

【研究ノート】

# Central and Eastern Europe's Transition to a Market Economy and the European Integration: with Special Attention to Mitterrand's Project of European Confederation

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## Introduction

This research note examines international frameworks surrounding East European countries immediately after system changes in 1989/90. Beginning in 1990, these countries implemented a radical way of transition to a market economy which was recommended by international financial institutions such as the IMF and the World Bank. Judging only from results, the situations developed in this way, but we wonder whether or not there was any other alternative. In fact, Peter Gowan<sup>1</sup> (1995) and Frederic Bozo<sup>2</sup> (2008, 2009) tell us there was another one. That was Mitterrand's (Pan-) European Confederation project, though it was not well-known to Japanese people, at least to Japanese researchers of comparative economic studies. Bozo's works particularly clarify the background of the Mitterrand's project in detail. This research note deals with possibilities of other alternatives for East European countries in the early 1990s based on works by Gowan and Bozo as well as other related works and considers the significance of the Mitterrand's project.

## 1. Future Prospects for Central and Eastern Europe immediately after the System Change

Immediately after the system change there were two approaches, one being French and other American, to the problem of what the future of Central and Eastern Europe would be like.

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### **1-1. The French Approach**

This conception was suddenly unveiled to the world by President Mitterrand in his New Year's Eve address (December 31, 1989) to the French people (Gowan, 1995). This was a noteworthy and grand vision about the future relation between the Western Europe and quickly changing Eastern Europe. Based on Bozo (2008, p. 396) and Gowan (1995, p. 6), Mitterrand's European Confederation project can be summarized as follows:

- 1) Encouraging the former COMECON region, including the USSR, to remain linked together economically.
- 2) Leaving the evolution of socio-economic forces in each country to the interplay of forces within the country concerned, without using Western pressure to impose a particular system.
- 3) These countries would probably move toward some mix of socialism and capitalism. Eastern Europe would nevertheless grow closer to an increasingly integrated Western Europe, thereby making it progressively possible to overcome the east-west (and Germany's) division, at least in concrete terms.
- 4) Making the emphasis of Western policy that of economic revival in the region as a whole, using, for example, a regional development bank for that purpose (EBRD which was to be established in 1991).
- 5) Rejecting the perspective of bringing some ex-communist countries into the European community (EC) in the short or medium term. Instead, offering a pan-European confederation embracing both the EC and the East, including the USSR.

It seems that Mitterrand envisaged the Conference on Security and Cooperation in Europe (CSCE) as an institutional framework. The CSCE, which included both the U.S. and the Soviet Union and for nearly two decades had been France's preferred vehicle for east-west change, was of course seen as essential, but it had limits. French diplomats were wary of a blurring of the role of the Atlantic alliance and, worse yet, of nascent European strategic identity (Bozo, 2009, p. 396). The prospective institutional framework was not clear at this stage.

### **Background**

After the system change East European countries strongly expressed their aspirations

for “Back to Europe” (Henderson, Karen, ed. 1999), namely membership of the European Community. The EC member countries were perplexed with these countries’ aspirations for joining the EC. As mentioned above, 12 member countries of the EC have been concentrating their efforts on formation of consensus about the Economic and Monetary Union (EMU) from 1988 through 1990. In addition, since 1989 Austria, Sweden, Finland and Norway had applied for EC membership one after another (these countries except Norway were admitted to the EU in 1995). The existing EC member countries were suddenly faced with choices of giving priority to deepening of integration or enlargement.

Bozo (2009) reports a view of the French foreign ministry policy planning staff: “Reconciling European construction with the openness to the East is an imperative, but the EC could not bear any enlargement until after its strengthening and must therefore control its openness by offering satisfying alternative solutions to membership” (Bozo, 2009, p. 147). This consideration was behind Mitterrand’s speech.

