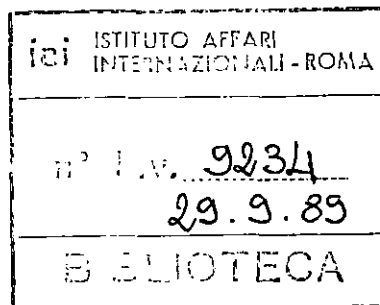


THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY:
CONTINUITY AND CHANGE
College of Europe
Bruges, 5-7/XI/1987

1. Programme
2. List of participants
3. "The Delors proposal and the patterns of modern states' interests"/ John Pinder
4. "The German Laender and the European Community"/ Rudolf Hrbek
5. "The main problems on the EC agenda: an insider's view"/ Werner Ungerer
6. "Preparing the nineties: analysis and strategies"/ Manfred Wegner
7. "Assessing German economic gains from the common market: a methodological note"/ Wolfgang Hager
8. "German positions towards the European monetary system"/ G. Winkelmann
9. "German interests and concerns between East and West"/ Dieter Mahncke
10. "Perceptions of the German debate in other EC countries"/ Roger Morgan
11. "Quelques reflexions a partir de la position espagnole: les principes et leurs (in)consequences"/ Antonio Remiro Brotons
12. "The paradox of partnership: German interests and community responses"/ Helen Wallace
13. "The Federal Republic of Germany and European affairs: the limits to leadership"/ Simon Bulmer, W. Paterson



Programme

Thursday, 5 November / Jeudi 5 novembre 1987

- 10.30 OPENING SESSION / SESSION D'OUVERTURE
(Town Hall / Hôtel de Ville, Burg)
- President / Président :
H.E. M. D. COENS, Minister of Education, President of the Administrative Council of the College of Europe
- Keynote Address / Discours d'ouverture :
Dr. I. ADAM-SCHWAETZER, Mitglied des Deutschen Bundestags, Staatsminister im Auswärtigen Amt, Bonn :
"Die Schwerpunkte der deutschen Präsidentschaft"
- Introduction to the Symposium / Introduction au Colloque :
W. WESSELS, Director of the Institut für Europäische Politik, Bonn; Director of Administrative Studies, College of Europe
J. PINDER, President of the Union of European Federalists, London; Professor at the College of Europe
R. CAESAR, Professor at the Ruhr-Universität Bochum; Institut für Europäische Politik, Bonn
G. BONVICINI, Director, Istituto Affari Internazionali, Rome
H. WALLACE, Royal Institute of International Affairs, London; Professor at the College of Europe
- 13.00 LUNCH / DEJEUNER
(Garenmarkt 15)
- 15.00 PLENARY SESSION / SESSION PLENIERE
(Town Hall / Hôtel de Ville, Burg)
- President / Président :
J. LUKASZEWSKI, Recteur du Collège d'Europe
- Reports / Rapports :
H. WIECZOREK-ZEUL, Mitglied des Deutschen Bundestags, Bonn :
"Die Selbstbehauptung Europas"
K.H. NARJES, Vize-Präsident, Kommission der Europäischen Gemeinschaften :
"Die deutsche Präsidentschaft und der Binnenmarkt"
R. HRBEK, Professor at the University of Tübingen and at the College of Europe :
"The German Länder and the European Community"
- 17.15 DEBATE / DEBAT
- Opening Remarks / Remarques introductives :
W. WALLACE, Royal Institute of International Affairs, London
- 19.00 RECEPTION
(Garenmarkt 15)

QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO AFFARI INTERNAZIONALI

Friday, 6 November / Vendredi 6 novembre 1987 (Dyver 11)

WORKING GROUP 1 :

MANAGING INTERNAL COMMUNITY ISSUES IN THE PERSPECTIVE OF THE IMPLEMENTATION OF THE INTERNAL MARKET

President / Président :

R. TOULEMON, *Président de l'AFEUR, Paris*

General Rapporteur / Rapporteur général :

H.E. M. M.H.J.C. RUTTEN, *Ambassador, Former Permanent Representative of the Netherlands to the European Communities*

9.30 The Delors Proposal and the Patterns of Member States' Interests

Rapporteur :

J. PINDER, *President of the Union of European Federalists, London; Professor at the College of Europe*

Discussants / Commentateurs :

D. BIEHL, *Professor at the University of Frankfurt am Main*
T. LÄUFER, *Auswärtiges Amt, Bonn*

15.00 The Main Problems on the EC Agenda : An Insider's View

Rapporteur :

H.E. M. W. UNGERER, *Ambassador, Permanent Representative of the Federal Republic of Germany to the European Communities, Brussels*

Discussants / Commentateurs :

P.C. IOAKIMIDIS, *Head of Economic Section, Department of EEC Affairs, Ministry of Foreign Affairs, Athens*
J. VIGNON, *Commission des CE, Bruxelles*
K. von WOGAU, *Member of the European Parliament*

Friday, 6 November / Vendredi 6 novembre 1987 (Dyver 11)

WORKING GROUP 2 :

THE GERMAN ECONOMY IN THE EUROPEAN AND THE INTERNATIONAL CONTEXT :
AN AGENDA FOR A MACROECONOMIC POLICY

President / Président :

Th. PEETERS, Professor at the Katholieke Universiteit Leuven

General Rapporteur / Rapporteur général :

R. CAESAR, Professor at the Ruhr-Universität Bochum; Institut für Europäische Politik, Bonn

9.30 Preparing the Nineties : Analysis and Strategies

Rapporteur :

M. WEGNER, Director, Institut für Wirtschaftsforschung, München

Assessing German Economic Gains from the Common Market : A Methodological Note

Rapporteur :

W. HAGER, Partner, European Research Associates, Brussels

Discussants / Commentateurs :

J. KÜHN, Head of the European Department, Ministry of Economic Affairs, Bonn

M. RICHONNIER, Commission des CE, Bruxelles; Professeur au Collège d'Europe

15.00 German Positions towards the European Monetary System

Rapporteur :

G. WINKELMANN, Ministry of Finance, Bonn

Discussants / Commentateurs :

M. EMERSON, Directorate General for Economic Affairs, Commission of the EC, Brussels

N. KÜNG, Vretretung des Bundesverbandes der deutschen Industrie, Brüssel

J. PELKMANS, Professor, European Institute of Public Administration, Maastricht

P.W. SCHLÜTER, Deutsche Bundesbank, Frankfurt

Friday, 6 November / Vendredi 6 novembre 1987 (Dyver 11)

WORKING GROUP 3 :

GERMANY AND EUROPE IN WORLD AFFAIRS : POSSIBILITIES AND CONSTRAINTS

President / Président :

G. BONVICINI, Director, Istituto Affari Internazionali, Rome

General Rapporteur / Rapporteur général :

P. HASSNER, CERI, Fondation nationale des Sciences politiques, Paris

9.30 German Interests and Concerns between East and West

Rapporteur :

D. MAHNCKE, Bundespräsidialamt, Bonn; Professor at the College of Europe

Perceptions of the German Debate in other EC Countries

Rapporteur :

R. MORGAN, Professor, London School of Economics

Discussants / Commentateurs :

F. de LA SERRE, Chargée de recherche à la Fondation nationale des Sciences politiques, Paris

G. JANNUZZI, Chef du Secrétariat de la Coopération politique européenne, Bruxelles

J. LEE, Professor, University College, Cork

A. STEWART, University of Aberdeen

15.00 The Policy Agenda : Perspectives for a European Security Policy

Rapporteur :

H.F. von PLÖTZ, Auswärtiges Amt, Bonn

Discussants / Commentateurs :

C.B. BRAMSEN, Ministry of Foreign Affairs, Copenhagen

Chevalier Ph. de SCHOUTHEETE de TERVARENT, Ambassadeur, Représentant permanent de la Belgique auprès des CE, Bruxelles

A. REMIRO BROTONS, Tribunal de la Defensa de la Competencia, Madrid; Professor at the Universidad Autonoma, Madrid

S. SILVESTRI, Istituto Affari Internazionali, Rome

Friday, 6 November / Vendredi 6 novembre 1987 (Dyver 11)

WORKING GROUP 4 :

PROCEDURAL AND INSTITUTIONAL QUESTIONS : NEW APPROACHES BY THE FEDERAL
REPUBLIC OF GERMANY

President / Président :

J. VANDAMME, Professor, President, Trans European Policy
Studies Association, Brussels

General Rapporteur / Rapporteur général :

V. CONSTANTINESCO, Professeur à l'Université de Strasbourg et
au Collège d'Europe

9.30 The Federal Republic of Germany and European Affairs : The
Limits to Leadership

Rapporteurs :

S. BULMER, Department of European Studies, Institute of Science
and Technology, University of Manchester

W. PATERSON, Department of Politics, Warwick University

Discussants / Commentateurs :

R. HRBEK, Professor at the University of Tübingen and at the
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F. KINSKY, Directeur général, Centre international de Forma-
tion européenne, Nice

F.J. KLEIN, Vertretung der Freien und Hansestadt Hamburg beim
Bund, Bonn

W. SCHÜTZE, Secrétaire général du Comité d'Etudes des Relations
franco-allemandes, IFRI, Paris

15.00 Managing the Presidency and beyond : Strategies for the Federal
Republic of Germany

Rapporteurs :

J. TRUMPF, Auswärtiges Amt, Bonn

H. WALLACE, Royal Institute of International Affairs, London;
Professor at the College of Europe

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E. GRABITZ, Professor at the Freie Universität Berlin

P. TSAKALOYANNIS, European Institute of Public Administration,
Maastricht

Saturday, 7 November / Samedi 7 novembre 1987

CLOSING SESSION / SESSION DE CLOTURE
(College of Europe / Collège d'Europe, Dyver 11)

President / Président :

S.E. M. l'Ambassadeur A. CAHEN, Secrétaire général de l'Union de l'Europe Occidentale

10.00 Presentation of the Conclusions by the General Rapporteurs /
Présentation des conclusions par les rapporteurs généraux :

H.E. M. M.H.J.C. RUTTEN, Working Group 1

Professor R. CAESAR, Working Group 2

M. le Professeur P. HASSNER, Groupe de travail 3

M. le Professeur V. CONSTANTINESCO, Groupe de travail 4

11.00 Concluding Remarks / Conclusions :

W. WALLACE, Royal Institute of International Affairs, London

W. WESSELS, Institut für Europäische Politik, Bonn

11.30 Closing address / Allocution de clôture :

S.E. Herr L. STAVENHAGEN, Minister of State, Bundeskanzleramt, Bonn :

"Die Aufgaben und Verantwortung der Bundesrepublik Deutschland für die Gemeinschaft / The Role and Responsibilities of the Federal Republic of Germany in the Community"

12.30 RECEPTION
offered by the College of Europe, Dyver 11

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 9284

BIBLIOTECA

COLLEGE OF EUROPE - BRUGES
COLLEGE D'EUROPE - BRUGES

Annual Symposium 1987
Colloque annuel 1987

THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
CONTINUITY AND CHANGE

LA REPUBLIQUE FEDERALE D'ALLEMAGNE ET LA COMMUNAUTE EURO-
PEENNE : CONTINUITE ET CHANGEMENT

5-7.11.1987

List of participants

Liste des participants

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Some errors may have occurred in this list. Participants are kindly requested to bring these to the attention of the Secretariat before their departure.

Des erreurs peuvent s'être glissées dans cette liste. Les participants sont priés de les communiquer au Secrétariat du Colloque avant leur départ.

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THE DELORS PROPOSAL AND THE PATTERNS OF MEMBER STATES' INTERESTS

Report by

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The Community's decision-making process involves 'moving from crisis to crisis by means of a series of package deals'.(1) That is as true today as when it was written two decades ago; and the German Presidency of the first half of 1988 may have to put together one of the more significant deals of this series.

The Commission put forward its analysis of the crisis and a package deal to resolve it in two papers issued in February 1987: Making a Success of the Single Act: A New Frontier for Europe (2); and Report by the Commission to the Council and Parliament on the Financing of the Community Budget.(3) The immediate symptom of this crisis was a budget deficit, then estimated at ecu 4 billion for 1987 and at ecu 5.4 bn for 1988,(4) over one tenth of the Community's maximum revenue under current legislation. More recent estimates show a substantially bigger deficit for both years.(5) Because there have been deficits, financed by one device or another, for a number of years, moreover, the Community bears by 1987 an accumulated liability of ecu 17 bn, of which ecu 8.1 bn was the estimated stock depreciation (intervention prices less market prices) and the rest other aspects of 'the cost of the past', including appropriations for unspent commitments, member governments' advances and the deficits for 1986 and 1987.(6)

A deficit of some 0.1 per cent of Gross Community Product (GCP) is modest by the standards of the budgets in the member states themselves. But art.199 EEC provides that 'the revenue and expenditure shown in the budget shall be in balance' and that all items of revenue and expenditure are to be included in the estimates and shown in the budget. So the law demands an end to the deficits; and so does politics, in a period when budgets are under pressure in all the member states. The crisis has to be resolved by raising revenue, by cutting expenditure, or by both.

The Delors plan: use the crisis to strengthen the Community

While crises can cut the Community down, their resolution can be designed in ways that build it up; and this is what the Delors proposals, outlined in the Commission papers cited above, try to do.

The proposals grasp the nettle of agricultural reform. Instead of agricultural rules determining the budget, the budget is to determine the working of the agricultural rules.(7) This is to be ensured by 'stabilisers', which are to cut support when the cash limit for intervention in a given sector is approached.

Budgetary control is to be backed by a 'restrictive pricing policy'.(8) But the Commission was not bold enough to suggest a cut in spending on agricultural price guarantees. Instead, expenditure was not to grow 'faster than the own resources base': a rate of growth of 2.5 per cent a year from 1987 to 1992 was proposed, while the 'own resources base' was expected to grow by 2.7 per cent.(9)

While for the agricultural budget the Commission aimed at moderate containment, the centrepiece of its strategy for budgetary expansion was a doubling of the budget for the structural funds by 1992. This was linked with the attention paid to 'economic and social cohesion' in the Single European Act, and with the deep concern felt in the Commission that the new, southern member states will not become properly integrated into the Community unless special measures are taken to help them to do so.(10) There was also to be somewhat higher spending on research and some allowance for new policies.

Along with the agricultural policy and the structural funds, the third main target for reform is the budget itself. The Commission proposes a set of mechanisms for control, of which more below. Since the strategy is one of budgetary expansion, the Commission also proposes a new tax.

Not only does the Community's existing revenue of customs duties, agricultural levies and 1.4 per cent of the common base for value-added tax (VAT) fail to cover the current expenditure, but it is also growing slower than GCP. Because customs duties are cut in successive Gatt rounds, agricultural levies are eroded by self-sufficiency and VAT grows less than total production, the existing revenue base is expected to increase by 1 per cent a year between 1987 and 1992 if GCP grows annually by 2.7 per cent.(11) In order to remove this bias against Community revenue, and to finance the expenditure proposed, the Commission envisages that the ceiling for Community revenue be related to GCP as a whole rather than to the base for any particular tax; and it suggests that until after 1992 the limit should be 1.4 per cent of GCP.

The present tax base is not only restrictive but also regressive, since the duties and levies bear heavier on the lower incomes, and the VAT base, which is mainly personal consumption, becomes a lower proportion of GNP as a country's average income rises. In order to counter this bias too, the Commission proposes a new tax on that part of GNP which is not covered by the VAT base: investment, most of public expenditure and any import surplus. With the VAT contribution reduced to 1 per cent of the VAT base and the new tax rising to nearly 1 per cent of the balance of GNP by 1992, these two major sources would

each provide about two-fifths of the Commission's estimated budget by 1992, with the remaining one-fifth coming from the duties and levies. The new tax would be introduced in 1988 at a rate of 0.29 per cent of its base, however, with the additional revenue required between then and 1992 coming mainly from increases in this rate.

The budget reform would, then, offer both budgetary discipline and budgetary expansion, from revenue estimated at 1.04 per cent and expenditure at 1.2 per cent of GCP in 1987 to payments appropriations at 1.28 per cent and commitment appropriations at 1.37 per cent of GCP in 1992; and the Commission puts this forward in order to provide the basis of efficiency and cohesion to enable the Community to move forward following the Single European Act, to complete the internal market, develop the European Monetary System, strengthen its environmental protection and its external economic policy, make its institutions effective and have the capacity to devise new policies.

This fine scenario sketched out in the Delors plan depends, however, on an expansion of the Community's capacity to tax; and this depends, under art. 201 EEC, on ratification by all the member states.

Ratification by Sparenland

Suppose there is a member state called Sparenland (sparen = to save, economise, make savings: Collins/Klett German-English Dictionary, 1983). This is the one whose parliament is the most reluctant to vote for higher Community tax. Could this country be persuaded to endorse the Commission's proposals?

Sparenland's first argument would be that agricultural expenditure is out of control. Following the guidelines of the European Council at Stuttgart and at Fontainebleau, the Council decided in December 1984 that agricultural expenditure was to grow slower than the Community's tax base. If this decision was respected, expenditure in 1988 would be ecu 22 bn. But it is expected to be well over ecu 6 bn in excess of this.(12) Part of this gross laxity has been due to the fall of the dollar and the effect of currency realignments within the Community. But the main reason is, in the Commission's own words, that 'the budgetary mechanisms of the CAP rule out satisfactory control of expenditure'.(13)

It looks to Sparenland as if new money will go down the same drain until real control mechanisms have been installed; and Sparenland may be hard to convince

that the Community is going to do this until it has actually been done. The Commission's attitude is firmer than that of a number of member states. Yet the Commission sometimes sounds less than fully determined to succeed. Thus it states that the Community must 'continue to try to bring intervention back to its original role of short-term market adjustment'.(14) But is 'continuing to try' good enough? Then although the paper on Financing the Community Budget proposes 'automatic stabilisers' to control spending on intervention,(15) Making a Success of the Single Act is less unequivocal, calling them 'binding, and even automatic'.(16) Yet if Sparenlanders are prepared to give the Commission the benefit of the doubt, they still have deep suspicions about the attitudes of other member states, whose votes in the Council may be influenced by the fact that their citizens are net gainers from excessive intervention expenditure.

Once control mechanisms are firmly agreed, moreover, the Sparenlanders may ask why the Community needs more resources, apart from what is needed to pay off the liabilities which have accumulated as a result of the other member states' improvidence. Yet the Commission wants not only to increase spending on the structural funds and, as ever, on agriculture, but also, when the liabilities have been paid off, to have fiscal 'headroom' for the introduction of new policies. But why, ask the Sparenlanders, should expenditure be increased, and why should anyone be given fiscal headroom in this era of general fiscal restriction? Let the Community sweat it out on monthly twelfths as far into 1988 as may be necessary to secure agreement on tough controls and a prudent fiscal limit, perhaps as much as 1.6 per cent of the VAT base. If this will grow more slowly than GCP, it is a gain for the hard-pressed taxpayer.

At this point in its argument Sparenland is moving from mere fiscal prudence to a reductionist view of the Community, which sees it as an instrument for completing the internal market and as a club for foreign policy cooperation. And at this point in my argument I must admit that, while Sparenlandish attitudes are present to varying degrees in a number of member states, they are to be found in their purest form in Mrs Thatcher's government; and I must also admit that, while I think that the Community needs someone who will insist, roughly if need be, that agricultural spending must be controlled, I believe the reductionist view of the Community to be misguided. The question follows, therefore, whether there are any grounds to expect a more positive response from the British government than the preceding line of argument might imply.

The answer is, probably, yes. It will become evident to the British, even if it is not yet clear to some, that completion of the internal market, which is

a high priority for the British government, is a major political task, not just a legal requirement arising from the Single European Act. The annexed Declaration on Article 8A of the EEC Treaty, which states that 'setting the date of 31 December 1992 does not create an automatic legal effect', should offer a warning of this. Securing qualified majorities for the difficult legislation involved will not in any case be easy; and if the southern member states are provoked by negative northern attitudes towards the structural funds, it is likely to prove impossible. Nor would it be in the British government's interest to antagonise the other member governments beyond a certain point, for this could undermine the ability to cooperate in foreign policy which is also valued, particularly in this period of uncertainty in superpower relations. Sparenland's reductionist minimum of internal market and foreign policy cooperation is, moreover, a caricature of British attitudes to the Community, which are more or less positive towards many of its other objectives. In so far as these positive attitudes are not enough, the experience of the 1950s and 1960s has taught the British the dangers of isolation; and as far as the budget is concerned, isolation could put at risk the mechanism for Britain's special budgetary refund. In short, although the British government's vote may be hard to secure for some elements of the Delors plan, it is not as unyielding as the Sparenland caricature would imply.

Présidence oblige?

Is it possible that some German readers of this paper thought at first that Sparenland was intended to represent the Federal Republic? Votes for higher farm prices and at the same time for budgetary restriction are in fact, if not intention, votes against the development of some Community policies. The Federal Republic was second only to the British in squeezing down the resources for the new research programme. Slowness in ratifying the Single European Act and reluctance to strengthen the EMS could be interpreted as signs of a lack of commitment to further Community development. Yet while reductionist attitudes seem to have gained ground in the Federal Republic, they are not a satisfactory explanation for German behaviour in the Community.

One explanation which is particularly germane to the inconsistent voting on agricultural and budgetary policy is what has been called the horizontal political system. The weak coordination of individual departments of state by the central government is seen as broadly satisfactory for maintaining the status quo, but not for reforming or building up the Community;(17) and the criticisms of German policy are indeed directed mainly at its tendency to inhibit new developments. In so far as this explanation is valid, it may be

hoped that the German Presidency of January-June 1988 will induce a special effort of coordination and hence a greater capacity to promote reform and Community-building.

A second explanation throws a different light on the perception of the Federal Republic as a reductionist member. The Eurobarometer survey recently asked people which future for the EC they found most desirable. Among the four largest member countries, the Germans were the least likely to want a mere extrapolation of economic integration ('the EC becomes a place within which economic, scientific and cultural exchanges between Europeans are more and more dense', or 'intensification' for short), but the most likely to want a European federation or even 'one single large country'.(18) The inverse correlation is quite striking:

	percentages favouring	
	intensification	federation or single country
Federal Republic	22	46
France	30	43
Italy	37	38
United Kingdom	33	24

This not only throws some welcome doubt on the view of the British as an immovable obstacle to the development of the Community, but also seems to show that a German government that is seen to be promoting the political development of the Community would reap rewards in terms of voters' support. Bold solutions could be politically more attractive than minimalist compromises.

For those who still expect minimalist compromises to be the target of the German Presidency, there is the final argument that member governments tend to be more constructive about the Community when they perform the duty of President. 'Présidence oblige' is another reason to hope that the Federal Republic will be seeking how to resolve the crisis in ways that help to build the Community for the future.

Agricultural reform

The Ministers in the Agricultural Council have 'a relatively free hand as regards its policy and the expenditure that results therefrom'.(19) Not surprisingly, Ministers of Agriculture unconstrained by Ministers of Finance are liable to spend generously. The Commission has proposals for the institutions of budgetary control which will be considered later. Here we will look at the policies it proposes for managing the agricultural budget.

The cost of intervention is to be controlled by budget stabilisers in all sectors of production to which intervention applies. Typically, a quota is to be fixed for intervention with a view to what the budget can afford. After the quota has been bought, the Commission would be authorised to adjust its intervention appropriately while the Council decides, within a limit of three months, what is to be done.(20) This system should keep expenditure within budget, provided that the Commission can continue to act if the Council fails to decide and that none of the actions taken can carry expenditure above the cash limit for that year.

Even if the quotas are for intervention rather than production, the agricultural market will remain distorted. Where quotas are distributed as at present for milk, the Community is 'presiding over systems for the award of fixed economic rents to individual farm owners', as the Padoa-Schioppa report puts it:(21) a highly unsuitable task for an administration at the EC level. Doubts have, moreover, been expressed as to the capacity of some southern member states to implement such quotas effectively;(22) and the Court of Auditors has, indeed, reported that Italy has not implemented the milk scheme on the grounds that it lacks the statistical data and administrative resources.(23) This may, as Biehl has suggested, be tolerable for a time because it redresses the CAP's bias in favour of northern products and provides some implicit aid for the South. But it is hardly the best way to fulfil these objectives.

The German Presidency does not need to be lectured on the reasons in favour of moving from quotas and excessive intervention to a 'better distribution between market support and income support', as the Commission puts it. The question is, rather, how far the necessary 'restrictive pricing policy' can go.(24) The Commission's projection of a steady increase of expenditure on agricultural guarantee up to 1992 does not indicate that it envisages 'unifying farm prices at a lower level', or causing support prices to 'tend towards world price levels', in the words of the Padoa-Schioppa report, which also proposes 'decentralising a larger part of the distribution function at present done at a Community level'.(25) The idea of moving towards a combination of market-clearing prices and income supports is not new,(26) and it is not surprising that the Commission is impressed by the political resistance to it, particularly as the Commission's own proposals for prudent pricing have so often been ignored by the Council. But the need for radical reform seems great enough to justify giving the idea closer consideration.

The Padoa-Schioppa report rebuts the charge of 're-nationalising' the CAP by pointing out that it proposes 're-Communitarising' the price by removing

the MCAs, with which the Commission agrees.(27) The Commission also accepts the idea of some decentralisation of income support, suggesting that the Community create a 'supplementary mechanism for supporting incomes', alongside schemes operated by the member countries, which would however 'be brought within the same framework'.(28) Biehl has suggested a considerable decentralisation with the EC setting a framework within which the member states - and in Germany especially the Länder - would have the right to design the 'bundles of measures' that suit their circumstances; and this concept attracts public support, as shown by a recent Financial Times leader's reaction to a report of the Institut für Europäische Politik on the subject.(29)

Even if there is substantial support for the principle of a 'better distribution between price support and income support', it will be hard to devise precise measures that will attract the votes of enough member governments. The sharper the shift towards market-clearing prices and towards world prices, moreover, the harder it will be, for the member states' various interests will be more deeply affected. So a sharp shift can hardly be expected as part of a package deal during this German Presidency. But it may be possible to lay some of the groundwork for more radical change in the future. Thus work can be done on designing the shape of an income support system. It could also be the right time to initiate a detailed study of the implications of various levels of price support and of income support, so as to provide a factual basis for decisions that might be taken a year or two ahead.

Structural funds

The Commission's proposal to move from project to programme finance by the structural funds, giving 'maximum scope for local or regional initiatives', seems likely to attract wide support, even if some member governments will want to replace the words 'local or regional' by 'national'. The priorities suggested by the Commission also contain something to cater for the interests of each member state: less-developed regions, industrial decline, first jobs and long-term unemployment, agricultural structures and rural development.(30) But there is a divergence of views between North and South about the size of the budget for structural funds.

The southern member states and (for this purpose conceptually southern) the Irish Republic feel that they have a strong interest in the Commission's proposal to double the size of the structural funds. They made this clear during the negotiations for the Single European Act, when their acquiescence to the provisions for completing the internal market was dependent on northern

acceptance of the Title on economic and social cohesion. Greece had already used its leverage to gain the Integrated Mediterranean Programmes; and Spain has recently been applying its weight in a similar direction in the negotiations on the 1988 budget. The Community will not work well, and many of the measures required to complete the internal market will not attract a qualified majority, unless the South gets some satisfaction along the lines the Commission has proposed.

The instincts of Sparenland resist this fact. But a fact it remains. Britain in particular, which sets such store by the completion of the internal market, will damage its own interests by trying to ignore it. The Federal Republic, regarded by the British government as generally sound on the budget (apart from lapses on agricultural prices), is well placed to persuade the British that a more generous view on this point is justified. The Federal Republic will be still better placed to do so if it demonstrates its commitment to completion of the internal market in practical ways, such as the opening of markets for the supply of financial services! The German Presidency would teach the Community a valuable political lesson if it were to secure a package of internal market measures around the same time as a package to resolve the budget crisis in a way that satisfies the South.

Other economic policies, environment and security

Community support for investment in transport infrastructure is one aspect of a policy to satisfy the South. Transport policy as a whole is of great interest to the Dutch, which may be worth remembering when the Dutch are being asked to contribute more to the Community budget. The British are likewise keenly interested in more open competition in this field.

Research policy caused enough trouble for the Belgian Presidency. The Federal Republic will doubtless be seeking a quiet life on this front.

With respect to the environment, on the other hand, the Federal Republic has no reason to avoid a high profile. Its attachment to high environmental standards finds a ready echo in European public opinion, and is regarded by other member governments as at least a legitimate German interest. This is an area in which the German Presidency could well press the Federal Republic's interests when assembling package deals.

Further from normal Community business, despite the reference to 'the political and economic aspects of security' in article 30 of the Single European Act, is

the field of security and defence policy. But it may have a bearing on the subject of this paper. It has been argued elsewhere that the Federal Republic has a deep interest in solidarity with its West European partners in matters of defence policy;(31) and Alfred Dregger, chairman of the CDU/CSU fraction in the Bundestag, has linked this with the need for monetary union and political union.(32) In so far as such a link is perceived, it provides an additional motive for a Community-building role on the part of the German Presidency. This could also influence the attitudes of the British government towards a Community-building package deal. For the experience of the exchange-rate mechanism of the EMS has shown that other member states can press ahead with monetary integration without waiting for a reluctant Britain; and recent Franco-German discussions on security have shown the possibility of similar trends in defence integration. The risk of marginalisation might induce the British government to take a more generous view of Community objectives farther beyond the reductionist minimum of internal market and foreign policy cooperation.

