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1989–92: Yalta farewell; how new a world?

> Only consummate statecraft can enable a king to save his throne, when after a long spell of oppressive rule he sets to improving the lot of his subjects. Patiently endured so long as to seem beyond redress, a grievance comes to appear intolerable once the possibility of removing it crosses men's minds. For the mere fact that certain abuses have been remedied draws attention to the others and they now appear more galling. People may suffer less, but their sensibility is exacerbated. (Alexis de Tocqueville)[1]

Summary

The fall of the Berlin Wall in November 1989 led, in rapid succession over the next two years, to German unification, Baltic state independence, the dissolution of the Soviet Union and its replacement by Russia and other successor countries, the fall of communist regimes all over Central and Eastern Europe, and the dissolution of the Warsaw Pact. Capitalism, liberalised world trade and new electronics technology seemed to have carried the day.

The West offered massive financial assistance to Central and Eastern Europe, including Russia, and also gave advice on how to go from a planned to a market economy ranging from 'shock therapy' to more gradual reform. Western international organisations – including the EU, the Council of Europe and NATO – followed suit with various co-operation and association agreements. The hope of the countries concerned for a new Marshall Plan was not met, but a new European Bank for Reconstruction and Development was meant to fulfil a similar function.

The European Union in 1993 concluded a European Economic Area (EEA) agreement with various EFTA countries, tying them closer to it in the areas of trade and investment. The EU also agreed, in 1992, on the ambitious Maastricht Treaty on European Union, foreseeing, especially, an Economic and Monetary Union (a single currency) by the end of the decade and a common foreign and security policy.

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The disintegration of Yugoslavia beginning in 1990, and the several wars it led to, posed serious challenges to the EU and NATO, apart from signifying a tragedy for the people of the region. A further challenge to the EU came with an unexpected Danish referendum ‘no’ to the Maastricht Treaty in 1992 and a surprisingly narrow ‘oui’ in a French referendum soon after. Even as the 1992 Internal Market was entering into force, a new sense of uncertainty settled over the continent.

Exit communism

In a political cartoon of the fall of 1989,[2] Hitler and Stalin are seen bidding one another, and the world, farewell, on a stage where the curtain is coming down and in whose background can be seen a city in ruins and flames. It is hard to imagine a better illustration of the world these two men left behind, an era which was to come to a close only on the night the Berlin Wall came down.

The fall of the Berlin Wall, so heavy in symbolism, came to represent a series of monumental events that were to follow: the disappearance of East Germany and its incorporation into the Federal Republic of Germany on 3 October 1990; the declaration of independence of the Baltic states of Estonia, Latvia and Lithuania in the summer of 1991; the dissolution of the Soviet Union in November 1991 and the country’s transformation into thirteen successor republics soon after, the biggest being Russia; the fall of dictatorships across Central and Eastern Europe, most of them disappearing peacefully but some violently such as the Ceausescu regime in Romania in December 1989; and the dissolution of the Warsaw Pact in April 1991.

These events were of historic importance, and the historian can only marvel at their taking place with so little bloodshed. The Soviet Empire was a ‘tired’ and overstretched empire – politically, militarily, socially, culturally and above all economically, collapsing under its own weight and inertia, not unlike the Roman Empire in the fourth century AD or the Ottoman Empire in the late nineteenth century. People, including the majority of Russians, failed to see the point of it any longer, especially since it seemed to impoverish them only further.

However, the peaceful demise of the Soviet Union was also due to the constantly peaceful posture of the West – that is, democratic Western Europe and the Atlantic Alliance as a whole – during this period, At no point during the events of 1989 to 1991 did the Soviet Union have reason to feel threatened, militarily or politically. On the contrary, the West went out of its way to reassure the Soviets that it wanted to help –

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before, during and after the events.

The importance of the existence of what might be called the 'international organisation network' was fully shown during these momentous times. The Conference on Security and Co-operation in Europe, the European Union, the Council of Europe, the World Bank, the International Monetary Fund, the OECD, the United Nations Economic Commission for Europe and the several arms limitations negotiations under way: all in their various ways made contact, issued declarations, voted financial and expert assistance and tried to include rather than exclude.

At no point did NATO take on a threatening posture to try somehow to exploit the weakness of the power which had lain behind its creation. Indeed, why should it, when it had all along been a purely defensive organisation? And how could it, when it was composed of democracies, with peoples who asked for nothing more than an end to the Cold War?

If communist ideology was in agony, nationalism was reawakening, showing that it had only been forced into a decades-long slumber – nearly 40 years for the countries of Central Europe and over seventy years for the nationalities of the Soviet Union. If such relatively abstract notions of forming a new communist human being, a new society and a new world of proletarian brotherhood had ignited passions in the 1920s, now a flag free of any sickle and hammer had the same effect.

Communism as an ideology and an economic doctrine seemed to have reached its nadir. Communist parties previously in power in Central and Eastern Europe were swept away in elections in the early 1990s, and have only been able to make a come-back by shedding most of their communist ideology and remaining as the often only viable and well organised opposition to the new parties in power. Sometimes reformed communist parties have come back to power and continued on the reform path to a more market-oriented economy. Outside Europe, communism survived only in a handful of places such as the Democratic People's Republic of Korea (or North Korea) and Cuba (in somewhat diluted form), and then only through heavy repression of domestic opinion and with the aid of that other ideology, the personality cult.

Has communism disappeared forever? On the one hand, mankind will have learnt from hard-earned experience, at least for some time to come, that the teachings of Marx, especially as distorted by a Lenin or a Stalin, do not produce the desired results when tried in reality, and that they in fact run the overwhelming risk of producing personal oppression and material impoverishment. On the other hand, one has to account for the galvanisation of the minds of much of the world in the first half of the

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twentieth century, among them the Russian revolutionaries and large parts of the intelligentsia of Western Europe and in much of the then developing world (even though in this latter case it was often more a camouflage for a quest for national liberation). Whatever part of the human psyche, at least in some people, was impassioned by the call of communism could, logically, become impassioned again. That part is the quest for equality – not just of opportunity but also in rewards; and revolt against privileges, nationalism, religion or superstition.[3]

However, a revival of communism in the near or medium term future seems unlikely, not only in Russia but also in China, which embraces capitalism while holding on to a communist one-party state, largely as a means of holding the country together.

Communism's nemeses: capitalism, trade and technology

In the wake of the fall of the Berlin Wall capitalism enjoyed a new honeymoon, and so did democracy. The economic boom in Western Europe carried on into 1990 and much of 1991, spurred and prolonged by Germany's vast spending on the 'new *Länder*' of the former East Germany. Nobody had any doubt that the countries of Central and Eastern Europe would start growing rapidly once democracy had been firmly installed, privatisation of state-owned companies carried out, and trade with the West and other 'transition' countries resumed ('transition' being the term widely used to describe the transformation from a central planning system to a market-oriented economy).