Mitterrand advocated “Europe from the Atlantic to the Urals” which was reminiscent of “Europe from the Pyrenees to the Urals”, a famous expression by ex-President Charles de Gaulle (1958-1969). It may sound an unrealistic idea, but prior to Mitterrand’s proposal there were some developments in the Soviet Union, for example, Gorbachev’s inauguration as General Secretary of the Communist Party of the Soviet Union in April 1985, Perestroika and new-thinking diplomacy starting in the next year, Gorbachev’s conception of a “European Common Home”<sup>3</sup>, mutual recognition by the EC and Comecon in 1987, etc. Mitterrand’s proposal was an attempt to respond positively to Gorbachev’s conception of a “European Common Home”. As mentioned above, at that time the EC itself was embarking on monetary integration while preparing for accepting applicant countries from Northern Europe, and therefore could not afford to accept economically more fragile East European countries. Taking into account these circumstances, Mitterrand’s proposal was logical. According to Bozo, one could detect a more fundamental, and in a sense a more historically minded motivation behind Mitterrand’s conception of European Confederation: his concern that the end of the Europe of “Yalta” should not lead to a return to the upheavals of the first half of the twentieth century. Being afraid of the revival of ethnic conflicts which had been contained under Communism, he frequently called the continent the Europe of

“Sarajevo” (a place where the First World War was triggered). For him, “the European Confederation” is an organization which could prevent the revival of the Europe of “Sarajevo” and materialize a peaceful and unified Europe. Bozo says, Mitterrand was also influenced by history and his own political experience, that of a young politician who had been involved in the reconstruction of Europe after 1945 and in west European integration from its beginning. He had been impressed, in particular, by his participation in the May 1948 European Congress in The Hague (Bozo, 2008, p. 395). Mitterrand envisaged that the Prague meeting, which was decided to be held jointly by governments of Czechoslovakia and France in June 1992, should be similar to the European Congress in The Hague.

### **1-2. The American Approach**

The alternative American approach, was announced by Jeffery Sachs' paper “What is to be done” (Sachs, 1990), which appeared in “The Economist” of January 13, 1990. In this paper without mentioning Mitterrand's name, Sachs criticized Mitterrand's conception, saying, “The East European common market that some suggest as precursor to integration with the West would simply be a poor man's club”, and stresses the necessity for accelerating the integration with the Western market. He was Professor at Harvard University. Young as he was (mid-30s) at that time, he became an economic advisor to the Yugoslav and Polish governments in 1989 and to the Russian government in 1991 with his alleged achievement of overcoming vicious inflation in Latin America in the second half of 1980s. He also acted as a mediator between the IMF and governments in transition countries. It is obvious that there was the US government, especially the Department of Treasury behind him. Reading Sachs' (1990) paper with reference to Gowan (1995), Sachs' arguments can be summarized as follows:

- 1) Breaking up the COMECON region and above all, breaking East-Central European countries from the USSR,
- 2) Making a root-and-branch switch to a particular form of capitalist institutional structure in each state a precondition for normalizing relations with that state.
- 3) Starting the process of regional transformation in the states with the most political sympathetic governments and then using positive incentives to extend the required mix of domestic policies across the region as a whole. In his paper Sachs often mentions

Poland<sup>4</sup> as a pioneer of reform implementing Balcerowicz's program of economic reform<sup>5</sup> since January 1, 1990, and he proposes writing-off of foreign debts not only for this country but also for Yugoslavia, Hungary and East Germany.

4) The entire process would be carried forward by the capacity and will of Western states to provide the necessary positive incentives for cooperative governments in the main via their multilateral organizations. Since Sachs proposed positive incentives (carrots) he should have envisaged negative incentives (sticks) for uncooperative governments, although this was not described explicitly.

5) The revival of economic activity in cooperative target states would take the form of trade-led growth directed toward Western Europe, compensating for Comecon's collapse.

6) Cooperative states would gain full access to the markets of the EC (partly through radically changing some of its key institutional pillars, such as its trade regime and Common Agricultural Policy), very substantial economic assistance and eventual membership of a greatly enlarged EC.