The budget

Good reasons have been adduced for the Commission's proposal to relate the Community's tax capacity to Gross Community Product. The tax capacity will in this way be related to the most representative indicator of economic activity; it will be more reliable and more transparent; and it will offer flexibility among different types of tax.(33) It appears, moreover, to be attracting some support among member governments. The question remains, however, whether the Commission's proposed limit of 1.4 per cent of GCP could be accepted.

According to the calculations in the Commission's papers, payment appropriations would rise by 4.8 per cent a year between 1987 and 1992 and commitment appropriations by 5.8 per cent a year (the difference reflecting the process of building up the funds), to reach ecu 52.7 bn payments and ecu 56.7 bn commitments, compared with a capacity of ecu 57.7 bn with the limit of 1.4 per cent of GCP and an assumed annual growth rate of 2.7 per cent. The additional expenditure above the levels for 1987 is divided as follows:(34)

	ecu bn
agricultural guarantee	3.4
structural operations	7.1
'other policies'	2.4
new policies	2.8
refunds and administration	-1.9
total	13.8

It was argued earlier that the health of the Community requires a structural funds budget that approaches as near as possible to the Commission's proposal. The allowance for 'other policies' includes the sensible reform of budgetising the seventh European Development Fund, beginning in 1991. It would seem very

restrictive if nothing were allocated for possible new policies. The reduction under 'refunds and administration' reflects the Commission's suggestion that the 10 per cent of customs duties and agricultural levies, at present kept by the member states, should in future be passed to the Community, offset by a very small rise in administrative costs. It is the proposal to raise guarantee expenditure by ecu 3.4 bn that seems most questionable, at least until the possibility of pegging or cutting expenditure has been discussed, in the light of a study of the potential for shifting from price support to income support. Unless this can be shown to be impracticable, it is likely that some governments will be hard to move from the view that, say, 1.3 per cent of GCP would be enough, even if the arguments for greater scope for the structural funds and new policies were to persuade them to raise their sights above the equivalent of 1.6 per cent of the VAT base, or less than 1.1 per cent of GCP.

Of the Commission's ideas for new sources of Community revenue, the ECSC customs duties and the ending of the 10 per cent refunds of duties and levies seem to be tidying-up operations which raise no important points of principle. It is the new tax, levying a percentage of the difference between GNP and the VAT base, that would be really significant. The arguments for it were rehearsed above: less restrictive, less regressive. But member governments are more concerned about the effect on their countries' contributions; and the Commission has helpfully provided a table giving its estimates of this.(35) Comparing the impact of its proposed new system as a whole with the 1987 budget under the present system, the Commission found that Germany would pay ecu 57 mn more - but this must be seen in relation to the proposals for adapting the Fontainebleau mechanism for the special rebate to Britain, mentioned below. The Belgians, Danes and Dutch would each pay between ecu 18 mn and ecu 46 mn more; but they have done very well out of the budget up to now, and it has been suggested that Germany is much concerned that such rich countries should bear their proper share.(36) Italy would pay ecu 188 mn more, and evidently needs some persuading that this is a good idea. France, the Irish Republic, Luxembourg, Greece and Spain would all gain a bit. Portugal would lose ecu 15 mn, which would have to be compensated by more generous allocations from the structural funds. Britain would gain ecu 306 mn, and is said to have shown some sympathy for the idea. Which brings us to the question of the British rebate, the need for which would be somewhat reduced by this effect of the Commission's new tax.

The Fontainebleau mechanism brought Britain ecu 2736 mn in 1986 and the Commission has estimated the 1987 payment at ecu 2360 mn.(37) This seems to be more than was expected when the mechanism was agreed; and the Commission's new proposal duly allows for this, offering an amount that would be estimated at ecu 1016 mn on 1987 data, which together with the ecu 306 mn from the new tax system would

have brought the British ecu 1322 mn in this year.(38) Given that the current level of rebate could hardly be sustained, this result appears to offer the British at least a starting point for negotiations. It was obtained by focusing on the main source of the British grievance: the relatively low British receipts from the agricultural guarantee expenditure which dominates the Community's budget. The rebate would be half the sum obtained by applying the difference between the UK's share of guarantee expenditure and the UK's share of GCP to the total of guarantee expenditure. The contributions would be drawn from the other member states in proportion to their relative wealth, exonerating the four poorest members and cutting the share so calculated for the Federal Republic by three-quarters, bringing it to ecu 141 mn using 1987 data.(39) This proposed mechanism seems to have made the basis for the rebate as objective as possible while remaining within the limits of political realism, and to offer the prospect that the payment to Britain will diminish in line with the underlying problem. That merit will doubtless not prevent the member states from horse-trading once again. But it is to be hoped that the Presidency can ensure the retention of the basic objective elements.

In all, the Commission seems to have served the Community well with its proposals for taxation and rebates; and it is surely right to recommend a steady state for the next five years, until the end of the Portuguese and Spanish transitional periods and the year when the internal market should be completed. But it would be surprising if, under present political constraints, the proposed system was the best that could be devised for the longer term. Thus suggestions have been made for moving to a progressive system that would tax the richer more than the poorer, whether by means of a surtax levied on member states' direct taxes (40) or a progressive key for value-added tax (41). Building on the Commission's own proposal, a progressive key could also be envisaged for its new tax. The Federal Republic, with its experience of fiscal federalism and its specialists in that field, is well placed to initiate a study of the Community budget that would provide an up-to-date version of the MacDougall report in good time for thorough public discussion before new decisions on taxation would have to be taken by 1992. Since responsibility for the budget is shared by the Commission, Council and Parliament, the possibility might be considered that sponsorship of the study would be shared by the three institutions.

Institutions

Describing how the various Councils - agricultural, budget, economic affairs and finance - have a hand, each with equal legislative power, in determining and implementing the budget, the Commission concluded that 'no political entity can operate properly under such conditions'.(43) A way has to be found, despite

the legislative equality of the different Councils, of ensuring that the Agricultural Council works within the framework of the budget.

The Commission's proposals for budgetary discipline and management are indeed designed to ensure this. (44) Before the budget is approved, control of agricultural guarantee expenditure is to be ensured by establishing the automatic stabilisers and budgetising the depreciation of stocks. For Community expenditure as a whole, there are to be new rules for commitment appropriations and for carrying over commitments from one year to the next. To cap the system of control, the Commission proposes that the annual limits for the tax resources available to the Community should be fixed in the law on new resources to be ratified by all the member states. (45)

While the member states' parliaments would thus legislate the ceilings for the annual budgets, the Commission notes the problems which arise because the European Parliament's powers are confined to only a part of the Community's budgetary process. Thus the EP's role in co-deciding, with the Council, the non-compulsory budget has been made more problematic because the EP does not participate in the procedures regarding budgetary discipline. The Commission therefore proposes that EP, Council and Commission should agree at the start of the budgetary procedure each year on the rate of increase for non-compulsory appropriations for both commitment and payment; and they should also make 'an inter-institutional agreement' on the arrangements for budgetary discipline and management. (46)

The exclusion of the EP from decisions on the "compulsory" part of the budget is another anomaly, due to the determination of the French government in the early post-de Gaulle period to limit the role of the Parliament in the Community's financial constitution. (47) It cannot be said that the management of agricultural expenditure has been a good advertisement for the monopolisation of legislative power by the Council, with its dispersal of authority among different groups of ministers. The result has, on the contrary, provided further evidence of the soundness of the democratic principle that budgets should be controlled by parliaments rather than by government representatives whose power is dispersed in this peculiar way. The Commission rightly suggests that the Council and the EP should eventually be equal partners, with the Commission keeping its right of initiative, at every stage of the budgetary procedure. (48)

The Federal Republic would do well to promote the role of the European Parliament as far as is possible during its Presidency. There may be a broad political rationale for this. The interests of both the Federal Republic and the Community would be served by a more active German role in initiating new developments; and the German government could be helped in this by demonstrating that the initiatives are indeed in the European as well as the German interest. The EP is the most representative body to provide such a demonstration. If the role of the EP can be enhanced, it could be seen as a natural ally for a Federal Republic concerned to develop the Community into a political union. The German Presidency could, in the first half of 1988, help to enhance its role, in particular by giving a fair wind to the EP's proposals to link the 1988 elections with a removal of the European Union project and by helping to develop the EP's role within the cooperation procedure under the Single European Act, as well as with respect to the new procedures for the Council's budget.

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THE GERMAN LÄNDER AND THE EUROPEAN COMMUNITY

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QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO A. F. I. INTERNAZIONALI

I. The Problem

The Federal Republic of Germany is the only EC member country with a federal system. It was evident from the very beginning that EC membership might affect basic components of West German federalism: the quality of the Länder as state entities at subnational level, endowed with genuine powers in certain policy fields; the balance between federation (Bund) and Länder according constitutional law and political needs requiring the right of the Länder for autonomous action following their own political priorities; and their right to participate in federal legislation and administration via the Bundesrat. On the other hand it could not be excluded that West Germany's federal system might have a negative impact on the integration process in the EC, if the Länder would impose restrictions on the Federal Government's freedom of manoeuvre in Community institutions (esp. the Council) and the Government would become, in this context, the "prisoner" of the Länder.

The problem was, therefore, how to meet adequately and satisfy both the requirements resulting from the federal system of the Federal Republic of Germany and at the same time the functional and political needs of EC integration. The Länder have demanded from the outset a greater and more substantial share in decision-making on EC matters at national level. The Federal Government, however, has responded restrictively by pointing to Articles 24 and 32 of the Basic Law and to needs resulting from the political conditions of decision making in the Council.

There have been developed ways and means for establishing Länder participation in EC decision making at national (= domestic) level. But the Länder did complain that all these arrangements and practices had proved inadequate. They viewed the ratification of the Single European Act as the opportunity to push through the demands they had been making for long, namely to establish a legal basis for their rights to participation. The Federal Government complied with these demands in so far as it agreed to include a supplementary provision (Article 2) to the Ratification Act which would regulate the extent and procedures of future Länder participation.

The following paragraphs will first explain why and how the Länder feel directly affected by EC legislation or other legal instruments of the Community. This is followed by an overview on previous forms of participation, on direct EC-related activities which the Länder have been pursuing autonomously, and on the new arrangements agreed upon in the Ratification Act. Then the paper deals with problems which still exist or could result from the new constellation. In conclusion the paper will outline perspectives for both the FRG's federal system as well as the future development of the EC and the integration process.

II. The Impact of EC Policies on the Länder

The activities of the Community are based on the treaties establishing the EC. There are provisions specifying genuine Community powers and responsibilities (this applies to agricultural, tariff, competition and transport policies, to name major fields); there is Article 100 of the EEC Treaty which relates to and envisages the harmonization of legal provisions in fields which are important for the formation and workability of a Common Market; and, last not least, there is Article 235 giving a kind of general legislative authorization ("Kompetenz-Kompetenz"). The application of all these powers does not only touch on Länder interests, but can also interfere with genuine Länder competences in specific fields into which the federation, according to constitutional law at national level, would not be allowed to intervene. Examples are:

- education and vocational training;
- transport policy (esp. port traffic and business);
- environmental protection;
- budgetary and structural policy.

During the debate on the ratification of the SEA in 1986 the Länder presented a whole list of cases in which, as they argued, the Community had interfered in Länder affairs without a corresponding need in terms of problem-solving or integration policy necessities, sometimes even without proper legal basis. In the Bundesrat session on May 16, 1986, the Bavarian Minister of State, Schmidhuber, expressively criticized what he called "Kompetenzmaßnahmen" ("power presumptuousness") of the EC and gave the fol-

lowing examples for cases in which the Community either lacks responsibilities or in which unnecessary regulations have been effected:

"Quality demands on freshwater, the preservation of bird species, toy safety, environmental programme, consumer education in primary and secondary schools, the Community's action programme for the prevention of cancer, the European administrative court, cultural activities". Schmidhuber added: "The regulation zeal of the Community has not spared key areas of Länder responsibilities such as media matters, higher education laws and the regional promotion of economic development. It is high time to oppose this centralist-cum-bureaucratic way of thinking."

With respect to the SEA the Länder - irrespective of the party political composition of their governments - feared and were deeply concerned that many of its provisions might lead to even deeper and further going interference in fundamental Länder responsibilities. The Bundesrat Opinion on the SEA Ratification Act, which was unanimously adopted on May 16, 1986, summarized their concerns and criticism as follows:

- When seeking to create an internal Community market via the harmonisation of legal and administrative provisions in member states, efforts must be made to ensure that "the high standard of protection in the Federal Republic of Germany in the fields of health, safety, environmental protection and consumer protection are not lowered to a generally poorer European level". As regards plans to alter the principles of vocational training and job entry it must be taken into account that the responsibilities for these fields in the Federal Republic of Germany lie entirely or partly in the Länder.
- Referring to SEA provision on research and technology policy the Länder complained about a twofold danger: interference in their exclusive legal powers in cultural and education matters and violations of the "Subsidiaritätsprinzip", the principle according to which superior social units (e.g. the European Community) should not be entrusted with tasks which can be better performed by smaller social units (e.g. the Länder). There must be a continued guarantee for policy measures at Länder level.

- This principle must also be observed in the field of environmental policy. The transfer of powers to the European Community, insofar as this is necessary, must be clearly delimited and the high environmental protection standards already achieved in the Federal Republic of Germany retained. Furthermore, Community measures should not result in unjustifiable distortions of competition for business within the EC.
- In the case of projects aimed at strengthening economic and social cohesion in the Community the stipulations of Article 91a Basic Law must be observed. The Resolution of the Bundesrat expressly states: "The regional promotion of economic development is a Länder task and this responsibility should not be eroded via reference to Article 10 of the SEA". In this context the Länder also criticised the "activity of the Commission against the fundamentally tried and tested regional structural policy in the Federal Republic of Germany, which - in accordance with the constitutional delegation of responsibilities - is a Länder task". As this policy sets out to offset specific locational disadvantages in the Federal Republic of Germany and not to achieve national competitive advantages, the application of the competition policy instruments of the EEC Treaty, it is claimed, is not justified.
- The planned transfer of powers of implementation to the Community Commission was regarded by the Länder as an infringement of their administrative responsibilities.

The Länder accused the Federal Government of not having consulted and included them, at least to an adequate degree, in the discussion on the SEA. The neglect of Länder interests, the Länder complained, is incompatible with the principle of federative loyalty ("Bundestreue"). The Länder also regarded this as a contravention of arrangements between the Federal Government and the Länder regarding their participation in matters relating to the European Community. The Länder categorically demanded that extended rights of participation be firmly established in the Ratification Act in order to enable an articulation of their own interests during future decisions, especially during the implementation of the reform programme set out in the SEA. They made their support for the Ratification Act contingent upon the fulfilment of these de-

mands. This raises the question of previous possibilities of Länder participation in decisions relating to the European Community.

III. Forms and Patterns of Länder Participation in EC related Decision Making

1. Previous Länder participation (1958-1986).

Since the Länder expected the membership of the FRG in the EC to have considerable effects on their status as state entities and on the balance between the federation (represented in EC institutions by the Federal Government) and the Länder within the federalist system, they tried to adapt to the new situation as early as possible by establishing special institutions and procedures as means to bring about proper participation.

a) The "Bundesrats-Verfahren", also called "Zuleitungsverfahren".
The basis of this procedure has been laid down in the Ratification Act to the Treaties of Rome in 1957. The provisions say, that the Federal Government has to inform the Bundesrat (and Bundestag) on proposals as soon as the EC Commission has forwarded them to the Council. The Bundesrat then has the opportunity to discuss what has been proposed and give the Federal Government its opinion (= a recommendation). Although the Federal Government is not legally bound by such recommendations it has to take them into consideration in accordance with the principle of federative loyalty ("Bundestreue"). At the request of the Bundesrat the Federal Government must provide information on decisions adopted by the Council and on any deviations from the Bundesrat recommendations.

The procedure gave the Länder possibilities to influencing decision making, since mere information of the Bundesrat has developed into a regular and intensive exchange of views with the Federal Government. This communication process proved to be useful for the Federal Government as well, since the Länder did provide expertise and administrative experience which was especially valuable with respect to the implementation of EC legislation, a task which lies within the responsibility of the Länder. The pro-

cedure has been regarded as positive and useful but, from the Länder point of view, not enough to satisfy their demands for more efficient participation.

b) The Institution of the "Länder Observer at the EC" ("Länder-Beobachter").

This institution, established as early as 1956 (during the treaty negotiations), has the function to collect information and pass it to the Bundesrat, to conferences of Länder ministers and to the Länder governments. The observer attends the meetings in the Federal Ministry of Economics in which guidelines for the German delegates (e.g. the Permanent Representative in Brussels) are being elaborated, the meetings of the Council and its Committees, and meetings of the Bundesrat and its Committees dealing with EC affairs. Together with a variety of contacts in Brussels all this makes the observer a useful institution. Its effectiveness, however, is limited due to very modest material and personnel resources.

c) De Facto-Participation of Länder Representatives in EC Institutions.

This form of Länder participation has been developing without legal basis and has been applied pragmatically. It means "membership" of Länder representatives (in most cases: civil servants) in the FRG-delegation in EC institutions. There they provide their expertise and have at the same time the opportunity to articulate specific interests of the Länder.

d) The "Länderbeteiligungsverfahren" of 1979.

The introduction of this procedure was a compromise between the Federal Government and the Länder governments, laid down in an exchange of letters between the Federal Chancellor and the chairman of the conference of the Prime Ministers of the Länder. The Länder had demanded an arrangement for their participation based on legal norms whereas the Federal Government was only ready to agree to a voluntary commitment on its part to involve the Länder in EC related decision making at national level.

The new arrangement did underline the obligation of the Federal Government and the Länder to seek close and trustful cooperation on European Community projects which come under the exclusive legislative responsibility of the Länder or which fundamentally affect Länder interests. In comparison with the "Bundesrats-Verfahren" (cf. "a") the duty to inform was extended to cover the initiatives and proposals of the EC Commission before these are formally forwarded to the Council. In accordance with this arrangement the Federal Government expected the Länder to reach agreement on a concerted position, to notify the Federal Government of this position within a reasonable space of time and to take into account the foreign and integration policy objectives and necessities of the Federal Government. The Federal Government is only allowed to deviate from the Länder position "for compelling foreign and integration policy reasons" and must give an explanation for its deviation. At the request of the Länder the Federal Government agreed, wherever possible, to allow two Länder representatives to attend negotiations in the advisory bodies of the Council of Ministers and the Commission. A new section (Section 85a) was added to the Joint Standing Orders of the Federal Ministries (GGO II) with provisions for the new procedure. The Länder established so-called Joint Offices for the various policy fields as contact points for the corresponding departments of the Federal Government.

As opposed to the "Bundesrats-Verfahren" each Land in this procedure has equal rights. Instead of the majority vote system in the Bundesrat this procedure requires the unanimous agreement of all Länder. The degree of coordination and consensus required is one of the reasons for the overwhelmingly negative response to this new procedure. Other reasons are the juxtaposition of two procedures, and, above all, the de facto superiority of the "Bundesrats-Verfahren" due to the fact that the Bundesrat is an established institution with an extensive and efficient infrastructure and a broad spectrum of reliable contacts.

e) Channels of Influence in the Framework of normal Federal-Land-Relations.

Apart from the above mentioned special institutions and procedures the Länder could (and still can) use other channels for influencing decision making in EC affairs at national level. Since EC policies have an impact on policies dealt with in the nation state, they are subject to consideration and discussion in the complex coordination and cooperation network which exists in a fully established federative system.

2. The Länder Participation According to SEA Ratification Act of 1986.

The supplementary provision to the SEA Ratification Act called for by all Länder should contain the following obligations for the Federal Government:

- To inform "the Bundesrat in detail and at the earliest possible opportunity about all projects within the European Community framework which might be of interest to the Länder".
- "To obtain the Opinion of the Bundesrat before approving European Community resolutions on Community projects in which all or individual provisions come under the exclusive legislative responsibility of the Länder or fundamentally affect their interests" and "to take these into account in negotiations" and "in projects in which all or individual provisions come under the exclusive responsibility of the Länder"; only to deviate from this opinion "for compelling foreign and integration policy reasons" and "in the case of deviation ... to inform the Bundesrat of the primary reasons" for this deviation.
- 'Upon request to invite representatives of the Länder to attend negotiations in the advisory bodies of the Commission and the Council of Ministers' in cases in which a Bundesrat Opinion is required.

Article 2, as it finally had been agreed upon, contains the following provisions:

- The Federal Government's duty to inform is extended; more specifically, there are plans to assign Länder representatives (in particular, the Länder Observer) to the Permanent Mission.
- Contrary to the original Bundesrat demand and in the interests of its political manoeuvrability in EC institutions the Federal Government shall not be obliged to await the Bundesrat Opin-

ion, "but will give the Bundesrat the opportunity to state its opinion within a reasonable period of time before it approves EC resolutions in which all or individual provisions come under the exclusive legislative responsibility of the Länder or fundamentally affect their interests".

- The Federal Government shall not be made dependent on Bundesrat directives, but shall "take its opinion into account during negotiations. Insofar as the Opinion relates to exclusive legislative matters of the Länder the Federal Government shall only be allowed to deviate from this Opinion for irrefutable foreign and integration policy reasons. Furthermore, it shall take the Länder interests articulated by the Bundesrat into account in its considerations".
- In the case of deviations the Bundesrat shall be informed of the primary reasons.
- The Federal Government shall, wherever possible, invite "upon request representatives of the Länder to attend the negotiations in the advisory bodies of the Commission and the Council of Ministers".

The specific details of the new information and participation procedure should be regulated in a special agreement between the Federal Government and the Länder.

3. Direct and Independent Länder Activities.

Parallel to the steadily growing functional scope of the EC and as a reaction to what the Länder perceived to be unsatisfactory and efficiency lacking institutions and procedures of participation in EC related decision making, the Länder have started to launch direct activities vis-à-vis EC institutions, independent from the Federal Government.

- Such activities include political contacts of Land authorities and Länder politicians with EC institutions in Brussels. This form of communication takes place in different ways: mutual visits or exchanging letters, memoranda etc.
- With the establishment of so called "Information Bureaus" ("Informationsbüros") the Länder opened a new channel for increasing their influence and added a new element to the EC related communication network. The first information bureaus were set up in

1985 (Hamburg and Saarland) and since fall 1987 all Länder - with the exception of Berlin (which will probably follow soon) - have such a bureau.

The information bureaus are not formal representative institutions since such a claim would be incompatible with the exclusive right of the Federal Government to pursue foreign policy and represent the country's interests abroad. The Länder were eager to avoid creating the impression they were going to interfere with this competence of the Federal Government. They understand and describe the functions of their information bureaus as listening posts, lobby centres and service institutions for all those (organizations, companies, etc.) from the respective Land seeking to establish contacts with EC institutions and their departments/divisions.

- Each Land has a Permanent Delegation in Bonn, representing the interests of the Land - and the Land as state entity itself - towards the federation (Bund), primarily the Federal Government. All these Delegations have been officially attributed the function of dealing with EC-related affairs.
- One should not forget in this contacts the efforts of the Land parliaments to participate in EC-related discussions and decisions where interests of the respective Land is at stake. There have been debates on EC policies in Land parliaments or quasi-formal meetings between members of a Land parliament and members of the European Parliament coming from the respective Land.

IV. Actual Problems

1. Implementation of Art. 2 SEA Ratification Act:

The Agreement between Federal Government and Länder

In accordance with the provisions laid down in Art. 2 SEA Ratification Act, the Federal Government and the Länder are trying to regulate details of the new information and participation procedure in a formal agreement. Till the end of October 1987 they were not yet capable of bridging the gap between their respective positions. Whereas the Länder claim regulations which would allow them a maximum of participation, the Federal Government takes a restrictive stand. The following points seem to be controversial:

- Size and quality of what has to be subject of information.
- With respect to the Bundesrat-Opinions: who decides which cases fall into this category; will the Bundesrat be able to consider the time factor and avoid an undue delay; which Bundesrat institution should decide on the Opinion, if debates and decisions in open plenary session are inadequate; shall the Bundesrat have the possibility to add a supplement to its Opinion if during negotiations a new situation has emerged.
- Inclusion of Länder representatives in the German delegation for EC institutions: which institutions fall into this category, what will be the precise functions of Länder representatives (to issue a statement?) and which role shall be given to the Observer of the Länder.
- Status and working conditions of Länder civil servants in the Permanent Mission in Brussels.
- The Information Bureaus: shall their function and activities be made subject to this agreement.

Perhaps there are good reasons not to overrate the fact that the negotiations on these points have not yet come to an end and to expect that in practice Federal Government and Länder (via Bundesrat) will cooperate in a constructive way and develop pragmatically rules and modes of behaviour. Other observers are less optimistic and foresee even more intense conflicts.

2. Demands for Amending the Basic Law (Article 24).

Although Article 2 of the Ratification Act introduces a legal basis for the participation of the Länder in EC-related decision making, which means a substantial improvement for them, there are still voices demanding the amendment of Article 24 Basic Law. They take up demands already forwarded by the Enquete-Commission of the Bundestag on Reform of the Basic Law in the mid-1970s, according to which the transfer of sovereign powers to international institutions should only be possible "via law which would require the consent of the Bundesrat".

The Federal Government refuses to accept such a clause, since this provision would limit its freedom of manoeuvre in EC-institutions considerably. Whereas all Länder had supported the demand for a solution which had been formulated in Art. 2 Ratifica-

tion Act, it is doubtful that a sufficient majority would be backing a much further going initiative towards amending the constitution.

3. Claims of Länder Parliaments for more Participation in EC related decision making

Greater, better and more efficient participation of the Länder in decision-making on EC matters according the new formula of Article 2 SEA Ratification Act will in practice mean participation of Länder governments via Bundesrat. The Länder parliaments are anxious not to loose additional ground towards their respective governments and have proposed in November 1986 the following arrangements:

- A duty on the part of the Land government to inform the Land parliament about Community projects "which might be of interest to the Land".
- "Before stating its Opinion in the Bundesrat on Community projects in which all or individual provisions come under the exclusive legislative responsibility of the Länder or fundamentally affect their interests the Land government shall give the Land parliament an opportunity within a reasonable period of time to state its opinion. A special procedure should be created to deal with urgent cases."
- In the case of deviations the Land government shall inform the Land parliament of the primary reasons.

If such a procedure would be introduced, the national decision-making process in EC affairs would become necessarily more complicated and time-consuming which might worsen the negotiation position of the Federal Government if she were responsible for delaying the work of Community institutions.

4. The "Europe-Ability" of the Länder.

The new Länder rights of participation imply a greater workload for them. They are not only expected to contribute to the formulation of Bundesrat Opinions but also to observe certain deadlines. If the Länder intend to make proper use of their new and extended rights of participation, they will have to invest into their personnel resources and organizational capabilities. They

need more expert knowledge in EC affairs including the "rules" of the (bargaining) game in EC institutions. This would apply to Länder parliaments as well. The Länder (governments) must develop ways and procedures for coordinating their positions within due time since the Bundesrat Opinion expresses a majority point of view. Each government will be confronted with the task of coordinating adequately interests and positions of different ministries - a complicated task as can be seen from the performance within the Federal Government in Bonn.

5. The EC policy making manoeuvrability of the Federal Government.

The primary concern of the Federal Government in all discussions on Länder participation has been and still is to ensure a maximum of manoeuvrability in EC decision-making. The before mentioned 4 points indicate where there might be dangers. In accordance with the principle of federal loyalty ("Bundestreue") both sides - Federal Government and the Länder - will have to make efforts to avoid difficulties. Demands towards the Länder have already been mentioned under the heading "Europe-Ability" ("Europafähigkeit"). As concerns the Federal Government there are good reasons to repeat the recommendation or even demand for the appointment of one of its members - with cabinet status - who should have the responsibility for better coordinating between the different ministries and, in addition, between the Federal Government and the Bundesrat.

V. Conclusion and Outlook

The new form of Länder participation in the EC-related decision-making process is another challenge and test to the federalist system of the FRG. Against the previous experience since 1949 with the actual behaviour of Federal Government and Länder one may expect that the future practice will correspond to the needs of trustful mutual cooperation, the determinant and feature of a sound and working federal structure. If so, this could have a positive effect on the future development of the EC. Integration progress will be increasingly more dependent on principles which belong to the very substance of a federalist system (which has nothing to do with the formal acceptance of a federal structure

in constitutional terms): mutual trust and loyalty, the "Subsidiaritätsprinzip", cooperation and the willingness to seek a balance of interests.

Greater engagement of the Länder in EC affairs might complicate the decision-making process; it offers, on the other hand, the chance for EC policies and the EC integration process to be more firmly rooted in the "grassroots" and to generate and receive more positive response and acceptance amongst the public.

Finally, one should not forget the slogan "Europe of the Regions" which points - from a functional point of view - to the need and demand that territorial units at subnational level deserve greater attention and that their potential be better exploited. This does apply to the nation state (cf. processes of decentralization and regionalist tendencies) but it should be carefully considered within the EC system as well.

Bibliographical Note

This article is based on the following publications of the author and parts of the article are taken from these publications:

Rudolf Hrbek: Doppelte Politikverflechtung: Deutscher Föderalismus und europäische Integration. Die deutschen Länder im EG-Entscheidungsprozeß. In: Rudolf Hrbek/Uwe Thaysen (Hrsg.): Die deutschen Länder und die Europäischen Gemeinschaften. Baden-Baden 1986, S. 17-36.

