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Striking Similarities: The Origins of the European Economic Community

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Abstract

A Plan for a European Economic Community was developed at the University of Berlin in 1942. There are striking similarities with the European Economic Community that was introduced in 1957—and which became the foundation stone of the European Union. Particularly striking is the innate hostility both to liberal economic values and to democracy—a hostility that permeates the EU to this very day.

Keywords

Origins of the European Economic Community, University of Berlin 1942, European Union

JEL codes

F45, F55, N14, N24, N34, N44

1. Introduction

A Plan for a European Economic Community was first proposed in 1942. At its heart is a Customs Union and a Single Market. The Plan covered all areas necessary for economic integration. Its ultimate aim was full economic and political union with state economic leadership over highly regulated private sector companies, but without any requirement for securing democratic consent. We compare the Plan with the European Economic Community introduced in 1957 and discuss how it turned out in practice. We end by discussing how believers in liberal economic values and democracy should respond.

2. A Plan for a European Economic Community Was First Proposed in 1942

A conference was held in 1942 at the Berlin School of Economics—part of the University of Berlin—on the theme of a creating a “European Economic Community”. Speakers included academics, government ministers and industry practitioners. A conference volume was published, *Europaeische Wirtschaftsgemeinschaft*, which was subsequently translated into English. (Note 1) There is also a partial translation by Edward Spalton. (Note 2)

What is particularly interesting is that the very same term “European Economic Community” (EEC) was adopted by the principal Founding Fathers of the European Union, Jean Monnet and Robert Schuman. It is not known if they were directly aware of the 1942 Plan for a EEC. Yet there are striking similarities between the Plan and the EEC that they helped to establish just fifteen years later.

The 1942 Plan is not well known, and needs to be much better known, since it has had—possibly subconsciously—a significant impact on both the economic philosophy underlying the EEC and the political thinking behind the European Union (EU) itself. This is because at its heart is a strong dislike of what is described variously as English/Anglo-Saxon/Anglo-American/liberal-capitalist *laissez-faire* economics and a particular distaste for the USA, with its “addiction for records. …Americans must always have the largest, the best, the fattest, the longest, the fastest and so on”.

The underlying economic philosophy behind the Plan for the EEC is “state economic leadership” over heavily regulated private sector companies which are expected to operate as efficiently as possible using the latest available technologies. It differs therefore from the Soviet state planning model, where the vast bulk of businesses are state owned.

Professor Dr Heinrich Hunke, President of the Publicity Council of German Industry, in the *Introduction* to the 1942 Plan, provides the following motivation for a European Economic Community:

The existing failures of clarity arise in the first case around the concept of the control of the economy, the degree of solidarity and neighbourly support, the development of individual strengths, the concern over the maintenance of living standards and the question of raw material purchases from foreign economic areas. It is natural that each considers this according to the proportions of whatever question stands in the foreground of his interest. We should try in this place to establish whether a conclusive answer can be given.

There can be no doubt that the concept of economic control, or rather economic leadership, is as much revolutionary as it is new. The fact of its establishment is more important than fate and the significance of European co-operation, not least because a new, unitary concept depends on it. The Anglo-Saxon economy is no longer classic but obsolete. It comes therefore to this: that a new ideological and terminological concept has arisen, which has a particular sturdy foundation of communication and co-operation. In particular, the following individual points should be noted:

1) State economic leadership is no momentary crisis solution, but forms the core of the new theory and practice. It replaces the autonomic egotism and the automatic, self-acting laws of the Anglo-Saxon theory.

2) Economic direction and control is not synonymous with a tendency towards a planned economy. It strives neither for the extinction of individuality nor for the administration of the economy through the state apparatus.

3) State economic leadership signifies much more the new empowerment of the originative and creative power of the individual grounded in the community, the creation of a uniform economic understanding and attitude, the allocation of decisive tasks through the political leadership and the final decision of the state in all questions of economic power. Apart from this, the economy is free and self-responsible.

3. At the heart of the Plan for the European Economic Community are a Customs Union and a Single Market

One key component of the 1942 Plan for a EEC is a Customs Union (Zollverein). This is important for helping to create "economic unity" as discussed by Walther Funk, Reichs Economics Minister and President of the Reich bank, in his Plan chapter *The Economic Face of the New Europe:*

About a century ago, German economic unity began to be formed out of a plethora of territorial economies. A political unification of Germany was then unthinkable, but all the same, economic agreements were crowned by the achievement of the German Customs Union of 1843. This released a mighty growth in the economy.

How did things look then? Anyone wanting to travel through Germany drove on bad roads, paying countless customs duties and bridge tolls through dozens of states. Every one of these states had its own sovereign territory, its own finance system, its own currency and sought, as an independent economy, to stand on its own feet. The responsible men of the time simply did not grasp that their large neighbors England and France were more economically advanced only because they had created at the right time a level of technology and economic activity in a sufficiently large area (Grossraumwirtschaft).