7) Although this could not be found immediately from the Sachs paper, Gowan (1995) interpreted that the US envisaged imposing a hub-and-spokes structure on the relationship between the West and East-Central Europe, with each target state in the region connecting with the others principally via their relationships with the Western hub (p. 6).

It would be natural for readers to have a strange impression where Jeffrey Sachs, an economist of the USA which is a non-EU member, wrote "The most fundamental support needed is a commitment to incorporate the East European countries into a Common European market" (Sachs, 1990). But impudently enough, he dares to argue for Western Europe's role in supporting cooperative East European countries.

## **2. French Efforts to Realize European Confederation and Its Failure**

### **2-1. French Efforts**

According to Bozo (2008) and Gowan (1995), the French approach was supported by leaders of West Germany in the beginning. At that time German Chancellor Helmut Kohl took great pains to accomplish German unification and was preoccupied with

maintaining a strong relationship with Moscow for that purpose. West German business circles were also expecting a synergy effect of cooperation of Russia and West Germany. Mitterrand's proposal quickly elicited interest in foreign capitals, where the president's strategic adviser reported, it was "unanimously understood and approved" (Bozo, 2008, p. 399). The diplomatic agenda in 1990 was packed because of the Iraq crisis (Iraq had invaded Kuwait in August) in addition to German unification. Practical work for realizing European Confederation only started in the end of 1990. The Quai d'Orsay (the French Ministry of Foreign Affairs) focused its efforts on the Prague meeting which would be jointly held by the governments of France and Czechoslovakia in June 1991. Mitterrand wanted to make this meeting comparable to the May 1948 European congress in The Hague. By the time of the Prague meeting, held on June 12-14, however, the atmosphere had completely changed.

There might have been doubts on the European confederation's future relations with the United States, with the role of the USSR, and with its articulation with the European Community. The French government prepared a series of arguments regarding to these issues. First, regarding US non-participation in the confederation, the Quai d'Orsay emphasized that the project did meet key US objectives of anchoring central and eastern European countries to the west and avoiding a Balkanization in the formerly Soviet-dominated part of Europe. It was, moreover, a legitimate design, as the EC was in essence trying to organize its "back yard" just as the United States did; and it did not call into question the United States' "fundamental" contribution to European security, which would persist through the NATO and the CSCE. Second, regarding Soviet participation, which was considered another drawback, the Quai d'Orsay argued that the exclusion of the USSR would indeed provoke "strong resentment", whereas its inclusion could diminish the risks of Soviet disintegration: while the USSR was not yet democratic, the best way to achieve this was to keep it firmly attached to Europe, and this would not jeopardize the European balance. Third, as for the relationship between the confederation and the EC, the French denied that it would serve as "substitute" or a "waiting room" for the East European countries. Yet because of its "extremely strict" rules and because it was undergoing a "profound overhaul", the European Community could not "provide an immediate response" to the needs of these countries. By contrast, the confederation offered a "pragmatic pan-European response" within a "flexible

institutional framework” which would remain useful until their possible integration into the Community (Bozo, 2008, p. 403).

Already in the NATO summit in Brussels on December 4, 1989 a difference appeared in the standpoint between the US and France. While the United States privileged the Atlantic framework to manage the German process, France advocated the European framework more than ever (Bozo, 2009, p. 129). In the first half of 1991 when the conception of “European Confederation” was to be translated into reality the different standpoints of France and the US clashed with each other. The US government put pressure on East European governments not to join the French proposal. In addition, a paradoxical situation appeared in the sphere of security. At a time when the military structure of the Warsaw Pact was dissolved in February 1991 and the USSR no longer appeared threatening, these countries nevertheless felt a “diffuse sense of insecurity”. This security vacuum(real or imagined)pushed some of them in the direction of Western institutions, first and foremost the Atlantic Alliance (Bozo, 2009, pp. 354-355).

