

THE  
EUROPEAN  
UNION SERIES

# THE EUROPEAN UNION AND THE UNITED STATES

Competition and Convergence  
in the Global Arena

Steven McGuire and  
Michael Smith



## THE EUROPEAN UNION SERIES

**General Editors: Neill Nugent, William E. Paterson**

The European Union series provides an authoritative library on the European Union, ranging from general introductory texts to definitive assessments of key institutions and actors, issues, policies and policy processes, and the role of member states.

Books in the series are written by leading scholars in their fields and reflect the most up-to-date research and debate. Particular attention is paid to accessibility and clear presentation for a wide audience of students, practitioners and interested general readers.

The series editors are **Neill Nugent**, Professor of Politics and Jean Monnet Professor of European Integration, Manchester Metropolitan University, and **William E. Paterson**, Founding Director of the Institute of German Studies, University of Birmingham and Chairman of the German British Forum. Their co-editor until his death in July 1999, **Vincent Wright**, was a Fellow of Nuffield College, Oxford University.

Feedback on the series and book proposals are always welcome and should be sent to Steven Kennedy, Palgrave Macmillan, Houndmills, Basingstoke, Hampshire RG21 6XS, UK, or by e-mail to [s.kennedy@palgrave.com](mailto:s.kennedy@palgrave.com)

---

### *General textbooks*

#### *Published*

Desmond Dinan **Encyclopedia of the European Union**

[Rights: Europe only]

Desmond Dinan **Europe Recast: A History of European Union**

[Rights: Europe only]

Desmond Dinan **Ever Closer Union: An Introduction to European Integration (3rd edn)**

[Rights: Europe only]

Mette Eilstrup Sangiovanni (ed.) **Debates on European Integration: A Reader**

Simon Hix **The Political System of the European Union (2nd edn)**

Paul Magnet **What Is the European Union? Nature and Prospects**

John McCormick **Understanding the European Union: A Concise Introduction (4th edn)**

Brent F. Nelsen and Alexander Stubb **The European Union: Readings on the Theory and Practice of European Integration (3rd edn)**

[Rights: Europe only]

Neill Nugent (ed.) **European Union Enlargement**

Neill Nugent **The Government and Politics of the European Union (6th edn)**

[Rights: World excluding USA and dependencies and Canada]

John Peterson and Elizabeth Bomberg **Decision-Making in the European Union**

Ben Rosamond **Theories of European Integration**

#### *Forthcoming*

Laurie Buonanno and Neill Nugent **Policies and Policy Processes of the European Union**

David Howarth **The Political Economy of European Integration**

**Series Standing Order (outside North America only)**

ISBN 978-0-333-71695-3 hardback

ISBN 978-0-333-69352-0 paperback

Full details from [www.palgrave.com](http://www.palgrave.com)

**Visit Palgrave Macmillan's**

**EU Resource area at**

[www.palgrave.com/politics/eu/](http://www.palgrave.com/politics/eu/)

## *The major institutions and actors*

### *Published*

Renaud Dehousse **The European Court of justice**  
Justin Greenwood **Interest Representation in the European Union (2nd edn)**

Fiona Hayes-Renshaw and Helen Wallace

**The Council of Ministers (2nd edn)**

Simon Hix and Christopher Lord **Political Parties in the European Union**

David Judge and David Earnshaw **The European Parliament**

Neill Nugent **The European Commission**

Anne Stevens with Handley Stevens

**Brussels Bureaucrats? The Administration of the European Union**

### *Forthcoming*

Wolfgang Wessels **The European Council**

---

## *The main areas of policy*

### *Published*

Michelle Cini and Lee McGowan **Competition Policy In the European Union**

Wyn Grant **The Common Agricultural Policy**

Martin Holland **The European Union and the Third World**

Jolyon Howorth **Security and Defence Policy in the European Union**

Stephan Keukeleire and Jennifer MacNaughtan

**The Foreign Policy of the European Union**

Brigid Laffan **The Finances of the European Union**

Malcolm Levitt and Christopher Lord **The Political Economy of Monetary Union**

Janne Haaland Matláy **Energy Policy in the European Union**

John McCormick **Environmental Policy In the European Union**

John Peterson and Margaret Sharp **Technology Policy In the European Union**

Handley Stevens **Transport Policy in the European Union**

### *Forthcoming*

Michelle Chang **Monetary Integration In the European Union**

Johanna Kantola **Gender and the European Union**

Bart Kerremans, David Allen and Geoffrey Edwards

**The External Economic Relations of the European Union**

Jörg Monar **Justice and Home Affairs In the European Union**

John Vogler, Richard Whitman and Charlotte

Bretherton **The External Policies of the European Union**

### *Also planned*

**Political Union**

**Social Policy In the European Union**

---

## *The member states and the Union*

### *Published*

Carlos Closa and Paul Heywood **Spain and the European Union**

Alain Guyomarch, Howard Machin and Ella

Ritchie **France in the European Union**

Brigid Laffan and Jane O'Mahoney **Ireland and the European Union**

### *Forthcoming*

Simon Bulmer and William E. Paterson

**Germany and the European Union**

Phil Daniels and Ella Ritchie **Britain and the European Union**

Brigid Laffan **The European Union and Its Member States**

Federiga Bindi **Italy and the European Union**

Baldur Thorhallson **Small States in the European Union**

---

## *Issues*

### *Published*

Derek Beach **The Dynamic of European Integration: Why and When EU Institutions Matter**

Steven McGuire and Michael Smith **The European Union and the United States**

### *Forthcoming*

Thomas Christiansen and Christine Reh **Constitutionalizing the European Union**

Robert Ladrech **Europeanization and National Politics**

# **The European Union and the United States**

**Competition and Convergence in  
the Global Arena**

**Steven McGuire  
and  
Michael Smith**

palgrave  
macmillan



© Steven McGuire and Michael Smith 2008

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2008 by  
PALGRAVE MACMILLAN  
Houndmills, Basingstoke, Hampshire RG21 6XS and  
175 Fifth Avenue, New York, N.Y. 10010  
Companies and representatives throughout the world

PALGRAVE MACMILLAN is the global academic imprint of the Palgrave Macmillan division of St. Martin's Press, LLC and of Palgrave Macmillan Ltd. Macmillan® is a registered trademark in the United States, United Kingdom and other countries. Palgrave is a registered trademark in the European Union and other countries.

