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**Can You Create a Community through Economic Means?**

**The Case of the European Union**

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There exist a number of interesting theories that address the issue of the integration and the coming-into-being of the European Union.[[1]](#footnote-1) There is, for example, the spill-over theory as well as theories that emphasize the federal or intergovernmental element in the integration process (e.g. Wiener and Diez 2009). There also exist general social science theories about integration, which can be applied to the European Union, from Durkheim and onwards.

Given the turmoil that EU has been going through during the last few years, one is however justified in taking up this issue once more and re-examining its general strategy for integration and more generally for creating a new community. While it for a long time has seemed as if the unification of Europe was steadily moving ahead, even if it was a slow and non-linear kind of movement, things are not so sure today. In 2012, for example, a number of politicians and observers feared that the euro would break up, and with it, the EU.

In this paper I will try to add to the current discussion of the integration and unification of Europe by focusing on what has been so far the main way to construct EU. This is that unification and integration of Europe should primarily be created through economic means. The main strategy should in other words not be to use political means or social means or cultural means but *economic means*.

In my view this is a strange idea; and it deserves more discussion and scrutiny than it has received so far, which is very little. Is the idea that you can create a European Community through economic means not the elephant in the room so-to-speak? The question that this paper will try to address is where does this idea come from and what has its consequences been.

The rest of the paper is divided into three sections. I will first discuss where the idea that you can create a European society through economic means is coming from. I will then show how it has been used in the construction of EU, from the 1950s till today. The last section discusses the way in which the financial crisis has affected EU integration.

I shall also try to establish bridges between these three sections. Have, for example, the ideas of how to use the economy to unify Europe influenced the various stages of the construction of EU? And how has the institutional design of EU interacted with the financial crisis and affected integration.

In the concluding remarks I will summarize the main argument and argue that we need a discussion of the effects of the idea that you can unify and integrate Europe through economic means. The situation today is very complex and many other factors than this particular idea are clearly involved. Still, it does deserve a hearing, not least since so much is currently at stake in EU.

The Roots of the Notion that You Can Unify a Community like Europe through the Economy

It would seem that the idea of the economy as a positive and integrative force in society, especially that it can help to eliminate war, goes far back in time. A well-known example is the doctrine of *commerce doux* which was “widely accepted” during the 18th century, according to Albert O. Hirschman (1982:1464-65).

In *The Spirit of the Laws* (1749), Montesquieu argues that commerce softens manners that are violent. “It is almost a general rule”, he writes, “that wherever manners are gentle (*moeurs douces*) there is commerce; and wherever there is commerce, manners are gentle” (Montesquieu 1961:2:8). In another of his writings Montesquieu says that,

The natural effect of commerce is to lead to peace. Two nations that trade together become mutually dependent: if one has an interest in buying, the other has in selling: and all unions are based on mutual need. (Hirschman 1977:80)

In his days, and for quite some time afterwards, Montesquieu’s ideas were commonly known and discussed. Marx, for example, refers to *commerce doux* (which he sharply criticized) in *Capital* (Marx 1977:780).[[2]](#endnote-1) In modern times, it is especially Hirschman who has drawn attention to this doctrine. It plays a prominent role in *The Interests and the Passions* (1977), where Hirschman refers to it as the Montesquieu Steuart doctrine (see also Hirschman 1982).

According to Hirschman, there exist a number of ideologies that prepared the way for capitalism, and *commerce doux* is one of them. Since it had little to say about the reality that came into being with the Industrial Revolution, however, it soon fell to the side. While it has some fascinating and interesting elements, it did not capture what was going on. It ended up, Hirschman says, as a mere “episode in intellectual history” (Hirschman 1977:135).

On this point, however, Hirschman may have been wrong. Montesquieu and others were referring to trade and not to industry, and the reason for this was simple: the industrial revolution had not yet started. Once economic development did take off, however, Montesquieu’s ideas resurfaced, albeit in a new and somewhat different form.

The person who did more than anyone else to reshape the idea of creating a peaceful and war-free Europe was Henri de Saint-Simon (1760-1825). He was also one of the persons who helped to invest the word “industry”(*industrie*) with a new and modern meaning. While “industry” originally meant “working hard”, it now also took on its current most common meaning, namely “production with the help of machines”.

Before the French Revolution, according to Saint-Simon, there exited one class that did not work and therefore was not “industrious”. This was the aristocracy; and it was responsible for the wars. Once all people worked, and the aristocracy was gone, however, there would be no more wars. In his journal called *L’Industrie* (1817), Saint-Simon wrote,

In which ideas will we find the organic bond that can unite people in a society? In the ideas of industry...All comes from industry, we therefore have to do everything for industry. (Saint-Simon 1977: 17, 165)

In 1814 Saint-Simon wrote a pamphlet called *For the Reorganization of the European Society.* He here drew up a plan for how Europe should be organized, in order for there to be no more wars. In his plans for the new society, the industrialists were to play a central role (Saint-Simon 1977:153-248; cf. Swedberg 1994).

Who today reads Saint-Simon, and was he really so important? In my view the answer to the second question is a clear “yes”. Few people read Saint-Simon, but some of his ideas have become part of the common stock of ideas, to the point that many people voice them as if they were their own. This is especially true for his idea that industry or the modern economy can help people unite into new and peaceful communities.

Let me give some illustrations of this and begin with Marx. For Marx, it is not only industry but first and foremost *work* that will help to create the new class less society. “Workers of all countries, unite!”