Another key component is a Europe-wide Single (or Internal) Market, as Funk goes on to explain:

If now instead of Germany we consider Europe, we come naturally, impelled by pure economics, if not to the same then to very similar conclusions. Once again, it is technical, economic development which presses unstoppably towards the formation of a great continental economic area. Today, technology offers such possibilities as cannot be fully realised within the bounds of a single national economy.

The raising of railway speeds, the building of traffic networks and waterways, energy grids which connect the whole continent with undreamt possibilities of developing the latest technologies, above all through the aero plane: these have pulled the borders of all states closer to each other. Already outside Europe, stemming from these facts, large economic areas are rising or in active contemplation. In its own interest, Europe cannot remain in the backwardness of its romantic hankerings after the era of the mail coach. Certainly, the difficulties of European economic unification are harder than those which the German Customs Union had to overcome. Also the methods will be different, more complicated and not to be mastered fully with a customs union. In spite of that, the unification of the European economy will come because its time is here and now.

…If one only considers the natural potential of our continent, it becomes apparent that Europe, in fact, meets all the requirements of a complete, self-sufficient economic area.

Professor Hunke discusses the benefits from "completing the Single Market" with the help of a large number of "Directives":

The concept of the large economic area has proved to be viable. I see no obstruction which can seriously stand in the way of its realization. For the formation of large economic areas follows a natural law of development.

…Trade between individual states will not yet be classified as internal trade because a complete abolition of customs and currency controls is not immediately practicable. Nevertheless, as trade within the great economic in Norway, the market gardener in Holland and the Danish poultry breeder will need have no concern that they can dispose of their produce or have it left on their hands. They also need not worry that the price will fairly reward their efforts. Then they will know that production and sales prospects are founded and secured by inter-state treaties and that there is no more room for speculators and crises. The workers in the spinning mills of the Protectorate, in the chemical works of France and in the mines of Belgium will no longer have to fear wage cuts or unemployment.

They can rely on this: that the European Economic Area contains further unrealised technical and natural possibilities in abundance and a demand for consumer goods of all kinds from masses of people, which will never be [fully] met. The word "Unemployment" will not be found in the European economic dictionary.

…It should not go unrecognized that the system of community economic endeavour naturally requires on-going state Directives in a larger quantity than those to which businessmen in many European states were previously accustomed. The …previous operation of the internal German economy show[s] clearly that the state, even in the controlled economy, can and will leave to the industrialist and entrepreneur his original and proper field of activity. …Private enterprise remains. …The complicated economy of our century needs state control, but it is not able to function without the driving forces of entrepreneurial initiative.

In the UK, the combination of the Customs Union and Single Market is better known as the Common Market. The UK joined the Common Market on 1 January 1973.

4. The 1942 Plan Covered all Areas Necessary for Economic Integration

The Plan covered all areas needed for economic integration to work effectively.

For example, there are chapters on *The European Industrial Economy* (by Dr Anton Reithinger, Leader of the National Economy Department of IG Farben Industries AG, Berlin), *The Deployment of Labour in Europe* (by Dr Philip Beisiegel, Ministerial Director, Ministry of Labour), and *European Transport Questions* (by Gustav Koenigs, State Secretary, Berlin). Professor Hunk explains why a Europe-wide industrial policy is needed: "The European Economic Community has no interest in seeing potential and capabilities lying unused anywhere. … [But] the national spirit of the individual economies must not be allowed to oppose neighborly cooperation". A particular problem at the time was rural over-population which led to temporary and seasonal emigration of workers. This should be dealt with by the economic "intensification" (or industrialization) of these areas. This would lead to the "awakening of new economic demands" which would avoid the problem of "[p]ermanent emigration from Europe [which] is by all the laws of our time as false as it is impossible".

You can see immediately here the similarity with the EU's Single Market in goods and labour, with the aim of creating an efficient self-sustaining internal market that maximized resource allocation in all parts of the EEC. While temporary and seasonal migration are accepted as "partial solutions", permanent emigration would be a sign of failure of the system. It is also unnecessary, as Hunke points out: "The harmonization of the newly free powers of labour in the new sectors of the common economy can be achieved without difficulty".

There is also a chapter on *European Agriculture* by Professor Dr Emil Woermann from the University of Halle. The Common Agricultural Policy (CAP) that was adopted by the EU could well have been drawn directly from the Plan, as Edward Spalton discovered: "I worked in the animal feed business and the changeover from free trade in food from all the world to the highly protectionist, minutely officially controlled, mind-bogglingly complicated CAP was a profound culture shock. Something so detailed obviously had to have an ideology behind it, but nobody could tell me what it was. It was entirely alien to the common-sense system we had known before. [Woermann's] paper reveals its philosophical fountain head completely. The CAP, which we joined on 1 January 1973, was not just similar to, but exactly based on, the ideology and policy which he set out. The EEC's biggest project and budget item was squarely founded on principles and policy objectives, decided in Berlin by 1942". The purpose of the CAP was to provide an assured income to farmers in rural areas, leading to an increase in prosperity and a reduction rural de-population.