ISBN 978-0-333-96851-2 hardback

ISBN 978-0-333-96862-8 ISBN 978-1-137-11994-0 (eBook)

DOI 10.1007/978-1-137-11994-0

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

10 9 8 7 6 5 4 3 2 1  
17 16 15 14 13 12 11 10 09 08

# Contents

<i>List of Tables, Figures and Boxes</i>	viii
<i>List of Abbreviations</i>	x
<i>Acknowledgements</i>	xii
<i>Introduction</i>	1
<b>1 European Integration, Transatlantic Relations and the United States since 1945</b>	<b>6</b>
Foundations: 1945–58	7
Partnership and Rivalry: 1958–1971	13
Change: 1971–85	18
From change to transformation: 1985 onwards	26
Overview and conclusion	34
<b>2 Analysing the ‘Euro-American System’</b>	<b>36</b>
Components of the ‘Euro-American System’	38
Processes, institutions and policies	48
Four Images of the ‘Euro-American System’	61
Overview and conclusion	65
<b>3 Trade</b>	<b>67</b>
European Union trade policymaking and trends	72
The changing nature of American trade policy	77
The Brussels–Washington axis	82
Losing control – the move to a multipolar WTO	87
The EU, the US and disputes in the WTO	91
Overview and conclusion	94
<b>4 Money and the Macroeconomy</b>	<b>96</b>
The evolving role of the Euro	98
The US economy: living on borrowed money?	106
Managing the global economy	110
Overview and conclusion	117

<b>5</b>	<b>Investment and Competition policy</b>	<b>119</b>
	Evolution of EU competition policy	125
	Evolution of US antitrust law	130
	Coordination and conflict	132
	Applying Euro-American policies to the world	138
	Overview and conclusion	144
<b>6</b>	<b>Innovation</b>	<b>147</b>
	European innovation policy	150
	The direction of European R&D	155
	American innovation policies	158
	The US search for competitiveness	163
	From transatlantic to global innovation space?	167
	Overview and conclusion	170
<b>7</b>	<b>Regionalism and Interregionalism</b>	<b>172</b>
	The European Union as a regional power	176
	The European Union and the new regionalism	178
	The US as a regional power	184
	George W. Bush and the new regionalism	187
	Competition and convergence in a regionalized world	192
	Overview and conclusion	198
<b>8</b>	<b>The New Europe</b>	<b>200</b>
	The EC, the US and cold-war Europe	201
	The EC/EU and the 'new Europe'	202
	The US and the 'new Europe'	208
	The EU, the US and European order: competition or convergence?	211
	Overview and conclusion	225
<b>9</b>	<b>World Order</b>	<b>226</b>
	The European Union and world order	229
	The United States and world order	237
	The EU, the US and world order: power and security	243
	The EU, the US and world order: global governance	253
	Overview and conclusion	259

<b>10</b>	<b>The ‘Euro-American System’ and Beyond</b>	<b>261</b>
	Competition and convergence	265
	New challenges and opportunities	268
	Moving forward	278
	Overview and conclusion: what kind of ‘Euro-American system’?	280
	<i>Bibliography</i>	282
	<i>Index</i>	308



# List of Tables, Figures and Boxes

## Tables

2.1	Key components of the 'Euro-American system'	47
2.2	Processes, institutions and policies in the 'Euro-American system'	62
2.3	Four images of the 'Euro-American System'	63

## Figures

3.1	Europe's trade with the United States	68
3.2	Comparison of American and European trade by region, 2005	69
4.1	Banknotes in circulation	98
4.2	US budget deficit	108
4.3	US balance of trade as percentage of GDP	109
5.1	European outward investment	121
5.2	Patterns of European investment: outward FDI by main partner, 2000–4	122
5.3	Patterns of European investment: inward FDI by main partner, 2000–4	123
6.1	R&D spending as a percentage of GNP	149
6.2	Business R&D spending in major OECD regions, 1991–2004	157
6.3	Business researchers employed per thousand employment in industry	159
7.1	Growth of regional trade agreements, 1948–2006	175
8.1	Membership of major security organizations in Europe, 2005	205
8.2	Map of the member states of the European Union, 2007	207

## **Boxes**

1.1	The Marshall Plan speech (extracts)	9
1.2	Kennedy and de Gaulle	16
1.3	The ‘Nixon Shock’	19
1.4	The ‘Year of Europe’	22
1.5	Lawrence Eagleburger on the transatlantic relationship, 1984	27
1.6	James Baker on the role of the European Community after the cold war	30
3.1	The EU and the banana trade	78
5.1	The Microsoft case in Europe	126
6.1	GSK: the growth of global R&D	168
7.1	EU bilateral and multilateral interregional strategies in Asia up to 2005	181
7.2	US interregional trade agreements	190
7.3	The EU, the US and Mercosur	194
7.4	The EU, the US and regional security: issues and cases	196
9.1	CFSP and ESDP from Maastricht to the Constitutional Treaty	232
9.2	The European Security Strategy (extracts)	235
9.3	The US National Security Strategy of 2002 (extracts)	242
9.4	Donald Rumsfeld on ‘old’ and ‘new’ Europe	246

# List of Abbreviations

ACP	African, Caribbean and Pacific states
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEM	Asia–Europe Meeting
CAFTA	Central America Free Trade Agreement
CAP	Common Agricultural Policy
CCP	Common Commercial Policy
CEECs	Central and East European Countries
CFSP	Common Foreign and Security Policy
CNOOC	China National Offshore Oil Company
CSCE	Commission on Security and Cooperation in Europe
CUSFTA	Canada–United States Free Trade Agreement
ECB	European Central Bank
ECJ	European Court of Justice
ECSC	European Coal and Steel Community
EDC	European Defence Community
EEC	European Economic Community
EMS	European Monetary System
EMU	Economic and Monetary Union
EPC	European Political Cooperation
ERM	Exchange Rate Mechanism
ERP	European Recovery Plan
ESDP	European Security and Defence Policy
FDI	foreign direct investment
GAAP	Generally Agreed Accounting Principles
GATT	General Agreement on Tariffs and Trade
G-8	Group of Eight
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICBC	Industrial and Commercial Bank of China
ICN	International Competition Network
ICPAC	International Competition Policy Advisory Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ITO	International Trade Organization
MCR	Merger Control Regulation

Mercosur	Common Market of the South
MFN	most favoured nation
MTF	Merger Task Force
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NTM	New Transatlantic Marketplace
OECD	Organisation for Economic Co-operation and Development
OEEC	Organization for European Economic Cooperation
OPEC	Organization of Petroleum Exporting Countries
OSCE	Organization for Security and Cooperation in Europe
PTA	preferential trade agreement
RTA	regional trade agreement
SAARC	South Asian Association for Regional Cooperation
SEA	Single European Act
SGP	Stability and Growth Pact
SMP	Single Market Programme
TABD	Transatlantic Business Dialogue
TACIS	Technical Aid to the Commonwealth of Independent States
TAD	Transatlantic Declaration
UNCTAD	United Nations Conference on Trade and Development
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

# Acknowledgements

Several people have helped bring this project to its eventual fruition. Willie Paterson, as series editor, provided considerable feedback on earlier drafts, as did an anonymous reviewer, and we are grateful for their input. Chris Nicoll and Da Hao Shang provided valuable research assistance for Chapters 3 to 6. Our publisher, Steven Kennedy, of Palgrave Macmillan, is to be thanked for his patience and support.