Rudolf Hrbek: Die deutschen Länder in der EG-Politik. In: Außenpolitik 2/1987, S. 120-132. (An English version "The German Länder and the European Community" has been publ. in: Außenpolitik. German Foreign Affairs Review 2/87, pp. 120-133).

The following titles give the reader further and deepened information and arguments:

Rudolf Hrbek//Uwe Thaysen (Hrsg.): Die deutschen Länder und die Europäischen Gemeinschaften. Baden-Baden 1986. This volume contains contributions and discussions at a symposium of the Deutsche Vereinigung für Parlamentsfragen in June 1986 in Stuttgart. Representatives of the Federal Government and the Bundestag, of the Länder and of EC-institutions present their positions. The volume includes a collection of documents related to the problem covering the period till the end of 1986.

Georg Ress: Die Europäischen Gemeinschaften und der deutsche Föderalismus. In: Europäische Grundrechte-Zeitschrift 1986, S. 549-558.

Georg Ress: Das deutsche Zustimmungsgesetz zur Einheitlichen Europäischen Akte - ein Schritt zur "Föderalisierung" der Europa-Politik. In: Europäische Grundrechte-Zeitschrift 1987, S. 361-367.

This two articles do comment on the problem from a European Law-point of view.

Stefan Schmidt-Meinecke: Bundesländer und Europäische Gemeinschaft. Entwicklung und Stand der Länderbeteiligung im Europäischen Einigungsprozeß. Speyerer Forschungsberichte 59. Forschungsinstitut für Öffentliche Verwaltung bei der Hochschule für Verwaltungswissenschaften Speyer, 1987.

This seems to be the most recent publication giving, besides a descriptive analysis, some detail information on the information bureaus of the Länder.

THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
CONTINUITY AND CHANGE

5-6-7 November 1987

THE MAIN PROBLEMS ON THE EC AGENDA : AN INSIDER'S VIEW

Report by

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QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO AFFARI INTERNAZIONALI

- 1) The Community received new impulses from the Single European Act. The internal market, i.e. free circulation of persons, goods, services and capital, shall be achieved by 1992. Parallely the economic and social cohesion shall be promoted by structural policies, greater convergence of economic and monetary policies shall be enhanced, the scientific and technological basis of European industry shall be strengthened and a common environmental policy shall be developed.

- 2) The Commission submitted proposals for achieving these objectives:
 - In accordance with its white book on the internal market it continuously seizes the Council with proposals of directives in all relevant fields.

 - It has also worked out proposals concerning the free circulation of capital, one of which has already been accepted by the Council.

 - It proposed a framework programme for research and technological development for the years 1987 to 1992 which has passed the Council in september.

 - It submitted the comprehensive proposal foreseen in Art. 130 D of the (amended) Treaty for the reform of the Structural Funds.

- 3) The implementation of these objectives will not only depend on finding within the Council the necessary consensus or majority in each particular case, but also

on the overall situation of the Community, particularly in the budgetary field. The Community, having reached the ceiling of its own financial resources and being unable to cover the expenditures deemed necessary in 1988, has to tackle a set of problems which are interlinked and considered to be interdependent.

4) This set of problems is the object of the "Delors Package" proposed in February 1987 and being discussed within the Council since March. This discussion has led to certain conclusions at the European Council in June and has been intensified in the last weeks with a view to obtaining major results at the European Council in Copenhagen in December.

5) The work on the internal market going on and the framework research programme being decided, the main elements of the package on the table are the following:

- the reform of the agricultural policy, given that expenditures in this field depend to a considerable degree on external factors and claim nearly 70% of the Community's budget,
- budget discipline and management aiming at more efficient use of disposable financial means and containing agricultural expenditure within certain limits,
- provision of additional financial resources in combination with restructuring the Community's system of own resources,
- the reform of the structural funds.

6) These elements are interconnected, partly by objective factors, partly for political reasons. Interdependencies exist between

- agricultural reform, budgetary discipline and the need for new resources,
- structural funds, new resources, budget discipline and management, given the political link established by Southern member states between the achievement of the internal market and economic and social cohesion,
- new resources and budget discipline.

- 7) Regarding agriculture, the discussion centers around stabilisators with different designs according to the particularities of different groups of products. While milk, sugar, fruits and vegetables are less of a problem, cereals present major difficulties. Discussion takes place in an ad hoc group of high officials and in the Council of Agricultural Ministers.
- 8) The discussion on budget discipline has been narrowed down to the issues of annual subceilings for financial resources, an interinstitutional agreement between the Commission, the Council and the EP, the application of the discipline to agriculture, the maximum rate of increase for non-compulsory expenditures and the reinforcement of budgetary management. It took place in COREPER and the General Affairs Council.
- 9) With respect to new resources, the main issues are:
 - the overall ceiling of 1.4% of the GNP
 - annual subceilings
 - the ways and means to take greater account of the relative prosperity of member states,
 - the inclusion of further traditional resources,

- the comparability and uniformity of national GNP-statistics.

It was also COREPER and the General Affairs Council which were seized with these questions.

10) Regarding the structural funds, the discussion was concentrated on three questions:

- geographical concentration, in particular of the regional fund,
- the balance between the comprehensive regulation proposed by the Commission and implementation regulations,
- the allocation of financing among member states.

These questions, too, were discussed in COREPER and the General Affairs Council.

11) There remain a few main issues which have not been discussed yet, because it was found that their delicacy requires treatment by the European Council which will anyway have to deal with those problems not solved at the level of Ministerial Councils. These issues are:

- the exact increase of financial means for the structural funds,
- the budgetary compensation for Great Britain and its financing.

12) It is not surprising that on all the issues mentioned national administrations took and take differing views, those views depending on administrative preferences or

calculated interests. It is the task of the Presidency to try to narrow down these differences. In spite of the Presidency's efforts there remain two distinct main currents of positions:

- the Southern countries who want to increase the role of structural funds for the benefit of their poorer regions and therefore plead for a substantial increase not only of the global amount for structural funds but also of the own resources of the Community, combined with containment of expenditure for northern agricultural products,
- the Northern countries who are in favor of stricter budget discipline and management, are against the doubling of the structural funds as proposed by the Commission and take a more reluctant attitude towards the increase of own resources proposed by the Commission.

- 13) If the European Council in Copenhagen succeeds to tackle the main problems, it is up to the German Presidency to translate these guidelines into formal decisions, i.e. regulations and Council decisions. If Copenhagen brings no or little results, the German Presidency has to continue the clearing and consensus building process.

THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
CONTINUITY AND CHANGE

5-6-7 November 1987

PREPARING THE NINETIES : ANALYSIS AND STRATEGIES

Report by

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QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO AFFARI INTERNAZIONALI

Introduction: Growing Interdependence and Vulnerability

Neither last year's rosy expectations of another strong performance in 1987 nor the widely discussed fears of an imminent world-wide recession are going to be confirmed by the economic statistics and the revised forecasts for the coming year. The present performance of Germany's economy and of most other European countries seems to offer the prospect of slow progress after successful emergence from a painful disinflationary process. The recent slow-down of economic activity observed in late 1986 and early 1987 is believed to be over and growth picking up again.

The adjustment process in the 1980s was led by Germany, proud of her strong industrial base and currency, high current account surpluses and low (even zero) inflation. She dominates the economies of the European Community, accounting now for 27 % of GDP in the EC of Twelve and for 24 % of the total intra-Community trade. Her economic policies have strong spill-over effects on her neighbours which export a large part of their output to the German market. Rising real demand of the German economy guarantees sustained growth in most other EC-countries. Low inflation rates in Germany exercise disciplinary pressures via the EMS on the participant countries. At the same time Germany needs the buoyancy of the rest of the Community into which she exports 55 % of her total exports. In addition, Germany's economy and currency is exposed to vagaries and shocks from outside the Community which she can barely stave off.

The increased European integration has thus strengthened the macro-economic interdependence of Germany, but the growing internationalization of trade and capital markets has made her more vulnerable vis-à-vis external shocks, exchange rate instabilities and protectionist pressures. Nevertheless, the recent progress in overcoming the external disturbances and the immediate outlook has led to a dangerous complacency about the future. It is to be feared that the crisis threatened by the serious international imbalances will be a severe test not only of the cohesion of the Community but also of political and economic leadership.

Initial Conditions and Short-term Forecasts 1987/88

The upswing of economic activity which started in late 1982 enters its sixth year and appears to compensate by its unexpected length what it lacked in strength. Yet the growth performance of the period from 1982 to 1987 (average annual real GDP growth: 2.2 %) was poor in relation to the U.S.A. and Japan (see table 2) although the conditions have been favourable, especially in the recent years (export boom in 1984-85 and falling oil and raw material prices). From 1980 to 1987 the inflation rate came down drastically (in Germany from 6 % to 0.5 % and for the EC average from 13.5 % to almost 3 %). The weak rise of real wages was accompanied by a marked improvement in profits and Germany also made substantial progress in reducing the public deficit. Despite all these achievements the growth performance of Germany and the Community has not been sufficient to reduce high unemployment which stands now at 8 % and nearly 12 % respectively of the total labour force (see table 1).

Germany is faced with a second major imbalance: persistent current external surpluses which reached 4 % of GDP in 1986. Both problems, high unemployment due to a lack of employment creation and external surpluses, seem to reflect insufficient

real capital formation in Germany where national savings remained high. There has been a continued relative decline in new investment and in construction and a rapid ageing of the capital stock resulting in a deceleration of the growth in productive potential (see OECD 1987).

The most recent outlook does not hold out the prospect of an improvement in the sub-potential economic growth in Germany (and many other EC-countries). The EC-Commission - as well as the OECD and the IFO-Institute - forecasted (in September 1987) a real GDP growth of the German economy in 1987 of about 1.5 % and below 2 % in 1988, whereas the German government expects an overall growth of 2 % and 2.5 % respectively based mainly on a strong rise of private consumption. The unemployment rate in 1988 will, neither for Germany nor for the EC, show any improvement (see table 3).

Medium-term Prospects and International Adjustment Requirements

Based on improved economic and financial conditions in Germany and the policies pursued the government has presented new medium-term projections for 1986-91 which reveal a real annual GDP growth rate of 2.5 %, a low inflation rate of 1.5 % and a reduction of the unemployment rate to 6 % in 1991 due to a (surprising) rise in employment. The government argues that a real growth rate lower than 2.5 % would aggravate the difficulties in reducing unemployment. The services of the EC-Commission have projected similar results for the Community's real GDP growth accompanied by a more modest improvement in unemployment (see table 3).

It is to be feared that the crucial assumption, used also in these short- and medium-term forecasts of an undisturbed international environment, will not hold true. The inconsistencies are already apparent in the expected improvements for 1988. In 1987 real domestic demand should increase by 2.5 % (EC: 3.2 %) and higher real net imports should contribute to international

adjustment but reduce real GDP growth (by one percentage point). In most short-term forecasts for 1988 the improvement in overall growth is expected to come from a better export performance resulting in a smaller (negative) real foreign balance of Germany compared to 1986 and 1987. The same pattern is forecasted for the EC as a whole and Japan (see table 2).

This assumed adjustment path and the underlying exchange rates are not consistent with the need to eliminate the huge and unsustainable external imbalances built up since 1981. Not only the U.S. policy makers but also the international capital markets expect a high and sustained shift in the surplus countries toward a domestic demand-led growth and an export drive by the U.S.A. The strategy of the Louvre Accord of February 1987 has been defended until now by massive central bank interventions (amounting to 90 billion \$). The Louvre Accord, permitting the stabilization of the three key currencies and buying time for restructuring the international trade flows, will only remain credible for the private capital markets if the severe international imbalances are being reduced steadily. A further and steep fall of the US dollar would make the present economic prospects for Europe rapidly obsolete and would hit the German economy first. Exports would stagnate or fall again and deteriorate the investment climate. Will a much more sombre scenario become true for "the reasons why, on present policies, a hard landing has become inevitable for the dollar and the world economy" (Marris 1987), leading finally to a general recession? And why are the macro-economic policies pursued in the important industrial countries not satisfactory?

Monetary and Fiscal Policies: Inconsistent International
Coordination?

There is now widespread agreement that a soft landing and a recession-free adjustment of the existing budgetary and external deficits of the U.S.A. requires increased policy coordination in the coming years. The popular argument in the international policy debate stresses the need of the deficit country to save more (by reducing the budget deficit) and of the surplus countries to consume more (by cutting taxes) thus reversing the policy mix between the United States and Japan and Europe of the first half of the 1980s.

The main lines of the present macro-economic policy stance in the important industrial countries can be summed up as follows:

- the monetary policy in the U.S., Japan and Germany has been eased substantially, which has led to some fears of inflationary pressure later and which will perhaps trigger off further tightening as already started in the United States;
- the reduction of the large U.S. budget deficit, seen as the crucial condition for halting the rapid accumulation of the external debt load in the U.S.A. (approaching 400 billion \$ at the end of 1987), has happened in 1986/87 almost by accident, but rising deficits are being projected if no further policy measures are taken, the prospects for which are dim until after the November 1988 elections;
- the fiscal policies in Europe during the 1980s have been restrictive and directed towards fiscal consolidation; the efforts to reduce the high budgetary deficits (such as in Italy, Ireland, Belgium or Greece) will continue; only Germany will reverse the downtrend in 1988 with the execution of some tax cuts (partly planned before, partly brought forward: 11 billion DM) and will implement a tax reform in 1990 (net effect: 20 billion DM) for which the much debated financing measures have just been decided.

International institutions remain skeptical, however, whether the reversal of fiscal policies in the United States, Europe and Japan and the existing exchange rates will be enough to reduce the imbalances to sustainable levels. American observers are arguing in favour of a further fall of the US dollar by 10-15 % in the next future and by 30 % until 1992. MIT Professor Rudi Dornbusch has spoken out bluntly what most Americans only think: "Europe will pay the price for its obdurate economic policy in the last few years, the price for too restrictive fiscal policy and for too high real interest rates ... yet when faced with the steamroller of continued strong dollar depreciation the Federal Republic will have to move. Interest rates will fall and taxes will be lowered" (Wirtschaftswoche 1987).

The present policy debate indicates the limits and difficulties of international coordination and concerted action (Wegner 1987) which we also face in the Community. As long as the U.S. efforts in reducing the obstinate budget deficit are not strong and credible enough so long will the German government see no point in risking larger deficits and doubtful expansionary programmes.

A European Strategy: The Way Forward

It appears that under present circumstances a replay of an internationally concerted fiscal programme - à la Bonn 1978 - to boost domestic demand in Europe and notably in Germany temporarily will have little chance. The influential German Council of Economic Experts and the majority of German policy makers do not believe any more in the efficiency of Keynesian fiscal programmes and in fine-tuning economic policies. With the exception of the small concessions in the Louvre Accord the German government has repeatedly refused to enlarge the fiscal stimulus by advancing the planned tax reform in 1990.

She is firmly set on a steady course of strengthening the growth and employment conditions by supply-oriented policies. Supplementary fiscal measures are also impeded by the federal structure of Germany (most Länder governments opposing tax cuts because of revenue losses). The debate is further blurred by the arguments of trade unions favouring public investment and employment programmes instead of tax cuts.

The expansionary monetary course of the Bundesbank has probably gone about far enough and has been criticized by the German media and public which seem "haunted again by inflation angst" as foreign observers have described it. But it should be understood that neither the Bundesbank nor the German Finance Minister would want to risk losing their reputation and credibility painfully achieved in the last years.

Despite all international and domestic constraints Germany and the Community can not wait until the international adjustment and internal unemployment problems are "solved" by erratic overreaction in capital and exchange rate markets or by the sheer passage of time. The main impetus for reviving the growth dynamics and adjustment capacities of the German and European economies has to be found within the Community context. There has rarely been a better moment for more convergent policies within the Community than present. For the first time since the early 1970s there exists a basic consensus both on the priority of price stability and on the need to reverse the structural rigidities accumulated in the last twenty years. The crucial changes in the stability standards of other member countries are often not taken seriously in Germany - a dangerous arrogance (Pöhl 1987).

The components for a Community medium-term oriented policy approach are all available and will shape the future of Europe if the different parts would come together and thus generate forceful synergies in their effects on stability, growth and employment.

This three-pronged approach consists in

- strengthening and enlarging the European Monetary System which functions successfully since 1979,
- implementing the cooperative employment oriented growth strategy proposed by the Commission in 1985 and 1986, and
- realizing the ambitious plan to complete the internal market in 1992 by a Community wide liberalisation programme which abolishes all still existing barriers and internal borders for goods, services and capital flows.

The EMS has reduced the volatility of exchange rates in strongly integrated markets and contributed to the convergence of economic policies and performance in the 1980s. The results achieved confounded the initial skeptical views of most German economists, including the Bundesbank, which only reluctantly conceded some improvements. The EMS is still a voluntary and fragile arrangement based on the mutual benefits recognized by its members. More progress will be necessary and possible by including the United Kingdom in the intervention mechanism, by abolishing capital market controls, by strengthening the monetary cooperation and by promoting the official and private use of the ECU (see Padoa-Schioppa Report 1987).

Even more important could be the creation of the large internal market in a "Community without frontiers". Abolishing border controls, administrative obstacles, technical barriers and distortions originating in taxes and subsidies could produce a positive supply shock and lead to strong growth effects estimated at 3-5 % of GDP. But these efficiency and competitive gains and cost reductions will only be realized fully, if the planned actions are not delayed and blunted by national lobbies and bureaucracies. Significant progress in the decision-making process at Community levels will not be possible without a forceful and obstinate pace-maker pushing, persuading and cajoling the reluctant member states. Who else could play this leadership role than the Federal Republic of Germany which would probably gain most from a large unified market in Europe?

At present there seems to be a deadlock over macro-economic policies. Thus, Germany has perhaps no choice but the micro-economic liberalisation programme of completing the internal market, if she wants to revive the dynamics of her economy. Germany would serve her own cause by promoting further steps towards a united Europe. Unfortunately the policy debate about the internal market and its repercussions has touched only marginally the private sector and the wide public in Germany.

In the policy debates over the last few years many attitudes have changed after having seemed to be hopelessly stuck before. In a troubled world abounding with instabilities and conflicts the European Community needs strong leadership, predictable and consistent policies and the courage to give up well-established national positions. The Federal Republic of Germany, if only in her own interest, has to take up a large part of the European challenge.

October 15, 1987

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Table 1: Federal Republic of Germany

KEY INDICATORS OF ECONOMIC PERFORMANCE, 1973-88

	1974-80	1981-86	1981	1982	1983	1984	1985	1986	Forecast (6)	
									1987	1988
Gross domestic product										
nominal	7.1	4.7	4.2	3.7	4.8	4.7	4.9	5.7	3.3	3.7
real	2.2	1.5	0.2	-0.6	1.5	2.7	2.6	2.6	1.4	1.9
Employment	-0.3	-0.3	-0.7	-1.7	-1.5	0.1	0.7	1.0	0.6	0.3
Unemployment rate (1)	3.6	7.5	4.8	6.9	8.4	8.4	8.4	8.1	8.1	8.3
Private consumption deflator	4.9	3.8	6.0	4.7	3.2	2.4	2.1	-0.5	0.6	1.8
Compensation of employees per head										
nominal	7.4	3.9	5.2	4.2	3.8	3.4	3.0	3.9	3.3	2.9
real (2)	2.4	0.9	-0.8	-0.5	0.6	1.0	0.9	4.4	2.6	1.1
Real unit labour costs (3)	0.0	-0.0	0.3	-1.2	-2.5	-1.2	-1.1	-1.0	0.6	-0.5
Current balance (4)	1.0	1.3	-0.7	0.5	0.6	1.1	2.4	4.1	3.7	3.2
Government net lending (4) (5)	-2.9	-2.3	-3.7	-3.3	-2.5	-1.9	-1.1	-1.2	-1.6	-2.0
Money supply (M3) (end of year)	8.5	5.1	5.0	7.1	5.3	4.7	5.0	6.6	6.5	6.3
Long-term interest rate	7.8	8.0	10.4	9.0	7.9	7.8	6.9	5.9	5.7	5.7

(1) In % of the civilian labour force (Eurostat definition).

(2) Deflated by private consumption deflator.

(3) Ratio of real wages (deflated by GDP prices) per head to labour productivity.

(4) In % of GDP.

(5) Net lending (+) or borrowing (-) of general government.

(6) Commission services, September 1987.

Source: Eurostat and EC-Commission services.

Table 2: CONTRIBUTIONS TO REAL GDP GROWTH (in percentage points at 1982 prices)
AND EMPLOYMENT GROWTH

in 1982 prices	Real domestic demand (1)	Real foreign balances (2)	Real GDP (1) + (2)	Employment
<u>United States</u>				
1973-79	2.4	0.2	2.6	2.5
1979-82	-0.5	0.2	-0.3	0.2
1982-86	5.4	-1.3	4.1	2.4
1986	3.9	-1.0	2.9	2.3
1987 a)	1.7	0.6	2.3	2.5
1988 a)	2.0	0.7	2.7	1.9
<u>Japan</u>				
1973-79	3.2	0.4	3.6	0.7
1979-82	1.9	1.8	3.7	1.0
1982-86	3.2	0.7	3.9	0.9
1986	3.9	-1.4	2.5	0.8
1987 a)	3.7	-0.8	2.9	0.5
1988 a)	4.0	-0.5	3.5	0.5
<u>EC (12)</u>				
1973-79	2.2	0.2	2.4	0.1
1979-82	0.1	0.6	0.7	-0.6
1982-86	2.2	0	2.2	0.2
1986	3.8	-1.2	2.6	0.8
1987 a)	3.2	-1.0	2.2	0.8
1988 a)	2.7	-0.4	2.3	0.6
<u>FR Germany</u>				
1973-79	2.5	-0.1	2.4	-0.6
1979-82	-1.2	1.4	0.2	-0.4
1982-86	2.2	0.2	2.4	0.1
1986	3.5	-1.0	2.5	1.0
1987 a)	2.5	-1.1	1.4	0.6
1988 a)	2.2	-0.3	1.9	0.3

a) 1987 and 1988: forecasts of EC-Commission, Sept. 1987.

Sources: OECD, Quarterly National Accounts, No. 2, Paris 1987;
OECD Labour Force Statistics 1965-85, Quarterly Labour Force
Statistics No. 1, 1987

Table 3:

MEDIUM-TERM PROJECTIONS, 1986-91

	Federal Republic of Germany			European Community (12)		
	1987	1988	1986-91	1987	1988	1986-91
Real GDP	1.4	1.9	3.5	2.2	2.3	2.5
Employment	0.6	0.3	1	0.8	0.6	0.7
Unemployment (1)	8.1	8.3	6	11.8	11.7	10.6
Inflation rate (2)	0.7	1.8	1.5	3.2	3.4	3.4
Government net borrowing (3)(4)	-1.6	-2.0	n.a.	-4.5	-4.5	-4.1
Compensation per head	3.3	2.9	3.5	5.4	4.7	5.0
Real unit labour costs (5)	0.6	-0.5	-1.1	-0.2	-0.6	-0.3

- (1) In % of total labour force (end of period).
(2) Deflator of private consumption.
(3) General government.
(4) In % of GDP.
(5) Real labour costs (deflated by GDP prices) per employee divided by real GDP per person employed.

Sources: 1987 and 1988, EC-Commission, Annual Economic Report 1987/88
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THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
CONTINUITY AND CHANGE

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ASSESSING GERMAN ECONOMIC GAINS FROM THE COMMON MARKET :
A METHODOLOGICAL NOTE

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QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO AFFARI INTERNAZIONALI

"It has proved impossible so far to demonstrate conclusively the quantitative effect of EEC membership on foreign trade, much less on growth and the level of welfare in the Community or of individual partner countries."

(Prof. Fritz Franzmeyer) (1)

1. Introduction

1.1. The "benefits": separating the political from the economic

The "paymaster of Europe" debate launched by Helmut Schmidt in the mid-seventies reduced the cost/benefit analysis to an amazingly simple equation, setting the net German transfer against benefits which were largely conceived in general political terms. In this note we want to examine above all the possibilities to measure, objectively, the economic benefits from membership; but also enlarge the notion of "costs" to economic elements other than the budget.

The Federal Republic transfers about 0.4% of GNP (2) annually to other Member States. Germans generally accept this, grudgingly, as a price to pay for the political benefits of membership. Whatever the merits of this argument, it is probably felt that these political benefits were greater in the post-post-war period which ended with the Brandt era - when Germany paid only some DM 400 Million net - than in the mid-eighties when the net payment is tending towards twenty times that figure. At the very least, the political benefits are not twenty times as large. The question of the political benefits of membership are explored elsewhere in this study, notably in chapters 1 and 4. Our historical comparison serves

merely to demonstrate the absurdity of the equation transfer = political benefits.

Since few references will be made to the budget in what follows, it is worth pointing out that gross transfers to the EC budget represented some 4% of all tax receipts (in 1985 5.3 billion DM in customs, and 9.8 billion in VAT share = 15 billion of a total of 375 billion) (3), it represents a much larger share - some 9% - 10% in central government expenditures. Since fiscal policy - as Helmut Schmidt kept repeating during the "locomotive debate" - is largely limited to the central government share, the EC looms relatively larger in the eyes of the Finance Minister, and of the politicians fighting for a share of his budget, than in more centrally governed countries.

1.1.1. Solidarity

To a federal country, with a (carefully monitored and quantified) intra-Länder "Finanzausgleich", the notion of financial "equalisation" (= solidarity) in the form of "progressive taxation" and fiscal transfers from one geographic/political unit to another (which is quite different from regional policy) is a familiar one. In Germany, however, this Finanzausgleich is more or less coupled to per capita output - a principle which does not apply in the Community.

Nevertheless, since Germans perceive themselves (wrongly on a per capita basis) as the richest country in the Community, the notion of some net contribution is widely perceived as reasonable under some vaguely held notion of equity - even if the beneficiaries of the transfer (Danes etc.) do not fit such a model. But the lack of a deeper political purpose (other than in the above mentioned sense of "paying for membership") of most of the transfers, i.e. those

caused by the CAP, tend to give these payments the character of a "burden".

In other words, the Community has not yet the political maturity to develop an explicit moral, or at least political, content of the notion of equity. Such a political (in economic, not foreign policy terms) content could, for instance, be the notion of a collective European interest in, and hence responsibility for, the stability and wellbeing of European society. Since such a notion hardly underlies the current common agricultural policy, there is a less than generous attitude for those marginal transfers (regional policy, etc.) which could be said to serve such deeper political purposes. Moreover, even here, the fact that regional transfer payments have, of late, been extorted by veto-wielding Members has tended to erode the solidarity content of transfers.

The recent reform of the terms of the EDF, which requires a large part of spending to serve "other" Community policies, could of course introduce a genuine political element at least into this part of the transfer "problem". But not only are these amounts dwarfed by the CAP-related transfers; the "other" Community goals, like technology upgrading, telecommunications modernisation (STAR), or energy independence, are seen merely as sensible criteria for spending money. The notion that the national interest is truly linked to collective Community interests and policies is a minority view held by a committed few.

To sum up, petty calculations of costs and benefits will become irrelevant (and be replaced by a British-type argument of fiscal equity on a capacity-to-pay basis which exists also among the German Länder) to the extent that the socio-economic purposes of the Community become more sharply defined and more

generally accepted. In the meantime the debate can at least be enlarged to include broader economic criteria than the budget.

1.1.2 Value for money

As we have stated, most German analysis of the costs and benefits of membership come to a positive evaluation only by putting the political benefits on the scale. A purely economic analysis, which is quite common in France, Italy, or Great Britain, is strangely absent in German literature and public debate. The question can be put in three different ways:

- is the overall benefit so large that a contribution of 0.4% of GNP is worth it?
- or, has Germany gained so disproportionally from the regulatory arrangements (trade etc.) of the Common Market that a fiscal compensation is justified?
- or do the economic costs and benefits of membership balance irrespective of the budgetary contribution?

How can these statements be verified (or more modestly, their plausibility analysed)? This is the main subject of this methodological note.

While this chapter is concerned with clarifying possible approaches (methods) to a cost/benefit analysis, some answers are given, either in quantitative terms (see also above) or in the form of a qualitative assessment. These should be considered as hypotheses even if not explicitly qualified as such.

2. Summarising general economic benefits and costs of membership

One reason for the general practice of off-setting the budgetary cost of the EEC with political benefits is the widespread perception that the overall economic effects of the EEC are at best a fine balance between plusses and minusses.

Moreover, a simple listing of some of the economic benefits ascribed in the literature to the EEC already reveals the difficulty of overall measurement, not to speak of detecting (unequal) shares of such benefits. It is claimed that

- the EC having liberalised a part of the trade of its members, has yielded static and dynamic welfare gains;(4)
- the EC has contributed significantly to overall world (GATT) liberalisation: again the static and dynamic gains from trade;
- the Common Market encourages investment, hence growth, through reducing market risks for enterprises;
- the EC/EMS has reduced the costs and risk of exchange rate instability in Europe, and improved the bargaining position on monetary affairs vis-à-vis America;
- the EC/EMS has encouraged macro-economic convergence towards best practice, i.e. reduced inflationary risks;
- the EEC has succeeded in establishing stable, post-colonial relations with Africa and secured raw-material supplies.