Why does Marx think that work is the key? The answer to this question also helps to explain the popularity of the idea of the economy as a unifying force. The reason is as follows. It is the faulty organization of work that has created the current problems of humanity, according to Marx. Hence, it is only through a reorganization of work that a new, good community can be created.

Many others have expressed similar ideas about the relationship between industry, on the one hand, and peace and a new type of community on the other. Herbert Spencer, the most popular sociologist of his time, spoke for example of militant societies versus industrial societies. The former are warlike and authoritarian, the latter libertarian and pro-growth.

Around 1920 Joseph Schumpeter published a well-known article in which he argued that imperialism is warlike because it contains elements of feudalism. Capitalism on the other hand is essentially peaceful (Schumpeter 1991). Carl Schmitt, in *The Concept of the Political* (1927), suggested that the spirit of earlier times was linked to feudalism “in alliance with state, war and politics” (Schmitt 1927:75). The spirit of the modern time, on the other hand, is linked to freedom and progress “in alliance with economy, industry and technology”.

In 1935 Werner Sombart published a pamphlet in which he suggested that the time in which we live look at everything in term of the economy. Its title was *The Economic Age*; and one of the characteristic facts about the modern age is precisely that “economic means – as befits an economic age – are replacing political means” (Sombart 1935:16).

Before proceeding, one is reminded of Keynes’ famous statement that many people’s opinions about the economy are often influenced by ideas in the distant past: “practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist” (Keynes 1936:383).

It should be added that Keynes himself also believed that in the future economic activities will substitute for more violent and authoritarian schemes:

Dangerous human proclivities can be canalized into comparatively harmless channels by the existence of opportunity for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandizement. It is better that a man should tyrannize over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative. (Keynes 1936:374).

The ideas of Montesquieu, Saint-Simon and so on touch on many aspects of modern society and go in many directions. In terms of creating a new society, however, they suggest a strategy according to which it is possible to construct a new community through economic means. This strategy has some odd features that are well worth taking a closer look at.

You may call this strategy “economics as politics by other means”, paraphrasing Clausewitz’s statement that war is politics by other means. Its goal is political, but is means are economic. One consequence of proceeding in this way is to introduce an extra element of instability and unpredictability in political life. It is hard enough to devise an appropriate political action and take secondary results into account as well as control for unintended consequences. With economics as politics by other means, however, you aim for the secondary results, and assume that the primary results are unproblematic. This increases the difficulty of producing sound results.

Another consequence is that politicians get to do something they are not particularly well trained for, namely economics. Politics and economics are quite different, and politicians are often not knowledgeable in economics. Still, when following this strategy they have to take a stance on economic issues (which they only have a secondary interest in), and hope that what they do, will result in the construction of cohesive and stable community.

A third consequence is that economics becomes more ideologically charged, and that expressing an opinion on economics comes close to taking an explicit political stance. This is not conducive to a frank discussion of the pros and cons of some economic issue.

And finally, this way of constructing a community does not easily square with the idea of democracy. When politicians want to accomplish one thing, but present it as something else, transparency suffers. In modern society, the economy is also non-democratic in the sense that while all persons have one vote, they do not have the same amount of economic resources. The tradition in politics is to voice your opinion, Hirschman has pointed out, while in economic questions you exit or stay put (Hirschman 1970).

Building A Community Through Economic Means: The Main Stages in the Construction of the European Union

The role that the economy has played in the construction of EU comes out very clearly if you look at its main institutional stages. The whole thing began in 1951 with the creation of the European Coal and Steel Community. It continued in 1957 when the European Economic Community and the Common Market were established through the Rome Treaty.

The next major institutional step came in 1986, when the internal market was instituted through the Single European Act. Following the Delors Report of 1989 the first steps towards a European Monetary Union were taken. The last stage of this union and also the euro itself were created through the Maastricht Treaty of 1992.

The main inspiration to the ECSC came from Jean Monnet, who had come to the conclusion that Europe was in much need of unification and that political change was most easily affected through economic change. By uniting Germany and France around coal and steel, he thought that these two countries would start to develop interests in common, and that it would be harder for them to begin a war against each other.

In Monnet’s view, the coal and steel industries did not have much of an economic future, compared to such industries as the airplane industry and electronics, but they had great symbolic value (Sauvy 1989:480). Through his excellent contacts with John Foster Dulles, Monnet also procured U.S. permission to proceed with his plan (Gillingham 1991:341).

The ultimate goal of ECSC, according to the treaty through which it came into being in 1951, was “to establish, by creating *an economic community*, the foundation of a broad and independent community among peoples long divided by bloody conflict” (Treaty Establishing the European Coal and Steel Community 1951:1; emphasis added).

There was also the distant goal of a united Europe. In his draft for the Schuman Declaration, Monnet wrote: “The pooling of coal and steel production will immediately provide the establishment of common bases for economic development as the first step in the federation of Europe” (Eichengreen 2007:168).

