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Agents of Integration:

Multinational Firms and the European Union

A dissertation submitted in partial satisfaction of the

requirements for the degree Doctor of Philosophy

in History

by

Grace Ballor

2018

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ABSTRACT OF THE DISSERTATION

Agents of Integration:

Multinational Firms and the European Union

by

Grace Ballor

Doctor of Philosophy in History

University of California, Los Angeles, 2018

Professor Ivan T. Berend, Chair

Much of the existing scholarship on the history of the European Union presents twentieth century European integration as a political process. While this narrative rightly acknowledges the immeasurable impact of nation states, European Union institutions and visionary federalists, it is not complete. In response to globalization in the 1970s and 1980s, large European corporations sought to compete with their American and Asian rivals by establishing a pan-European single market without barriers to cross-border business. At times responding to policy changes and at times driving them, these firms adopted a regional strategy and invested broadly across Europe, particularly in the markets of the European peripheries, which offered both cheap, skilled labor and a huge consumer market with pent-up demand, all at close proximity to firm headquarters. By establishing value chain and subsidiary networks across the region, firms from every sector of the economy – including the French investment bank Paribas, German auto manufacturers Volkswagen and BMW, British retailer Tesco and Belgian retailer Delhaize – contributed to the integration

of economies and facilitated the practical achievement of a common European market. Thus, motivated by their own profit interests, multinational firms facilitated the achievement of the four freedoms integral to an economically-united Europe: the free movement of goods, services, capital, and labor across a single, common market.

This dissertation analyzes the role of multinational firms as agents of European integration from the 1970s to the early 2000s. Methodologically, it engages with the practices of both economic and business history and draws evidence from archives, including those from both firms and EU institutions. It equally makes use of oral history interviews with EU commissioners and members of parliament, lobby groups, and executives from leading European multinational corporations. Its aim is to intervene in the current body of European Union scholarship and contribute to a nuanced understanding of the history of European integration by including the role of the private sector.

The dissertation of Grace A. Ballor is approved.

Mary A Yeager

Naomi R Lamoreaux

John A Agnew

Ivan T. Berend, Committee Chair

University of California, Los Angeles

2018

This dissertation is dedicated to all those who supported me in this work,

most especially Dan, without whose love and sacrifices this would never have been possible;

Maximilian, who helped me find the courage and resilience required

and inspired joy along the way;

and Ivan, whose mentorship and example have deeply changed me

and will continue to inspire me for a lifetime.

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Dissertation Preface

As historians, our work – even our intellectual curiosity – is necessarily influenced by our contemporary human contexts. Some disciplinary theorists, like E. H. Carr, have argued that we must strive to fight against succumbing to such influences, while others, like Keith Jenkins, advocate for an acceptance and even pursuit of this kind of positionality in historical writing. This dissertation was certainly written in the shadows of contemporary events. Its subject matter, too, is quite recent in historical terms, and, at times, the lines between 'past event as fully past' and 'past event as continuous process' are rather blurry, making it simultaneously challenging to address issues of temporality and finiteness, and also – like any other event in the eye of the historian – appear as a mere thread in an Indra's net of endless interconnectivity.

That my academic career began in the moment of the global financial crisis is, I hope, revealing of the intellectual impetus behind this project. In the same month I started college, Fannie Mae and Freddie Mac, the institutions underwriting my own student loans, both failed. Within days, Lehman Brothers collapsed, and first the US and then the global economy entered into the worst recession in nearly a century. My home town of Phoenix was among the cities hardest hit by the subprime mortgage schemes of the 2000s. Many friends and family members lost their homes, their businesses, their livelihoods. My father's family in Detroit watched deindustrialization happen virtually overnight as major American automakers collapsed shortly after the banks. Unemployment across the United States reached 10 percent; for people of my generation, this figure skyrocketed to a devastating 25 percent.

Having been a student of liberal arts curricula throughout my youth, I initially filled my early college course schedules with more Greek, Latin, and Philosophy. But a semester abroad in Rome, Italy, which was intended to cement my training in antique history and the art and architecture of the ancients actually served as the inspiration that shifted my interests roughly 2,000 years forward on

the historical continuum. I watched Italian family businesses struggle and, in many cases, die, having staved off the competitive threat of globalization posed by larger foreign firms only to 'go down with the ship' in the deepening recession. For the whole Mediterranean economy, even long-term prospects for recovery seemed bleak, in large part because many of the currency tools once at the disposal of export- and tourism-oriented countries like Spain and Italy and Greece were no longer available once they joined the European Monetary Union. Perhaps it was the influence of all of the Roman law I was reading, or maybe a product of the long contemplative walks I took in the Lazian vineyard where I lived, but from where I sat in rural Italy in 2009, integration seemed to have rendered Europe unable to survive such a crisis.

My front row seat to the effects financial crisis and Great Recession on both sides of the Atlantic rekindled my latent interest in business and European integration, which had begun a decade before when my grandparents spent their retirement savings to take me cycling around Western Europe during the implementation of the euro currency. With questions about exactly who were the architects and primary beneficiaries of the integration process, I was compelled to dig deeper. On methodological grounds, I resolved to analyze European integration from the discipline of history, although my training in political theory and international economics certainly inclined me toward interdisciplinary work, as it continues to do so today. More fortunately for me than I could ever express, one of the few historians to have examined European integration from a similar methodological approach was willing to mentor my PhD at UCLA. As a result, this project owes its very existence to my advisor and dear friend, Ivan Berend. Under his direction, I began reading work on the European Union and quickly noticed how prominently nation states and political elites featured in scholarship, but that another set of actors, looming ever-larger and more influential in the present, was almost absent from the literature on European integration: big business.

A second major crisis – or series of crises – served as a backdrop for this project. I began

this project in 2012 at the zenith of EU expansion, amid the accession of Croatia as the 28th member state and during the continued debates about accessing Turkey, perhaps even Morocco, despite the recent destabilization of North Africa in the wake of the Arab Spring. Protracted financial and Eurozone crises became compounded by the Greek debt crisis. Meanwhile, regime responses to popular uprisings in North Africa and the Middle East, coupled with the tragedies of genocide, famine, and poverty, motivated millions to seek refuge in Europe, made possible by Angela Merkel's 'open door policy.' A concurrent – some would argue *consequent* – surge in terror across the globe strained the commitment of European nations to one another and precipitated a populist backlash against the EU, and, perhaps for the first time in postwar history, a swell in the forces of disintegration. While conducting research for this project in the UK in the summer of 2016, I witnessed the debates leading up to and then the results of the Brexit referendum and the first major, formal step toward a dismantling of 60 years of progress toward the European Union. Since then, as I worked to draft, write, and edit this dissertation, questions about the viability of the European federalist project have made daily news headlines, further blurring the lines between – to put it in linguistic terms – the pluperfect- and imperfect- past.

The seismic geopolitical shifts that began in the early 2010s have only continued in recent years, rendering the climate in which I have completed this work dramatic and uncertain, and my topic a moving target. Revolts against globalization and internationalism, general mistrust of elites, a resurgence of economic, political, and even ethnic nationalism, and the demise of democracy featured prominently in political elections in the European Parliament, Hungary, Poland, Austria, the United States, France, Germany, and Italy. Although personally distracting at times, these trends have only increased the value of this historical project and intensified my commitment to it.

A read through the table of contents, a skimming of the introduction, even a glance at the title might incline the reader to suppose that this dissertation presupposes, even applauds a

neoliberal world order. Perhaps even a careful read by a critical theorist will raise questions of not only the subject matter, but also a supposition that the argument at the foundation of this dissertation is neoliberalist in and of itself. Indeed, this dissertation addresses the power of large corporations and their influence on politics and necessarily wrestles with globalization, financialization, corporatization, and capitalism. Its thesis, that multinational firms facilitated European integration and achieved the goal of a single, common market, may seem, at first, to make heroic protagonists out of some of the world's wealthiest corporations, many of which are viewed as exploitative and highly corrupt by capitalism's critics. This dissertation aligns itself with neither – and both – perspectives. In fact, rather than side with corporations or their critics at all, this dissertation strives to analyze the relationship between large companies and institutions in Europe, as well as the ways in which the pragmatic alliance between them advanced both of their interests: facilitating the achievement of the federalist vision of pro-integration politicians and fueling the expansion of corporations, especially when threatened by global competition, in the form of a single common market with homogenous regulation and standards.

If this dissertation accomplishes nothing else, I hope that it emulates, even in part, Ivan Berend's impressive ability and career-long contribution of "putting the history back in economic history" amid the constant threats of presentism and under-contextualized quantitative analysis that plague the discipline and characterize the post-1970s shift away from the rich nuance of history in favor of econometrics. By conducting a careful examination of documentary and oral history research, I have aimed to shed light on the forces at work in the formation of the European Union and to provide a nuanced take on the complexity of issues like globalization, regionalization, and the relationship between the public and private sectors. Statistical evidence is used descriptively, following the analytical narrative approach developed by Naomi Lamoreaux and Jean-Laurent Rosenthal, and is used to provide answers to the question: "but how can we know for sure?"

This project could never have been realized without the support of so many generous mentors, colleagues, granting institutions, and archivists. I owe my advisors at the University of California, Los Angeles a debt of gratitude for their unflagging patience in helping me shape my ideas and painstakingly reading so many drafts of this work. Mary Yeager offered her wisdom in seminars and countless office hours and helped me find my footing in both business and economic history. Naomi Lamoreaux encouraged me to think beyond my narrow subfield and be in conversation with scholars across the academy and with knowledgeable interlocutors outside of it as well. Her careful and generous reading of my drafted work challenged me to refine my archival analysis and find the nuance in a past that can all too easily be painted in black and white. I am also grateful to John Agnew for offering his rich disciplinary perspective as a geographer, as well as his expansive knowledge on the topic at the center of this study: globalization. Finally, this dissertation would not exist – certainly not in its current form – without Ivan Berend. Usually over an al fresco working lunch of salmon salads and macchiatos, he encouraged me to think broadly while gently helping me to refine my approach. His own work will continue to provide inspiration for decades to come, and his confidence in me has been my greatest challenge and constant motivation. In fact, the pressure to live up to such expectations could have proved entirely overwhelming were it not for the mentorship of Stefania Tutino, whose tenacity I will forever strive to match.

My graduate colleagues also served outsized supporting roles in the research and writing of this dissertation. Without their encouragement this process would have been unbearably lonely. Elizabeth Comuzzi's camaraderie in the trenches held me accountable to my tight writing schedule and helped me find the resolve to persevere. Maia Woolner, Kelly McCormick and Samuel Keeley also became lifelong friends through their tireless moral support and contributed much to the final publication through their service as thoughtful discussants and careful editors of my work. From joint research trips in Paris to co-organizing reading groups and projects, library study sessions, to

lunch dates, and many a tête-à-tête, they continuously transformed the protracted existential crisis of graduate school into an empowering and truly happy experience.

Writing a comparative study of several firms from different national contexts required significant material and archival resources. UCLA's Graduate Division, Center for European and Russian Studies, Division of Social Sciences, Center for Economic History, and Department of History furnished several primary research grants and fellowships, which were crucial in the process of conceptualizing and executing this project and gave me the chance to think broadly about this topic at several institutions, both in the US and in Europe. Berkeley's Economic History Lab supported an exploration of the archive of the Paribas bank in Paris and Combs-la-Ville, France, and the European Union Studies Association made possible a similar foray into the Tesco corporate archive in Welwyn Garden City, UK. I conducted archive work at the Delhaize company headquarters in Brussels thanks to a Eugen Weber Research Fellowship, and UCLA's International Institute generously supported my travel to Munich and Berlin for work in the BMW and Volkswagen corporate archives. Finally, a Henri Rieben fellowship gave me the opportunity to work in the rich archive at the Fondation Jean Monnet pour l'Europe in Lausanne, Switzerland. Because of the central role of primary source documents, this project could never have been possible without the generosity of those granting institutions and their donors. Equally essential is the access I received to archives and interviews. This project owes its success to several archivists who warmly welcomed me into their institutions and whose expertise helped me navigate large and complex repositories. The contributions of this work were amplified by the corporate executives and policymakers who shared their perspectives and experience with me and for which I am extremely grateful.

Finally, this project owes its completion to the two I love most, who have selflessly supported my work every step of the way: my lifelong partner, Dan, who made cross-country and

trans-Atlantic moves to relocate our life for my work, single-parented while I was away for research, celebrated the successes along with the setbacks, and believed in me more than I believed in myself; and my tenacious Maximilian, who has patiently endured the fact that his entire life has been entangled in this project, who has taught me intellectual courage and dared me to think without limitation, put challenges in perspective and inspired joy in all things.

As the child of serial entrepreneurs and small business owners and now as a parent myself, I have come to understand the irony in my efforts to avoid assuming my role in the family business only now to be fully immersed in the historical analysis of enterprise. I hope that my scholarship on the power of business in the twentieth century offers some consolation for my youthful career-choice rebellion and a return on their precious investment in my education.

Any shortcomings in this work are entirely my own, and my great regret is that failures of mine might disappoint any of those named above who gave so much of themselves to this project.

Vita

Grace Ballor is an economic historian of modern Europe. Her research focuses on globalization, European integration, and the relationship between business and politics. This research has informed her teaching of both undergraduate and graduate level courses on neoliberalism, the European Union, western civilization history, and historical pedagogy. In addition to her historical research and publications, she has contributed to policy initiatives in both the US and Europe.

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2016-2017 US Delegate to Russia (Trade and Business Development), Stanford University

Chapter I: Introduction

> "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages."
>
> Adam Smith
>
> *An Inquiry into the Nature and Causes of the Wealth of Nations*, Vol.1[1]

If the fraught negotiations around Britain's impending exit from the European Union have revealed anything, it is that even widespread discontent with political integration has not diminished Britons' desire to remain in the European Economic Area (EEA). The advantages are tangible for citizen consumers and corporations alike: membership offers a huge market of diverse products and the promise of free trade without tariffs, quotas, or duties. As a result, it is not surprising that on both sides of the Channel, the entities responsible for a majority of cross-border economic activity in the EEA and the ones with most to gain, namely big business – multinational corporations (MNCs) in particular – have been the most vocal proponents of continued British membership in the European common market.[2] In the days leading up to the referendum vote, the heads of 1,285 British companies, including 51 firms on the Financial Times Stock Exchange 100, comprised of the largest companies with headquarters in the United Kingdom, signed a pro-Remain letter, which read: "Businesses and their employees benefit massively from being able to trade inside the world's largest single market without barriers. As business people, we always look to the future – and a future inside the EU is

[1] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Vol. I, ed. Edwin Cannan. (Chicago: University of Chicago Press, 1977).

[2] Letter to the editor of *The Times*, 21 June 2016: https://www.thetimes.co.uk/edition/comment/british-business-benefits-massively-from-eu-n5bhfw9nd
When pressed, several CEOs who were not signatories of the letter – including the heads of most of Britain's grocery chains – explained that their neutral stance on the referendum was a result of their belief that the matter of EU membership should be decided entirely by the British public without corporate coercion or influence. The pattern in the willingness of some companies to take a stance and the resolve of others to keep quiet seems to reflect the degree to which companies directly depend on retail dollars for their bottom line vs. those whose business depends on international trade.

where we see more opportunities for investment, growth and new jobs."[3] An even larger group of multinational firms with headquarters in continental Europe and subsidiaries or branches in the UK made public both their support for Britain to remain in the EU, as well as their dismay at the referendum's outcome in June 2016, citing the potential loss of billions of dollars of trade, GDP and business revenue.

Big business support for economic integration in Europe is neither unique to the question of British membership, nor is it a new phenomenon.[4] In the French presidential election of 2017, just months after the British public voted to leave the Union, French business leaders broke with their traditional abstinence from political involvement and vocalized their support for Emmanuel Macron's pro-EU agenda over that of economic nationalist Marine Le Pen, whose political campaign was predicated on a French exit from the eurozone and probably even the European Union. Some French CEOs, like Jean-Dominique Senard of the *Michelin* tire company, expressed concern about Le Pen's plan to withdraw France from the monetary union, citing fears of resulting inflation and reduced competitiveness that would be detrimental to the French economy. Others, like Tom Enders, a German-native and CEO of aerospace giant *Airbus SE*, made clear in a published letter that Macron's pro-EU policies were "fundamental for a company like ours." Jean-Baptiste Rudelle of Paris-based internet advertising company *Criteo SA* described the paradox of Le Pen's National Front program: "If France places a tax on foreign workers as Marine Le Pen has promised, and closes its borders, that would certainly force us to rethink our decision to remain in France. […] Supposedly [her plan] would prevent jobs from leaving the country, when in fact exactly the opposite would happen." [5] These

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[3] *The Times*, 21 June 2016

[4] The democratic deficit inherent in the supranational structure of the European Union makes it such that the few referenda and national elections mentioned above were the only opportunities for the voting public in the region to voice its position on integration, the EU, and the common market.

[5] Carol Matlack, "French CEOs Break with Tradition to Back Macron, Reject Le Pen," *Bloomberg News* 2 May, 2017: https://www.bloomberg.com/news/articles/2017-05-02/french-ceos-break-with-tradition-to-back-macron-reject-le-pen

CEOs were not citing their own political ideologies in their support of integration, but rather, speaking as representatives of major multinational companies, they took a pro-EU stance on the grounds that the success of their firms *vis a vis* foreign competition depended on a united Europe and its single common market. Indeed, European multinational corporations have supported this position for decades, as was evident even in the debates leading up to the British referendum on membership in the European Communities of 1975 in which a majority of large firms, including nearly every major media outlet in Britain, encouraged a "Yes" vote on the question: "Do you think the United Kingdom should stay in the European Community (Common Market)?"[6] American corporations have also thrived on regional trading agreements like NAFTA and are similarly outraged at President Donald Trump's recent turn toward economic nationalism.

Nor has the relationship between big business and the European Union been a tale of unrequited love. Policymakers in Brussels have long designed their regulatory measures around the interests of large corporations and only very recently began to acknowledge the interests of companies outside of the top few hundred firms in the region. That the European Commission cultivated business relationships as early as the 1970s, but only developed a Small Business Act in 2008 is evidence for the historical prioritization of big business over small in Brussels.[7] Even the structure of the single common market seems to be oriented toward the largest companies – specifically multinational firms – whose headquarters in one European member state and operations in other markets position them to be the largest beneficiaries of an open-border, zero-tariff system that incentivizes cross-border business. Moreover, European heads of state and members of the Commission have often referred to big business as allies in their efforts to push the integration project

[6] Vaughne Miller, "The 1974-75 UK Renegotiation of EEC Membership and Referendum." House of Commons Library, *Briefing Paper* Number 7253, 13 July 2015.

[7] European Commission, *The Small Business Act for Europe*, 2008: https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

forward. As early as the 1970s, Commission documents already used this language of alliance with big business, and Brussel's collective view of corporations as partners in the project only intensified in the 1980s, 90s, and 2000s when business leaders were invited to consult on policymaking and formed the Roundtables and associations that have become hallmarks of the cooperation between corporations and the Commission.

It would be far too easy, though, – and indeed incorrect – to tell a clean and linear narrative of the support of big business for the integration project. That big business has become a darling of the European Union and that further integration is almost categorically supported by large firms are features of the twenty-first century we now take for granted. But in the aftermath of the Second World War, the early steps toward integration were neither driven, nor even supported by business. In Vichy France and Nazi Germany, many big businesses had been complicit in the war effort, and in the minds of Jean Monnet and many early federalists, these very nationally oriented companies could not be trusted after such transgressions. "Business, for its part, largely distrusted the unfolding integration efforts of the founding fathers. Indeed, UNICE (the Union of Industrial and Employers' Confederations) was created in 1958 [immediately following the signing of the Treaty of Rome] as an organization designed to monitor and hopefully prevent the expansion of the integrationist policies in Brussels."[8] As this dissertation argues, though, foreign competition forced European companies to turn to Brussels and become allies in the integration process. First through informal groups and later through direct associations, corporate executives cultivated relationships with European policymakers in their appeals for both regional protectionist policies and further integration as a means of surviving the threat of globalization. In the words of the Phillips corporation board in 1983: "there is really no choice…The only option left for the [European] Community is to achieve the goals laid down in the

[8] Maria Green Cowles, "The Transformation of EU Business Associations," in *The Effectiveness of EU Business Associations: A Historical Perspective*, (London: Palgrave Mcmillan, 2002), pp. 64-78.

Treaty of Rome. Only in this way can industry compete globally, by the exploiting of economies of scale for what will then be the biggest home market in the world."[9]

Much of the existing scholarship on the European Union presents twentieth century European integration as a political process. Indeed, a majority of the literature on the EU has been written by political scientists, who have worked to theorize both the integration process and the *sui generis* nature of the Union itself. But from Ernst Haas' or Wayne Sandholtz' theories of *neofunctionalism* to Andrew Moravcsik's *liberal intergovernmentalism*, the consensus is the same: whether by spillover effects or grand bargains, integration was achieved by nation states and politicians.[10] It is true: the European Union is a political entity with a membership of twenty-eight – soon to be twenty-seven – sovereign member states, a Court of Justice and Parliament, regulatory bodies and an executive branch, and comprehensive social cohesion and human rights policies. But the fact that the EU's precursor institutions formed in response to the economic challenges of the world war aftermath and the threat of globalization, and the fact that the single market remains the primary incentive for continued membership by its states reveal the degree to which the integration process has equally been an economic endeavor. So, while this political view of integration rightly acknowledges the process by which member states formed a Union as well as the immeasurable impact of visionary federalist politicians, whose dynamism and social capital helped to steer ships of state toward union in Brussels, it neglects the private sector actors with the most to gain from the creation of a common market and

[9] "Europe 1990," quoted in Berend, *The History of European Integration*, 146.
In a pattern that resembles Newton's first law of motion, big business has demonstrated its need to grow ever bigger, and the policy frameworks and economic structures in place in the late twentieth and early twenty-first centuries have enabled the consolidation and mergers that facilitate their continued growth.

[10] Ernst Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950–1957.* (Stanford University Press, 1958).
Wayne Sandholtz, and Alec Stone Sweet, eds., *European Integration and Supranational Governance.* (Oxford University Press, 1998).
Andrew Moravcsik, *The Choice for Europe.* (Cornell University Press: Ithaca, 1998).

whose influence and power over both national and European policymakers surged during the decades in which integration took place: multinational firms.

In the twenty-first century, we take the power of large corporations for granted. Their influence has swelled to reach every sphere of human society. Big business collectively determines employment rates, military technology, standards of living, health and nutrition, pension funds, and education in much of the world, especially in Europe and the United States. In fact, we measure the health of our economies, and to a great degree, our societies too, by the publically-traded value of major corporations. That the market value of some individual companies now exceeds the total assets of entire states, and that the total number of consumers of corporations like Apple, Google, and Microsoft exponentially exceeds the total number of citizens of many of the largest countries in the world, reveals the sheer economic and social power of corporations, especially those that operate across markets.[11] Moreover, the political power of these firms has become a topic of intense investigation and has been studied by human rights lawyers, environmentalists, international relations and management scholars alike. But business historians like Alfred Chandler, Mira Wilkins, and Geoffrey Jones remind us that multinational firms – which have facilities, assets, and operations in more than one country, usually managed by a centralized head office – are a unique beast in the world

[11] Luigi Zingales, "Towards a Political Theory of the Firm," Stigler Center for the Study of the Economy and the State, working paper series no. 10 (July 2017), https://research.chicagobooth.edu/~/media/5D8A9BE2EFB8435B91D23E6BB1859B2E.pdf
"The revenues of large companies often rival those of national governments. In a list combining both corporation and government revenues for 2015, ten companies appear in the largest 30 entities in the world: Walmart (#9), State Grid Corporation of China (#15), China National Petroleum (#15), Sinopec Group (#16), Royal Dutch Shell (#18), Exxon Mobil (#21), Volkswagen (#22), Toyota Motor (#23), Apple (#25), and BP (#27) (Global Justice Now 2016). All ten of these companies had annual revenue in higher than the governments of Switzerland, Norway, and Russia in 2015. Indeed, 69 of the largest 100 corporate and government entities ranked by revenues were corporations. In some cases, these large corporations had private security forces that rivaled the best secret services, public relations offices that dwarfed a US presidential campaign headquarters, more lawyers than the US Justice Department, and enough money to capture (through campaign donations, lobbying, and even explicit bribes) a majority of the elected representatives. The only powers these large corporations missed were the power to wage war and the legal power of detaining people, although their political influence was sufficiently large that many would argue that, at least in certain settings, large corporations can exercise those powers by proxy." Zingales p. 1.

of enterprise. Their size and scope is predicated on the cross-border business that allows them to capitalize on the advantageous differences between resource, labor, and consumer markets.