West German Chancellor Helmut Kohl began to drag his feet when it became clear that the European confederation project displeased the United States (Keylor, 2009, p. 8). The US government underlined that the United States would not accept “being used by the Europeans for security and kept aloof in other domains”, and this message was delivered to the French through the Germans. Washington’s rejection of the confederation project was seen in Paris as part of an all-out offensive to reassert US leadership in Europe after the cold war (Bozo, 2008, pp. 407-408). In this way, as a result of pressure from the US, the French approach practically suffered a setback and Mitterrand’s project completely failed in the Prague meeting in June. In his speech in Berlin on June 18 – only days after the Prague confederation meeting – US State Secretary Baker advocated “Atlantic community from Vancouver to Vladivostok”, denying Mitterrand’s project totally (Bozo, 2008, p. 408). A failed coup in the Soviet Union in August 1991 was the finishing blow for Mitterrand’s project. In the end, the US approach toward East European countries was adopted by the G7.

## **2-2. Causes of the Failure**

Why was Mitterrand’s project of European Confederation not accepted? First, when staff of the Elysee and the Quai d’Orsay started the practical work to realize the project

nearly a year had passed since Mitterrand had launched his project. During that time political situations in Eastern Europe had completely changed. In Eastern Europe elections were held one after another, capitalism-oriented political parties won in all the countries in the region, decisively determining the trends of transition to a market economy.

Second, obviously the Soviet Union was very quickly weakening and finally it collapsed in December 1991. Observing that in the second half of 1989 democratic changes in Eastern Europe were proceeding in an accelerated way while the control of these countries by Moscow was weakening, Mitterrand considered that a good opportunity to materialize “a European Europe” had finally come. At that time the EC was making its efforts to form a consensus on monetary integration. The French position was to give priority first of all to the deepening of the integration with the enlargement remaining as a next step. Bozo’s studies (2008, 2009) have taught us that Mitterrand had a conception, according to which Western Europe would encourage the former COMECON region, including the USSR, to remain linked together economically and would support this region in the long-run. Based on a situation in which the Cold War was ending, Gorbachev was proposing “a European Common Home” and the Soviet Union was changing itself in a favorable direction, Mitterrand’s project was not so unnatural. However, the speed of changes in Eastern Europe and the Soviet Union by far surpassed Mitterrand’s anticipation.

Third, if Mitterrand’s project had come to fruition, Eastern European countries would have taken on a mixed form of socialism and capitalism and stayed outside of the EU (EC) for a longer time (decades). But this prospect could not convince people in Eastern European countries which had only begun the transition to market economies, more concretely to capitalist economies.

Fourth, as will be described later, Eastern European countries received financial assistance from international financial institutions which were under the strong influence of the USA.

Fifth, there was strong opposition from the USA. It seems that Mitterrand had underestimated the strong determination of the US government which resolved not to lose its influence on the whole European continent even after the end of the Cold War.

Maintaining a favorable relationship with the Soviet Union, in December 1990



France started the practical work to realize Mitterrand's project and approached governments of Eastern European countries, but due to above-mentioned miscalculations, it ended in failure.

### **3. The USA as a Shadow Leading Actor**

It was considered that if the Cold War were to end then NATO would lose its *raison d'être*. Endo (2013) stresses, "one can observe that the regime of a harmonious division of labor between EU (+ Council of Europe) and NATO was collapsing" (p. 202). It was exactly at this moment that Mitterrand proposed the project of European Confederation, but it ended in failure. On the other hand, the NATO redefined its role. Endo (2013) says, "in order to satisfy practical needs and to demonstrate its *raison d'être*, the NATO embarked in a new direction of so-called soft security and came to play extensive roles ranging from anti-terrorism to humanitarian intervention" (p. 200).

