

"Subsidiarity and Nationalism in the Formation  
of a Unified Europe: Views from Europe and Comparison  
with United States History"

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This paper examines the events surrounding the formation of a European common market based upon personal interviews and historical analysis. It raises the issue of whether the Maastricht Treaty should be approved by European parliaments or national referendums. It argues that neoclassical theory inadequately predicts and understands these events.

INTRODUCTION

A political revolution is underway in Europe. One that is shockingly utopian yet practical. At this point in time, it is unclear how many of the European nations invited to be part of this great democratic experiment to form a unified economic, political and military system will actually join in. All of them ought to join, and many, if not all, will. Yet caution struck the millennial tide when, despite a unified effort among the political elites to convince people of the obvious logic of this proposal, the citizens of Denmark thumbed their noses at the European Community (EC) bureaucrats. Denmark was the first EC member to place the Maastricht Treaty before its citizens as a national referendum, and the citizens said no.

Many of the recent political writings have wrongly applied economic analysis in trying to predict and understand why 12 EC member states say yes, no, or maybe, regarding European economic unification. Predictions of national decisions ought to be based upon historical and political analysis in addition to economic analysis. For instance, many Danes liked the idea of a common market but they, in particular the older Danes, don't like the idea of forgiving Germany its past transgressions. The EC came into existence by using an economic solution to a steel crisis as a method for reducing the risk of another war between France and Germany. European leaders are once again using an economic solution as a method for deepening political integration among European countries.

In this sense, neoclassical economic theory is not only inadequate for explaining what most often occurs in the interface between business and society in the United States, it is particularly inadequate for explaining the intriguing events surrounding the ongoing efforts by the EC to develop a common European currency and market. The study of "political economy" is called "political" and "economy" because one cannot, and should not, divorce political analysis from economic analysis. This analytical error became obvious to me during EC briefings for those attending the 1992 IABS conference in Leuven, Belgium and through many conversations I had with European citizens. This paper provides a more in-depth understanding of European reactions to the Maastricht Treaty by applying historical, political and sociological analysis, as well as economic analysis, to events surrounding the formation of a common market in Europe.

THE MAASTRICHT TREATY

One way for a modern American to get a quick feel for relations in western Europe is to imagine the United States without a federal government. It is hard to do, but try. Further imagine that each state has been at war with the other for the past 3,000 years and the states of New York, Texas and California have, on separate occasions, attempted to conquer the 49 other states using military force. Further, imagine that eighty years ago the political leaders in the state of New York failed to conquer everyone else and then, twenty years later, tried to do it again. This time they killed anyone whose last name just happened to begin with the letter "C", including their own citizens. This hypothetical example meets the rigorous standards of political correctness in that it was born in New York and my last name starts with the letter "C". Now let's try to create the United States under these conditions.

The EC was formed on May 9, 1950, less than one year after the Soviet Union exploded its first atomic bomb. Jean Monnet and French Foreign Minister Robert Schuman proposed that western European nations form a political body that included their recent arch-enemy, West Germany, as a way to foster a new alliance against their former ally, but current arch-enemy, the Soviet Union. The foundation for accomplishing this utopian goal would be based on economics. Steel companies were in the process of forming cartels that would limit competition among the providers of this scarce resource. The Schuman Plan proposed that Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe."

The High Authority had the following four important governing principles: (1) decisions made by the High Authority would be binding upon all member states, (2) people serving on the High Authority would have primary allegiance to the EC, not their

particular nations, (3) a Council of Ministers, whose members had primary allegiance to their national states, would serve in an advisory role to the High Authority, and (4) decisions would be based upon majority vote, where all member states, regardless of size, would have equal authority. According to the declaration, "the solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible."

This agreement was signed by France, Germany, Belgium, Luxembourg, Netherlands and Italy. Denmark, Ireland and the United Kingdom joined the EC in 1972, followed by Greece in 1981, and Spain and Portugal in 1986. Austria, Finland and Sweden are expected to join the EC in 1996. The 1989-1994 European Parliament consists of 518 members, with the number of members elected from each country being proportional to its population. France, Germany, Italy and the UK have the largest number of delegates, at 81 each, while Luxembourg has the smallest delegation at 6 members. Although eighty different national political parties are represented in the parliament, the Socialist Party and Christian Democrats Party account for 58% of the total membership.

