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THE RE-LAUNCHING OF EUROPEAN INTEGRATION IN THE 80's :

IDEAS AND POLICIES

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I have been asked to chair the panel on the following subject :

" The re-launching of European Integration in the 80's, ideas and policies ".

The panelists are going to develop their own views.

Let me just express a few ideas as an introduction to our discussion.

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Two major developments ("undercurrents") have deeply affected the EEC in the 80's :

- First, was the global move towards deregulation, (in part the result of Thatcher and Reagan policies) : price and exchange controls were removed throughout the advanced world, financial markets became more open and integrated and the "Washington consensus" took hold.

  This consensus was, in particular, based on two, in my view questionable, beliefs :

  - Financial market integration is favourable to economic growth and is better achieved through the "lightest" possible regulation ;
  - Markets are basically rational and tend to return rather quickly to balance when they get too far from fundamental values.

- Second, was the breakdown of the Soviet Empire in 1989.

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<u>A - The first structural move (deregulation and worldwide integration of financial markets) was a challenge for the EEC.</u>

Countries like France, which had a long tradition of exchange controls[1], had to adapt and align their financial policies and regulations on the more “open” neighbors as the UK, Germany and “Northern” European countries.

For the Community as a whole, the move towards deregulation accelerated the “internationalization” of European markets and their integration into the “atlantic” world.

Paradoxically, deregulation – which was not in the main EEC tradition - became a factor of European integration : a new “paradigm” had been established. And the independence of Central Banks - as well as monetarism – became a common objective.

In a way, the UK – newcomer after 1973 – had won the debate between liberalism and “dirigisme”.

<u>B – German unification had also a major impact on the EEC.</u>

The traditional “franco-german couple” still kept its “raison d’être”, but its balance had changed. Germany was no more a “diplomatic dwarf” : it had recovered influence and clout : it had become “more central” in the couple.

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[1] *French political parties (be they socialist or conservative) have always been tempted by « dirigisme ».*

So, the situation had changed :

- The “traditional” European Economic Community was abandoning most of its administrative controls, was reducing its deficit spending policies and – timidly – moving into supply side policies ; and embracing inflation targeting ;

- While the champion of a dynamic “social liberalism” (Germany) was getting more prominent and UK was doing well (notably productivity wise).

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Jacques Delors, President of the Commission (1985-1994), took advantage of the opportunities offered by this new environment :

He threw his weight into “more European integration” :

- A policy leading to a comprehensive single market to be achieved by 1992 under a “social and centralized” inspiration (more than a free trade objective) ;

- He played an important role in the creation of a European Monetary Union (Delors Report 1989). The (half-baked) idea was that an integrated common market had to be accompanied by a common currency.

- But this Delors architecture produced negative reactions especially in the UK.

His three mottos were :

- “Competition” that stimulates,
- “Cooperation” that reinforces,
- “Solidarity” that unites.

In february 1986, an enlarged 12 members Europe (with the addition of Spain and Portugal) signed the Single Market Agreement which was a breakthrough if only because it introduced a majority driven decision making process in Europe.

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One could argue that the EEC had embraced the deregulation and free capital market consensus (even Mitterrand to a large extent, after “le tournant de la rigueur”).

But the global increasing indebtedness was getting out of control, while structural weaknesses – combined with expensive social safety nets – especially in a number of “non core” EU countries - were becoming the source of grave vulnerabilities which appeared later on.

In a way, the EEC-EU had had “eyes bigger than stomach”.

Many imprecisions have remained : let me give a few examples :

- The name of the game in terms of the Single Market was **convergence of national regulations**. But in fact, “legal options” and national barriers still offered member countries a wide freedom to keep national rules (this was one of the reasons for the 2009 Financial Supervision Report which I chaired) ;

- **Economic policy convergence** was supposed to be the cornerstone of the Maastricht Monetary Union. But, in fact, convergence was weak and only really started, because of market pressure, 10 years after the beginning of the Euro ; (those 10 first years of divergence were the cause of the 2010 sovereign crisis) ;

- **Solidarity mechanisms** have proven to be weak and not sufficient to help a more balanced adjustment system within the EMU between creditors and debtor countries (present imbalances in the Union are far from being only created by “bad behavior from the southern periphery” …) ;

- Little by little, **<u>the more or less implicit "common view" led to rather different interpretations between the Commission and some member States</u>** (onsocial and financial solidarity, fiscal policies, stronger "centralized" norms, …). This resulted inevitably in future, dramatic reactions and divergences among States ;

- More generally, **<u>the way the Commission works</u>** (by trying pragmatic ad hoc compromises between member states, while not being able in many cases to refer to a common "strategic anchor") leads inevitably to opportunistic moves and to ambiguity - or even contradictions - between words and facts.

Jacques de Larosière

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