STEVEN MCGUIRE  
MICHAEL SMITH

The author and publishers would like to thank the following who have kindly given permission for use of the following copyright material: Palgrave Macmillan for Figure 8.2, the Organisation for Economic Co-operation and Development for Figures 6.2 and 6.3, the World Trade Organization for Figures 3.2 and 7.1. Figures 3.1, 5.1, 5.2, 5.3, 6.1 are European Union copyright. The section on European innovation policy starting on page 150 draws on work previously published by Steven McGuire in the *Journal of European Public Policy*, 13(6), 2006, pp. 887–905.

# Introduction

The relationship between the European Union (EU) and the United States of America (US) is simultaneously highly significant and immensely challenging, both as the subject of academic analysis and as a subject of policy-making in both the EU and the US. It is significant because the EU and the US are two of the most weighty actors in the world arena, and because they are highly engaged in each other's economic and political processes. What happens between the EU and the US matters, both to those directly involved and to those within the broader world arena by whom the effects of EU-US interactions are felt. The relationship is challenging because in addition to being highly significant, it is complex and dynamic: EU-US relations take place and have their effects in a multiplicity of issue areas and 'sub-arenas' within the world arena, and the openness of the transatlantic relationship means that changes in the world arena will in turn have important repercussions for EU-US relations. This book is an attempt to expose the complexities of the relationship and its impact on the world arena, to subject it to analysis and to evaluate its past, its present and its possible futures.

Relations between the EU and the US are rooted in a history, and have been affected by the development of international politics and the international political economy over a long period, from the 1950s to the early years of the twenty-first century. So one of the first tasks of any book on the subject is to establish this history and the major trends or turning-points within it. A second task is to explore the 'analytical history' of the relationship, and to look at what successive waves of scholarship and commentary have to say about the nature of the relationship, its dynamics and its impact. Only if these two contexts – of historical development and of analytical awareness – are established can effective appraisal of the current nature of the relationship take place.

A third task is to explore the development of the relationship in respect of the international political economy. The establishment of the European Economic Community in 1957 through the Treaty of Rome, and the ways in which this contributed to an emerging 'adversarial partnership' between the EEC and the US during the

1960s and beyond, are central to an understanding of the contemporary world economy, and to the analysis of key trends within it. The EU and the US come into contact – or collision – in a multitude of economic domains, and the continuing development of the world economy in its turn shapes the ways in which the EU and the US relate to each other. Thus, EU–US relations have been and are central to the development of world trade, monetary relations, technological innovation and the management of commercial organizations such as large firms through competition and related policies. Both actors have left their ‘imprint’ on the operations of a variety of international organizations and regimes. The current structure of the global economy and security system owes much to European and American conceptions about the exercise of political power. But the EU and the US are not alone; they are joined on the world stage by an increasing number of strong competitors and potential partners, from Japan to Russia to China, India and Brazil. They are also involved in a growing range of interregional relationships extending to all continents, which will help to shape the international political economy of the future. The international economy thus presents us with a paradox. Though the Euro-American relationship was central to the construction and operation of the global economy over the past decades, the conditions it created have allowed other states to emerge as successful economies and, potentially, political competitors. The increasing reach of this ‘constitutionalized’ or rules-based international economy is to be welcomed, yet as more and more states integrate into this system, policymaking becomes more complex. Europe and America cannot dominate economic policy matters as they did even a scant ten years ago.

A fourth task, particularly pressing in recent years, is to investigate the relationship between the EU, the US and world order in the political and security domains. European integration was at its origins a matter of security, with the aim of stabilizing Western Europe and of forestalling any possibility of renewed war between the European Powers. For much of its life, it developed within the ‘western security community’ led by the United States in opposition to the Soviet Union and its allies. Thus, from the outset, the links between European integration and the United States were highly political and linked to the preservation of western security. With the end of the cold war in the early 1990s, the security context was given an entirely new complexion, and one in which the European

Union was both motivated and encouraged to find new security roles. Once it did this, the EU was bound to come into potential competition and conflict with the US, and the result has been a series of more or less successful ‘experiments’ in the development of EU–US security relations. With the impact of transnational terrorism, and the ‘securitization’ of new areas of international life such as those relating to energy and the environment, both the EU and the US have faced new challenges in defining their mutual relationships and responding to the opportunities presented by a changing world order.

How have the EU and the US developed their respective policies in these areas of close mutual engagement? Once developed, how have those policies created competition and sometimes open conflict between the EU and the US, while at the same time leading to areas of close cooperation? What are the implications of the EU–US ‘adversarial partnership’ for the rest of the world, and how might this partnership impact upon the future development of its members and the rest of the world arena? As noted above, these are not purely academic questions; they concern policy-makers not only in the EU and the US but also in a host of other countries and in a wide range of non-governmental bodies, from giant corporations to environmental, humanitarian and other pressure groups. The purpose of this book is to sharpen these questions and to provide the means to work towards at least some of the answers to them.

### *The nature of the book*

The book takes as its key theme the interplay between competition and convergence, basing this on the fact that in every aspect of their relationship the EU and the US are increasingly part of an integrated policy space, but that within this space they are in often intense competition (sometimes formulated as ‘competitive interdependence’ or ‘competitive cooperation’). Though Europe and the US share common understandings about many issues, how they conceptualize – and operationalize – solutions can be quite different. Increasingly also, EU–US relations have close connections with broader issues of world order and the relations between key regions in the world arena. The book deploys a range of approaches from international relations and international political economy to analyse and evaluate both the changing nature of the



relationship and specific areas of policy formation. It draws on the rich tradition of scholarship in EU-US relations, but also looks at work from innovation and management studies as a way of exploring the role of firms and other stakeholders in the relationship. The volume also uses primary data from a variety of sources. We aim to explore the arguments and to reach conclusions not by using one single analytical perspective but rather by deploying the appropriate methods of analysis to deal with specific areas of policy-making and interaction.