Moreover, the EEC is said to have yielded certain kinds of economic benefits exclusively or predominantly to Germany:

- membership in the EEC has facilitated an export-led growth strategy (first through trade liberalisation as such, then through EMS-induced undervaluation) of the Mark;
- membership has allowed structural specialisation with higher growth and technology spin-offs (investment goods) vis-à-vis its partners;
- it has permitted protectionist rents to German industry which always accrue to the most efficient in a customs union;
- it helped to improve the macro-economic environment (EMS) in ways which particularly matter to Germany, notably through improved protection from imported inflation (foreign prices and demand);
- it helped to protect the DM from dollar speculation (EMS), hence yielding export-promoting exchange rates and protection from inflation (in this case via expanding central bank money);
- it allowed Germany to pursue an excessively mercantilist agricultural policy (extreme undervaluation of the green DM, no control on national production subsidies), thus going back on the 1958 industry/agriculture bargain with France. (Most of the budget transfer can be explained by the direct and indirect effect (high price and production) of denying France its rightful markets, i.e. German-financed export subsidies and storage costs to French farmers can be seen as compensation for "cheating" on the original market-access deal).

In addition, one might cite some speculative future gains which will accrue particularly to Germany assuming a further development of the Community and/or certain policy areas:

- reducing pollution by concerted policies;
- reducing competitive disadvantages to German industry by common environmental standards;
- reducing competitive disadvantages by common labour laws (5th directive or substitute);
- the extension of German-model company law, equalising competitive conditions and removing a foreign direct investment disincentive;
- assuring an (independent) technological future.

(More examples of possible future gains are given under point 4 of this note.)

On the other hand, some Germans would list the following economic disadvantages derived from membership:

- (the budgetary transfer itself);
- trade diversion towards an area with second-rate competitors, reducing incentives for world-class performance;
- risk (or reality) of protectionism to accomodate the increasing number of economically weak Member States;
- third-world links biased towards the least dynamic

continent (Africa);

- "harmonisation vers le bas" in areas like environmental standards;
- threat of contagion by industrial dirigism (steel);
- threat of contagion by inflation (EMS);
- sub-optimal agricultural policies stemming from inherent flaws in Community decision-making (left to itself, Germany would have solved the distributional problem at lower real resource cost).

Many of these perceived "costs" of membership are in the very same areas where others see benefits. An exposition of the conflicting lines of reasoning and of the quantitative evidence could clarify but not conclusively settle the argument.

3. Truth and international economics

An investigation into the overall economic benefits of the EEC must take account of, inter alia, the way the Community has changed (improved) the economic environment. But one of the key (and potentially quantifiable) areas of investigation is trade. The following observations suffer the double fault of being academic and well known. But a methodological note on our subject cannot ignore what is a well-travelled but increasingly doubtful approach.

An objective assessment of the economic benefits of the EC ideally requires a generally accepted scientific model. But trade happens to be one of the most undeveloped areas of economics. Increasingly the profession has turned away from

measuring welfare effects as such and limits itself to explaining why trade flows occur.

We are offered the choice of two (families of) models to predict/measure the welfare gains from trade: one "static", potentially yielding precise, i.e. quantitative results; the other consisting of plausible guesses about "dynamic effects".

3.1. Static gains from trade

The static (equilibrium) approach requires heroic assumptions like

- no international factor mobility
- perfect product and factor markets
- full employment
- declining returns to scale

These assumptions are not just marginally violated by the real world but the exact opposite of reality.

At any rate, the highest estimates of welfare gains achieved by the formation of the Common Market are in the order of a once-for-all gain of 0.5% to 1% during the initial ten years (5) - hardly enough to justify the transfer of a similar sum annually twenty or thirty years later.

Moreover, the potential alternative, a transfer-less free-trade area, would have yielded much the same gain (see below on the problem of constructing an "anti-monde"). Moreover, justifying a transfer of 0.4% of GNP by a once-and-for all increase of GNP by, say 0.5% under the estimates generated by the classic trade models, is further complicated by the fact that these models generate, if anything, higher gains for those countries which had higher costs/lower efficiency prior

to liberalisation. Germany, under static assumptions, must have benefitted less in terms of improving internal factor allocation than, say, France.

3.2. Dynamic gains

As regards the "dynamic" welfare gains, these are essentially derived from

- economies of scale (the opposite of the "static" assumption of declining returns to scale), and
- efficiency-enhancing effects of competition (assumed to exist already in the static model).

These dynamic gains are often thought to be a multiple of the static welfare effects (6). But they cannot be measured except on a sector by sector, or even product by product basis. Even such estimates would be valid only for the technology existing at the moment of measurement, since any change in technology alters the economies of scale and the competitive conditions, notably barriers to entry.(7)

Even if measurement were possible (and generalised to yield meaningful macro-economic magnitudes), it is difficult to argue that Germany had more unrealised scale advantages than its partners: the opposite would be more plausible. The same is probably true for competition: the economies of partner countries were probably more inward looking and sheltered from competition than German industry. They can therefore be expected to have profited more from the "cold shower" supplied by Common Market membership.

Nota bene, these remarks apply only to manufacturing industry. As will be argued below, the story is quite different as regards services. But here the Community has

still to act.

3.3 "Structural advantages"

There is a third approach, hardly developed in the Anglo-saxon literature, but brought into especially the French-German context from a different field of academic enquiry: development economics. This - structuralist - approach starts from Ricardian assumptions about comparative advantage, but suggests that free trade - in this case between France and Germany - accentuates existing inequalities. (Ricardo's sun being replaced by historical *acquis*).

More specifically, Germany's initial strength in investment goods is assumed to lead to a specialisation which leaves to France the production of low-value added consumption goods with less dynamic market prospects. This intra-Community specialisation then carries over into extra-EEC trade, doubling Germany's initial advantage drawn from intra-EEC specialisation.

(This is the dynamic critique of Ricardo's static theory of allocative efficiency, pointing out that wine has fewer technological spin-offs, lower productivity reserves, and faces less elastic demand than textiles).

France, in this reading of events, had to compensate its lack of "natural" competitiveness (the ten to twenty year lag in industrialisation which developed in the first half of the twentieth century) in high value-added, growth inducing activities. It compensated these disadvantages through state-sponsored and subsidised production and exports of hi-tech military, aerospace, and nuclear products. Still in this reading of events, France is increasingly forced to share the fruits of its technical advance with Germany since the game is

becoming too expensive for the national exchequer. Apart from conventional nuclear plants, fighter planes are probably the last item where national viability in the "state-sponsored sector" exists, and even here the strains are telling.

As will be argued in chapter 4, this constellation of events represents a chance for Europe, provided Germany resists the temptation to "go it alone" once it has completed the technology transfer. In terms of the cost/benefit analysis attempted here, it is clear that Germany has benefitted all along the way, since it has both reaped the fruits of market-driven (mid-high) technology for decades while maintaining, through France, the option to buy into the state-sponsored end of high technology.

While French, and derivative German, studies exist documenting the structural specialisation on these lines (the Cambridge School has produced similar work for Britain), there is no method for proving a causal relationship with EEC membership (or even to trade as such), much less of measuring the German gain.

Writing in the structuralist tradition, one German analyst, Deubner, has carried out empirical (sectoral) case studies to support the view that Germany profited not (only) from intra-EC liberalisation as such, but from the interplay between internal liberalisation and external protection in the Common Market.(8) These studies go beyond illustrating the well-known phenomenon that protectionist rents go to the most efficient firms and countries, and hence increase the economic and technological dominance of the strongest in the protected zone because these rents serve to finance massive investments which rejuvenate capital stock and reduce costs. A prime example is the MFA (textiles), where German industry is one of the great beneficiaries of an EEC-sanctioned national

protectionism in, e.g. France.

Deubner makes a more subtle point. According to him, Germany has repeatedly turned around existing competitive disadvantages, notably vis-à-vis France, which were due to high costs or technological deficiencies, by using EC negotiating power to force external suppliers to furnish low-cost inputs: either off-shore labour, e.g. in the form of components, or "farming out" labour intensive steps in producing, e.g. textiles; or technology, where EEC protection forces (Japanese and other) holders of technology to sell their know-how rather than export whole products.

4. Benefit in terms of what?

The further we move away from classical economics, the more we meet another methodological difficulty: the welfare function of individual Member States, assumed to be identical, begins to include divergent elements like the environment, technological independence, etc. This somewhat abstract point becomes relevant if we assume (as will be argued in chapter 4) that Germany's goal structure (and hence subjective welfare function) is shifting towards a French model as regards technology, while becoming more excentrically national as regards the environment.

4.1 Constructing an "anti-monde"

One further difficulty of any ex-post cost/benefit analysis of membership in the European Community is that, ideally, a parallel cost/benefit analysis for the alternative(s) is needed for comparison. In constructing an "anti-monde", two variants are possible:

- imagining how the world would have developed without the

EEC;

- imagining how the world would look if, today, the Community experiment were abandoned.

As regards the former, we have at least an historically "real" alternative to start with, i.e. a European free trade area without a common external tariff, common policies, and a tiny administrative budget. Moreover, the contemporary viability of this model is tested in the EEC-EFTA free-trade arrangements. However, it could probably be shown

- that the success of this arrangement depends on core management functions being discharged by the EEC;
- that the larger countries of the EEC, with more viable home markets, would have maintained higher levels of protection than the small open economies of the peripheral countries;
- that the GATT system would have collapsed or yielded few results without joint EEC/US leadership
- that the present EFTA members have largely aligned their external tariffs to those of the EEC, which would have been impossible without the existing EEC. Rules-of-origin problems would have been much greater as a result

to mention but a few elements.

The case of "what might have been" gets more complicated if we imagine, instead of a mere free trade area, more structured responses to the presumed non-existence of the EEC. One such response, which exists in a fairly low-profile form even in the present context of a functioning Community, would have been a German-centred system of bi-lateral and group relations: a D-Mark zone; close economic cooperation (on the US/Canada model) between Germany and the Alpine republics, technological cooperation with France (?), etc. Some of the

lack of "common policies", moreover, would have been compensated by and through the OECD (or OEEC) and the BIS which anyway, until recently, mattered a great deal more than the EEC in macro-economic management (as did the OECD, arguably, in such diverse areas as shipbuilding and development aid (DAC)).

(This kind of analysis has led this author to argue that the Community has not really been an economic "essential" in its first thirty years, and that its hour has only come now that the issues of technological and macro-economic autonomy for Europe have become of vital importance.)

Imagining a further "anti-monde" : a reduction of the present EEC to a formula without common policies and budgets is probably a sterile exercise, since irrespective of whether the EEC has yielded significant welfare gains in the past, enormous welfare losses (and even greater political losses) would be associated with its demise.

What seems more promising, but takes us outside the strict anti-monde approach, is to compare a status-quo EEC with a possible future EEC, i.e. one which has realised its twin ambitions of completing the internal market and creating a "technological community".

5. A future balance?

Measurements about the welfare effects of the Common Market tend to a) concentrate on goods, and b) assume that (ex-ante) protection takes the form of tariffs or equivalent non-tariff barriers. The project of completing the internal market, in this light, is seen as "more of the same", tidying up some loose ends left over from the 1958 programme. Instead, something much more radical is being attempted, which

may shift considerably the cost/benefit function of Member States, and notably Germany:

1. The liberalisation of services in the Community, especially if it is accompanied, which in practice it must be, by de-regulation even in purely domestic terms (cf. telecom and air transport), could arguably yield much greater efficiency gains than the original liberalisation of goods in the Common Market. Since service liberalisation would often imply a huge step from "autarchy" to trade, and from regulated to competitive markets, the analogy, if any, would not be with the post-1958 elimination of tariffs in the EEC, but with the initial OEEC liberalisation of the overregulated, autarchic European economies after 1948. (Strangely enough, DG III and DG II have only now initiated studies to evaluate the efficiency/welfare effects from this crucial part of the Internal Market agenda.)

2. Germany, with one of the most heavily regulated ground- and air transport, and banking and insurance sectors stands to gain more than most in a classic trade perspective (whose welfare gains derive essentially from imports and/or import competition); and it has perhaps most to lose in a mercantilist perspective (trade balance; adjustment costs). It is on these terms that the Commission should seek a much more fundamental political debate with Germany, rather than be forced to debate on the safeguarding of consumer interests (security, not price) which favour regulation and the status quo.

3. As regards privately traded industrial goods, the harmonisation of standards may lead the Community, on balance, to adopt more standards by the now commercially dominant standard-setter in Europe (DIN), increasing Germany's present advantages on Community markets in the short-term, but

removing present non-tariff protection in the longer term. Under the above assumption, but also because of the relatively high German rate of turnover in capital stock, adjustment costs due to the adoption of Community standards will be lower in Germany than in many other Member States. The standards-issue appears somewhat differently if "mutual recognition" is the main instrument of liberalisation.

4. To the extent public procurement is liberalised, Germany's predominant position in capital goods, and high-tech industries other than aero-space (where at any rate Comecon-style production sharing will continue to be the rule) would be re-inforced.

5. From an efficiency standpoint, "financial protectionism" (subsidies to manufacturing industries) is one of the most serious forms of protectionism remaining in the Community. If the Commission were to succeed to control subsidies more effectively, as part of the internal market programme, this would, on balance, be the equivalent of a unilateral tariff cut by several of Germany's neighbours. (cf. the concentration of German subsidies on non-manufacturers shown in Chapter 3, point 3.2.). On the other hand, if such controls are carried onto the Länder level (Daimler Benz) a quasi-constitutional, three cornered crisis would result between Brussels, Bonn, and the Länder capitals collectively (see Chapter 3).

6. The reduction of "transport costs" implicit in moves to facilitate border formalities would, on balance, bring marginally greater advantages to Germany's competitors whose exports have a higher weight/value ratio than Germany's. From a classic (import) view of welfare gains from trade, Germany would of course gain.

7. The "technological community" may mean net German

transfers of funds and technology to competitor countries, although total benefits ("local" sourcing of inputs presently imported from US, etc). may outweigh this even in a purely economic perspective. (See also Chapter 4)

8. Increased mobility for professions and craftsmen may, depending on one's point of view, end remnants of guild protectionism and hence increase the overall efficiency of the economy; or undermine Germany's, on average, high standards (and/or lead to unemployment).

6. Conclusion

There is no scientific instrumentarium for an objective economic cost/benefit analysis of membership in the EEC. To the extent that theories exist in the field of trade economics, both static and dynamic variants yield hypotheses which are the opposite of generally received wisdom: they suggest that Germany profited less than others from the formation of the Common Market. An exception is the "structuralist" school which, however, is limited to small academic ghettos, at least in Germany and can not be the basis for a political argument, by the Commission, that the Community has yielded value for money to Germany. (Moreover, unlike the more respectable versions of trade theory, structuralism is a 0-sum proposition which would suggest that e.g. France or Britain have lost out.)

In the field of macro-economics, including exchange rates, there is a general consensus that the EC/EMS has benefitted everyone. But no exceptional benefit to Germany can be credibly proven.

In agriculture (see also the following chapter) the question of benefits is wrongly put, since it is more a matter

of apportioning blame (of which Germany has more than its fair share) for the disadvantages. Looking at the CAP from the cost point of view, Germany can afford these marginally better than others.

If no firm answers can be given as regards the historical cost/benefit record of membership, some hypotheses have been advanced regarding the future evolution of the Community. On balance, services' liberalisation, the introduction of common standards, and procurement liberalisation would seem to favour Germany, but not particular German interests. That is why a high-profile debate on the Internal Market rather than discreet negotiations among those directly concerned would alter the perception of the (future) benefits of the European Community. Studies on the economic impact of the Internal Market agenda are urgently required.

But these studies will have to face very peculiar methodological difficulties of their own. For a scenario which assumes the Internal Market agenda to be realised makes nonsense of the notion of "trade" liberalisation. Since trade is a substitute for factor movements, one can not at the same time talk of trade and assume the liberalisation of capital markets, labour markets (free movement), and even technology and information markets. All this is even more true in the area of services, where cross-border movement of "products" always involves factor movements. The assessment of welfare gains thus moves fairly and squarely into the field of industrial economics (competition, scale effects, etc.) which is a recent development of economics with as yet poor predictive powers.

References

- (1) "Mehr gemeinsamer Markt bei verschärftem Aussenschutz der EG - die Bundesrepublik im Handelpolitischen Dilemma?", in Hrbek/Wessles, eds, "EG-Mitgliedschaft: ein vitales Interesse der Bundesrepublik Deutschland?", Bonn 1984, p.86.
- (2) In 1982 the net transfer was 0.37% of GNP. Gross transfers had reached 0.9% of GNP by 1984. The net figure would be larger if the "Antwerp/Rotterdam effect" is taken into consideration: the customs and levies receipts/payments on transit trade which are credited to Belgium and the Netherlands but which are paid by German consumers. This should easily push the net over 0.4% of GNP.
- (3) Figures from BMWI, Die Wirtschaftliche Lage der Bundesrepublik Deutschland, 8/86, Table 19.
- (4) Jürgen Müller, "Competitive Performance and Trade within the EEC: Generalizations From Several Case studies With Specific Reference to the West German Economy", Zeitschrift für die gesamte Staatswissenschaft, 1982, H.3, pp. 661 ff.
- (5) Note that these are "one-off" effects during the initial liberalisation. After that period, GNP permanently 0.5% or 1% higher than it would have been. See Müller, op.cit.
- (6) The locus classicus is, of course, H. Leibenstein, "Allocative efficiency versus X-efficiency", American

Economic Review, vol. 56, 1966, pp.392-415, although a politician, Harold MacMillan, coined the phrase "bracing cold shower" for trade.

- (7) "The whole issue of these 'dynamic' effects of integration is fraught with difficulty ... whatever its importance, and it may be very great, economic analysis has not so far shown itself capable of showing much light on them". Peter Robson, The Economics of International Integration, 2nd Ed. London 1984, p. 32.
- (8) Christian Deubner, "Die Westdeutsche Industrie in der EG - Vorteile für traditionelle und moderne Branchen", in Hrbek/Wessles, op.cit., pp. 127-151.

THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
CONTINUITY AND CHANGE

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GERMAN POSITIONS TOWARDS THE EUROPEAN MONETARY SYSTEM

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QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO AFFARI INTERNAZIONALI

Thoughts on the EMS from the German standpoint

1. The Federal Government and the Bundesbank fully support the EMS on economic grounds and with regard to European policy, because
 - it enables an average 40 to 50 per cent of trade between the participating Member States to be conducted at comparatively stable exchange rates;
 - = fluctuations as between the exchange rates of currencies participating in the EMS have been substantially weaker than those registered in relation to non-participating currencies such as the US dollar; coordinated realignments ensured that the real exchange rates moved in the right direction;
 - it promotes monetary integration and convergence of the Member States' economic policy;
 - it furthers endeavours to complete the internal market;
 - it is a realistic intermediate step on the path to economic and monetary union.

2. The Federal Government and the Bundesbank have played an active part in strengthening the EMS. For instance
 - in the central bank governors' agreement of June 1985, setting up the mobilisation facility for a part of ECU assets, which also serves to facilitate intramarginal interventions;
 - in the central bank governors' agreement of September 1987, welcomed by the finance ministers at Nyborg, which extended the settlement periods for very short-term financing and doubled

the maximum volume available in the case of automatic renewal. This facility may now also be used to a limited extent and subject to certain conditions in the funding of intramarginal interventions. Mention should also be made of the increase in the ECU acceptability limit for remuneration commitments arising from very short-term financing to 100 per cent, subject to certain conditions.

3. The Federal Government and the Bundesbank have fulfilled their EMS commitments without any reservation. For instance
 - realignments were not delayed;
 - obligatory interventions were accepted without reservation;
 - interest rate policy was used to eliminate short-term tensions, despite excessive expansion of the money supply;

 - the Bundesbank did nothing to inhibit some Member States' preference for intramarginal interventions, and in special cases rendered voluntary bilateral assistance;
 - the Federal Government discharges its consultative commitments as fully within the EMS as it does in other respects.

4. The Federal Government and the Bundesbank have clear objectives in mind with regard to strengthening and developing the EMS.
 - a) Exchange rate stability must reflect the internal stability of the Member States.
 - b) Participation in the EMS may not be allowed to have an adverse effect, in the medium term, on the level of stability achieved in Germany and on the stability-oriented policy pursued by German authorities.

The consequences of this approach are as follows.

- The medium-term aim must be to seek improved and sustained convergence of Member States' economic policies and of their results.
 - = In this respect there has been notable progress in the past few years in curbing price and cost increases and the expansion of the money supply. It has also been possible to bring down current account deficits. Divergences between Member States have been reduced.
 - = The situation is still unsatisfactory with regard to high budget deficits in some Member States. As an IMF study has rightly stated, convergence will be under threat in the medium term if this situation continues.
- Within the EMS exchange rate mechanism, financing and adjustment must be balanced so as to ensure that neither the internal adjustment measures nor the necessary realignments needed in the event of inadequate price and cost stability are delayed. This calls for cautious handling of the short and medium-term financing mechanisms with regard to its use as well as to the volumes involved.
 - = Intramarginal interventions may be useful in the short term, for instance, to counter temporary imbalances that do not reflect any change in the fundamentals. In that case, however, this instrument must be viewed in conjunction with other instruments such as exchange rate movements within the fluctuation margins and adequate interest rate differentials.
- The full liberalisation of capital movements must be introduced within the EC as soon as possible. Fully convertible currencies are a precondition to achieve the Community's goal of economic and monetary union (EMU).

Liberalisation promotes convergence and a more effective allocation of savings within the Community.

= This full liberalisation should apply "erga omnes", that is, not solely between Member States, as we are experiencing financial integration on a worldwide basis and the Community itself should be open to third countries.

= Taking advantage of escape clauses and creating any new instruments for this purpose can be counter-productive. This inspires in investors distrust rather than confidence, which is ultimately decisive for the assessment and attractiveness of a currency.

= At present it would not appear necessary to extend existing financing mechanisms or to adapt them to a different function.

- All Member States of the EC with the appropriate economic positions should have the same rights and obligations as participants in the EMS. Consequently,

= Italy's tacit utilisation of only the narrower margin during the past few years should be formalised;

= Great Britain should become a full member of the EMS;

= Belgium and Luxemburg should unify their two-tier exchange markets.

5. The EMS is only an intermediate stage in the Community's progress towards EMU. The Single European Act has pointed the course to be taken by striving for convergence whilst maintaining a stable level of prices in accordance with Article 104 of the EEC Treaty.

The visible manifestation of monetary union would be a single European currency. This would require, among other things, the establishment of a European central bank, which would have to be independent and committed to maintaining price stability. The conditions for this have yet to be fulfilled.

6. "Technical instruments" such as the official and the private ECU do not serve to strengthen and sustain convergence based on the greatest possible price stability and on integration of financial markets on the basis of free capital movements. Both have special and useful functions to fulfil, and one should not prevent them from doing so by striving to attain unsuitable objectives. Pursuing sound monetary, economic and fiscal policies is a complex political task that cannot be carried out by using technical tricks.
7. Central banks, finance and economics ministers have cooperated successfully in the various Community bodies in their endeavours to strengthen the EMS. The aim must now be to continue resolutely with this form of active coordination of economic policies on the basis of the same principles of economic policy. The attainment of full liberalisation of capital movements and the endeavours to complete the internal market will bring about new conditions that may well give positive impetus to the development of the EMS in the direction of economic and monetary union.

THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
CONTINUITY AND CHANGE

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GERMAN INTERESTS AND CONCERNS BETWEEN EAST AND WEST

Report by

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The following analysis reflects strictly the author's personal views.

This paper will be concentrated on three subjects, on three areas of "interest and concern" as it were for the Federal Republic of Germany: on the issue of divided Germany and the role of the "German question" in European politics, on the issue of security for the West Germans within the Alliance and, finally, on the possible role of a uniting Europe for both of these.

The German question consists of three elements: Berlin, the former Eastern territories and the boundaries of 1937, and the division of remaining Germany, that is to say the division between the Federal Republic of Germany and the German Democratic Republic.

As to the former Eastern territories one can probably claim today that for all intents and purposes the issue is settled. The boundaries have been accepted¹. It is true that a number of legal reservations remain, but they have to do more with the over-all division and Allied responsibilities than with any intention of re-opening the debate on the boundaries of 1937². It is

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also true that both the previous and the present governments have been hesitant to be absolutely frank (at least in public) on these facts - and this has led to much misunderstanding -, but this hesitancy is understandable. The loss of a quarter of Germany's territory still is very painful for many Germans, and it would seem to be wise at the very least to grant them the opportunity of getting used to this at a moderate pace.

After all, it is no mean feat that successive governments of the Federal Republic have succeeded in peacefully integrating twelve million refugees into West Germany's social and political fabric and are succeeding, equally peacefully, in promoting the adaptation of the German people to the territorial losses. Revanchism is not a topic in West German political life today.

By contrast, however, reunification is an issue. This does not mean that it is at the top of the list of political demands for today or tomorrow. Few have any illusions about the fact that reunification would require fundamentally changed political conditions in Europe, that these are difficult to achieve and that in any case it is likely to take a long time.

This probably also explains why reunification does not rank high in public opinion polls³. One could conclude that interest in the issue has declined - and it would

be surprising if this were not true to some extent -, but one cannot conclude that interest would not rapidly revive if reunification became a realisable goal within a foreseeable time span.

This view is supported by the enormous level of interest the Honecker visit attained both in West and in East Germany. Nevertheless, it is difficult, if not impossible, to assess with any degree of certainty the long-term implications of this visit at this early stage.

X On the one hand, it brought the East German communists yet another step forward in the quest for further legitimization of their state. This does not mean recognition in the formal legal sense - this has, in fact, been almost completely achieved by the GDR -, but rather acceptance in a political sense, acceptance as a state like any other, with an element of permanency, and not just as a misborn vassal of the Soviet Union, unloved and unaccepted by its own population and destined to disappear or at least to undergo fundamental change sooner or later. In this sense the visit may not only have had the effect of opening doors in the West; it was also intended to show the East Germans back home how well-received and how well-treated the representatives of this regime were in the West - particularly in West Germany⁴ -, and that it may be time for them to view their government and their state in a different, more friendly light.

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This is the one side. On the other side, the visit represented a continuation of West Germany's "Ostpolitik" since the mid-sixties, namely the concession of more recognition, more acceptance, and more money in return for more contacts between East and West Germany and for economic and humanitarian improvement of the lot of the East Germans.

For obvious reasons it is difficult to assess what precisely Honecker conceded for his visit. But it is notable that the number of visitors from East Germany under the age of 60 rose dramatically from less than 100,000 in 1985 to about 500,000 in 1986, and it is likely to supercede 1 million in 1987. Of course, this is not permission to travel freely, but the figures are significant and we cannot yet foresee the implications of this for the East German regime.

But what are the implications for Europe as a whole, for the European Community, and for the Western Alliance? Are the Germans in East and West moving away from their respective partners, are they beginning to be more interested in a reunified Germany with its own role in the centre of Europe?

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For several reasons this is improbable. Firstly, there are no illusions in East or West about the realizability of such a development in any foreseeable future. There are no indications that Honecker's room for manoeuvre

vis-à-vis the Soviet Union has essentially increased (even if it may have increased on marginal issues).

2. Secondly, no Federal government has yet shown any serious interest in such a development. What the West German government is interested in - and here there is a remarkable continuity from Adenauer through Erhard, Kiesinger, Brandt, Schmidt to Kohl - is more freedom for the East Germans, easier contacts between East and West Germans, improved living conditions for East Germans, more cooperation in issues of mutual interest (e.g. environment) and a change in the ugly and brutal character of the boundary dividing Germany. In short: The nation has become more important than the state.

Now, democratic governments tend to be interested in those things their voters are interested in. Indeed, one can safely conclude that there is a definite interest in "inner-German" relations among the Germans, and a successful "Deutschlandpolitik" certainly contributes to the popularity of the government. While there is thus no immediate reunification policy, what all this does indicate, however, is:

- that the "German question" as it stands today remains unsolved, the clearest indication of this being the complicated and artificial situation of Berlin;
- that there is a continuing special interest of West Germans in East Germany and of East Germans in West Germany;

- and that a feeling of belonging together - "Zusammengehörigkeitsbewusstsein" - continues to exist between the Germans in East and West.

This means that the Federal Republic of Germany has to be accepted in the European Community as well as in the Western Alliance together with this "open issue". This applies to Berlin, a fact which both NATO and the European Community have respected, and it applies to East Germany, which the European Community also respects by accepting trade relations between West and East Germany as "inner-German" trade.

Thus, many Germans tend to be disturbed by occasional pronouncements of Western politicians such as that by Italian Foreign Minister Andreotti or by critical press comments on German reunification⁵ not because reunification is a burning issue and also not because these statements show a lack of understanding, but rather for two other reasons:

- X - firstly, because such statements seem to put into question other Western commitments (if the commitments with regard to the German question are apparently not sincere are those on security more reliable ?⁶), and
- secondly, because they indicate a mistrust of Germany which the West Germans, after forty years of stable democracy and firm commitment to Western Europe and the Atlantic Alliance, find unjustified.

The often posed question whether a uniting Western Europe and the claim for a reunified Germany are compatible may be considered to be somewhat hypothetical: German reunification does not seem realizable in the near future, and Western European unity is not making particularly much progress either⁷. Moreover, if German reunification were on the horizon, it should be all the more in the interest of the European partners to tie Germany into some much more advanced structure of European unity. Indeed, the question sometimes asked of how a potential of 80 million Germans would fit into a Europe of nations considerably smaller than that could best be answered by such a structure⁸.