Principally, two things brought down the Soviet Union and Empire as well as world communism: capitalism and world trade, both using the computer chip. Capitalism's contribution was that the shortcomings of communism could only become apparent to people living under either system through communism's unfavourable comparison with the economic success of capitalism. World trade was helpful because capitalism could then use its tested tools of international division of labour – or specialisation – creating greater overall wealth (although not necessarily equally shared) and ever sharper competition, within as well as among countries. The multinational enterprise – a symbol of both division of labour and international competition – could not have developed without capitalism. Nor could it have done so without the open trade system largely based on the universal rules set up under GATT in 1947.

GATT, it will be remembered, was – until as late as 1995 when its main work was handed over to the new WTO – only an agreement (as the name implies), not an institution. As such, it was essentially a 'tit for

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tat' set-up: 'You give me "most-favoured-nation" treatment, I'll give it to you; you raise tariffs, I'll do the same'. Since the United States was the dominant actor on the world economic scene then, and has remained so with ups and downs to this day, world trade has developed largely as the US has wished it to develop, i.e. in a largely open and non-discriminatory manner. This has been an ideal environment for the growth of multinationals, first predominantly American, then also West European and eventually from most other parts of the world.

The multinationals not only brought foreign direct investment to the far corners of the earth, but also know-how in all fields, from organisation to technology. As the process accelerated, they not only enhanced world trade but they also made any large-scale retreat into protectionism by individual countries more costly in terms of trade disruption and the loss of foreign investment and know-how.

The microchip, for its part, has enhanced competition, which engenders inventions – the need to transmit information as cheaply and effectively as possible. Its use has above all been in the transmission of information over large distances, permitting companies to expand worldwide in a highly intricate web of co-ordination – internally within the organisation and externally with consumers and suppliers. The same holds for researchers and individual users.

Parallel to co-ordination and thereby control, the chip has permitted decentralisation of decision making. Since a company's centre knows better what its far-away subsidiaries are doing – and subsidiaries know more of what headquarters knows – there is more of a give and take between them, and greater possibility for adaptation of products and services to local preferences. Again, this is something a state-owned, centralised economy cannot muster, apart from the fact that it would not feel any real need to innovate, enjoying as it does a monopolistic position in its market (the nation).

Copying the invention of the chip would not have been enough for, say, the Soviet Union, given the continuous rapid product development in computer technology in the market economies – a development which the centrally planned economies simply could not emulate. Indeed, the Soviet authorities in the late 1980s tried to restrict the sale and use of personal computers to stem the freer flow of information (just as China has sought to restrict access to the internet), even though this hurt economic development. The paradox had come full circle: by trying to halt the advent of the information revolution in order to save central planning and the government's monopoly on opinion, the economic system collapsed, demonstrating in no uncertain terms the need for reform.

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The microchip rendered possible the explosion in knowledge and the sharing of data that fuelled world economic growth in the 1980s and up to this day. To a large extent, however, this growth passed the communist countries in Central and Eastern Europe by. Unable to harness the chip's potential under the central planning system, these countries increasingly realised that they had to change. The chip made transmission of information – through computers or satellite television – into Central and Eastern Europe all the more easy to achieve, and all the more difficult to resist.

If communism had thus been rendered possible in the early part of the twentieth century by the communication possibilities opened up by the telegraph, the telephone and the radio, it was undermined by further developments in communications technology – television and the personal computer fuelled by the chip. The chip revolution is not finished. It has in fact only just started, with unknown consequences for mankind as a whole.

To stress the importance of the chip in the downfall of the Soviet Union and Empire as well as communism is not in any way to belittle other factors at play. These include the international political system, the foresight – some would say illusions – and the willingness to reform of Gorbachev, the message of Christian humanism beaming out from the Vatican by the first East European Pope – John Paul II – as from 1978, and the shared wish by reformers and conservatives in the Soviet Union and elsewhere in Central and Eastern Europe to avoid civil war. However, the role of the simple chip merits highlighting for its importance is rarely recognised.

The resumption of history: from ideology to nuts and bolts

The disappearance of the Soviet Union and also its hold over other parts of Central and Eastern Europe left a void, both political and mental, in a world that had become used to a notion of two blocs and two ideologies standing against each other. The American historian Francis Fukuyama, in his book *The End of History and the Last Man* published in the early 1990s, talked about an 'end of history', as the exclusive striving for larger market shares and profits – was seen as taking exclusive hold of mankind.[4]

To others, however, it was more as if the train of world history, having been shunted on to the side track of ideology for the better part of the twentieth century, was now returning to its main line of rising and sinking empires, with international co-operation competing against the

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spectre of national – and nationalist – confrontation. Now the world would no longer have the luxury of debating such arcane ideas as whether the means of production ought to be state-owned or private. Instead, it would be faced with issues of survival such as climate change, environmental deterioration, AIDS, terrorism and the proliferation of nuclear weapons. No longer would war be principally a matter for the two superpowers, of which one no longer existed and whose main successor, Russia, was in a much weakened state. With that bipolar discipline gone, the question of war or peace would become more decentralised, tribal and national. Now the only things keeping humans from war would be their own survival instinct; the international machinery (in the widest sense) they had set up for keeping peace and co-operation dominant over war and conflict; and possibly the interdependence that would come from trade and cross-country investment.

The liberation of Central and Eastern Europe from communism left the region in a sorry state, but not without hope or potential. If it is regrettable that change did not come earlier – say, in the 1970s, if the Prague Spring had been allowed to spread to the whole region – it is as well that it did not come later than it did, by which time the region would have suffered even greater environmental destruction, even more economic backwardness vis-à-vis the surrounding market economies, even more oppression, despair and humiliation, and even greater destruction of 'civil society' – that myriad of independent associations in all walks of life, including business, that form the backbone of any free and thriving society. As the region set about rebuilding that civil society by re-establishing democracy – or, in a case like Russia's, establishing it for the first time – most people, including those in the West, thought that economic reform and renewal would be as easy.

However, building a functioning market economy on the ruins of a collapsed central planning system is much more difficult than establishing or re-establishing formal democracy, itself a difficult task. The expression 'It is easier to turn an aquarium into a fish soup than to turn a fish soup into an aquarium' made the rounds. Today, well over a decade after reform began, many of the countries in the region have made spectacular progress and show higher growth rates and degrees of privatisation of economic life than many countries in Western Europe. This is little less than miraculous and a tribute both to the peoples of these countries and to the international community which assisted in the process.

The differences in the pace of reform, and in its results, were largely due to the particular policies followed by individual governments and their experiences of the past. Generally, countries that followed the 'shock

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therapy' method – rapid (and fair) privatisation of state-owned industry and agriculture, a check on inflation through sparse money supply and clear legislation for economic life – fared better. Proximity to prosperous Western Europe, favouring Central Europe and the Baltic states in particular, also played a role, as did the extent of time the countries had been under communism (seventy years for the Soviet Union's successor states, some thirty-five years for the other countries in Central and Eastern Europe).