Chapter 1 deals with the historical evolution of the relationship, using an approach centred on key points of change or transformation to point out important areas of continuity and discontinuity, and deploying a range of historical evidence such as documents and speeches to illustrate specific phases of change and development. This chapter thus establishes the growth of the 'competition and convergence' which are central to the relationship, and provides the historical context which is vital to an appreciation of current and possible future trends. Chapter 2 deals with the range of frameworks available for analysis of the relationship, and aims to identify the key concerns for analysis and the key approaches that can be utilized. It argues that EU-US relations can be seen as a kind of 'mixed actor system' in which political and economic interactions take place at a number of interconnected levels, and in which the roles of institutions both within and between the key participants have considerable importance. It also puts the relationship in the context of key perspectives on international relations and international political economy, which are then referred to throughout the remainder of the text. Chapters 1 and 2 together can be thought of as the 'source documents' for the book as a whole, since later chapters will refer back to the evidence and frameworks presented in these chapters.

Chapters 3 to 9 deal with specific areas of policy formation and interaction, starting with the longest established areas in EU-US relations, and thus with issues of political economy. Chapters 3 to 6 deal with key aspects of the political economy of EU-US relations, working from trade and monetary relations through to investment and competition and innovation. Chapters 7 to 9 deal with issues not only of political economy but also of diplomacy and security, moving from interregional relations through the 'new Europe' to issues of world order and global governance. This sequence reflects the empirical reality of EU-US relations, in which

as the post-cold war era has unfolded the political and security dimension has become more and more salient and potentially controversial. Chapters 3 to 9 as a whole thus provide a detailed study of the key elements in EU-US relations and also in their links to the rest of the world arena.

The intention in all of these chapters is to identify key areas of development, dispute and convergence and to explore the ways these issues have been managed. Thus these chapters are constructed to a common template: they deal first with policy issues and policy development in the EU and the US, then with issues of competition and convergence and then with mechanisms of management. The rationale for this structure is simple: it is impossible to discuss the relations between the EU and the US unless we are aware of the key ways each of the parties constructs its policies and its roles within the world arena. Each chapter ends with an overall evaluation and a discussion of present and future policy developments cast explicitly in terms of competition and convergence.

Finally, Chapter 10 takes the foundations established in Chapters 1-2 and uses them to construct a comparative evaluation of the present and future 'Euro-American system' centred around the EU and the US. It also reassesses the utility of the analytical frameworks deployed in Chapter 2, which will also have been used within the intervening chapters. The overall conclusion to the book is that the tensions and sometimes open conflicts within the 'Euro-American system' will not be easily resolved, but that the increasing economic and institutional integration, and the continuing political dialogue, that characterize the system will not allow for an easy 'divorce' or a pattern of 'separate development'. The EU and the US have got well under each other's skin, and this will continue to be the source of both competition and convergence in a changing world arena.

# European Integration, Transatlantic Relations and the United States since 1945

The system of relations that has grown up between the European integration project and the United States is dense and complex, and it is one of long standing. Central to the argument in this book is the growth and development of this system of relations, and its impact not only on its members but also on the world as a whole. For much of its life, the system has dominated the global economy and has played a key part in the management of global diplomatic and security issues. It is thus vital to understand the structure and functioning of the system, its central rules and assumptions, and the ways it has changed and developed during more than half a century. This is the focus of the first two chapters in the book.

In a way, as Alfred Grosser has argued, there is no ‘year zero’ in relations between the United States and Europe (Grosser 1980). The influence of the ‘old continent’ was central in the establishment and growth of the US, and increasingly from the late nineteenth century onwards, the United States came more and more to play a central part in the European arena. From the beginning of the twentieth century, American investment and economic influence were important to the management of the European economies; nowhere was this more clear than in the aftermath of World War I, when the capacity of the US to contribute to the recovery of Europe, and its willingness or unwillingness to make such a contribution, played a central role in the development of the interwar order. During the 1930s, the American economy and its troubles after the ‘great crash’ of 1929 fed directly into the increasing instability of Europe, and the uncertainties of US diplomacy in the age of isolationism played a major role in the onset of World War II. The fates of the US and Europe were deeply intertwined even before the great catalytic drama of the war in Europe and beyond (Grosser 1980: Chapter 1; Lundestad 2005: Chapter 1).

This said, detailed analysis of the ways in which the relationship between European integration and the United States was established and evolved should start in the aftermath of the second global conflict. It was at this point that US involvement became structural and in some ways organic, and the growth of European integration itself became a central pillar of the emerging relationship. This chapter sets out to map the historical evolution of the relationship in the sixty years following the end of World War II, and to identify the key forces contributing to the process of historical change. In Chapter 2 we will look more closely at the underlying structures and functioning of the 'Euro-American system' and at the issues and institutions around which it has centred.

The first part of the chapter examines the foundations on which the relationship between European integration and the United States was constructed in the first decade after World War II. In the second part, the focus is on the growth of partnership and rivalry between an integrating Europe and the US. The third and fourth parts of the chapter focus respectively on processes of change and transformation: first, the changes that took place within EC-US relations during the 1970s and early 1980s, and second, the dramatic changes that surrounded the relationship in the late 1980s and after. The key question underlying all of this is simple: How much of what was established during the 1950s and 1960s still survives, and how substantial has the transformation of the relationship been?

## **Foundations: 1945–58**

At the most general level, it could be said that the end of the World War II saw the collapse of Europe and the dominance of the United States. At one time or another, almost all of the European states had been defeated during the war, while even those that had emerged victorious and never been occupied, such as Britain, were exhausted. The European economy had in many respects ceased to exist, because of the divisions and dislocations created by war, while European society was racked by tensions and insecurities. These insecurities emerged partly out of the challenge to governmental legitimacy in almost every European country, but also out of the perceived challenge from Communism represented most

clearly by the Soviet Union and the presence of the Red Army in the heart of Europe. At the same time, the US had ended the war in a position of unprecedented strength: its economy had boomed, its military might (bolstered by possession of the 'ultimate weapon' in the shape of the atom bomb) was unchallenged, and American ideas of democracy and progress seemed to be the wave of the future.