This discussion of corporate power raises several questions about its origins and limits, the ways in which corporations have exercised it, and to what degree these companies have shaped the world in which they operate. If corporations have maintained a pro-EU stance and European policymakers have shown deference to them in making regulatory decisions, what exactly was the role of big business in the integration process? How much influence did big business really exert in the European Community and later European Union? Was a large single common market, free of tariffs, in fact essential to the competitiveness of European corporations amid the threat of globalization? Could the EU have developed into its current form without the interventions of big corporations? To what extent was the common market designed for and created by big business, and what are the implications of this for other forms of enterprise, for the integrity of political representation for the European public, and for consumers? In the context of modern Europe where corporations wield considerable power over the present, it is crucial to historicize the role played by big business in the decades-long process of creating the European Union.

This dissertation analyzes the role of large corporations in the history of European integration from the 1970s to the early 2000s. More specifically, it examines the role of multinational firms, which not only had the most to gain from a large common market, but also sprung up out of the business conditions created by the integration process and the growth of which was encouraged by the European Commission, especially during the 'merger mania' period of the 1980s. It takes as its starting point the moment during which Europe's impressive period of postwar economic growth – described as *das Wirtschaftswunder*, *il miracolo economico*, *les Trente Glorieuses* – plateaued and was quickly overshadowed by the threat of global competition, first from the United States, then Japan, and later the Asian tigers. In response to the threat of globalization, European corporations appealed to their

domestic governments for support in the form of subsidies and protectionism. These remedies quickly proved insufficient, though, both because of the waning power of the nation state in the postwar period, and also because no domestic effort could compensate for the fact that competitiveness with American and Japanese corporations would require a collective, regional, European response, since no one nation state could offer a corporation the resources, labor force, or consumer base to compete with foreign companies on economies of scale. By the late 1970s and early 1980s, the situation became so dire that European corporations turned to Brussels for a regional solution to the threat of globalization. The resulting relationship with the Commission positioned these firms to consult on policymaking, influence regulatory standards for their respective industries, and, as Maria Green Cowles described it, to 'set the agenda' for the future of the then European Community and later European Union.[12]

But big business did not limit its response to the challenge of American and Asian competition to lobbying alone. In fact, and again as described by Green Cowles, many corporations – German ones in particular – were slow to 'learn the rules of the game' of engagement with Brussels.[13] They weren't slow to respond to the threat of globalization, though. In an effort to remain competitive, many European companies sought to reduce costs and increase profits by expanding their business operations beyond their domestic markets and investing across Europe, particularly in the markets of the European peripheries, which offered them both cheap skilled labor and pent-up consumer demand and a market of 500 million consumers all at close proximity to firm headquarters.[14] For some

[12] Maria Green Cowles, "Setting the Agenda for a New Europe: The ERT and EC 1992," *Journal of Common Market Studies* 33(4): 501-526.

[13] Maria Green Cowles, "German Big Business and Brussels: Learning the Rules of the Game," 1996.

[14] In 1970, the six-member European Community was comprised of 180 million consumers. With population growth through immigration and also as a result of the Community's growth to include three more members in 1973, the EC was home to 260 million by 1980, 325 million by 1990, and 375 million in the year 2000 when the EC had 15 member states. See also: Alan Monnier, "L'Union européenne a l'heure de l'élargissement," *Population* (2004) Vol. 59, pp. 315-336.

companies, these cross-border activities were regional iterations of their already multinational business strategies. For others, these activities effectively shaped them into multinational firms. By establishing branches, value chain, and subsidiary networks across the region – first in Mediterranean, then in Central and Eastern Europe after the collapse of the Soviet Bloc – firms from every sector of the economy contributed to the integration of European economies, the harmonization process and the creation of standards across the region, and ultimately to the practical achievement of the single common European market. What member state signatories and visionary federalists had set in motion three decades prior in the 1957 Treaty of Rome was only realized as a result of private firm activity across the region and corporate influence on the Single European Act of 1986. In much the same way as Adam Smith observed the power of commercial self-interest, then, this dissertation examines the ways in which multinational firms following their private pursuit of profit inadvertently facilitated the achievement of the four freedoms integral to a united Europe: free movement of goods, services, capital, and labor across a single common market.[15]

While European corporations contributed to the achievement of the advantageous Single Market, they were certainly not the only beneficiaries. National economies and their populations enjoyed increases in GDP, employment rates, balances of trade, and higher standards of living when corporations flourished. Economies in which corporations were headquartered – typically in the advanced western European core – enjoyed the immediate benefits of value creation, which reinforced their status as attractive headquarter markets. But, as is easy to forget in the context of the ongoing Greek debt crisis and devastating continual high unemployment in the Iberian Peninsula and along

[15] 'Corporate agency' is a rather fraught notion. Even in the context of case law that has granted legal personhood to corporations, it is still difficult to ascertain how the agency of a corporation might be exercised. Still, there is a strong precedent for ascribing a 'capacity to act' to a company, especially through the representative of the firm's executive(s). This dissertation does not address corporate agency as a methodological problematique, but it does conceive of firms as actors within and upon the structures of a globalizing economy and integrating region. (Chapter II treats this resonance with Anthony Giddens' theory of structuration in more detail.)

the Mediterranean, and even with the acknowledgement of rising inequality over the past several decades, integration also served the interests of relatively backward countries too, although the gains they could have enjoyed were often compromised by institutionalized corruption. Membership in the Union was not only a voluntary choice made by each state, but even those Mediterranean and Central European countries holding the short end of the stick in terms of inequality still begged for the chance to join the Union and reap the benefits of development funds, aid packages, and access to the common market. Moreover, as the current state of affairs reveals, even the peripheral countries with the lowest GDPs and most resistance to austerity measures have taken less steps to leave the Union than those core countries that have benefitted the most in relative terms. While the history of European integration cannot fully be explained by Adam Smith's addage that "a rising tide raises all ships," it is, at least, a positive-sum game.

At stake in this research is our collective understanding of how the EU and its common market came to be. Reconceiving of the integration process as having been achieved at least in part by big business intervenes in the narratives about the primacy of the nation state and the integration process as having been a purely political endeavor with mere economic benefits. The findings described in the forthcoming chapters also bring much to bear on our understanding of the ways in which capitalism changed in the postwar period and expands our view of the origins and consequences of neoliberalism. From a policy perspective, evidence that multinational firms served as agents of integration has significant political economy implications, both for our understanding of how domestic governments and the institutions of the European Union encouraged the growth and consolidation of large corporations and how big business allied itself with Brussels in its search for ever larger markets and more profitable regulatory conditions. Evidence of corporate influence on European-level policymaking and private sector efforts to build a common market reveal the extent to which European integration became an increasingly neoliberal project. Ultimately, we must consider what

these findings mean for the ongoing relationship between governments and corporations and for domestic and regional regulatory policies.

Integration History and Historiography

The unprecedented project of twentieth century European integration has generated a tremendous body of literature. Scholarship on the subject has emerged from a wide variety of disciplines including political science, economics, law, anthropology, sociology, business management, and – only recently – history. In large part, this glut has made available to students of the European Union a rich library of explanatory texts, such that the shelves might seem crowded with analyses of the treaties signed by the EU's member states and explorations of the human rights laws enforced by the Court of Justice. Filling a gap on the role of private corporations in the integration process, this dissertation draws from the methodologically diverse wealth of EU scholarship that preceded it and additionally builds on related bodies of work in business and economic history that have not yet been connected to the study of integration. Such an eclecticism of methodological influences fortifies both the integrity and the value of this project.

i. *Political Science*

The majority of scholarship on the European Union to date has employed the methodological frameworks of political science and has been motivated in large part by attempts to theorize the process of regional integration. These theories can be categorized according to several distinct schools of thought in continual debate with one another: *neofunctionalism, intergovernmentalism, liberal intergovernmentalism* and *supra-governmentalism*, to name the most prominent few. More than any one individual framework, the collective debate among them reveals the way in which flashpoints of integration have polarized scholarship on the topic. The larger debate between these schools also illuminates the tendency by scholars to view integration as having been achieved in a primarily 'top-down' manner and to give less attention to the extra-political agents of integration. In large part this

perception seems to result from the Union's late twentieth century evolution from economic community to political entity with supranational governance. Moreover, literature on the European Union, particularly works authored by political scientists, have a high degree of contemporaneity, by which I mean that texts – and even entire schools of thought – are deeply rooted in particular episodes in the history of integration.

In the wake of the Second World War, before the dust had even settled, Europe found itself caught in the crosshairs of an emerging Cold War between the US and the USSR. Threatened by Soviet posturing, Europe looked to its American ally for support with reconstruction and defense from Eastern aggression, and the US saw in Europe the opportunity for a conflict buffer. From 1947-1951, the United States Marshall Aid, totaling today's equivalent of $130 billion, poured into Europe, facilitating postwar reconstruction and shoring up European economies and governments alike against Russia.[16] The primary condition, though, of this Marshall Aid furnished by the US was that Europe pursue integration in order to promote peace among the region's countries and to form a Western counterpart to the growing Soviet Bloc in the East. As a result, the United States became an actor in the process of European integration, as Ivan Berend explained in his *The History of European Integration*.[17]

In addition to integration pressure from the US, federalist thinkers across Europe were also very active in this period, as described by historian of unification Walter Lipgens. Horrified by the World Wars and violent nationalism of the previous decades, federalist thinkers, resistance movements and unity groups of the late 1940s advocated not only for a collective approach to peace but also for the abolition of the nation state as a political unit. In his *History of European Integration 1945-1947: The Formation of the European Unity Movement*, Lipgens described the many European unity movements

[16] Ivan T. Berend, *The History of European Integration: A New Perspective.* (London: Routledge, 2016).
Janick Marina Schaufelbuehl (Lausanne) is also working on a project investigating the influence of American big business and its executives on the early integration process.

[17] Berend, *History of European Integration*, 2016

during this immediate postwar period and, along with federalist elites like Jean Monnet, credited them, rather than nation states or US intervention, with the subsequent steps toward integration in the 1950s.[18]

Against the backdrop of world wars, US Marshall Aid, and federalist movements across the continent, six Western European countries – France, Germany, Italy, Belgium, the Netherlands and Luxembourg – resolved to collectively control the two most crucial resources for both war and industry and form the European Coal and Steel Community, or ECSC, in 1951. Not only did such an organization severely restrict German access to coal and steel; it also established a framework for collective oversight and action in general, an essential step toward achieving peace and stability in Europe. These developments led Berkeley political scientist Ernst B. Haas to publish his first analyses of early integration: *The Uniting of Europe* (1958), *International Integration: The European and the Universal Process* (1961) and *Beyond the Nation State* (1964), in which he developed a theoretical framework called neo-functionalism.[19] While related to functionalist ideas of cooperation, Haas' theory was distinct in its regional and sectoral approach and was grounded in the view that integration in one sector would inevitably 'spill over' into integration in other areas as well. The 1957 Treaty of Rome, which moved beyond the strict industrial resource agreement of the ECSC and created the European Economic Community, or EEC, seemed to further prove Haas' theory when its six-member states willfully transferred some domestic sovereignty to a supranational common market for all goods and the promise of four freedoms: the free movement of goods, services, labor and capital. As eminent economic historian Barry Eichengreen explains in his *The European Economy since 1945: Coordinated Capitalism and Beyond*, it was during this early postwar period that European economies experienced

[18] Walter Lipgens, *A History of European Integration 1945-1947: The Formation of the European Unity Movement. 1984.*

[19] Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950–1957*, 1958
---. *International Integration: The European and the Universal Process*, 1961
---. *Beyond the Nation State*, 1964

dramatic recovery and even growth, reinforcing the collective benefits of trade and integration.[20] In these early developments, Haas perceived a decline in the potency of the nation state and a belief that interest groups and associations would willfully "transfer their allegiances away from national institutions towards the supranational European institutions."[21] Several decades after the high point of Haas' neo-functionalism, Wayne Sandholz and Alec Stone Sweet revised and reinvigorated neo-functionalist theory in their *European Integration and Supranational Governance*.[22]

After the early integration of the 1950s, however, the integration process soon stalled, largely as a result of a plateauing in the reconstruction growth rate and the political, economic and oil crisis of the 1960s and 1970s.[23] Perhaps of all these crises, the greatest threat to further integration in this period was French president Charles de Gaulle and his nationalist mentality, resulting in the Empty Chair Crisis and the French veto of UK membership. Such a stall prompted Harvard professor of political science Stanley Hoffman to critique Haas' former neofunctionalist claims, which even Haas himself abandoned in this period, and argue instead that nation states and not associations or interest groups controlled the balance of power in international relations.[24] If nation states were autonomous agents as Hoffman argued, then they were not – or at least France was not – interested in pursuing further integration at the time. This early period of integration history reveals the primacy of political actors including nation states and politicians in what was a very political process. Over the course of the coming decades, however, the political impetus for integration gave way to the economic, and corporations came to play a decisive role.

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[20] Barry Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond.* (Princeton University Press, 2007).

[21] Haas, *Beyond the Nation State*

[22] Wayne Sandholz, Alec Stone Sweet and Neil Fligstein, *European Integration and Supranational Governance.* (Oxford: Oxford Univeristy Press, 1998).

[23] Berend, *History of European Integration*

[24] Haas, *The Uniting of Europe*

As Europe struggled to move forward from the stagnation of the early 1970s, other regions experienced tremendous growth. Asian and American firms in particular surged in the favorable conditions of neoliberal deregulation. They began to swallow up large sectoral market shares, and they perceived a tremendous opportunity in moving further into European markets.[25] European firms began to feel the threat of global competition. Realizing the need for regional frameworks in support of business and trade, these firms appealed to both their domestic national and European governments for increased vertical and horizontal integration in order to remain competitive.[26] Such private sector interest in integration, which precipitated a re-launching of the integration process in the mid-1980s, resulted in a departure from strict intergovernmentalism. In 1986, the Single Europe Act created a true European common market, and two subsequent rounds of enlargement in the 1980s grew the Union to twelve members, including Britain, Ireland, Denmark, Greece, Spain and Portugal. While Hoffmann's work had aptly explained the dynamics of the European Community at the time of its publication in the 1970s, the re-launching of the integration project in the 1980s led the next generation of EU scholars to still different theoretical conclusions.

Shortly after the signing of the Maastricht Treaty of 1993, which formed the European Union as we know it today, Princeton political scientist Andrew Moravcsik developed a new theoretical framework, called liberal intergovernmentalism, arguing that interest groups compete to influence domestic policy, which, in turn, impacts interstate bargaining. Differing from the analysis of John Zysman and Wayne Sandholtz's *1992: Recasting the European Bargain*, which presented the Maastricht agreement as a "dramatic new start" to the integration process, achieved at the state level by means of bargaining informed by changing international relations, Moravcsik's *The Choice for Europe: Social Purpose*

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25 Berend, *History of European Integration*

26 Evidence for this claim originates in the archival research supporting the subsequent case study chapters of this dissertation.

and State Power from Messina to Maastricht, argued that, more so than security and federalism, economic interdependence became by the 1980s the primary force for European integration.[27] In his calculus, big business lobbied domestic governments for its interests, including a larger, more integrated common market, and as nation states embraced Jean-Jacques Servan-Schreiber's logic, they were increasingly motivated to bargain on the international stage for further integration. This nuanced framework of interpretation of European integration resonated with a new generation of EU scholars like Justin Greenwood, Sonia Mazey, and Maria Green Cowles.[28]

Unlike the majority of political science literature on the European Union, Cowles, an American political scientist, has consistently made the case that private firms played a role in integration. Her doctoral dissertation, titled "Politics of Big Business in the European Community: Setting the Agenda for a New Europe," argued that firms, more than political institutions such as the Commission and the nation state, pushed for and helped to accomplish integration in the 1980s by means of their lobbying efforts, both to their domestic nation states and to the institutions of the EU. Her subsequent book, *Developments in the European Union,* and several articles expound upon her first study of the role of firms in shaping the EU, adding much to scholarship on the relationship between the European private sector and the European Union.[29] Like Justin Greenwood, Cowles focuses her scope on firm associations and interest groups, and not on individual firms. By doing so, she limited her study to business lobbies, which operate within the construct of a pre-existing Union and its institutions. While Cowles' work certainly informs my own, my point of departure and the evidence I mobilize from both

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[27] Wayne Sandholtz and John Zysman. *1992: Recasting the European Bargain*. (Oxford: Oxford University Press, 1992).
Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain," in *World Politics*, Vol. 42, no. 1 (Oct., 1989), pp. 95-128.
Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht.* (Ithaca: Cornell University Press, 1998).

[28] Justin Greenwood, *Interest representation in the European Union*. (New York: Palgrave Macmillan, 2003).
Sonia Mazey and Jeremy Richardson. *Lobbying in the European Community*. (Oxford: Oxford University Press, 1993).

[29] Maria Green Cowles, *Developments in the European Union*. New York: Palgrave Macmillan, 2004.

firm and EU archives reveals that private firms began to shape the common market long before the roundtables Cowles studied exerted their influence. Furthermore, while organized interest groups have certainly waxed strong since the late 1980s, individual firms also wielded considerable influence outside of their lobbies. In fact, according to Moravcsik, they wielded what became the most important authority of all: economic growth.

It is with Moravcsik's liberal intergovernmentalism and the intellectual genealogy that follows from his work – of which Cowles is a member – that extra-political agents enter into the balance of power and are analyzed for their contributions to European integration. Yet, the primary shortcoming of published scholarship on multinational firms and integration is that firms' contributions are limited to interest group activity, a very small and exclusively political part of firms' overall operations. No scholarship has yet analyzed the other mechanisms by which multinational firms facilitated integration in Europe. This dissertation aims precisely to fill that gap.

ii. *History*

The relationship between big business and the EU and the influence of big business on the integration process can only be understood in a long perspective. A historical approach allows for an examination of the ways in which this relationship changed over time and ultimately gives us purchase on understanding the complexities of the present. Moreover, the methodologies of history demand a rigorous documentary investigation of the topic, a distinctive departure from the political science theory that dominates the body of literature on the EU. But historians have only recently begun to turn their attention to the European Union and the integration process behind it.

The historical literature that has been published focuses its attention on the roles of nation states and the European Commission, as well as the postwar federalist movements and political elites, but not on the extra-political forces of integration. Alan Milward championed the theory that the nations of Europe integrated according to political and intergovernmental interests and published two

seminal works to that effect: *The Reconstruction of Western Europe 1945-1951*, and *The European Rescue of the Nation State*.[30] In these texts, Milward presents integration as a state-led project, which actually preserved and strengthened the nation state as preeminent political unit. Michael Burgess, who is a politics and international relations scholar focusing on the historical trajectory of European federalism, concentrated on the integrative role of the federalist ideology that motivated the Commission to dissolve the borders between states.[31] While each of these scholars has made paradigmatic contributions to EU studies, both the state-centric approach taken by Milward and the federalist one by Burgess give short shrift to the complex triad relationship between the three agents of integration: the European Commission, nation states and private firms.

In addition to histories of EU integration by Milward and Burgess, some business and economic historians have made major contributions to scholarship on business in twentieth century Europe. Youssef Cassis' *Big Business in Twentieth Century Europe* offers a comprehensive multi-sector study, which serves as a model for this dissertation's approach.[32] Additionally, Cassis' work connecting big business to smaller enterprises and his selection of British, French and German, private, diversely sized firms greatly informed the selection of case study firms for this project. Historian Ivan Berend's work on the economic transformations of Europe constitutes a library unto itself and has significantly influenced this dissertation. His *Economic History of Twentieth Century Europe*, *Europe since 1980* and *From the Soviet Bloc to the European Union*, histories that artfully weave together social, cultural, political and economic narratives, have shaped the collective understanding of the European twentieth century.[33]

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[30] Alan Milward, *The Reconstruction of Western Europe 1945-1951*. (Oakland: University of California Press, 1984.)
-- *The European Rescue of the Nation State*. London: Routledge, 1992.

[31] Michael Burgess, *Federalism and the European Union: The Building of Europe, 1950-2000*. London: Routledge, 2000.

[32] Youssef Cassis, *Big Business in Twentieth Century Europe. 1997.*

[33] Ivan Berend, *An Economic History of Twentieth Century Europe: Economic Regimes from Laissez Faire to Globalization*. 2006.
---. *From the Soviet Bloc to the European Union: The Economic and Social Transformation of Central and Eastern*
---. *Europe since 1973*. 2009.

Berend has also contributed significantly to scholarship on the European Union, tackling the global financial crisis and its causes and effects in Europe in his *Europe in Crisis*[34] Most germane to this dissertation is his most recent *History of European Integration*, which provides a detailed history of the multitude of forces at work during the process of European integration, including the United States government and private corporate interests.[35] This text in particular serves as both a narrative and methodological model for my own study of private firms and integration.

iii. *Business History*

The groundwork for research on firms and corporations owes much to the foundational scholarship of Alfred D. Chandler Jr., Mira Wilkins and their co-authors. From Chandler's *Leviathans: Multinational Corporations and the New Global History* to Wilkins' many contributions to literature on multinational corporations and Hannah's *The Rise of the Corporate Economy*, these scholars have paved the theoretical and methodological way for subsequent business history scholarship, especially in the age of globalization. [36] In the next generation of business historians Youssef Cassis, Walter Friedman, and Geoffrey Jones built on the work of Chandler and Wilkins and have all written extensively on big business. Jones' work in particular served as a methodological guide for this project. This project also owes much in terms of methodological inspiration to the direction of Mary Yeager, who, having studied under Alfred Chandler, has authored several important works on American and Latin

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Ivan Berend, *Europe since 1980*. 2010.

[34] Berend, *Europe in Crisis: Bolt from the Blue?* (London: Routledge, 2013).

[35] Berend, *The History of European Integration: A New Perspective*. London: Routledge, 2016.

[36] Alfred Chandler, *Leviathans: Multinational Corporations and the New Global History*. (Cambridge: Harvard University Press, 2005).
Mira Wilkins and Harm Schroter. *The Free-Standing Company in the World Economy, 1830-1996*. (Oxford: Oxford University Press, 1999).
Leslie Hannah, *The Rise of the Corporate Economy*. (London: Routledge, 2013).
The History of Multinational Enterprise, in Alan M. Rugman, ed., *The Oxford Handbook of International Business*, Oxford: Oxford University Press, Chap. 1, pp. 3-38, (2009).

American industry that successfully employ business history methods in service to larger economic history narratives.[37]

Moreover, business historians working on particular firms, whose studies both provide narrative business histories and map respective firm archives, have paved the way for this dissertation's research. For some national industries, like German automobile manufacturing for example, the secondary literature is quite rich, the majority being disciplinarily business histories. Most relevant to this project are business histories like Bernhard Rieger's award-winning text on Volkwagen's fascinating transformation from Hitler's car to *The People's Car.*[38] Similarly, Andrew Noakes authored a comprehensive history of the Bavarian auto giant BMW.[39] These histories of individual auto manufacturers serve as excellent guides to respective firms' trajectories, and this dissertation aims to complement their achievements by embedding such histories within the context of integration.

Eric Bussière, a Paris Sorbonne IV professor and economic historian, who, commissioned by the bank's executives and in cooperation with the *Association pour l'Histoire de BNP Paribas*, authored the most comprehensive work to date on *Paribas 1872-1992: Europe and the World.*[40] Bussière's text serves as an incomparable guide to Paribas' long history, to the bank's archives and to Paribas' mission in Europe in the postwar period, and this dissertation – the chapter on banking in particular – owes much to his foundational text.