In 1984 a draft of a treaty on European union, which consisted of 279 directives for establishing an internal common market among member states, was adopted by the European Parliament. The Single European Act, which proposed to create a single Europe market by January 1, 1993, was signed by member states in 1986. The signers agreed that it was essential for there to be a free movement of (1) people, (2) capital, (3) goods and (4) services among the member states in order to create a common market. As of 1992, somebody leaving the United Kingdom with 100 pounds, who visited each of the 12 EC member states without engaging in any economic transactions other than exchanging money upon entering each country, would return home with 28 pounds. This was just one of many problems that this legislation would try to end.

Free movement of persons meant allowing European citizens to cross national borders without passports. The political problem that arises from this simple economic concept is the following: who determines who is a European citizen? The problem is further accentuated by the recent influx of Eastern Europeans, Asians and Africans into the twelve EC countries. For instance, some citizens of Germany do not want Rumanian gypsies within their national borders. But if the gypsies are accepted by one European country, such as Italy, then they would also have the freedom to enter Germany. As such, EC bureaucrats realized that there was a need to establish a "federal" bureaucracy to determine immigration policy for all members of the common market.

In December 1991 leaders of the 12 EC member states approved the Maastricht Treaty, which was then sent back to each member state for ratification. The treaty aimed for ratification by January 1,

1993 to coincide with the creation of a single European market. The Maastricht Treaty is an attempt to establish a political body that would oversee not only the establishment of one common economic market, but a variety of issues related to these events. It would allow the EC to assume authority regarding monetary policy, a common currency, a central bank, foreign affairs, security issues, trade, agriculture, transportation, the environment, research and development, environmental issues, working conditions, labor-management relations, unemployment, justice, education, consumer protection, energy and tourism, among other issues. It is based on the principle of "subsidiarity," wherein the EC would act only when objectives "cannot be sufficiently achieved" by member states or can be "better achieved" by the community.

Of the 12 member states, only Denmark and Ireland had laws requiring that the treaty be voted on by a national referendum rather than by parliament. The Danes were the first to vote on the treaty, and, unexpectedly, the citizens rejected it on June 2, 1992 by a vote of 51% opposed and 49% in favor. This created immediate problems in that Denmark law does not allow the same treaty to be submitted to a new vote. Thus, for Denmark to be included, a new treaty would have to be developed, one which differed from the treaties being debated in the parliaments of other EC member nations. All ratification debates taking place in other countries would have to be put on hold until a new treaty was agreed upon and then reissued to all 12 member states. This appeared to be very impractical and politically troublesome, so the EC decided that each nation should simply continue with the ratification process. The citizens of Ireland were the first to approve the treaty on June 18th, followed by the parliaments of Luxembourg and Greece.

In order to demonstrate the strong support of the French, President Francois Mitterand decided to switch the treaty ratification from parliament (which favored it by more than 80%) to a national referendum. The French vote was immediately preceded by a currency crisis, blamed by many on Germany. The German government needed money desperately due to new estimates placing the cost of German unification at \$100 billion, much higher than originally expected. To attract money into German banks, the country had relatively high interest rates of 10% (compared to 3% in the United States). These high rates, in a country with a strong currency, encouraged both German citizens and foreign investors to put their money into German banks. At the same time, the United Kingdom wanted its citizens and foreign investors to spend money within its borders to help it out of its deep recession. Germany's action thus forced the United Kingdom to raise its interest rates from 10% to 12% and then 15%, putting it over the acceptable exchange rate agreed upon by EC members, thus causing a further economic crisis. Soon Italy also had to abandon the European Monetary System and allow its currency's values to be dictated by other market forces.

Following the extremely close French referendum vote of 50.95% to 49.05% in favor of the treaty, which was as much a referendum on Mitterand and other national policy issues as on EC unity, Germany and the UK delayed their parliamentary votes until February, 1993 and mid-1993 respectively. A British survey taken the day of the French referendum found that only 24% of those polled supported the treaty. The parliaments of Belgium, Italy and Portugal all approved the treaty by the end of 1992.

A major meeting took place among EC leaders in Edinburgh in December of 1992. An agreement was reached whereby Denmark could opt out of the Maastricht Treaty while the other eleven EC member states move towards a common defense. Denmark will hold another referendum in April or May. In response to all of the economic and political turmoil noted above, EC leaders decided to take a more flexible approach regarding adopting two very contentious issues: (1) a single currency and (2) a common defense policy. The member states are now very wary of agreeing to unnecessary centralization of decision making at the EC.