A common Europe-wide currency was envisaged in the chapter on *European Currency Questions* by Dr Bernhard Benning, Director of the Reich Credit Institution, Berlin. Nevertheless, it is apparent that "money" was regarded as a necessary evil in the Plan. The role of the common currency was to facilitate intra-European trade, although this was a clear second-best option compared with the preferred one: "In the [ideal] continental European bloc, there will be no gold. Everything will be settled through clearing—goods against goods". In other words, what was preferred was a sophisticated barter system with clearing exchanges to match buyers and sellers.

Funk accepted that: "It will certainly be no easy task to bring the currencies of Europe together. …But they can be brought into stability amongst themselves and then with currencies outside Europe. But this task is only possible if we first bring the European national economies into order and thereby stabilize the internal worth of their currencies. Then, with co-operation in trade policy, the external values can be brought into line". This is now known as the Funk Plan (Note 3) and was initially proposed in 1940.

Dr Karl Clodius, Ambassador in the German Foreign Office, discusses *European Trade and Economic Treaties.* The primary purpose of exporting, according to the Plan, was to secure raw materials not available in Europe, so that these could be used to increase the output of finished products which could then be sold in Europe and increase the welfare of European citizens. This would be arranged through a "framework of constructive and far-sighted economic treaties". However, Funk had not yet decided whether the procurement of overseas raw materials should be through the clearing system or by free currency exchange. He was very uncomfortable with the latter: “Currency movements though will always be subject to a certain irreducible level of state control so that no unforeseen, uncontrollable movement of capital can destroy the essential, planned state direction of the economy”.

Notice the hostility to money and finance, given the risk that they cannot be completely controlled from the centre and so can disrupt well-laid plans. Such a view is not confined to the Berlin School of Economics in the 1940s. Modern-day France, for example, is also opposed to “finance capital”—as exemplified by François Hollande (Note 4) who, when elected President, announced that his “only real enemy” was the “world of finance”. Also notice the hostility to international trade: it was a necessary evil to pay for raw materials that were not available domestically.

Fiscal policy is also critical. Funk again: “It is unavoidably essential to have a tight, prudent public expenditure policy, as in the private economy. Above all, there must be a sensible control of production and demand, a control over money and credit and of consumption. We will deal with all these things in one way so that no upheavals occur. They will not occur because we recognize in good times what must be done. We have everything in hand through the authoritarian means of the state to bring these things promptly to order. [A key role of taxation is to ensure] excessive purchasing power be avoided. On the other hand, we have always taken care from social grounds that the screw of taxation should not be turned too tightly. We wish to maintain the will to enterprise and achievement. In this matter, the Ministry of the Economy has always been on guard”.

German obsession with fiscal discipline, readily apparent in the above statement, is as strong today, where it is known as the Black Zero (Schwarze Null) policy, i.e., ensuring fiscal balance virtually every year—whatever the macroeconomic state of the economy. This obsession extends to German insistence on EU-wide fiscal discipline. This is enforced by Germany’s refusal to allow the EU to become a “transfer union”. In a “transfer union”, the central government makes fiscal transfers from regions with internal trade surpluses to regions with internal trade deficits to ensure the economy as a whole remains in balance. It is essential for the effective operation of a unitary state, and many federal states, such as the USA, also make internal fiscal transfers to stabilise their economies. But in the federal EU, Germany—which has an enormous trade surplus with the other member states as a result of the uber smart way it arranged for the Deutschmark to convert to euros at the most favorable possible conversion rate—refuses to make fiscal transfers to deficit member states, such as Italy.

5. The Ultimate Aim of the Plan Was Full Economic and Political Union

The final chapter of the Plan is called *The Basic Question of Europe: A Geographical Concept or a Political Fact*. Professor Hunke argues that: “Europe is a community of living space, a single economic area. The desire for security from crises can no longer be achieved by independence from each other, but only through the common improvement of Europe’s individual national economies”. Expansion to cover the whole of the European continent was also part of the Plan. Hunke again: “[The Plan] should underline the common destiny of the peoples of Europe and emphasise the fact that enlargement of the Economic Community into presently foreign lands is both possible and desirable". A key benefit would be access to key raw materials, such as oil, not available within the existing economic area—again to reduce the dependence on international trade.

Funk was more specific about political union being a longer-term aim: "The European peoples should at last be able to acknowledge that they live in a community of destiny, which in logic leads only to one conclusion, namely Europe-wide, continental co-operation. Previous years were not politically ripe for this".

Political union was, in Funk's view, essential to protect Europeans from the negative consequences of "liberal-capitalist" market forces:

To impress upon you this theme and to sum it up succinctly, I must say this. The economic face of the new Europe… will have two essential characteristics: common endeavored economic freedom. Granted, this will not be that economic freedom which is embodied in capitalism and which is now nearing its end. …As a promise to the people of Europe, the liberal-capitalist ideal of economic freedom is lifted from them. Today it is sinking in misery, blood and flames.