This situation was not of course unproblematic. For European governments, particularly those of the western half of the continent, the challenge was not simply one of re-establishing economic and political stability; it was also one of recreating or adapting the European model of statehood in a context where the nature of statehood itself was in question. For their Eastern and Central European counterparts, the challenge was one of resisting or adapting to the fact of Soviet dominance. For the Americans, the challenge was that of coming to terms with international predominance and resolving the clash between isolationism and internationalism – a clash that ran through the heart of US political life. It was out of this complex and unstable mix of political, economic and security problems that the initial 'bargain' between the US and European governments emerged (Grosser 1980: Chapter 1; DePorte 1986; Ellwood 1992; Lundestad 1998: Chapters 1–2; Lundestad 2005: Chapter 1; Sloan 2005: Chapters 1–3).

Between 1945 and 1950, the elements of what later came to be seen as a grand strategic bargain between the United States and Western Europe were put in place. The initial driving forces were a combination of insecurity, the search for governmental legitimacy and the search for a formula to maintain and express US engagement with the international system. For Europeans, the need to counter the Soviet threat and to keep the US committed to European stability rapidly became a central fact of diplomatic life. The Roosevelt administration in Washington had proclaimed at the end of the war that they would aim to withdraw all US forces from Europe within two years, a prospect that fuelled European fears of instability and Soviet opportunism. As a result, a series of European leaders, led by Winston Churchill, the British Prime Minister, expressed their concern about the prospects of instability and threat in the event of a US withdrawal, and this concern itself became part of an extensive debate in Washington about the future of US foreign policy. The working out of this debate thus became crucial to the future of Europe itself, especially after the replace-

ment of Roosevelt by Vice-President Harry Truman in 1945 (Hoffmann and Maier 1984; DePorte 1986; Hogan 1987).

The intersection of European fears and US domestic debate led to a process of incremental commitment between 1945 and 1949 that culminated in the North Atlantic Treaty of April 1949. Before that military ‘bargain’, however, the key thrust of US commitment had been economic and diplomatic. In 1947, the ‘Truman Doctrine’ had set out the basis for US commitment to the defence of democracy on a global level, but especially in postwar Europe. This was followed in mid-1947 by the initial moves in what came to be known as the Marshall Plan: in June of that year, General Marshall, the US secretary of state, made a speech at Harvard University in which he set out the terms for continued US economic assistance to Europe (see extract in Box 1.1). His premise was that if Europe was allowed to continue in economic chaos, this would sharpen the political and security threats of Communism, and would increase the power of domestic Communist parties in countries such as France or Italy. While this may not seem radical today, the speech represented a key element in the emerging transatlantic ‘bargain’ – not least because of the terms on which

### **Box 1.1    The Marshall Plan speech (extracts)**

It is evident ... that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It would be neither fitting nor efficacious for our Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all, of European nations.

*Source:* Secretary of State George C. Marshall, Address at the Commencement Exercises of Harvard University, Cambridge, Massachusetts, 5 June 1947.

the aid was to be given. These included the establishment or strengthening of 'free institutions' and free markets and, significantly, the construction of a cooperative plan through which the Europeans themselves were to specify the nature and the allocation of the aid itself (DePorte 1986; Hogan 1987; Gann and Duignan 1998; Lundestad 1998, 2005; Sloan 2005).

The Marshall Plan thus can be seen as a keystone of three processes. First, by restricting the aid to 'free' countries, it contributed strongly to the division of Europe that became solidified in the cold war. Although some Central- and East-European governments displayed initial interest in the plan, they were brought rapidly into line by the Soviets, and a political-economic division of Europe was accentuated. At the same time, Communist parties that had aspired to power or in some cases achieved it in some Western-European countries were marginalized through a combination of economic restructuring and associated political realignment. Finally, the requirement that European countries should cooperate to respond to the plan (soon labelled the European Recovery Programme or ERP) can be seen as setting in motion processes that proved fundamental to the European integration process. The plan was to be delivered via the ERP and an associated organization, the Organization for European Economic Cooperation (OEEC), and it is by no means fanciful to see this as the breeding-ground for what became the European Coal and Steel Community, the first institution of European economic integration. In the background, the establishment of the institutional framework that came to be known as the Bretton Woods system, encompassing the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade, created a set of multilateral rules that were to be crucial in shaping the development of the European economies and of European integration (Mee 1984; Milward 1984; Hogan 1987).

It can be argued that by 1949, with the signing of the North Atlantic Treaty between the US, Canada and fourteen European countries, the key elements of the 'transatlantic bargain' were in place. The ERP (and in broader terms the Bretton Woods system) expressed the political/economic end of the spectrum, while the North Atlantic Treaty represented the guarantee of continuing US involvement with the security of the continent – and both together had the effect of constructing the boundary between the 'free world' and the Communist bloc that became the centrepiece of the

cold war. The ERP also seemed to have contributed to (if not actually having inspired) the proposal made by Monnet and Schuman of France in May 1950 for a European Coal and Steel Community, in which France and Germany would form the core of a new kind of economic and (by implication) political integration. But this process was not without its tensions and divisions. In the first place, the 'new Europe' gradually emerging from the chaos of the postwar period was not a comprehensive Europe: the division between the original six members of the ECSC (France, Germany, Italy and the Benelux countries) and those who were left or chose to remain outside set up a new division within the western half of the continent. Most obviously, Britain, the largest single recipient of Marshall Aid, had declined with almost no hesitation the opportunity to join the ECSC (Grosser 1980: Chapter 3). Second, the process of US commitment to the security of Europe had exposed significant divisions between European governments, particularly between those such as France that saw Europe as a potentially independent 'third force' and those such as Britain that saw the North Atlantic Treaty as a vital strand in the new Atlantic partnership. Finally, in the US, the debate about the nature and extent of US international engagement had served to sharpen the fear of Communism and to set in motion the domestic forces of McCarthyism, which led to a strongly anti-Communist atmosphere. This was only sharpened further by the onset of the Korean War in 1950, which seemed to demonstrate the world-wide threat from the Soviet Union and its allies, including China.