#### EUROPEAN FEDERALISTS VS. ANTI-FEDERALISTS

For the most part, ardent European federalists include the political and business elites, particularly the highly educated and younger citizens. These groups interpret Maastricht as a historical opportunity to overcome nationalism, and to control German politics and economics. With the formation of a federal government and bank, other European countries could restrain German political and economic ambitions much the same way that the U.S. federal government restrains the state of New York or California from imposing its political and economic will on other states. Currently, according to many EC bureaucrats, Germany is all too willing to sacrifice the economic well-being of other EC countries for its own economic well-being. This was exemplified by the token reduction in high German interest rates that resulted in the currency chaos in both the United Kingdom and Italy.

For the most part, ardent European anti-federalists include those not among the political and business elites, particularly the less educated and older citizens. These groups interpret the development of a federal government as an attempt by the Germans to impose their imperial political and economic intentions on them. In addition to having vivid memories of the atrocities caused by Germany during World War I and II, these groups interpret the recent political events of German reunification, high interest rates and hostile treatment of immigrants as examples of that nation's arrogant and imperialistic tendencies.

#### ANTI-FEDERALIST VIEWS FROM THE STREET

For Europeans born prior to 1950, World War II was yesterday, World War I was two days ago. Napoleon was three days ago, and the German

barbarians sacked Rome just last week. According to these people, Germany ought not to be trusted. To fully understand the power of these common sentiments, and the obstacles they create, one need only talk to people on the streets of Brussels and other European cities and towns. Their stories must be heard and integrated into policy analysis if the EC is to achieve the success that it rightly deserves.

For instance, one 52 year old Belgian hotel clerk spoke very clearly about his first memory -- cows lying on their backs and exploding from the effects of a German bomb that had landed on his family's farm. His father readily recalls a sunny afternoon when he was captured during a sneak attack by Germans, abused on a train to Poland, tortured in a prisoner-of-war camp, enslaved and dehydrated. When he was no longer of any use to the German war strategy, he was transported back to Belgium where, somewhere within the German borders, he recalls passing a train full of Jews heading west. These events are recalled as though they just took place.

Although young Europeans try hard to forget, they cannot escape the haunting of German history. For instance, in Leuven, Belgium two swastikas were prominently displayed on brick walls. One appeared around the corner from Leuven's grand university library. Nearby residents attributed the swastika either to German youths who attended a soccer game or to local Belgian hoodligans acting as hoodligans tend to act -- following the examples of the most despicable degenerates.

A second swastika appeared on the wall opposite the University of Leuven's Economics Department. It simply read "Turkey = (Swastika)." Several university students nearby had no explanation for the meaning of the graffiti; they hadn't even noticed it. An elderly store owner thought the message was obvious: Turkey, which wants to be a member of the EC, has an imperialist-laden history and consists of people who practice a strange form of religion. After all, one shouldn't forget about the spread of Islam during the Middle Ages.

The third imperial power worth noting for many Europeans is Japan, one of Germany's World War II partners. Interestingly, Europeans believe that Americans are silly to try to compete with Japan. Such competition requires modeling certain Japanese cultural attributes that they believe ought to be held up to public condemnation and ridicule. The Japanese are seen as being unsocial: all they do is work. They see Japan as a place that, to put it mildly, has ridiculously long working days, overemphasizes academic and material accomplishments, and consists of an overabundance of zombie-like train riders. Its narrow focus is believed likely to yield a pyrrhic victory. Japan may succeed in the short-term, which to many Europeans could mean up to sixty years, but it will lose in the long-term because, sooner or later,

its citizens and/or children will rebel against a society that intentionally suffocates those factors which foster individual and group creativity and liberty.

For the time being, the Germans are the primary focus of European national animosity. They are stereotyped as arrogant, obstinate, overly efficiency-oriented and regimentally disciplined, managing diversity by eliminating it. The depth of these stereotypes were expressed by a young, highly educated, well-travelled international consultant who insisted that German submission to authority is exemplified by the manner in which they insist upon neatly placing chairs in their proper position after leaving a table.