Finally, the existence or non-existence of democracy before World War II, sometimes referred to as the 'democratic tradition' may also have been significant. Democratic tradition is more than just voting to elect a parliament at national, regional or local level, or making sure that elections are fair. It is about the give and take among the many different constituencies that form the electorate. It is about checks and balances among different authorities, and about free and independent media.

Russia is a case in point. The reforms undertaken in the 1990s were on the whole haphazard or existed only on paper. A 'shock therapy' was tried, but it was more shock than therapy. Corruption was widespread, and the vast financial aid given by the West was poorly used or siphoned to 'safe havens' abroad. Democracy had difficulty penetrating into daily life, since 'civil society' had been so utterly destroyed under communism. When the 'bubble economy' burst in August 1998, world financial stability was shaken and Russia left with a largely unreformed economy and massive foreign debt.[5]

The legacy of the communist era weighed heavily upon Central and Eastern Europe, but the region also had advantages. They included an educated workforce – even though it was not familiar with market economy principles, such as its paramount emphasis on efficiency and ever higher productivity – and, importantly, much lower labour costs than in Western Europe.

The labour cost issue is worth highlighting. Rarely if ever in history did two neighbouring regions display such a disparity of wealth between them. Perhaps Spain and Portugal after the gold discoveries in Latin America in the sixteenth and seventeenth centuries showed the same wealth gap vis-à-vis their European neighbours to the north. However, they were feudal, not market, economies. Normally a prosperous region pulls up its neighbours through increased trade, leading over time to increased prosperity overall. However, the Iron Curtain between Eastern and Western Europe – plus the fundamentally opposite economic paths they chose or were compelled to choose – prevented virtually all trade and other economic contacts for decades.

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When the Berlin Wall fell, a Europe eagerly seeking co-operation found, on the one side, massive reconstruction needs and pitifully low wages, and on the other a rebuilt society with an elaborate social welfare system and overall high labour costs (including extra-salary costs to employers). Virtually overnight the obstacles to the two sides growing together economically were gone, threatening the work and conditions of some through industries moving to or buying in the East, and offering others the challenges of the market economy but also more and better paid jobs. The full impact of this development would not be felt for some time.

Most Russians were delighted to rediscover Russia as a country in its own right rather than as only one, albeit the main, component of the Soviet Union (although many Russians in the other successor republics were distressed at suddenly finding themselves outside). The formerly dependent countries in Central and Eastern Europe were jubilant over their newly rediscovered freedom and national independence. The East Germans eagerly awaited integration into the Federal Republic, which occurred on 3 October 1990, and in this they were joined by the large majority of West Germans. (The mutual recriminations between 'Ossies' and 'Wessies' would come only later.)

Western Europe – whether EU or non-EU, NATO or neutral – was elated over the liberation of Central and Eastern Europe and the disappearance of the military threat that the Warsaw Pact and the Soviet Union had represented. An 'implosion' of the Soviet Union, possibly leading to an outward 'explosion' had been averted. Now the task would be to help in any way possible: materially with funds, and also with all kinds of advice, from running a country to running a company.

But there was also a certain apprehension. The first worry had to do with the abrupt change to the status quo of European and world bipolarity to which Western Europe, and the rest of the world (in particular the United States), had become used over nearly half a century. Although international politics is driven by the desire of each power to alter the situation in its favour, there is often general unease when the status quo is fundamentally upset.

Suddenly, NATO had no counterweight. The very reason for its foundation had ceased to exist. Operation 'Desert Storm' – in which an international coalition of twenty-eight countries led by the United States and acting under a UN mandate had liberated Kuwait from Iraqi occupation in early 1991 – had not been a NATO affair, even though virtually all its members contributed. Even the European Union – whose integration had largely come about, and had been made possible by, the

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pressure from the East – had lost part of its significance as that pressure disappeared. At least it would now be more difficult to pursue integration or even unification, for any such undertaking among states requires not only the prospect of intrinsic rewards but also a better protection against an outside threat. Looming world economic hegemony by the United States or Japan over Europe was invoked by some Europeans as the new menace that would justify further integration (for instance toward a common currency). Some cited distant China as the new world threat, but others saw it as a new marketplace.

Another worry was about what would happen with Germany. During the Cold War it had been divided – the western one, the Federal Republic, necessarily turning West. Now it was becoming united with the second biggest slice, the former East Germany. Would its allegiance still be exclusively westward – to the Atlantic Alliance, to Western Europe, and in particular France? Would France and the United Kingdom again have to worry about a German dominance over *Mitteleuropa* and over a Europe where an essential equilibrium had previously existed, in population if not in economic wealth, between the middle-sized powers of the UK, France and Germany (to which one might add Italy and Spain)? All of a sudden, Germany had over eighty million people, not sixty million as before. Furthermore, would Russia be content with its post-Soviet borders? After all, it had millions of ethnic Russians in the 'near abroad' of successor republics, where they were now a minority. Following the independence of the Baltic states, the Kaliningrad enclave (now cut off from the rest of Russian territory) and Saint Petersburg were Russia's only outlets to the western seas.

Western assistance

Any concerns the West may have had over the new geopolitical realities in Central and Eastern Europe did nothing, however, to diminish its resolve to help. Massive bilateral and multilateral aid poured into the region, including Russia, as from 1991. The aim was simultaneously to preserve the newly established democracies by encouraging economic and other reform, to establish trade links, to invest, and more generally to tie the region more closely to Western Europe and to the international economy in general. Virtually the entire set-up of international institutions – the European Community, the Conference on Security and Co-operation in Europe (CSCE) and its successor, the Organisation for Security and Co-operation in Europe (OSCE), the International Monetary Fund, the World Bank, the United Nations Economic Commission for

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Europe, the Council of Europe, the newly created (in 1992) European Bank for Reconstruction and Development and others – enthusiastically threw themselves into the job of helping Central and Eastern Europe to get back on to its feet, creating some overlap and confusion in the process, but also some genuine assistance.[6] (For some institutions it even created a new lease of life as their traditional tasks had started to appear less relevant.)

In 1990 NATO had concluded an epoch-making treaty on conventional forces in Europe with the Soviet Union and other Central and East European countries. The Conventional Forces in Europe (CFE) Treaty bound both NATO and the Warsaw Pact to far-reaching cuts in conventional forces, thus removing a further threat to European peace. With the collapse of the Warsaw Pact many of the stipulations of the CFE Treaty were in fact soon more than met, and the agreement lost some of its relevance as many countries in Central and Eastern Europe became de facto western allies.[7]

The security emphases of individual Western European countries varied. For the Scandinavian countries and Finland – all relatively small – it was particularly important to help the equally small Baltic countries to survive as independent states, and turn the Baltic Sea into an area of prosperity and co-operation. In this they were joined by Germany.

