motor of the development process. (Nikolinakos 1985: 203)

Following Osvaldo Sunkel, Mary Evangelinides (1979: 185) argues for Greece a structural heterogeneity that according to Sunkel (1973: 300ff.) leads to a national disintegration by means of integration into transnational capitalism:

> [K]ey manufacturing sectors were left to foreign capital which, taking advantage of the enormous privileges granted by the Greek State, began to invade the Greek economy and invest in the key dynamic industries as well as penetrate other vital sectors like banking, insurance, construction, engineering and trade. (Evangelinides 1979: 185)

Drawing on the polarization theorist Gunnar Myrdal, Nikolinakos (1985: 197) argues that 'left to market forces, capital accumulation will almost inevitably lead to regional inequalities'. He concludes that

> Greek industry has in fact developed according to the laws governing its integration into the international division of labour, in particular undertaking the role Western European capital has ascribed to it. (Nikolinakos 1985: 205)

'For the countries of origin of European-based transnationals', argues Vaitsos (1982a: 146),

> their economic interest in Southern Europe lie significantly in the strengthening of a European industrial division of labour, which, as one of its central elements, includes the following characteristics: the European core through the operations of the TNEs strengthens and enhances its position as a supplier of a) capital goods, b) intermediate products intensive in highly skilled labor, c) technology, as well as marketing knowhow, and d) top level corporate management which is located in the European core but whose strategic decisions will affect the rest of the European structure.

In the periphery, foreign investments, above all in Greece and Spain, and to a lesser extend in Portugal, aimed at import-substitution. About 2/3 of Greece, Portugal, and Spain's imports came from EC9, a quarter to a half (depending on the sector) from Western Germany. Markedly Spanish policies of import-substitution had led to higher foreign corporate integration (Vaitsos 1982a: 147ff.). Export activities of Greece, Portugal, and Spain concentrated on EC9 (about half of the manufactured exports) but showed different features. Vaitsos (1980: 149f.) distinguishes between four categories:

> i) activities employing low-skilled, low-paid labour in repetitive operations which have a low level of energy consumption per man-hour of work, low capital intensity and a heavy reliance on imported parts – to be assembled locally – for export abroad;
> ii) local processing of resource-based products involving high capital intensity and energy consumption per man-hour of work, continuous industrial processes, semi-qualified or qualified personnel remunerated at levels generally much higher than the average local industrial wage averages;
> iii) assembly activities or standardised engineering operations employing semi-qualified and qualified personnel with relatively high productivity and wage levels […], low capital intensity and reliable sources of […] labour; and
> iv) activities related to specific final goods which involve 'traditional' products (basically in the textile, apparel and leather industries as well as parts of the food and beverages sector), and where some of the export requirements involve a semi-qualified, reliable labour force […] while others need low wages as the main competitive tool […].

Greece and Portugal are heavily involved in the fourth category, Spain had, due to its protectionist policy in the past, a more differentiated industrial structure. Only for the fourth category, argues Vaitsos

(1982a: 150), it does matter whether a country enters the Western European integration model or not. Particularly in times of crisis the EC could pose non-tariff barriers collectively to protect the sector.

> The other three activities are likely to be very little influenced by whether a country is or is not a member of the EEC [...]. Low wages for tasks requiring low skills, resource availabilities, a comparatively priced and reliable semi-skilled labour force as well as transport considerations are much more powerful factors in the international sourcing of TNEs in these areas than country membership in the EEC.

All in all, economic crisis and the dynamics of the new international division of labor were seen problematic for future prospects of EC3. TNCs had not waited for the Western European Integration process to start their investment strategies in the EC3.