What were the promises of liberal economic thought? According to the liberal theory, economic life unfolded its greatest potential when individuals followed their own interests without restriction. The state can leave the harmonious development of the economy to free competition, through which the self-interest of every individual will, in the end, serve the good of the whole. It is believed that fully free trade will ensure by means of competition that each country will provide the goods which are most suited to its own conditions of production. According to the theory, every nation can buy on the world market where it is cheapest, whilst selling its own products at the lowest costs and best profits due to their natural conditions. Consumers can provide themselves most richly with goods, businessmen employ their resources unhindered and the workers seek their employment where the highest wages are paid. The desired state of so-called social harmony seems most surely to be achievable in this way.

But how did it turn out in practice?

…Without doubt however, the different individual peoples, like individual companies, did not draw the same advantages from this system in spite of apparently similar opportunities. The English moral philosophy of Hobbes and Hume, which was permeated by David Ricardo with a typical shot of Jewish spirit, proved in the first place to be an exceptional means of establishing and preserving British world domination. At the moment this system reached its peak, the English had developed their industry most. They went into the race with the largest cost advantages. Because they also possessed the largest merchant marine and navy in the world, they could tune in to the great circuit of world trade in such a way that their economic and political power grew proportionately. Every intensification of traffic in goods created new profits. The whole world worked in English money and the English were the bankers, the manufacturers, the traders, the carriers and, last not least, the policemen of the world.

…But the debit balance of the British-capitalist era is, in fact, even greater. They wanted to keep all

peoples in the position of favorites or stepchildren of the liberal economic order. The effects of the laissez-faire *system, especially the principle of free trade, caused severe internal, economic damage. The symptoms of this sickness were everywhere the same.*

Agriculture in the industrialized states could not gain sufficient support against the interests of industry, trade, bank and stock exchange. Self-sufficiency in food supplies was lost, the aggregation of large estates began, the peasantry sank into poverty, the population streamed from the land to the cities or overseas. A thin upper stratum of bankers, industrialists and speculators could accumulate grotesque wealth and also create for themselves dangerous power over the state– because everything could be bought for money—in particular public opinion.

On the other side, the industrial proletariat grew ever larger. The increasing dissatisfaction of this class drove them into pseudo socialist Marxism and communism.

All these indications were not sufficiently heeded, perhaps because of the prevailing trend of the time—"get rich, it matters not how"—which disproportionately obscured a true view of the facts. Certainly, Liberalism was a system of "freedom". Anyone who could not find work and bread in his own country had the "freedom" to emigrate. And if things were going badly economically for a nation, it had the "freedom" to burden itself with debt in England. But this kind of freedom was badly founded in moral terms as was its continued existence.

…[T]he World War of 1914-18 was both the high point of the capitalist economic system and simultaneously the beginning of its end.

…Since the First World War, the peoples of Europe have come through a generation-long, pitiless lesson. We all know this and some of us sooner, some of us later, realized that the idol of freedom of this vanished epoch was false and pernicious. With war, inflation, the most extreme economic crises, hunger and unemployment—the lesson was hammered into people. That the sense and purpose of all economies did not lie in the self-seeking, irresponsible making of profits but in the fulfillment of a social task. It is no wonder that the people of central Europe, who suffered most under the lash of this unsocial system, first conceived a different, higher ideal of freedom.

In securing the basic supplies of food and raw materials, in the liberation of the economy from international financial interests and dependency, in the voluntary submission of the individual to the primacy of a people's economy, we glimpse today the new ideal of a true economic freedom.

…The will towards European Community effort, as it is forged under hard wartime conditions must become the leading concern of the basic, ruling economic theory in peacetime too. That means a constant effort to understand the great objectives and coming tasks and to get stuck into them. It also means a readiness, in certain circumstances, to subordinate one's own interests to those of the European Community. That is the highest goal which we require from the European states and we are striving to attain it. In individual cases, this will mean sacrifices, but the outcome is that all peoples will benefit.

What is remarkable about this passage is that the Plan's notion of "economic freedom" is diametrically opposed to the idea of liberal economic thought propounded by economists and philosophers in the UK over centuries. Instead, there was a "higher ideal of freedom" embodied in the "voluntary submission of the individual to the primacy of a people's economy" and a readiness to "subordinate one's own interests to those of the European Community". And it does not just refer to individuals. All European states are "required" to submit to the "common endeavour", so that the outcome is that "all peoples will benefit". Continent-wide self-sufficiency is also a very important objective, with an overarching concern to "secur[e] the basic supplies of food and raw materials".