The USA played a significant role in the subsequent EU's eastward enlargement. In practice, more importance was attached to the enlargement rather than deepening of the European integration under the pressure of the USA (and the UK). From 1997 to 1999, for example, there was a distinction between the first wave and the second wave of EU enlargement among candidate states. In 1999, however, this distinction disappeared. According to Welfens (2001), on the occasion of the Kosovo war in 1999 the US government put pressure on the EU to accelerate its eastward enlargement. Then the EU removed the distinction between the first wave and the second wave in order to speed up accession negotiations with two countries in South Eastern Europe (Romania and Bulgaria), which might have given a positive signal conducive to the stabilization of the whole Balkan region. It looks strange that the intention of the US government had been reflected in the EU's enlargement, but it is understandable when we take into account that the EU's enlargement had thus far proceeded in parallel with NATO's enlargement. In this way, political considerations have had more importance than economic considerations in each step of the EU's eastward enlargement. Thus the enlargement of the EU as well as the Eurozone has proceeded rapidly. Here we might find one of underlying causes of the present Eurozone crisis.

#### 4. Neoliberal Economic Transformation led by the IMF

Transition countries in Eastern Europe and the former Soviet Union, which were suffering from a huge amount of external debt, were obliged to get financial support from international financial institutions such as the IMF and the World Bank. According to Tanaka (2006), the EU extended financial support to Central and East European countries in the form of PHARE program, EIB (European Investment Bank) loans, etc., but the amount of this support was small. The EU did not have forces of compelling system changes like the IMF. To classify the period in view of institutional reforms, the period from system changes to 1997 was led by the IMF and the period from 1998, when EU accession negotiations began, onwards was led by the EU (Tanaka, et al, 2011, p. 35). In many countries in Eastern Europe and the former Soviet Union a shock therapy was adopted which aimed at transition to a market economy within a short period. The conditionality - condition for the IMF loans - was based on prescriptions of neo-classic market fundamentalism, which included price liberalization, trade liberalization, privatization of state-owned enterprises, reduction or abolishment of state supports through budgets, etc. The influence of the IMF was so enormous that Western commercial banks never gave loans to post-socialist countries unless the IMF decided on loans even if the amounts were not so large. Amsden, et al (1994) say that Eastern European countries were involved in a "moral crusade of market fundamentalism".

Of course, there were differences among countries in the way of implementation of the reforms. In the case of privatization, for example, the methods varied. The method that Jeffrey Sachs recommended most strongly was to sell the state-owned firms for cash through auction. Among people who were abruptly thrown into a market economy after a long period of socialism, almost nobody had accumulated funds enough to purchase a firm. Even if there had been anybody, such people would have been dubious. In case there was no domestic investor, an alternative for the authorities would be to sell state-owned firms to foreign strategic investors, but this was a politically very sensitive problem which might irritate people's patriotism. Hungarian people, however, have not been concerned about this problem historically. Voluntary privatization by managers carried out at the end of the communist period incurred people's criticism. The center-right coalition government led by the Democratic Forum, which won the first free

elections in 1990, attempted privatization in a centralized way but could not implement it quickly. The center-left coalition government led by the Socialist Party, which won elections in 1994, actively implemented the sales of state-owned firms to investors including foreign investors (Mori, 1999, Chapter 3). In case it was difficult to sell state-owned firms for cash through auction and it was not allowed to sell them to foreigners as well, if the authorities wanted to implement the privatization quickly, then they would be obliged to resort to giveaway privatization using coupons (like Czechoslovakia, Russia, etc.). All these methods met guidelines of neoliberalism but the processes of the implementation of privatizations have been always opaque. Also the speed of reforms varied from country to country.

The impact of shock therapy on the economies was terrible. In Poland the GDP declined by about 20 percent in the early 1990s, but still the Polish case was better than most of the transition countries. In Russia a negative economic growth continued from 1991 through 1996 with GDP declining to roughly a half. Such an extent of the decline in GDP was comparable with that recorded by the USA in the Great Depression. Such a drastic decline in GDP cannot be explained only by a change “from an economy constrained by supply to an economy constrained by demand” (Kornai, 1995). According to Amsden, et al (1994), the wrong economic policy, that is, the shock therapy aggravated the economic depressions further. In some countries the hardship of people’s lives after the shock therapy caused political changes.