Germany for its part was eager to help turn Central and Eastern Europe into a zone of stability rather than instability. Germany between 1989 and 1995 gave over DM100 billion in assistance to Russia and other countries emerging from the former Soviet Union and another DM50 billion to the other countries of Central and Eastern Europe. German unification itself meant a net transfer of some DM880 billion to the new *Länder* between 1991 and 1997. The support continues to this day. Much aid to Eastern Germany and elsewhere was also channelled through the European Community. Other Western European countries large and small contributed both bilaterally and through the international organisations mentioned above.

However, neither the one-to-one exchange rate between the Deutschmark and the East German Mark (rather than the one-to-two rate favoured by many economists) nor the budgetary transfer that followed had their full intended effect. The nationwide German trade unions immediately demanded pay levels in the East that would rapidly approach those in the West (already by this time among the highest in the world). This had the unintended effect of preventing the new *Länder* from using lower labour costs as a tool for development and drove German and foreign direct investment on to countries like Poland and Czechoslovakia.

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If official aid to the transition countries was important, of even greater importance were the direct investment flows beginning in 1990, once it was clear that the process of democratisation and economic reform was going to proceed. Such investment went predominantly to countries closest to Western Europe and to those exhibiting the greatest will to reform.

Although the reforms would have to vary according to the circumstances in each country, a number of areas stood out as particularly important: stable and democratic political institutions; an efficient and accountable public administration, including a fair, authoritative and comprehensive legal and judicial system (which was equally fair to foreign investors); privatisation of state-owned enterprises; restructuring of industry; promotion of small and medium-sized enterprises; a modern tax system including efficient tax collection; and a measure of social protection, not least to gain public approval of continued and often painful economic reform.

Many of the countries in Central and Eastern Europe now began to aspire to becoming members of two clubs: NATO for their external security, not least vis-à-vis Russia; and the European Community for their economic development, both in view of funds (e.g. for agriculture and regional development) and in order not to have to remain outside any emerging ‘Fortress Europe’.

NATO reacted quickly. In 1992 it created the North Atlantic Cooperation Council as a forum in which NATO and Central and Eastern European countries could discuss issues of common security. It was soon followed (in 1994) by the Partnership for Peace programme, aiming to involve also non-NATO member states in European peacekeeping. Meanwhile, NATO members reduced and reconfigured their armed forces to achieve better peacekeeping and crisis management. US forces in Germany, for example, were down to 35 per cent of their pre-1989 level by the mid-1990s.

The European Community also took speedy action. Association agreements, so-called Europe Agreements, were ultimately concluded with ten countries in the region, all of which would soon apply to become Community members: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Between 1989 and 1994 alone, over $12 billion was given in special assistance programmes or through the European Investment Bank. Efforts were also made to facilitate market access for Central and Eastern European exports to the Community, and the Community took it upon itself to coordinate assistance from Western donors in general (the ‘G-24’ group).

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However, even though the European Community was quick to expand contacts with Central and Eastern Europe, many of its member states did not yet feel ready to let the institution be enlarged. (Cyprus and Malta were also candidates, bringing the waiting list to twelve.) For one thing, how could agricultural expenditure, which already accounted for over 50 per cent of the EC budget, be kept in check if Central and Eastern European countries joined – most of them with fertile (if still underdeveloped) agricultural land? There was in particular great apprehension about the possible effects on the Common Agricultural Policy of Poland's large agrarian economy.

Moreover, how could regional development aid (through the European Regional Development Fund, the European Investment Bank, the Cohesion Fund and the Common Agricultural Policy) already accounting for over 10 per cent of the budget – be afforded, considering that potential new Central and Eastern European members were poorer than most of the current beneficiary regions in the EU? If there were to be no increase in funds, would previous net beneficiaries, such as southern regions and countries, receive less as central/eastern regions were given more?

How would the EC institutional machinery, already bursting at the seams, be able to accommodate four, five, six or more newcomers? And should not the EC first 'deepen' the integration among its existing members before going on to 'widen' membership to others? More particularly, if 'widening' came before 'deepening', would not Germany (this was a chiefly French concern) risk becoming more attached to *Mitteleuropa* than to Western Europe, and to France in particular? Could, perhaps, time be bought to achieve 'deepening' before the eventually inescapable 'widening' took place through arrangements short of membership and by drawing out the accession procedure into the future?

The EC–EFTA European Economic Area

The European Community was already trying the 'other arrangement' tack, by proposing, in 1989, a European Economic Area (EEA) to the six EFTA countries of Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland, to come into effect at the beginning of 1993, that is, in parallel with the completion of the EC's Internal Market (the '1992 project'). The EEA would essentially mean an extension of the '1992 project' to the six EFTA countries, without the latters' participation in other aspects of the EC, such as the Common Agricultural Policy. It also meant that the EFTA–EEA partners, as the incomparably weaker

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side, would be able to make observations but not to participate in the decision making on an equal footing with EC members. The arrangement suited both sides. The EC was relieved of the complications of expansion, while EFTA countries were freed from the political complications of applying, or indeed being granted, membership.[8]

For a country like Switzerland, such a prospect would indeed have been a nightmare, a fact borne out in 1992 when even EEA membership was rejected in a popular referendum. For others as well – Sweden, Finland and Austria – an important question was whether their constitutionally enshrined or otherwise established neutrality would be compatible with an EC membership which, rightly or wrongly, was assumed also to have far-reaching political ramifications.

However, the EEA agreement came with a price tag for the participant EFTA countries. The less wealthy European Community member states called for, and obtained, financial assistance from them in the form of a financial mechanism, one argument being that these EC industries would suffer in the EEA market as a result of stronger EFTA economies joining. One would have thought that, when in the end Switzerland did not join the EEA, this sum would be reduced. Instead, the remaining countries had to fill in the missing contribution. By the time Austria, Finland and Sweden joined in 1995, 110 million ECU had been paid by the EEA–EFTA countries into the financial mechanism (and the payments continue to this day for the three EEA members Iceland, Liechtenstein and Norway).[9]

As the EEA was given more concrete form – some 1,400 EC texts based on over 10,000 pages of EC legislation – it already began to appear obsolete to the governments of EFTA countries, which in the wake of the disappearance of the Soviet Union and the Warsaw Pact started seriously to consider EC membership (afraid of being overtaken by rapid modernisers such as Hungary, for example). Those interested included all except Iceland and Liechtenstein. In the 1991–92 period these governments were all to present applications to join the EC, although, as will be seen, only Austria, Finland and Sweden eventually joined, while Norway and Switzerland stayed outside.

Was the EEA, which eventually came into effect in January 1994, a lot of work for nothing? On the one hand it must be remembered that it originated at a time when EC membership for countries that were later to join was not yet under consideration, given that the collapse of the Soviet Union had not been foreseen. It did give rise to a divisive referendum in Switzerland, although that country later on incorporated virtually the entire EEA framework into its domestic legislation.

