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# European Integration: Dangers for the United States

Bill Cash\*

## I. OVERVIEW

The United States has vital trade, defense, and foreign policy interests in halting the European Union's ("EU") accelerating drive toward a United States of Europe. At the same time, it remains important to encourage fair and free trade in and with Europe and all the advantages of the European Single Market. In short, European trade: yes, European government: no.

## II. AMERICAN INTERESTS IN EUROPE

From the First and Second World Wars, through Marshall Aid, the Cold War, and to Kosovo, the United States has consistently shown it is willing to expend its wealth, and even its citizens' lives, to bring peace to Europe.

Yet US citizens long to be relieved of the burden of rescuing Europe, and instead cooperate and trade with a continent as free and democratic as their own. Over the course of the post-war period, Washington has come to regard European integration as a means toward that end.

The view of the State Department has been, at least since John Foster Dulles and Robert Kennedy, that the best way to achieve peace in Europe is by uniting Europe. As a means toward such unity, the United States has long supported and encouraged the European Union—but what type of European Union? Times and circumstances have changed, particularly since the end of the Cold War, and deepening European integration is now having negative consequences for vital US interests.

Since the Maastricht Treaty in 1991, the European Community has evolved into an outright European government—a government pursuing policies that depart from

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the historical attachment of the United Kingdom and the United States to the principles of free trade, democracy, and the Atlantic Alliance. The eventual aim of many European leaders is a United States of Europe with one currency, one body of law, one supreme court, one flag, one anthem, one defense policy, and one frontier. The way in which this integration is proceeding, however, presents immediate challenges to the United States—challenges that it is my purpose here to explain.

### III. EUROPEAN UNION: ANTI-AMERICAN

In 1997, the former Chancellor of Germany, Helmut Schmidt, made clear Berlin's and Paris's motivation behind European integration—to create a superpower capable of challenging the United States.

[The] European Union will have the political, economic, and financial weight to exert an influence on global affairs equal to that of the three superpowers. This perception is gaining ground among the leaders of the EU, and it provides an additional strategic motivation for European integration.

It was also natural that during the Cold War West Germany. . . maintained a close relationship with the United States, since Germany's security ultimately rested more on the United States than on its European allies. Because of this basic strategic reality, de Gaulle never succeeded in enticing Germany away from the United States.

[Post-Cold War] Germany will remain in the [NATO] alliance, but European integration—further development of the EU and close co-operation with France—is increasingly important. . . . The United States must understand that in the next century Germany will not automatically take its side in disputes between Washington and Paris.<sup>1</sup>

Just last year French Foreign Minister Hubert Vedrine echoed Helmut Schmidt, describing the United States as an unchecked "hyper-power."<sup>2</sup> Former President François Mitterrand went further, stating that "France does not know it, but we are at war with America. Yes, a permanent war, a vital war, an economic war, a war without death. Yes, they are very hard the Americans, they are voracious, they want undivided power over the world."<sup>3</sup>

President Jacques Chirac revived his predecessor's bellicose anti-Americanism, proclaiming last fall that the object of the European defense identity is to contain the United States.<sup>4</sup>

German support for the European Union can be just as anti-American. Only last December did the German Chancellor, Gerhard Schröder, state that "whining about

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1. Helmut Schmidt, *Miles to Go: From American Plan to European Union*, *Foreign Aff* 213, 219–20 (May/June 1997).
  2. Peter W. Rodman, *The World's Resentment: Anti-Americanism as a Global Phenomenon*, *Natl Interest* 33, 36 (Summer 2000).
  3. Conrad Black, *Britain's Atlantic Option—and America's Stake*, *Natl Interest* 22 (Spring 1999).
  4. Andrew Gilligan, *Blair's Plan for a Euro-Bomb*, 284 *Spectator* 10 (Jan 22, 2000).

US dominance does not help. We have to act.”<sup>5</sup> The German Foreign Minister, Joschka Fischer, went further, stating that “[w]e ought to work on a common constitution to turn the European Union into an entity under international law—that is my goal. It is the decisive task of our time.”<sup>6</sup>

Dr. John C. Hulsman, Senior Analyst at the Heritage Foundation, underscores the anti-Americanism fueling European integration:

[The United States] needs to stop thinking that French rhetoric isn’t serious, that it’s just a cultural eccentricity. Rather, it reflects the honest beliefs of a people that have a very different political and economic agenda from ours. Britain will not play a decisive role in what becomes of the EU (as always, that will be left to Germany and France), but it can play a critical role in assuring that an American-led bloc will maintain its dominance by a wide margin over such an integrated statist rival.<sup>7</sup>

The greatest single step toward a United States of Europe came with the Maastricht Treaty of 1991, reinforced by the Amsterdam Treaty of 1997. The main provision of Maastricht, the Economic and Monetary Union (“EMU”), is a project described by the President of the European Central Bank, Wim Duisenberg, as “go[ing] hand in hand, with political integration and ultimately political union. EMU is, and was meant to be, a stepping stone on the way to a united Europe.”<sup>8</sup>

The questions facing US foreign policy makers are: (1) What do France and Germany intend to do with the power they seek for the European Union? and (2) Will what they do with that power serve US interests?