> What is certain [...] is that the absence of an effective industrial policy in the EEC under a unified market, strengthens the bargaining power of the TNEs. Since they control decisions on the location of production, they will increasingly come to play off one government against another for subsidies and other facilities for new investment undertakings. (Vaitsos 1982a: 159)

5.6 Toward a Monetary Union: The European Monetary System (EMS)

The nature of the European monetary system (EMS) would have an important impact on core–periphery relations in Europe. Currency relations mirror power relations. Until the 1970s the postwar system was regulated and dominated by the United States. The US dollar was the key currency and fixed to the price of gold. The 'Nixon-Shock' of August 15, 1971 unilaterally terminated US dollar convertibility to gold (35 US dollar/1 ounce) and de facto ended the regulated postwar monetary system agreed upon in Bretton Woods 1944. Attempts to balance domestic inequalities (Lyndon B. Johnson's Great Society) and military spending to enforce hegemonic power (in Vietnam and elsewhere) had poured money into the global economic system. Stabilizing the Bretton Woods-System (BWS) meant holding US dollar reserves by US allies, the surplus producing EC6 and Japan, which increasingly became untenable. There was a struggle via interest rate policy, Germany, which wanted to

raise interests, against the United States, which wanted to lower them. When the United States continued to refuse devaluing the US dollar, Germany (after some domestic discussion) revalued the German Mark (accompanied by the Dutch Guilder) in 1961 (Marsh 2011: 43f.). 1973 marks the official end of the BWS, European and the Japanese currencies began floating. The instability of the global system in the 1960s seems to have urged the EC6 toward more integration which put a European Monetary Union (EMU) on the agenda. Establishing an EMU was decided upon on the The Hague summit of 1969, a functioning monetary union was supposed to pave the way to a political union (Tsoukalis 1997: 139).

Prominent writers in the EADI network (Triffin 1980; Tsoukalis 1982) agree that the attempts to manage European currencies after the end of the BWS ('currency snake') failed and a European Monetary System (EMS) established in 1979 was a compromise that replaced for the time being the EMU (that was meant to be in place in 1980). With the EMS, a European Currency Unit (ECU) was to replace the function of the US dollar in the BWS. Any two national currencies were meant to fluctuate against each other no more than 2.25%, temporal exceptions allowing 6% (Triffin 1980: 225f.). 'The EMS is, in a sense', summarizes Tsoukalis (1982: 164),

> an attempt to reintroduce a more flexible Bretton Woods system within the Community and, at the same time, insulate intra-EEC exchanges from destabilising dollar speculation. It is no longer believed that the irrevocable fixity of exchange rates, complete liberalisation of capital movements and centralisation of monetary policies can be achieved in the foreseeable future. Periodic internal readjustments are an integral part of the system and a means of compensating for continuing divergence in inflation rates.

While the US dollar had been the key currency of the BWS, the D-Mark was to become the anchor currency of the EMS. Other than the United States, however, Germany has remained a trade surplus country ever since 1952 (Statistisches Bundesamt 2015). 'By the late 1980s, many European countries, either voluntarily, or with varying degrees of unwillingness, had effectively given up monetary autonomy to the Germans' (Marsh 2011: 15). The power play leading to the formation of the EMU was described by a couple of instructive accounts (i.e. Danescu 2013; Marsh 2011; Tsoukalis 1997), I will concentrate on the structural imbalances this formation created for core–periphery relations. It is very clear

that the structural imbalances, as already obvious in the rich club EC6, were seen as problematic for the formation of a future EMU:

> The Heads of State and Government give top priority to correcting the structural and regional imbalances in the Community which could hinder the achievement of the Economic and Monetary Union. (European Council 1972: 18)

Basically there seem to have been two major approaches toward reaching a functional EMU, one was called 'monetarist' (not to be confused with adherents of Milton Friedman), the other 'economist' position:

> For the hard-currency countries — whose standard-bearers were Germany and the Netherlands — the priority had to be given to economic policy, the coordination of which should make it possible to strengthen the weaker economies, resulting eventually in less recourse [...] to monetary solidarity. They also supported broader powers for the Community institutions. The countries with weak currencies, on the other hand, with France in the lead, regarded monetary solidarity as fundamental. Monetary integration must entail economic integration, and convergence of the economies was no longer a preliminary to, but a consequence of, monetary union. (Danescu 2013: 32)

Belgium sided with France, and Italy seems to have been divided between the sides. Luxembourg moved more and more to the German side (Marsh 2011: 45). Economic convergence was being important for Germany but, as we have seen in previous chapters, this should not impair its competitive position and not lead to entitlements in Community legislation.