While the secondary literatures for manufacturing and banking businesses are quite robust, the retail sector, admittedly the most recently developed sector, is, as of yet, woefully under-represented in scholarship. Belgian-based European grocer Delhaize, has only recently attracted attention from

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[37] Mary Yeager, *Competition and Regulation: The Dynamics of Oligopoly in the Meat Packing Industry, 1870-1920*. (Greenwich, Connecticut: JAI Press, 1981).

[38] Bernhard Rieger, *The People's Car.* (Cambridge: Harvard University Press, 2013).

[39] Noakes, Andrew. *The Ultimate History of BMW.* (Bath: Parragon Publishing, 2005).

[40] Eric Bussière, *Paribas 1872-1992: Europe and the World.* (Antwerp: Fonds Mercator, 1992).

business historians, although the focus of studies like that by Melleke Teughels and Patricia van dan Eckhout and Peter Scholliers is on the firm's earliest, local, and family-operated periods in the late nineteenth and early twentieth centuries.[41] British retailer Tesco, whose historical archive operates according to a strict controlled access policy, has very little secondary source coverage at this point, but is beginning to attract attention from business school researchers interested in comparing Tesco to its continental competitors, Carrefour and Metro. Thus far, what little scholarship has been published on Tesco has been written by authors like Clive Humby, whose allegiance to his firm runs even deeper than any commissioned business historian, as Humby is himself a Tesco executive. In addition to the issue of objectivity, while business histories provide valuable contributions to scholarship on particular firms, they tend to focus solely on the firm's chronology and rarely situate their narratives of respective firms within larger economic, political and social historical contexts. Consequently, this project builds on the foundation laid before it by both the theoretical literature and business history scholarship, emerging from those bodies of work with a contribution distinct from, yet informed by them.

This dissertation also aims to fill some of the gaps in the business history literature of individual firms by means of case studies. Tesco does not maintain a corporate archive and almost no scholarship exists on the firm beyond cursory coverage of its annual sales. Volkswagen has recently invested a great deal in its well-appointed corporate archive, but as an institution, it has only been investing in the preservation of its history since the early 1990s and is short on material and publications from before that decade. Moreover, while there have been several good histories of VW published recently, especially Bernhard Rieger's *People's Car* (2013), none of the works on the firm

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[41] Melleke Teughels, "Mag Het Iets Meer Zijn?" Kleine Kruidenierswinkels Worden Big Business, Delhaize Freres & Cie (1867-1940).
Patricia van dan Eckhout and Peter Scholliers, in "Entreprises et Histoire Distribution et Société. No. 64, 0. 41-63. Sept 2011: "The Strategy of a Belgian Multiple Grocer: Delhaize le Lion, 1967-1940. An Essay in Comparative Retailing History."

have addressed its past within the context of integration. Paribas, too, maintains an excellent corporate archive and documentary repository and has been the focus of several good monographs, including Eric Bussière's commissioned book (1993). While Bussière's work offered a very thorough treatment of the bank's past and did situate its postwar past within the context of integration, the most recent 25 years of the firm's history have brought to light additional ways in which Paribas acted as an agent of integration in Europe.

But it is not enough to simply study the narrative histories of case study firms. Rather, this dissertation aims to assert that multinational firms acted as agents of integration by analyzing the operational networks of firms across Europe. As a result, I would be remiss not to credit the scholarship of business and management analysts on the strategic impact of subsidiary networks and the structures of value chains in a globalized economy. Ulf Andersson, Mats Forsgren, and Ulf Holm published an especially salient article on subsidiary networks in the November 2002 issue of the *Strategic Management Journal*, which laid the groundwork for subsidiary network scholarship to follow.[42] In addition to the more general theoretical works by authors like Ulf Andersson et al, there are many studies on multinationals in particular regions, such as Patrick Artisien-Maksimenko's *Multinationals in Eastern Europe*, a skillful treatment of foreign direct investment in developing economies in Eastern Europe via subsidiary networks.[43] Most recently, Laura Alfaro and Maggie Xiaoyang Chen from Harvard Business School have authored very influential working papers on multinationals and their subsidiary networks, including "The Global Agglomeration of Multinational Firms" in April 2014.[44] Together, these works contribute to a technical understanding of the structures of multinational firms

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[42] Andersson, Ulf, Mats Forsgren and Ulf Holm, "The Strategic Impact of External Networks: Subsidiary Performance and Competence Development in the Multinational Corporation," *Strategic Management Journal*, Vol. 23, no. 11.

[43] Patrick Artisien-Maksimenko, *Multinationals in Eastern Europe*. (New York: Palgrave Macmillan, 2000).

[44] Laura Alfaro and Maggie Xiaoyang Chen, The Global Agglomeration of Multinational Firms." April 2014.

and their subsidiary networks. It is crucial, though, both for their own validity and for their practical applications, that the technical and theoretical analyses offered by business and management scholars like Andersson, Artisien-Maksimenko, and Alfaro and Chen be contextualized within the larger historical narrative.

Finally, this dissertation also draws on scholarship on globalization, a topic on which there has also emerged a huge body of literature. In addition to his very helpful guidance on this project, John Agnew's work on globalization also informed its approach to globalization and *The Geography of the World Economy*.[45] Several good readers on globalization provided a primary source foundation for this project, including that edited by Frank J. Lechner and John Boli.[46] In addition, the seminal texts on world systems and global exchange by Immanuel Wallerstein, Samuel P. Huntington, Amartya Sen, and the critique of globalization by Joseph Stiglitz all informed this project.[47] Geoffrey Jones has authored some of the most important work connecting business developments with postwar globalization, and this dissertation makes extensive use of his work, building on his contributions, but also reframing some of them too, especially with regard to understanding the integration process in the context of globalization.[48] In many ways, this dissertation seeks to expand the thinking of Wade Jacoby and Sophie Meunier in their "Europe and the Management of Globalization" and apply it to

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[45] Paul Knox, John Agnew, and Linda Mccarthy, *The Geography of the World Economy*, 6th edition. (London: Routledge, 2014).
John Agnew, *Globalization and Sovereignty: Beyond the Territorial Trap*. (Lanham: Rowman and Littlefield, 2018).

[46] Frank J. Lechner and John Boli, *The Globalization Reader*, 4th ed. (Wiley-Blackwell, 2012).

[47] Immanuel Wallerstein, *World Systems Analysis: An Introduction*. (Durham: Duke University Press, 2004).
Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order*. (Simon & Schuster, 1996).
Amartya Sen, "How to Judge Globalism," *The American Prospect* Vol.13 no 1, (2002).
Joseph Stiglitz, Globalization and its Discontents. (W.W. Norton and Company, 2002).
---, Globalization and Its Discontents Revisited: Anti-Globalization in the Era of Trump. (New York: W.W. Norton and Company, 2018)

[48] Geoffrey Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twentieth Century*. (Oxford: Oxford University Press, 2005).
Geoffrey Jones, *Entrepreneurship and Multinationals: Global Business and the Making of the Modern World*. (Edward Elgar, 2013).

the process of business-driven European integration in much the same way as Jones does in his work on global capitalism.[49]

Research Strategy

Methodologically, this dissertation approaches the topic of multinational firms in European integration by means of granular case studies of individual firms. By embedding micro-historical case studies within the macroeconomic topic of integration, it strives to attend to historical contingencies by reflecting the ways in which firms actually operate within the frameworks of the European Community and Union. An embedded case study approach also provides an analytical scaffolding much more concrete and focused than an aggregate study of all firms operating in postwar Europe or a general treatment of multinational firms as a group, allowing for deep, nuanced analysis.

This dissertation borrows from the approaches of business history, yet its case studies do not aim to be business histories themselves. Rather, the focus of these case studies is on the mechanisms by which multinational firms acted as agents of integration. Many European firms, whose business operations had been limited to domestic national markets prior to the challenge of globalization in the 1960s and 1970s, increasingly entered foreign European markets in an effort to remain competitive. The networks established by these firms' ventures into new European markets served as vital links between economies, threads that increasingly wove together the fabric of an integrated European economy. In order to study the effects of multinational firm networks on European integration, this dissertation analyzes the cross-border networks of exemplary case study firms.

Given the fact that there are more than one hundred multinational firms headquartered in Europe whose histories spanned the postwar period or longer, my selection of case study firms warrants some justification. First, in order to conduct a study broad enough to capture the larger

[49] Wade Jacoby and Sophie Meunier, "Europe and the Management of Globalization," *Journal of European Public Policy*, Vol. 17, no. 3 (2010).

impact of multinational firms in integration, it was essential to analyze at least one firm in each sector of the economy. Conventionally, scholars divide the economy into the following sectors: the primary sector includes the extraction of all natural resources, the secondary sector encompasses manufacturing and construction, and the tertiary service sector includes banking, retail and healthcare. In the case of the postwar European economy, the sectors contributing most to growth and GDP are manufacturing, banking and retail, with natural resources and agriculture comprising only three percent of the European economy by 2011.[50] Thus, in order to evaluate the most significant economic segments, this dissertation analyzes firms in manufacturing, banking and retail, and does not include a study of firms involved in natural resource extraction or agriculture. Manufacturing, baking and retail are also the three sectors that have Europeanized to the greatest degree, with a higher concentration of regional activity and a more intensive web of networks stretching across the continent than any other sectors. In large part because of the revolutions in communication, computing and technology, banking, which rapidly digitized in the later decades of the twentieth century, most easily Europeanized. Of the three sectors examined in this dissertation, retail and services experienced the most difficulty in regionalizing, but even so, firms in this sector still followed the trend of focusing their international expansion on the regional European market during the era of globalization.

Second, my selection of case study firms was informed by my desire to reflect the diversity of cultural, social, political and economic characteristics of each European nation state, which result in a wide variance of the managerial practices, organizational structures and business strategies of multinational firms. In an effort to attend to these differences, I selected firms headquartered in four different EU member states: France, Germany, Belgium and the United Kingdom. Of course, critiques can be made of such a broad comparative approach, but the ability to address the larger questions about multinationals and the EU justified the risk of any such shortcomings.

[50] Eurostat, OECD. See also: Nicholas Moussis, *Access to European Union law, economics and policies*, 20th ed. (Intersentia, 2013).

Perhaps the most crucial criterion for selection of case study firms was evidence of widespread, pan-European operations. While the vast majority of European big businesses were pro-integration during the 1970s, 80s and 90s, the firms that invested widely across Europe, established subsidiaries in foreign markets and cultivated value chains across the continent were also the firms most closely connected to the real economy through both forward and backward linkages. As a result, there is an admitted selection bias of 'Europeanism' in the selection of firms included in this study, as well as a bias for firms whose strategies in the postwar period positioned them to become some of the largest and most successful firms in the twenty-first century. Along with pan-European operations and investment across the continent – especially from West to East and from North to South – firm representation on pro-integration committees and organized interest groups at the domestic and EU levels, as well as participation in Euro-policy programs, provided a much more focused selection process for this study.

Finally, in addition to the criteria of economic sector, member state headquarters and evidence of Europe-wide networks, my selection of case study firms was determined by the rather pedantic and rudimentary consideration of archive accessibility. In some cases, firms maintain extraordinarily well-resourced archives and are highly amenable to outside research. In other cases, even the firms with the most developed archives do not grant access to visiting researchers. More crucial than a firm's willingness to grant access to researchers, though, are the legal restrictions on a firm's archive material. Due to the sensitivity of personnel files, managerial records, sales strategies, and production methods, most firm archives are bound by strict access laws, either self-imposed by the firms' legal teams, or imposed – as in the case of German auto manufacturers – by the regional or national governments themselves which maintain a vested interest in the competitiveness of industries for reasons of

economic growth as well as identity.[51] As a result, archive accessibility became an essential criterion for my case study firm selection process.

Using this matrix of criteria including economic sector, headquarter nationality, European networks and archive accessibility, I selected the following case study firms: the French investment bank Paribas, the German auto manufacturers Volkswagen AG and BMW, and the retailers Tesco from Britain and Delhaize from Belgium. Paribas' long history, European strategies, vast European networks due to its extensive genealogy, and its model *Association pour l'Histoire de BNP Paribas* made it an ideal case study bank. Volkswagen and BMW provided the opportunity to compare Germany's *wirtschaftswunder* to economic growth and firm development in other European markets. Not only was it important to conduct a dual case study on these auto manufacturers whose corporate hsitories and production strategies are so different, but due to the Bayerischen Landesarchivgesetz, or Bavarian State Archive Law, individual archive access would not have yielded material enough for rigorous analysis. Similarly, the dogged legal team at Tesco refuses archive access to all requests made from outside the firm. As Britain's retail powerhouse and because of its aggressive investment in Eastern Europe in the 1990s, Tesco nonetheless warranted treatment by this dissertation. But Tesco's highly corporate structure starkly contrasts with the family structure of many other European retail firms – even multinational ones. As a result, this dissertation engages in a comparative analysis of corporate, restrictive Tesco and the family-run, open-access Delhaize. Taken together, these firms constitute a cross-section of the European economy. By conducting case studies of the networks of these firms, this dissertation aims to conduct both a broad comparative study as well as a deep-digging analysis.

[51] The "Bayerischen Landesarchivgesetz," or Bavarian State Archive Law, governs access to all firms in the region. Not only does it severely restrict access to documents originating in periods of state control or nationalization of firms, but it also prohibits external access to any documents from the most recent 30 years beyond the mandatory reporting for investors and regulation.

A final note on methodology: this dissertation strives toward 'analytic narrative,' a rational choice and game theory approach to historical case studies in order to evaluate outcomes.[52] While this project's use of statistics is descriptive rather than inferential, it does borrow from this approach in its case study structure and quantitative support of narrative history. This dissertation also draws from the approaches of economic historian Naomi Lamoreaux, whose impressive ability to contribute equally to History and Economics and whose important work on both the merger movements that created modern multinationals and on banking history serve as an inspiration.[53] Moreover, it aims to achieve what has been said in praise of Ivan Berend's work: "to put the history back in economic history."[54]

Sources

This dissertation relies heavily on archival documents as source materials, and it makes use of materials from both EU institutions and private corporations. While EU archives are well organized and easily accessible with clear protocols, this is less true on the firm side, where access to production and trade data, supply chain records, balance sheets, internal reviews, and executive memoires requires both generosity and trust on the part of the firm and considerable respect on the part of the researcher.[55] Fortunately, government records can be quite useful in closing the gap. In the case of

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[52] Robert H. Bates, Avner Greif, Margaret Levi, Jean-Laurent Rosenthal, *Analytic Narratives*. Princeton: Princeton University Press, 1998.

[53] Naomi R. Lamoreaux, *Insider Lending: Banks, Personal Connections and Economic Development in Industrial New England*. New York: Cambridge University Press, 1994.
---, *The Great Merger Movement in American Business, 1895-1904*. New York: Cambridge University Press, 1985.
Naomi R. Lamoreaux and Daniel M. G. Raff, *Coordination and Information: Historical Perspectives on the Organization of Enterprise*. (Chicago: University of Chicago Press, 1995).

[54] George Grantham (McGill University) reviewing: Ivan T. Berend, *An Economic History of Nineteenth-Century Europe: Diversity and Industrialization*. Cambridge: Cambridge University Press, 2012.

[55] In some cases, firms claim to have no historical records. In other cases, their legal departments simply state that per company policy no researchers are permitted access to firm records.

corporate archive limitations, this dissertation makes use of published annual reports, news clippings, press releases and even legal briefs in order to flesh out documentary evidence.

Not only is access to private firm archives a rarified privilege, but the political and economic climates in which such research takes place strongly impacts the reception of visiting researchers into a firm archive. The research supporting this dissertation was undertaken during the height of the recession in the wake of the global financial crisis, and conducted just as BNP Paribas was being sentenced in the United States for an $8.9 billion accord over sanctions violations and as the news broke of Volkswagen's diesel emissions scandal, and at the same moment that British firms like Tesco were caught up in the frenetic referendum debate regarding the Brexit referendum. Despite these rather unfavorable circumstances for visiting researchers to appeal for access to private corporate files, the archivists from *Association pour l'Histoire de BNP Paribas*, including Roger Nougaret, Pierre de Longuemar and Geoffrey de Lassus were wonderfully generous and supportive of this project and allowed me access to the firm's archive office in Paris and documentary repository in Combs-la-Ville. Similarly, Annika Biss and Julia Oberndörfer welcomed me warmly to the Munich-based archive of BMW, as did Nicolas van Hoecke and Emmanuel Collet at Delhaize and Manfred Grieger and Ulrike Gutzmann at Volkswagen. I remain indebted to the firm archivists and executives who helped facilitate this research.

In addition to private firm archives, I also consulted European Union archives for this project. From the official archives of the European Union, which is housed in the *Villa Salviati* at the European University Institute in Fiesole, and the Archive of Integration, which is maintained by the University of Pittsburgh, I consulted meeting minutes from Parliamentary and Commission sessions, records of submissions from organized interest groups like the *Ligue Européenne de Coopération Economique*, to the EU and correspondence between firm executives and policy makers. The unparalleled infrastructure and tremendous institutional support of both the European University Institute and the University of

Pittsburgh – archivist Phillip Wilkin in particular, who digitized hundreds of files for me – made my EU archive work possible, even enjoyable.

The relative newness of this history – its unique contemporaneity – afforded me the rare opportunity to conduct interviews with key figures involved in integration from both the private sector and policy arenas. Yet another debt I owe to the archivists who advised my search for documentary materials is their generosity in introducing me to firm executives and coordinating my meetings with those managers, directors and CEOs whose personal experiences could inform my research. As a result, this dissertation employs oral history interviews as primary sources. Oral histories contribute invaluable, intimate perspective to this project, affording it internal knowledge not made available by annual reports or balance sheets. Additionally, because oral histories are not subject to the same restrictions as archive documents, first-hand accounts of a firm's investment across the European continent, the verbal transmission of memories of board meetings and negotiations, and personal descriptions of a firm's subsidiary network strategy significantly compensate for any documentary limitations. There is little precedent for use of oral history sources in business history, resulting in this dissertation's aim to make a methodological contribution as well as a narrative one.[56]

This dissertation draws from oral history interviews with several distinguished political figures, European Members of Parliament, and business executives: former head of the Hungarian National Bank and President of the Italian Central Bank Surányi György; EU Commissioner for Employment, Social Affairs and Inclusion in Hungary's Barroso II government Laszlo Andor; Hungarian Minister of Finance Laszlo Bekesi; Hungarian Minister of Finance, World Banker, and EU Member of Parliament Lajos Bokros; Paribas International Finance Corporation executive and director of the Association pour l'Histoire de BNP Paribas Pierre de Longuemar; Paribas executive Geoffrey de Lassus; the last family CEO of Delhaize and Belgian Olympic Committee Chairman Baron Pierre-

[56] Rob Perks, "Corporations are People Too," *Oral History*, vol. 38, no. 1, 2010.

Olivier Beckers-Vieujant; and head of the European Roundtable of Industrialists, Société Génerale *de Belgique* and Brussels Airlines CEO, former Bilderberg Group chairman, and former European Commission vice-president Etienne Davignon. The personal and professional experiences of these prominent politicians and executives significantly impacted this project and contributed greatly to the value of its scholarly intervention.

Outline of the Dissertation

In part, this dissertation's structure flows from the methodological approach of analyzing case study firms from each economic sector. But in order to contextualize the chapters devoted to each case, it begins with a reframing of the integration project in the context of globalization. Having laid out in the first chapter a methodological framework relative to the current body of scholarship on integration, I turn my attention in Chapter Two to the theory of regionalism and its relation to globalization. By embedding regionalism within globalization – or rather, in response to it – this second chapter offers an approach that seeks to remedy the disjointed way scholarship has treated these two historical developments and consequentially lays a foundation for the subsequent chapters of the dissertation. Because the catchall term "globalization" has nearly lost its descriptive meaning due to its wide and frequent overuse, it is important to clarify that this treatment of globalization focuses on the process by which businesses began operating on a global scale, both as a result and a cause of technological, social, economic, and structural change. Chapter Two argues that the regionalization in which European firms engaged was a direct response to the threat of globalization, a threat felt more tangibly by enterprise than by institutions and policymakers, thus positioning private sector entities to play an active role.

Chapter Three examines the human side of the relationship between big business and Brussels. As much as the title of this dissertation anthropomorphizes corporations by ascribing agency to their actions, we cannot forget the individuals whose power at the helms of corporations and in political

positions drives the organizations they run. This chapter takes a social approach to examining the primacy of big business in European policymaking from 1970 to 2000. It explores the convergence of corporate and Commission interests and the parallel convergence of the social networks of both groups through the exchange, cooperation and interchange of business and policy elites. Drawing from archived documentary evidence as well as personal interviews, it finds that during the most crucial years for both integration and the growth of big business in Europe, business and political elites developed *networks of power* around the *personnalités* of two key figures: Commission Vice-president Viscount Etienne Davignon (1981-1985) and the long-serving President of the European Commission who re-launched the integration process, Jacques Delors (1985-1995). While some of these networks originated with the initiation of business elites and others at the behest of the Commission, and while they operated in various forms, ranging from informal connections among executives and policymakers to institutionalized associations like the European Roundtables, their general effect was to conjoin and thereby amplify the power of the participating elites around shared objectives. Importantly, this chapter also investigates the revolving door that developed between corporate and political elites in Brussels and examines the accountability mechanisms in place in such a system.

The central part of this dissertation consists of three chapters, each examining multinational firms from a particular economic sector, headquartered in different EU member states. Chapter Four investigates the role of big business in European integration through the comparative cases of two German automakers. Despite their managerial and market segment differences, Volkswagen and BMW similarly regionalized in response to globalization and developed extensive pan-European production and distribution networks. Especially as German companies, these had to overcome postwar German guilt, the use of forced, predominantly Jewish labor, constraints on production as a result of the European Coal and Steel Community agreements, and fierce foreign competition, initially from American companies like Ford and GM who decisively moved into Europe in the 1960s. What

is more, these manufacturers faced major structural changes with technological innovations, mechanization, changing structure of labor. This chapter moves beyond a study of corporate political influence via organized interest groups and asserts that by drafting and implementing regulatory standards, engaging in regional FDI, establishing subsidiary and value chain networks and developing a European sales strategy, manufacturers like Volkswagen and BMW acted as agents of integration and facilitated the completion of the single common market.

Chapter Five considers the Paribas Bank, before it became part of the conglomerate BNP Paribas. The Banque de Paris et des Pays-Bas, created through a merger in 1872, was initially an investment bank with a portfolio that spanned from Western Europe to Russia, Africa to China, and the Middle East. During the period of globalization discussed in Chapter Two, Paribas significantly changed the geographic distribution of its investment portfolio, which was predominantly focused on industrial projects like railroads and utilities and was thus very closely connected to the real economy. During the Second World War, the bank sought more secure markets outside of conflict-ridden Europe, but in the decolonization that followed shortly after the war, Paribas withdrew from these global holdings in Africa, Latin America, and the United States in favor of intensified investment in its home region of Europe. By the 1980s, nearly 90 percent of Paribas' holdings were in Europe.

Chapter Six examines two retail firms: Tesco, a large, British super-grocer, and Delhaize, a small, family-run Belgian specialty market. Both companies began in Western Europe and then seized upon opportunities to expand into other markets in the postwar period. Tesco first moved into Ireland before capitalizing on the newly opened markets of Central and Eastern Europe in the 1990s, where it built large stores with goods sourced through its British supply chains. Delhaize's very different approach to expansion was born out of its small, family orientation. In contrast to Tesco, Delhaize's first major foray beyond its domestic market in Belgium was its purchase of the Food Lion chain on the US' eastern seaboard. After the collapse of the Soviet bloc, the family board decided to set up

neighborhood shops in Czechoslovakia, Poland, and Hungary, sourcing and selling local products. A comparison of these two retailers and their strategies and success rates with expansion across the European region sheds light on the impact of their supply chains, corporate identity, and consumer relations on the integration process.

Together these chapters aim to provide a cross-cutting analysis of the ways in which multinational corporations played an active role in realizing the federalist goals of a common market by pursuing their own self-interest. But as Chapter Seven concludes, the findings of this dissertation raise several important questions about the implications of firm-driven integration. What has been the effect of a market built by and for multinational corporations on other forms of enterprise like small business or family firms? What impact has firm-driven integration had on enterprise outside of the Western European core, where most multinationals are headquartered? By considering the paradoxes inherent in the role of corporations as agents of integration, this dissertation also attends to the darker side of Adam Smith's so-called invisible hand in the making of the EU's common market.

