Geography in motion

Overcoming Division in Western Europe

The day will come when you France, you Russia, you Germany, all you nations of the continent, without losing your distinct qualities and your glorious individuality, you will merge into a superior unit, and you will constitute European fraternity.

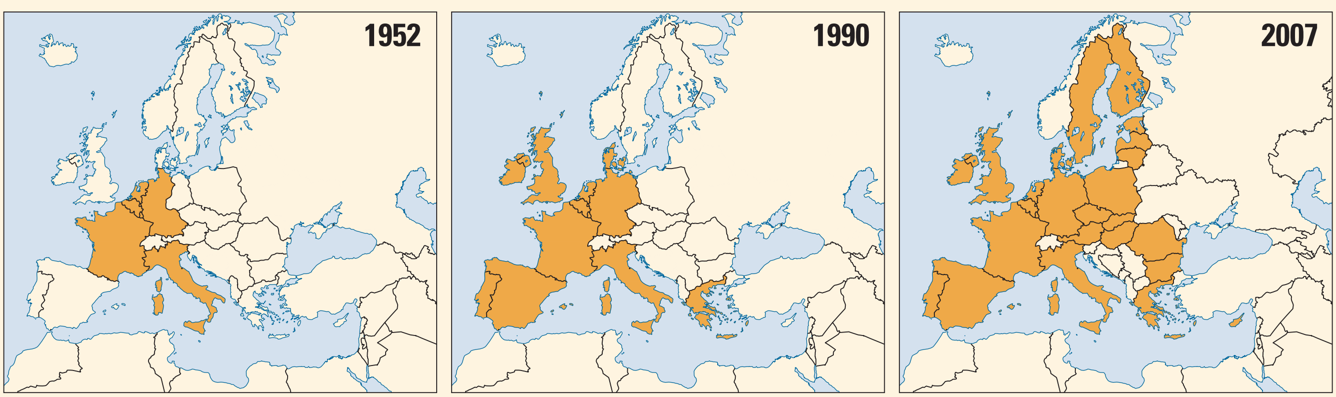
—Victor Hugo, from a speech at the 1849 International Peace Congress

Victor Hugo was laughed at when he said this, as were several of his predecessors who proposed European integration. It took the catastrophe of two world wars to get people to take the idea seriously and make policy makers ready for radical change. The scale of devastation and misery is the key to understanding the drive for integration: on top of the horrifying death toll, the war caused enormous economic damage. The war cost Germany and Italy four or more decades of growth and put Austrian and French gross domestic products (GDPs) back to levels of the nineteenth century.[1]

Overcoming division and its dramatic consequences was the objective of European leaders after World War II. Destructive nationalism—and its economic dimension, protectionism—were indeed partly blamed for the disaster. Economic integration was thus viewed as the best way to avoid another war. That it should come through peaceful means and with the main objective of maintaining peace was—and remains—a unique endeavor. In this respect, European integration is a clear success. But it was not clear in the 1940s and 1950s that this vision of "Peace through Integration" would succeed, particularly because it came at the same time as the Cold War's division between the East and the West.

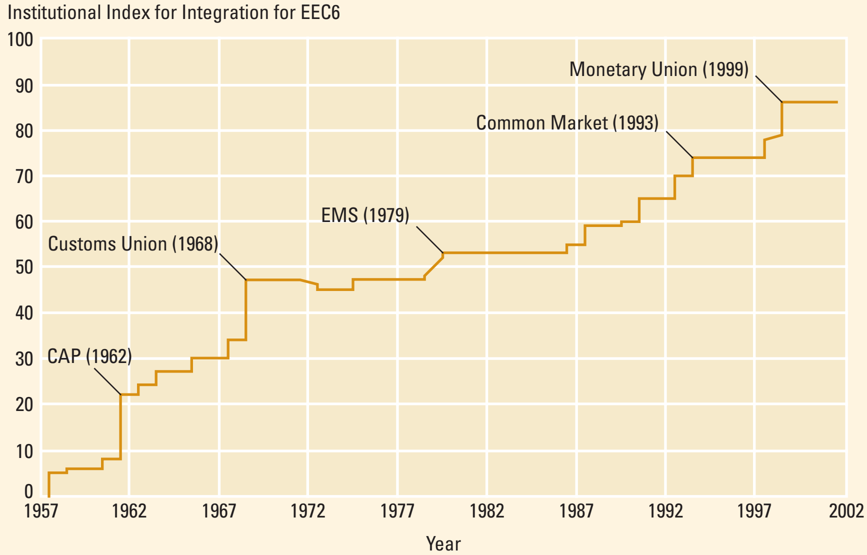
Under American pressure, 13 European countries created the Organization for European Economic Cooperation (OEEC) in 1948 to implement the Marshall Plan. Its mandate was to reduce trade barriers, particularly quota restrictions. Europe in the early postwar years was a tariff- and quota-ridden economy. Removing trade barriers fostered the rapid growth of trade. Between 1950 and 1958, manufacturing exports grew by almost 20 percent a year in West Germany, 9.2 percent in Italy, and 3.8 percent in France. Additionally, average annual GDP growth was 7.8 percent in West Germany, 5 percent in Italy, and 4.4 percent in France. Correlation is not causality, and reconstruction was a strong engine of growth. But the rapid growth as European trade was

Map G2.1 The division in Western Europe has gradually dissipated
Stages of economic integration



Source: WDR 2009 team.