This quote brings us to Monnet’s most important contribution to what I have called the strategy of economics as politics by other means. This is the famous idea of *engrenage*, which can roughly be described as a spill-over strategy or an attempt to endogenize the process of unification (e.g. Haas 1958). Only those economic reforms were to be chosen that led to more reforms, economic as well as political. While Monnet primarily played an important role in the construction of EU in the 1950s, his vision of how Europe was to be unified was not so different from the way in which others were later to proceed when they tackled this problem. He wrote in 1958:

The objective would be to establish a European financial and money market, with a European Bank and Reserve Fund, using jointly a part of national reserves, with free convertibility of European currencies, free movement of capital among Community countries, and the free development of a common financial policy. (Monnet 1978:428)

Does a link or a bridge exist between the ideas of a Monnet and those of Montesquieu, Saint-Simon and others? In terms of Monnet reading of say Montesquieu and Saint-Simon, the answer is most likely “no”. According to one of his friends, Monnet “didn’t read very much besides newspapers”; and his personal library mainly contained books that his disciples had given or dedicated to him (Mayne 1992). Monnet was more of a practical person than an intellectual; and his well-known memoirs were ghost-written (Gillingham 1991:149).

But in terms of affinity of ideas, the answer has to be “yes”. According to Stanley Hoffman, Monnet was “a Saint-Simonian”; and Jacques Delors has said that when you read Saint-Simon on the reorganization of Europe, “you think you read Monnet” (Hoffman et al 1965:145-46; Delors, p. v in Rougemont 1990). The parallels between Monnet’s construction ECSC and Saint-Simon’s plan for a reconstruction of Europe from 1814 are also striking (see Table 1).[[3]](#endnote-2)

/Table 1 about here/[[4]](#footnote-2)

The ideas of Monnet also influenced the Rome Treaty, which signaled the next important step towards a united Europe. Again the emphasis was on advancing through economic means. One added reason for proceeding in this way may well have been that the attempt to advance the cause of a united Europe through political means had by this time been tried but failed. The fate of the European Defense Community (EDC) is the most important example of this.

The six countries that signed the Rome Treaty agreed to create a European Economic Community (EEC). What this essentially meant was to remove all customs between the participating states and have a joint customs tariff towards third party countries (e.g. Urwin 1991, Eichengreen 2007).

The creation of EEC also pushed the remaining countries in Europe into action and in 1960 the European Free Trade Association (EFTA) was formed, spearheaded by England. The seven countries that were members in this association formed a customs union as well, but one that did not go as far as the Common Market. An agreement to merge EEC and EFTA from around the same time foundered on opposition from the US and Monnet, presumably because it would have diluted EEC and pulled it in the direction of EFTA.[[5]](#endnote-3)

The idea of spill-over, it is often argued, was written into the very text of the Rome Treaty. These are the famous words of “an ever closer union”. The Treaty also refers to what in EU-language was to become known as the Four Freedoms. What is noticeable about these freedoms, and how they are related to the primacy of the economy in the creation of EU, comes out very clearly if they are compared to Roosevelt’s Four Freedoms of 1941.

First of all, the Four Freedoms of the Rome Treaty refer to *economic* freedoms: the free movement of persons, services, goods and capital. Secondly, they are related to one specific form of the economy: the market and not to human (economic) needs. Roosevelt, in contrast, focused on human non-economic values. He spoke of three non-economic freedoms: the freedom of speech, the freedom of worship, and the freedom from fear. His one economic freedom is freedom from want; and here the reference is to human needs and not the market.

The Common Market was successful in economic terms. It has, for example, been estimated that intra-EEC trade increased with several percentage points every year during a twenty year period (Eichengreen 2007:179, 181). For a number of reasons, including the hostility of De Gaulle, it would nonetheless take till the 1980s until the EU project got going again. The driving force this time was Jacques Delors.

Delors, who had been a Catholic trade unionist before he became a politician, had many non-economic and non-market ideas for EU. He, however, soon realized that it would be much easier to unite the members of EC around economic issues than around political ones. Following what by this time had become EU’s law of least resistance, he settled for the project of completing the internal market, something that resulted in the Single European Act of 1986.

By this time the ideology of neoliberalism had also started to replace Keynesianism; and this made it easier to get acceptance of the idea of a free market, consisting of many countries. Neoliberalism, which at the time was especially espoused by Thatcher, also has some similarities to the strategy of politics by other means. Both view the economy as having precedence over politics; and that things work out the best if you let economic forces decide the outcome.[[6]](#endnote-4)

Delors explicitly followed the Monnet Method and tried to push through the internal market in such a way that the project of unifying Europe was moved forward. “The single market”, he insisted, “must not be thought of purely as an economic, trading and commercial entity” (Delors 2013:177). Delors’ term for these spill-over effects was “state-building” activities (e.g. Ross 1995:227-34).

On closer inspection, however, it turns out that even these spill-over or state-building activities were organically linked to the economy: EMU, the social dimension and regional redistribution. Delors, incidentally, was well aware of the difficulty in making people construct a European Community via a market. “People don’t fall in love with the single market”, as he put it (e.g. Delors 1989:132, Ross 1995:31).

Delors was also well aware that when you use the Monnet Method, to some extent you also have to operate behind the back of people. According to his chef de cabinet, Pascal Lamy,

Europe has been built in a St Simonian way from the beginning, this was Monnet’s approach. The people weren’t ready to agree to integration, so you had to get on without telling them too much about what was happening. Now St Simonianism is finished. It can’t work when you have to face democratic opinion. (Ross 1995:194).

In saying that Saint-Simon’s ideas were “finished” by the mid-1990s Lamy was presumably referring to the existence of the European Parliament and the fact that this organization is elected through universal suffrage since 1979. The European Parliament is clearly no economic institution; and in order to get on with the main theme of this paper I will leave it to the side.