6. Comparison with the European Economic Community Introduced in 1957

There are a number of striking similarities between the 1942 Plan and the European Economic Community introduced on 25 March 1957:

- The establishment of a centralised, highly bureaucratic system of administration in the form of the European Commission.
- The exercise of economic and political leadership through "Directives"—the same term used by Hunke—from the Commission in order to maximise "community economic Endeavour". There have been more than 80,000 Directives—including "regulations and decisions"—since 1957. There have been more than 50,000 in the last 25 years (Note 5) alone, emanating from more than 150 specialist working parties and committees, known as the "Council preparatory bodies". (Note 6)
- The importance of a continent-wide European Economic Community which recognises the continent's "natural potential" and hence "meets all the requirements of a complete, self-sufficient economic area".
- The introduction of a Customs Union with a Common External Tariff on imports into the EU set by the Commission.
- A Single Market subject to detailed regulations also set by the Commission.
- A Common Commercial Policy in which all trade deals with other countries are negotiated by the Commission via a "framework of constructive and far-sighted economic treaties", reflecting the Plan's hostility to the "principle of free trade [which] cause[s] severe internal, economic damage".
- A Common Agricultural Policy to guarantee and stabilise farmers' incomes.
- EU-wide management of common resources such as fish via a Common Fisheries Policy.
- Expansion of the EU into eastern and south-eastern Europe. Since 2007, the EU has spent €23bn via the Pre-accession Assistance Fund (Note 7) on financial and technical support to a number of "enlargement countries"—or what Hunke called "presently foreign lands"—such as Albania (€1.24bn), Bosnia and Herzegovina (€0.78bn), Kosovo (€1.28bn), Macedonia (€1.28bn), Montenegro (€0.51bn), Serbia (€2.89bn) and Turkey (€9.25bn).
- The Stability and Growth Pact with its five structural and investment funds:
    - **European Regional Development Fund**—"promotes balanced development in the different regions of the EU".

- **European Social Fund**—"supports employment-related projects throughout Europe and invests in Europe's human capital—its workers, its young people and all those seeking a job".
- **Cohesion Fund**—"funds transport and environment projects in countries where the gross national income per inhabitant is less than 90% of the EU average. In 2014-20, these are Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia".
- **European Agricultural Fund for Rural Development**—"focuses on resolving the particular challenges facing EU's rural areas".
- **European Maritime and Fisheries Fund**—"helps fishermen to adopt sustainable fishing practices and coastal communities to diversify their economies, improving quality of life along European coasts".

- The European Exchange Rate Mechanism—introduced in 1979 to reduce exchange rate variability and achieve monetary stability across Europe, in preparation for Economic and Monetary Union and the introduction of the euro—precisely followed the Funk Plan.
- A policy of fiscal discipline, introduced via the Maastricht criteria, with strict limits on the size of member state budget deficits—they must not exceed 3% of Gross Domestic Product (GDP) or 2.2% if the member state is also in the Eurozone—and national debts—they must not exceed 60% of GDP. These limits apply whether their breach is due to an economic recession beyond the control of the member state or due to government spending profligacy. In addition, no distinction is made between current and capital expenditures. All of this is fully in line with the Schwartze Null fiscal policy outlined in the Plan.
- Consistent with this belief in rigid fiscal discipline, the refusal to allow the federal EU to become a "transfer union", thereby forcing member states to solve their economic problems through "enterprise and achievement".
- Hostility to free markets, especially money and capital markets, which could interfere with the implementation of the Plan, leading to a heavy reliance on the banking and insurance sectors to provide both short- and long-term financing to the corporate sector. This explains why Capital Markets Union (Note 8) has been such a failure.
- The concepts of solidarity and neighborly support, so long as members fit in with the Plan.

Some of the above quotes come from the Plan, while others come from the EU website—it is hard to differentiate.

7. But How Did It Turn out in Practice?

The Plan's aims for the EEC were to exploit the continent's full natural potential and to ensure self-sufficiency. These led to the following objectives: "prices will fairly reward" the efforts of producers, and production and sales will be secured through inter-state treaties, and there will be "no more room for speculators and crises" or "fear wage cuts or unemployment". How did it turn out in practice?

It is difficult to quantitatively assess how comprehensively these objectives have been met across all EU member states. However, unemployment rates are reported and "unemployment" was going to be banished from the European economic dictionary. At the end of 2019—so prior to the massive distortions caused by the global coronavirus pandemic—the average Eurozone unemployment rate was 7.8%. It was 18% in Greece, 10.5% in Italy, 8.8% in France, but only 3.2% in Germany. So only in Germany can we say that unemployment has been effectively "banished". By comparison, the UK unemployment rate was 4%. Youth unemployment is far worse. It averaged 16.1% in the Eurozone. It was 40% in Greece, 33% in Italy, 20% in France, and 5.6% in Germany. In the UK, it was 11.5%. So this demonstrates a massive failure of the Eurozone economic system to provide the balancing mechanisms that were promised by Funk. The UK, by contrast, measures favourably on both unemployment measures, except when compared with Germany.