Chapter II: Regionalization in Response to Globalization

> "Globalization can…be defined as the intensification of world-wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. This is a dialectical process… Local transformation is as much part of globalization as the lateral extension of social connections across time and space."
>
> Anthony Giddens

The turbulence of Europe's twentieth century cannot be understated. Two world wars, now called the modern "Thirty Years War" (1914-1945), resulted in a loss of roughly 60 million people, and as much as 20% percent of the housing stock. This protracted conflict destroyed roadways and rail lines across much of the continent – losses only compounded by the devastating intervening depression. Following three decades of total war, interrupted by the reprieve of a brief boom and then severe depression, Europe found itself caught almost immediately in the Cold War between the US and USSR, which rent the continent in two, divided by a formidable red line. But postwar Europe also enjoyed a tremendous period of growth, although the gains were unevenly distributed across the divided continent. Between 1950 and 1973, Europe's gross domestic product grew "more than twice as fast […] as it did over the whole of the nineteenth and twentieth centuries."[57] Economists of the period touted their competing theories of state-sponsored development and free market marvels, and politicians claimed credit for the production booms, the low rates of unemployment, the new availability of durable goods like cars and home appliances, and the flourishing of Europe's middle class.[58] While the postwar economic miracle forgot Central and Eastern Europe under Soviet communism, those countries on Wallerstein's semi-periphery – Greece, Ireland, Portugal, Spain, and

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[57] Barry Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond.* (Princeton: Princeton University Press, 2007).

[58] Kristin Ross, *Fast Cars, Clean Bodies: Decolonization and the Reordering of French Culture.* (Cambridge: MIT Press, 1996).
The rival theories of economists Friedrich Hayek and John Maynard Keynes dominated political economy debates in the postwar period, with Hayek calling for free market laissez faire capitalism and Keynes championing a total spending approach with the state playing a major role.

Turkey – experienced impressively high rates of growth that approximated their Northern and Western neighbors.[59]

In another swing of the pendulum, the postwar boom – which economist Barry Eichengreen describes as "catch-up" with the United States – gave way to an equally remarkable stagnation. Europe's GDP growth flat lined after 1973, as did the region's growth rates of physical capital, human capital, and technological change.[60] By 2003, European GDP "was still only 72 percent of US levels, [only] marginally higher than three decades earlier." To be fair, GDP per capita does paint the most dismal picture of the final quarter of the twentieth century in Europe, but even while other measures of output and productivity reveal something of a "convergence" between Europe and the US in this period, the downturn of the late twentieth century is undeniable.[61]

There are several explanations for Europe's downturn in the 1970s, the first and simplest of which can be explained by a mere, yet controversial shift of perspective: the late twentieth century bust can only be described as such if the postwar decade really was, indeed, a boom. Despite the fact that the years between 1948 and the late 1960 are commonly called an economic miracle, there is compelling data evidence that the perceived growth of this period was not growth at all, but mere economic recovery to the prewar growth level.[62] Whereas the parameters of recovery are often set at the point at which a postwar economy reached its prewar output level, Europe's unique interwar circumstances set the bar too low for such a metric. Simply put, the fact that by 1948 Europe had recovered its 1939 output level is unremarkable, especially given the injection of US Marshall Aid

[59] Immanuel Wallerstein, *The Modern World System*. 1974.

[60] Eichengreen, *European Economy since 1945*, 19.

[61] *ibid*, 20.

[62] Arguments about the economic advantage of war do not adequately account for the level of destruction caused by the decades of conflict in the first half of the twentieth century. It is true that the wars precipitated a surge in consumer demand, but in my view, these effects are mitigated by the decimation of capital and labor and the challenge of replacing them in the postwar period.

funds to the tune of 130 billion in current US dollars.[63] In addition, the war economy of the early 1940s had artificially raised the growth rate far above its 1939 level. Not only was the prewar output level too easily matched to constitute a real economic miracle, but genuine economic recovery "ends only at the time when the actual level of production [after a shock] equals the level that would have been reached at that point had the war not taken place at all."[64] Hungarian economist Ferenc Janossy developed the graph in Figure I below to illustrate recovery as a trend line of "the rise in the production level in the case of undisturbed economic development," indicated by point "E," not "D" as is conventionally thought.[65] In other words, "to some extent, […] the rapid growth of the golden age, especially at its beginning, represented a simple return to normalcy."[66] Not only does this redefinition of recovery minimize the marvel of economic growth in the postwar period, but it also helps to explain a plateau once recovery of the pre-shock trend line has been fully achieved.

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[63] Ivan Berend, *The History of European Integration*.

[64] Ferenc Janossy (trans. Hedy D. Jellinek), "The End of the Economic Miracle: Appearance and Reality in Economic Development," *Eastern European Economics*, Vol. 10, no. ½ (1971-1972), p. 9.

[65] Janossy, "Economic Development," 10.

[66] Eichengreen, *European Economy since 1945*, 22.

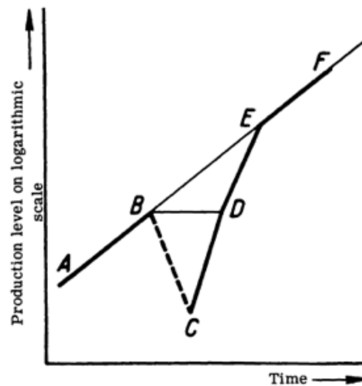

Fig. 1. Diagram of the course run by a postwar reconstruction period.

AF — Trendline of economic development
AB — Course of production-level line until outbreak of war
BC — Decline of production level caused by the war
CE — Course of production-level line during the reconstruction period:
CD — up to the prewar level
DE — up to the trendline
EF — Course of the production-level line after the reconstruction period

Figure 1: Janossy's diagram of a postwar reconstruction period[67]

The postwar growth rate certainly plateaued – but not only because recovery had finally been achieved. The relative peace and prosperity of the 1950s gave way to social and political unrest in the late 1960s. From the student protests of 1968, to the 'wine lakes' and 'butter mountains' that characterized agricultural dissidence, to the 'Empty Chair Crisis' of French President Charles de Gaulle, the promise of postwar progress seemed to be in retrograde. But the problems were not merely social and political; in macroeconomic terms Europe was dealt several heavy blows in the early 1970s. First, in a sign of America's about-face in its relationship with Europe, President Nixon suspended the US dollar's convertibility to gold and ended the longstanding system of fixed exchange rates that supported trans-Atlantic trade, largely because Europeans were threatening to exchange the dollars they had accumulated for gold. Nixon's Secretary of State Henry Kissinger explained that the US had decided to leave the Bretton Woods system in 1971 because, in observing Europe's "catch-up and

[67] Janossy, "Economic Development," 10.

convergence," it had come to see Europe as more of a rival than a partner, logic that also explained the end of US efforts to promote and advance integration in the region.[68] The collapse of Bretton Woods produced several negative knock-on effects in Europe: a widening dollar gap, ensuing financial crisis, and ultimately a recession.[69] To make matters worse, the 1970s brought two severe oil crises in 1973 and 1979 – consequences of the Arab-Israeli war and conflict with Iran – which precipitated a worldwide slump and strained Europe's ability to recover from the aforementioned crises.

The Threat of Globalization

The fact that the United States' decision to leave the system of fixed exchange and an oil embargo by Arab Petroleum Exporting Countries could result in Europe's economic demise reveals the extent to which the world of the 1970s had become inextricably interconnected. It is this interconnectivity, this *globalization* that most clearly explains why the postwar boom quickly became a late-century bust for Europe. Globalization, very broadly defined as "the process by which more people across large distances become connected in more and different ways," and the consequential re-structuring of the world along new lines according to a spatial division of labor, caused these previously insular regions to view one another as rivals in a fierce competition over global market share and a favorable balance of trade.[70] During this period in which enterprise surged and firm size swelled, the incongruence between corporate expansion and the static borders of nation states resulted in economic warfare, characterized by the offense of corporate expansion and the defense of

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[68] Ivan T. Berend, *The History of European Integration: A New Perspective.* (London: Routledge, 2016), pp. 101.

[69] Stefano Battilossi and Youssef Cassis, eds. *European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods.* (London: Oxford University Press, 2002).

[70] Immanuel Wallerstein, "The Modern World-System as a Capitalist World-Economy," in Frank J. Lechner and John Boli, eds., *The Globalization Reader*, 4th ed., (Oxford: Wiley & Blackwell, 2012), pp. 51-56.
In this short article, Wallerstein outlines his view that the capitalist world economy has existed since the 16th century. He argues, citing Fernand Braudel, that because capitalism thrives on continual accumulation, it requires boundless access to the globe for its efficient spatial division of labor. He also argues, as this dissertation does in Chapter III, that "the capitalist system requires a very special relationship between economic producers and the holders of political power," since the quasi-monopolies capable of domination require "the patronage of strong states," rendering "free" markets a myth (52, 55).

protectionist tariffs. Beyond the geopolitical breakpoint caused by the wars themselves, the world wars had also marked a macroeconomic watershed in which the 'high levels of integration that characterized the first global economy formed between the Golden Age and 1920s collapsed amid the nationalizations of the 1930s and 40s. At the same time, the formerly large host economies of Russia, China, and India were isolated from the world economy, since they did not garner American foreign investment and thus did not benefit from the transfer of knowledge, technology, managerial practices, norms, or standards.'[71]

During the 1950s, the relationship between the US government and the aerospace, defense, and technology firms with which it contracted bourgeoned into what US President Eisenhower named 'America's military industrial complex.' With a customer the size of Washington and lucrative continuous Cold, Korean, and Vietnam War build-up, American defense companies mushroomed in their scale and scope. But these firms did not limit their production to weapons of war; rather, they capitalized on unparalleled research and development capital and, as the Boeing company did in the 1950s, 60s, and beyond, built 700-series commercial aircraft along with B-52 bombers. Nor were their sales limited to a sole government customer. American industrial companies – including automakers like Ford and General Motors and technology firms like IBM – moved into European markets.[72] The creation of the European Economic Community beckoned American companies to set up shop on the reconstructed European continent, with the promise of a borderless market. The initial forays of American companies into Europe were seen by European leaders as part of the US' Marshall Plan efforts to rebuild its primary ally through economic stimulus, capital loans, and the technology

[71] Geoffrey Jones, *Multinationals and Global Capitalism*: From the Nineteenth to the Twenty-first Century. (London: Oxford University Press, 2004).

[72] Mira Wilkins and Frank Ernest Hill, *American Business Abroad: Ford on Six Continents*. (New York: Cambridge University Press, 2011).
P. Paju, "IBM Rebuilds Europe: The Curious Case of the Transnational Typewriter," *Enterprise & Society*, Vol. 17, no. 2 (2016).

transfers vital to recovery and reconstruction. Indeed, the increasing 'US balance of payments deficit was even regarded as a beneficial means by which European countries could replenish their reserves and boost liquidity for international trade. By the 1960s, however, European enterprise recognized that American assistance had become American competition.[73]

In 1967, French journalist and politician Jean-Jacques Servan-Schreiber published his *Le Défi Américain*, a visionary text on the economic challenge American industry posed to Europe. This "war" between the United States and Europe, "being fought not with dollars, or oil, or steel, or even with modern machines," but with the "creative imagination and organizational talent" of the American industrial complex, threatened not only the European economy, but European autonomy, self-determination, and the European way of life.[74] In his view, European states had properly understood the challenge of American power in the 1950s and subsequently worked together to establish collective organizations like the European Coal and Steel Community and European Economic Community. A decade later, however, Servan-Schreiber expressed his deep concern over the fact that while "Europe ha[d] created a market, [...] she ha[d] not transformed herself into a great power. Even this market, as we have seen, does not help her so much as it does the American industrial machine."[75] In short, Servan-Schreiber argued that without further European integration, without a collective coordination to imitate the American business structure and industrial complex, Europe would become a mere subsidiary of the United States. For him, the ultimate key to American – and thus, European – competitiveness was the size, structure and government support of large corporations, which alone boasted the capacities for research and development and the economies of scale needed to compete.

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[73] Stefano Battilossi, "International Banking and the American Challenge in Historical Perspective," in Stefano Battilossi and Youssef Cassis, eds. *European Banks and the American Challenge.* (London: Oxford University Press, 2002), 9

[74] Jean-Jacques Servan-Schreiber, *Le Defi Américain.* (Paris: Denöel, 1967), pp. xiii, 191.

[75] Servan-Schreiber, *Le Defi Américain*, 103

Since European nation states were too small to support competitive corporations on an individual level, Servan-Schreiber urged for further integration across Europe and for the European support of large multinational firms as a response to the American challenge.

Servan-Schreiber might have articulated the American challenge most presciently, but he was hardly the only harbinger of the growing presence of US companies in Europe in the 1960s, nor was his native France the only adversely affected state. "Across the Channel, public outrage was nurtured by the alleged American takeover of Britain. In West Germany debates over excessive foreign influence on national industries flourished."[76] From the UK to the BRD,[77] Europeans viewed the postwar insurgence of American businesses into their markets as hostile and warranting a defensive response.

Servan-Schreiber's vision would prove even more prophetic as *Le Défi Américain* waxed increasingly oppressive in the 1970s and 1980s. By that time, Japan too had developed into an industrial powerhouse, and within a few years, the Small Asian Tigers had created tremendous competition in what had been traditionally European areas of production. This wave of globalization, fueled by the technological and communication revolutions and by neoliberal deregulation, threatened to relegate Europe to the margins of the increasingly global economy. The United States and Japan, both of which experienced GDP growth as high as 4% per year during the period between 1950 and 1975, championed liberalization, structural change, new technologies, research and development and foreign investment. Thus, not only had Europe experienced a decline in its growth rate and a dangerous rise in both unemployment and inflation, but it was sinking into backwardness relative to its competitors. Exacerbated by the political, social, and economic turmoil of the late 1960s and early

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[76] Stefano Battillosi, "International Banking and the American Challenge," 2.

[77] *Bundesrepublik Deutschland*, the name used to refer to West Germany from 1968 to 1990.

1970s, the integration process stalled after the accession of Denmark, Ireland and the UK, and the pace of progress toward the promise of "ever closer union" slowed in the following years.[78]

While European states were certainly adversely affected by global competition in terms of negative balances of trade, decreased tax revenue, and unhappy, underemployed constituents, private companies most tangibly felt the threat of globalization. It was their supply chains being compromised, their products being undercut, their revenue in decline, and their doors that closed. Business scholars often fail to consider the human costs of such competition, but it is crucial to recognize that as businesses folded, livelihoods were ruined, and families – sometimes entire communities – suffered a loss of dignity, profession, and viability. This was especially true of communities centered around small and medium sized enterprise, since large companies tended to enjoy the protection of the state. In short, the toll of globalization was not merely macroeconomic, but felt intensely by small business, social communities, families, and individuals.

Regionalization in Response to Globalization

Both because of the crisis in political leadership at the state level during this period, and because of the lag in the effect felt by governments *vis a vis* the immediate and acute detriment felt by firms, the private sector was the first to respond meaningfully to the challenge of globalization. As early as the 1950s, firms appealed to their domestic governments to enact protections against foreign firms operating in their domestic markets. As Chapter III explains, the creation of the EEC in 1957 also inspired new business-organized interest groups to convene in Brussels and begin to appeal to the institutions of the European Union for support by defending them from destructive competition and facilitating new growth opportunities for European companies. But governments – both at the domestic and at the regional levels – were slow to react to the onslaught of foreign competition. Not only were nation states still working to recover from the war, but political crises at home in France,

[78] European Community, *The Treaty of Rome*, preamble. 1957

West Germany, and the UK exacerbated the decline of state power. Moreover, neither the subsidies – offered to only the largest companies –, nor the limited protectionist measures implemented proved sufficient. The EEC attempted to impose discriminatory tariffs and quotas on American products, but even these infractions against the General Agreement on Tariffs and Trade did not slow the American offense into Europe.[79] The nascent institutions of the EEC were yet no compensatory match for the inadequacies of domestic governments, and while the European Parliament and Commission deliberated over possible responses to the threat, other agenda items took precedence. Meanwhile, European companies struggled to remain viable. But they did not remain idle victims of the threat; rather, they developed an effective strategic response of their own.

As the following sections of this chapter explain, the various sectors of the economy experienced foreign competition uniquely and at different times. Because the first American firms to operate on European soil were industrial companies, it was European automakers, machinery producers, construction firms, lumber and metal suppliers who first experienced the threat of globalization and also first responded. American banks followed their compatriot industrial companies to the European continent in the 1960s and 1970s and posed their own threat to British, French, and German banks. During these years, especially in the wake of decolonization, the European banks and manufacturers that had maintained foreign branches, factories, and subsidiaries in Latin America, Asia, Africa, and the Middle East defensively withdrew from those regions in favor of their own home markets and home region of Europe. Moreover, it was in this period that the primary source of the competitive threat to European companies shifted from the operation of foreign firms on European soil to the neoliberal policies of deregulation implemented by both the US and Japan in the 1970s and 80s. In some ways, the retail sector began to experience the threat of global competition along with manufacturers in the 1960s, especially for the manufacturers that sold finished goods, like automakers,

[79] Stefano Battilossi, "International Banking and the American Challenge," 9.

home appliance producers, and technology and communications companies. But the turning point for retailers happened in the 1990s with the collapse of the Soviet bloc and the opening of Eastern Europe, which presented new opportunities for retailers to tap into a huge consumer market with unparalleled pent-up demand. In this regard, whereas the regional response of manufacturers in the late 1960s was largely defensive and reactionary, the regionalization of retailers in the 1990s was primarily offensive and motivated by a desire to capitalize on a new opportunity. Just as the motivations and timing for bank and retailer regionalization differed from those of their manufacturer counterparts, so too did their rates of success.

i. Revising Theories of Integration

That the integration process slowed in the 1970s along with the macro-economy serves as a revelatory indicator of the driving forces in Europe's unification and demands revisions of the theories developed to explain how the EU came to be. As explained in the previous chapter, the theory of intergovernmentalism seems to effectively explain how and why the earliest steps toward integration in the late 1940s and early 1950s were undertaken by states: European states looking to solve the German question and prevent future war, and the United States hoping to strengthen its allies against the growing threat from the Soviet Union. Even the progress made in the late 1950s – namely, the creation of the European Economic Community – can be explained as a result of the willingness of states and their politicians to forfeit some national sovereignty in order to pursue economic stability, rather than as an accidental spillover effect. The lack of political will toward further integration in the 1970s, characterized as *eurosclerosis*, additionally seems to support this state-centric narrative. But with the security and stability concerns of state actors having been satisfied by the early steps toward integration, and in the absence of the dynamic personalities that led the initial federalist charge, the momentum slowed when confronted by the challenge of globalization.

The first revision needed in this narrative is an amendment of the view that no progress toward integration was made in the mid-to-late 1970s. Whereas much of the scholarship on the EU describes *eurosclerosis* as the process having ground to a halt, it is important to recognize both the underlying myth in this narrative and the significant progress made during this decade.[80] Indeed, progress slowed, especially in terms of the horizontal expansion of the Community to include new member states. But, as Emmanuel Mourlon-Druol explains in his *A Europe Made of Money*, it was during this period that the EEC laid the foundations of its European Monetary System (EMS) in 1979, a major step toward increased vertical integration.[81] It was also during this period that the European Parliament gained more power, the European Commission became a policy initiator, and the Court of Justice issued some landmark rulings, particularly in the Cassis de Dijon case in which the court determined that product standards from one member state must be recognized by the others and paved the way for further integration in the future.[82]

These developments require a second major revision in the narrative history of European integration: the view that a single theoretical framework can explain how Europe transformed from a composite of nation states in conflict with one another to a Union of integrated member states, sharing laws, norms, money, and governance. Not only does the complexity of empirical historical evidence necessitate a fluid approach to understanding the forces at work in the integration process, but the developments of the 1970s – the increasingly economic nature of integration – and increasing involvement of private sector actors as cooperators in advancing the project of a united Europe beg explanations that transcend the limits of political power.

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[80] Anil Awesti, "The Myth of Eurosclerosis: European Integration in the 1970s," *L'Europe en Formation* (2009), pp. 39-53.

[81] Emmanuel Mourlon-Druol, A Europe Made of Money: The Emergence of the European Monetary System. Series: Cornell studies in money. (Ithaca: Cornell University Press, 2012).

[82] European Court of Justice, ECLI:EU:C:1979:42 (20 February 1979): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A61978CJ0120

Thirdly, this dissertation contributes a reframing of regionalization and globalization in dialectic terms. The two processes are very closely connected, but they also oppose one another. As Menno Vellinga described in the volume he edited on *The Dialectics of Globalization*, "Globalization is a multifaceted phenomenon of an inherently contradictory nature, as developments on the regional, subregional, and local levels show. On the one hand, some observers emphasize the all-encompassing nature of the global economic, social, political, and ideological processes, with the suggestion of the inevitable homogenization. On the other hand, others note a strong movement that runs contrary to this trend toward integration and convergence…. [regional systems] often constitute a counterpoint to global trends, one that – paradoxically enough – is continuously being reinforced by global trends."[83] In the case of postwar Europe, the push and pull of expansion and contraction manifested with even more tension. As rival firms entered their region, European firms doubled down on their appeals for the seeming contradiction of an open internal market with strict external borders, and their regionalization of their business operations in the 1970s, 80s, 90s, and even 2000s, reinforced this dialectic. The resulting shape of the common market, a cornerstone of the EU, bears these contradictions, born out of a regional response to globalization.

Alan Rugman and Simon Collinson also address this dialectic in an article on "Multinational Enterprises in the New Europe: Are They Really Global?" in which they problematize the assumption that globalization contributed to a large-scale trend of corporate multinationalization across two or more regions. Their empirical research disproves the theory that globalization made companies more global. On the contrary, they find that corporations became more regional amid the process of globalization: "of the [world's largest] 380 firms reporting regional sales data, the 118 from Europe average 62.8% of their sales in their home region, the 185 from North America average 77.2%, and

[83] Menno Vellinga, ed., *The Dialectics of Globalization: Regional Responses to World Economic Processes: Asia, Europe, and Latin America in Comparative Perspective.* (Boulder: Westview Press, 2000), p. 5.

the 75 from Asia average 74.3% at home."[84] These findings demonstrate the strong preference of European big business for consumer markets in their own region. That, as of 2007, nearly two-thirds of all business conducted by multinationals headquartered in Europe was intra-regional, points to the intensive regionalization of multinational firms amid the trend we have otherwise characterized as globalization. Rugman and Collinson's work demands an explanation for this dialectical process of regionalization.

This dissertation offers a nuanced intervention in the debates among competing theories of integration. By situating the integration process in the context of globalization, it reveals that the response of European business to the challenge of globalization propelled the integration process forward, both through corporate efforts to influence federalist policymaking and through the strategy of firms to remain competitive by regionalizing. This inclusion of private sector actors in the integration narrative brings decades of historical evidence to bear on the existential crises the EU faces in the present, since only by acknowledging all of the actors invested in the creation of the Union and its common market can we understand the forces of disintegration in the twenty-first century and identify paths forward out of the crisis.

ii. Regionalization and Structuration

The language of "regionalization" requires some explanation. Like "globalization," the term "regionalization" and related concepts of "regionalism" and "region" are complex, overused, and ill defined. Moreover, the wide variance in understandings of these terms emerges from several disciplinary schools of thought. What these many disciplines agree on, though, is that, at least in the context of the late twentieth century, the language of "regionalism" emerges as a linguistic corollary

[84] Alan Rugman and Simon Collinson, "Multinational Enterprises in the New Europe: Are They Really Global?" p. 3

to globalization, although the phenomenon of "increased cooperation, integration, and cohesion that creates a regional space" is certainly not a new one.[85]

This project draws from Fredrik Söderbaum's "Rethinking Regions and Regionalism" to clarify its use of these terms in three ways: in its broad conceptualization of regions as having displaced the nation state in terms of units of analysis the world over; in its view that regionalism is multi-dimensional, rather than merely economic, political, or defensive; and in its problematizing of parochialism.[86] As in Söderbaum's work, this dissertation asserts the global decline of the nation state in the late twentieth century in favor of new forms of political organization.[87] While striving to avoid reductionist teleology, it also takes the neo-functionalist spill-over view that one form of regionalism – or integration – *can* beget other forms, or even necessitate them, as was the case in Europe with the integration of the coal and steel industries precipitating a commitment to create a single common market. This does not mean, however, that complete political, social, and economic unification are inevitable. The last point of alignment between this project and Söderbaum's work is perhaps most crucial of the three especially because the kind of Eurocentrism against which Dipesh Chakrabarty warned in his *Provincializing Europe* has continued to permeate scholarship on European integration.[88] While the European Union is, indeed, a *sui generis* system, we must remember that Europe does not hold a monopoly on regional cooperation, organization, or integration. Other regions have engaged in the layers of integration now characteristic of contemporary Europe and formed the African Union (AU), the Association of Southeast Asian Nations (ASEAN), the North American Free Trade

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[85] Fredrik Söderbaum, Rethinking Regionalism. (New York: Palgrave MacMillan, 2016), 3.