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On the other hand, the EEA agreement presumably helped those countries that would ultimately join in 1995 – Austria, Finland and Sweden – familiarise themselves with the workings of what had by this time become the European Union. Finally, Iceland, Norway and Liechtenstein (and to some extent Switzerland) would have an EEA agreement tailored to their particular desire to be 'inside' the EC economically, yet 'outside' it politically.

The Treaty on European Union (Maastricht Treaty)

Europe, and in particular the European Community, had an even more important concern than that of smoothing economic relations with EFTA members. The challenge was, since November 1989, how to respond to the political vacuum left by a vanished Berlin Wall and a weakening Soviet hold over Central and Eastern Europe; and, since November 1991, a Soviet Union that had vanished altogether.[10]

Other factors were at work. Many of those involved in European Community decision making were disappointed with a 1986 Single European Act which in their view did not sufficiently advance the process of integration. The '1992 project' was seen as too down-to-earth and in need of a loftier vision to supplement it, including a sorely missing 'social dimension'. Furthermore, how could an internal market function in the long run without a single currency (indeed as envisioned in the Single European Act)? A common currency would make 'competitive devaluations' impossible and eliminate the unpredictability caused by fluctuating exchange rates.

Moreover, the Internal Market had given new prominence to such phenomena as drug trafficking, cross-border crime, international terrorism and immigration, the latter notably from North Africa but also, it could be expected, from a newly opened up Central and Eastern Europe.

At the December 1989 Strasbourg meeting of the EC's European Council, one month after the Berlin Wall came down, the decision was taken to set up two Intergovernmental Conferences (IGCs) – one on political union and another on economic and monetary union. (The IGC on the EMU was convened against the wishes of the United Kingdom government.) These two IGCs were formally launched in Rome a year later, and were able to present their results after an additional year, in December 1991. Signature by all the Twelve of the new treaty resulting from these Intergovernmental Conferences – called the Treaty on European Union – took place in the Dutch city of Maastricht in February 1992.[11]

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A number of terms in the Treaty on European Union, popularly known as the Maastricht Treaty, merit attention. Article 1A of its Common Provisions states: 'By this Treaty, the High Contracting Parties establish among themselves a European Union, hereinafter called "the Union". This Treaty marks a new stage in the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen.'

'Union' would lead one to believe that a federation had been formed, along the model of, say, the former Soviet Union. However, already the next sentence went some distance (presumably at the insistence of the British and others) toward distancing itself from the previous one in saying that, though a 'new stage' had been entered into, this was only a 'process' of creating 'ever closer' union, that is, something that would never be fully completed, like an asymptotic curve approaching but never reaching 'full' union.

On the other hand, the treaty went on to talk about the 'introduction of a citizenship of the Union' – citizenship being normally a subject of international law, that is, citizenship of a country, state, federation or confederation. Union citizenship does, however, mean something less than, say, having a passport, which *only* indicates citizenship of the European Union (although national passports with an EU cover can today be obtained in all member states). Rather, it gives every national of a member state the right to live and work anywhere in the Community. He or she is further given the right to vote and stand as a candidate in local elections and elections for the European Parliament.

In Article B of the treaty's Common Provisions, the Union set itself the goal of the 'creation of an area without internal frontiers'. This essentially stood for the completion of the 1992 Internal Market ('frontiers' meaning less than 'borders' would have). The 'strengthening of economic and social cohesion' was a call for funds to poorer regions and countries of the Union.

Decisions were to be taken 'as closely as possible to the citizens', reflecting something of a negation of supranationality. This so called 'subsidiarity principle', was included especially, but not exclusively, at British insistence.[12] It stipulated that 'in areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the member states and can therefore, by reason of the scale required of the proposed action, be better achieved by the Community.'

The Treaty on European Union is based on a number of 'pillars'. One

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contained some institutional changes designed to improve the EU's efficiency and democratic appearance. The Council of Ministers was empowered to take a greater range of decisions on the basis of qualified majority votes. The European Parliament was given increased powers and influence in several respects, in particular regarding legislation.

The so called 'co-decision procedure' – subsequently revised under the 1997 Amsterdam Treaty – provided for two readings by the European Parliament and the Council of Ministers. Furthermore, the European Parliament was given a sort of legislative veto power over legislation subject to this procedure. Areas covered by the veto power included the freedom of movement, the freedom of establishment, the Internal Market (including competition), research and development, the environment, trans-European network guidelines, education and training, social policy, public health, culture, consumer protection, development policy, and implementation of the Regional Development Fund.

The term of office of the members of the European Commission was extended from four to five years, so as to align the life span of a Commission with that of a European Parliament. The entire proposed membership of the Commission was subjected to a vote of approval by the European Parliament before it was formally appointed by common accord of national governments.

A Committee of the Regions was established; the Court of Justice was given the power to impose fines on member states failing in their obligations; and the European Parliament was empowered to appoint an ombudsman to receive complaints from citizens 'covering instances of maladministration in the activities of the Community institutions or bodies'.

The Maastricht Treaty also defined the main features of an Economic and Monetary Union (EMU), as well as a timetable for its establishment passing through three different stages. The EMU included the irrevocable fixing of exchange rates, leading to the introduction of a single currency and to the establishment of a European Central Bank (ECB), which was to operate within the framework of a European System of Central Banks (ESCB). The main objectives of the ESCB would be to maintain price stability. It was to define and implement the monetary policy of the Community, conduct foreign exchange operations, hold and manage the official foreign reserves of the member states, and promote the smooth operation of payment systems.

The EMU was to be established in three stages. Stage I, begun in 1990, and stage II, started in 1994, were essentially concerned with promoting economic and monetary co-operation, co-ordination and convergence between the member states. By the end of 1996 (subsequently postponed

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to 1997) the Council of Ministers, acting by qualified majority was to decide: first, whether a majority of the member states met certain convergence criteria for the adoption of a single currency (involving low rates of inflation, low government deficits, currency stability and low interest rates); and second whether a majority of the member states wished to enter stage III. If a date for the beginning of stage III had not been set by the end of 1997, this third stage would start automatically on 1 January 1999 for those states that had met the convergence criteria. (All this indeed took place on schedule as will be seen in the next chapter, with eleven member states participating in the EMU project at its start in 1999, forming what popularly became known as 'Euroland'.)

In a protocol to the treaty it was recognised that the United Kingdom should 'not be obliged or committed to move to the third stage of economic and monetary union without a separate decision to do so by its government and parliament'. In another protocol the Danish government reserved the right to hold a national referendum before participating in the third stage of EMU, and subsequently Finland, Germany and Sweden declared that their respective parliaments must approve this last step. (Such approval was subsequently achieved in Finland and Germany.)

In another part of the treaty, the Community's commitment to helping developing countries was reaffirmed. New policy areas were introduced, although in a rather tentative manner, in the sense that the Community's responsibilities were carefully restricted to education, public health, consumer protection, trans-European networks and competitiveness of industry. A Cohesion Fund was created to provide financial assistance in the fields of environment and trans-European transport infrastructures, benefiting mainly peripheral and southern EU regions.