During the 1950s, these coexisting trends towards transatlantic cooperation and tension were perpetuated by a series of events in both Europe and the US. From the European perspective, the period between the establishment of the Coal and Steel Community in 1950 and the signing of the Treaty of Rome in 1957 – the latter establishing the European Economic Community and the European Atomic Energy Community – was one of progress and setbacks. The Coal and Steel Community prospered, partly as the result of natural economic recovery but also as the result of a lowering of barriers and the achievement of economies of scale, and by the mid-1950s this was leading to calls for a decisive extension of the European integration process. But at the same time, attempts to further European integration in the fields of diplomacy and defence were unsuccessful. In 1952, the French had proposed a plan for a European Defence Community, in which there would be substan-



tial integration of military units and military command structures; this was in part a response to American calls for the rearmament of West Germany, and in part a perpetuation of the idea that Europe could be a 'third force' in world politics (Fursdon 1980; DePorte 1986; Winand 1993: Chapters 2–3; Lundestad 1998: Chapter 5; Lundestad 2005: Chapter 3). By 1954, the project lay in ruins, ironically in large part because of its rejection by the French National Assembly, but also because of the abstention of the British and perceptions of a clash with the North Atlantic Treaty Organization (NATO), which had been constructed on the foundations of the North Atlantic Treaty and which now encompassed sixteen European countries. This defeat had two significant implications for the relationship between the US and European integration. First, it meant that for the foreseeable future collective European defence would be conducted through NATO (of which West Germany became a member through joining the Western European Union in 1955). Second, it meant that the European integration project would remain overwhelmingly 'civilian' in character, whatever the attempts by countries such as France to move it in the direction of diplomatic or security coordination.

This was the foundation for the 'relaunching' of European integration in 1955–7 through the negotiations for what became the Treaty of Rome. Because of the defeat of the EDC, the EEC was to be 'civilian' and to be based on a massive extension of economic coordination between the original six member states of the ECSC. Although other countries such as Britain were by this time much more interested in – or worried by – the European project, the prospect of supranational influence over national economic policies was still enough to make them hesitate, thus contributing to the continuing dominance of France and Germany within the project (Lundestad 2005: Chapters 2–3). For the Americans, as might have been expected, the extension of European integration was a two-edged process. On the one hand, it consolidated the economic and social stability of western Europe, and thus contributed to the stabilization of the continent as a whole (DePorte 1986), so many US policymakers were strongly in favour not only of the EEC but also of British membership (Camps 1960; Winand 1993: Chapter 5). On the other hand, those Americans who looked at the aims of the EEC and discerned a threat to US economic interests in areas such as agriculture were less enthusiastic; the fact that one of the first common policies to be adopted by the EEC was the Common

Agricultural Policy (CAP) was to have a shaping – and sharpening – effect on transatlantic relations throughout the 1960s (Krause 1968; Beloff 1976). The ECSC had already attracted the suspicion and in some cases the outright hostility of American steel interests, who saw it as an unfair cartel designed to exclude them from the European market (Diebold 1959), and the EEC looked like a much wider and more dangerous threat.

By the late 1950s, therefore, the tone of relations between the US and the European integration project was in important respects set. In 1958, the major European currencies achieved convertibility into each other and into the US dollar: this was a key indicator of their continuing recovery and consolidation, and of their full participation in the Bretton Woods system of international economic institutions, but it was also surrounded by ambiguities and uncertainties about the future course of transatlantic relations.

## **Partnership and Rivalry: 1958–71**

We have seen that the relationship between European integration and the United States as it had developed by the end of the 1950s contained important coexisting but often conflicting elements of cooperation and competition. The European project on one level was a vital component of the consolidation of the ‘west’ in the cold war, contributing to stability and to the growth of what Marshall had called ‘free institutions’. At another level, it was a source of concern to American economic interests and a focus of aspirations for a European ‘third force’ that could express a particular identity in the world arena. During the 1960s, these tensions were to multiply, partly for reasons inherent in the European project, partly for reasons reflecting US positions and priorities, and partly because of wider changes in the international system. Ironically, it may seem, the period between 1958 and the beginning of the 1970s was littered with proclamations of ‘Atlantic partnership’ at the same time as it gave increasing evidence of Atlantic rivalry (Diebold 1960; Cleveland 1966; Pfaltzgraff 1969; Calleo 1970; Diebold 1972; Calleo and Rowland 1973; Winand 1993: Chapters 6–12; Lundestad 1998: Chapter 6; Lundestad 2005: Chapter 4).

From the point of view of European integration, this period was one of consolidation but also of internal tensions and often open

conflicts. A number of common policies were initiated, among them two that were to be central to transatlantic relations, the Common Commercial Policy (CCP) and the CAP. Institutional development and consolidation were apparent, especially in the role of the European Commission which became established as a key generator of initiatives on the road to greater integration. At the same time, the economies of EEC member states continued to flourish, led by the West-German economy and the 'economic miracle' it represented. But there were also strong trends in the direction of internal conflict and fragmentation (Camps 1967; Grosser 1980). In the early 1960s, the French tried to set in motion the development of a 'European foreign policy', but this was limited and not supported by key 'Atlanticist' member states; in 1969 there was a further initiative in this direction with the beginnings of what became European Political Cooperation, but the basis remained strongly intergovernmental and diplomatic rather than integrationist and security-related. During the mid-1960s, the implementation of further integrationist measures in agriculture and the development of the 'common market' for goods created sharp perceptions of gains and losses for major member states, and in the case of France led to its declaration of an 'empty chair' policy between 1966 and 1967. As a result, the 'Luxembourg Compromise' of 1967 signalled a retreat from full-blooded integration to a situation in which vital national interests could form the basis for an effective veto of legislation within the EEC. Alongside all of this, the prospect of the EEC's first enlargement continued throughout the 1960s. In 1963, General de Gaulle, the French president, effectively vetoed the first application for membership by Britain (thus also excluding Denmark, Ireland and Norway who had also applied). This veto was repeated in 1967, but by 1970 the installation of a pro-integrationist government in Britain combined with the fall of de Gaulle to produce an agreement on British membership.

The turbulence of developments in European integration during the 1960s was paralleled by problems within American politics and foreign policy. The rich promise of the Kennedy administration installed in 1960 was eroded by the president's assassination, by domestic tensions over such issues as civil rights, by increasing US entanglement in Vietnam and by the continuing threat of Soviet nuclear capability, which led to a major intensification of the arms race. This latter process was reflected in US relations with Europe, leading to the 'nuclearization' of NATO and to the growth of

domestic anti-nuclear protest movements. But the tribulations of US administrations were not simply political: the US economy proved sluggish and in some respects uncompetitive, and was increasingly distorted by the focus on military spending and military commitments (Calleo and Rowland 1973). By the end of the 1960s, the Nixon administration installed in 1968 had begun to unwind some of these issues, not without considerable suspicion or difficulty. They had begun the process of 'détente' with the Soviet Union, focusing especially on the control of nuclear weapons, had initiated a broader diplomacy designed to respond to the needs of what they saw as a potentially multipolar world, engaging the Chinese and the Japanese as well as the Soviets and the Europeans, and had begun a reassessment of US economic commitments in the light of the generally poor performance of the economy.