[86] Fredrik Söderbaum, "Rethinking Regions and Regionalism," *Georgetown Journal of International Affairs* Vol. 14, no. 2 (2013), pp. 9-18.

[87] Observers of the political developments of the 2010s might perceive a resurgence of the nation state. In the final decades of the twentieth century, though, the relevance, power, and function of the nation state declined steeply.

[88] Dipesh Chakrabarty, *Provincializing Europe: Postcolonial Thought and Historical Difference.* (Princeton: Princeton University Press, 2000).

Association (NAFTA), and Putin's attempt to revitalize a part of the former soviet state with the Eurasian Economic Union. Although a trans-regional comparative study is beyond the scope of this project, it does root its assertions in such a comparative perspective. Moreover, the process of regionalization is not necessarily carried out by states alone, nor is its end result limited to an aggregation of states. The process can be – and was in the case of twentieth century Europe – equally decentralized and realized by non-state actors. The EU, however, stands apart as different from the regional blocs mentioned above with its much higher degree of integration.

The core argument of this dissertation is predicated on two, largely concurrent processes of regionalization: the political and the economic, one having been carried out by states and supported by firms, and the other having been practically achieved by businesses and enterprise. In some ways, this view of integration as a dual process resonates with Anthony Giddens' structuration theory, in which structure, or the framework of rules and resources in which social systems exist, and agents, the entities acting within and on that structure, are inextricably linked.[89] In its conception of private enterprise as actor in the integration process, this dissertation acknowledges that firms were acting within the context of preexisting regionalization. The businesses that expanded beyond their domestic markets and developed regional, European networks in response to global competition were not the first forces of regionalization in Europe; theories of path dependence explain the very long trends of forces that connected the societies, political regimes, cultures, and economies of the region. But, by seeking out opportunities in proximate markets with similar norms, rule of law, and standards, these companies became themselves forces of regionalization. In order to contextualize the role of private companies in the EU's historical duality of structure, the following sections describe the threat of globalization that motivated European firms to regionalize in response.

Manufacturing Competition in the 1950s - 1970s

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[89] Anthony Giddens, *The Constitution of Society: Outline of the Theory of Structuration.* (University of California Press, 1984).

In the late 1940s and 1950s, American industry quite literally boomed – first at home, thanks to huge military contracts, and then abroad, after the General Agreement on Tariffs and Trade, signed in 1947, reduced barriers and internationalized trade.[90] In the 1950s, American manufacturing firms began to establish outposts in Western Europe, where they found a vast labor market of highly skilled workers, and, both because Europe was still struggling to recover from the devastation of the war and because the US dollar had become the global reserve currency, these companies could employ European workers for far less than the cost of domestic workers in the US. Moreover, the formation of a liberal trading bloc in the EEC drew American firms to Europe, and technological innovations like facsimile machines and jet planes eased the process of conducting and managing business overseas. In the early 1960s, the administration of President John F. Kennedy further facilitated the movement of American manufacturers to Europe by securing a dramatic reduction of tariffs.[91] Importantly, it was not just to Europe that US manufacturers were moving. In this period, and for the same reasons, American companies also established factories and acquired subsidiaries across the globe in Latin America, South Africa, and the Middle East, although decolonization and the ensuing instability quickly rendered many regions too high risk for business investment.[92] As a result, Europe became the primary locus of investment.

By Geoffrey Jones' calculations, 'US companies accounted for as much as 85 percent of all new FDI flows in the years between 1945 and the mid-1960s, and by the year 1980, 40 percent of the total stock of foreign direct investment was held by American firms.'[93] While this foreign investment

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[90] General Agreement on Tariffs and Trade (1947)

[91] Geoffrey Jones, *Multinationals and Global Capitalism*.
It was during these years, according to Jones, that the term "multinational" was invented, and that economists began to work to explain their existence.

[92] Geoffrey Jones, *Multinationals and Global Capitalism*: "Nontariff barriers spread in the following decade. Most developing countries in Latin America, Asia, and Africa became progressively closed to international trade from the 1950s to the 1980s."

injected liquid capital into host economies, furnished infrastructure development, and boosted employment rates, it also put significant downward pressure on the prices – and profit margins – of domestic firms, edging them out of not only their own local markets, but also global markets for industrial goods. In the case of European manufacturers, such American competition quickly relegated them to the competitive margins of their respective sectors.

American automakers constituted a large percentage of this wave of manufacturers moving into Europe in the 1950s and 60s. In fact, there is perhaps no clearer example of the American manufacturing challenge and the way in which Europe lagged behind in the context of globalization than the case of the auto industry. In their text on *American Business Abroad: Ford on Six Continents*, Mira Wilkins and Frank Ernest Hill chronicled the carmaker's global expansion from the 1920s to 1950s, a study that sheds light on the methods by which American automakers expanded into Europe, altering their strategies in each epoch.[94] By the account of Wilkins and Hill, Ford actually entered Europe very early in its company history; it established distribution in ten European countries as early as 1907, and in the years before the Great War began, it founded nine European subsidiaries from the Ford Motor Company SAE in Spain to O/Y Ford A/B Finland and nearly everywhere in between.[95] That Ford France set up airplane production in Bordeaux in 1939 cultivated good will with the American-owned company's allies across the pond also went a long way to ingratiating Ford with European regulators in the years after the war. Moreover, the fact that Ford had created such a vast network across the

[93] Jones, *Multinationals and Global Capitalism.*
Jones makes a very important comparative point in this excerpt: that even by 1980, even after coordinated efforts to create international capital markets and open trading blocs, even amid this massive wave of globalization, the "integration of worldwide capital, commodity, and labor markets remained limited compared to the late nineteenth century."

[94] Mira Wilkins and Frank Ernest Hill, *American Business Abroad: Ford on Six Continents*, 2nd ed. (London: Cambridge University Press, 2011).

[95] Ford's early twentieth century subsidiaries in Europe include the Ford Motor Company Ltd. in England (1907), Automobiles Ford in France (1916), Ford Motor Company SAE in Spain (1920), Ford Motor Company (Belgium) and Ford Italiana SpA (1922), Ford Motor Company of Holland and Ford Motor Company A/B in Sweden (1924), Ford Motor Company Aktiengesellschaft in Germany (1925), O/Y Ford A/B Finland (1926), and Ford International (1947).

European continent in the 1920s and 30s meant that once the war ended, the company easily re-launched existing production and quickly outpaced the automakers of its European host countries. When Britain claimed the title of premier auto exporter in 1950, for example, it was Ford England that contributed the lion's share of production, since its Dagenham plant, positioned on the Thames, was "the most complete motor vehicle plant in the country" and best suited for easy export by shipping.[96] Even as European carmakers regained their footing in the 1950s, the capitalization of Ford International, the company created in 1947 to manage all of the parent company's overseas operations, far surpassed that of all other European automakers, which fueled the company's new postwar acquisition strategy, allowing it to acquire unparalleled factory space and push the limits of production.[97] With the acquisition of dozens more factories and brands in the 1950s, 60s, and 70s, and with the addition of new technologies, model lines, and partnerships, Ford's growth in Europe proved exponential.

It was during the 1960s that Ford relinquished its founder's factory line model of producing maximum quantity but limited model output, and embraced instead an expanded model line. In part, this strategy change was a result of the dramatic change in consumer tastes as postwar populations in both Europe and the US enjoyed higher standards of living, increased demand for mobility and the ability to travel greater distances, and, after the oil crisis of the early 1970s, and plateauing of the postwar growth rate, a strong demand for fuel efficiency, carmakers were compelled to offer a diverse product range. American manufacturers seemed better able to innovate and adapt, in large part because of their vast research and development resources. While European automakers strove to emulate their American rivals, Japanese producers, who imitated technologies and model designs,

[96] Wilkins and Hill, *American Business Abroad*, 381, 382.

[97] *ibid*, 381.

developed a major innovation of their own: flexible specialization, which European quickly appropriated as Japanese carmakers made their way into European markets.[98]

Unlike Ford, General Motors did not approach European expansion in the postwar period by means of a vast subsidiary network. Rather, GM mobilized the economic and political clout it garnered after having received the highest value of wartime production contracts in the US – most of which supplied the Allied vehicle and aircraft needs –, and after having cultivated close relationships inside the DC Beltway,[99] to cultivate partnerships with European producers. This partnership strategy could also have been a defensive response to the criticism GM received for the fact that its German subsidiary, Adam Opel AG, had double-dipped in the war aftermath; the parent company both claimed that it had lost control of the subsidiary in the midst of the war, qualifying it for a massive tax write-off, and simultaneously argued that it should receive war reparations to make recompense for the Allies' bombing of its German factory. Whether in an effort to mitigate possible public relations backlash, or whether because the strategy seemed best for the company's bottom line, GM focused its attention on ramping up cost-effective parts, kit, and complete model production in postwar Europe through partnerships with European carmakers like the German Opel, British Vauxhall, and Swedish Saab.[100] Both through these partnerships and by means of sheer competition, the American-owned GM parent company certainly made an impact on European carmakers. In positive terms, GM shared model designs, production methods, managerial practices, and engine and safety technologies with their European partners. But it seems that this knowledge sharing did not necessarily translate

[98] Michael Cusumano, "Manufacturing Innovation: Lessons from the Japanese Auto Industry," *MIT Sloan Management Review* (1988).

[99] Not only were some GM executives appointed to high level positions in the Roosevelt and Eisenhower administrations, but Charles Wilson, GM President-turned Secretary of State, famously responded to Senate Armed Services Committee vetting questions about possible conflicts of interest with the often-misquoted line that he "thought what was good for the country was good for General Motors and vice versa."

[100] General Motors Annual Reports, 1946-1967

into evenly shared profits. The scales were tipped unevenly in the favor the American carmaker: both its production volume and profit margins surpassed its European partners in the 1960s and 70s.

Both Ford and General Motors rapidly outpaced the production and sales volumes of the formerly preeminent European manufacturers. By the late 1960s, half of Ford's global production and one-quarter of GM's was manufactured in Europe.[101] Not only had American producers undercut Europeans on the global market, but they had moved a huge portion of their production to European soil to reap the advantages of Europe's labor market and to have access to a huge base of European consumers. Moreover, by the 1980s Japanese automakers posed a serious threat to both American and European firms. Not only did Japan quadruple its auto exports and develop several of the world's most successful car companies between 1970 and 1980, but by 1984, the European Commission expressed shock at the extent to which firms like Toyota had mechanized production and exponentially increased efficiency.[102] Across the product spectrum, European automakers faced the severe and existential threat of global competition – not just abroad, but on their own soil. Chapter IV details the tactics by which these French, Italian, British, and most significantly German carmakers responded to the threat of globalization, in large part by adopting the same American and Asian strategies that had posed a challenge in the first place.

International Banking Competition: 1960s - 1980s

Beginning in the mid-1960s and emboldened by their industrial counterparts, American banks moved into Western Europe *en masse*, initially as "followers or escorts of US multinationals" like Ford, GM, and the American utility, steel, and communications companies that had begun to establish operations there in the 1950s.[103] This move into Europe by US banks echoed the financial liberalism

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[101] Ivan T. Berend, *The History of European Integration: A New Perspective.* (London: Routledge, 2016).

[102] Berend, *The History of European Integration*.

[103] Battillosi, "International Banking," in *European Banks and the American Challenge*, 2.

of the prewar decades, and, while Wall Street bankers may have initially been disappointed with "the restrictive financial international order designed at Bretton Woods in 1944" and with the ways in which the 1947 beginning of the Cold War dampened their hopes for a rapid return to the complete freedom of capital movements characteristic of the early twentieth century, the fact that the dollar became the key currency for international payments and reserves by the late 1950s ripened the conditions by which the dollar-gap of the 1950s could become a dollar glut in the 1960s.[104] In many ways, then, the challenge American financial institutions posed to Europe in the postwar period was two-fold: in its role as the new global arbiter of all things economic and geopolitical, the US government dictated the terms of the new international financial order, and its banks – especially commercial banks and those involved in trade finance – arrived in direct competition to local European banks eager to set themselves apart from the magnetism of New York.[105]

American banks interest in Europe in this period can be attributed to several factors. After the war, demand was high in Western Europe for capital injections. The US Marshall Aid, which granted annual installments of funds to seventeen countries from 1949-1951, provided much needed capital for recovery and reconstruction, as did the newly-founded European Bank for Reconstruction and Development, but the $2.3 billion ($19.5 billion in 2016 value) that France received, for example, primarily financed the purchase of US imports. While the resulting influx of trade did have a net positive impact on the French economy, it was a mere drop in the bucket of the total capital needed to fuel real recovery. An added benefit of the Marshall Plan, though, as far as American private business was concerned, was that it, along with the US government's promise to rebuild its allies,

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[104] Battillosi, "International Banking," 9-10.
"The outflow continued after the stabilization of the European economies, to such an extent that the Marshall Plan was regarded as a source of offsetting financing vis a vis not only the European current account but also capital deficit." (10)

[105] Retail banking remained relatively unaffected by the American challenge, since US banks with designs on European expansion tended to be investment banks or international wholesalers. Retail banking remained a relatively domestic endeavor.

essentially insured transatlantic investment, effectively safeguarding the loans of American banks to both US subsidiaries in Europe and European projects as well. Perhaps more importantly, domestic US regulations, capital controls, and foreign investment restrictions further motivated American banks to escape to Europe.[106] Rather than complying with the tightened regulations on foreign lending put in place by US policymakers wanting to safeguard their own domestic economy, American banks opted instead to establish branches and subsidiary banks in European markets where restrictions were much looser, and they could lend larger sums, often at higher rates of interest than they could at home.

When the Federal Reserve loosened these restrictions in the late 1960s, American banks benefitted from a domestic government that had by then adopted the position of promoting foreign lending as a way of expanding US trade.[107] Moreover, when the Bretton Woods system of fixed exchange collapsed in the early 1970s and controls over capital movements were dismantled allowing for floating exchange rates, international financial markets exploded.[108] Such easing of restrictions proved to be the catalyst for a flood of overseas activity by American banks, who were then "authorized to open branches and subsidiaries not only in London and other major financial centers in Western Europe and Asia, but also in offshore tax havens such as Nassau and the Bahamas. Whereas in 1964 only eleven US banks had 181 overseas branches (with assets of UD$6.9 bn.), in 1973 banks had become 125 and branches 699, with US$118 bn. assets."[109] By the mid-1970s, a full quarter of all overseas branches of US banks were in Western Europe.

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[106] Richard Sylla, "United States Banks and Europe: Strategy and Attitudes," in Stefano Battilossi and Youssef Cassis, eds. *European Banks and the American Challenge.* (London: Oxford University Press, 2002), p. 53.

[107] Battillosi, "International Banking," 16.
Battilossi cites Hawley, *Dollars and Borders*, 52-3, and Conybeare, *U.S. Foreign Economic*, 116-20 in making the argument that US authorities endorsed American bank activity abroad as a way of promoting US multinationals and US trade.

[108] Jones, *Multinationals and Global Capitalism*.
Jones continues with the comparison that "these capital flows were different than before 1914, for they largely occurred between rich countries. In 1900 Asia, Latin America, and Africa had accounted for 33 percent of global liabilities. In the 1990s, they accounted for 11 percent."

[109] Battillosi, "International Banking," 16.

The City of London received most of the inflow of US banks wanting to establish a presence in Europe in the 1960s and 70s. In fact, foreign branches based in the City increased from ten in 1958 to fifty-five in 1974.[110] West Germany, where private firms were eager to advance new industrial project, received the second highest percentage of American bank influx. These American branches claimed significant market share in especially trade financing activities and posed a devastating challenge to small European banks and tested the strength of even the largest European financial institutions like Deutsche Bank, S. G. Warbug and N. M. Rothschild. Within a few short years of their arrival, American banks had achieved an "undisputed dominant position in the Eurocurrency (mostly Eurodollar) market, and aggressively competed with European banks in the Eurocredit and Eurobond markets,"[111] and the increasingly hegemonic United States had become the 'world factory and the world banker.'[112] American banks maintained a considerable size advantage over their European counterparts, positioning them to better absorb risks and take on the financing of large projects. A further comparative detriment to European banks in this period was the latent imperialism of especially British and French banks in the immediate postwar years, when the overseas focus of their investment financing was limited to the colonies.[113] As a result, these banks found decolonization incredibly destabilizing and disorienting, a further blow to their profitability.

As financial institutions the world over struggled to emerge from the recession of the late 1970s, European banks, businesses and policymakers alike faced a new type of threat from the US, as well as from Japan: the threat of neoliberal deregulation. This new threat did not necessarily take the

[110] J. Kelly, *Bankers and Borders, The Case of American Banks in Britain*. (Cambridge: Ballinger, 1977), 23.

[111] Battillosi, "International Banking,"2.

[112] J. Kaplan and G. Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s*. (Oxford: Clarendon Press, 1989).

[113] Youssef Cassis, "Before the Storm: European Banks in the 1950s," in Stefano Battilossi and Youssef Cassis, eds. *European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods*. (London: Oxford University Press, 2002), pp. 36-52.

physical form of bank branches operating on foreign soil, but rather of an ideological economic order that permitted American and Japanese banks to engage in behavior that the Europeans initially deemed as dangerously speculative at best, and at worst, fully corrupt. In the worlds of banking and finance, the 1980s were characterized by the repeal of portions of the US Glass-Steagall Act, the lifting of capital controls, full bank privatization, and the advent of cap-less interest rates for retail and commercial banks. Such deregulation of American and Japanese banking shocked Europe and became the source of yet another competitive challenge since European banks during this period – especially ones like the French Paribas that had been nationalized following the recession of the late 1970s – were subject to strict controls.

Chapter V uses the example of the Paribas bank to illustrate the response of European banks to these various challenges and finds that European banks and regulators alike ultimately embraced the methods of their Yankee rivals in order to remain competitive. They appropriated the hallmark tactics employed by American banks abroad, namely 'establishing extensive branch networks, courting European multinationals, promoting financial innovations in both commercial and investment banking.'[114] At the same time, European regulators recognized the inability of their regional banks constrained by oversight to compete with deregulated American and Japanese banks. In short and for lack of a better trope, Europe and its banks opted to follow the logic of "if you can't beat them, join them," in order to, at very least, level the competitive playing field.

Retail Expansion Opportunism: 1990s – 2000s

The story of global competition in retail and its effect on Europe differs significantly from those of manufacturing and banking. Despite being the most ancient form of business, retail was the last sector to globalize, and some scholars argue that even now 'global' retail remains inherently localized. Uniquely in this sector, transactions are predicated on an intimate and personal relationship

[114] Battillosi, "International Banking," 18-19.

between purveyor and consumer, and, while the foreign outposts and subsidiaries of multinational retailers strive to conduct the market research necessary to curate shops that satisfy the tastes of local consumers, they more often missed the mark than not in the twentieth century.[115] Branding is also hugely important in retail commerce, but retailers with designs on expansion historically failed to create brands with which their foreign consumers could identify. Moreover, retail supply chains are highly complex and, until quite recently, the cost of shipping and freighting goods developed in a headquarter region from their production in another region to their destination in a third host region proved prohibitively expensive. Thus, in stark contrast to the flow of American manufacturers and banks into Europe in the postwar period, almost no American retailers attempted to expand into Europe in the twentieth century. Several of these inhibiting factors began to change in the final years of the twentieth century, until which time there was very little globalization of retail. There was, however, significant regionalization within Europe.

Due to the restrictions in several European countries on domestic retail concentration, large European retailers wanting to compete on size and scale with their American counterparts like Wal-Mart and Price Club (now Costco), opted to venture beyond their home markets in order to continue to grow.[116] Carrefour is perhaps the clearest case of this, since it was severely restricted by regulatory limits imposed by the French government on the number of locations any one retailer can operate within the country. Carrefour opted to expand into nearby markets through subsidiaries in order to maintain its rate of growth. Tesco, Sainsbury's, Metro, Aldi, and Delhaize embraced similar strategies. As supply chain logistics became more manageable through the globalization of production, new digital technologies, and greater movement of labor and management in the 1980s, even retailers

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[115] "Revisiting Retail Globalization," Deloitte: http://www.oecd.org/tad/services-trade/46384332.pdf

[116] Neil Wrigley, The Globalization of Trade in Retail Services: Report Commissioned by the OECD Trade Policy Linkages and Services Division for the OECD Experts Meeting on Distribution Services, Paris 17 November 2010. http://www.oecd.org/tad/services-trade/46329746.pdf

headquartered in less restrictive states than France began to expand beyond their home borders in search of new consumer markets.

The collapse of the Soviet bloc and opening of Eastern Europe in the 1990s threw open the doors of opportunity to Western European retailers eager to expand into new consumer markets and marked the beginning of a period in which European corporations led the charge of globalization. As Chapter VI explains, in the early 1990s even very different retailers like Tesco and Delhaize raced to claim market share in Czechoslovakia, Hungary, and Poland and opened hundreds of new stores through their subsidiaries, albeit with varying rates of success. By the late 1990s and early 2000s, these European retailers expanded again, this time beyond the regional networks they had established and into farther-flung reaches of the globe including Thailand and Indonesia. Such prosperous international expansion was not unique to retailers in this period: automakers, banks, healthcare companies, and technology firms headquartered in Europe also found success beyond their home region in the new millennium. But the initial expansion of European retailers stands apart as having occurred later than the expansion of other sectors, and in a pattern that more closely resembles assertive economic colonialism of the East by the West, rather than as a defensive response to American encroachment.

The following chapters analyze the contributions of large European manufacturers, banks, and retailers to the process by which the customs union created by the 1957 Treaty of Rome became the single market of 1992. By facilitating the standardization of products and processes across their subsidiary and supply chain networks in the region, these multinational corporations, acting in their own self-interest, responded to the opportunities afforded them by the trading bloc and actively advanced the project of regional integration. As Chapter III will explain, their cooperation in this process and the convergence of their interests with European federalists also earned big business a seat at the policymaking table, further augmenting their influence.

Chapter III: Networks of Power: *Les Personnalités* of Big Business and the EU

"Absolutely, multinational firms helped build the common market, sometimes even without realizing it."
Viscount Etienne Davignon[117]

The Primacy of Big Business in European Politics

In 1980, big business constituted less than one percent of the total number of firms in the European Community, contributed less than half of the EC's total economic output, and employed just 30 percent of workers across the then nine member states, statistics that persist even to the present.[118] Even after the widespread 'merger mania' of the 1970s, the deregulation of the 1980s, and the persistent weakness of anti-trust legislation and enforcement across most industrialized countries – developments that fueled the growth of large corporations – big business contributed less than half of the employment, output and GDP of the economies in which they operated. In contrast, small and medium sized enterprises (SMEs) undergirded industrial economies since the enterprise boom of the nineteenth century, throughout the twentieth, and into the twenty-first and numbered far more than their corporate counterparts. The aggregated social and economic contributions of SMEs have outweighed those of their larger counterparts: in addition to the employment they provide, their total output constitutes as much as 80 percent of the GDP of developed economies, nearly 90 percent when the agricultural sector is excluded.[119]

Why, then, have big businesses loomed largest in the agenda-setting and the execution of European economic policymaking? That the historically pro-business European Commission did not

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[117] Grace A. Ballor, Interview with Etienne Davignon. Brussels, 16 June 2016.