Emphasis on competition and laissez faire privileges the economic core. Industrial and regional policy basically remained national efforts. Consequently 'economists' were being opposed to setting up monetary institutions first (as demanded by monetarists) which they wanted to allow only after converging policies. They feared that balance of payment problems in a EMU without balanced economies would be paid for by European, especially German, reserves. In that sense, Germany and the other 'economists' would have postponed the EMU forever because they opposed any community policy that could have brought convergence in the first place. But if Germany was to agree to common institutions, they should not run against its institutional beliefs—as a future European

Central Bank was to follow the model of the German Bundesbank (Danescu 2013: 96ff.).

Writers in the EADI-network had a good grasp of the structural imbalances that would turn out to flaws in the making of the European integration. Again, the burden of adjustment would have to be shouldered by deficit countries alone. In Bretton Woods, the United States had decided against John M. Keynes' bancor plan which would have foreseen financial consequences for surplus and deficit countries alike. Also the EMS and later the EMU decisions fell against a balance between surplus and deficit countries. In times of liquidity such a system could increase imbalances (as in the 1970s or more recently in the EMU in the 2000s years):

> Even in systems with constrained exchange rates, such as the EMS, there are means of postponing the real effects of imbalances. The most obvious relies on the credit facilities which any trading system must provide to ensure the short-term solvency of trading partners, although the conditionality of such funds limits their use in a way. Other forms of capital flow may also balance trade deficits although their longer-term effects will vary widely. In extreme cases real adjustment may be postponed and certain costs externalised, by reckless borrowing. To do so, one must have reckless lenders, which implies that such possibilities will again arise only in situations like the current global disequilibrium. (Bienefeld 1980: 295)

Caught in the debt trap when the liquidity frenzy was over—as countries of the global periphery and state socialism after the Volcker-shock of 1979 or in the European periphery in the current crisis—the name of the game was austerity: '[T]he Community's most notable economic initiative in recent years, the EMS, could, like the gold standard, easily increase rather than reduce inequality, in the absence of policies to stop this happening' (Seers 1982: 10). Seers' account from 1980 on a possible future scenario seems familiar to readers from twenty-first-century Europe:

> Those [countries] in deficit […] have to adopt deflationary policies. The more complete the degree of integration, the more serious this asymmetry is likely to be. If governments in an economic community have given up trade restrictions, foreign exchange control and even freedom to vary the exchange rate, then the only short-term weapons left to deal with a recession in exports (or rise in import prices) are fiscal and monetary policies that

> lower the level of employment – and wage controls to reduce costs and purchasing power. The effect is to make the governments of peripheral economies in an integrated system highly dependent on those of its core; if the latter give greater priority to curbing price inflation than to reducing unemployment, there is little the former can do but resign themselves to accepting this priority and shaping their own policies accordingly. (Seers 1980: 19)

Similarly Robert Baade and Jonathan Galloway (1983: 231) summarized:

> Full monetary integration means a sacrifice of monetary autonomy for Greece, Spain, and Portugal. Monetary policy will be determined jointly, and the collective policy will be more than likely less well suited to their needs. If monetary policy is conducted de facto by the area's reserve currency country, as was true in the case of the Bretton Woods system, what would be the implications? If Germany possesses the master currency, monetary policy for the three will be tighter than it has been. […] Operating under the supposition that the deutsche mark will function as the reserve currency, the three Mediterranean countries may be forced to accept higher rates of unemployment, if a trade-off does indeed exist between inflation and unemployment.

What is being enforced on the European periphery today, above all, seems to be going back to the 'economist' position of Germany in the early days of discussions on the EMU in the 1960s. The Maastricht treaty (1993), argued Marsh (2011: 153),

> ensured that the Germans could introduce no further conditions for EMU, for example, on parallel establishment of 'political union'. This was an objective that both [chancellor Helmut] Kohl and the [German] Bundesbank said they wanted, in order to anchor German-style stability culture throughout Europe.