The treaty also contained a commitment to the shaping of a common foreign and security policy. While the 1987 Single European Act had stated that member states should 'endeavour jointly to formulate and implement European foreign policy', the Treaty on European Union went much further. Here, the Union and its member states agreed to 'define and implement a common foreign and security policy … covering all areas of foreign and security policy'. The common policy 'shall include all questions related to the security of the Union, including the eventual framing of a common defence policy, which might in time lead to a common defence'.

The objectives of the Common Foreign and Security Policy (CFSP) were defined in relatively general terms. One was to 'safeguard the common values, fundamental interests and independence of the Union' and another was to 'develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms'.

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The Western European Union was considered ‘an integral part of the development of the Union’ and should ‘elaborate and implement decisions and actions of the Union which have defence implications’. In a declaration annexed to the treaty the, at the time, nine EU members belonging to the WEU stated that it ‘will be developed as a defence component of the European Union and as the means to strengthen the European pillar of the Atlantic Alliance’.

The CFSP thus put the already well-established European Political Co-operation (EPC) within a broader framework. For the first time foreign policy, although essentially intergovernmental in character, became at least in theory subject to some qualified majority voting. Furthermore, defence made its first formal appearance on the Union agenda, although provisions were couched carefully. Thus there was talk only about the ‘eventual’ framing of a common defence policy (at the insistence of more Atlanticist members of the Union anxious to maintain the strength of NATO). The term ‘common defence’ was there, but only as something to which a common defence policy ‘might in time lead’. ‘Might’, ‘in time’ and ‘lead ‘ are all heavy qualifiers, again there at the insistence of those who did not wish any strengthening of a European security and defence policy to come at the cost of transatlantic ties.

Co-operation in the spheres of justice and home affairs constituted a separate pillar of the treaty. It comprised such things as asylum policy, border crossing, crossings by persons, immigration, the fight against drugs and international fraud, judicial co-operation in civil and criminal matters, co-operation among customs authorities and police co-operation to combat terrorism. In this pillar it was also said that any measures taken in regard to these areas must be in compliance with the Council of Europe’s European Convention of Human Rights and Fundamental Freedoms.

The significance of the CFSP and the justice and home affairs pillars lay in the broader contribution they might make to the integration process in Europe. A legal base was given to co-operation in areas that in the past were dealt with purely on a national basis or in loose and informal co-operation between the member states.

The Maastricht Treaty is long, some seventy pages. It has seventeen protocols and thirty-three separate declarations, mostly stating reservations against wordings in the treaty itself. Thus ‘social policy’ is dealt with in a protocol eventually ratified by all EU member states including the United Kingdom. Another protocol, previously referred to, exempts the United Kingdom from the EMU commitment to move to the third stage of economic and monetary union without a separate decision to do so by its government and parliament. Other protocols or declarations deal

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with such things as the acquisition of property in Denmark, the protection of animals, co-operation with charitable institutions and the hierarchy of Community acts, but also the statutes of the European Central Bank (ECB) and the European System of Central Banks (ESCB).

Interpreting the Maastricht Treaty

To the layman, the language of the Treaty on European Union is frequently impenetrable and sometimes borders on the incomprehensible. It is a far cry from, say, ‘We, the People of the United States’ or the United Nations Universal Declaration on Human Rights. One reason is that the treaty built on and revised the earlier treaties, and therefore had to indicate numerous references to the changes undertaken. Another is that it had to specify in great detail all the different modes of consultation and co-decision among the numerous Community bodies, as these vary depending on the issue.

The complexity of the treaty also, however, derives from the host of areas it covers. And these in turn represent not only the reasons just mentioned for drawing up the treaty in the first place, but also the many wishes thrown in by different member states and EU institutions as the negotiations got under way. With so many contributing authors, the result could hardly be expected to read like high prose; in this the Treaty on European Union very much resembles, indeed surpasses, the Single European Act. (There is a joke among bureaucrats that ‘a camel is a horse designed by a committee’.)

Of greater importance than any exegetic difficulties was the political significance of the treaty. Generally speaking, it represented a compromise between those who would have liked to go further (such as Germany, Italy and the Benelux countries) and those who felt it had gone too far already (in particular the United Kingdom).

The integrationists could rejoice in numerous competencies passing from the member states to the European level, and a strengthening of the powers of various EU institutions. Thus there would be more qualified majority voting in the decision-taking Council of Ministers (implying a reduction in sovereignty for countries in the minority, but also for those in the majority to the extent that they would have to compromise with others to reach that majority).

Furthermore, the European Council (of heads of government, or head of state in the case of France) was recognised as being the body to define the ‘general political guidelines’ of the EU. The European Parliament was given greater powers (without, however, receiving full legislative

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ones like a national parliament), both through the new 'co-decision procedure' and the extension of the so called 'co-operation' and 'assent' procedures to more policy areas. The European Court of Justice was given the right to fine member states found in breach of EC legislation. New policy areas were brought explicitly into the EC framework for the first time, such as culture, consumer protection, environment, research and technological development, industrial competitiveness, and economic and social cohesion. Above all, however, it was the provisions for an Economic and Monetary Union that would provide the greatest impetus toward political integration.

Those suspicious of more integration also scored some successes. For one thing, the 'F-word' – federal – did not appear at the insistence of, in particular, the British. The 'subsidiarity clause' was there, although it would be hard to define when exactly something promises to be better done by a member state than by the EU (especially in the economic field under a single currency). The two pillars of a Common Foreign and Security Policy and Co-operation in the Spheres of Justice and Home Affairs, were kept outside the European Community framework, thus remaining more intergovernmental than *communautaire*, with less of a say for, for instance, the European Commission. Furthermore, there were the virtual 'opt-outs' given to the United Kingdom and Denmark on the EMU and the refusal by one country, the United Kingdom, to participate in the Protocol and Agreement on Social Policy.

The Treaty on European Union was therefore a flexible treaty, placing certain activities in the more supranational EC framework and others in more ad hoc arrangements. In this it followed in the tradition of, say, the Schengen Agreement – at the time a separate agreement between some of the member states and concerned with the free movement of persons. However, flexibility has its price. Nobody at the time of the ECSC or the EEC Treaties would have dreamt of any opt-out possibilities or ad hoc arrangements. Uniformity was the order of the day and was possible due to the relative homogeneity of the member states; to the still relatively peripheral Community activities, which did not yet touch on the essentials of national sovereignty; and to the more favourable economic climate of that time.

First spanner in the works: the Yugoslav crisis

It would not be long before the Treaty on European Union would be put to the test. The disintegration of Yugoslavia, begun in 1990, continued in 1991 with declarations of independence by Croatia and Slovenia,

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followed by an EC-sponsored conference at The Hague to discuss a political settlement and an offer to consider, within the EC framework, requests for independence presented by any of the emerging republics before the year's end. Such requests did indeed come from Croatia, Slovenia, Bosnia and Macedonia (today the 'former Yugoslav Republic of Macedonia').