[118] Eurostat, "Statistics on small and medium-sized enterprises," http://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises
Here, the measure of 'big business' reflects the threshold set by the European Commission: firms of 500 employees or more. http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en
This labor statistic pertains to all non-agricultural employment.

[119] The Edinburgh Group, "Growing the Global Economy through SMEs," http://www.edinburgh-group.org/media/2776/edinburgh_group_research_-_growing_the_global_economy_through_smes.pdf

substantively turn its attention to SMEs until the *Small Business Act* of 2008 further reveals the extent to which Brussels had prioritized big business throughout the twentieth century.[120] In the context of this study, it is crucial to investigate the historical relationship between big business and European policymakers and to learn by what mechanisms big business developed and exercised its political influence in the postwar period.

i. The Economic Power of Big Business through Economies of Scale

Several factors have been offered to explain the outsized influence of big business over small in policymaking, the most common of which is the greater economic weight of big businesses compared with their smaller counterparts. When considered individually, corporations boast far more market power than small enterprises. Per economies of scale, large companies can minimize their costs per unit and undercut the price small businesses would need to charge to break even on producing the same item. Minimizing production costs and increasing the volume of units sold also positions large companies to be able to devote substantially more resources to innovation, research, and development, investments that often position large companies to diversify their production and claim greater market share. The ultimate manifestation of this "size matters" logic plays out when small businesses in a sector opt to be acquired by their larger competitors as an alternative to closing their doors.

ii. The National Patronage of Big Corporations

The European Firms in a Global Economy (EFIGE) project by Belgian think tank Bruegel recently concluded that 'a country's economic performance can be linked to the number and relative size of its big corporations.'[121] While this finding can certainly be disputed with numerous historical

[120] European Commission, *The Small Business Act for Europe*, (2008): https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

counterexamples, Bruegel found that big corporations tend to pay higher wages, enjoy higher profits, and are more successful in international markets than small and medium sized enterprises. That third, export-oriented point makes national political interest in big business quite understandable, since the balance of trade has topped most national economic agendas since trade globalized in the late nineteenth century. Since then, states have acted as patrons of their largest corporations, offering subsidies, tax breaks, and government contracts in an effort to prop up their "national champions" against those of rival states in a new kind of economic warfare.[122] Such political economy measures became hallmarks of the postwar period on both sides of the Atlantic, resulting in the massive growth of favored firms, and they persist even to the present, with recent examples including the American policy of certain insolvent banks being "too big to fail" in the wake of the global financial crisis, an episode that revealed all too clearly the risks of such government-sanctioned monopolies.

What needs more explanation, though, is the relatively greater influence of big firms over small at the supranational level, since the collective economic concerns of the supranational European Commission and Council of Ministers differ from those of individual national governments. Some scholars have attempted to describe the influence of large corporations in European governance as a carryover effect from the way business and political relate at a national level, especially because European politicians often emerge from national civil service where they grew accustomed to the ways in which corporations relate to their domestic states. This spillover argument falls short, however, in its failure to explain the dramatic difference in the influence exerted by large corporations in Brussels compared with their smaller counterparts. What will become clearer in the following chapters is that

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[121] Carlo Altomonte and Gianmarco Ottaviano, European Firms in the Global Economy: Internal Policies for External Competitiveness: EFIGE Final Report to the European Commission, no. 225551. EU-EFIGE/Bruegel-Unicredit Dataset, 2012.

[122] This was particularly true in the case of French and West German corporations in the 1950s-1990s. After the colonization race of the nineteenth century and the warfare of the early twentieth, the Franco-German rivalry seemed to take new shape when both governments conceived of their largest firms as offensive stratagems.

especially in the case of multinational firms in Europe, big corporations derive market power from the mobility of capital and the immobility of labor.[123] How did corporations work to preserve these advantages when approaching regional policymakers?

Elites as the Crucial Differential

This chapter argues that in terms of political influence in Brussels, the distinctive factor that has set big businesses apart from small is the social capital of their leaders. Business historians, management scholars, and political scientists alike use the terminology of "business elites" to denote the high-level executives whose social capital drives business performance.[124] On an individual level, the leaders of small and medium sized businesses simply do not have the social capital or wield significant economic cachet to attract the attention – much less the favor – of policymakers, largely because owners of a small businesses in the late twentieth century rarely found themselves in the same social networks as those making policy decisions in Brussels. In contrast and especially in the postwar period characterized by managerial capitalism, corporations have been helmed by business elites, many of whom emerge from dynastic wealth and business acumen, were often educated at prestigious institutions, and most of whom spent their careers as executives of major enterprises – trajectories that both mimic the careers and demand the attention of civil servants and career politicians as equals.[125]

This analysis of elites as the principal sources of influence for large corporations opens a window to understanding the primacy of big business in postwar European integration politics between 1970 and 1995. Drawing from corporate and Commission documents as well as interviews

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[123] Menno Vellinga, ed., *The Dialectics of Globalization: Regional Responses to World Economic Processes: Asia, Europe, and Latin America in Comparative Perspective.* (Boulder: Westview Press, 2000), p. 3.

[124] Youssef Cassis, ed. *Business Elites: The International Library of Critical Writings in Business History 8*. (Aldershot: Edward Elgar Publishing, 1994).

[125] Thus, this chapter views the power of business elites as both teleological in its linear derivation from personal origins and ontological in that it is inherent in the becoming of a chief executive officer or company president.

with firm executives and policymakers, it argues that big business exerted more influence over the integration process than its smaller and medium counterparts for two primary reasons. First, in the wake of globalization, corporate interests converged with those of European federalists and created a strong corporate-political alliance, united in the common goal of advancing the integration project and completing the common market. Second, the social networks of business elites, unique to big business, also converged with those of political elites in Brussels, effectively creating *networks of power*.[126] These networks formed around the *personnalités* of key elites, including corporate executives and business-oriented policymakers, whose careers, social capital, and philosophical origins positioned them to serve as relational nodes for their respective network groups.

While such lines of inquiry begin with the disproportionate political access of big business over small during key decades of regional policymaking, they extend to an examination of the forces of convergence in the interests of large companies and EC policymakers.[127] In short, what circumstances, pressures, and objectives aligned the interests of policymakers and business leaders such that they became collaborators? At the nexus of this convergence of business and political elites are two primary figures around whom these networks coalesced: Viscount Etienne Davignon, Vice-

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[126] Due to their size and scope, SMEs historically lacked elite representation, and, unlike large corporations, SMEs were less likely to express explicit support for deeper and wider regional integration, which many feared would threaten the ability of smaller enterprises to compete against deregulated giants with no border protections. It should also be said that these are not the only factors at work in the disparity between big and small business influence in politics. In fact, there is a growing body of literature, produced by academics as well as journalists, think tanks and industry associations, about the perceived tensions and real connections between small and big business in almost every economy.
Literature on the subject uses the terms "business elites" and "economic elites" interchangeably, although "economic elites" seems to include not just business leaders (i.e. CEOs and corporate executives), but also policymakers with economic influence. This chapter uses "business elites" to refer explicitly to those in positions of corporate executive power.

[127] The lines of inquiry at the heart of this chapter beg questions about the parity and inequity of political influence between big and small business at the national level. Again, at the risk of oversimplification, the influence of big business in Brussels mirrors that of big business in relation to national governments. Despite the sheer number and economic value of SMEs, big business has long wielded greater political influence at every level of governance, especially in the postwar twentieth century. Thus, the analysis provided here regarding the factors critical to the political influence of big business have applications well beyond the context of the European Union. By examining European corporate political influence in the *longue durée*, this chapter aims to provide both a comprehensive perspective on the larger relationships between big business and politics as well as a particular explanation of the mechanisms and forces of corporate influence on the process of European integration.

President of the Commission under Gaston Thorn from 1981-1985, whose charge over three central economic portfolios and dynamic support for business significantly shaped the Economic Community, and who continued on from his political tenure to an impressive career as CEO and board chairman of several major corporations in Europe; and Jacques Delors, former French Minister of Finance under Mitterand and, most importantly, President of the Commission from 1985-1995 during the re-launching of the integration process, the accession of new member states, the formalization of the European Monetary Union, and the signing of the Single European Act and Maastricht Treaty, which completed the single common market and created the European Union, respectively. Together, their tenures at the helm of the Commission shaped Europe, its market and its relationship with the largest corporations in the region. Even after leaving political office, both Davignon and Delors assumed leadership roles in advancing the scale and scope of big business in Europe and its deepening relationship with the European Union, careers that add further meaning to the now popular description of elites in the EU as 'policy entrepreneurs.' Thus, the figures of Davignon and Delors serve as prime lenses through which to examine the process by which the European Commission cultivated relationships between public and private, toward the end of further integration.

By closely studying the leading personalities of these two Commissioners within the context of their relationships with business elites, this chapter takes a tack from the Annales School by employing a modified social approach. Neither an extensive, big data prosopography as has been popular in past studies of business elites, nor a detailed personal biography of a single individual as is common in business historical works, this study considers European Commissioners Davignon and Delors as central nodes in the relationship between networks of policymakers and business elites in Brussels. This combined approach provides the crucial information needed to understand how the

personal origins, career experiences, professional interests, and social capital of key architects like these served as a unitive force and drove their networks – and ultimately the integration project – forward.

But in order to understand the extent of the alliance between policymakers and business leaders in this period of integration, it is crucial to situate the examples of Davignon and Delors in the larger context of the Commission's history. Thus, this chapter also presents data on the business connections of all Commissioners from 1958-2014 to demonstrate the ways in which the personal business connections of successive cohorts of Commissioners intensified over the course of the 1970s, 80s, 90s, and into the twenty-first century. The research conducted for this chapter offers a new dataset on the public and private sector careers of all Commissioners. Using this data, along with newly-available documentary sources and interviews, I have reconstructed the social networks of power between big business and the EU in the most crucial years of integration.[128]

Why is all of this important in a work on the role of multinational firms in shaping the EU's common market? First and most simply, we cannot understand the influence of corporations on the integration process without first considering their influence on policymaking. This dissertation would be remiss not to address the political influence of big business in Brussels. Second, while this dissertation contributes an entirely new perspective on the history of integration by revealing the ways in which corporations were directly involved, it intervenes in a body of scholarship that has been preoccupied with organized interest groups whose lobbying efforts are seen as the sum total of corporate influence on policymaking. An examination of the social networks of convergence between business leaders and regional policymakers reveals the many dimensions of business interactions with regional politics during the relaunching of the integration process.

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[128] New documentary material was made available in the opening of the Jacques Delors Fond in Spring 2017. This archive is held at the Fondation Jean Monnet pour l'Europe in Lausanne, Switzerland.

That the connections between regional policymakers and big business proved problematic in conflict of interest terms is revealed by the huge number of corruption scandals and resulting resignations from the Commission in the late 1980s and 1990s. It was not until 1999 that the Commission pursued internal reform and enacted a Commissioner Code of Conduct, and not until 2007 that Article 245 of the Treaty on the Functioning of the European Union (TFEU) demanded the "independence of Commissioners."[129] To that end, it is important to also consider the historical implementation of accountability mechanisms for what has been described as a 'revolving door' in Brussels between firm executives and policymakers, albeit with fewer and less dizzying rotations than those of its American counterpart.

Scholarly Precedent

While the study of business elites is a relatively new theme in scholarship, there is a strong precedent for considering the social capital and social networks of business leaders. Much of the early work on business elites focused biographically on individuals.[130] C. Wright Mill's *The Power Elite* first examined the interwoven interests of political, social, military, and economic elites in the 1950s and shed light on the extent of elite power.[131] As statistics became increasingly popular following the social and empirical turns, a new generation of scholars in the 1980s produced prosopographical studies of elites, which focused on the interrelationships and kinship of business leaders in several national contexts. Youssef Cassis' work on financial elites offered a detailed analysis of the social and familial networks of French bankers and laid a foundation for further prosopographical historical work like

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[129] European Commission, *Commissioner Code of Conduct*, 18 September 1999: https://www.cvce.eu/content/publication/1999/1/1/6391add6-6654-4c61-bd32-c9fc5c0f5570/publishable_en.pdf European Commission, *Treaty on the Functioning of the European Union*, Article 245: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A12008E245

[130] While Pamela Laird's book *Pull: Networking and Success since Benjamin Franklin* (2006) does not belong to this earlier generation of scholarship on business elites, it is an excellent example of a more biographical approach to the topic.

[131] C. Wright Mills, *The Power Elite*. 1956.

that by Emma Rothschild.[132] In the 1990s, some scholars adopted the approach of examining corporate networks, which has enjoyed a revival in recent years with contributions like Thomas David's study of Swiss elites.[133] Newer scholarship on corporate networks has employed technical methodologies that offer a graphic and metric perspective of groups of business people in positions of power, but these studies tend to be focused on national groups of business leaders.

In what reviewer Haakan A. Ikonomou aptly called a 'transnational turn,' contemporary scholarship like that by Wolfram Kaiser and Johan Schot has begun to move beyond the national level of analysis in favor of the international, regional, and global and to include elites from sectors other than manufacturing and banking, offering a more holistic perspective, reflective of the modern, globalized world.[134] Most *en vogue* at present are peak studies of "global governance," the worldwide systems of rules, norms, and practices that mitigate decision making and behavior. While these provide useful insight into the contours of a world organized by and around international institutions, they rarely dig deeply enough to provide substantive, granular analysis and rarely offer a historical perspective. David Grewal's *Network Power* is situated along the vein of global governance scholarship, but takes a democratized, rather than elite approach by arguing that standards of social coordination gain power with increased volume and intensity of use.[135] Grewal's work reframes the history of globalization through the lens of standards and networks, but does not directly address the power of the elites that often set, implement, or regulate those standards. The collection of essays Eric Bussière

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132 Youssef Cassis. "Financial Elites in Three European Centres: London, Paris, Berlin, 1880s-1930s," *Business History*, XXXIII (3), pp. 53-71.
Emma Rothschild, *The Inner Life of Empires*. (Oxford: Oxford University Press, 2013).

133 Thomas David, Bühlmann Felix, Beetschen Marion, Ginalski Stéphanie, Mach André, "Elites in Switzerland: The Rise and Fall of a Model of Elite Coordination," *Tempo social*, Vol. 29, no. 3 (2017), pp. 181-199.

134 Wolfram Kaiser and Johan Schot, *Writing the Rules for Europe: Experts, Cartels, and International Organizations*. (Palgrave, 2014).

135 David Singh Grewal, *Network Power*. (New Haven: Yale University Press, 2008).

edited on the *Milieux économiques et intégration européenne* applies several of these diverse methodologies to the case of the European Community, and contributes a robust and comprehensive study of the interrelation of political and business elites in the crucial decade of the 1980s. By considering what shared interests united these groups and by what means they interacted, this text avoids several of the limitations of other scholarship on elites and offers an excellent model for studying the intersections of business leaders and policymakers in the context of European integration.[136]

Historicizing the Relationship between Business and Politics

The close relationship of economic and political power was certainly not unique to postwar Europe. Any discussion of the convergence of business and political interests in Europe must be couched in terms of a comparison with the same propensity in the United States for corporations to exert political influence. Nor was the phenomenon new to the twentieth century. The earliest bonds between business and politics in Europe date back to the medieval Rhine Leagues, the early modern French aristocrats with state-sanctioned industry monopolies, and eighteenth century British textile industrialists like Richard Arkwright, and the Krupps, Thyssens and Siemens of Germany.[137] These historical examples illustrate the precedence for businesses to appeal to governments directly through corporate managers and find favor with policymakers. Such relationships were institutionalized during the industrial boom of the liberal late nineteenth century with barons like Rockefeller and Carnegie looming large in the American context. As firms swelled in size, their executives enjoyed a corresponding increase in the influence they were able to exert politically, especially when the competition between industrializing nations in Western Europe grew more intense in the 1870s and 1880s and national governments increasingly deferred to leaders in business in an effort to shore up

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136 Eric Bussière, ed. *Milieux économiques et intégration européenne au XXe siècle. La relance des années quatre-vingt (1979-1992).* (Paris: Parution, 2005).

137 Ivan T. Berend, *An Economic History of Nineteenth Century Europe.* (Cambridge: Cambridge University Press, 2013.)

employment rates and bolster the development of their infrastructures and growth of their economies vis a vis their neighboring nation state rivals. It was also during this period of global competition and the increasing primacy of markets as organizing economic forces that companies in Europe and the US increasingly appealed to their domestic national governments to protect their interests and help them secure resources and consumers. As both the net assets and the liquidity of corporations outpaced that of the tax revenue of many states in Europe, national governments were increasingly motivated to support their industrial firms and banks out of a reliance on their unmatched capacities to advance economic development. In short, the late nineteenth century was the first major moment in which the power of firms first paralleled that of states, an equivalence to be repeated once more following the crises of twentieth century wars and recovery during which the relationship evolved further: the American military industrial complex saw companies like Boeing and Lockheed receive outsized contracts from the US government, ensuring their monopolies over their 'strategic industries,' and in Europe domestic governments nationalized most key industrial companies in an effort to secure them against capital crises and the potential disloyal or unpatriotic animus.

Twentieth century integration significantly changed the relationship between big business and politics in the Europe. During the 1960s, 70s and 80s, a period in which big companies consolidated industries through mergers and acquisitions, became bigger and increasingly multinational, the interests of major companies exceeded the jurisdictions – and, in most cases, the capacities – of national governments.[138] As Ernst B. Haas first observed in 1958, the institutional structures of European integration, all of which except the European Court of Justice could be lobbied, meant that firms looking for the representation of their regional interests finally had a political arena in which to

[138] The de Gaulle government in France stands out as a particularly nationalistic example in the postwar period, one that French firms with expansionist visions had to circumnavigate in order to reach Brussels and the European policymaking apparatus.

do so.[139] Not surprisingly, the Commission, the executive branch of the Community, comprised of elected representatives from each member state and entrusted with authoring policy and setting the legislative agenda for the European Parliament, became the primary point of contact for private companies wanting to ensure that their interests were codified into European law.[140] Beginning in the late 1950s – following the signing of the Treaty of Rome and the formation of the European Economic Community – companies with growing interest in European markets beyond their domestic economies increasingly formed interest groups with offices in the new European capital. These organizations often represented a collective with shared goals, such as firms operating in a particular industry or originating from a particular national context, whose interests aligned in such a way that they elected to consolidate their efforts to affect policy at the EU level. While firms had been accustomed to collectively lobbying their domestic national governments, the advent of supranational policymaking extended to interest groups the new opportunity to seek supranational recourse.

The table below represents a multi-sourced collection of data on the demographics of all registered interest groups in Brussels – approximately three quarters of which are business and industry-related. This data reveals the relatively slow initial growth of group activity in the 60s and 70s, as well as the surge in group representation at the EU level in the 1980s and 1990s. Of note are the exponential increases in the numbers of interest groups in the later decades of the twentieth century, corresponding to the increased power of European institutions, the deepening and widening of integration, the decreasing potency of national member state governments, and the regionalization of economic and political activity in response to widespread globalization.

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139 This project is particularly indebted to Ernst Haas' scholarship on integration and to the honor of being named the 2016 Ernst B. Haas fellow by the European Union Studies Association.

140 Justin Greenwood, *Interest Representation in the European Union*. (New York: Palgrave Macmillan, 2003), p. 11.

Year of Record	Range of the Registered Numbers of Interest Groups in Brussels
1959	100
1965	200-300
1970	250-400
1980	439-600 (1.5-2.25x)
1990	750-800 (1.5-2x)
1995	1700-2200 (2.5-3x)
2000	2000+

Figure 2: Quantifying Organized Interest Group Representation in Brussels[141]

While some of these interest groups represented the concerns of SMEs, most were oriented around the agendas of big corporations. Political scientist Luigi Zingales described this phenomenon as a 'Medician vicious circle,' in which the more firms have market power, the more they have both the ability and the need to gain political power."[142] That organized interest groups act as a kind of "weather-vane for the locus of political power in society," and that a huge majority of the groups enumerated above represented corporations reveals much about the increasing power of big business in the later decades of the twentieth century.[143] The opportunity for groups to influence regional policy in the European Community opened considerably in the 1980s when the European Commission's remit began to outstrip its technical capacity, resulting in a surge of organized interest group activity in Brussels, especially on the part of corporations. Similarly, Justin Greenwood observed a shift during

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[141] Rainer Eising and N. Jabko, "Moving Targets: National Interests and Electricity Liberalization in the European Union," *Comparative Political Studies*, Vol. 34, no. 7 (2001), pp. 742-767.
Sven S. Andersen and Kjell A. Eliassen, *Making Policy in Europe*, 2nd ed. (Sage Press, 2001.)
Wolfgang Wessels, "An Ever Closer Fusion: A Dynamic Macropolitical View on the Integration Process," *Journal of Common Market Studies*, Vol. 35, no. 2 (1997), pp. 267-299.

[142] Luigi Zingales, "Towards a Political Theory of the Firm," working paper series: Stigler Center for the Study of Business, July 2017. https://research.chicagobooth.edu/~/media/5D8A9BE2EFB8435B91D23E6BB1859B2E.pdf

[143] Sonia Mazey and Jeremy Richardson, eds. *Lobbying in the European Community*. (New York: Oxford University Press, 1993).
According to contributor Wyn Grant, the Community attracted increased corporate organized interest group activity as it developed its bureaucratic structures and the power of the nation state waned.

this period of the 1980s away from company efforts to lobby national governments in favor of lobbying European-level policymakers, a shift he described as a "considerable sea change for the role of business in the European Community," with the number of business interest groups active in Brussels ballooning to more than 600 by the turn of the millennium.[144]

These business interest groups varied broadly in their size, organization, membership, and objectives. Businesses of all sizes, from all national origins, and operating in all sectors formed lobby groups in their attempts to shape regional policy to their advantage. While the resources of large corporations may have boosted the impact of their lobbying over their small and medium counterparts, and for as numerous and effective as technical groups like the European Chemical Industry Council and general business groups like UNICE, Eurochambres, and BusinessEurope proved themselves to be, the shortcomings inherent in such pressure groups mitigated their impact and, at times, thwarted their own agendas. In his *Interest Representation in the European Union,* Justin Greenwood described the institutional bloat and diversity of agendas that plague national organized interest groups, problems even more pronounced for international sectoral groups whose members' policy goals often differ so widely that it is difficult for them to approach policymakers with coherent

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[144] Justin Greenwood, "Organized Business and the European Union," in *Organized Business and the New Global Order*, eds. Henry Jacek and Justin Greenwood. (London: MacMillan Press, 2000), p. 79.
That corporate interests continue to dominate the agenda-setting of European policy is evidenced by the 2015 statistic from Transparency International: "of the 4,318 lobby meetings declared by the Commission between December 2014 and June 2015, more than 75% were held with corporate lobbyists." That figure does not include indirect lobbying efforts on the part of corporations through their contracted consultancies and law firms, which total roughly 1,000, or 12% of all registered lobbying groups in the EU. Further analysis of the typology of business interest lobbying reveals that "firms' lobbying intensity is associated to their size, as well as to the regulatory strictness of their sectors;" "firms from the non-tradable or higher regulated sectors tend to be more engaged in lobbying than firms from export-oriented or more competitive markets."[144] These statistics reveal both the extent to which general business interests currently dominate political agendas in Europe, as well as the disparity between business typologies. Not only do SMEs rarely emerge in non-tradable or higher regulated sectors because of the high barrier to entry, but they simply do not have the budgetary resources available to match what the Transparency Register records as an average lobbying expenditure of €238,000 per year. As a result, SMEs remain politically underrepresented and largely impotent in Brussels. But lobbying budgets are hardly the only differential that sets large corporations apart from small business in terms of influencing regional policymaking in Europe.
European Parliament, "Transparency of Lobbying at EU Level," Briefing, December 2015: http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/572803/EPRS_BRI(2015)572803_EN.pdf
Konstantinos Dellis and David Sondermann, "Lobbying in Europe: New Firm-Level Evidence," *European Central Bank* working paper series no. 2071 (June 2017).

and actionable demands.[145] Maria Green Cowles noted that especially in its early years, when UNICE was a newly formed conglomerate of the national associations from the six founding member states, agreement on agenda-setting was so rare that the group could do little but passively comment on Commission legislative action, often only after it was already passed into law.[146] While national governments did implement measures to support their largest firms, the waning power of the nation state was no match for the forces of comparative advantage, economies of scale, and globalization. Compounding the threat to European companies over the coming decades was the rise of neoliberalism and deregulation in the United States and Japan, rendering the inter-regional playing field all the more uneven.