Before doing so, however, two observations are in place. First, Saint-Simon’s ideas cover much more than a lack of democracy, as opposed to what Lamy says, and his prophecy that “St Simonism is finished” is therefore incorrect. Also, the European Parliament lacks most of the powers of a normal parliament; and less than 50 % of the member populations take part in the voting. These two facts are part of what is often referred to as “the democratic deficit” in EU. The existence of the European Parliament, in other words, is not the opposite of “the Saint-Simonian project” but in many ways related to it.

After his success with completing the single market, Delors took on his second great European project: EMU. This time, however, he was less successful. For one thing, he was less prepared for this step than when he had launched the project of completing the internal market. As a result, Delors soon lost control over the project to politicians with more power than himself - and with other goals in mind.

The idea of EMU goes back to Monnet, the Werner Report (1970) and various other attempts since the early 1970s to co-ordinate the European currencies (e.g. Marsh 2011). Since EMU implied a radical remake of the European economy, however, it would probably never have become reality unless an exceptional opportunity to push it through had come about.

There was especially one fact that would have stopped the idea of EMU, unless something very special had happened, namely that the Germans had become extremely attached to their currency, which for them had become a symbol for a strong and healthy society. In 1985, when Kohl and Mitterand for the first time discussed the idea of a common European currency, the German Chancellor said that “The D-Mark is our flag. It is the fundament of our post-war reconstruction. It is the essential part of our national pride; we don’t have much else” (Marsh 2011:112).

But an exceptional historical opportunity did present itself and made Kohl sacrifice his D-Mark Flag. The fall of the Soviet Union and a chance for West Germany to reunite with East Germany set the stage for a political deal that would have enormous consequences, not only for Germany but for all of Europe.

Mitterand, it appears, wanted a common currency to reign in and control the economic and political power of a united Germany. And Kohl was willing to give up the D-mark, on condition that France and EU supported German reunification. “Giving up the D-Mark for the (equally) stable euro was one of the concessions that helped pave the way for German unification”, as a prominent German politician has put it (Peer Steinbrück as cited in Sauga 2010; see also e.g. Marsh 2013:81).

Neither Kohl nor Mitterand, it would appear, paid much attention to the euro and how it was constructed. Both had political goals in mind; they also lacked personal interest as well as knowledge in the technical aspects of economics. Several people have testified to what David Marsh calls Mitterand’s and Kohl’s “disregard for economics” (Marsh 2011:109 ff.). Mitterand was particularly ignorant of finance and monetary matters, while Kohl according to the President of the Bundesbank at the time “understood nothing of economics” (Marsh 2011:110).

Even if evidence points in the direction that Kohl had indeed “traded” the D-mark for support of the reunification of Germany, the details of the deal are only known by him and Mitterand (e.g. Ash 2013:42). The two came to a final agreement about EMU at a meeting in January 1990 in Latché, about which next to nothing seems to be known (e.g. Sauga 2010). There is no reason to believe, however, that the two discussed the technical side of EMU or were in any way cognizant of the enormous dangers that a common European currency might pose for Europe.

The lack of interest in and knowledge of the technical-economic side of the project that they pushed through was not special to Kohl and Mitterand. Saint-Simon, Monnet and Delors had all been much more interested in the political goal of unifying Europe than in the actual economic consequences of the reforms that they had advocated, in order to reach this goal.

The Kohl-Mitterand deal in 1989 resulted in the Maastricht Treaty of 1992. In accordance with its rules, the central banks of EU countries now also became independent of politics, again a result that went very well both with neoliberalism and politics through other means (cf. Polillo and Guillén 2005). The European Central Bank, which in 1998 replaced the European Monetary Institute (1994), had been insured of an even greater independence of politics in the French-German deal (Eichengreen 2007:355). It also only had one major goal, according to its statutes, namely to keep inflation low. It did not, in other words, have to take actions insure low unemployment, as e.g. the Federal Reserve does.

One other part of the Maastricht Treaty indicates how poorly EMU had been designed. This is its no bail out clause or that under no circumstances should one of the member countries be bailed out.

EU and the Financial Crisis

[It has been argued] that the euro is essentially a political rather than economic project. Well, it’s both; that has been the European strategy ever since the Schuman declaration [of 1950]. The point is to deliver a series of economic integration plans that do double duty: they’re economically productive, but they also create “de facto solidarity”, moving Europe closer to political union. For 60 years, this strategy has been highly successful…But: the strategy depends on each move toward economic integration being both a political symbol and a good economic idea. That was clearly true of coal and steel, the common market, the eurosausage, and so on. It is, however, by no means clear that the euro passes that test.

* Paul Krugman, “The Euro and the European Project” (2011)

Europe was hit very hard by the financial disaster that was set off by the collapse of Lehman Brothers in September 2008. After about a year, however, Europe started to recover, just like the United States. By September 2009 Bernanke declared that the financial crisis was in over for the United States, and the situation seemed more or less the same for Europe.

But while it soon became clear that the United States had left the crisis stage behind, this was not the case with Europe. Instead it was about to enter a second crisis, and one that turned out to not only be very economically destructive for Europe but also destructive of the idea of EU itself, which by this time was closely linked to the euro.

The new crisis – the Euro crisis – was triggered in late 2009 by the disclosure that the Greek economy was in much worse shape than what its government had let on. The budget deficit, as it turned out, was in actuality 13 % of GDP or three times higher than what the Greek government had said. Greece, in other words, needed to be bailed out, but this was forbidden by EU rules (Treaty on the Functioning of the European Union, Article 125).