Soon, civil wars erupted in Slovenia, Croatia and Bosnia, and Germany recognised Croatia and Slovenia (in December 1991), prematurely according to some other EU countries. In the months following the signing of the Treaty on European Union at Maastricht, fighting subsided in Croatia (parts of which were under Serb military control) and Slovenia – both of which were internationally recognised as independent states. However, fighting flared up in Bosnia and Herzegovina – which had been recognised by the EU member countries in April 1992 – between Serbs who did not want to be citizens in that new country (aided by the Yugoslav army) and non-Serbs (Croatians and Bosnians). The revulsion of the rest of Europe and the world at seeing such large-scale fighting on the continent itself – indeed geographically closer to its centre than EU member Greece – was manifest, especially since the atrocities included massacres, rapes, mass expulsions and imprisonment in camps reminiscent of those seen during the Holocaust.

The situation was further confused by the proclamation, in March 1992, of a Serb Republic of Bosnia and Herzegovina, with a constitution saying it wanted to join Yugoslavia; and by the declaration by the predominantly Croat region in western Herzegovina that it was now an autonomous region (prompting international criticism that Croatia, too, was seeking Bosnia's partition).

Europeans and others could not understand why a country that had been in existence since the end of World War I should have to come apart. Was there a difference between a Serb, a Croat and a Bosnian? Did they not speak much the same language? Europeans, in brief, underestimated the force of nationalism and the legacy of history (even fourteenth-century history such as that invoked by Serbs to claim a right over the largely Albanian-populated province of Kosovo). Europeans also underestimated the forces of disintegration, at a time when Western Europe lived under the impression that the general trend in history was integration, as demonstrated through the European Union.

The question was: what could and would Europe, and more particularly, the EU, do? Send young men to die in a country on Europe's periphery – with internal conflicts that no outside power could fully comprehend, in mountainous terrain that is particularly difficult to conquer? How many body-bags would have to be sent home before

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public opinion would have had enough? (There would, alas, be many over the years to come, as international forces began to suffer casualties – but no large-scale pressure to disengage became apparent.)

Furthermore, for what cause would soldiers be sent to die or be wounded? For keeping belligerents apart, in which case they might be attacked by either side (as subsequently happened to UN troops)? Or for helping one side against another? But on what moral or statehood grounds, since atrocities were carried out by all and statehood considerations also must take into account the wishes of the population (such as the majority of Serbs in Bosnia-Herzegovina who did not want to live under a Sarajevo government)? And who would pay for the dispatch of the, some argued, 100,000 to 200,000 ground troops that would be necessary, especially if they were dragged into a military adventure from which there was no easy or early retreat?

Moreover, who should send soldiers, if such were to be sent? Germany could hardly do it in view of Hitler's occupation of Yugoslavia during World War II. A contingent from the Western European Union – of which Germany was a member – thereby became more difficult, apart from the fact that the institution did not have a direct military mandate, especially outside its membership area. NATO also experienced difficulties in sending troops for purposes that did not involve the collective defence of a member state, especially since the United States considered that this European conflict was something for the Europeans to solve in the first place. The Conference on Security and Co-operation in Europe (later the Organisation for Security and Co-operation in Europe), apart from lacking any military mandate and being hampered by a unanimity requirement before acting, also included a Russia religiously linked and historically favourable to the Serb cause.

On the other hand, if nothing was done, would there not be a risk of the conflict spreading across the Balkans and involving other parts of the former Yugoslavia and beyond – Serbs in Kosovo against ethnic Albanians, a civil war in the multi-ethnic 'former Yugoslav Republic of Macedonia', perhaps involving Yugoslavia and Greece? Might Turkey intervene to help the Moslems in Bosnia? Might Russia do the same on behalf of the Serbs? Furthermore, might other post-World War I or post-World War II borders in Europe, in particular in its central and eastern parts, be called into question by restive minorities? Could Europe, or the world, stomach daily television images of war and massacre without doing anything?

Divergences on what to do were becoming apparent among EU members. Partly they were due to different historical relations with the

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different sides to the conflicts, dating back even to the previous century. Partly they also arose out of different economic interests in the region, or because of bickering among EU countries over each other's action or non action.

Second spanner in the works: ratifying Maastricht

The EU could of course argue that the Treaty on European Union had not yet been ratified and that it could therefore not act with the same resolve in the foreign policy field. After ratification by all the Twelve – expected to be easy since all had signed – the provisions in the Common Foreign and Security Policy pillar could be put into effect.

However, would ratification come so easily? Denmark – where ratification was defeated in the *Folketing* by a narrow margin – submitted the Treaty on European Union to a referendum in June 1992, and a knife-edge majority rejected it.[13] This sent shock waves through the EC. How could a small nation like Denmark upset this carefully erected edifice, upon which the EC's very future depended? (The Treaty on European Union would have to be ratified by all EU members to come about at all.) There was shock that normally well-behaved Danes could rise against what their entire political elite – five of the eight parties in the *Folketing*, business circles, industry and most labour organisations – had said was best for them, in a campaign raising the spectre of all the disasters that would occur in the event of a 'no'.

To understand the Danish 'no' – which, it must be remembered, would have been a 'yes' but for a scant 46,000 vote difference – one has to grasp the mentality of this intensely democratic country. Denmark had joined the EEC in 1973 largely to preserve trade links with countries like Germany and the United Kingdom, not believing that its sovereignty would be in danger. Over the years, however, Danish objections began to arise against increased bureaucracy in Brussels; depleted fish stocks allegedly due to the EC's 'Blue Europe' rules of sharing fish resources among all members; and increasing net payments to the EC as a wealthy member. Much of the earlier support for the EU started to fade.

We shall later return to this particular issue, namely that the EU is rightly or wrongly seen as essentially elite-driven – by the Commission and, to some extent, the governing classes in the capitals of member states – and hence unable to comprehend the sentiments of member states' populations. Suffice it to say at this stage that 'eurosceptic' British conservatives burst out in a jubilant 'Wonderful, wonderful Copenhagen' and began to clamour for a similar popular referendum in the United Kingdom.

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The German government quickly ruled out the possibility of a referendum, especially since the constitution did not foresee it, and this in spite of a reluctance on the part of many Germans to lose their cherished Deutschmark in favour of an EMU single currency. In most other EU countries referenda were not held and ratification passed parliaments easily, not only because pro-EC sentiment was stronger in these countries but also, presumably, because these countries stood to gain financially as net receivers of EC funds. Only in the United Kingdom did the government have to fight hard and long to achieve ratification, at the price of several derogations, such as the EMU.

France took a different course. President Mitterrand, who in late 1991 had described the EMU as 'one of the most important events of the century', announced on the very day the Danish 'no' was announced that France, too, would have a referendum on the issue. At first the matter seemed a foregone conclusion, especially after a joint session of the National Assembly and the Senate in June 1992 had approved, by a wide majority, the constitutional reforms necessitated by the ratification of the Treaty of European Union (all that was formally required under the constitution).