Then there is the common currency, the euro, which is regarded as one of the greatest achievements of the EU. Milton Friedman said the euro would be a great success until the first financial crisis—and so it turned out. The Eurozone economies were roughly in balance, with trade flows between them being largely offsetting, but since the 2007-2008 Global Financial Crisis, (Note 9) this is far from the case. A key underlying problem is that the Eurozone does not satisfy the economic conditions for being an Optimal Currency Area, (Note 10) a geographical area over which a single currency and monetary policy can operate on a sustainable long-term basis. The different business cycles in the Eurozone, combined with poor labour and capital market flexibility, mean that systematic trade surpluses and deficits will build up—because inter-regional exchange rates can no longer be changed. Surplus regions need to recycle the surpluses back to deficit regions via transfers to keep the Eurozone economies in balance. But as previously mentioned, the largest surplus country—Germany—refuses formally to allow the EU to become a "transfer union". This means that deficit countries including the largest of these—Italy—end up in a recession, owing huge debts. They are unable to use fiscal policy to boost aggregate demand, again because of German insistence on fiscal discipline, and the supply-side policy of appealing to "enterprise and achievement" has also been ineffective. So the recession becomes permanent. The Italian economy has not grown since Italy joined the euro in 1999.

The Plan also promised to end wage cuts. Ireland provides a striking example of the failure of this objective. Between 2008 and 2011, median and mean total disposable income (excluding all social transfers) in Ireland fell by 30% and 21%, respectively. These cuts were required as part of the EU"s rescue package for the collapsed Irish banking system. Irish banks had lent excessively to property speculators—another group that was going to be banned—leading to a property boom. Had Ireland had its own currency, the Irish central bank would have raised interest rates to curtail the boom. But Ireland is a member of the Eurozone where interest rates are set to suit the economic needs of Germany, in particular, rather than peripheral members such as Ireland. Ireland had no alternative but to sit it out and wait for the inevitable collapse of its banks—and then pay for it through massive wage cuts. So much for “solidarity and neighborly support”.

The idea of parliamentary approval is not mentioned in the Plan. A European Parliament was introduced with appointed members in 1958 and with directly elected ones from 1979. But its role is to do little more than rubber-stamp the Directives proposed by the Commission. It is unable to initiate, block or repeal legislation. While it can suggest amendments to proposed legislation, these can be ignored by the Commission. Belgian historian David Van Reybrouck, in his 2016 book *Against Elections: The Case for Democracy*, describes the European Parliament as little better than one of the “councils of the people” in the interwar colonial empires of the Belgium, Holland, Britain, or France—with the real power resting with a distant imperial executive.

Nevertheless, this has not prevented the onward march to political union. The EEC was transformed into the European Union on 1 November 1993 with the aim of being a continent-wide economic and then political entity. Full political unification was the clearly stated objective of Jean-Claude Juncker, President of the European Commission from 2014 to 2019, in one of his final State of the Union addresses—ideally by 2025.

Germany is the strongest supporter, just as it was in 1942. As soon as German reunification had been achieved in 1990, Helmut Kohl, the German Chancellor at the time, announced: “We now seek political unification, the construction of a United States of Europe”. This was supported by Ursula von der Leyen, the new President of the European Commission, in an article in *Der Spiegel* (Note 11) in 2011. The present German Chancellor, Angela Merkel, explains how it will happen: “Of course, the European Commission will one day become a government, the European Council a second chamber and the European Parliament will have more powers”.

But the reality is that the European Union is not an institution interested in giving “more powers” to the representatives of the people. Significantly, the authoritarianism of the original 1942 Plan is still there below the surface in the modern EU. Just as Walther Funk was fond of saying “We have everything in hand through the authoritarian means of the state to bring these things promptly to order”, so Juncker is fond of saying “There can be no democratic choice against the European Treaties”. Yanis Varoufakis, the former Greek finance minister, sums it up well and he should know better than most: “In truth, Brussels is a democracy-free zone”. The proof of this is that once those 150 or so Council preparatory bodies have framed policies, it will often already be too late to inject much democratic oversight into the draftsmanship. (Note 12)

Similarly, the concepts of solidarity and neighborly support are there only so long as member states fit in. Witness the ruthlessness with which deviant member states, such as Greece, (Note 13) are treated. Even states that are not part of the EU are not immune from what can only be described as EU bullying and control creep. One example is Switzerland (Note 14) which was threatened with losing access to EU markets when it voted in a referendum to limit “mass migration” to stop the undercutting of local wages; Switzerland is a signatory to the Schengen Agreement, but is not a member of either the Single Market or the Customs Union. Another is Norway which was threatened with having its salmon sales to the EU blocked when it refused to implement the EU Postal Services Directive; (Note 15) Norway is in the Single Market and has to accept an average of five new EU Directives every day, (Note 16) without having any vote on them, a state of affairs which Norwegians call "fax democracy". Both countries eventually backed down. But the EU is never satisfied. It is currently trying to bring Switzerland (Note 17) under its legal and regulatory control by forcing it to accept the "dynamic alignment" of EU rules on migration, social security, and key areas of economic policy in perpetuity. Because of Swiss resistance, it has suspended the trading of Swiss shares on EU stock exchanges and is threatening to withdraw mutual recognition for exports of medical equipment.