In any case, it is felt that the open German question should not in any way be a hindrance for progress toward Western European unity. West European unity remains such an important aim in itself that it should be advanced as rapidly as possible. Moreover, Western European integration depends primarily on the Europeans themselves, i.e. if they set their will to achieve unity it is within their power and reach to achieve it.

Once this were achieved, the issue of German unity, should it eventually turn up on the political agenda, would be solvable, too. The open German question is not a hindrance for progress on the road to Western European unity. It is in the interest of all to promote the integration process irrespective of the open German question. The more Western European integration stagnates, however, the more

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problematical the German question is likely to become.

A similar argument - although perhaps even more hypothetically - could be made with regard to the security question:

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Should serious doubts arise about the reliability of the security guarantees of the Atlantic Alliance for the Federal Republic of Germany, interest in the German question and the possibilities of a different role in Central Europe for Germany would increase, too. Some

of the effort - as is already discernable - would be directed at closer Western European defense cooperation,

3rd Thesis: but in either case the psychological and political distance between West Germany and the United States of America would increase.

The basis of West German security is the commitment of the Alliance to the defense of West Germany in general and the American nuclear guarantee in particular. The latter implies that the United States would be prepared, in case of an attack by the Soviet Union in Europe, to employ not only conventional resources, but - if need be - also nuclear weapons, including the strategic forces directed at the Soviet Union. Obviously, this does not mean that the Federal Republic is in any way interested in the employment of nuclear weapons (one should remember the reluctance of Chancellor Adenauer in the fifties to accept this doctrine rather than a purely conventional defense⁹). On the contrary: From the West German point of view the sole purpose of

the American nuclear commitment is deterrence. To ensure this, the Federal Republic of Germany, geographically on the front line, confronted by numerically superior Warsaw Pact forces and unlike Britain or France without national nuclear forces at her disposal, feels that any attack in central Europe by the Soviet Union should not only entail the risk of nuclear war but also a credible direct risk of a nuclear strike against the Soviet Union.

This is easily understandable from the German point of view, just as it is understandable that the United States (and in different ways and for different reasons France and Britain) has at various times indicated some reservations: From the American point of view a conventional war in central Europe, even a limited theatre nuclear war, would be preferable to nuclear escalation entailing the risk of direct involvement of United States' home territory. From the German point of view, however, non-involvement of the United States enhances both the threat of war and of political blackmail in peacetime. Only a clearly visible and credible risk of U.S. nuclear involvement means maximum deterrence and hence minimum risk of war.

Now, it is pointed out that the United States is involved: by the stationing of more than 300 000 soldiers in Europe in general and by the emplacement of short-range nuclear forces in particular.

With regard to the latter - the short-range nuclear weapons - two points, however, should be made. While it is correct that these weapons comprised the original elements

of the nuclearization of NATO defense in the late fifties this occurred under the circumstances of a NATO monopoly of these weapons. They were to compensate for insufficient conventional forces and were to serve as the decisive escalatory signal for U.S. nuclear involvement. The latter was always open to some question, but today, under circumstances of NATO inferiority in this range of weapons, they would in any case - whether the United States escalated or not - mean extensive nuclear destruction in central Europe.

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Nevertheless, they do entail a risk, and doubts about whether the United States would escalate apply to the Soviet Union, too. Hence it is to be expected that the U.S.S.R. will again bring these weapons into the discussion for the next step after the US-Soviet INF agreement. Once these were removed the Soviet Union would be a decisive step closer to the complete denuclearization of central Europe and could hope to bring its conventional overweight to bear more fully, particularly on the Federal Republic of Germany. What is more, the Federal Republic could hardly take a stand against such a reduction: because the escalatory credibility of these weapons is questionable and because the destruction that would accompany their employment would effect primarily German territory in East and West and could indeed come close to an annihilation of Germany.

If these weapons then would be removed, would the presence of American soldiers adequately and credibly ensure

American involvement and hence deterrence ? This question cannot be answered with certainty, but it may be pointed out that in the sixties and seventies the presence of American soldiers was not considered sufficient.

The history of NATO's nuclear defense in Europe - from the Multilateral Force (MLF) and the Nuclear Planning Group (NPG) to Pershing II¹⁰ - is in no small measure a history of how to ensure the credibility of American nuclear involvement, and up to 1987 it was always thought that credibility vis-à-vis the Russians and assurance vis-à-vis the Europeans would best be guaranteed by some form of American nuclear presence in Europe (forward-based systems), by involving the Europeans in the planning process and in the possession of the weapons (double-key systems) and finally - although to a lesser extent - by ensuring that Soviet territory would not be a sanctuary in case of nuclear escalation.

The 1979 decision to station the Pershing II and cruise missiles was consistent with this thinking. In fact, the primary reason for the stationing of the Pershing II was the modernization of the forward-based systems as improved Soviet air defenses significantly decreased the penetration capability of these systems¹¹. The Soviet SS-20 was just one, and not the most important, argument from the military point of view. In public discussion, however, it eventually became not only the most important, but indeed the only argument. It was convenient, comprehensible and publicly effective.

The Pershing II and cruise missiles were to perform the two classical functions of European-based nuclear weapons in NATO's military strategy: to ensure the credibility of the American nuclear guarantee for Western Europe and to compensate for conventional insufficiency by adding a nuclear component to deterrence. The dual-track decision of December 1979 in its one part - the negotiation offer - simply removed these missiles from NATO strategy. The offer was made to scrap them - in return for the scrapping of the SS-20 - without answering (or even considering) in what other way their functions were to be performed in NATO strategy. Today's recourse to the presence of American forces in Europe as an adequate guarantee of American involvement is sufficient evidence of this.

Apparently, sea-based missiles are being considered as a military substitute for the land-based Pershing II and cruise missiles. Indeed the coverage of the targets is not the problem: they are already adequately covered and could even be covered by missiles located in the United States only. Credibility of American involvement is the real issue.

It should be remarked here that no European politician has thus far argued that the Europeans could forego the American nuclear guarantee altogether. The debate is centred, rather, around the issues of how the guarantee should look, where American nuclear forces should be emplaced and - to a much lesser extent! - how credibility can be ensured¹².

From the Soviet point of view the deployment of Pershing II and cruise missiles probably meant two things: a) the American nuclear commitment in Western Europe was enhanced and b) this was achieved by the emplacement of modern weapons that could penetrate Soviet air defenses and that could reach Soviet territory. It is not certain, but maybe it is also important that the carriers of these weapons are in European, particularly in German hands. In any case, two major aims of Soviet policy were thwarted: The aim of loosening American ties to Europe and that of denuclearizing the defense of Western Europe (and ensuring, as far as possible, that Soviet territory would be sanctuary in case of a limited war in Europe).

It is possible that the Russian leadership initially hoped that the stationing of Pershing II and cruise missiles would be prevented by public pressure activated by the peace movement, particularly in West Germany (on which the whole issue hinged anyway). When this did not come about, the Soviet Union made the decision to accept the exchange of Western missiles for the SS-20 as originally proposed in NATO's dual-track decision.

In view of the enormous expense and political commitment which the Soviet Union had invested in the SS-20 some observers found this surprising, but it is probably an indication of how highly the Soviet Union values the reduction of American military and especially nuclear presence in Europe.

Of course, there may be - and there probably are - other Soviet motives, too. It is possible that there is indeed some change going on under the new leadership in the Soviet Union. Possibly Gorbachev is not only aware of the heavy burden that Soviet armaments place on the Soviet economy but also of the fact that the excessive armaments program is neither necessary - there is no threat from NATO - nor has it really brought the political dividends in Western Europe that earlier leaders

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may have hoped for. In addition, there may be a growing awareness of the dangers of a continuing unabated arms race.

This would be the most positive interpretation of a development to which additional factors may have contributed. Firstly, the United States has made clear that Americans would not stand by quietly watching increasing Soviet armament efforts, but would respond, and this with superior economic resources and technical ability. Secondly, the Strategic Defense Initiative (SDI) - itself an expression of a new American attitude - has apparently disturbed the Russians and made clear to them that they would now have to make substantive concessions if they wanted to retain any influence at all on American policy.

But whatever: this or any other speculative interpretation is not decisive. The important fact is that the Soviet Union stands to gain from the impending INF agreement. It has made a substantive concession by its willingness to scrap the SS-20, but it is likely to achieve a net gain:

- it has moved a step ahead toward the denuclearization of NATO's defense without having yet made any concession in the conventional field,
- it has reduced the direct nuclear retaliatory capacity from European soil against Soviet territory,
- it has - most importantly - probably diminished the credibility of the American nuclear commitment to European defense,

- and finally, it has reduced the German influence on the concept that an extended conventional or theatre nuclear war in Europe can best be avoided by an early threat to Soviet territory.

On the other hand, one should not ignore the possibly very significant advantages of the INF agreement. It is the first real disarmament agreement in the nuclear arena. If it succeeds, a whole category of nuclear weapons will be eliminated. This group of weapons may be small in relative terms (compared to the total number of nuclear weapons world-wide), but it is enormous in absolute terms. The reductions will take place with on-site inspections. It is by no means certain, but it is possible that a breakthrough for arms control has been reached - and if this turns out to be the case all criticism will appear petty in retrospect.

Also, from the European standpoint, one cannot ignore the effects of growing public scepticism about nuclear defense on the one hand, and, on the other, the abiding American reservations connected with the U.S. commitment to European nuclear defense. This is not to say that the Pershing II and Cruise missiles may not objectively have made the American commitment more acceptable in the sense that they enhance deterrence and thus actually reduce the risk of American nuclear involvement. But this is not an argument easily conveyed in public. The fact is that public and hence political support for

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the INF agreement is so big that it became impossible to stave it off. It seemed the wiser course to accept it and to adjust to it.

The question is: Can and will NATO adjust - if by adjustment we do not mean only the passive acceptance of the inevitable, but taking such measures as are necessary to cope with the consequences of a new (or old?) strategic situation, thus ensuring NATO's defense and hence peace in Europe into the next century. For this should be remembered: whatever hopes may be attached to some future

4th Thesis:

structure of peace and stability in Europe, under prevailing circumstances the best guarantor of peace in Europe for today and tomorrow is still NATO's ability to defend and deter.

The problems for NATO strategy are the old ones: Con-
ventional insufficiency and the nuclear dilemmas. They are interrelated with the concerns and role of the Federal Republic of Germany. Whatever the advantages of the INF agreement, all of these have become more complex as a consequence of the agreement.

Soviet conventional superiority looms bigger. There are three possible ways of coping with it. The first is the (1)
augmentation of NATO's conventional defense. This is wrought with many problems. In the first place it is unpopular - and hence difficult to attain. Secondly,
an improved conventional defense is expensive. Thirdly,

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it is confronted by grave demographic problems, at least as far as West Germany is concerned. The Federal Republic of Germany will not be able to maintain its present level of military manpower beyond at the latest 1995, so that while an earlier argument against conventional increases used to be that there would then be too many German soldiers the Alliance will soon be confronted by the fact that there may be too few.

Of course, NATO members can compensate for military manpower by technological advances to some extent¹³. This cannot and should not be excluded - but a certain degree of scepticism seems called for: Firstly, because they represent only possibilities, and secondly, because the Soviet Union is likely to react to them and to diminish their value to at least an extent¹⁴.

② A second way of dealing with conventional inferiority is arms control. NATO has called for arms control measures to redress the conventional imbalance in its Brussels Declaration on Conventional Arms Control of 11 December 1986¹⁵. The demands made in this statement are clear and sensible. The removal of disparities under consideration of available armaments, of predictability and of geographical factors is called for, and it is made clear that the Warsaw Pact will, in view of its numerical superiority and geographical advantages, have to make significant concessions.

The same applies to the Western demand that the Warsaw Pact abandon its capability for surprise attack and

large-scale offensive measures (and NATO wishes to concentrate now not on manpower but on battle tanks and other armored vehicles, on artillery, tactical airplanes and helicopters, i.e. on those elements which provide fire-power and mobility and are prerequisite for a surprise attack). Finally, step-by-step reductions with adequate verification are demanded.

The question is, how realistic these demands are. NATO's defenses are so thinly stretched that there are few, perhaps no concessions it can make without a significant further weakening of these defenses. The fourteen-year-old negotiations without result on mutual (and balanced) conventional force reductions in Vienna give some indication of this. Thus, one may safely conclude that unless the Soviet Union concedes significantly more than NATO, conventional arms control is not a promising approach to the problem of NATO's conventional insufficiency.

③ Consequently, a third approach has been proposed, namely the extension and intensification of Western European defense cooperation. The hopes attached hereto are that European and NATO defense would become more effective vis-à-vis the Warsaw Pact without leading to a corresponding increase in cost. At the same time it could augment European weight within the Alliance, meet American demands for an improved European defense contribution and perhaps even contribute to more rapid European union. Some moves have been made in this direction¹⁶ - but considering the problem at hand, they are totally inadequate. It is not a question of good will: all Western European politicians officially favour increased defense cooperation. But the efforts made -

be it the so-called "revitalization" of WEU or the various bilateral and multilateral projects - bear the mark of most of the efforts of European integration since the mid-sixties: At best limited success in a limited area, at worst failure, but mostly tinkering somewhere inbetween.

Of course, the successes achieved should not be underestimated (although the most effective "European" defense cooperation still takes place within NATO or on a bilateral basis, seldom on a European level and never with a real political impetus) nor should it be denied that they may be the beginning of something bigger, but at this time and at this rate they are not an answer to NATO's conventional defense problems¹⁷.

The same applies to the second problem area: The nuclear dilemma. Western European cooperation in nuclear affairs (outside of NATO) has practically not even begun, and it is fraught with many more difficulties. Although there are some indications of Anglo-French military cooperation¹⁸ it seems rather unlikely that this will soon lead to extensive nuclear coordination. At this stage the main aim seems to be an improved and coordinated procurement policy in order to control costs (which is difficult enough in view of the strong French defense industry). But even if Franco-British nuclear coordination were achieved (how would Britain, which coordinates its nuclear policy within NATO, do this?), the questions remain, firstly, in what way this could fill the gap created by the impending American INF withdrawal, and secondly, how the

Germans could be included. Is the French concept that of the nuclear knight (cooperating with the other European nuclear knight), while the Germans would be the conventional foot-soldiers? The offer the French have made to the Germans - viz. to "consult" them before an impending employment of French nuclear weapons against targets on German territory - is considerably less than the participation in the nuclear planning process which the Germans have in NATO now ¹⁹.

The fact is that Western-Europe remains dependent on the American nuclear guarantee.

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One improvement would be a reduction of dependence on at least the early use of nuclear weapons in European defense. This would make nuclear destruction in central Europe in case of an outbreak of war less likely than it seems now, while maintaining the deterrent effect of the risk of an ultimate use of nuclear weapons. But it would require an improved conventional defense posture, with all the problems already mentioned.

All of these measures would improve the present bleak outlook of certain nuclear destruction of the European theater in the event of war; they would not, however, solve the question of credible deterrence, i.e. of avoiding a war in the first place. A proposed alternative is simply to replace the Pershing II and the cruise missiles that are to be withdrawn under the agreement by other, possibly sea-based missiles. The first question that could arise is whether

such a measure would be in contravention of if not the letter then the spirit of the INF agreement. Secondly, the disarmament effect - possibly the major advantage of the INF agreement - would be neutralized to at least an extent. Thirdly, the Soviet Union would be likely to react to such measures. Most importantly, however, the central issue remains: How credible and how reassuring would such alternative measures be? If they were considered inadequate in this respect in the past, why would they be considered more satisfactory now? After all, the INF targets are already now covered several times by other carriers, including SLBM and ICBM.

In the coming months NATO will have to deal with all of these questions. For the Federal Republic of Germany - and hence for Western Europe and for the Alliance as a whole - it is important that a "singularization" of Germany, as the Germans have come to call it, is avoided. Germany would find herself in a difficult psychological situation if "zones of differing security" (another term from the German debate) were to come about in the Alliance, i.e. if the understandable American interest in a certain nuclear decoupling became all too obvious, if France and Britain withdrew all too smugly into reliance on their own national nuclear forces to fill the gap, Italy could rely on less of an imbalance in conventional forces and on the presence of the American fleet in the Mediterranean, and only the Federal Republic of Germany remained exposed: on the frontline, faced by superior Soviet conventional forces, and at her side allies equipped with

nuclear weapons which are in contrast to NATO's nuclear forces for "national defense" (of France or Britain) alone or which are, as far as the short-range weapons are concerned, suited only for the destruction of German territory ²⁰.

If one remembers first and foremost that the American tie is and will remain the crucial, the all-decisive factor, one could assume that European cooperation - better: European integration - could go a long way toward an amelioration of all three problems: Conventional insufficiency, the nuclear dilemma and the singularization of

5th Thesis:

Germany. Unfortunately, there are but few indications that the Europeans will move significantly. The upcoming German presidency of the European Community is unlikely to change this.

There are two reasons for this. First of all, the significance of the EC presidency is overestimated. It is true that at the beginning and at the end of a presidency there is often a certain impetus from the ^{Chairman}presiding country that wants to press its own stamp on the period. But on the whole, six months is too short a time to bring about a fundamental change. Such change is more likely to come about as a result of a sustained and long-term effort, of negotiations and moves and decisions of several countries. In this sense the presidency is more of a chairmanship, and the chairmanship of a not particularly effective club at that.

Secondly, there are some general inhibitions on German activity that concern not only the German presidency,

but German policy in general. German history from 1933 to 1945, the division of Germany and the fact that the Germans after the war defined themselves as Europeans and the new West German state as a European province have all led to a psychological situation in which the Germans are reluctant to present bold initiatives alone, to energetically pursue any particular policy by themselves. In the pursuance of new policies the Germans like to find themselves embedded amongst friends and allies²¹, and when they find it unavoidable to resist some move - something they intensely dislike doing - their resistance tends to be a passive, "keep-your-heads-low" form of resistance²². There is no need to lament this, but it has to be taken into consideration.

What conclusions can be drawn ?

① Firstly, both West Germany's European and American allies should remain aware of the particular German problems with regard to the division of Germany and with regard to security. Here lie two of the main interests and concerns of the Federal Republic of Germany.

② Secondly, the Alliance will have to deal with the new situation after the INF agreement. The Federal Republic of Germany has supported and significantly contributed to this agreement despite the problems that it entails for German security. Now these problems will have to be dealt with. A policy of doing nothing or little while hoping for the best could be too little²³.

③ Thirdly, the Alliance must come up with an arms control concept that now places at its centre these issues which particularly concern Germany: The conventional imbalance and short-range nuclear weapons. But it will not be enough to develop the concept - the Alliance is busy doing this -, it will also have to be energetically pursued. Conventional arms control is the best way of testing the seriousness of Gorbachev's "new thinking".

④ Fourthly, Western European defense cooperation will have to make a big stride forward. First moves have been made. The manoeuvres of 20 000 French troops together with 50 000 German forces along the Danube and the talks that the French General Staff has taken up with the British are - despite all the aforementioned reasons for being sceptical - a possible beginning. But 6th Thesis: much more is necessary. The antiquated Gaullist inhibitions about French military integration in NATO must be jettisoned sooner or later. They are a hindrance to the factual cooperation which France finds necessary and in its interest; they are a psychological barrier on the way toward more significant cooperation.

A discussion between the French, British and the Germans should begin about the possibility of giving the French and British nuclear forces a European role, thus filling the security gap created by the INF withdrawel. Such a

role could be defined in a European Nuclear Planning Group - thus coordinating and sharing planning while leaving control with the French President and British Prime Minister - which in turn would have to be tied in with NATO's Nuclear Planning Group.

In conclusion a few questions are in order. Further developments both with regard to the German question and as far as European defense is concerned depend on what answers are given to these questions.

1. As regards the German question, how big is the room for manoeuvre of the GDR? Is it conceivable that national considerations gain predominance over ideological and "power-maintenance" considerations within the leadership? Are there any circumstances under which the Soviet Union could accept decreased control over East Germany?
2. Which new possibilities and which new models are available for the future development of the German question? What role can be foreseen for Berlin? In what way can West European integration contribute to a solution?
3. With regard to European defense, what are French motives and aims in seeking improved cooperation both with the Federal Republic of Germany and with Great Britain? Is a French return to NATO desirable? Is it conceivable? Would the French public accept it?

4. What prognosis can be made with regard to Western European defense cooperation? In what ways could the Europeans fill defense gaps within NATO? How would Germany be included? What will the long-term effects on the United States be, what changes in the role of the United States are likely?

The maintenance of the "American connection", the improvement of the European contribution to the common defense and some perspective for the development of Germany are the most important tasks confronting the Europeans in the coming years. How they cope with these tasks will depend in large measure on what answers they find to the above questions.

Footnotes

- 1 Cf. the detailed analysis in Dieter Mahncke, Kontinuität und Wandel: Die Ostpolitik der Bundesrepublik Deutschland seit dem Regierungswechsel 1982, in: Politik und Kultur 1/1987, pp. 33 - 50.
- 2 See on this the excellent article by the Minister in the Chancellor's Office, Wolfgang Schäuble, Die deutsche Frage im europäischen und weltpolitischen Rahmen, in: Europa-Archiv 12/1986, pp. 341 - 348.
- 3 See on this, for example, the public opinion polls conducted by the Allensbach Institut, Allensbacher Archiv, IfD-Umfragen. Whereas in December 1986 only 7 % believed that German reunification would take place during their lifetime (a decrease from 28 % in 1966), and 74 % thought it would not occur during their lifetime (up from 44 % in 1966), 71 % were nevertheless in favour of reunification compared to only 9 % against and 20 % undecided (IfD-Umfragen 2013, 4083/84).
- 4 This is supported by an interview which Erich Honecker gave on September 29, 1987, in which he said that the most impressive part of his visit had been the fact that he had been received and treated as an equal.
- 5 Andreotti, on the occasion of a panel discussion organised by L'Unità, said: "We are all in agreement that there should be good relations between the two Germanies. But one should not overdo it. Pan-Germanism must be overcome. There are two German states, and two German states it should be." Cf. Neue Zürcher Zeitung, 18.9.1984. As to press comments see, for example, the analysis for France by Joseph Rovin, Was kommt nach dem Honecker-Besuch? In: Europäische Zeitung, October 1987.

e. le altre note

- the German leadership role.

La Germania non può ottenere, solo essa, che gli Usa, diversi strutturalmente deficitari, dominino il loro impero globale.

Se la Germania si interessasse dei propri problemi locali, allora la gestione degli affari internazionali sarà lasciata all'iniziativa francese, al portoghese, ecc.

Vedere come, alla fine, la Germania è stata costretta a rivedere le sue politiche e a mantenere certe relazioni alla più pessima delle potenze economiche.

Re: Morgan - advertisement -

Footnotes

- 1 Cf. the detailed analysis in Dieter Mahncke, Kontinuität und Wandel: Die Ostpolitik der Bundesrepublik Deutschland seit dem Regierungswechsel 1982, in: Politik und Kultur 1/1987, pp. 33 - 50.
- 2 See on this the excellent article by the Minister in the Chancellor's Office, Wolfgang Schäuble, Die deutsche Frage im europäischen und weltpolitischen Rahmen, in: Europa-Archiv 12/1986, pp. 341 - 348.
- 3 See on this, for example, the public opinion polls conducted by the Allensbach Institut, Allensbacher Archiv, IfD-Umfragen. Whereas in December 1986 only 7 % believed that German reunification would take place during their lifetime (a decrease from 28 % in 1966), and 74 % thought it would not occur during their lifetime (up from 44 % in 1966), 71 % were nevertheless in favour of reunification compared to only 9 % against and 20 % undecided (IfD-Umfragen 2013, 4083/84).
- 4 This is supported by an interview which Erich Honecker gave on September 29, 1987, in which he said that the most impressive part of his visit had been the fact that he had been received and treated as an equal.
- 5 Andreotti, on the occasion of a panel discussion organised by L'Unità, said: "We are all in agreement that there should be good relations between the two Germanies. But one should not overdo it. Pan-Germanism must be overcome. There are two German states, and two German states it should be." Cf. Neue Zürcher Zeitung, 18.9.1984. As to press comments see, for example, the analysis for France by Joseph Rovon, Was kommt nach dem Honecker-Besuch? In: Europäische Zeitung, October 1987.

- 6 Art. 7 of the Treaty between the Federal Republic of Germany and the three Western powers United States, France and Britain (23.10.1954) states: "1. The Signatory States are agreed that an essential aim of their common policy is a peace settlement for the whole of Germany, freely negotiated between Germany and her former enemies, which should lay the foundation for a lasting peace. They further agree that the final determination of the boundaries of Germany must await such a settlement.
2. Pending the peace settlement, the Signatory States will co-operate to achieve, by peaceful means, their common aim of a reunified Germany enjoying a liberal democratic constitution, like that of the Federal Republic, and integrated within the European community." See Verträge der Bundesrepublik Deutschland, hrsg. vom Auswärtigen Amt, Serie A, Multilaterale Verträge, Band 7, Bonn 1957, p. 15f.
- 7 See the Hearings of the German Bundestag, Öffentliche Anhörung zum Thema Entwurf eines Vertrages zur Gründung der Europäischen Union, Deutscher Bundestag, 10. Wahlperiode, Auswärtiger Ausschuß, Stenographisches Protokoll, 2.10.1985.
- 8 Michael Stürmer puts this in blunt terms: "The European Community, it should be remembered, is not primarily about common agricultural policy, not primarily about fishing quotas and catalysts: it is about control through integration of the dynamism inherent in the German problem, both in its traditional form and in the form of German partition." See "The Do's and Dont's of Deutschlandpolitik", in: Peter R. Weilemann (ed.), Aspects of the German Question, Konrad-Adenauer-Stiftung, Sankt Augustin, 1985(?), p. 19.
- 9 Cf. Dieter Mahncke, Nukleare Mitwirkung. Die Bundesrepublik Deutschland in der Atlantischen Allianz 1954 - 1970, Berlin/New York 1972, p. 65 ff., and Hans-Gert Pöttering, Adenauers Sicherheitspolitik 1955 - 1963. Ein Beitrag zum deutsch-amerikanischen Verhältnis, Düsseldorf 1975.

- 10 See Mahncke, Nukleare Mitwirkung, op. cit., and Lothar Ruehl, Mittelstreckenwaffen in Europa: Ihre Bedeutung in Strategie, Rüstungskontrolle und Bündnispolitik, Baden-Baden 1987.
- 11 See the detailed analysis by Ruehl, op. cit.
- 12 The leading SPD politicians Egon Bahr and Andreas von Bülow, for example, favour sea-basing American nuclear forces earmarked for European defense, cf. Andreas von Bülow, Das Bülow-Papier. Strategie vertrauensschaffender Sicherheitsstrukturen in Europa. Wege zur Sicherheitspartnerschaft, Frankfurt/Main 1985.
- 13 Cf. for example Edward L. Rowny, Mehr Sicherheit durch verstärkte Defensivkräfte, in: Frankfurter Allgemeine, 21.9.1987, p. 12f.
- 14 See Josef Joffe, Das Unbehagen an der Stabilität: Kann Europa sich konventionell verteidigen? In: Europa-Archiv 18/1984, p. 549ff.
- 15 See Communiqué in: NATO Information Service, NATO Communiqués 1986.
- 16 Cf. Dieter Mahncke, Verteidigung in Europa: Was spricht für eine europäische Sicherheitspolitik? In: Politische Studien Juli/August 1986, pp. 423 - 433; William Wallace, European Defence Cooperation: The Reopening Debate, in: Survival, November/December 1984, pp. 251 - 261.
- 17 An example is the first major joint Franco-German military exercise ("Kecker Spatz": with 55000 German and 20000 French soldiers participating) in September 1987 in Bavaria. In comparison to the NATO exercise "Certain Strike" (combined with a Reforger exercise), taking place at the same time in Northern Germany, its performance was generally judged to be poor. Of course, this may be a reflection of the fact that it was the first exercise of its kind as well as an

indication of the need for further exercises. More important, however, were the political differences that became evident during the manoeuvre. While the Germans wanted to indicate that the French were in fact partners in forward defense, the French military leadership took great pains in emphasizing that the exercise in no way reflected a change of French thinking: French conventional forces were only to test the intentions of an attacker and to give the French government time to make a decision on a nuclear response in defense of France alone. French forces were not part of NATO's forward defense posture it was reiterated. Particularly embarrassing was the withdrawal - on French pressure - of the invitations the Germans had already issued to NATO's SACEUR, the American General John Galvin, and the Chairman of the Military Committee, the German General Wolfgang Altenburg. Cf. Frankfurter Allgemeine, 23. and 24.9.1987. In view of this the creation of a Franco-German "Defense Council" announced at the conclusion of the above-mentioned manoeuvre by French President Mitterand (cf. Frankfurter Allgemeine, 25. und 26.9.1987, and General-Anzeiger (Bonn), 25.9.1987) must also be viewed with a degree of scepticism. Thus far the Defense Council amounts to an institutionalization of present practice with the possibility of further functions as a result of bilateral negotiations. In other words, it is - for the time being - a new name for the existing "Franco-German Commission for Security and Defense" that was established by agreement on 7 December 1982 to improve cooperation. Members of the Commission are the Defence and Foreign Ministers, and it meets twice a year. The meetings are prepared by three Working Groups: on political-strategic questions, on military cooperation and on arms control. The working groups prepare common defense projects (e.g. the PAH) and they try to coordinate French and German political positions on arms control, SDI, etc.