Figure G2.1 The stairway to success
The institutional index of integration for the European Economic Community Six



Source: WDR 2009 team.

liberalized was changing the minds of European policy makers. European integration was not just a political project—it also made economic sense.

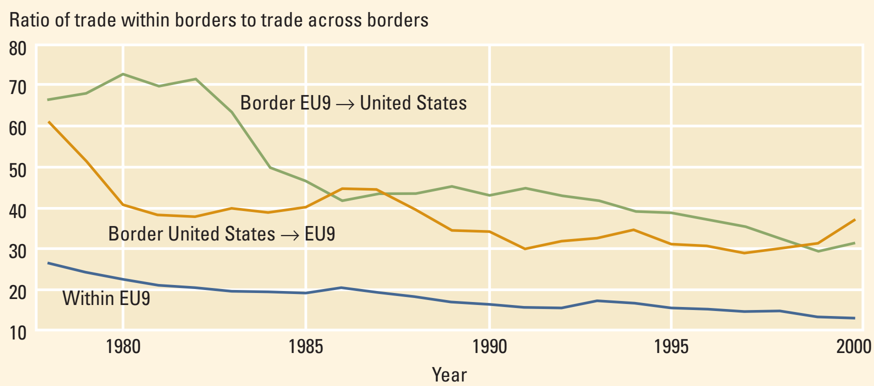
The European Coal and Steel Community (ECSC) was launched by France and Germany, who invited other nations to place these two sectors under its supranational authority. The project was both political and economic because it applied a supranationality onto two sectors that were considered strategic for economic and military reasons. Belgium, Italy, Luxembourg, and the Netherlands joined the project in 1951, and these six would become the driving force behind European integration (see map G2.1). The ECSC showed that economic cooperation was more feasible than political or military integration.

The Treaty of Rome in 1957 created the six nations of the European Economic Community (EEC). The move committed the six to unprecedented economic integration. Not only would a custom union remove all tariffs for intra-EEC trade and establish a common external tariff, but also a unified economic area would promote free labor mobility, integrated capital markets, free trade in services, and several common policies. This degree of economic integration was not feasible without deep *political* integration. So, in retrospect, "using economics as a Trojan horse for political integration worked like a charm."[2] As "guardians of the Treaty," the Court and the European Commission would control those countries (especially France when de Gaulle returned to power) that came to reject the level of supranationality implied by the Treaty. From 1966 to 1986, however, the deep integration promised by the Rome Treaty stalled (see figure G2.1). Europeans began to erect barriers that took the form of technical regulations and standards, fragmenting markets—a classic reaction by lobbying industries to defend their rents.

The Single European Act (1986) relaunched the process of deepening economic integration—all the more stunning given the slow disintegration during the 1970s. Emphasizing the mobility of capital, the Single Act was also partly responsible for the birth of the European Monetary Union (EMU). Indeed, the fixed exchange rate of the European Monetary System implied, with free capital mobility, the loss of monetary sovereignty. This made the EMU more politically palatable for countries committed to fixed exchange rates.

Overcoming division means reducing the impact of borders on trade flows. Has this been so in the European Union (EU)? One way to answer the question is to compare the volume of trade within borders with the volume of bilateral trade between countries. The ratio of the two is the "border effect." Fontagné, Mayer, and Zignago (2005) do this for the EU-9, the six founders plus Denmark, Ireland, and the United Kingdom. The border effect for reported intra-EU trade fell from around 24 in the late 1970s to 13 in the late 1990s—a

Figure G2.2 Border effects between the European Union and the United States remain more than twice that within the European Union



Source: Fontagné, Mayer, and Zignago 2005.
Note: The border effect is the reverse of the volume of trade within natural borders to the volume across borders.

substantial increase in integration (see figure G2.2) unmatched in the world. The border effect between the EU-9 and the United States, while decreasing fast during the period, remains more than twice that within the EU. Borders in the EU have become thinner, but they have not disappeared.

The European regional integration process has spread. As the EU deepened and enlarged, the cost of discriminatory treatment (the natural implication of any regional integration process) for outsiders increased, creating a "domino dynamic of regionalism."[3] Even European countries that most valued their sovereignty applied for membership. That the EU with its unmatched supranationality remains so attractive for outsiders is evidence of an enduring success.

Contributed by Philippe Martin.