Nor did the Plan mention any legal framework under which it would operate. The European Court of Justice (ECJ) was set up in 1952. It is the highest court in the EU and has "ultimate sovereignty". The ECJ itself established the primacy of EU law over the laws of member states in the Costa v ENEL case (Note 18) in 1964, without any approval of this by elected politicians. The ECJ's members, like those of the Commission, are unelected. It operates using the "purposive approach" (Note 19) which means that it interprets EU laws according to their "purpose" rather than to what the text of the law actually states—which is what happens in common law countries. And, of course, the "purpose" frequently changes to reflect the changing intentions of the Commission. The ECJ is therefore a political court, not a neutral interpreter of EU laws. The UK granted "ultimate sovereignty" to the ECJ when it passed the 1972 European Communities Act.

Only once since 1964 has the supremacy of the ECJ been questioned and that was in May 2020 when the Germany Federal Constitutional Court (Note 20) declared that the European Central Bank's Public Sector Purchase (i.e., quantitative easing) Programme in 2015 was *ultra vires* and exceeded EU competences and, by implication, that EU law did not overrule member state law which, in the case of Germany, would not have sanctioned this programme.

8. How Should Believers in Liberal Economic Values and Democracy Respond?

Hunk described the Plan thus: "It contains …the obligation that from considerations of European freedom, continental Europe must receive first loyalty in all economic transactions. …[I]t must be firmly held above all that the national spirit of the individual economies must not be allowed to oppose neighborly cooperation". This centralizing authoritarianism permeates much of what we see in the European Union today, particularly in terms of the Commission directives and ECJ rulings that restrict economic and political freedoms.

So what can believers in liberal economic values and democracy do? A few of them might take the view that it would have been better for countries like the UK to remain in the EU in order to "reform" its aberrations from within. But it should be clear from the above that this is impossible. So much of the Plan has been implemented—again possibly subconsciously—that it now has a life of its own. There are no aberrations: what you see is what is fully intended. And arch euro-federalists, like Jean-Claude Juncker, Guy Verhofstadt and Michel Barnier, have no intention of changing any element of the Plan or allowing it to be reversed. They take the long view and remember that it took 150 years for the USA to become a fully united economic and political entity with a single currency being used in all states.

However, most will surely recognise that the EU is incapable of being reformed (Note 21) and that it was better for the UK to fully leave the EU politically and economically as soon as possible. Nevertheless, it should be readily apparent—in the light of the Plan—that the EU would not be willing to make this easy. This was made very clear when the EU published its negotiating guidelines (Note 22) in January 2020 and in the subsequent negotiations, led from the EU side by Michel Barnier. The EU's intention was to oblige the UK to follow EU law in respect of "competition and state aid, tax, social, environment and regulatory measures and practices"—the so-called "level playing field" conditions—and be subject to the rulings of the ECJ in perpetuity. This would have left the UK with absolutely no freedom of manoeuvre to negotiate any meaningful free trade agreements with other countries. We know that the Plan does not like these at all.

In the event, the UK negotiating team, led by Lord David Frost, was able to extract from the EU a standard free trade agreement in which disputes were settled by international arbitration rather than the ECJ. (Note 23) The agreement was signed on behalf of the EU by European Commission President, Ursula von der Leyen, and by European Council President, Charles Michel, in Brussels on 30 December 2020. It was then flown to London by the Royal Air Force and signed on behalf of the UK government by Boris Johnson in Downing Street. Later the same day, the UK Parliament voted in favour of the agreement by 521 votes to 73. It passed into UK law as the EU (Future Relationship) Act, having received Royal Assent, on 31 December 2020. (Note 24) What is noteworthy is that the European Parliament played no role whatsoever in approving this historic agreement. It was merely allowed to "ratify" the agreement after it came into effect on 31 December 2020, thereby magnificently confirming Van Reybrouck's point that the European Parliament's role is simply to rubber-stamp agreements already made by the Commission, and, in the process, making a mockery of the very concept of ratification. Equally noteworthy is that neither von der Leyen nor Michel are elected by the European people, unlike those who signed and voted for the agreement in the UK.

Further, those who argued for a complete separation need to be much more nuanced. In particular, they must recognize just how much the 1942 Plan has influenced how the EU has developed. This, in turn, implies that many of the proposals in the Plan will implicitly have widespread acceptance—both in the UK and on the European continent. For example, there will be many people who will readily agree with Funk when he says that "The European peoples should …acknowledge that they live in a community of destiny, which in logic leads only to one conclusion, namely Europe-wide, continental co-operation". Similarly, many will support Hunke when he states that "The desire for security from crises can no longer be achieved by independence from each other but only through the common improvement of Europe's individual national economies" or when he calls for state economic leadership over highly regulated private sector companies and the "final decision of the state in all questions of economic power".