- 18 Since 1986 the French and British Defense Ministers have been meeting on a regular monthly basis. In September 1987 officers of the French General Staff met with their counterparts in London; cf. Frankfurter Allgemeine, 3./4.10.1987, and Die Welt, 18.9.1987.
- 19 The state visit by French President François Mitterand in the Federal Republic of Germany in October 1987 brought a slightly new accent in that there were insinuations that the short-range French nuclear weapons would in fact not be employed against German territory and that eventually longer-range weapons would be acquired to overcome this problem altogether.
- 20 Of course, these arguments apply to Denmark and Norway, too, both of whom seem less concerned, however. Spain and Portugal feel much further away, while Belgium and the Netherlands apparently gain some comfort from the fact that Germany is situated between them and the front line.
- 21 This was very typical for their attitude towards the Non-Proliferation treaty in the sixties (cf. Helga Haftendorn, Sicherheit und Entspannung, Baden-Baden 1983, p. 632ff.), but it is also typical for their attitude on the so-called out-of-area issue in NATO. While the German inhibitions with regard to military activities "out-of-area" are understandable, the Federal Republic even maintains an amazingly low profile when simply replacing NATO forces (e.g. naval vessels) within area (North Sea or Mediterranean) that have been withdrawn for out-of-area purposes, cf. General-Anzeiger (Bonn), 23.9.1987, also the interview by Staatssekretär Lothar Rühl, Süddeutscher Rundfunk, Journal, 23.9.1987.
- 22 Cf. Hans-Peter Schwarz, Die gezähmten Deutschen. Von der Machtbesessenheit zur Machtvergessenheit, Stuttgart 1985.
- 23 In the light of this the (expected) appointment of German Defense Minister Manfred Wörner as NATO's new Secretary-General acquires some importance and may make the rejection of Norway's Kaare Willoch - otherwise an excellent choice - more understandable.

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THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
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PERCEPTIONS OF THE GERMAN DEBATE IN OTHER EC COUNTRIES

Report by

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QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO AFFARI INTERNAZIONALI

1. It is easy to document the fact that the media and other observers in the Federal Republic's Community partners have commented extensively and sometimes intensively on the range of issues covered by "the German debate". It is much harder to weigh the significance of all the comments made in France, Britain, Italy and the other EC countries, or to say whether their effective weight is sympathetic or critical towards the directions taken by the debate inside the Federal Republic.

2. We speak of "the German debate" in the singular, but in fact the debate covers a wide range of themes and questions. On the occasion of the formal meeting between the EC Commission and the Federal Government in Bonn in early April 1987 - itself an event without precedent - the Financial Times quoted a member of the Commission (anonymous) as saying : "We have got to give the West-Germans a real challenge, to galvanise them into action ... There are only two possibilities : to challenge them to exercise real economic leadership in Europe, in a truly integrated Economic union; or to share leadership in European nuclear defence with France and Britain. Otherwise there is a real danger of them splitting away". (Financial Times, 3 April 1987).

This view of the situation, starting from the perception that West-German policy towards the Community is lacking in "action", and ending with the fear of Germany "turning away", shows how "the German debate" is seen among the Federal Republic's European partners as covering at least four issues :

- a. the Federal Republic's direct relations with "the East" (particularly with the DDR, in the light of the Honecker visit of September 1987);
- b. the Federal Republic's policies on defence and arms control, especially in the light of the likely INF agreement;
- c. the attitude of the Federal Republic towards the EC itself, and particularly signs of declining West-German commitment to new Community policy developments;
- d. (less important) the Federal Republic's attitude to the development of relations between the EC and "the East".

3. What are the main foreign perceptions of the state of West-German opinion on these four issues ? We must distinguish between official governmental opinion and media or other non-official comment. The former is, by its nature, harder to quote or assess with absolute precision, but if one puts together the public statements of ministers and other governmental representatives, and the information that can be gathered on their private thoughts, it may be said that on the whole opinions at this level are positive with regard to German-German relations (e.g. M. Raimond's view that Honecker's visit to Bonn was "a good thing"), but much less positive about Bonn's tendency to be "soft" on arms control and other issues concerning the Soviet-Union (as witness the extensive and hostile exegeses in London and Paris of Mr. Genscher's remark in his Davos speech about "taking Mr. Gorbachov at his word").

As for the Community dimension of the German debate, the reactions of Bonn's partners, at the governmental level, have not been very outspoken. In public comment, there has been little criticism of Bonn's declining commitment to "Community" positions, probably because Bonn's views, despite this decline, are still notably more "European" than those of most other capitals. Thus the Federal Republic's dispute with the Commission about regional subsidies to industry, or the Bundesbank's opposition to increasing the use of the ECU, while disappointing to (some) other governments, are not seen as really shocking or surprising, partly because they reflect a relative decline in Bonn's traditional readiness to accept "European" positions, at a time when the promotion of special national interests has become more widespread throughout the Community. Ever since Mr. Kiechle's veto on a proposed reduction in cereal prices in 1985, the other governments of the Community have come to accept - reluctantly - that opposition from Bonn to any substantial reduction in the cost of the C.A.P. is a permanent fact of life for the Community.

4. The governmental perception of "the German debate" in other capitals thus tends to be fairly clearly compartmentalised, and judgments tend to differ according to the policy sector concerned : very generally, we would say that Bonn's Deutschlandpolitik arouses relatively little official concern in other capitals, while the Bonn view of Soviet

foreign policy intentions is more disquieting, and Bonn's "EC policy", while sometimes disappointing, is criticised mainly for its static, defensive, and self-protective qualities.

5. This kind of differentiation between issues is not at all characteristic of non-official views of "the German debate" in the rest of Western Europe. At this level, much comment seems to assume a coherent and consistent "German" attitude, in which declining commitment to the West (including both NATO and the Community) is directly linked to a "drift into neutralism", or a serious aspiration of quickly achieving German unification. In its purest form, this verdict in a *procès d'intentions* has been expressed - not for the first time - by Monsieur Michel Jobert. In a widely reprinted article the former minister declared :
- "The reality is clear : Germany intends to go its own way in Mittel-europa - that is, the way of a reunited German people ... In recent weeks we have seen the revival of a long-pondered German policy that had been kept secret ... The Federal Republic is now entitled to feel abandoned by the United States ... Hence the Germans' swing towards what they traditionally call their "own way" - a swing uniting Social Democrats, Greens, the liberals of Hans-Dietrich Genscher and also, as we will see, Chancellor Helmut Kohl's Christian Democrats" (Michel Jobert, "Now comes a German Swing to the East", International Herald Tribune, 8 July 1987).

Such views are fairly widespread in articles published by French intellectuals and political commentators. They also appear in book form (e.g. F.D. Dreyfus, Les Allemands entre l'Est et l'Ouest, Paris, 1987). Even such a sympathetic commentator on German affairs as Professor Alfred Grosser deplored (in Le Monde, 4 September 1987) Helmut Schmidt's remark in Die Zeit that Mr. Honecker should be received in the Federal Republic as a brother.

In contrast to French comments, British reactions to the "German debate" have shown much less sign of concern or alarm : in this they reflect a pattern that has now become traditional (see my article 'Perceptions of "The German Question" in Western Europe', in German Politics and Society,

Center for European Studies, Harvard University, No 9, October 1986). A summary of British and other EC views - which once again brings together Europa-Politik and defence policy, Westpolitik and Ostpolitik - was offered after the EC Commission's April visit to Bonn by a well-informed British journalist based in Brussels :

"At the end of the day, the other EEC and WEU governments will have to go some way to accommodate West-German ambitions for a more independent foreign policy towards the East, if they are to prevent a future parting of the ways. That is not on the cards now. But the Federal Republic, by spelling out its bargaining demands within the EEC and its pan-European foreign policy goals, is serving notice that the economic giant can no longer be relied on to act like a political pygmy" (John Palmer, "Europe's wary eye on Germany", The Guardian, 7 April 1987).

6. As a postscript to this survey of West-European attitudes to "the German debate", we should note that the very special mini-debate about the position of Berlin - provoked partly by the 750th anniversary this year - has contained some elements that appear to have caused concern to Britain and France, as two of the "protecting powers" of the city. The issues concerned do not affect the EC as such, and there is much understanding in London and Paris for the positions taken in West-Berlin, but some of the implications of "dynamising" Berlin's status cause concern.

Working Group 3

Germany and Europe in World Affairs: possibilities and constraints

The policy agenda: Perspectives for a European Security Policy

Quelques reflexions à partir de la position espagnole: les principes
et leurs (in)conséquences.

par

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"L'Espagne possède aujourd'hui une politique
de paix et de sécurité, tout simplement"
(F.Fernandez Ordóñez, ministre des affaires
étrangères, Commission des aa.ee. de la
Chambre des Députés, le 21 avril 1987)

I

Le débat sur la politique de défense et de sécurité existe dans les arènes parlementaires et dans les moyens de communication espagnols depuis qu'en l'automne 1981 le gouvernement centriste de Leopoldo Calvo-Sotelo posa le problème de l'adhésion de l'Espagne au Traité de l'Atlantique Nord. Il n'y eut pas de consensus et les partis situés à la gauche du gouvernement s'opposèrent, sans succès, à l'adhésion.

Quand le Parti Socialiste, après sa victoire aux élections d'octobre 1982, parvint au pouvoir, l'Espagne se trouvait déjà être membre de l'Alliance. Le gouvernement de Felipe González considéra avec bon sens que le fait de ne pas y entrer ne signifiait pas la même chose que d'en sortir. Ainsi finit-il par endosser et promouvoir la thèse de la permanence, à la condition qu'elle obtienne l'appui populaire lors d'un referendum formellement promis et qu'il devait convoquer pour maintenir sa crédibilité politique. Ce n'est pas tout. Vu le changement dans la position de principe, le gouvernement se sentit poussé à le légitimer devant les citoyens en assujettissant la permanence à la satisfaction d'une série de conditions qui limitaient la future liberté de manoeuvre de l'Exécutif ou, en d'autres termes, le gouvernement essaya de séparer le nouveau principe de ses conséquences les plus naturelles. Cette conception prit forme dans la proposition d'une politique de paix et de sécurité faite par Felipe González à la Chambre des Députés, le 23 octobre 1984, et se consolida le 12

mars 1986, lors du résultat favorable de la consultation populaire.

La question de la permanence éclaircie, ses conséquences commençaient à se réveiller. Le peuple espagnol y avait consenti à trois conditions:

- 1) la non incorporation à la structure militaire intégrée de l'Alliance;
- 2) la réduction progressive de la présence militaire des Etats-Unis en Espagne; et
- 3) l'interdiction d'installer, de stocker ou d'introduire des armes nucléaires sur le territoire espagnol.

II

L'attitude nuancée envers l'Alliance Atlantique a coexisté avec un appui enthousiaste devant n'importe quelle initiative en faveur d'une politique de sécurité proprement européenne. Le noble délire d'une option de sécurité européenne autochtone fut déjà honoré en 1981, lors du débat de l'adhésion à l'Alliance. Le cours tourmenté d'une Europe dont le destin échappe à sa volonté pourrait être le texte d'un de ces bons tangos qui vous prennent à l'âme. Tous les groupes ayant pleuré son absence, l'Alliance s'offrait, selon les partisans de l'adhésion, comme une serre dans laquelle, avec patience et soins, elle pourrait germer un jour... Les années suivantes le gouvernement de Felipe González a justifié la position qui lui était survenue en répétant l'argument qu'avec la permanence dans l'Alliance l'Espagne partageait l'option de sécurité du reste des pays européens occidentaux tel qu'historiquement elle a été articulée après la seconde guerre mondiale.

Le gouvernement espagnol critique fortement le manque de discours commun cohérent de la part des pays européens. Il est conscient de ce que la sécurité européenne soit liée à la sécurité atlantique, mais il estime que les membres européens de l'Alliance devraient chercher la convergence avec les Etats-Unis sur la base d'une position unitaire. C'est seulement à partir de l'autonomie que l'Europe peut partager avec les Etats-Unis des responsabilités comme un véritable allié et non comme un satellite de luxe.

Et de là donc:

- 1) l'encouragement au renforcement du pilier européen de l'Organisation;
- 2) la participation à l'effort de forger une industrie de défense européenne, à travers le Groupe Européen Indépendent de Programmes;
- 3) l'articulation avec les alliés européens d'un réseau d'accords bilatéraux de coopération en matière de défense;
- 4) la manifestation d'un intérêt pour accéder à l'Union Européenne

Occidentale(UEO) au cas où ses membres fondateurs décident de sortir de sa léthargie l'unique forum européen dédié formellement à ces matières et ouvrent la porte à de nouveaux membres;

5) la faveur donnée au traitement des thèmes de sécurité dans l'aire de la Coopération Politique Européenne(CPE); et

6) l'impulsion faite aux initiatives pour avancer dans le projet de Communauté Européenne à travers une politique de sécurité commune.

Quand en automne 1987, la France et la République Fédérale de l'Allemagne semblent catalyser une politique de défense continentale renouvelée, dans le contexte d'un retrait prévisible des euromissiles, de l'enseignement tiré de la manière dont elle a été négociée et de l'éventualité d'une réduction du compromis défensif des Etats-Unis avec l'Europe, le président du gouvernement espagnol manifeste le désir d'adhérer à leur reflexion, considérant qu'il serait bon de l'étendre à tous les pays communautaires qui ne s'autoexclueraient pas. Mais Felipe González pense clairement que l'accord franco-allemand est l'axe nécessaire de tout projet de sécurité européenne quel qu'il soit.

Cette façon de voir européisante trouve largement son écho dans l'opinion espagnole, contrairement à toutes celles qui tournent autour de l'idée de l'Alliance, immédiatement identifiée avec les Etats-Unis, dont l'image n'est pas trop appréciée. Remarquons la rédaction suggestive du premier point de la résolution approuvée par la Commission des Affaires Etrangères de la Chambre des Députés le 21 avril 1987:

"Vu le nouveau contexte international, l'Espagne, depuis sa double condition de membre des Communautés Européennes et de l'OTAN, incitera à l'effort de sécurité Européenne et à la création d'organes communs de décision afin de rééquilibrer les relations au sein de l'Alliance et d'entreprendre la voie qui rendra un jour viable l'option spécifique de sécurité européenne"

III

On peut se demander, pourtant, jusqu'à quel point la triple limitation que l'Espagne a imposée pour sa permanence à l'Alliance -jamais bien comprise par les autres pays membres, qui peuvent la juger peu réaliste et non solidaire- est compatible avec les objectifs exprimés dans la résolution parlementaire déjà mentionnée. Aussi bien un des paris de notre temps est-il de savoir si, comment, et jusqu'à quand, elle pourra survivre.

IV

Assurément, l'Alliance eut-elle préféré que la décantation de l'Espagne pour la permanence eût été suivie par son incorporation à la structure militaire intégrée; pourtant, elle semble avoir respecté la détermination du gouvernement de Felipe González de profiler un modèle espagnol de contribution militaire grâce à la coordination qui semble prendre corps empiriquement, par de successives négociations, initiées en automne (l'automne est la saison emblématique des alliances) de l'année 1986.

Naturellement, l'opposition, de droite comme de gauche, n'y croit pas et accuse le gouvernement socialiste d'intégration camouflée. La droite doit le voir avec une grande joie intérieure puisqu'elle est partisane de l'intégration à ciel ouvert, mais elle fait du manque de respect à la volonté populaire l'objet de sa fâcherie. La gauche est très fâchée, intérieurement et extérieurement. Le centrisme radical renoué de l'ex-président Adolfo Suárez se plaît à la dénonciation, de meilleure humeur, attentif aux intérêts de son score électoral.

La marge d'autonomie que l'Espagne désire maintenir dans l'Alliance affecte, pourtant, négativement sa disponibilité à traduire en actions concrètes la formulation programmatique du gouvernement en faveur d'une option de sécurité européenne. Ainsi, en ce qui concerne la création prévue d'un Conseil de Sécurité Militaire et d'une Brigade Mixte franco-allemande, les déclarations attribuées à des responsables gouvernementaux en faveur d'une future incorporation espagnole ont dû être démenties, tout en observant un halo d'ambiguïté, pour prévenir les assauts de l'opposition, disposée à classer cette initiative comme incongrue ou comme simple paravent à l'incorporation à la structure militaire intégrée de l'OTAN.

D'autre part, la situation coloniale de Gibraltar, alléguée comme un des obstacles à la participation à la structure militaire intégrée et comme facteur décisif à la modulation de la contribution espagnole à la défense occidentale perturbe également toute formule intégratrice européenne dans laquelle l'Espagne pourrait participer avec la Grande-Bretagne. L'Espagne, par exemple, n'admet même pas de participer à des exercices et manoeuvres alliées dans lesquelles pourrait exister, à certains moments, un contrôle opératif ou tactique du commandement intégré de Gibraltar.

V

La prétention de réduction progressive de la présence militaire des Etats-Unis sur le territoire espagnol semble se concrétiser en ce moment dans le départ échelonné des F-16 qui composent l'Aile Tactique 401 établie sur la base de Torrejón, près de Madrid, dont on affirme qu'elle ne remplit pas toujours des missions liées à l'Alliance.

Le ministre des Affaires Etrangères, F.Fernández Ordóñez, considère que c'est une proposition modérée (elle n'affecte qu'une partie des forces USA en Espagne), flexible (elle n'impose pas des calendriers rigides et prévoit dans certains cas la substitution) et réaliste (elle se base sur une évaluation des capacités réelles des forces armées espagnoles et des nécessités de défense de l'Alliance, de façon à préserver les niveaux globaux de sécurité). On remarque aussi que la permanence à l'OTAN a été offerte comme une façon de dépasser la relation bilatérale maintenue avec les Etats-Unis depuis 1953, lorsque les intérêts stratégiques des Etats-Unis concédèrent au Général Franco une garantie de survie, et que l'apport global à l'Alliance que suppose la permanence espagnole compense largement les coûts imposés par la correction rééquilibratrice de la relation hispano-nordaméricaine. La contreproposition des Etats-Unis a été qualifiée de cosmétique par Fernández Ordóñez lui-même. Elle consiste à déplacer l'Aile tactique 401 à la base, aujourd'hui désaffectée, de Morón, près de Séville, et à admettre des autorisations d'usage qui, du point de vue du contrôle espagnol et par rapport aux accords hispano-nordaméricains de 1982 en vigueur, sont rétrogrades.

Le gouvernement espagnol semble décidé à ne pas proroger les accords de 1982, qui expirent en mai 1988, et a annoncé que les prochains jours il fera parvenir, respectant les six mois d'avance convenus, la communication correspondante au gouvernement des Etats-Unis. Celui-ci, pour sa part, semble disposé à mobiliser les alliés européens pour qu'ils persuadent le gouvernement espagnol de la convenance d'un changement d'attitude. La prétention espagnole ne doit pas leur plaire, sans doute, puisqu'elle est apparemment incompatible avec la prétendue contribution de l'Espagne à la défense commune, plus encore en un moment de revalorisation du dispositif conventionnel aérien. Pour les faire réagir, les Etats-Unis les mettent devant une situation gênante: si les F-16 doivent sortir d'Espagne pour rester en Europe les quatre cents millions de dollars, budget minimum calculé pour cette opération, devront être payés par l'OTAN; sinon, ils retourneront aux Etats-Unis, et cela signifierait le premier repli d'un contingent de l'Amérique du Nord vers l'autre côté de l'Atlantique, un fait qui semble inquiéter particulièrement la République Fédérale de l'Allemagne.

La position du gouvernement de Felipe González est inconfortable aussi à l'intérieur des frontières. Pris dans une négociation très complexe, il se retrouve non seulement face à un compromis populaire dérivé du référendum du mois de mars 1986 et qui s'est concrétisé en une revendication rendue symbolique par une publicité prématurée et imprudente, bien que peut-être inévitable, mais aussi face à un front domestique d'opposition hétérogène. La droite insiste à connaître les coûts que l'opération et le futur maintien de la base vont supposer pour le contribuable. Le centre de l'ex-président Adolfo Suárez va plus loin encore que le gouvernement socialiste en réclamant la sortie complète des forces des Etats-Unis du territoire espagnol. La gauche ne se conforme pas avec moins, elle signale que la clé c'est la base navale de Rota, et demande que, en tout cas, la base de Torrejón soit complètement démantelée.

La situation ces jours-ci excite la curiosité. L'abandon de Torrejón est identifié, selon les mots de Fernández Ordóñez, à la réduction substantielle de la présence militaire des Etats-Unis en Espagne considérée le minimum compatible avec la condition approuvée lors du referendum pour la permanence. Pourtant, le manquement du calendrier et l'admission temporaire des F-16 pour procéder aux révisions techniques périodiques et en situations de crise, peuvent faire place à la transaction et à l'arrangement.

Le problème quant aux Américains, c'est ne pas de savoir "comment ils s'en vont, mais comment ils restent" a affirmé à Bonn le président Felipe González, cherchant la tranquillité au delà des Pyrénées. Mais plus est: un jour où on lui demandait ce qu'il considérerait être une réduction sensible -adjectif qu'il avait utilisé- de la présence militaire des USA en Espagne, il répondit avec désinvolture: "C'est très difficile de donner cette sorte de définition avant que la négociation ne soit conclue". Ce qui signifie la disponibilité pour présenter et défendre comme sensible ou substantielle n'importe quelle réduction convenue.

VI

La dernière condition de permanence à l'Alliance, la prohibition d'installation, stockage et introduction d'armes nucléaires en territoire espagnol, semble aussi poser des difficultés vu du côté de la sécurité européenne. La non nucléarisation armée de l'Espagne est, de fait, limitée, dans la mesure où elle se réduit au déploiement et au stockage stable d'armes nucléaires de pays alliés sur son territoire terrestre; alors qu'au contraire le régime de son trafic et transport se trouve relativement souple et il est indéniable le service que les installations d'appui et les autorisations d'usage du territoire espagnol offrent à l'infrastructure nucléaire des Etats-Unis en Europe et, particulièrement, en Méditerranée. Le gouvernement se refuse, d'autre part, à élaborer une législation qui développe et précise le principe établi conséquemment au referendum de mars 1986.

Dans ces circonstances la confirmation ~~par~~ la plateforme sur la sécurité européenne, approuvée par les ministres des Affaires Etrangères et de Défense des pays membres de l'UEO, réunis à La Haye les 26 et 27 octobre 1987, de leur compromis quant à la défense nucléaire et de l'exigence que l'association d'autres Etats s'inspire des mêmes principes et soit mue par la même détermination, semble avoir, à court terme, fermé brutalement la porte de cette Organisation à l'Espagne. Une fois l'acceptation de la plateforme devenue condition sine qua non d'adhésion, le Secrétaire Général de l'UEO déclara, à ce qu'en a rapporté la presse espagnole, que l'éventuelle entrée de l'Espagne pourrait être "préjudiciable pour tous... parce qu'elle ne partage pas les mêmes points de vue". Le porte-parole du gouvernement espagnol a déclaré que l'Espagne ne sera pas présente à l'UEO "si cela suppose qu'elle abandonne quelque une des conditions établies dans le referendum sur l'Alliance Atlantique".

Le gouvernement espagnol s'est senti déçu et préoccupé. Déçu car, après avoir poussé la revitalisation de l'UEO et renforcé son image beaucoup plus que ne le méritaient ses réalisations, ayant manifesté sa disponibilité pour s'y incorporer, l'UEO répond que cette incorporation dans les circonstances actuelles pourrait l'affaiblir. Préoccupé parce que l'Organisation s'est manifestée plus atlantique (et subordonnée) qu'européenne (et autonome), en pressant fortement l'Espagne de résoudre ses problèmes avec l'Alliance, c'est à dire au premier chef, avec les Etats-Unis. On doit rappeler que les F-16 stationnés à Torrejón ont des missions nucléaires, bien que leur armement atomique se trouve dans d'autres pays (l'Italie, la Turquie).

VII

Voilà comment un gouvernement qui se prononce sans équivoque pour une politique de sécurité européenne, peut se voir contraint à en rester écarté à cause des minima dans lesquels il veut situer sa participation à la politique de sécurité atlantique et la dislocation à laquelle il prétend pour sa relation avec les Etats-Unis. Il a été dur au gouvernement de Felipe González de changer de principes. Il le lui sera encore plus d'en tirer les conséquences.

Brugge, le 6 novembre 1987.

THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
CONTINUITY AND CHANGE

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THE PARADOX OF PARTNERSHIP : GERMAN INTERESTS
AND COMMUNITY RESPONSES

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QUESTA PUBBLICAZIONE È DI PROPRIETÀ
DELL'ISTITUTO AFFARI INTERNAZIONALI

1. German policy within the European Community (EC) continually puzzles and often confounds the governments and publics of other member states. After all the origins of the EC had much to do with their concern to tie the Federal Republic firmly and peacefully into the West European family, so that a politically reconstituted and economically stable country could become anchored to them. These objectives have largely been achieved, so much so that thirty five years later the West German economy has become the fulcrum of not only the economy of the EC, but of the wider Western Europe.

2. Yet the consequences for the EC as a whole have not been entirely congenial for two reasons. First, German interests have become so firmly sewn into the fabric of Community policies, so entrenched in the acquis communautaire, that they impede policy adjustments to take account of changing circumstances. Secondly, German policy-making rarely generates sustained initiatives on the basis of which purposive new policies can be established for the EC as a whole. Somehow or other the most prosperous EC member ought to have and use the scope to develop a forward strategy beyond the cautious conservatism of the status quo. But if such a strategy emerged, Germany's partners might not be enthusiastic. It is easy to criticize the absence of a strategy, rather less so to deal with a new approach which by definition would raise new issues. This paper examines the repercussions of current German policy on the rest of the EC.

Cautious conservatism

3. It is common for both German commentators and observers elsewhere in the EC to deplore the centrifugal characteristics of

German policy management on EC issues. Unlike the policies of the French and the British, and indeed several other member governments, German policy typically emanates from several competing sources of political and administrative influence. No central authority pulls together diverse and divergent perspectives and welds them into a single unified approach. Germany's partners are often kept guessing about the positions to be adopted in Community negotiations. Other governments looking for allies are frequently disappointed that sought-after German support melts away on the day.

4. But Germany's partners often delude themselves, when they proceed thence to argue that German policy is misguided or counterproductive. Part of the reality behind the criticised caricature is the scope which individual German negotiating teams enjoy to pursue rigorously and vigorously their specific sectoral objectives. The results of this are fairly plain to see. In agriculture the interests of German farmers are rather well protected by long-established CAP arrangements. Indeed, despite frequent protestations to the contrary from the members of the Bundesfinanzministerium, it is in some respects quite useful for farm incomes to be partly supported through a Community mechanism rather than wholly reliant on intra-German fiscal adjustments. German manufacturing industry has done well out of the combination of a European customs union, limited Community harmonization and surviving national controls over other matters. German service industries have been amongst the most resistant to liberalization within the EC, to the point where the government on their behalf has often exercised effective veto power. The German Post Office, Lufthansa and the insurance sector are all

apt examples. There are many other cases - fiscal harmonization is one which happens to be well documented - where Community progress has been dependent on a changing debate within the Federal Republic.

5. The balance sheet in terms of policies adopted and policies prevented is really rather positive for Germany. Costs have, of course, been incurred, most visibly and calculably through the Community budget and a less than efficient agricultural sector. But these costs can be borne by a buoyant economy in spite of the vocal grumbling. Moreover had the EC adopted more active policies in other economic sectors the budgetary costs to Germany would have been higher and German access to receipts lower. - These costs apart the consequence is to give German economic groups and their sponsors in government strong interests in maintaining the status quo. Changes in policy, with their inherent uncertainties, threaten to disturb vested interests. In a decentralized policy system, as Fritz Scharpf has argued, it is more common for the champions of the status quo to succeed in resisting change than for the proponents of adjustment to marshal a winning coalition. There is little doubt but that the two decentralized policy systems - the German and the European - serve to reinforce each other's shared characteristics.

6. Cautious conservatism is thus a rational negotiating strategy for the German government. This has important implications for Germany's partners. For the German posture to alter requires either a reevaluation of interests by German opinion or a sufficiently credible threat to those interests to provoke a different negotiating strategy.

Coalition habits

7. The German political system has domestically consolidated around two or three party coalitions. German politicians, their advisers and the lobbies which seek to influence them have patterns of behaviour geared to methods of concertation which suit the coalition system. The Community arena exhibits to them many familiar features. Negotiations in Brussels also operate through a coalition system, in which influence in the preparation and margins of the meetings are generally crucial to the outcomes achieved. To be 'successful' does not necessarily require overt sponsorship of particular outcomes. What matters is to recognize the structure and value of potential pay-offs and to be well-placed to extract the highest possible return, as the packages are constructed. Negotiators whose interests lie close to the status quo start with an advantage, a frequent feature of German positions.

8. Several consequences flow from the coalition style of the German government. First, the German government is often willing to work through proxies, unlike the British or French. It is convenient for the German Finance Ministry to leave the running to the British on the overall size and distribution of EC expenditure. They can after all be sure that the British will not flinch from the task and leave some room for manoeuvre to the Germans to optimize their outturns. Similarly on institutional issues the Germans have easily sheltered behind the willingly maximalist postures of the Benelux and Italian governments. Only exceptionally, as with the Genscher-Colombo plan, have the Germans chosen to share an initiative with another government.