What remained disputed, even as interest group representation surged in this period, was the efficacy of such lobbying activity, especially on the part of businesses and corporations. How successful were these groups in influencing regional policymaking? Justin Greenwood explained that the sheer number of interest groups in Europe dulled the effect of their individual lobbying efforts.[147] Yet, big businesses seem to enjoy political influence in Brussels disproportionate to their interest group representation. In his *Quiet Politics and Business Power: Corporate Control in Europe and Japan*, Pepper Culpepper answered the question raised by the recent global financial crisis: do the interests of big business always prevail?, and made the case for a distinction between noisy politics, which he described as the arena of public opinion, and quiet politics, in which public indifference results in deference to managerial assertions of expertise by politicians and the media.[148] According to this explanation, big

[145] Justin Greenwood, *Interest Representation in the European Union* (London: Palgrave, 2003), 120.

[146] Maria Green Cowles, "The Transformation of EU Business Associations," in The Effectiveness of EU Business Assoctiation, ed. Justin Greenwood. (New York: Palgrave, 2002), p. 65.

[147] Justin Greenwood. *Interest Representation in the European Union*. (London: Palgrave, 2003.)

[148] Pepper Culpepper, *Quiet Politics and Business Power: Corporate Control in Europe and Japan*. (Cambridge: Cambridge University Press, 2011), p. xvi.

business could exercise much more influence in matters about which there is little public opinion – or matters with little media coverage such that no public opinion has been formed. Where Culpepper's argument could be further fleshed out, quite literally, is in an analysis of what a reliance on managerial expertise actually looked like in the context of the European Community of the 1980s and 1990s. Not only did politicians defer to corporate interests in the realm of quiet politics, but big business also exercised influence through other channels – often in the backrooms of the Brussels bureaucracy, far from public view and without competing for attention with the thousands of formal interest groups – through highly effective direct contact between the persons of their representative elites.

The Parallel Convergence of Interests and Elites

Globalization marked a watershed in the relationship between big business and regional policymaking in Europe. As described in Chapter II, competition from American and Asian firms posed a serious threat to European businesses across the economy in the 1960s and 70s. In these dire circumstances, European corporations recognized the need for further regional integration, continued reduction of interior barriers, uniform standards, stronger and business-friendly centralized governance, and protectionist measures to create a 'Fortress Europe.' In a reaction to the same trend Servan-Schreiber had predicted a decade before – that support from the US government, largely in the form of the military industrial complex, was a major boon for American firms' research and development, and the large US market helped them swell in size – these firms shifted their political focus away from their respective domestic governments and increasingly appealed to Brussels. Because, as they recognized, the problem of competition had exceeded the jurisdiction of the nation state, so too did the solution need to be a larger regional one.

In a very reductionist sense, Culpepper's argument could be summarized as follows: if people are tweeting about an issue, big business is less likely to get its way in policymaking. This is especially true in contexts in which policymakers are directly accountable to their constituents and wary of their career longevity amid frequent election cycles.

By the late 1970s, the institutions of the European Community had matured to the point that they could respond to the appeals of private corporations. As was described in Chapter II, despite the prevailing narrative that no real integrative progress had been made in the 1970s period of "stagnation" and "eurosclerosis," it was during these intervening years that institutions like the Commission, Court of Justice, and Parliament worked through the initial challenges of multilateral decision making and came into their proverbial own. The Commission in particular had developed into a forceful and effective executive branch of the EC in this period, and the sharp rise in Brussels-based organized interest group registrations charted above reveals the extent to which public and corporate confidence in and desire to enter the policymaking favor of the EC's Commission had increased. As the competencies of the Commission improved, especially under Commissioners Davignon and Delors, firms increasingly bypassed national channels and went straight to Brussels with their policy appeals. As the forthcoming sections will explain too, the fact that strong personalities assumed leadership positions in Brussels in this period gave corporations confidence enough to turn to them in time of need.

In many ways, then, amid the crisis of global competition, the political needs of big business finally converged with the goals of the federalist politicians who had struggled to realize the vision of a united Europe set forth decades before. Their shared central shared goal: market integration[149]. Without market integration, European corporations could not best their foreign rivals, nor could federalists fully realize their vision for a united Europe. Thus, the very origins of the relationships between corporations and the European Union lie in the pursuit of a common market, "driven by a search for economic prosperity and global competitiveness."[150] As a result "the general history of the

[149] The convergence of interests around market integration is not surprising. Of course there were topics, though, on which corporations and policymakers did not agree, especially as the purview of regional policymakers expanded after the Maastricht Treaty.

[150] Greenwood, *Interest Representation* (2003), p. 11

EU single market project has been driven by wealth creation needs aimed at establishing the conditions in which business can flourish."[151] Importantly, the desire for and benefits of market integration were not exclusive to large corporations. Small and medium sized enterprises also stood to benefit from access to a larger market, although without elite representation, small business did not enjoy the same influence over the market integration policy agenda as their larger counterparts.[152] That the convergence of interests between private firms and federalist policymakers centered around the creation of a single common market and escalated when the need for such a market was greatest further attests to the degree to which the interests of multinational companies dominated the integration agenda.

As the interests of large European corporations and federalist policymakers intersected in the 1970s and 1980s, so too did their figureheads. Consequently, Brussels became the convention site for the two groups, the epicenter of this interaction in much the same way that K street and the Hill have been in Washington DC. Lobbyists and commissioners occupied the Belgian capital's cafes and conference rooms, disputing differences and finding common ground, tasks made more complicated by the unique features of representation in the European Union, which are, at best, multiplicitous in their national origins and, at worst, symptomatic of a 'democratic deficit.' Further evidence of Brussels' status as the locus of such interactions between business and federalist interests, 85% of all interest groups in Europe headquartered themselves within a 2.5-hour train ride from the Commission's offices in an effort to be close to the center of the social network between business and policy elites. Even more impactful than organized interest lobbying and policy consultation were the personal

[151] Greenwood, *Interest Representation*, 11

[152] This dissertation does not presuppose an antagonistic relationship between big and small business. Rather, as several chapters illustrate, small business often has a symbiotic relationship with big corporations, since they serve as suppliers, etc. But in the case of political influence, firm size matters, and the interests of small enterprise are often drowned out in Brussels by those of large corporations.

relationships between businessmen and politicians in the context of European integration. After all, by the 1980s Brussels had become an 'insider town,' in which getting business done – or, in this case shaping regional regulations to the advantage of a particular industry or firm – came down simply to the old cliché of 'who you know.'[153] The personal affiliations of representatives from both the business world and policy making circles hugely impacted the rates of efficacy for political influence.

In the words of Etienne Davignon, 'the symbiotic relationship between business leaders and the Commission in the 1970s and 1980s was born out of mutual interests and a common need for partnership with the other.'[154] He described the Commission's perspective on the benefits of cultivating relationships with corporations through their business leaders as being rooted in two central objectives. First, that the functioning of the Commission required collaboration with industry specialists, not just for their expertise, but also because of the chronic problem of understaffing. Second, that the common goal of a large single common market demanded standardization, which the Commission could outline with the help of expert consultation, but that corporations needed to actually implement.

In the relatively small EU bureaucracy of just 3,500 administrators tasks with overseeing the world's largest supranational polity, the Commission came to view special interests as experts in their respective fields, and granted them the highest authority on advising policy in their particular areas. As one Commissioner told PR firm Burson Marsteller in a 1991 report: "We are terribly understaffed and overstressed. My division is responsible for 44 directives and 89 regulations; monthly mail which requires a substantial answer numbers about 350 pieces. And I have about nine staff to deal with all of this. The corresponding administration in the US has 600 people."[155] It is not surprising then that

[153] Greenwood, *Interest Representation*, 12

[154] Grace Ballor, "Interview with Etienne Davignon," 16 July 2016.

[155] Burson Marsteller, 1991, p. 22

the Commission would express its openness to outside input, admitting both their desire and even their need for it.[156] In the 1980s, the Commission established several channels through which to engage with business leaders and solicit policy recommendations. Thus, the relationship between big business and regional policymakers was motivated by self-interest and necessity on both sides. In much the same way that Adam Smith described the self-interest of the butcher, brewer and baker as having driven them to prepare dinner, rather than their benevolence, big business leaders facilitated the administrative needs of European policymakers because doing so served their business interests.

With the completion of the single market as their shared goal, business leaders and European Commissioners began in the 1980s to work together on transforming the customs union achieved by the Treaty of Rome into the common market it had originally envisioned. This ambition required the EC to move beyond the elimination of tariffs and quotas, already a radical step for a group of nine distinctive nations, toward the free movement of goods, services, capital, and people. A true single market demanded standardization, the process of implementing consensus-based rules, norms, guidelines, and codes by which to maximize compatibility, safety, and quality, and in this period of the early 1980s, European companies still prioritized national markets. As Etienne Davignon explained one day in 1984, "'the only lawn mower that meets all European standards is Japanese.'"[157] Europe needed a collective system of standards and to abolish this 'camouflaged protectionism' in order to compete.[158] Of course, the implementation of regional standards would be an initially costly endeavor,

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[156] Commission of the European Communities, 1992, p. 3.
Greenwood, *Interest Representation* (2003), p. 6
Especially under the direction of President Jacques Delors in the 1980s, the Commission solicited the consultation of – even the authorship of – policy by industry leaders and the heads of major corporations.
Ivan T. Berend, *The History of European Integration: A New Perspective*. 2016

[157] JD-17: Article Le Matin: "Bouscule les habitudes: cabinet multinaional, protefeuilles de la commission repartis en fonction de la competence plus que de la nationalite et de la politique: le nouveau president de la commission europeenne, qui prendra officiellement des fonctions le 6 javier proachin, innove et bouscule les habitudes." - 19/11/84 (pg 32-33).

[158] Some have raised the question of whether homogenization helps or hurts multinational firms, who often seek host markets precisely because of differences. I find that homogenization of tax and regulatory codes across markets did not

but Davignon explained that this was yet another reason for the Commission to partner with large corporations, since they would best absorb the costs of standardization. Moreover, because SMEs were often suppliers or subcontractors of big firms, Davignon saw big business as a kind of shepherd for small and medium enterprises: if the Commission set standards with the input of business leaders and MNCs implemented them, SMEs would also be forced to comply with the new norms, both because of their roles in the supply chains of corporations and also because of their efforts to compete. According to Davignon's pragmatic logic, then, setting standards for large corporations would ultimately force the compliance of small business too, simply by sheer size, scale and scope.[159]

Under Davignon's de facto leadership in the early 1980s, the Commission determined that, in addition to alleviating the bureaucratic burden on overworked commissioners, deference to industry experts on the matter of standard-setting was the best way to ensure two things: first, that the region's largest companies – and, thus, the common market, would thrive *vis a vis* its rivals, and second, that those same experts in corporate leadership would be more likely to adhere to the standards they themselves set, thereby rendering the regulatory process easier.[160] Standardization would, in the words of Davignon, eliminate the non-tariff barriers to trade: the licensing disparities, discrepancies in classification, marketing, and labeling, domestic subsidies, and inconsistencies in government inspection.[161] Multinational corporations needed little convincing of the merits of regional standardization, especially if they had a chance to make the rules. Per the logic of economies of scale,

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detract from the advantageous geographic, cultural, political and economic differences multinational firms might cite as rationale for their cross border business activity.

[159] Grace Ballor, "Interview with Etienne Davignon," 16 July 2016.

[160] Gaston Thorn, President of the Commission from 1981-1984, proved to be so ineffective, that he ceded much of his leadership to his vice-president, Davignon. Upon reflection, many have come to refer to these years as the 'de facto Davignon presidency.'
Grace Ballor, "Interview with Etienne Davignon," 16 June 2016.

[161] Grace Ballor, "Interview with Etienne Davignon," 16 June 2016.

uniform units of measure, steel alloy compounds, crash safety testing, consumer credit ratings, and nutritional values would grease the skids in – what was still in the late 1970s – a friction-filled market. In short, the convergence of interests of Commissioners and corporate executives positioned the two groups to collaborate on their shared goal of standardizing the EC's market and finally realizing the free movement of goods, services, capital, and labor across the Community.

Les Personnalités

As much as the timing of globalization was key in the convergence of the interests and networks of the Commission and Europe's corporations, the personalities involved were perhaps even more important. US companies had invaded European markets as early as the 1950s, and while the danger of competition was clear and present throughout the 1960s and 1970s, the constellation of circumstances, the improved competence of the Commission, and the individual Commissioners and business leaders in positions of power in the 1970s, 80s, and 90s – many of them French or deeply rooted in the tradition of French federalism – made convergence possible. There is a kind of self-selection bias at play, then, in the fact that support of the common market and a federalist vision for Europe predisposed Commissioners and business leaders alike toward this convergence. But without two key figures on the Commission – Etienne Davignon and Jacques Delors – and their like-minded colleagues, such convergence may not have occurred, and the shape of the relationship between business and policymaking in Europe could have looked quite different. What biographic features and résumé experiences predisposed these two figures to forge relationships with business leaders in this period? How did they go about forming networks of business and political power? The following sections address those questions and consider the unique capabilities and connections of Davignon and Delors.

Before elaborating on the details of their careers and positioning them at the nexus of political and economic power in late twentieth century Europe, it is important to make clear that their courting

and support of big business in the process of regional policymaking was born out of their commitment to a federal Europe, not to corporate interests. Davignon's long career in European politics gave him a front row seat to the dynamic initiation of the integration process in the 1950s, and also made him a pained witness to the threat of globalization and the stall of the late 1960s and 1970s. When his position on the European Commission afforded him the opportunity to facilitate a relaunching of the progress toward an ever closer union, he keenly recognized that corporations shared a desire for market integration and could drive the process forward in ways that politics and statecraft alone could not. Similarly, Delors saw European business – corporations and small enterprise alike – as the backbone of Europe's success and as a force for regionalization. Throughout his presidency, he continued to cultivate alliances with business leaders and remained attentive to the appeals of business groups for the regulatory conditions under which they could thrive, especially *vis a vis* foreign competition. Over the course of their combined fifteen year leadership, and by mobilizing major business leaders as allies in the integration process, Davignon and Delors became made them the most influential federalists of the twentieth century, responsible for leading Europe out of the crises and toward Union.

i. "Stevie Wonder:" Viscount Etienne Davignon[162]

According to a short biography by *European Voice*, Viscount Davignon's "taste for international affairs is a family tradition: the son of a Belgian diplomat and grandson of Julien Davignon the foreign affairs minister, he was born in Budapest on 4 October 1932 and lived in both Warsaw and Berlin in his early years."[163] He survived the Second World War by spending several of his early school years in Switzerland, after which he returned home to Belgium to complete his higher education. He studied

[162] It is rumored that his friends in Brussels nicknamed Davignon "Stevie Wonder" for his unparalleled ability to make things happen.

[163] European Voice, "Belgium's driving force," 26 March 1997: https://www.politico.eu/article/belgiums-driving-force/

law at the Catholic University of Leuven, and as an alumnus of that college, joined a distinguished group of prominent Belgian politicians, including several other commissioners and members of the European Parliament. Despite his initial misgivings about the boredom of a career in politics, he cut his teeth on a diplomatic post in the Congo during the optimism of independence talks in 1960 and the country's subsequent rapid descent into political turmoil and unrest against its colonizer, in the midst of which Davignon was imprisoned. Shortly after his release, Davignon was recalled to Belgium in 1961 to become an attaché and later right-hand man for European federalist and three-time Belgian Prime Minister Paul Henri Spaak at the ripe age of 29. It was Spaak whose multilateralism and dynamic charisma positioned him to broker the Benelux Customs Union, chair the first General Assembly of the United Nations, serve as first president of the European Coal and Steel Community, lead the ECSC's inquiry into the possibility of further economic integration, and draft the Treaty of Rome's vision for a common market. That Davignon's career in European politics began under the mentorship of this European founding father positioned him to champion the cause of integration over the coming decades. His federalist views were tempered by his awareness of all that Europe had overcome, having been "the center of civil wars for centuries," and inspired by the fact that unity, thanks to which the "notion of revenge on [ones] enemy has altogether disappeared," afforded Europe new possibilities for peace and prosperity.[164] While assisting Spaak and fostering what he called an increase in "European consciousness," Davignon married Belgian aristocrat Françoise de Cumont, with whom he had three children.

After serving as Spaak's cabinet chief (1963-1966), Davignon stayed on in the same post under Foreign Minister Pierre Harmel (1966-1969), during which time his reputation as a driving force inspired memes about him pulling the puppet strings behind the backs of those nominally in power.

[164] Viscount Etienne Davignon and Joel Goodfader, "European Unity: Pursuing a Vision: And Interview with Etienne Davignon," *Harvard International Review*, Vol. 6, no. 1 (Sept/Oct. 1983), p. 11.

This reputation was advanced by his promotion in 1969 to Director General for Policy in the Belgian Foreign Ministry, where he authored the Davignon Report (1970) on the problems of political unification in Europe, and worked to advance the cause of integration. In 1974, he became Chairman of the Executive Committee on the International Energy Agency, a position that groomed him to take responsibility for an unprecedented portfolio when he joined the European Commission in 1977: Internal Market and Industrial Affairs, the Customs Union, the Information Market and Innovation, Energy, the Euratom Supply Agency and International Nuclear Relations.[165]

It was in this capacity as a member of the Commission that Davignon became a linchpin for the convergence of the integrative interests of the Commission with the market growth and protectionist appeals of European corporations. High tech companies were the first to approach the Commission in 1979 when their loss of regional market share waned as firms like American IBM gained prominence and with concerns about Japanese computer and telecommunications advancements and in which industries Europe's market share declined 40% between 1972 and 1980, during the advent of the personal computer.[166] These business leaders found a powerful ally in Davignon, who supported their appeals for a regional response to this competition and the argument that only collective collaboration on research and development would keep Europe competitive with its American and Asian rivals.[167] At their request, he began to work on studies of Europe's deficiencies – its "high production costs, excessive compartmentalization of the public purchasing market, duplication of research findings in products and processes" – and worked to develop proposals for

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[165] CVCE, "Short biography of Etienne Davignon:" https://www.cvce.eu/content/publication/2008/5/13/a04c1f1a-f669-4f29-9672-1c1c877dfaaa/publishable_en.pdf

[166] Ivan T. Berend, *The History of European Integration: A New Perspective.* 2016.
Pierre-Henri Laurent, "The European Technology Community, the Meeting of the Elites, and the Completion of the Internal Market," *Il Politico*, Vol. 52, no. 2 (1987), p. 310.

[167] Laurent, "The European Technology Community," p. 310.

regional R&D programs in industrial and consumer technology.[168] He also recognized that while new technology industries had the highest export value, a disproportionate bulk of the Community's budget was directed toward agriculture and steel production, with just one percent of national member state contributions going to research and development. Davignon asked for this figure to be increased six-fold and for the Commission to establish a uniform system across the European region in order to stave off the threat of American adaptability and power and the Japanese "edge on competitiveness."[169] In this "trilateral system" of the US, Japan, and Europe, Davignon saw Europe as the largest and most powerful consumer group, with the productive ability to "annul the Japanese reality by simply keeping them [out of the market]," and the security significance to keep the US invested in a strong European ally and trading partner.[170] By 1981, Davignon was facilitating meetings between technology leaders across Europe in an effort to establish productive collaborations between them.[171] This meeting of elites, staged by the Commission and facilitated by Davignon and his aides Pierre Defraigne and Michal Carpentier, that "became the centerpiece of the resurgent Europe movement in the early eighties."[172]

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[168] Laurent, "The European Technology Community," 310.

[169] Goodfader, "Interview with Etienne Davignon," 12-13.
He also established a program called ESPRIT with the goal of creating a common European research and development strategy.

[170] *ibid*, 13.

[171] In this period, the Community developed the EUREKA projects program, which was conceived of by French President Mitterand as the European response to Reagan's Strategic Defense Initiative. This initiative resulted in the European Research Coordination Agency.
Similarly, out of the push for collective research and development in technology, the Airbus program was born. These collective technology and energy efforts were groundbreaking, since national governments had a long and security-based tradition of protecting technologies and innovation. The erosion of these national safeguards and the increased willingness to collaborate on defense initiatives and aerospace programs across national lines proved once and for all that the Paris Peace Treaties were permanent.

[172] Laurent, "The European Technology Community," p. 310, 311.

The convergence of political and business elites in this period took three forms: "periodic conferences, work and study groups (known as roundtables), and individual meetings not only became frequent vehicles for increased contact and discussions, but intensive EC pressure aimed at both the various government officials and private sector representatives for high-tech R& D joint venturing."[173] At Davignon's behest, the Commission recruited a staff of half a dozen people dedicated to the frequent meetings between firms, commissioners, and sometimes national government leaders, happening almost every other day.

In 1983, Pehr Gyllenhammar, the dynamic head of Swedish automaker Volvo, approached Davignon to propose a convention of business elites and European policymakers to advance the cause of integration in the best interest of both private companies and the European economy.[174] Gyllenhammar recognized that several other big business CEOs were also facing significant competitive challenges and were subsequently motivated to take collective action and pursue a "harmonized and integrated" common market for the benefit of their businesses. In the words of the Wisse Dekker, CEO of the Phillips company at the time: "there is really no choice…The only option left for the Community is to achieve the goals laid down in the Treaty of Rome. Only in this way can industry compete globally, by the exploiting of economies of scale for what will then be the biggest home market in the world."[175] Davignon capitalized on his business connections and shrewd ability to mobilize common interests to convene the first meeting of the European Round Table of Industrialists (ERT), with eighteen members in its founding cohort – sixteen business leaders, including Gyllenhammar, Wisse Dekker of Phillips, Umberto Agnelli of Fiat, the CEOs of Siemens,

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[173] *ibid*, 311.

[174] Fondation Jean Monnet pour l'Europe: JD-30: "Delors Meets with Business Roundtable," in *Express* (Paris, September 1985.)
Fondation Jean Monnet pour l'Europe: JD-309: "Reunion premiere de l'European Roundtable" (Bruxelles)

[175] "Europe 1990," quoted in Berend, *The History of European Integration*, 146.

Shell, Nestlé and Renault – and two Commissioners, Davingon and François-Xavier Ortoli from France.[176] The Roundtable, which Gyllenhammar described as "not just another lobby group," coalesced around a commitment to advancing the vision of a European common market and around the figure of Davignon, whose rolodex helped to determine the guest list and who gave business a platform within the Commission.[177]

From 1981-1985, Davignon became vice-president of the Commission under President Gaston Thorn, and he assumed special responsibility for Industrial Affairs, Energy, the Euratom Supply Agency, Research and Science and the Joint Research Centre (1981–1985).[178] Both because of his own dynamic direction over these portfolios and because of Thorn's shortcomings – his leadership was said to be so ineffective that Davignon was thought to be the real head of the Commission – Davignon presided over the ERT's biannual meetings, in which business leaders and participating commissioners discussed the obstacles to business and economic growth in Europe with the ultimate goal of completing the common market. In these regular roundtable meetings, held at the Berlaymont in Brussels, the growing group of business leader members outlined the steps they believed were required for completion of the common market, including regional investment in connective infrastructure, the formation of a monetary union and the internationalization of capital.[179] According

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[176] European Round Table of Industrialists, "About the ERT," https://www.ert.eu
François-Xavier Ortoli had served as the Commission President from 1973-1977 and had been the French Minister of the Economy from 1968-1969.
Ortoli was yet another French – or Francophone – federalist with designs on further integration.

[177] Reports indicate that attendees of the original ERT meeting were personally recruited by Davignon himself.