The first of these questions is best answered with reference to past experience. Given that the broad strategic interests of the United States lay in the preservation and promotion of free trade, the North Atlantic Treaty Organization (“NATO”), and democracy, the answer to the second question must, as the remainder of this submission will illustrate, be no.

#### IV. EUROPEAN UNION: THREAT TO FREE TRADE

In 1998, US capital outflows to Europe totaled \$93.8 billion. As in most other years since the mid-19th century, the bulk of that outflow, \$36.5 billion, went to the United Kingdom (or \$38.5 billion including UK Overseas Territories).<sup>9</sup> Indeed, the United Kingdom receives more US outward investment than any other country. The

5. Schröder to Europe: Unite vs US, AP (Dec 28, 1999).

6. European Foundation, “Euro-Superstate” a Myth? Here’s What European Leaders Have to Say, <<http://www.europeanfoundation.org/euroquotes.html>> (visited Sept 16, 2000).

7. John C. Hulsman, *The World Turned Rightside Up: A New Trading Agenda for the New Age of Globalization 4* (Heritage 2000), <[http://www.heritage.org/library/lecture/pdf/hl\\_653.pdf](http://www.heritage.org/library/lecture/pdf/hl_653.pdf)> (visited Sept 9, 2000).

8. European Foundation, “Euro-Superstate” a Myth? (cited in note 6).

9. Bureau of Economic Analysis, *International Investment Data: US Direct Investment Abroad—Capital Outflows, 1998 (2000)*, <[http://www.bea.doc.gov/bea/di/diacap\\_98.htm](http://www.bea.doc.gov/bea/di/diacap_98.htm)> (visited Sept 16, 2000).

reverse is also true. In 1997, the United States received \$18.3 billion of direct investment from the United Kingdom, or 30 percent of its total foreign direct investment for that year. Over the past ten years, UK net direct investment in North America has been more than double its investment in the European Union.<sup>10</sup>

Further European integration on the social/protectionist model, however, can only undermine this enormous mutual investment. Consider the following examples.

Rampant EU protectionism comes cloaked as trading standards regulations. One of numerous such examples includes the EU ban on US hormone-treated beef. The European Union also organized the opposition of 166 countries to the US-led "Miami Group" of grain producers—just part of an ongoing attempt to entirely outlaw the importation of genetically-modified crops into the European Union. (The EU Trade Commissioner ignores the fact that World Trade Organization rules require that any such ban be based upon scientific evidence.)

EU countries continue to subsidize their failing companies, including their national airlines (Air Iberia and Air France, to name but two), forcing US companies to compete on uneven ground when trading in Europe. Such subsidies even extend to the banana industries of former European colonies in the Caribbean which cost rival unsubsidized US producers in South America millions of dollars a year.

Foreign firms (even other EU firms) are forbidden from running certain companies and even whole classes of companies within many EU Member States. France, for example, bans foreigners from running "strategic companies"—a category including all of its major banks.<sup>11</sup> Only this January, Pepsi-Cola was blocked by the French government from acquiring the French soft drinks company Orangina, without even an explanation.

Efforts to create an EU-NAFTA trade deal collapsed due to French fears of "US dumping." France remains hostile to such a deal ever being concluded.

The European Commission is seeking to apply stringent EU tax rules to UK Overseas Territories, ending their status as a safe haven for over \$5 billion of US outward investment.

A broader point is that, as the financial pressures associated with an aging population, such as medical, pension, and welfare contributions accumulate, European nations will find the cost of their elaborate welfare arrangements unbearable. Having shown a reluctance to undertake structural reform, the European Union will attempt to pass off this cost by ring-fencing itself with anti-competitive regulation—putting at risk over \$75 billion of US investment.

Clearly, the United States has an urgent interest in keeping both its largest foreign investment location and its largest inward investor, the United Kingdom, free

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10. Hulsman, *World Turned* at 2–3 (cited in note 7).

11. John Tate, *European Foundation Research Briefing*, Eur J 13 (Dec 1999).

of the protectionism that, while always common in Europe, has received a new lease on life in the trade policies of the European Union.