In many areas the sponsorship of a particular cause is left to the French government, a product of the intimate bilateral relationship, to which we will return later. This behaviour is not peculiar to the Community arena, since the Eureka initiative formally propelled by the French owed much of its inspiration to Hans-Dieter Genscher. An approach through proxies has merit from the German point of view, in that it leaves others to test the wind and permits a degree of flexibility for German interests to be clarified. From the perspective of Germany's partners it means that anticipating the final German position is often difficult.

9. Secondly, operating through proxies or with partners is a convenient means of avoiding the issue of leadership. The French and British governments do not suffer from the inhibitions which continue to constrain German behaviour. But it is not simply an idiosyncratic legacy of history. Careful appraisal of the negotiating system of the EC reveals just how resistant it is to leadership claims. Both French and British governments have in the past been disappointed in efforts to capture the leadership on key Community dossiers. The German approach has generally had a lower profile and carried fewer risks, while achieving no less.

10. Thirdly, the Franco-German relationship has been a convenient substitute for German leadership. Commentators have often drawn the conclusion that the Bonn-Paris relationship has served to reinforce French influence on both German thinking and the EC as a whole. Of course to an extent the conclusion is merited, but it is easy to overstate. The obverse also has some grounding in fact. The requirements to consult frequently and intensively means that the French government is both well

informed about German interests and required to take them into account in formulating its own position. The French will recognize that they have to invest heavily in persuasion, if they are to carry German opinion with them. And all 'pre-negotiation' - after all this is what Franco-German consultations often are - require those involved to make some movement towards each other. Bilateralism is a two-way street more often than other governments are inclined to suppose.

11. So far the German government has made no comparable investment in bilateral relations with other Community partners on EC issues. Though in the political and security fields the Germans are quite close to the British, this has continually failed to spill over into the Community arena, much to the repeated disappointment of British negotiators. Cooperation tends to be issue by issue rather than across the board and lacks the general structure and texture of intimacy which has so far characterized the Franco-German relationship. A good example of an Anglo-German dog which never barked was the Genscher-Colombo plan which could have plausibly been a Genscher-Carrington initiative. Perhaps equally striking is the relative absence of structured coalitions between the German government and those other partners with an intense level of mutual economic interdependence.

12. In negotiating terms Germany's traditional approach to coalitions within the EC may well not suffice for the future. The coalition pattern is changing as a result of enlargement and a changing Community agenda. One manifestation of this is the northern/southern distinction evident on budgetary and regional issues. A new coalition pattern has yet to emerge, otherwise the

already visible groups of blocking minorities may produce a form of political paralysis within the EC. All member governments will have to think this through, not least the German.

Economic preponderance

13. The full implications of the preponderant weight of the German economy within the EC have never been fully spelled out. At a minimum it conditions the expectations of economic actors throughout the EC. No sensible economic policy, at macro- or micro-levels, can be developed without reference to Germany's position. It is difficult to envisage new economic policies being embraced without German assent. Even to build on existing policies is hard unless German negotiators concur. The quest to complete the internal market well illustrates the size of the task, since contrary to superficial expectation German enthusiasm has been noticeably unforthcoming. German interests, it appears, are sufficiently met by the current repertoire of Community policies. If other member states and the Commission want to move beyond this, they need somehow to marshal German support. But there is some evidence that German interests require adjustments of EC economic policies. German exporters need buoyant markets, interdependence with the EFTA countries is significant and the politico-economic relationship with CMEA countries matters. There may here be a cluster of intra-European trade issues on which Germany is a demandeur.

External impulses

14. The external environment provides yet another ingredient of change. Superpower relations are undergoing what may prove to be

a radical transformation. East/West relations in Europe are becoming more relaxed, with a concomitant evolution in prospect of EC/CMEA links. The EFTA countries are in the process of redefining their relationships with the EC, a development of special concern to Germany for economic, political and security reasons. The debate about the future of European security and defence collaboration is now well under way. Developments in the Middle East and the Gulf pose huge problems for the West Europeans.

15. In this mass of important challenges for Germany and the EC two factors stand out. First, the EC as such cannot be a vehicle for producing an overall West European response. European Political Cooperation has something to contribute to the debate, but is not sufficiently developed to be the engine of common action. The EC itself may be a means of consolidating changes in relationships with EFTA or the CMEA countries, but only as and when the parameters have been set elsewhere. Community activities have to be looked at in relation to other European frameworks. This requires a careful appraisal of options and opportunities by the German government, for which segmented sectoral approaches are not enough. Secondly, though the French and German governments actively discuss this range of questions bilaterally they have only limited means and partial commitments to translate their concerns into substantive common action. The joint military exercises and proposed Franco-German brigade may be a welcome development. But these too may illustrate the limits of effective bilateralism, as other governments watch cautiously to see whether this is a real European initiative or rather part of the symbolism not substance of collaboration.

16. Meanwhile there are other actors and factors on the European scene. France and Germany do not monopolise influence. The Italians have been flexing their foreign policy and economic muscles. Italian entrepreneurs have become substantial investors in European industry, backed by a resilient economic base at home. They have interests and influence to wield in Europe's external policies. Spain now has to be included in the reckoning as a state which is rapidly coming of age as a weighty member of the West European family.

17. And then there is Britain... One of the hardest elements to identify with precision in the Community's current constellation of interests and influence is Britain's position. Britain has become a 'normal' member of the Community family. Across a range of issues British interests now lie close to the core of Community interests in the trade, industrial and financial sectors. British policy is much more proactive and considered. Though there remains an important transatlantic dimension to British policy (as is actually true of all other EC members in different degrees) this is increasingly complementary rather than antithetical to the European dimension. This is well illustrated by the degree of European engagement already evident in Britain's involvement in the European security debate. Though it has been argued above that the Franco-German relationship has served German as well as French interests, it has also mesmerized the Germans, so leading them to neglect relations with Britain within the EC context.

The elusive triangle

18. The triangle - London-Bonn-Paris - remains a shadow. Three separate bilateral relationships coexist and are among the more important within the European family. But there has been no movement to consolidate the triangle over the last two or three years. This reflects partly the fact that no one has tried and partly the inherent risks of so doing. Of course a structured triangle would disturb and distort the current looser patterns of power and influence in Western Europe. Other Europeans would rightly take very ill and probably seek to undermine any such structure. West Europe is condemned to a multi-polar system of influence and some persisting divergences of interests. But nonetheless the Franco-German relationship has to be bolstered and supplemented by close ties among other West European countries.

19. The multilateral frameworks in Europe for defence, foreign policy, economic integration and technical collaboration risk pulling Western Europe in different directions unless they are woven together. The variable-geometry Europe unavoidably in evidence will not be able to function effectively without a common core. The British are unlikely to provide the impetus to pull these different European arenas together. The French, still on the edges of the collective security system, are ill placed to do so. German rhetoric has been explicit in the past about the seamless web of European cooperation. But the practice is less easy to identify. Variable geometry may unravel some of the status quo and damage some German interests. German policy-makers need to examine carefully how best they should and could act to provide the common core.

20. The cautious conservatism and coalition habits of successive German governments have been valuable instruments for promoting German interests. The acquis communautaire has fitted the German economy, in industry, in agriculture, in services, even in high technology, both through its achievements and its failures. But the EC is going through a process of political and economic adaptation, for which old and well-tried negotiating strategies are probably inappropriate. The vacuum of leadership and the flissiparous character of the EC do not make it easy to identify new strategies. But that is a poor excuse for not trying.

THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY :
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THE FEDERAL REPUBLIC OF GERMANY AND EUROPEAN AFFAIRS :
THE LIMITS TO LEADERSHIP

Report by

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The Federal Republic: *Musterknabe* or *Sorgenkind*?

The conventional wisdom for most of the postwar period has been to regard the FRG as the Community's *Musterknabe*: the mainstay of cooperation and integration in Western Europe. As the member state with, for historical reasons, the greatest problems in seeking to pursue its policy objectives unilaterally, the FRG stood to derive the greatest political benefits from European integration. By contrast, both France and Great Britain could fall back on a more nation state-oriented policy if necessary. At the same time, Bonn governments have not been as preoccupied with their own continued existence as their counterparts in Italy, the other larger member state of the European Community (EC). During the chancellorship of Adenauer West German support for integration was at its greatest. During the 1960s enthusiasm began to wane not least due to the inability of the Six to agree on the future direction of European unification. Some commentators began to regard the FRG as Western Europe's *Sorgenkind*. This concern has been greatest in France, especially at the time of Brandt's *Ostpolitik*, when there were fears of neutralism in central Europe or of a 'new Rapallo'. In this paper it is our intention to question whether the FRG has become a *Sorgenkind*, rather than the earlier *Musterknabe*, but on different grounds, namely because of its machinery for European policy-making.

The Federal Republic's formal machinery for European policy-making has never been highly centralised, although Adenauer gave firm political leadership during the early years of integration. During the 1970s the FRG's European policy became increasingly sectorised as individual ministries pursued 'house' policies. The one striking exception to this rule was the creation of the European Monetary System (EMS). If this case demonstrated that chancellorial authority could still be asserted in European policy, the limits of that authority were demonstrated by Schmidt's inability to persuade his own Agriculture Ministry to pursue a policy consistent with reducing EC farm expenditure.

Under the chancellorship of Helmut Kohl the problem of incoherence in the FRG's European policy has become even more pronounced, especially as a result of the composition of the EC's agenda. The period from 1985 to the ratification by the West German parliament of the Single European Act (SEA) was characterised initially by incoherence on as fundamental an issue of integration policy as voting practices in the Council of Ministers.

Subsequently the ratification of the SEA brought major complaints from the *Länder* about the erosion of their powers. Neither of these developments augured well for a positive West German role in prompting, or directing, the future of European Union. Nevertheless, as the EC's leading economic power, a major (but not a dominating) role is expected from the FRG within the Community.

In 1987 the problem of the EC's finances was once more on the agenda following the brief relief in the aftermath of the 1984 Fontainebleau agreement. The present financial crisis in the EC raises the question of the FRG's role in the EC in a new and more urgent form. Past budgetary crises (and the crisis is almost endemic) in the 1970s often led to a debate about West Germany's paymaster role. The present debate has focused less on that question and more on the incoherence of the European posture of the FRG in simultaneously pressing, through the finance minister, for substantial cuts in agricultural expenditure and for restraint in EC spending generally, while the agriculture minister has been prominent in maintaining farm incomes. The EC, it seems, cannot be reformed without West Germany but it is now being said that it is difficult to reform it *with* the Federal Republic.⁽¹⁾

This particular contradiction in the FRG's position is not new. It reflects the unusual combination of Western Europe's strongest economy with a decentralised political system which gives the agricultural interest a very privileged role. This structural condition is reinforced by a notably loose set of policy instruments for the management of European policy. This situation prompts a number of questions about the FRG's ability to play an appropriate role in the resolution of key matters of European integration. Does its policy machinery impose constraints upon the Federal Republic's role in the EC of the late 1980s? Can the Federal Republic offer some kind of leadership to the European Community? Can the leadership of the Federal Republic formulate and implement a coherent European policy? It is in this sense that we will question whether the FRG has become a *Sorgenkind* rather than the *Musterknabe* of the 1950s. The paper will thus attempt to extend discussion about European policy-making beyond procedural concerns to the broader issue of the FRG's role in the EC.

In order to tackle these questions, the paper will be divided into three parts. In the first of these we will relate how the original European policy machinery was closely linked with the EC's role, in the eyes of

Adenauer and others, as an *arena of cooperation*. The later emergence of a second, increasingly important, functionality of the (evolving) EC, namely as an *arena of competition*, had implications for the development of the European policy machinery; these will be assessed. In the second part we will examine how, in the much more extensive framework of cooperation and integration today, the management of European policy follows a procedural code established in the 1950s. Is this loose procedural code still valid in circumstances of extensive policy inter-connectedness and following the changes set down in the Single European Act? Following this assessment of the internal limits to West German leadership, we examine some of the constraints imposed by external factors, such as the Franco-German relationship and inner-German relations.

PART ONE

THE EVOLUTION OF THE EC'S IMPORTANCE TO THE FEDERAL REPUBLIC

1. From arena of cooperation ...

The decision to participate in European integration came at the time of the Schuman Plan and was a decision taken, in governmental terms, by the chancellor, Konrad Adenauer. Integration was seen as a route to establishing the international credibility and reliability of the new West German state. In the specific context of membership of the European Coal and Steel Community, the FRG was able to *gain* sovereignty over two key industries and act as an equal of more established democratic states, such as France. European integration also associated the FRG with a 'community of values', including human rights and democracy, which served as a pillar of support for the new democracy.⁽²⁾ Chancellor Adenauer thus saw European integration collectively and, the three communities individually, as affording the FRG an *arena of cooperation*.

Adenauer's authority in pursuing this policy derived from his political skill within both the Christian Democratic Union (CDU) and his coalition governments. Organisationally, it was further facilitated by the absence, until 1955, of a foreign minister. This is not to say that the chancellor was responsible for routine policy concerning the European Coal and Steel Community (ECSC). In fact, the Federal Economics Ministry was entrusted with this task through the establishment in 1951 of a subdivision

the *Montanunterabteilung*. This was the main policy-making instrument set up, although there was an interministerial committee for ECSC affairs (*Interministerieller Ausschuss für Angelegenheiten der Montanunion*), chaired by the Economics Ministry and attended by officials from the Foreign Office and Finance Ministry and others as necessary. It was an unwritten principle that political matters concerning European integration remained firmly in the hands of Adenauer. This principle required no special institutional provision because, according to Article 65 of the Basic Law, the chancellor sets the guidelines of all governmental policy (*Richtlinienkompetenz*).

The broadening of European integration with the establishment of the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) was once again advocated by Adenauer as part of his broad foreign policy. Integration continued to be perceived by him as an *arena of cooperation*. However, circumstances at both the domestic and European levels were changing in a manner that was to influence the value of integration to the FRG. Symbolic of this, perhaps, was the difference of opinion between Chancellor Adenauer and Economics Minister Erhard in the late 1950s. Erhard, reflecting his own thinking, departmental concerns (*Ressortpolitik*) and the (by now more apparent) export interests of the economy,⁽³⁾ supported the wider free trade area being discussed in the Organisation for European Economic Cooperation (OEEC). A speech which he made in Rome in March 1959 drew a rebuke from Adenauer, who pointed out that this was not in accordance with governmental policy, for which he, as chancellor, held responsibility.⁽⁴⁾

Erhard's rebuke indicated that Adenauer was very much in control of the foreign policy implications of European policy; it also indicated that political objectives - European integration as an *arena of cooperation* - still prevailed. This objective also prevailed in German governmental policy during the debate concerning the Political Union proposals of de Gaulle. However, the objective was beginning to look somewhat frayed as de Gaulle's attacks upon supranationalism came to jeopardise the process of both political and economic integration. Thus it was in the aftermath of the creation of the EEC and Euratom, and in the context of de Gaulle's emergence to challenge the 'logic' of integration, that the FRG came to see the European Communities as an *arena of competition*. Chancellorial control over integration policy began to wane for a range of factors and the need for European policy coordination began to develop a powerful momentum. Before examining the impact this momentum had, what were the stimuli for the gradual

change in the EC's functionality to the FRG? Identifying these stimuli can perhaps throw light on the suitability of the institutional response within the FRG.

2. ... to arena of competition

From the outset it must be noted that the change in the EC's role for the FRG was a very gradual one. The relationship's essentially inter-dependent nature meant that stimuli came from the EC, from within the FRG and from changes in the wider international environment too.⁽⁵⁾

(a) Stimuli from the EC

An important change in the environment at the European level, and one which was perhaps inevitable with the passage of time, was the reduction in perceived need for a new international system superseding one based on nation states. Nation states had acquired renewed vigour; the pace of integration slackened and the nature of new initiatives became less ambitious. Although the Federal Republic's pre-history attenuated these developments in Germany, Adenauer's close relationship with de Gaulle formed an indirect link.

De Gaulle's European policy was, of course, a major factor affecting the FRG's perception of integration. The centrality of the nation states to the Political Union initiative of 1960, and the challenge to the more supranational methods of the three communities, represented clear evidence of the reassertion of the nation state. The failure of the Political Union project, due to divergent national attitudes, was to preclude political cooperation for the rest of the decade.⁽⁶⁾ Enhancing integration's scope as an *arena of cooperation* was, in consequence, severely constrained. A further constraint in this direction resulted from the 'empty chair crisis'. The failure to proceed to majority voting from 1966, as provided for in the Treaty of Rome in many policy matters, constrained the 'pre-programmed' political development of the EC.

With the EC's development as an *arena of cooperation* stymied by these problems, so its utility to the FRG began to change. Admittedly, the launching of the idea of foreign policy cooperation at the 1969 summit at The Hague brought a new political activity onto the agenda, and a valuable one since the FRG was not yet a member of the United Nations. Nevertheless, it was measures like the commitment to an Economic and Monetary Union (EMU)

by 1980 that confirmed the EC's status as an economic actor. This trend was continued at the 1972 summit in Paris, where tentative efforts were made in the direction of an EC regional policy, as well as proposals for energy and environmental policies. All these developments, with the exception of EPC, enhanced the EC's role as an *arena of competition*. This role was confirmed in two respects. First, the West German economy (and thus its governmental advocates) saw increasing opportunities for extending its competitiveness in EC markets. Second, the emphasis in the Community upon economic policies brought with it a greater facility to measure, in some policy areas, the costs and benefits to the FRG. Increased emphasis upon distributive policies inevitably led to a more competitive bargaining framework in the EC. This tendency was further emphasised by the EC's 1973 enlargement which brought in two states concerned not to lose their national sovereignty, namely the United Kingdom and Denmark.

To summarise, the course of European integration did not develop in the manner envisaged by Adenauer. Or, to put it another way, given the conditions in the EC, Adenauer's objectives had reached their full potential for the time being. This was a situation also confirmed by developments within the FRG itself.

(b) Stimuli from the FRG

With Adenauer being most closely associated with European integration serving as an *arena of cooperation*, his replacement in 1963 as federal chancellor by Erhard was bound to lead to a shift in policy, especially in light of the latter's different views. During Erhard's chancellorship there was some conflict within the christian democratic parties concerning the role of integration. The two party chairmen, Adenauer and Strauss, sought some kind of political union based around a Franco-German alliance. This 'Gaullist' position was out of step with the thinking of key governmental office-holders. Chancellor Erhard and foreign minister Schröder ('Atlanticists') placed greater emphasis on relations with the United States. On the basis of both policy ideas and personalities, Erhard failed to reach the necessary understanding with de Gaulle in order to facilitate a continuation of Adenauer's policies. By the time that Kiesinger became chancellor Adenauer's policies were unworkable because of entrenched positions within the EC.

A second factor associated with the new chancellor was his different style of political leadership. Erhard's attempts to be consensus-oriented,

by contrast with his more authoritarian predecessor, resulted in an increase in ministerial autonomy and a less explicit and less coherent European policy: a feature perhaps even more characteristic of Kiesinger's chancellorship, due to the powerful positions of Brandt and Schiller in the cabinet. All chancellors since Adenauer have either played a much less assertive role regarding European policy or, as in the case of Schmidt, have played this role in limited areas (e.g. monetary cooperation). Under both these circumstances economic objectives have taken precedence.

Two explanations may be offered in order to account, in terms of domestic politics, for reduced chancellorial interest in the strategy of political integration. One is that Adenauer's objective of obtaining German rehabilitation had been achieved, as had relative political stability in the new republic. Utilising European integration to further these objectives had served its purpose to a large extent (foreign policy cooperation notwithstanding). By the time of Schmidt's chancellorship, the FRG had become as assertive a member state as the others. Associated with this factor is the phenomenon of generational change whereby the political leadership is increasingly drawn from a generation brought up in the Bonn Republic and with less experience of its pre-history. The earlier tendency for German negotiators to back down in intergovernmental disputes had disappeared. The second is that party political controversy on European integration had died down.⁽⁷⁾ Social democratic (SPD) opposition to integration declined between 1952 and 1955; the party supported the EEC and Euratom.⁽⁸⁾ During the mid-1960s the Free Democratic Party (FDP) moved from its opposition to the treaties of Rome to a position of support of the EC.⁽⁹⁾ Thus by the mid-1960s all significant controversy about the desirability of both European integration and the European Communities had disappeared. Party political differences were more a matter of differing priorities or motivations, such as in the 'Atlanticists'-versus-'Gaullists' debate. This development had the effect of lowering the priority of European policy in the parties; it became more a matter for insiders. It had the further effect, for electoral reasons, of reducing the need for attention by a governmental leadership which, of necessity, has to be selective in its prioritising of policy areas.

A final factor, on the economic front, derives from the West German economy's increasing export dependence during the 1960s. Deubner produces evidence to show 'a total export dependence of about 41 per cent for industrial production in general and more than 50 per cent for many industrial

sectors'.⁽¹⁰⁾ The EC represented a key part of this export dependence. By 1984 the EC (of ten) took 47.7 per cent of West German exports; in 1958 the same countries had represented an equivalent figure of only 35.9 per cent.⁽¹¹⁾

These factors deriving from West Germany's political and economic development had the effect of reinforcing the use of the EC as an *arena of competition*. This is not to argue, as Lankowski has, that the FRG was exploiting the EC 'as a regional extension of the West German state'.⁽¹²⁾ His argument implies a unity of purpose in governmental policy which, in our view, is highly questionable. Before expanding on this point, it is worth identifying the changing international circumstances of the FRG's role in the EC.

(c) Global stimuli

Already in the mid-1950s a more relaxed climate of East-West relations led to a reduced need for European integration to serve urgent security policy objectives. The main changes in global stimuli came in fact in the late 1960s and early 1970s with the increased international monetary instability, energy supply problems and, subsequently, the international economic recession. These developments, and in particular the challenges they posed to existing international economic institutions, caused some (unsystematic?) reassessment of the utility of the EC to the FRG. Chancellor Schmidt's perception of the EC's value as a potential zone of monetary stability was evident in the proposal of a European Monetary System. The proposal was motivated less by a wish to advance the EC as an *arena of cooperation* than by his wish to stabilise trading conditions for important West German export markets. The international recession also had the effect of causing national governments to be much less willing to concede ground on entrenched national policy principles, never mind financing ambitious new Community projects. Schmidt's chancellorship again provides ample evidence of this in his government's rejection of the role of the EC's paymaster.

Apart from having an impact on the West German perception of the EC, many of these developments also had important effects on the EC's policy machinery. The increase in activities falling under the remit of the European Communities led to major developments in EC policy-making, as did the Luxembourg Compromise. The diversification of technical Councils of Ministers created problems of coordination from the 1960s onwards. This

problem was compounded by the failure to implement majority voting from 1966, as planned. Policy-making became very protracted as national interests were asserted in the Council of Ministers. If progress was to be achieved, it often required horse-trading across several policy areas. The inability of the General Council of Ministers to carry out its role of coordinating the work of technical Councils resulted in some contradictory policy developments at the EC level. The holding of irregular summit meetings and, subsequently, their institutionalisation as the European Council was one means of trying to tackle this policy-making paralysis. But what impact did these developments have on the formulation of European policy in the FRG?

P A R T T W O

MANAGING THE *ARENA OF COMPETITION*: THE INTERNAL LIMITS TO LEADERSHIP

The FRG's European policy-making machinery was initiated at the time of the ECSC's establishment. Based upon Adenauer's conception of integration, it assumed strong chancellorial authority in the context of integration policy while more routine coal and steel matters were left to the Economics Ministry. The creation of the EEC and Euratom widened the involvement of federal ministries in routine matters to include those responsible for such 'technical' areas as agriculture, research (Euratom), development aid and transport. Beyond Bonn the Federal Bank's involvement increased, although it was with the EMU initiative that this did so dramatically. The Foreign Office's role was strengthened from its previous weak position as a result of a 1957 agreement between the economics minister (Erhard) and foreign minister (von Brentano).⁽¹³⁾ Despite being allocated control of integration policy under the 1957 agreement, the Foreign Office's authority was subject to two constraints. On the one hand, it was less well placed than the technical ministry/ies affected in terms of ability to make a response to Commission policy initiatives. Secondly, in so far as a chancellor laid strong emphasis on integration policy in his governmental declaration, he too represented a challenge to Foreign Office authority. What are the characteristics of European policy-making today?

Two related characteristics are of greatest importance. First, management of European policy tends to be devolved to the ministerial agency having the appropriate technical expertise. Three explanations can be

offered for this state of affairs. First, this is part of the general pattern of civil service organisation in the FRG. Second, it is enhanced by the party political permissive consensus (excluding the Greens) on European integration; lack of political saliency means that the political leadership (the chancellor and his ministers) has no special motivation to sift EC business out of the maelstrom of political activity, in order to afford it some special treatment. Thirdly, it results from the absence of a dominant central agency with responsibility for European policy.

The second characteristic of European policy-making, and closely linked with role of expertise, is its highly decentralised nature. Apart from in the Foreign Ministry and, to a limited extent, in the Agriculture Ministry, the basic organisational principle has been one of assimilating EC business into existing departmental structures.⁽¹⁴⁾ Upheaval of existing practices for domestic policy is thus minimised. Similarly, the inter-ministerial committees set up to assist coordination of European policy between ministries follow pre-existing principles; only the participants and subject matter are different. Thus European policy is treated by and large like domestic policy. On the one hand, this demonstrates the FRG's ability to assimilate a layering of responsibilities, whether policy originates from the *Länder* or from the EC. On the other hand, such assimilation of EC business can be tantamount to allowing domestic interests to prevail over integration policy. In other words well-intentioned EC initiatives may receive unfavourable reaction in specialist ministerial sections, where existing domestic policy represents a(n immovable?) reference point underpinned by familiarity with the attitudes of affected interest groups. These sections have no brief to take into account wider considerations of the government's integration policy.

The general point here is that the main features of the FRG's European policy-making apparatus were set at the time when European integration was perceived as an *arena of cooperation*, at a time when the overall direction of policy was assured by the chancellorial authority of Adenauer. With the EC now serving a more diffuse purpose as an *arena of competition*, with the EC's activities having extended far beyond those of the 1950s and early 1960s, and with the range of federal (and *Länder*) agencies involved in European policy having increased enormously since that time, the federal government's machinery continues to be developed incrementally from a division of labour appropriate in the 1950s. What problems arise from this?

1. Chancellorial authority

A successful European policy has to take its cue from the top. This was certainly the case under Adenauer, who made full use of the powers, available to him under Article 65 of the Basic Law, to set policy guidelines. Under current circumstances there is even more need for this chancellorial authority. This is not least because of the European Council's creation and its assumption of such functions as those of defining the guidelines of integration, most notably at sessions in Milan and Luxembourg in 1985, and (more controversially) of problem-solving, such as at most sessions 1980-84 and again at Brussels in 1987 on budgetary matters.⁽¹⁵⁾

Leaving aside the fact that the chancellor is likely to give a higher priority to a policy where success may yield greater electoral benefits than is the case in European policy, the great extension of EC activities has made it much more difficult to assert chancellorial power. As Mayntz has noted:

Of the three constitutional principles - the principle of leadership by the chancellor (*Kanzlerprinzip*), by the cabinet (*Kabinettsprinzip*) and by the departmental ministers (*Ressortprinzip*) - none is so fully realized and jealously guarded as the third.⁽¹⁶⁾

Chancellor Kohl's preference for acting as a consensus-builder within the cabinet, rather than in asserting his leadership, has been particularly apparent in European policy. Despite his invocation of Adenauer as an inspiration, his consensus approach has gone as far as allowing his own stated policy of favouring more majority voting in the Council of Ministers to be undermined by a departmental minister, namely agriculture minister, Ignaz Kiechle. This occurred when the latter used a veto to block a cereals price agreement in the build-up to the Milan European Council (June 1985), where Kohl was to argue for more majority voting.⁽¹⁷⁾ Policy incoherence of this nature is damaging on two counts. Firstly, it undermines efforts to present European policy to the public in a positive and coherent light, rather than in one open to cynical interpretation. Secondly, these polyphonic tendencies create severe difficulties for other member states, who are trying to judge both the key (and the conductor) of the FRG's European policy.⁽¹⁸⁾ There has been little recent utilisation of the potential for chancellorial leadership in European policy, such as Schmidt achieved in the launching of the European Monetary System *despite* ministerial and Federal Bank objections.

West Germany's utilisation of the EC as an *arena of competition* requires firm control of policy due to the diffuse set of economic and social policy areas involved. At present such coordination of policy, whether undertaken by the chancellor himself or by a minister directly responsible to him, has not materialised.

2. Ressortpolitik and sectorisation

In the absence of clear chancellorial authority over European policy, ministerial autonomy takes on greater significance. There are two dimensions to the problem. On the one hand, 'house' policies tend to emerge and may show signs of incompatibility with each other. This has arguably been the case for some time regarding the agriculture and finance ministries' attitudes to reform of the Common Agricultural Policy. On the other hand, it is easy for policies with a low overall governmental priority to be conducted autonomously from the ministerial level altogether.