EU was poorly prepared for the storm set off by the Greek situation, even if some discussions of what measures to take had been going on since November 2008 in a high-level secret group (Walker, Forelle and Blackstone 2010). What had prevented a common strategy from having been forged, however, was that that some countries were for a bail-out and the establishment of a bail-out fund, while Germany was against both of these.

While the EU countries tried to figure out what to do with Greece, the crisis spread to other several European countries for whom borrowing on the international capital market was becoming more expensive by the day. In near panic a rescue package was finally thrown together in May 2010, at which point the very idea of the euro was seriously threatened. The Greek situation was hastily and poorly dealt with (e.g. IMF 2013). A fund to be used in crisis situations was put together (EFSF; European Financial Stability Fund). And ECB decided to go beyond its traditional inflation-fighting measures and use what Trichet called its “nuclear option”, namely to buy bonds of member states in trouble.

Later that very year two more countries had to be bailed out, Portugal and Ireland. The European banks were also in deep trouble, partly because they had never settled their losses from 2008-2009, and partly because they now also had to add new losses, due to their ownership of state bonds that were falling in value. What has come to characterize the euro crisis is precisely that both banks and states are in trouble, and that the two are closely interrelated. The more the states get in trouble, the more the banks tend to get in trouble and vice versa.

By the end of 2011 the state of the Eurozone banks was reaching a boiling point, and ECB, now under the leadership of Mario Draghi, decided it had to intervene and again go beyond its standard repertoire of action. Through an infusion of around 500 bn euro in credit at a very low price, followed by another infusion of about the same size in February 2012, a financial catastrophe was averted (LTROS; Longer Term Refinancing Operations). In June EU also suggested that a banking union was needed to break the link between banks and states. So far, however, little progress has been made with this project.

In 2012 Spain and Italy found themselves in deep trouble, as indicated by the increasingly high rate of interest they had to pay on the financial market when they borrowed money. To many observers it seemed that EU would probably not survive if one of these two major members had to be bailed out.

In May 2012, at the height of the crisis, Angela Merkel said the following in the Bundestag; and it illustrates how what was originally meant as an economic means to be a mean, now had become the same as the political goal itself:

The Euro is much more than a currency. The monetary union is a union of fate. This is our historic task. If the Euro fails, then Europe will fail. (Marsh 2009:264)

EU, however, was too paralyzed to act; and ECB had again to intervene. On July 26, 2012 Draghi (with Merkel’s prior approval) uttered three words that were to become an important turning point in the euro crisis. He said was that ECB would do “*whatever it takes*” to stop the raids on the bonds of EU member states. Market actors interpreted this to mean that ECB was now assuming the task of acting as a lender of last resort, the same way as the Federal Reserve is the lender of last resort in the United States.

In reality ECB lacked the power to play this role; and it appears that the idea of “whatever it takes” was Draghi’s own invention, and Merkel had no intention whatsoever to back up his statement with money. According to David Marsh, the whole thing should be characterized as “a masterly bluff” (Marsh 2013:49).

What did happen, however, was that a new fund at ECB was created which could be used to buy the bonds of Euro states in distress (OMT or Outright Monetary Transactions, creating ESM or the European Stability Mechanism). This new fund has a maximum lending capacity of only 500 bn euro, which is a very low sum in a real crisis situation. Conditionality is also attached to its use, which makes it unattractive to use for countries in need.

According to many observers, the most acute phase of the euro crisis is now over, thanks to Draghi’s speech of “whatever it takes”. What is on today’s agenda in Brussels is mainly how to get economic growth going in Europe, not to avert sudden catastrophes and the possible bankruptcies of whole countries. According to a statement some time later by Jörg Asmussen, a member of ECB, “the probability of catastrophic events has been drastically decreased [but Europe does face] an adjustment decade” (Ewing 2013).

The debacle about the banks in Cyprus that took place in March 2013 is, however, a reminder that things can quickly turn bad and unleash a crisis. In trying to deal with the situation in Cyprus the finance ministers of the Eurozone decided to expropriate a percentage of all deposits, something that immediately unnerved the markets. In the end small depositors did not have to pay; and it was decided that if a bank goes bankrupt shareholders and big depositors would have to pay for the whole thing. So-called bail-ins are to replace bail-outs, when it comes to the banks.

In terms of integration, the official story of what has happened since the financial crisis began goes something like the following. Thanks to the existence of cheap credit during the first decade of the euro, Merkel and many other EU leaders argue, several states and actors in the receiving countries engaged in irresponsible financial acts. But adding up your debts and not using the funds for productive purposes cannot last forever; and eventually a crisis had to follow. The result has been severe strains in EU and an accentuation of the gap between the North and the South, in terms of competitiveness, economic growth, debts and so on.

In reality, however, the situation when it comes to integration in EU and the financial crisis is considerably more complex and not so clear as EU’s leaders make out. One reason why the real story differs from the official one is that economic facts and analyses have become highly explosive during the crisis. Not only has economics become a form of politics in EU, as was argued earlier in this paper. There is also the fact that in a crisis economic statements and analyses may have unintended and dire consequences; and this has often led to monosyllabic explanations and statements about the economic situation by the actors involved.