## V. EUROPEAN UNION: RIPE FOR COLLAPSE

The European Union contains many inherent tensions, both economic and political. Chief among those economic tensions are the problems associated with the European Single Currency established under the Maastricht Treaty.

To integrate an economy effectively, one must insulate it against economic shock. Economists agree that such insulation comes in the form of one or more of the following: exchange rate flexibility, wage and price flexibility, interest rate flexibility, labor mobility, and fiscal transfers from the center to disadvantaged regions.

As Willard Butcher, former chief executive officer of Chase Manhattan Bank, observed, members of the European Single Currency share single rates of exchange and interest, little labor mobility, and stifling regulation.<sup>12</sup> Single Currency members will therefore, writes Butcher, enjoy very little insulation against economic shock—unlike, for example, the states of the United States. Without such insulation, members of the Single Currency must instead rely on fiscal transfers at the federal level to iron out economic imbalances between them.

Yet, at present, fiscal transfers within the European Union amount to only around 1 percent of its gross domestic product (“GDP”). To insulate against economic shock, that figure would have to rise well above that amount spent in the United States if it is to compensate for the lack of alternate factors such as labor mobility and wage/price flexibility. The result? A European Government spending infeasibly large amounts of its citizens’ money in an attempt to paper over the cracks among its component economies.

This unwieldy arrangement could collapse at any time if a European government, over-reliant upon fiscal transfers, finds itself unable to offset economic shock in a particular region. As its factories close and its unemployment soars, the affected region would succumb to nationalist and secessionist forces hostile to the very concept of European unity. Open borders in Europe and social protectionism have created a volatile mix of mass unemployment (averaging 10 percent) and nationalism. The rise of the far-right Freedom Party in Austria is symptomatic of this mix, for it, like *Le Front National* in France, combines attacks on foreigners with the issue of unemployment for electoral advantage. Counterattacks by the European Union on such movements only strengthen their appeal.

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12. Willard Butcher, *Monetary Union: An American Business Perspective*, in Jeffrey Gedmin, ed, *European Integration and American Interests: What the New Europe Really Means for the United States* 16 (AEI Press 1997).

The Single Currency is just one of the many ways in which over-hasty European integration has sown the seeds of nationalism—Europe’s leaders having created a class of institution far removed from the genuine affinities of their people. (Indeed, the governments of Germany and France scrapped their currencies without directly consulting their electorates.)

An additional source of tension is that the European Union is systemically undemocratic and, under existing treaties, was intended to be so. The members of one of the European Union’s most important institutions, the European Commission, are not only un-elected, but are almost totally unaccountable to their notional counterweight, the European Parliament.

The stated aim of Jean Monnet, the chief architect of European integration, was to create government by technocrat in a continent where, he felt, politicians had failed so badly. Monnet, like present European leaders, presumably gave little thought to the fact that genuine democracy—that is, government by the people rather than by unelected officials—was the solution to, rather than the cause of, Europe’s ills.

In sum, a Union built upon political and economic tensions capable of splitting it apart is a poor servant of America’s vast trade and defense interests in Europe.

## VI. EUROPEAN UNION: THREAT TO NATO

A convenient myth has evolved in Europe that the Russian threat has evaporated for good. In fact, Russia’s *Perestroika* may prove all too vestigial with the election of—or the evolution of Vladimir Putin into—an autocrat. Russia’s present governing arrangement is more plutocratic than democratic and remains volatile. The notion that Europe can relax in the company of such a neighbor, pursue policies undermining NATO, and establish a defense union characterized by underfunding, undermanning, and tension between its component nations, is misguided.

We have already seen Russia loosen its criteria for first use of nuclear missiles, while Putin made increasing military expenditure by 50 percent central to his presidential campaign. (A record 30 percent of Russia’s total defense spending will be spent this year on military procurement.)<sup>13</sup> Putin also backs the development of a new generation of multiple reentry missile capable of penetrating the most sophisticated missile defense systems yet envisaged.

Conversely, European nations have been making drastic cuts in their defense expenditures. By devoting, on average, only 2.2 percent of GDP to defense, European nations have in effect been “free-riding” upon US defense expenditure. In a decision rightly criticized by the US Secretary of Defense, William Cohen, Germany reduced its military expenditure as of December 1999 to a pitiful 1.5 percent of GDP. The United Kingdom now spends 2.5 percent of its GDP on defense—a figure that, while

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13. Editorial, *Putin’s Priority*, Wall St J (Europe) 14 (Jan 31, 2000).

low, is considered high in Europe. Cuts in European defense expenditures are also motivated by the 1991 Maastricht Treaty, which stipulates that no country may run a deficit greater than 3 percent of its GDP.