Thus, many Europeans have concluded that the Germans would intentionally increase inflation, economically strangle the poorer, non-Aryan European nations and engage in a hostile takeover of the EC. The recent reunification of East and West Germany generated an ambiguous collective sigh. On the positive side, the West Germans were forced into focusing on the domestic problems of East Germany rather than on their own imperialistic tendencies. On the negative side, German reunification further demonstrated that nation's imperialistic tendencies toward bigness.

German Chancellor Helmut Kohl is trusted by many Europeans. The question on their hearts, minds and tongues is who will succeed him. In this sense, the success of the EC rests with the younger generation of Germans, just as it also rests with the younger generation of all Europeans. Being modern means to rebel against parental cynicism and skepticism. As such, it is old fashioned to hate one another, to hate the Germans, and to be obsessed with past and future Hitlers. This general rule has some exceptions. Many fear the young Germans who are grotesquely fascinated by Hitler and Nazi history, xenophobic kids who appeal to alienated hoodlums living in other European countries.

Despite the German fear, many citizens want European unification to succeed. Leadership in negotiating a unified economic system, political system and military system rests, for the most part, in the hands of the Germans and French. To many Europeans, this is paramount to Hitler sitting down with Napoleon. Neither can be fully trusted, yet neither will allow the other to stack the political deck. Many Europeans have aligned themselves with the French, convinced that the French, due to their own Napoleonic imperial inclinations, would not accept a set of rules that could allow the Germans to take control of the EC.

The potential key role of the Swiss serving as a neutral party in European negotiations is a non-issue. The influence of Moscow on European politics is also a contemporary non-issue. However, fighting in Yugoslavia is an issue and, due to conflicting national interests, could ignite extensive internal bickering among EC members. According to EC leaders, the need for a unified European

foreign policy and military is accentuated by Europe's inability to determine and act upon the right course of action for the Yugoslavs.

#### THE U.S. EXPERIENCE

On occasion, U.S. political commentators express skepticism regarding the EC's ratification process because only three member states put the vote to a national referendum. This hypocrisy typically demonstrates ignorance of the U.S.'s own experience in forming a federal government.

If it were up to the citizens of the original thirteen U.S. colonies, most of whom were anti-federalists, the United States would not have been formed in 1789. Not only were most citizens anti-federalists, many politicians were anti-federalists as well. An often forgotten fact of U.S. history is that only 39 of the 55 political leaders attending the 1787 Constitutional Convention in Philadelphia signed the document. Rhode Island refused to send a delegation. And this at a time when all thirteen colonies had just finished a shared experience, unexpectedly defeating a common enemy, Great Britain. Unlike the Maastricht Treaty that requires ratification from all EC member states, the political leaders of the 13 original colonies agreed that the U.S. Constitution would go into effect when 9 of the 13 states had ratified it.

After much heated debate, the U.S. Constitution was ratified by popularly elected state politicians, not by citizen referendum. The Founding Fathers believed that a referendum would have resulted in a "no" vote for a federal government. Even without a referendum, many state votes were extremely close. The states with the closest votes included George Washington's native state of Virginia (89 for and 79 opposed), Massachusetts (187 for and 168 opposed) and New York (30 for and 27 opposed). It was Massachusetts, the third state to ratify, that noted the need for a Bill of Rights. A straw poll at the beginning of the Massachusetts state convention showed 192 delegates opposed to the Constitution and 144 in favor. North Carolina had to have two state conventions in order to ratify it.

#### WHO SHOULD DECIDE?

It appears to be very difficult for political leaders to convince citizens that their immediate governing bodies ought to transfer political and economic power to a newly developed federal bureaucracy. If it was difficult for citizens of 13 newly formed states who just defeated a common, distant enemy to adopt federalism, imagine the problems of 12 nations with a several thousand year history of killing each other.

Because this is a difficult process, should the EC decision rest in the hands of parliaments or put to a vote by referendum? This is

an extremely difficult question to answer. As noted earlier, the principle of "subsidiarity" suggests that decisions should be made at the appropriate level of governance. Those decisions that predominantly affect small political units should be made by small political bodies. Decisions predominantly affecting regional political units should be made by regional political bodies and those decisions predominantly affecting one country should be made by that country's political body. Finally, decisions predominantly affecting all countries should be made by the EC.