In terms of integration, something like the following is closer to what has taken place. As the euro was introduced, the effort to bring about unity in Europe intensified. It was well understood at the time that among EU’s member states there were some that had well-run economies, while others were poorly run and had low productivity. The focus however – and this is a crucial point that is not part of the official story - now shifted from the individual countries to Europe as a whole. Like earlier measures to build EU, EMU had its own spill-overs.

According to Patrick Honohan, who became the governor of the Central Bank of Ireland in 2009, the idea that EU was a community and not just a number of individual countries was strong among policy makers at this point:

In the early years after the Euro was set up, the main approach was to look at the Euro area as a whole. You would look at statistics for the whole area, not at individual countries. If people asked policy makers about issues like the balance of payments for individual countries, they would be told: ‘Oh this is so 1980s, don’t you know that we’re in a monetary union now, the balance of payments doesn’t count.’ Well, we know [today, in 2010] that the balance of payments does matter, national vulnerabilities do matter. (Marsh 2011:256)

This shift in focus, first from individual countries to the Eurozone as a unity, and later back to the individual countries, was also played out in an arena that no-one had been thinking too much about when EMU was put together, namely the market for Eurozone bonds. When European integration is discussed, references are typically made to its citizens and what these think according to surveys. Investors, in contrast, are ignored, but as we shall see they were to play a key role in what was now about to take place. Their view of whether there was a European Community or not, turned out to be decisive.

Investors, who had been used to distinguish sharply before the euro was introduced between, say, the price for a German bond and a Greek bond, now started to pay roughly the same for all bonds issued by euro states. One reason for this was probably optimism or a sense that the Eurozone was being integrated and that collectively the region was very strong (e.g. Swedberg 2012). Another may have been that the investors were sloppy and did not do their homework (e.g. Lewis 2012). Which of these two reasons was involved (or what mixture of the two), is impossible to say, because there exist next to no empirical studies of the role played by the investors in the euro crisis: who they are, what they think, what their strategies are, and the like.

The ECB supported the tendency to pay the same price for all bonds issued by euro states in various ways. It did this because it wanted to accelerate the financial integration of the Eurozone; and this was one way of doing so (e.g. Soros 2013). The standard definition of a market, it can be added, is precisely that the same item has the same price within a geographic area (e.g. Marshall 1961, 2:324).

The wake-up call for the investors was Greece; and the reason that Greece could play such a key role in the euro crisis, despite its small size and lack of power, is the following. When the Greek budget troubles emerged in late 2009 and early 2010, it soon became clear that there was a limit to the integration in the Eurozone. Or, to put it differently, it soon became clear that *the perceived unity* of the Eurozone – by ECB, by investors and others - did not exist or was much weaker than thought. Each country was now on its own, and could at best only expect support from EU to the extent that this was necessary to stop the crisis from spreading. “All for one and one for all” is the motto of true integration; and this type of sentiment simply did not exist in EU or the Eurozone.

If the investors had been more alert, they would have seen this rejection of a collective responsibility for the members of the Eurozone coming. Already in the fall of 2008, it had been made clear in EU that each country was on its own and had to guarantee its own financial system (e.g. Soros 2013). EU would not act as a lender of last resort, it was decided at this point, primarily on German initiative.

Barring hindsight, the situation in the spring of 2010 after Greece’s problems had become public was very confusing for the investors. What had seemed like the emerging unity of EU and the Eurozone was now quickly falling apart in front of their eyes; and it was becoming increasingly clear that each country had to be economically evaluated on its own.

Several factors added to the difficulty of the investors when they set about to reevaluate the state bonds of the countries in the Eurozone. One was that EU lacked a central bank that had unlimited resources with which to buy member states’ bonds, that is, a normal central bank e.g. Hall 2012:365).

Then there as the difficulty of the Eurozone members to come to an agreement each time a decision had to be made. Not only were many political actors involved, which meant that many wills had to be coordinated. Some of these were for economic integration and the creation of eurobonds, while others wanted the individual states to take the responsibility for their own actions. What would happen when the EU leaders came together to make a decision was anyone’s guess. Later the response was more predictable (no Eurobonds or any collective guarantees, on German initiative). In both cases, however, the process took a long time.

A third factor was that the individual member states in the Eurozone were not in the same situation as an ordinary state, something that made it extra difficult for the investors to assess the value of the bonds. The situation was *not* like it had been before the euro had been introduced. Eurozone states had no longer control of their own currency; they also lacked the capacity to devalue. This put them in a situation that was not so different from when something went wrong under the draconian gold standard – except that it was easier to leave the gold standard than the euro.

In brief, a Eurozone state in trouble has only two options for how to improve its finances, and both are very difficult: internal devaluation (which primarily means lowering the wages) and/or increased productivity. Add to this another factor that was difficult for the investors to evaluate: the condition that other economic actors – IMF, ECB, other Eurozone countries – would attach their loan to a country (on condition that one was granted).

Under the impact of these powerful economic and political forces, the movement towards integration among the Eurozone countries now began to reverse. Empirical studies are needed to establish exactly what has happened since 2010, but some evidence points in the following direction. The financial integration seems to have been reversed, and some measure of so-called financial disintegration or renationalization has resulted. This notion covers items such as cross-border establishment of banks and cross-border transfer of capital, including investments. Small and medium-sized enterprises are also unable to get loans from their national banks in many countries since a few years.

The economic fortunes of whole countries also appear to have become more unequal. While Germany and a few other nations have weathered the storm well, for other countries the Euro has operated more like a “trap”, with next to catastrophic developments, in terms of declining GDP, high unemployment, drastic cutbacks in state expenditure, and the like (e.g. Offe 2013).