Meanwhile this 'stability culture' has been pushed forward even more by the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (2013, not signed by the Czech Republic and UK).

Greece, Portugal, and Spain had entered the European integration process with trade deficits. Important discussions on the future of the EMS were held when they were still governed by dictators. Post dictatorial aspirations for wealth wound up in austerity. Exiting the BWS, the currencies of all three countries were devalued against E6 (with the

exception of Italy) in order to counter inflation differentials. Portugal 'was forced to accept the full rigour of IMF therapy' (Tsoukalis 1982: 167) in 1977/78 (IMF, n.y.) that improved the balance of payments 'at the expense of economic growth, employment and price stability' (Tsoukalis 1982: 167). Without counteracting mechanisms to balance the integration of 'unequal partners', the existing asymmetry would continue being translated into the monetary system. Cohesion and redistribution activities by the Community, beginning with the Single European Act 1987, were still considered low but annual transfers reached more than 3% of GDP in Portugal and Greece and more than 2% in Ireland and Spain (Tsoukalis 1997: 199ff. and 221).

> On the other hand, stronger demand for investment goods also means more imports. Between 30 and 40 per cent of the total amounts transferred to cohesion countries through the Structural Funds is being translated into imports from the other more developed countries of the EU […]. (Tsoukalis 1997: 203f.)

In the case of Greece, moreover, 50% of the funds went into infrastructural investments. Generally, the negotiation power seems to have determined the grade of influence the EU Commission was able to apply, and e.g. led to manifest differences how the EU Commission interfered in Greece in the 1980s and later in Germany post unification (Tsoukalis 1997: 207).

Basically, this asymmetry can be observed from the early post-BWS ('snake') in the 1970s into EMS and then EMU. Governments of peripheral countries (and Italy, for that matter) could fight domestic inflation by high short-term interest rates, which would also attract foreign capital. On the other hand such policies would progressively overvalue currencies, impair competitiveness in foreign trade (and increase core low interest countries' competitiveness), which again would widen imbalances. Liberal doctrines furthered deregulation of financial markets and forfeited capital controls. The main adjustment burden, however, was on the shoulders of weaker currencies. The increasing role of the D-mark as international reserve currency led to a division of labor between the German Bundesbank that intervened mostly 'outside' the EMS, mostly against the US dollar, and the other central banks that adjusted internally (Tsoukalis 1997: 152ff.). As with common industrial policies,

> strong preference for the status quo […] has enormously strengthened the negotiation power of Germany, thus enabling it in most cases to impose its own terms with respect to the transition and the contents of the final stage of the EMU. The arrangements for the final stage are very much along German lines, even though Germany would have liked even more strict rules with respect to the excessive deficit procedure. Not surprisingly, German representatives have been pushing in this direction subsequent to the ratification of the Maastricht treaty. The convergence criteria also strongly reflect German preferences. Although arguably they may make little economic sense, they will help to restrict, at least for some time, the number of countries allowed into the final stage […]. A monetary union without Germany makes no sense; and Germany will not have a monetary union unless it is on its own terms. (Tsoukalis 1997: 171)

Peripheral countries had to shoulder the burden of adjustment from day one entering the European integration process. When, in the 1970s, a Pax Germanica began replacing the Pax Americana in Europe, Germany could secure its version of a monetary institutional setup. The consequences of which are being felt in Europe today.

5.7 'True' Integration or a 'Sort of Colonial System'? A Puerto Rico Scenario?

Members of the European Dependency School were skeptical of future integration prospects. Trends for future developments had been set before Mediterranean countries entered the scene. The rich club EC6 never seems to have intended or been able to bring the Community to converge peripheral areas to the level of the core. Moreover, the internal structural problems of EC6 and then EC9 countries were seen unresolved.

> 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 their national economy. (Seers 1982: 11, cf. also Seers 1979: 27)

Past integration processes had brought about more open or subtle forms of economic domination, argues Constantine Vaitsos (1982b: 244f.).