Especially worrying is that the Helsinki Summit in December 1999 established a 65,000-strong European army that, while it is to be autonomous, subject to majority voting, and have an international (not just European) ambit, does not have adequate funding or coordination to realize its aims.

The Franco-German Summit, also in December 1999, contained declarations not only on a shared military intelligence satellite (Syracuse 3) and a rapid reaction force, but also for a heavy-lift capacity. Dr. Jonathan Eyal of the Royal United Services Institute in London has estimated that, excepting the unlikely prospect of the United States loaning Europe a fleet of Galaxy aircraft, acquiring heavy-lift capacity would cost the already over-burdened European taxpayers \$100 billion per year for the next ten years.<sup>14</sup>

Moreover, the Western European Union ("WEU"), a defense organization, is to be folded into the EU. From France's perspective, subsuming the WEU is designed exactly so that Europe might one-day jettison NATO altogether. Why else, indeed, did the empire-building Javier Solana opt to leave NATO in order to head the—formerly unimportant—WEU?

France's desire to undermine NATO resurfaced in January 2000 when Paris sided with China and Russia to argue that the Pentagon's proposed National Missile Defense system contravenes the 1972 Anti-Ballistic Missile Treaty. A senior Pentagon official described the French position as "divisive," continuing: "[w]e took it very damn seriously when Europe was under threat from missiles which could not reach the United States."<sup>15</sup> Despite it being only four years since France tested her own nuclear weapons in the face of near-universal condemnation, President Jacques Chirac had the audacity to criticize the US Senate for failing to ratify the Comprehensive Test Ban Treaty.

Europe in fact remains far from solving the lack of coordination that hamstrung its policy and action in the Gulf, Bosnia, and Kosovo. Indeed, it was Germany's unilateral decision to recognize Croatia that contributed to the problems that beset Yugoslavia throughout the past decade. (This did not, however, prevent Germany's Foreign Minister from describing that recognition as "the greatest victory of German foreign policy since 1945.")<sup>16</sup>

The question for consideration in Washington is why the United States should lend Europe the equipment that its defense ambitions require. While in joint command through NATO, the United States has shown itself prepared, when

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14. European Foundation, Eur J 2 (Jan 2000).

15. *France Could Split NATO, Clinton Aide Warns*, Daily Telegraph (London) 17 (Jan 21, 2000).

16. Eur J at 2 (cited in note 14).

persuaded, to contribute to the solving of essentially European conflicts. (Indeed, the United States Air Force ("USAF") dispatched some 90 percent of the bombs dropped on Kosovo.) Denied a commanding role, however, the United States would be unwise to sign over its NATO equipment to an underfunded, undermanned, and poorly coordinated European defense force.

In sum, the European Union is at the same time groping toward common defense but not prepared to pay for it. Even were Europe successful in establishing a common defense force, past events suggest that the policy which that force would be called upon to implement would depart significantly from America's own.

Thus, potential savings to the United States of Europe by taking control of its own defense are outweighed by the damage that European forces would, through the trade and foreign policies that they would be called upon to underwrite, inflict upon US interests.

Consider: France refused to allow the USAF to fly over its airspace during the bombing of Libya; the United Kingdom was the only European country to back US air strikes on Sudan and Afghanistan; one could go on with such examples. The important point is that, time and again, the United Kingdom has supported US military operations while European governments have carped from the sidelines. Preventing UK forces from being subsumed within a European army is thus very much in the US national interest.

A broader point is that, as the European Union develops, federalizing reforms will ensure that fewer and fewer of its decisions require unanimity among its member states to take. Germany, as the largest and most powerful country in the Union, can expect its eastern neighbors in the final resort to vote with her, if only because they calculate that it is in their interests to maintain good relations with a state to which they are tied both by trade and company control.

As well as influencing its immediate neighbors, Germany's sizeable ownership of Russia's \$183.6 billion foreign debt gives it influence in Moscow.<sup>17</sup> With many European leaders wishing the European Union ultimately to extend to the Ural Mountains, German influence in Russia may prove critical to the future direction of the entire Eurasian region. Whether the United Kingdom is an enfeebled member of, or an outside counter-balance to, this putative strategic alliance should, I submit, be of great concern to the United States.

When I put it to the former German Ambassador to the United Kingdom, His Excellency Herr Gebhardt Von Moltke, that Germany would not be contained by the European Union, he replied, "Mr. Cash, I can assure you that Germany will never be contained."

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17. World Bank, *Global Development Finance* 458-61 (2000).