Unemployment for youths, for example, has reached depression-like heights in countries like Spain and Greece. It is also clear that social integration has suffered in other ways. In general, financial crises tend to lead to more suicides, more alcohol-related deaths, and less resources given to various state agencies that deal with health. According to an article in *The Lancet* on “Financial Crisis, Austerity, and Health in Europe”, this is also true for the Eurozone (Stuckler et al 2013). To this should also be added outbreaks of HIV and various epidemics (see also Stuckler and Basu 2013).

Survey research also indicates that people in the Eurozone may have changed their attitude to economic integration as a result of the Euro crisis (Pew Research Center 2013). People were among other things asked the following question: “in the long run, do you think that [your country’s] overall economy will be strengthened or weakened by the economic integration of Western Europe?” The result for the period between 1991 and 2009 were uneven, with citizens in some countries thinking that economic integration had improved things, while those in other countries disagreed. The 2009-2013 period, in contrast, shows a decline in all countries, with one exception (Germany). Of the eight countries involved, only in one country did more than a majority answer the question positively, again Germany. The figures in France, Italy and Spain, were respectively 22 %, 11 % and 37 % .

Concluding Remarks

In *The Passions and the Interests* Albert O. Hirschman says that *commerce doux* or the vision that commerce would bring about peace and culture clearly failed. In the end, he says, it was little but a great vision; and capitalism was to have a much more complex and troublesome impact than what Montesquieu and others believed.

To illustrate how the notion *commerce doux* failed to make much of a dent in reality, Hirschman tells the following anecdote. Sometime in the distant past a rabbi in Krakow had a vision that a rabbi in Warsaw had died. When he told the members of his congregation about this, they were very impressed and rejoiced that they had a rabbi with such great mental powers that he could see what was happening far away. A few days later the people in Krakow however found out that what their rabbi had told them was not true, and that the rabbi in Warsaw was very much alive. The members of the congregation thought things over; and the faithful admitted that the rabbi had definitely been wrong in this particular case. “Nonetheless, what vision!” (Hirschman 1977:117).

Can something similar perhaps be said about the idea of building a European Community through economic means? Before addressing this question, I want to repeat that Hirschman was wrong in thinking that the vision of Montesquieu et al had little impact and then went away, leaving little behind than the smile of its historian. It did not fail and it did not go away. The core of the underlying ideas resurfaced instead in several different forms and also helped to inspire the early founders of EU.

Let me now return to the question if the construction of a European Community through economic means has failed or not. My view is that a “yes” or a “no” are both too crude; and that a more complex answer is needed. There is also the additional fact to consider that whatever the reasons may have been for its coming into being, EU does exist, and decisions have to be made about the best way to handle the current situation.

A discussion of several issues is needed, it seems to me. One of these is if it is possible to build a community through economic means at all. To answer this question you need a discussion of how new communities come into being. Many times throughout history force and conquest have been used to create a new community. It is also clear that if a group of people decide that they want to form a community, they can sometimes do so, based on common political, cultural or ethnic values.

But what about building a community manly through economic means, basing it exclusively or primarily on economic forces - has that been done before? Does, for example, the Hanseatic League fit the bill? Or what about the *Zollverein* and the monetary co-operation of the German Federation that preceded the unification of Germany? Again, a discussion would be helpful.

A discussion is also needed of the vision of how to construct a community through economic means or what we may call “economism”. This is a term that I have borrowed from Larry Siedentop, who writes in *Democracy in Europe*:

Let us call these developments ‘economism’. Economism has deep roots in the European project. It can be traced back at least to the idiom of Jean Monnet and others who helped to create the European Coal and Steel Community shortly after World War II. Faced with the urgent need to reconstruct a West European economy devastated by the war and threatened by Soviet power in the East, such figures, though in fact often convinced European federalists, did not and could not make federalism central to their agenda. Instead, a kind of Saint-Simonian modernization of Europe became their appeal. They left political institutions and democratic accountability largely to one side. At the time, the semi-pariah status of the post-war German state made closer political union almost unthinkable. (Siedentop 2000:33)

Several aspects of the way that economism has influenced the attempt to construct a European Community need in my view to be discussed. Before ending I will briefly mention a few of these; and I will do so more in the spirit of opening up the debate than in proposing some answers.

* *What happens to traditional forms of politics when they are replaced by politics inspired by economism or what has also been called “politics by other means”?*

When traditional politics is set aside, on the ground that states have their own interests that they are loath to give up, does also democracy tend to be set aside? More generally, is it possible to construct and integrate a modern community without democracy?

* *Does economism or “politics by other means” tempt politicians to deal with problems they are not particularly good at?*

Have leading European politicians the economic knowledge it takes to make decisions about the creation of markets, currencies and the like? The same goes for handling financial markets, bank unions and modern financial instruments.

* *To what extent does economism tend to politicize economics and thereby distort the knowledge of it?*

One possible example of this is the debate about a common currency that took place in 1989-2002. US economists were mainly critical of EMU, a position that today seems justified (e.g. Jonung and Drea 2009). Their arguments were, however, often disregarded, and still sometimes are, on the ground that they are “American” (e.g. James 2012:16).