Thus the principle of subsidiarity, when applied to a political body such as the EC, seems to suggest that, because Maastricht clearly affects all EC members, it should be made by political leaders who are members of the EC. However, this simply demonstrates a major problem associated with applying this principle. The concept of European unity also affects every person's life, suggesting that it should be made by the smallest political units, which, in this case, would mean national referendums. Thus the principle of subsidiarity does not necessarily provide an easy solution for determining what decisions should be made by what level of governing bodies.

Clearly, the politically expedient process is through parliamentary votes. Both the Danish parliament and French parliament were very supportive of Maastricht, yet Danish citizens narrowly defeated the treaty by a 51-49 margin and French citizens passed it by the same narrow vote. In terms of the U.S. experience in forming a federal government, historians maintain that if the U.S. Constitution had been voted upon by referendum it would have failed.

However, this expedient process is contrary to the principles of democracy. Referendums force political leaders to develop close relationships with their constituencies on key issues. As in the situation of European unity, if the constituencies oppose the direction that the political leaders have taken, then the political leaders must take time to educate those whom they represent about the issue. This allows citizens the opportunity to likewise educate their political leaders about where they currently stand on the issue. This is what democracy is all about. Without referendums, political leaders lead and then they get a majority of the people to either agree with them or to discount the importance of the issue. Too often the latter occurs. This results in politicians being out of touch with those whom they represent.

#### JANUARY 1993

As of January 1, 1993 a single market program came into being although a totally barrier-free Europe will not exist for another decade. The Council of Ministers at the EC have adopted 95% of the 300 directives that comprised the 1985 single-market program. Each member state must also adopt the directives. As of January, the average for the 12 member states is 78% adopted. At 95%, Denmark,

which rejected the Maastricht Treaty, has the highest adoption rate. Spain is lowest at 70%.

Major changes include:

- \* All internal border checks on goods, but not people, were abolished.
  - \* Duties on consumer goods were abolished.
  - \* A new system of collecting VAT and excise taxes came into existence, eliminating 60 million forms that businesses previously had to fill out annually.
  - \* EC-based banks can now open branches anywhere in the community.
  - \* Air fares are no longer subject to government controls.
- Major areas still under negotiation are:

- \* Travellers can still be subject to passport checks at international frontiers through most of 1993, if not longer.
- \* Insurance companies cannot set up wherever they like and sell policies across borders until 1996.

#### CONCLUSION

As for the EC's practical utopians, the project moves on. They believe that a modern day Hitler could be more easily contained under a European parliament than under the current segregated political system. Thus, the Irish voted appropriately. If some current members of the EC do not want to join the party, vacant spots will be filled with Scandinavian nations or some of the new emerging eastern European nations. As long as membership to the common economic market is voluntary, many of these nations would appreciate inclusion.

According to the practical utopians, the more nations the merrier. We are living during one of those rare, apocalyptic, historical moments. Eternal pessimism, based on uncontroverted historical evidence on how we humans can sometimes ridiculously brutalize each other, is counterbalanced by eternal optimism, also based on uncontroverted historical evidence on how we humans can sometimes sincerely embrace each other.

Hopefully, the chances of Germany taking control of the EC will match the track record of either the United States or Soviet Union taking control of the United Nations: nil. But rather than relying upon faith, politicians and public policy makers must establish protective institutional and contractual mechanisms that can be explainable to local citizens. These citizens are not primarily concerned with agricultural subsidies. They are not primarily concerned about overpaid EC bureaucrats driving in fancy limousines, wearing fancy clothes, eating fancy dinners, who then

demand anywhere from a 5-15% tax to fund their habits. They are primarily concerned with European history and national stereotypes.

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# International Association for Business and Society

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*Diarama !*  
*Yadé !*  
*LaBass !*  
*Hi !*  
*Marhaba !*  
*Hei !*  
*Hyvää Paivaa !*  
*Ola !*  
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## ABOUT THESE PROCEEDINGS

This year's edition of the Proceedings contains 97 of the 107 papers presented at the Fourth Annual Meeting of the International Association for Business and Society. This is the first year that the papers have been divided according to "themes" or "tracks." In addition, the new laminated cover should help protect the longevity of the volume on your bookshelf. We apologize to the authors for any remaining errors that may have escaped our attention.

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Below is an example of how to appropriately cite papers contained in the Proceedings:

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