Nowhere was the problem of 'house' policies clearer than in the FRG's prosecution, during the 1970s, of an agricultural policy designed to exploit all available benefits for the German farmer, including relatively high price increases and manipulation of green currencies. That these measures were causing a large strain on the EC budget, financed to a large extent by the FRG, were undermining the principle of common pricing in the Common Agricultural Policy (CAP) and were out of step with the federal government's free market rhetoric in the industrial sector was scarcely given concerted attention in the cabinet. Now that both high agricultural prices and positive Monetary Compensatory Amounts are under attack, there is a new contradiction. Chancellor Kohl's Europeanist rhetoric is being undermined by his government's measures having the effect of 'renationalising' the CAP.

Although policy areas subject to low governmental priority are relatively calm and uncontroversial, as was once the case with agricultural policy, this depoliticisation often affords cover for close interest group-civil servant cooperation on technical policy areas. When this cover is 'blown', it may transpire that this cosy sectorisation of policy has not been to the benefit of overall policy objectives. For example, the close relationship between the chemicals industry and the responsible section in the Economics Ministry - the *Chemie-Referat* - in the drafting and implementation of the 1979 EC chemicals directive skilfully outflanked

environmentalist concerns (in the Interior Ministry).⁽¹⁹⁾ The failure of the Interior Ministry sufficiently to protect environmental concerns against industrial interests became a major issue in 1986 at the time of the Chernobyl nuclear accident. The creation of the new Environment Ministry in June 1986, although partly a 'public relations' step in the context of *Länder* elections, was also an attempt to shake up the policy-making arena. This was a typical German solution. Instead of giving a ministry the authority to direct policy, a new *Resort* was established and policy was expected to emerge from the resultant institutional pluralism. In the context of European policy, a further European *Resortpolitik* had been created!

Perhaps the most serious effect of sectorisation at the bureaucratic level is the obstruction it presents to the formulation of European policy in Bonn. Two examples will suffice here. At the time of the establishment of the European Regional Development Fund the Foreign Office, in the shape of Dr. Hans Apel, was responsible for negotiations in the Council because new policies are taken as 'integration policy'.⁽²⁰⁾ Technical advice, however, was coming from the specialist civil servants in the economics and finance ministries; their criteria were based on the guidelines of domestic policy. Meetings of the Committee of State Secretaries for European Policy and of the cabinet considered proposals purely on their technical merit and a willingness to support a fund of UA50 million emerged (against the Commission's proposal of UA2,250 million!). The failure to have a realistic policy led to a major clash at the Council on 18 December 1973 (Apel: 'we are not the paymasters of the Community'). The announcement, following a cabinet meeting on 19 December, that the Foreign Office was to coordinate policy with the economics and finance ministries and with the chancellor resulted in a German proposal of UA1,250 million in January 1974. This enormous change of position can only be explained by poor coordination between the technical analysis of policy at the civil service level and the requirements of integration policy, to be defined at the political level.

A further instance of political organisation dictating policy came during the German presidency of 1983 in the context of transforming the Genscher-Colombo initiative on European Union into the Solemn Declaration subsequently adopted at the Stuttgart European Council. The initiative concerned both EPC and EC affairs, which are handled in separate divisions of the Foreign Office. As Regelsberger and Wessels have indicated, neither division was willing to forgo participation in the committee with the result

that all member states had to have two participants in the negotiations.⁽²¹⁾ The dynamics of Foreign Office organisation were allowed to dictate policy-making at the EC level.

Although interministerial clashes, especially over budgetary contributions and the reform of the CAP, gain greatest prominence, it should be noted that there are also such contradictions within ministries.⁽²²⁾ The Economics Ministry's trumpeting of free market rhetoric regarding trade policy is well-known and is supported by both the Federation of German Industry and by the trade union confederation. It should not be forgotten, however, that this is the same ministry which, in its responsibility for the textile sector, has agreed to several versions of the protectionist Multi-Fibre Arrangement following special pleading by the industry branch association (*Textilindustrie - Gesamttextil*) and by the sectoral trade union *Gewerkschaft Textil - Bekleidung*.⁽²³⁾ Sectoral dynamics prevailed.

Taken on its own, devolving European policy to specialist sections in 'technical' ministries is scarcely a problem. Where this is combined with inadequate coordination and with both a low public interest in EC affairs and low party political saliency, there is much scope for a fragmented policy determined by incrementalism at the bureaucratic level rather than by efforts to conform with a clearly projected integration policy.

3. Bund-Länder dynamics

The Federal Republic is the sole member state of the EC to possess a federal constitution and intrinsic to the Bonn government's manner of absorption of EC business has been its familiarity with a layering of authority from federalism 'at home'. The *Länder* have been consistent supporters of European integration. During Adenauer's domination of European policy there were no major *Länder* objections to the effects of integration, although there always had been concern about the channels through which their views would be articulated. From the late 1960s the EC's impact upon the *Länder* has increased, creating difficulties in certain policy areas, such as regional and environmental policies. Prior to the debate about the Single European Act (SEA) the constitutional-legal basis of *Bund-Länder* cooperation on EC affairs had been disputed but in practice it had followed the spirit of cooperative federalism.⁽²⁴⁾ On occasion the federal government had had to defer a policy pronouncement or withhold agreement in the Council due to

the position of the *Länder*.

The Single European Act has been perceived by the *Länder* as a threat to their constitutional status because it allocates some of their policy responsibilities, as set out in the West German Basic Law, to the EC without the federal government having made any guarantees for increased *Länder* involvement in policy-making. There was a feeling among the *Länder* governments (especially Bavaria) that their powers, for example on environmental policy, had been negotiated away by the federal government. Ratification of the SEA thus gave the *Länder* a lever to prise some concessions from Bonn on a long-standing grievance. The significance of this is that *Bund-Länder* relations on European policy are becoming harder to manage and risk constituting a serious additional impediment to a German leadership role in the EC.

The *Länder* signified their objections in a Bundesrat resolution of 21 February 1986 on the ratification of the SEA. In this resolution the *Länder* suggested that their agreement to ratification of the SEA would be dependent on improvements to the policy-making machinery in the FRG and to *Länder* representation in international institutions such as the EC. In the Bundesrat's first debate on ratification on 16 May 1986 the *Länder* sought to introduce an article providing for their constitutionally guaranteed *Mitwirkung*, including the inclusion of *Länder* representatives in West German negotiating teams at the Council of Ministers. Although this campaign was led by Bavaria and the SPD-governed states, the resolution was passed unanimously. In the event the federal government agreed to legal provision for *Länder* participation in policy-making and the Bundesrat ratified the SEA in December 1986.⁽²⁵⁾

The consequences of this arrangement for European policy are put well by Renate Hellwig in an important article in *Europa Archiv*.⁽²⁶⁾ She argues (p. 301) that this formal consultation procedure will inevitably slow down the process of European policy-making within the FRG. Agreeing a position between the *Bund* and the *Länder* will make a prompt and coherent German response to EC initiatives even more difficult than before. What happens, for example, if there is a disagreement between the majority view in the Bundesrat and the view of the federal government? As Hellwig points out there is also the possibility that individual states will employ their new right of *Mitwirkung* to defend *Land* interests. Might not the governing

party in Bavaria campaign to maintain the law of purity for beer (*Reinheitagebot*) and gain electoral support for this action at the Bavarian level?⁽²⁷⁾ The development of the EC after the 1965 crisis testifies to the fact that as soon as the possibility of defending vital national interests arises, so vital national interests become vocal. Under a worst possible scenario the federal states could invoke vital *Land* interests in an analogous manner.

The *Länder* have also indicated their intention to set up individual state representations in Brussels. As Hellwig points out, it will do the FRG's appearance and credibility no good if, alongside the West German permanent representation, a series of *Länder* representations are trying to outbid each other for EC funds and industrial investment. Such a development would leave the federal government outsmarted.⁽²⁸⁾

The federal government has responded to the challenge presented by the *Länder* by appointing a minister of state in the Chancellor's Office to liaise between the federal and *Länder* governments. However, with a junior minister in the Foreign Office holding responsibility for coordinating European policy, and the Economics Ministry coordinating most of the routine business, it is not clear why a new coordinating role is now assigned to a third ministry. Coordination of a policy is usually entrusted to one ministry, not three. Perhaps the coordination from the Chancellor's Office has been selected in order to indicate to the *Länder* the seriousness with which their concern about the SEA was taken. Two dangers are apparent in this measure, however. Firstly, federal (vertical) decentralisation of authority and expertise on EC affairs has now also become a further element of (horizontal) sectorisation in the Bonn government. Is the junior minister in the Chancellor's Office to intercede with, say, the Federal Environment Ministry when the *Länder* feel their views have not been taken seriously through other policy-making channels? Will the junior minister be able to maintain a neutral role or will he become the advocate (*Anwalt*) of the *Länder*? Secondly, the Chancellor's Office would normally be associated with the hub of a coherent European policy - perhaps in the manner of Dr. Focke's role from 1969-72. Under the present arrangement there seems to be a very real danger that chancellorial authority is being compromised by new sectorisation within the Chancellor's Office. How will the chancellor be able to pursue an active European policy initiative that runs counter to *Länder* interests, given that their views are being channelled via the minister of state in his own office?

4. A new party politicisation?

From the late 1950s until the entry of the Greens into the Bundestag in 1983 there was an all-party consensus on European policy. Differences between the parties on EC policy were matters of emphasis rather than anything more fundamental and played a negligible role in electoral competition. In consequence, their impact on policy was rather small.⁽²⁹⁾ Whilst this view was generally accepted by commentators, a number of scholars, particularly non-Germans, argued that agriculture constituted a special case. A pro-agricultural bias was often ascribed to the presence of the Free Democrats in the Social-Liberal coalition and their 'blackmail' of the SPD. It has been our argument, by contrast, that West German policy on the Common Agricultural Policy during the years 1969-82 reflected the normal relationship between the German Farmers' Union and the ministry, a procedural code emphasising sectorisation and ministerial autonomy rather than the impact of the FDP.

There is some evidence to suggest that this situation is changing in a manner that may reinforce both ministerial sectorisation and the more complex *Bund-Länder* relationship on European policy. The common feature here is the role of the Bavarian Christian Social Union (CSU) but the Christian Democratic Union (CDU) is also involved. The changes in the CAP, especially with the introduction of dairy quotas, mean that the agricultural sector now feels more threatened. Under these circumstances farmers feel unable to rely on the standard relationship with the Agricultural Ministry. The plight of the farmers has become an electoral issue with marked abstentions by farmers in the 1984 European election, the 1987 federal election and changed voting behaviour in certain *Land* elections (e.g. support for the Republicans in Bavaria).⁽³⁰⁾

The response of the federal government indicates agriculture's much higher political saliency in the present coalition. In the past as at the time of the establishment of the CAP with the cereals price issue in the early 1960s, agricultural interests were not allowed to override general European policies. Since 1983 the agricultural issue has transcended its sectoral boundary on a number of occasions, most notably in the run-up to the 1985 session of the European Council. This new situation, where agricultural interests undermine the federal government's European policy, is likely to continue. Despite his commitment to integration, Chancellor Kohl has presided over an array of measures, some taken at *Land* level, which have gone some way

towards 're-nationalising' the CAP. Under the present budgetary constraint within the EC further constraints on CAP expenditure are inevitable and these will affect German farmers relatively severely. The CSU, which unlike the FDP continues to get much rural electoral support, is likely to act as a powerful advocate of agricultural interests within the Bonn coalition. As a coalition partner, and with the agricultural portfolio, the CSU is in a strong position. Not only is the CSU able to press agricultural interests within the coalition, it will now be able to feed them into the policy-making machinery through the new *Länder* channels in its capacity as the governing party of Bavaria.

In the summer of 1987 the CSU presented a further challenge to the party consensus. In the past German nominations for EC commissioners were put forward on the basis of informal agreement amongst the parties; a practice designed to achieve a rough party political balance over time. In August 1987, following the death of commissioner Alois Pfeiffer (an SPD/trade union nominee), the CSU was quick to press its claims to nominate the replacement.⁽³¹⁾ Although the CSU had a promise dating from 1984 of being in turn for a commissioner when nominations again fall due in 1988, the other parties felt the CSU claimed this with indecent haste and excessive insistence. This episode attracted attention not only because the party balance would, in the short term, be affected (the other commissioner, Herr Narjes, is a CDU appointee) but also because a fairly senior CSU figure was proposed where, in the past, German nominations have often been criticised for their obscurity.

The future development of the EC is dependent on a clear view on the future of European Union and on reforming the endemic crises in budgetary and agricultural policy. In this section of the paper we have suggested that the means for arriving at such a position - within West Germany alone! - has deteriorated at a time when, following the new commitments in the SEA, the EC's agenda is at its fullest. It has been argued that European policy-making within the federal government continues to be developed incrementally from agreements reached in the 1950s. However, no chancellor has controlled policy in the manner of Adenauer. As European integration's role as a (political) *arena of cooperation* has been supplanted by its utility as an *arena of (economic) competition*, so policy has become more loosely coordinated across an ever-increasing spectrum of EC activities.

These problems of leadership within the federal government have now been exacerbated by two new developments. Despite widespread approval in West

Germany of the (limited) content of the Single European Act, its impact upon the *Länder* has created a new dimension to their cooperation with the federal government on European policy; a dimension which will further erode policy coherence. In addition, the CSU's role as the 'farmer's friend' and as the defender of *Länder* interests may oblige compromises in European policy for the sake of good relations within the federal coalition. These, though, are only the internal limits to the FRG playing an active role in addressing the current ills. There are also some external constraints, to which attention is now turned.

PART THREE
THE EXTERNAL LIMITS TO LEADERSHIP

In the development of our argument, we have devoted a considerable amount of attention to the internal obstacles to the adoption of a leadership role for the Federal Republic. The obstacles are however by no means confined to internal factors. The exercise of a leadership role in an organisation like the EC depends to a crucial extent on the degree to which this is acceptable to other member states. Until recently the long shadow of the past would have definitely excluded such a possibility for the Federal Republic. Explicit German leadership would not have been acceptable to other member states. The same traumatic experience had also convinced postwar German leaders that too ambitious attempts at the assertion of German power were self-defeating since they would only have encouraged foreign states to coalesce in opposition. Arguably, the past is not such a potent inhibiting factor as it was. There are now three member states, Ireland, Portugal and Spain who were not belligerents in the Second World War. They are also on the geographical periphery and have therefore historically felt less threatened by real or potential expansion of German power. Time and the division of Germany has also softened suspicions of German power in former belligerent states like Britain. However obstacles do remain. Traditional French perceptions of her own role, allied to fears (in British eyes often misplaced) about the potentialities of *Deutschlandpolitik*, would still make it very difficult for France to accept the Federal Republic in an explicit leadership role. To be fair, France would be just as opposed to British leadership.

1. Franco-German relations

Conscious of French susceptibilities and of the likely resistance to unilateral German leadership attempts, the federal government has at various points played a leadership role in concert with France. The Franco-German axis conceived by de Gaulle as self-evidently a relationship in which France would be the dominant power had undergone a change by the time of Helmut Schmidt and Giscard d'Estaing and during that period at least any perception of the Federal Republic as the junior partner is implausible. Academic attention on the Franco-German relationship has focused on the Schmidt-Giscard period and has largely concluded that the relationship was one which strengthened the Federal Republic's capacity to exert leadership. We would like to suggest that the overall impact of the Franco-German relationship is arguably less unequivocally positive than is suggested by an exclusive focus on the glamorous figures of Schmidt and Giscard.

On the positive side of the balance, the continuous effort at coordination involved in the Franco-German relationship allows for some mutual adaptation in each other's policies. This has a dual effect. It allows the FRG to exert some influence on France's European policy and vice versa. This communication and the subsequent modifications help to prevent the emergence of damaging conflicts. For example, the federal government did not initially perceive the importance of Eureka to the French but when it did, policy was modified. The main positive benefit for a Franco-German axis is that any initiative launched under such a banner has a much higher chance of success than a purely unilateral initiative by France or Germany. As Helen Wallace puts it, 'if a Franco-German deal could be stitched together, even on issues difficult for one or both, the other participants in the negotiations would generally fall into line.'⁽³²⁾

The benefits of the Franco-German relationship to German leadership pretensions have attracted attention. The disadvantages are less obvious and are obscured by a concentration only on the interaction at peak levels between the heads of government. A key feature of the Franco-German relationship is its comparatively comprehensive scope involving the whole range of ministries. In relation to European policy this has an asymmetrical impact. French European policy-making is relatively highly centralised and meetings between specialist ministries and their German counterparts cannot transcend this constraint. German policy-making is characterised as we have seen by

sectorisation and loose coordination. Whilst French ministries operate under the constraint of compatibility, there is no agency in Bonn with the task of checking whether views expressed by one federal minister to his French counterpart are compatible with those expressed by another German minister to his opposite member. In this sense the comprehensive scope of the relationship acts to reinforce sectorisation in the West German case whilst not overriding the limits set by the centralising French procedures.

The implications of this become obvious if we look at the case of agriculture. France has pretty consistently and coherently pursued a policy of supporting the maintenance of the CAP on existing lines. In the German case, there has been a marked degree of incoherence. Successive finance ministers have called for reform of spending on agriculture while German ministers of agriculture have been among the strongest proponents of high spending on agriculture in order to preserve the living standards of German farmers. In this context the Franco-German axis does not strengthen the hands of the West German finance minister but it does strengthen the position of the German minister of agriculture. This effect was symbolised in the statement of the French minister of agriculture, M. Guillaume on the occasion of his first meeting with his West German counterpart, Herr Kiechle, when he was reported to have said, 'I am a farmer, you are a farmer.'⁽³³⁾ The relevance of this statement, made prior to a meeting aimed at strengthening collaboration between Bonn and Paris over agricultural prices and expenditure, is fairly clear. The net effect is that the coherence of the French position is maintained whilst the Franco-German relationship tends to reinforce the incoherence of the West German position by serving as an external support to sectorised policy-making in Bonn.

2. Inner-German relations

The present authors emphatically reject the argument of authors like Pierre Hassner that the unresolved national question and the nature of the German-German relationship mean that the Federal Republic cannot unequivocally identify with West Europe.⁽³⁴⁾ Nevertheless, the existence of the special relationship with East Germany (the GDR) and the existence in particular of the Protocol on Interzonal Trade would possibly create difficulties if the Federal Republic were to adopt a more explicit leadership role. Until now the Protocol on Interzonal Trade has been seen as part of the *acquis communautaire* and has not seriously been challenged within by the Commission

or by West Germany's partners. It can be plausibly argued that this situation will not obtain for ever and that a more dominant role for the Federal Republic might focus attention on it and the anomalies involved from its maintenance from an EC viewpoint. This is particularly relevant following the commitment to completion of the EC internal market by 1992. Under these circumstances the Protocol on Interzonal Trade might be seen as comparable to the transitional arrangements to cover the painful and expensive transition period after a divorce. There is clearly a difference in that divorce between the two Germanies was produced by the pressure of external events and powers, not by the wishes of the two states, and that the Germans themselves regard the rupture as a separation rather than a divorce. Nevertheless, Jansen is surely echoing the views of a great number of people inside and outside the FRG when he asks 'can it not be said with reference to the advanced integration of the EEC and the increasing division of the two German states which has now taken legal form that the protocol constitutes a more and more unacceptable foreign body in the EEC system?'.⁽³⁵⁾

Just as the SEA has opened up awkward problems in *Bund-Länder* relations, so it has revived in a shortened form the debate on the compatibility of the interzonal protocol and the EC. Under the internal market provisions special arrangements between individual member states and certain third countries will become of questionable validity. Scharrer has suggested that the operation of the Protocol on Interzonal Trade may fall into this category:

It could be said that the GDR has a trade association agreement with the Federal Republic, but not with the EC as a whole. In accordance with the Protocol, the shipment of goods from the Federal Republic into the wider EC market is subject to appropriate measures to avoid harming the economies of the other Member States. The creation of a unified internal market would be bound to affect the relationship of the Federal Republic - or the other EC countries - to the GDR and would presumably have implications for relations with other CMEA countries. The form such relations should take is an open question.⁽³⁶⁾

In a European Community, with its competitive bargaining between national interests, one or more partners might open this issue as a way of exerting leverage on the Federal Republic. So far this has been the 'dog that didn't bark' since the interest of the other EC member states in keeping

West Germany firmly anchored in the West has been so great that this has not been seen as a card that could safely be played. It is also of course one reason among a number as to why the Federal Republic has not sought an explicit leadership role since there was an awareness of the need for support on this issue. This need for support has become greater as the SEA has made the Protocol on Interzonal Trade even more anomalous.

Conclusion

It has not been the purpose of this paper to argue that the FRG is about to become a *Sorgenkind* in the sense of being a weak or disaffected member of the EC. Its economic strength, its political stability, its low turnover of governments (and even lower turnover in individual ministers, characterised by Herr Genscher serving as foreign minister for approaching fifteen years); all these factors continue to make the FRG a very powerful member of the EC. We do not subscribe to the argument - again rehearsed by some commentators in September 1987 on the occasion of the East German leader's visit to the FRG - that the pull of *Deutschlandpolitik* is likely to weaken the commitment of the FRG to the EC.⁽³⁷⁾ Similarly, we do not regard the slippages in public and elite support for the EC as a cause for undue concern because support remains fairly high by Community standards.⁽³⁸⁾

What we *have* done in this paper is to indicate a number of factors - internal and external - which place serious constraints on the FRG's ability to offer the kind of leadership that some expect from the EC's key economic power. This is not just a short-term problem but it is highlighted by the expectations placed on the German government's 1988 presidency in connection with resolving the continuing CAP/budgetary crisis. Referring back to the questions raised in the introduction, strong chancellorial authority has to be asserted in order that a clear German European policy be both formulated and implemented. Such leadership would be out of character for Helmut Kohl's chancellorship. Without an interventionist role on the part of the chancellor, the tendency is for the pre-existing ministerial dynamics of sectorisation to hold sway, complicated by the enhanced involvement of the *Länder*. This situation imposes clear constraints on the Federal Republic's ability to offer some kind of leadership in resolving current EC problems. It is in this sense that the FRG is a *Sorgenkind*; its contradictory European policy is part of the EC's problem not of the solution.

The case for the Federal Republic's defence is probably twofold. The first plea is one of 'not guilty': since no leadership role has been, or will be, sought, the FRG cannot be accused of negligence on this count. This plea ignores the expectations other member states place on the EC's strongest economy, especially during its presidency. The second plea is a corruption of Tolstoy: 'Oh Lord I am no longer a *Musterknabe* but I have a number of excellent excuses'. This plea is more justifiable but it also does not help resolve the EC's problems. To summarise, the Federal Republic is still far from being the scapegoat (*Stündenbock*) for the EC's ills but, until its policy coherence is enhanced, it will remain a contender for being the EC's *Sorgenkind*.

- (1) See John Lichfield and David Osborne, 'Brussels threatens to act alone on farm cuts', *The Independent*, 19 June 1987. Also Lichfield's article 'Strife that strikes at Europe's unity', *The Independent*, 26 June 1987.
- (2) R. Hrbek and W. Wessels, 'Nationale Interessen der Bundesrepublik Deutschland und der Integrationsprozess', in R. Hrbek and W. Wessels (eds) *EG-Mitgliedschaft: ein vitales Interesse der Bundesrepublik Deutschland?* (Bonn: Europa Union Verlag, 1984), p. 48.
- (3) M. Kreile, 'West Germany: the dynamics of expansion', in P. Katzenstein (ed), *Between Power and Plenty, Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978).
- (4) K. Adenauer, *Erinnerungen 1955-59* (Stuttgart: Deutsche Verlagsanstalt, 1967), pp. 518-22.
- (5) These three environments coincide with those utilised by Pryce and Wessels in analysing the dynamics of integration: R. Pryce and W. Wessels, 'The search for an ever closer union: a framework for analysis', in R. Pryce (ed), *The Dynamics of European Union* (London: Croom Helm, 1987).
- (6) P. Gerbet, 'In search of Political Union: the Fouchet Plan negotiations', in Pryce, op. cit., pp. 105-29.
- (7) S. Bulmer and W. Paterson, *The Federal Republic of Germany and the European Community* (London: Allen & Unwin, 1987), chapter 6.
- (8) W. Paterson, *The SPD and European Integration* (Farnborough: Saxon House, 1974), pp. 115-41.
- (9) On the FDP's opposition to the Rome treaties, see P. Jeutter, *EWG - kein Weg nach Europa* (Bonn: Europa Union Verlag, 1986).
- (10) C. Deubner, 'Change and internationalization in industry: towards a sectoral interpretation of West German politics', *International Organization*, vol. 38, no. 3 (1984), p. 506.
- (11) EC figures cited in Bulmer and Paterson, op. cit., p. 88.
- (12) C. Lankowski, 'Modell Deutschland and the international regionalization of the West German state in the 1970s', in A. Markovits (ed), *The Political Economy of West Germany* (New York: Praeger, 1982), p. 114.
- (13) A. Taussig, 'European integration and German ministries', unpublished Harvard Ph.D. thesis, p. 75.
- (14) S. Bulmer, *The Domestic Structure of European Community Policy-Making in West Germany* (New York: Garland, 1986), chapter 2.
- (15) S. Bulmer and W. Wessels, *The European Council: Decision-Making in European Politics* (London: Macmillan/New York: Sheridan House, 1987), chapter 5.

- (16) R. Mayntz, 'West Germany', in W. Plowden (ed), *Advising the Rulers* (Oxford: Basil Blackwell, 1987), p. 4.
- (17) O. Schmuck and W. Wessels, 'Die Mailänder Tagung des Europäischen Rats - weder Fehlschlag noch Durchbruch zur Europäischen Integration', *Integration*, vol. 8, no. 3, (1985), pp. 99-100.
- (18) This is an observation also noted in C. Sasse et al, *Decision-Making in the European Community* (New York: Praeger, 1977), p. 17.
- (19) Bulmer and Paterson, op. cit., pp. 175-9.
- (20) *Ibid.*, chapter 9.
- (21) E. Regelsberger and W. Wessels, 'National paper on the Federal Republic of Germany', in C.O. Nuallain (ed), *The Presidency of the European Council of Ministers* (London: Croom Helm, 1985), p. 80.
- (22) The conflicting views of the Agriculture Ministry and the Finance Ministry are reasonably familiar and are not examined here; see, for example, B. May, in Hrbek and Wessels, op. cit., pp. 377-8.
- (23) In 1980 a tripartite agreement was reached to press for a renewal of the Multi-Fibre Arrangement, *Die Zeit*, 5 December 1980.
- (24) For a summary of the historical background, see Bulmer, op. cit., chapters 5 and 6, and R. Morawitz, *Die Zusammenarbeit von Bund und Ländern bei Vorhaben der Europäischen Gemeinschaft* (Bonn: Europa Union Verlag, 1981).
- (25) R. Hrbek, 'Die deutschen Länder in der EG-Politik', *Aussenpolitik*, vol. 38, no. 2, (1987), p. 122. The exact method of Länder involvement is still being negotiated.
- (26) R. Hellwig, 'Die Rolle der Bundesländer in der Europa-Politik', *Europa-Archiv*, vol. 42, no. 10, (1987), pp. 297-302.
- (27) 'Es gibt beunruhigende Anzeichen dafür, dass sich hierbei die Parteien eher bei den Versprechungen, nationale Bastionen zu schützen, gegenseitig überbieten werden, als dass sie um die bestmöglichen, für alle Mitgliedstaaten tragbaren europäischen Regelungen wetteifern', *ibid.*, p. 301.
- (28) 'Es dient weder dem Ansehen der Bundesrepublik noch der Durchsetzung seiner gebündelten Ziele, wenn Ländervertretungen neben der offiziellen Vertretung "Wirtschaftsförderung" betreiben ... Ausgetrickst ist allemal die Bundesregierung', *ibid.*, p. 302.
- (29) For more evidence and discussion concerning the role of the parties, see Bulmer and Paterson, op. cit., chapter 6.
- (30) P. Uttitz, 'Parteipräferenz und Wahlabsicht der Landwirte in der Bundesrepublik Deutschland - neigen die Landwirte zur Wahlenthaltung?', *Zeitschrift für Parlamentsfragen*, vol. 18, no. 2, (June 1987), pp. 243-52. Defection of farmers from their traditional support of the CDU was an important component in the sharp losses the party suffered in the September 1987 Land election in Schleswig Holstein.

- (31) See the reports in *Frankfurter Allgemeine Zeitung*, 6 August 1987, p. 10.
- (32) H. Wallace, 'Bilateral, trilateral and multilateral negotiations in the European Community', in R. Morgan and C. Bray (eds), *Partners and Rivals in Western Europe: Britain, France and Germany* (Aldershot: Gower, 1986), p. 162.
- (33) Quoted in *The Times*, 27 March 1987.
- (34) P. Hassner, 'The shifting foundation', *Foreign Policy*, no. 48, (Autumn 1982), pp. 3-20. He refers to '... the unique situation of West Germany which makes it impossible for Bonn to commit itself completely to any of three possible futures: Atlantic, West European, or central European' (p. 19).
- (35) B. Jansen, *EWG and DDR nach Abschluss des Grundlagenvertrages* (Baden-Baden: Nomos, 1977), p. 103.
- (36) H.E. Scharrer, 'Protectionism - a necessary price for achieving the European internal market?', *Intereconomics*, vol. 22, no. 1, (1987), p. 11.
- (37) See the leader in *The Sunday Times*, 13 September 1987.
- (38) Bulmer and Paterson, op. cit., chapter 5.