In the Western European case, the two least developed countries Greece and Portugal, could become economic variants of Puerto Rico in Europe. But also a Puerto Rico scenario would bring about instability due to extreme polarization. Therefore the most extreme forms of polarization needed to be countered.

'An immensely important choice', as Seers (1979: 29) put it, 'is emerging for the core governments of Europe. Enlargement seems impossible: yet it simultaneously appears inevitable'. The alternative scenario, Seers (1982: 11ff.) indicated, was one of 'true' integration. True integration would need more capital for the reconstruction of peripheral industrial and agricultural sectors. It could aim at a 'Community self-reliance' as a counterpart to the collective self-reliance in South-South cooperation which was being promoted at the time. A more homogeneous Europe could build the base for the EMS and the ECU to challenge the US dollar in world trade. Seers also seems to have perceived possible a kind of control how and where TNC would engage in business and therefore reduce harm in the global South.

> Perhaps the most constructive European policy in the 1980s would be increasingly to allow the countries of the Third World to solve their own 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. (Seers 1982: 13)

Vaitsos (1982b: 244ff.) talks of his second scenario as a 'truly integrated Europe' that was to 'be achieved on the basis of conscious and direct measures to reduce the present contrasts in the level of productive activity and per capita income among its constituent parts'. Since spatial polarization had already grown among the EC Nine, distributional efforts remained too small, and common industrial policies were absent, Vaitsos was pessimistic about the likeliness of the 'true' integration scenario. The Community was not a transfer union, transfers to the periphery were more than equalized by increasing trade income flowing to the core (which again worsened the periphery's trade deficit, leading to balance of payment constraints and finally to the pressure to implement deflationary and austerity policies). Also Manfred Bienefeld (1980: 303ff.), a writer in the EADI network, considered a progressive integration necessary for a functioning Community. But he as well had major

doubts because the Community would not be able to externalize development issues the way Western Germany did. Reaching an German style export surplus was unrealistic, and a balanced (industrial) production and trade structure was not in sight.

The European reality of the 1980s seems to have pointed toward a fortress Europe, as Wolfgang Hager (1985: 75) wrote in Musto's network: France proposed 'less national protectionism within the Community in return for more protectionism at Community level' and there would be 'no German agreement to the French bargain unless the implied notion of Community preference is extended to the EFTA partners with which Germany has such close trading and investment links' (ibid.). 'The Commission's real preference', argues Hager (1985: 75),

> is not the fortress but the tank: the element of protection balanced by the capacity to attack. In tune with most member governments, all elements of economic policy are put in the service of a medium-term-oriented strategy that is neo-mercantilist in inspiration.

Structural adjustment and austerity already seem to have been envisaged in such a concept:

> In the guise of preaching adjustment to international market forces, the strategy requires adjustment, in terms of basic socioeconomic priorities, to "best international practice." Tolerance of large-scale unemployment, reduction of government budgets to free resources for industry, and redirection of government spending to industry-relevant purposes are the hallmark of this strategy. (Hager 1985: 75f.)

The situation within the fortress or tank Europe was not unlike the core–periphery relations in the global context. As long as peripheral countries fail to show unity against the core, the polarization is not to be stopped. What would make the situation more difficult for the Southern periphery was the integration of Comecon countries. One periphery could be played off against the other. As long as they were the major peripheral insiders, Portugal, Greece, and Spain could negotiate their consent to a deepening of the Economics and Monetary Union (EMU) in monetary terms, argues Otto Holman (2002: 417): Spain alone received with 43 billion Ecu more than 6 times the amount of the entire region of Central and Eastern Europe from the structural and cohesion

funds between 1994 and 1999. But overall, as Costis Hadjimichalis (1994: 27) pointed out, the 'southern fringes have lost one important political parameter in their negotiations to avoid disintegrative effects': '[W]e must notice that German capitalists now have plenty of cheap and well-educated labour from ex-socialist countries in situ, and new immigrants are filling blue-collar jobs held by southern Europeans during the 1960s and 1970s. […] This means that Germans and other central Europeans are no longer willing to pay for the reproduction of cheap labour in the south'.

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