As Amsden, et al (1994) argue, with reference to East Asian experiences in which governments played substantial roles in the economy adopting industrial policies, there could be an another, more gradual route of transition to a market economy in Central and Eastern Europe as well. The transition would have been done with less damage. In this region, however, this route was not adopted and Nordic type of capitalism or the third way was not permitted. Of course, there are many differences between Eastern Europe and East Asia. But Amsden, et al. (1994) argue that two key ingredients in East Asian success, i.e. high levels of education and income equality have been strongly represented in Eastern Europe in the early stages of transition (p. 15). In terms of educational indicators, Eastern Europe and the Soviet Union ranked below the industrialized countries but well above the developing countries. Eastern Europe’s skill base at the time when the transition began was one of its potential assets (p. 7). The

necessary policies should have been restructuring of firms and reindustrialization, and for that purpose, government intervention would have been required.

## **5. Significance of the Project of European Confederation**

Mitterrand's project of European Confederation was short-lived and already in mid-1991 it had lost influence. Nevertheless, we evaluate it positively. Why and on which points?

First, as previously described, "leaving the evolution of socio-economic forces in each country to the interplay of forces within the country concerned, without using Western pressure to impose a particular system" (Gowan, 1995, p. 6), Mitterrand's project of European Confederation recommended for Eastern Europe a gradual way of transition to a market economy. It gives us an insight into studies of transition to a market economy in Central and Eastern Europe. In practice, in this region mostly shock therapy was adopted on the advice of the international financial organizations including the IMF, incurring disconnection of the existing network among firms, a sharp decrease in production, high unemployment, etc. If a gradual route of the transition to a market economy was adopted, the transition would have been less damaging.

Second, Mitterrand's project of European Confederation had concern for ethnic problems in Eastern Europe. From the standpoint of the USA, by encouraging (or imposing) transition countries to adopt the shock therapy, it succeeded in driving a wedge between Russia and Central and East European countries, speeding up the breakup of the COMECON and increasing the latter countries' economic dependence on the West. Central European countries and the Baltic States (which seceded from the Soviet Union) were damaged by the shock therapy, but they have managed to endure it, and peace has come to these countries. In contrast, in the former Yugoslavia, the government succeeded in suppressing hyperinflation with shock therapy, but damage to the economy was very severe, intensifying conflicts among republics. In addition, the German government mechanically applied the principle of self-determination to a multinational state, Yugoslavia, and gave premature diplomatic recognition to Slovenia and Croatia in December 1991, taking the lead in giving diplomatic recognition of these two countries by other EC member countries. This caused the breakup of the Yugoslav

Federation and triggered tragic ethnic conflicts. In South Eastern Europe exactly a Europe of “Sarajevo” that Mitterrand feared was revived. His deep insight into political affairs based on his historical viewpoint should be positively evaluated.

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## Note

<sup>1</sup> Peter Gowan is a British specialist of international relations. Gowan (1995) incurred criticism from Neo-Liberalism. Gowan (1996) is his counterargument.

<sup>2</sup> Frederic Bozo is Professor in Contemporary History and International Relations at the Sorbonne. As for Bozo (2008), there is a review by Keylor (2009). The content of Bozo’ paper (2008) is the same as a section titled “The Failure of the European Confederation” in the Chapter 7 of Bozo’s book (2009). In this book Bozo argues that Mitterrand endeavored to connect the problem of German unification with European construction and contributed to quick realization of German unification in the international framework of “2 + 4” including the Soviet Union at the final stage. Based on a huge amount of documents and materials, Bozo denies a widespread view that Mitterrand tried to prevent or postpone the German unification.

<sup>3</sup> According to Kawaraji (1993), in December 1984 prior to his inauguration as General Secretary, Gorbachev visited the UK in his capacity as chairman of the foreign affairs committee of the Soviet Union’s Supreme Council. In his speech at the British Parliament for the first time he mentioned a “European Common Home”.

<sup>4</sup> As for Poland, Sachs published a book (Sachs, 1993).

<sup>5</sup> At that time Leszek Balcerowicz was Minister of Finance and Vice Prime Minister in charge of the economic reform. In autumn 1989 he announced a program of economic reform aiming at transition to a market economy.

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