So if proponents of free markets continue to talk about having a bonfire of regulations or having a free trade agreement with the USA which puts chlorinated chicken on supermarket shelves—without taking account of the Plan's already extensive influence—they are likely to alienate even many Brexit (Note 25) supporters. They should also recognise the particular anger on the continent about the Global Financial Crisis which completely disrupted the EU's well-laid plans for further economic integration and which is blamed entirely on "liberal-capitalist" market forces. The GFC explains why so many people both in the UK and on the continent fully support Funk's call for "the liberation of the economy from international financial interests and dependency".

9. Conclusion

Very few people know about the 1942 Plan: Boris Johnson (Note 26) is a rare exception, although he misses the key economic implications. The principal Founding Fathers of the European Project, Monnet and Schuman, never acknowledged the Plan when they set up the European Economic Community. The European Union's website does not mention the Plan: instead it states that the idea of a European Union originated with Winston Churchill's speech at Zurich University in 1946. (Note 27)

Now this is somewhat disingenuous, since, as Professor Robert Tombs has pointed out, (Note 28) European federalism has a far longer history. It goes back at least to the 18th century. Victor Hugo called for a United States of Europe (USE) in the 1860s, while Ernest Renan—author of *What is a Nation?*—predicted in the 1880s that the European nations would inevitably be replaced by a USE. There have also been previous attempts at economic integration. For example, Britain and France set up what has been called the First Common Market, with plans for a common currency and rights of citizenship, in the 1860s. Then there was a Latin Monetary Union between France, Belgium, Italy, and Switzerland between 1865 and 1927. In the World War I, Germany had a plan for an economic area which historian Niall Ferguson has dubbed the "Kaiser's Common Market".

However, this misses two key points. The first is that, while there have been many previous calls for a federal Europe, there has only ever been one detailed proposal for a European Economic Community—and that is the 1942 Plan. And we have shown that this Plan has had an enormous impact on how the EU has developed. Surely this is not pure coincidence? It seems to me inconceivable that the Plan was not known to at least some of the EU's Founding Fathers—and in particular, Walter Hallstein. (Note 29) He was the first President of the European Commission between 7 January 1958 and 30 June 1967 and had been a member of both the Bund Nationalsozialistischer Deutscher Juristen (Association of National Socialist German Lawyers) and the Rechtswahrer (Law Protectors) Organisation, although was not a member of the National Socialist Party. He also received specialist legal training at the Kaiser Wilhelm Institute in Berlin, (Note 30) a private institute financed largely by IG Farben, an institution intimately involved in the Plan. The EU's biography of Hallstein fails to mention any of this, although it does acknowledge that he "worked towards a rapid realisation of the Common Market. … During his mandate, the integration advanced significantly". (Note 31)

And this leads directly to the second key point. However much you try to play down the influence of the Plan, the centralising authoritarian language of its authors cannot be ignored. The Plan did not and was not intended to have a democratic foundation. And the way in which the EEC was set up—with a governmental and judicial system in the form of the European Commission and ECJ, respectively—ensured that there would be no genuine democracy in the European Union. There is, of course, a democratic veneer in the form of the European Council and the European Parliament. There are periodic elections to the European Parliament, where around 85% of the laws that the citizens of member states have to obey are "approved", but all these laws are initiated by the Commission and then interpreted by the ECJ to suit the Commission's "purpose". All this is made perfectly clear by Hallstein in his book *Die Europaeische Gemeinschaft* (*The European Community*): "Every action starts with the Commission. …The Commission is the most original element in the organisation of the [European] Community without any direct precedent in history. …Its function is to represent the [European] Community to the inside and to the outside. …The Commission is independent of the governments of the member states. Instructions of the member states must not be given to nor taken by the Commission. ….The Commission has the monopoly to initiate legislation".

So much about recent events surrounding Brexit become much clearer when you understand the Plan. The way the EU conducted the Brexit negotiations is entirely consistent with its underlying philosophy—this is not a club that you can leave once you have joined—as Varoufakis warned us in *Adults in the Room: My Struggle with Europe's Deep Establishment*. (Note 32) Similarly, the language used by people like Juncker—when he said that the British were "deserters" who needed to be punished—could have been lifted directly from the Plan. But most significant of all is the realisation that the hostility to Anglo-Saxon economics is both long-standing and widespread on the continent and that the democratic deficit in the EU—widely acknowledged even by strong EU supporters—is here to stay.

Believers in liberal economic values and democracy cannot possibly compromise on these points—both in the UK and on the European continent. It should now be clear that the only way out for the UK was a clean-break Brexit—which involved leaving the Customs Union, the Single Market and the jurisdiction of the ECJ, as Theresa May originally promised in her Lancaster House Speech on 17 January 2017. (Note 33) The UK has now achieved this. It was the only way to avoid being drawn inexorably into the kind of political union envisioned in the 1942 Plan. However, the remaining EU member states will find it very hard to avoid this fate.

Acknowledgements

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Notes

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