* *Is the Euro Crisis partly the result of economism?*

It is clear that the current crisis in the Eurozone is the result of a number of factors interacting with the design of the Euro. Some of these factors have nothing at all to do with economism – but in interacting with the design of the Euro they may become very destructive. So far, Ralf Dahrendorf’s early prophecy would seem to be true: “EMU…will divide Europe like nothing else since 1945” (Dahrendord 1998; cf. Dahrendorf 1997).

* *Has the policy to build a solid European Community so far been successful?*

Plenty of research shows that the Euro Crisis has made EU more unpopular than ever; and there exist today several countries where a majority of the citizens are negative to EU (e.g. Pew Research Center 2013). More serious to my mind is the fact that during the period of 1992-2010, according to the Eurobarometer, the number of people who define themselves as European has been very low and also stable over time.[[7]](#endnote-5) Only around 5 % of the Europeans defined themselves as “European” (Fligstein, Polyakova and Sandholtz 2012:111). This may indicate that economism, even at its most successful, does not create much of a civic foundation for a European Community.

* *Where do we go from here, with a baggage of economism or not?*

A better knowledge of the impact on economism on the current construction of EU, in combination with a desire to undo whatever negative results it may have had, would be helpful. The issue of how to handle the current construction of the Euro is harder to decide. One could argue that muddling through a la Merkel is the right policy to pursue, which roughly means to proceed as before. Evidence so far, however, indicates that the policy of austerity does not work very well (e.g. Blanchard and Leigh 2013). Nonetheless, at the moment when this was written (September 2013), it would seem that the worst part of the storm seems to be over in the Euro Crisis.

But an argument can also be made that since the basic construction of the Euro has not changed, once a new crisis comes along, the result will be a new disaster of the 2009-2012 type. Since the tendency in the post-Bretton Woods world is to have a huge number of crises, this means that not changing the current construction of the Euro is dangerous.

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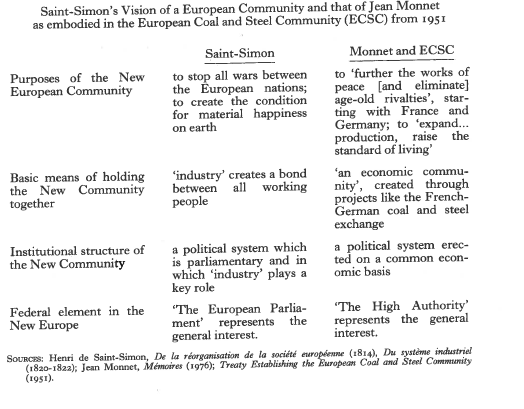
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Table 1:



*Source*: Richard Swedberg, Swedberg, Richard, “Saint-Simon's Vision of a United Europe”, *Archives Européennes de Sociologie* XXXV(1994):150.

1. For helpful comments I first and foremost thank Mabel Berezin. I am also grateful Sigi Lindenberg, George Ross and the participants at the conference on new theoretical tendencies in economic sociology September 12-14, 2013 at Noors Castle in Sweden.for helpful references and more. [↑](#footnote-ref-1)
2. In discussing Dutch colonial administration, Marx notes “Wherever they set foot, devastation and depopulation followed. Banjuwangi, a province of Java, numbered over 80,000 inhabitants in 1750 and only 18,000 in 1811. That is doux commerce” (cf. Marx 1977:780).

   [↑](#endnote-ref-1)
3. Another similarity between Monnet and Saint-Simon is that both were visionaries, relying more on intuition than on facts and objective analysis. Neither liked to read books but got most of their information from others. Both also liked big and dazzling projects, and had a streak of adventurism in them. Many would probably agree with the statement that Saint-Simon was “an international adventurer on a grand scale”, but this is actually how Monnet has been described by a major contemporary historian (Anderson 2009:12). Perry Anderson writes in *The New Old World*: “The small dapper Charentais was an international adventurer on a grand scale, juggling finance and politics in a series of spectacular gambles that started with operations in war procurements and bank mergers, and ended with schemes for continental unity and dreams ofa global directorate” *(ibid*.). [↑](#endnote-ref-2)
4. For Table 1, see the end of this article. [↑](#footnote-ref-2)
5. “Today the archives from that period are open and the documents show clearly that in the past the US – also via Monnet – directly influences or even controlled European integration [Diplomatic Documents of Switzerland (available at: dodis.ch)]. Two examples from Swizerland:On 9 September 1960 the delegate for trade agreements, Weitnauer, delivered a speech on European integration at a ministerial meeting. He said among others, “At the beginning of the year, Americans have vetoed a merger of the ‘six’ (of the EEC) and the ‘seven’ (of the EFTA) into a European free trade zone”. He spoke to a small group of determined “managers” of the European idea – among them Monnet – who were trying to reach their goal of creating a new power state of Western Europe via the supranational institutions of the community. He expressed in clear words that the US and with it Monnet had thwarted the project of a pan-European free trade area (of the EEC and EFTA countries). This happened in spite of and after all the governments of European countries had already agreed [See also Statement of the Federal Council on the participation of Switzerland in the European Free Trade Association]. The Swiss diplomacy at the time had been committed to this project.” (Wütrich 2013:3). [↑](#endnote-ref-3)
6. For the idea that neoliberalism, via the ideas of Hayek, influenced EU already in the 1950s, see Gillingham 2003. [↑](#endnote-ref-4)
7. The question that is used in the Eurobarometer reads as follows: “In the near future do you see yourselves as [e.g. European only]”. [↑](#endnote-ref-5)