The intersection of these trends in Europe and the US created a series of tensions throughout the 1960s. Even before the Kennedy administration had been installed, General de Gaulle had called for a greater degree of power-sharing in NATO, and had begun to present the EEC as the basis for a new challenge to US dominance (Calleo 1970; Harrison 1982). When in July 1962 President Kennedy made a speech in which he outlined a 'declaration of interdependence' between the United States and a 'uniting Europe' (see Box 1.2), this was greeted in some quarters as a visionary response to the new realities of world politics and in others as an attempt to perpetuate US hegemony over a resurgent Europe in particular (Winand 1993: Chapter 9). Thus it is not surprising that the rhetoric of 'Atlantic partnership' and 'Atlantic community' that arose after Kennedy's speech was accompanied by major efforts to counter it through a discourse of European independence and difference. But not all Europeans were united in this respect: de Gaulle's strident anti-Atlanticism (see Box 1.2), reflected in his veto of British membership in the EEC, and in French withdrawal from the NATO integrated military command in 1966, was balanced not only by British Atlanticism, but also by that of such countries as the Netherlands, Italy and Germany within the EEC itself (Cromwell 1969; Grosser 1980; Harrison 1982; DePorte 1986). Even such Atlanticist countries were perturbed by the increasing US commitment in Vietnam and by the evidence of US-Soviet diplomacy in the context of 'détente', so the overall picture was a complex one, which could not be reduced to a simple EEC-US partnership or rivalry.

## **Box 1.2 Kennedy and de Gaulle**

The nations of Western Europe, long divided by feuds far more bitter than any which existed among the 13 colonies, are joining together, seeking, as our forefathers sought, to find freedom in diversity and in unity, strength. The United States looks on this vast new enterprise with hope and admiration. We do not regard a strong and united Europe as a rival but as a partner. To aid its progress has been the basic object of our foreign policy for 17 years. We believe that a united Europe will be capable of playing a greater role in the common defense, of responding more generously to the needs of poorer nations, of joining with the United States and others in lowering trade barriers, resolving problems of commerce, commodities, and currency, and developing coordinated policies in all economic, political, and diplomatic areas. We see in such a Europe a partner with whom we can deal on a basis of full equality in all the great and burdensome tasks of building and defending a community of free nations.

. . . I will say here and now, on this Day of Independence, that the United States will be ready for a 'Declaration of Interdependence', that we will be prepared to discuss with a united Europe the ways and means of forming a concrete Atlantic partnership, a mutually beneficial partnership between the new union now emerging in Europe and the old American Union founded here 175 years ago.

*Source:* President John F. Kennedy, Address on the Goal of an Atlantic Partnership, Philadelphia, 4 July 1962.

[the entry of Great Britain and others] will completely change the whole of the actions, the agreements, the compensation, the rules which have already been established between the Six . . . Then it will be another Common Market whose construction ought to be envisaged . . . Further, this community, increasing in such fashion, would see itself faced with problems of economic relations with all kinds of other States, and first with the United States. It is to be foreseen that the cohesion of its members, who would be very numerous and diverse, would not endure for long, and that ultimately it would appear as a colossal Atlantic community under American dependence and direction, and which would quickly have absorbed the community of Europe.

*Source:* President Charles de Gaulle, Press Conference, Paris, 14 January 1963.

Alongside this diplomatic complexity, the political economy of EEC-US relations was no less significant. One of the most obvious manifestations of this significance was the growth of all forms of exchange between the United States and the EEC during the early 1960s: trade, investment and travel all experienced a major increase and it is difficult to avoid the conclusion that this was caused by the establishment of a large market among the six EEC member states (Cooper 1968; Diebold 1972). It is also important to note that at this time Britain accounted for much more in all of these areas than the whole of the EEC combined. By the beginning of the 1960s, there was also evidence of the Europeans' increasing capacity to engage collectively with the Americans within the world arena. Most obviously, the Dillon Round of trade negotiations within the General Agreement on Tariffs and Trade (GATT) during 1961 had seen the EEC adopting a collective position. More dramatically, the Kennedy Round of 1963-6, proclaimed by the president as part of his 'declaration of interdependence', saw the creation of a substantive EEC trade diplomacy, which enabled the Europeans to resist US pressure on a number of fronts, particularly agricultural trade (Calleo and Rowland 1973). This set of developments is perhaps best cast in terms of the capacity to resist, rather than the capacity to initiate and lead, but it did signify a distinct set of new directions in international trade diplomacy. There were also the beginnings of European capacity to construct new inter-regional relationships: the most obvious of these were to be found in the framework of the Yaoundé Conventions, which constructed relationships with a set of mainly French ex-colonies in Africa.

Despite this evidence that the EEC was gradually acquiring the ability to exercise collective weight in the context of transatlantic relations and the broader world economy, the 1960s did not provide conclusive evidence of the emergence either of a true transatlantic partnership or of transatlantic rivalry. If anything, they provided evidence that any form of cooperation in the international political economy was hard work, that it would be characterized by disputes as much as by progress, and that it remained fragmented in the continuing absence of Britain and other significant European states from the EEC. By the end of the 1960s, it was clear that this 'gap' was likely to be filled in the near future, but by that time also it was clear that the world economy as a whole was in a state of turbulence and potential chaos. The impact

of the war in Vietnam and of conflict in the Middle East, the uncertainties of US–Soviet ‘détente’ and the unevenness of economic performance in the major western economies created a breeding-ground for uncertainty and instability (Calleo and Rowland 1973; Hanrieder 1974; Shonfield *et al.* 1976; Hanrieder 1982). As a result, the Bretton Woods system of financial institutions, and the rules relating to fixed exchange rates and domestic economic adjustment, were increasingly under pressure. It was apparent that both in the diplomatic and in the economic sphere the 1970s would be challenging to say the least, and that the challenge to the assumptions behind EEC–US relations would be potentially momentous.