However, over the summer the French began to reflect, much as the Danes had done a few months earlier. The main opposition party, the RPR (*Rassemblement Pour la République*) became deeply divided, displaying the traditional French ambivalence about, on the one hand, more integration in order to rein in Germany and to permit France to play a dominant role in European affairs and, on the other, less integration to preserve French sovereignty in a Gaullist *Europe des patries*.

The referendum increasingly became one on the Mitterrand presidency and on various scandals that had begun to rock French society. It was suspected that Mitterrand had announced the referendum to regain the domestic initiative and his earlier popularity. Especially after the Prime Minister said that the President would not resign in the event of a '*non*', many French people felt they could express general dissatisfaction with things as they stood – including irritation over US pressure for CAP reform under the Uruguay Round – without causing a constitutional crisis. All these things combined to produce a surprisingly narrow 'yes' margin of 51.05 per cent (with Alsace, home to the Council of Europe and the EU's European Parliament, saving the nationwide result by a 60 per cent vote in favour).

However, it was as if something had snapped with the Danish and French results. The Treaty on European Union might be ratified, but for the first time the people in a key country in the European equation had

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expressed serious misgivings about the extent and method of EU integration.

The autumn of 1992 came, with many EU citizens wondering whether the Treaty on European Union had been a good thing after all, and with morale sapped among those who were convinced of its merits. The long-awaited date of 1 January 1993 arrived – the day when the Single European Act and the Internal Market would enter into force – but it was just like any other day, with unemployment in the EU of the Twelve at 11 per cent and rising. Where was the promised prosperity?

Notes

1 In *The Old Regime and the Revolution*, 1856.
2 Cartoon 'The Final Curtain', in the *Independent*, 13 September 1990.
3 The 'Internationale' (Engstrom, 2000), that favourite battle cry of the socialist and communist movements of the early decades of the twentieth century, was perhaps the best known expression of this yearning:
Arise! ye starvelings from your slumbers;
Arise! ye criminals of want.
For reason in revolt now thunders,
And at last ends the age of cant.
Now away with all your superstitions,
Servile masses, arise! Arise!
We'll change forthwith the old conditions,
And spurn the dust to win the prize.
Then comrades, come rally
And the last fight let us face.
The Internationale
Unites the human race.
4 Fukuyama (1993).
5 The Russian financial crisis was also a crisis for the so-called 'Washington consensus', formulated in 1989 at the beginning of the transition to a market economy for the countries in Central and Eastern Europe. It was based on neo-liberal policies emphasising fiscal discipline, liberalisation, deregulation and privatisation by countries borrowing from the International Monetary Fund and other financial institutions. The latter were to impose strict conditions that these precepts were respected. The Russian crisis led to doubts that this was always the right course for countries in financial difficulties. Perhaps a more gradual and socially sensitive transition was sometimes better.
6 The European Bank for Reconstruction and Development, with sixty countries and two institutions (the European Union and the European Investment Bank) as members, has been of great assistance to its twenty-seven 'countries

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of operations' in Central, Eastern and South-Eastern Europe and the Community of Independent States (CIS) area (the countries of the former Soviet Union, minus Estonia, Latvia and Lithuania) since its creation in 1992. It is the largest single investor in this region and combines lending operations with a mandate to promote democracy.

7 The importance of the Conventional Forces in Europe Treaty can hardly be overstated. Without the mutual confidence it created, not least through extensive verification on both sides, German unification would in all likelihood have been much more difficult to bring about, as would have been the dissolution of the Soviet Union and the Warsaw Pact.

8 Joint bodies – an EEA Ministerial Council, a Joint Parliamentary Committee, a Consultative Committee composed of the social partners, an EFTA Surveillance Authority and an EFTA Court – would oversee the functioning of this 'Twelve and Six Common Market'.

9 As the EU enlarged from fifteen to twenty-five states in 2004, the new members would also enter into its European Economic Area (EEA) agreement with Iceland, Norway and Liechtenstein, all members of the European Free Trade Association (EFTA). They, like Switzerland (an EFTA member but not part of the EEA), were asked by the EU to increase their payments into the funds foreseen for the new members (and presumably some old). There was little the EFTA countries could do other than accept, especially as the EU pressed for greater access to the fishing waters of Iceland and Norway.

10 President Mitterrand of France at first tried to inhibit or at least delay German unification in 1990. The Maastricht Treaty with its 'deepening' of the EU, especially through an Economic and Monetary Union, represented France's all-out effort to tie Germany closer to it and to the EC in general. Further EC integration would, in Mitterrand's words, have to precede 'changing borders' (i.e. unification) and the latter would have to 'take the European balance into account'. Germany under Chancellor Kohl immediately set out to assuage French fears by statements such as 'the German house must be built under a European roof', a policy which it has since steadfastly followed. See e.g. Baun (1996, pp. 41–4).

11 The European Union is an organisation composed of different treaty-based parts, hence the slightly confusing terminology surrounding its appellation. The term 'European Union' describes the general edifice of 'unification' among the member states, and it is also to be used whenever one is referring to the Common Foreign and Security Policy or Co-operation in the Spheres of Justice and Home Affairs. Two of the European Communities – the European Economic Community, and Euratom – continue to exist (although the relevant Treaties are revised in the Treaty on European Union). The European Coal and Steel Community disappeared in 2002 when the relevant treaty reached its fifty-year duration. However, the European Economic Community is renamed the 'European Community'. Therefore, the European Community is part of the European Communities, which themselves are part

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of the European Union. In this book, the 'European Union' is normally used throughout to describe the institution generally as from 1992.

12 The 'subsidiarity' caveat was in fact sought by several of the players. As van Keersbergen and Verbeek (1994, p 220) point out: 'Subsidiarity has primarily served to reconcile the conflicting interests of principal actors affected by the consequences of the common market [i.e. the '1992' Internal Market project]: the United Kingdom, Germany and the European Commission. The United Kingdom feared that the completion of the European market would slowly eat away at portions of national sovereignty. The German federal government, as well as the European Commission, had met strong resistance from the German *Länder*, who feared that the completion of the Internal Market, based on negotiations between Bonn and Brussels, would actually lead to a shrinking of their regional competences. The European Commission, of course, was predominantly interested in playing down the impression that the '1992 programme' would lead to ever growing power-wielding by Brussels.'

13 Under the Danish constitution, any change to it, such as would result from the Maastricht Treaty, would require a qualified majority in parliament. Since this majority was narrowly missed, a referendum had to be called. The traditionally democratic Danish government decreed that copies of the draft Maastricht Treaty should be made available at post offices to all those requesting them. Presumably the reading did not convince a sufficient number of citizens. Furthermore, referenda results are frequently bound up in the popularity of the governments that decide to hold them. Denmark in 1992 was no different. The outcome was 50.7 per cent against and 49.3 per cent in favour.

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