### **Change: 1971–85**

On 15 August 1971 in a television broadcast to the American people President Nixon proclaimed what came to be known as his ‘New Economic Policy’. At around the same time, in a number of speeches and papers, the administration also enunciated what became known as the ‘Nixon Doctrine’ relating to its foreign policy and diplomatic commitments, especially to allies. It is no exaggeration to say that these two sets of developments shaped the course of EEC–US relations for at least decade, and that when combined with developments within the EEC itself and in the broader world arena they created a series of significant changes within the transatlantic relationship (Kaiser 1973; Czempiel and Rustow 1976; Kaiser and Schwartz 1977; M. Smith 1978). During the early 1980s, the relationship was given an additional and severe testing by the policies of the Reagan administration, and by the beginnings of a new phase of European integration itself.

Nixon’s August 1971 speech (see Box 1.3) rapidly became known as the ‘Nixon Shock’. As we have already noted, the US economy had been giving cause for concern for some time, with low growth accompanied by rising unemployment, declining competitiveness and a balance of payments deficit. For some in the US administration this set of conditions as linked closely to the burden the US had been carrying as leader of the ‘free world’ for the past twenty-five years, and there was a move to declare America an ‘ordinary country’ in economic affairs, prepared to defend its own interests against all comers (Rosecrance 1976). There is no doubt,

### **Box 1.3 The 'Nixon Shock'**

I have directed secretary [of the Treasury] Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States . . . To our friends abroad . . . I give this assurance: The United States has always been, and will continue to be, a forward-looking and trustworthy trading partner. In full cooperation with the International Monetary Fund and those who trade with us, we will press for the necessary reforms to set up an urgently needed new international monetary system. Stability and equal treatment is in everybody's best interest. I am determined that the American dollar must never again be a hostage in the hands of international speculators . . . As a temporary measure, I am today imposing an additional tax of 10 per cent on goods imported into the United States . . . At the end of World War II the economies of the major industrial nations of Europe and Asia were shattered . . . Today, largely with our help, they have regained their vitality. They have become our strong competitors, and we welcome their success. But now that other nations are economically strong, the time has come for them to bear their fair share of the burden of defending freedom around the world. The time has come for exchange rates to be set straight and for the major nations to compete as equals. There is no longer any need for the United States to compete with one hand tied behind her back.

*Source:* Address by President Nixon on the Challenge of Peace, 15 August 1971.

as already noted, that the economic problems faced by the US also related to the burden of the Vietnam War, which had created inflationary pressures as well as distorting the balance of the US federal budget. The combination of rising welfare spending with rising external expenditure on foreign and security policy was a potent one (and one that would be seen again in the 1980s). The administration's response, as expressed through the 'Nixon Shock', was to inject a dose of economic nationalism. The dollar was detached from its previous fixed price against gold, resulting in its decline against other leading currencies, while measures were taken to control imports and to boost the competitiveness of US industry. While this might be seen as a logical and rational response to eco-



nomic difficulties, in the circumstances of the early 1970s it was an explosive set of measures (Calleo and Rowland 1973; Calleo 1981). The administration justified it at least in part by the need for allies to take up the burden of defending democracy, thereby continuing what had been a growing chorus of complaint against the Europeans' unwillingness to either adjust their currencies against the dollar or take up more of the burden of defence spending. But the measures can also be seen – as they were at the time – as an attack on cherished principles of the Bretton Woods system. The effective devaluation of the dollar meant that the USA was asking its allies to pay the price for the loss of US competitiveness, while the imposition of an import surcharge went against one of the central principles of the GATT.

Alongside this set of economic measures, the administration continued its exhortations to its allies – the Nixon Doctrine (Hoffmann 1968; Hanrieder 1974; Hoffman 1978); essentially this consisted of the demand that the allies (whether in Europe or elsewhere) should take up more of the burden of their own defence and stand on their own two feet. As applied to the conflict in Vietnam, this was a means by which the US would eventually disengage and leave the South Vietnamese to fend for themselves. As applied in Europe, it sharpened the pressure on those European allies (now almost all members of the EEC) that had in American eyes grown richer under the protective umbrella provided by America. But the problem was that these demands were coming from an administration which was progressively weakened internally by the Watergate scandal, in which it became entangled after the 1972 presidential election. This erosion of internal legitimacy for the administration, along with the doubts long harboured by Europeans about US involvement in conflicts outside the NATO area, combined to create a new scepticism among EEC member states when it came to US leadership in all of its forms.

By the time Britain along with Denmark and Ireland entered the EEC in January 1973, there was thus a good deal of turbulence in transatlantic economic relations and more broadly in the western alliance. Although in other circumstances this might have seemed like an opportunity for the enlarged Community to assert itself on the world stage, in fact it militated strongly against that kind of initiative. The conditions that had fostered economic progress and the deepening of European integration during the 1960s had actually been short-lived; financial instability, fears of protectionism in

world trade and the increasing politicization of economic disputes were to become a key theme of the next fifteen years in transatlantic relations, and thus part of the world with which the Community had to cope (Warnecke 1972).

The year 1973 was in fact symptomatic of the problems. In April, US Secretary of State Henry Kissinger delivered a speech in New York proclaiming this to be the 'year of Europe' and calling for a new transatlantic bargain to express the new balance of influence between the US and its European partners (see Box 1.4). This speech, delivered in the US and not discussed with the Europeans before its delivery, served as a catalyst for European resentment of the Americans' leadership, and among other results prompted the formulation of a 'declaration on European identity' by the Community – a declaration that focused strongly on the need for partnership rather than domination in the relationship with the US (see Box 1.4). By the end of 1973, the October War in the Middle East between Israel and its Arab neighbours had created a double twist to the tension: on the one hand, it fulfilled many Europeans' fears of US domination and risk-taking through the declaration of a nuclear alert by Washington over the heads of the allies, while on the other hand it precipitated a 400 per cent rise in the price of crude oil, creating an energy crisis and stretching the domestic economic management capacities of European countries to breaking-point (Kaiser 1973; Kaiser 1974; Vernon 1973; Lieber 1974; Chase and Ravenal 1976; M. Smith 1978).

The European Community, already absorbing the impact of its new member states and the longer-term effects of the crises of the late 1960s, was ill fitted to respond dynamically to this set of simultaneous crises. Grand plans for the creation of economic and monetary union by 1980, and for the establishment of a European political union, were undermined both by external developments and by the new internal complexities arising especially from British entry into the Community. A period of 'Eurosclerosis' set in, in which it appeared impossible to take significant new initiatives and in which member state governments were unwilling to contemplate the costs of further integration. Indeed, they spent much of their time focusing on the costs of such integration as already existed, with conflicts over the CAP and over the Community budget lasting through the 1970s. There were, however, at least some signs of a more hopeful kind, and some of these were visible in transatlantic relations. Not for the last time, concerns about rela-