[178] CVCE, "Short biography of Etienne Davignon:"

[179] Ivan Berend, *The History of European Integration: A New Perspective.* (London: Routledge, 2016), p. 145.
From the rise of organized interest groups in Brussels in the 1960s and 1970s to the creation of formalized groups like the ERT in the 1980s, to serving in the capacity of policy consultants in the 1990s, big business, motivated by global competition and profit-seeking, increasingly shifted its orientation from the domestic nation state to the governance apparatus, policymakers, and elite social network of the European Community. Through lobbying and elite exchange, these companies were both shaping Europe according to their interests by facilitating integration, and, in turn, orienting themselves around Europe.

to Davignon, having the heads of industry in the same room served as a kind of brain trust for the Commission.[180] Because of their direct and personal access to the Commission, the recommendations of the ERT had a very high rate of implementation into EC legislation. After only a handful of meetings, the roundtable's work led to the Commission's release of a white paper in 1985, which proposed 300 specific reforms to reduce all physical, technical and fiscal barriers to trade, proof that Davignon viewed these business leaders as crucial partners in the integration process.[181] This white paper became the foundational document for the Single European Act (SEA) of 1986, which set out a seven year timeline in which the internal market would be completed. Thus, it was under the direction of Davignon and with the partnership of big business that the Commission relaunched the stalled integration process in the mid-1980s.[182] "The clear outline of a close interaction, even informal union, between national governments, industrial and business leaders, and the EC Commission [emerged] under the impetus of the Davignon years (1977-1985)."[183]

In my view, this human, social element of the convergence of multinational business and regional politics is what is missing from Maria Green Cowles' otherwise excellent study of the ERT and the ways in which corporations came to 'set the agenda' for the Single Market Program, the plan to complete Europe's internal market by 1992, and lay out the process for approximation, harmonization, and the creation of standards and norms across the region.[184] To Cowles' credit,

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[180] While Davignon's role on the Commission ended in 1985, his tenure as Chairman of the Bilderberg Group and various advisory roles in Brussels afforded him a continued seat at the table, which continues even today in his many board and think tank positions.

[181] Commission of the European Communities, "Completing the Internal Market," *White Paper from the Commission to the European Council*. Milan, 28-29 June 1985.

[182] The Commission did author a number of papers in this period expressing its interest in cooperating with small and medium enterprises as well, since it saw these smaller firms, which collectively comprised a majority of European economic activity, as essential to the practical completion of a common market.

[183] Pierre-Henri Laurent, "The European Technology Community, the Meeting of the Elites, and the Completion of the Internal Market," *Il Politico*, Vol. 52, no. 2 (1987), p. 309.

through, she did critique the assumptions made by Andrew Moravcsik and Geoffrey Garrett in attributing the origins of the 1992 Project to "powerful [German] domestic industry groups that pressured national governments to promote their economic interests."[185] She argued instead, echoing her work on the ERT published the year before, that the "agenda for the 1992 Program was largely set by a group of leaders of major European companies who had organized at the European level in the early 1980s."[186] In this way, Cowles saw the ERT as having become a political actor in its own right by "setting the 1992 agenda," thereby breaking outside of both mainstream theories of integration. The ERT clearly had political power, but it wasn't a nation performing statecraft, and the relaunching of the integration at the hands of the ERT was not merely a spill-over effect. While Cowles' work made a case for the alliance of business leaders and Commissioners on the ERT as having developed the SEA plan to complete the Single Market, it stopped short of considering the personalities involved in the process.

ii. Jacques Delors

That Davignon, with the consultation of his corporate partners, prepared Europe to sign the SEA in 1985 proved to be a rather poetic completion of a thirty-year circle. In his early career, he had chaired the drafting committee for the Treaty of Rome, which erected the architecture for the creation of a common market and laid the foundation for his career efforts to promote integration.[187] As

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184 Maria Green Cowles, "Setting the Agenda for a New Europe: The ERT and EC 1992," *Journal of Common Market Studies*, Vol. 33, no. 4 (1995).

185 Maria Green Cowles, "German Big Business and Brussels: Learning to Play the European Game," *German Politics & Society*, Vol. 14, no. 4 (1996), pp. 73.
Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organization*, Vol. 45, no. 1 (1991), p. 55.
Geoffrey Garrett, "International Cooperation and Institutional Choice: The European Community's Internal Market," *International Organization*, Vol. 46, no. 2 (1992), pp. 533-560.

186 Cowles, " German Big Business and Brussels," 73.

187 Viscount Etienne Davignon and Joel Goodfader, "European Unity: Pursuing a Vision: And Interview with Etienne Davignon," *Harvard International Review*, Vol. 6, no. 1 (Sept/Oct. 1983), pp. 11-13.

Commission Vice-president in 1985 and with a tremendous reputation for being the "most brilliant and hardworking" of his colleagues, Davignon was the clear favorite for the position of Commission President in 1984, and he himself was very hopeful about seeing the 1992 Program he had worked so hard to develop through to its completion.[188]

Several factors presented obstacles to Davignon's promotion, however, not the least of which was the fact that his previous presidential bid in 1980 had been thwarted by Margaret Thatcher's opposition and his lack of appeal to the German press, who viewed him as prickly and unlikeable, even if effective.[189] First, the appointment of a Commission president had been conducted according to the logic that the position would rotate between politicians from large and small member countries, and in this period, the Commission was comprised of one representative from each small member state and two from each large member state.[190] Since Gaston Thorn, the Commission President from 1981 to 1985 was from Luxembourg, the expectation was that the next president would be from a larger country.[191] Even so, Davignon had been the clear favorite until the resignation of Mauray[192] from France opened the possibility for a shake-up of the Commission roster. The final presidential

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188 JMFE Archive: JD-17 Article from the Guardian: "Delors is confirmed as next head of EEC Commission" - 20 VII 1984, p. 122.

189 European Voice, "Belgium's driving force," 26 March 1997: https://www.politico.eu/article/belgiums-driving-force/

190 Apparently, Margaret Thatcher had tried at the Fontainbleu summit with no success to reform the system by which large member states were doubly represented on the Commission.
The Commission was comprised of national representatives from European Community member states: one from each small country, and two from each of the larger members. That coalitions and factions formed among each commission cohort is not surprising, but it is important to note that the institution functioned as a meritocracy in many ways: "personal stature and ability have proved more important than nationality." For the small countries in particular, the Commission offered the opportunity for 'expansion of horizons,' "whereas the bigger countries have tended to send people with only modest expectations at home." France was the exception to this rule, with several commissioners returning home to continue an upward trajectory in their political careers. This may be revealing of France's larger designs to exert some control over Europe through federalist and diplomatic channels.
FJME Archive: JD-17: Article in the *Financial Times*: "A good choice for Brussels," pp. 120-1.

191 JMFE Archive: JD-17: Article from Financial Times: "Delors is set to succeed as EEC Commission president," by Quentin Peel in Brussels - 19 VII 1984, p. 123.

192 "M. Mauray."
JMFE Archive: JD-17: *Financial Times*: "Delors is set to succeed"

candidates on the eve of the election were Davignon (Belgium), Frans Andriessen (Holland) and Henning Christophersen (Denmark), since the West German candidate Herr Biedenkopf decided not to run, and the French candidate Claude Cheysson withdrew from consideration just days before the election.[193] According to one pundit, Davignon, with his tremendous success as a member and vice-president of the Commission, would certainly have gotten the job in this contest of just three candidates.[194]

At the last moment, though, a fourth name was put forward to replace Cheysson: Jacques Delors, former member of the European Parliament and chairman of its Economic and Monetary Committee from 1979 to 1981, and French Minister of Economics, Finance, and Budgetary Affairs under Mitterand. While his family legacy and early personal career in banking rendered him a latecomer to politics, Delors had served as an economic advisor under Gaulist prime minister Chaban-Delmas in the 1960s, and had been an active member of the Socialist Party in 1974.[195] Since then, his ministerial role in French financial and budgetary politics confirmed his capabilities as an effective civil servant. According to the *Financial Times* in 1985, Delors had been the "man who made France look financially respectable when the Mitterand government hit the doldrums."[196] His other primary advantage in terms of the Commission job was his Europe-wide recognition compared to that of Davignon, who was less well known despite his outsized role in Brussels.

In what a national representative from Belgium, speaking on the condition of anonymity, described as a "backdoor deal between Paris and Bonn" part of a Franco-German vice-grip on regional

[193] JMFE Archive: JD-17: Article from *Financial Times*: "Delors is set to succeed as EEC Commission president," by Quentin Peel in Brussels - 19 VII 1984, p. 123.

[194] FJME Archive: JD-17: Article from the *Financial Times*: "All Change as European Commission old guard is replaced," by Paul Cheeseright in Brussels - 04/1/1985: pp. 99-103.

[195] JMFE Archive: JD-17: "Delors is confirmed as next head of EEC Commission," *The Guardian* 20 July 1984.

[196] FJME Archive: JD-17: Article from the *Financial Times*: "All Change as European Commission old guard is replaced," by Paul Cheeseright in Brussels - 04/1/1985: pp. 99-103.

governance, the smaller member states were ignored, and West Germany agreed to support the French candidate in exchange for some undisclosed concessions.[197] Later reports revealed that Mitterand and Kohl had, in fact, agreed over breakfast that Delors should be the next Commission head.[198] Not surprisingly, this sparked tensions among the member states, especially between Britain and France because Britain had directly supported the rival candidacy of Davignon.[199] Delors' election to Commission President was initially a shocking result. Politicians and constituents alike remarked on the degree to which the departure of Davignon from the Commission "was to be regretted."[200] Following the defeat, Davignon left the institution altogether, a retreat that was described as "a serious loss" of both his stature and his experience.[201] Yet, as the following examination of his tenure as President reveals, Delors proved himself to be highly effective in the position, and his efforts bear more resemblance than difference to Davignon's agenda.

Delors' first task as Commission President was to divide the portfolios of responsibility among the commissioners, a typically fraught process that some had described as a kind of "night of the long knives."[202] As the *Economist* magazine noted just after the election, "The otherwise lamented departure of the talented Belgian commissioner, [Davignon], means that more jobs will be available. He has hogged three of them – industry, energy and research. Mr. Cheysson, once also an industrialist, may well take over industry. Those who miss the main portfolios will have to console themselves with the

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[197] FJME Archive: JD-17: Article from the *Financial Times*: "All Change as European Commission old guard is replaced," by Paul Cheeseright in Brussels - 04/1/1985: p. 103

[198] Berend, *The History of European Integration*, p. 158.
See also: Thomas Pedersen, *Germany, France and the Integration of Europe.* (1998), p. 97.

[199] FJME Archive: JD-17: Article in the *Financial Times*: "Delors to be appointed next EEC president", by Brendan Keenan in Dublin and Quentin Peel in Brussels - 20 VIII 1984, p. 120.

[200] FJME Archive: JD-17: Article from the *Financial Times*: "M Delors set the tone" - 11/12/84, p. 109.

[201] FJME Archive: JD-17: Article in the *Financial Times*: "A good choice for Brussels," pp. 120-121.

[202] FJME Archive: JD-17: Article from the *Financial Times*: "All Change as European Commission old guard is replaced," by Paul Cheeseright in Brussels - 04/1/1985: pp. 99-103.

remnants of Viscount Davignon's empire and with fisheries, currently teamed with transport." Delors did ensure the dismantling of Davignon's monopoly on the central economic portfolios, and, when the Commissioners met at Royaumont near Paris in December 1984 to distribute the 13 Commission portfolios, he took a decidedly decentralized and democratic approach. That Cheysson had expected to resume control of the "Overseas Development" portfolio, which had historically been managed by French commissioners and which had been his responsibility in his previous commission term (1973-1981), sparked a bitter dispute when Delors explained that he thought "26 successive years were quite enough for officials from one country, however well qualified, to hold the same post."[203] Such was Delors' approach, regardless of the ensuing acrimony with Cheysson, who subsequently refused Delors' offer of the industry portfolio, which then became the charge of West German Karl-Heinz Narjes. Unlike his predecessors Gaston Thorn and Roy Jenkins, who had relied on a select individual or small group to execute their agendas, Delors was determined to maximize the contributions of each member.[204]

In another decisive move that would set the tone for his presidency, Delors separated economic from monetary affairs in his delegation of portfolio responsibilities, thereby alleviating some of the infighting over the single, combined, prestigious portfolio and simultaneously signaling that his priority would be a European Monetary System (EMS).[205] This was certainly not a suprising priority for a former central banker and Minister of Finance, and, despite some suggestions in scholarship that he floundered before resolving to pursue monetary system, archival evidence indicates Delors original

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[203] FJME Archive: JD-17: Article from the *Economist*: "Delors and his 13 Apostles" - 17 May 1984, p. 108.

[204] *ibid*, 108

[205] FJME Archive: JD-17: Article from the *Financial Times*: "All Change as European Commission old guard is replaced," by Paul Cheeseright in Brussels - 04/1/1985, pp. 99-103.

intention of pursuing the EMS, which he called 'the integrating force of all of the major measures of the borderless market.'[206]

Having established his leadership and his policy agenda, Delors began his work as Commission President, with the 1992 Program and EMS at the forefront of his efforts. He continued the relationship Davignon had built with corporations and the growing ERT, and actually expanded the platforms for corporations to appeal for and consult on policymaking. During the late 1980s and early 1990s at with his encouragement, not only did the number of business-related interest groups in Brussels more than double, but new channels of direct access between corporations and the Commission emerged as well. For example, the Delors Commission invited the *Association des Constructeurs Européens d'Automobiles* (ACEA), a group comprised of the heads of the dozen largest automakers in Europe, to propose policies and regulations for their own auto industry, thereby calling on business elites as expert policy consultants.[207] Several such industry groups influenced regional policymaking during the long ten years of Delors' tenure. Inspired by Delors' ongoing commitment to business, several more industry groups formed roundtables in Brussels in the following years with the aim of directly influencing regional policymaking, including the Association for Monetary Union (AUME), championed by all of the major banks in the region, and the European Retail Round Table, of which Delhaize and Tesco were both founding members.

That Delors was pro-business was certainly no secret, and in this regard, his presidency seemed a continuation of the momentum Davignon established in the years prior. In a 1987 volume of *French Politics and Society*, Delors articulated his view that 'companies – even giant corporations – are like

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[206] FJME Archive JD-84-93: "Interview du President Delors" 1988

[207] Berend, *The History of European Integration*, 149.
Archive of European Integration, European Motor Vehicle Industry: Situation, Issues at Stake, and Proposals for Action. Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee, COM (92) 166 final (8 May 1992).
The simple fact that automakers from France, Germany, Britain, etc. were interested in forming regional industry associations also speaks to their increasing orientation toward Europe.

plants. They need to plunge their roots into dense and rich soil to have a solid foundation." Delors situated this view of European business and its need for a robust common market within a nuanced perspective of globalization and regionalization. He proclaimed emphatically that 'globalization had not outmoded regional groups, but in fact had made them indispensable.'[208] His mandate to complete the common market was predicated on this view of regionalization as a necessary response to globalization.

Perhaps as a consequence of his negative view of globalization, or perhaps as a manifestation of his own political leanings, Delors' attitude toward European business was much more protectionist than was Davignon's.[209] While Davignon had focused on investing in regional infrastructure to support cross-border business development, Delors took a decidedly more protectionist approach, although he would dispute such a characterization. It was he who constructed a rhetorical "Fortress Europe" when in response the continued threat of Japanese automakers, he resolved to continue quantitative restrictions on Japanese car imports, including even the cars produced in Japanese car plants in Europe and the US.[210] A review of his personal notes for a meeting with Japanese Prime Minister Toshiki Kaifu in Tokyo in May 1991 reveals his argument that the EC was the largest market and ripe with opportunity for Asian producers looking to invest, but that the two sides should adopt reciprocal policies: 'If both Japan and Great Britain apply the same rules, there is no problem. The EC will remain open to foreign – notably Japanese – investments if Japan opens its market to European investments with the same conditions. It is a question of reciprocity; even if this term does not satisfy leaders in this country.'[211] In a meeting with Japanese business leaders during the same state visit, Delors tried

[208] Jacques Delors, translated by Grace Ballor "Une strategic efficace pour une France non frileuse," *French Politics and Society*, (1987) 6.

[209] A lifelong socialist, Delors also called himself a "disciple" of personalist philosopher Emmanuel Mounnier and gave a commemorative speech at a remembrance ceremony on the anniversary of his death.

[210] FJME Archive: JD-242: Article in the *Irish Times* 25 V 1991

to alleviate concerns about Europe's growing hostility toward foreign investment with his view that globalization need not reduce the world to economic warfare.[212] Still aware of the icy reception, even fear his position garnered in Tokyo, he explained:

> I see these words as common sense rather than hostility toward the Japanese. In any case, [my economic advisor] M. Calvet, whom I have known for 35 years, is not a protectionist. He favors the market economy. It was my duty to listen to him, and it is also my responsibility to clarify his position, which is absolutely not anti-Japanese especially with regard to his own sector of interest, automobiles. […] My hope is that both sides can understand the concerns of the other: to put it bluntly, that is to say that European car companies need a certain amount of time to face international competition. I think it is in the interest of Japanese producers to understand this because, unfortunately, if there are misunderstandings between the two parties, we would risk immediate political complications, social disorders in our countries, and also more rigid positions, which I do not want.[213]

With the ACEA and the concerns of European automakers in his ear, Delors worked to strike a balance between productive trade and investment relations with the regions whose rivalry had motivated the relaunch of the integration process. As Chapter IV explains, though, few European automakers really needed the Delors and his Commission to build a tariff and quota wall around the Community in 1991. They were already developing their own competitive regional production and distribution networks.

What automakers and firms from all industries did want from the Commission, though, was the accession of the Central and Eastern European states recently liberated from the collapsed Soviet Union. And Delors delivered.[214] In addition to his efforts to fortify Europe against ongoing

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[211] FJME Archive: JD-242: "Visite de Jacques Delors au Japon (Tokyo)," 23 Mai 1991, translated by Grace Ballor

[212] FJME Archive: JD-242: "Discourse de Jacques Delors President de la Commission Européenne, European Business Community," Tokyo le 23 Mai 1991, translated by Grace Ballor

[213] FJME Archive: JD-242: "Press Conference by President Delors, Tokyo 24/05, Bruxelles le 24 Mai 1991," translated by Grace Ballor

[214] Having observed the thawing of the Cold War thanks to Gorbachev's policies of *detente* and *perestroika*, Delors gave a speech on October 17, 1989 about the transformation of Eastern Europe and the new possibilities for the region. In 1993 following the collapse of the bloc and the opening of Central and Eastern Europe, Delors also articulated his view that the Union should include former bloc states at the Copenhagen Council Meeting in June of 1993.
See: B. Nelsen and A. Stubb, *The European Union.* (1998), pp. 55-68.
See also: Ivan T. Berend, *From the Soviet Bloc to the European Union*, p.84.

competition and capitalize on the economic and security opportunity for Europe to access Eastern, former Soviet bloc states, Delors also shaped the Commission's approach toward a social market economy and made efforts to include small business in the policy agenda. He described his vision for a European market, equally prosperous and humane, and he sought to bring groups like UNICE and their small business constituents into the conversations happening in Brussels. He also expressed concerns about the fact that Europe was not creating jobs at the same rate as other regions and spoke often about the need for Europe to attend to the needs of laborers.[215] The simultaneous ideological motivation and pragmatism in his position became clear when he argued that 'If [Brussels] wants to retain the support of the workers we still have right now, we have to show them that they also have a place in this European construction.'[216] His abiding interest in the many facets of economic development in Europe, a push for 'more economic growth, more dynamism, more well-being and more jobs,' found resonance in the social capitalism of the Nordic countries, where he perceived an alliance between trade union organizations, companies, and politicians, and he seemed to aspire toward the same tripartite balance for Europe as a whole.[217] With the achievement of the Single Market already in sight in 1988, Delors credited "the success of 1992 program from the outset to the support we received from the heads of enterprises and trade union organizations even before having political support" from nation states.[218] In his view, the agents of integration in the 1970s, 80s, and early 90s did not include nation states at all, but business elites and trade unions in partnership with the Commission. With the historiography of integration from Chapter I in mind, then, the history of Delors' presidency seems to discredit the explanatory power of state-centric theories of integration in

[215] FJME Archive: JD-180: "Sommet du Dialogue social," 1993.
FJME Archive: JD-74: "Social Dimension of the Common Market," Jacques Delors, 1988.

[216] FJME Archive: JD-70: "Interview du President Delors" 1988, p. 103, translated by Grace Ballor

[217] FJME Archive: JD-70: "Interview du President Delors" 1988, p. 103, translated by Grace Ballor

[218] FJME Archive: JD 84-93: "Interview du President Delors" 1988

this crucial re-launch period, and validate instead more nuanced and expansive views of the forces of integration.

In the final years of what would be the most dynamic decade of the integration process for the most effective and longest serving Commission president, Delors oversaw the signing of the Maastricht Treaty in 1992 and its entry into force in 1993, and the transformation of the European Community into the European Union. Maastricht also set in motion Delors' priority of a common currency – the "euro" – for which conversion rates were set in 1998, and which was introduced in digital form in 1999 and paper and coinage in 2002. During these years and after declining to run as the socialist party candidate in the French presidential election in 1995, Delors founded pro-EU think tank *Notre Europe* in Brussels, of which he is still president. His efforts there have been directed at the institute's four pillars: cultivating European identity, fostering transnational deliberative democracy, advocating for competition, cooperation and solidarity, and understanding Europe's place in global governance.[219] In this capacity, Delors remained a force for integration through his social vision for Europe. Reflecting back on his career in his 2004 *Mémoires*, Delors recalled how he had 'intended to strengthen European cooperation, while ensuring the future of our nations, the place of national cohesion, republican solidarity, and the expression of our personality' throughout his work.[220]

Davignon's departure from the Commission should not be mistaken for his retreat from the integration process, or from the levers of power. Like Delors, he too remained a force for integration after his tenure on the Commission ended. In fact, his loss to Delors in the presidential contest of 1985 marked the beginning of an even more active period of his career in Brussels, but in business rather than politics. After leaving the Commission, he was invited to direct the international strategy and later became the CEO of the bank Société Générale de Belgique, a job he accepted under the

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[219] *Notre Europe*: Institute Jacques Delors: http://institutdelors.eu/?lang=en

[220] Jacques Delors, *Mémoires*. (Paris: Plon, 2004), p. 25.

condition that he could work 75% time and dedicate the other 25% to the cause of European integration through his direction of think tanks and organizations like the Corporate Social Responsibility Europe and Friends of Europe. He then oversaw the French financial group Suez, and went on to serve as the CEO or chairman of more than twenty European – and Japanese! – corporations, including Brussels Airlines, which he created in the wake of Sabena's bankruptcy. In addition, Davignon is a member of the Bilderberg Group, the annual meeting of political, media, and business elites from North America and Europe, runs its steering committee, and served as its chairman from 1998 to 2001.[221] Having now spent as much time in the highest eschalons of business leadership as he did in civil service and politics, Davignon himself embodies the convergence of the business and political elite.

The 'Revolving Door' and Accountability Mechanisms

With such a résumé, Davignon's career has come to represent what many critics describe as a 'revolving door' between politics and business. As a result, Davignon has become the frequent target of conspiracy theories about the rulership of a 'transnational capitalist class' with descriptions that drip with all of the drama of the Spectre roundtable in a James Bond film. Perhaps the most emphatic case made for Davignon as belonging to a corrupt global ruling class was articulated by William K. Carroll, a Canadian sociologist working on interlocking directorates and corporate power. Carroll

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[221] After interviewing him in 1983, Joel Goodfader described Davignon as "uniquely qualified to discuss the past, present, and future of European regional integration." This characterization was all the more more true of Davignon when I interviewed him in June of 2016, having participated in decades of incredible advances in integration, but also having observed years of compounding crises – having presided over the highest levels of regional governance and having run some of the largest and most powerful corporations. During the week we met, the city of Brussels was on high alert after recent terror attacks, and Britain was just days away from its referendum vote on whether or not to become the first member state to exit the European Union. Ever the Euro-optimist, Davignon expressed his hope that Britain would decide to remain in the Union, citing the ongoing appeal of common market access that motivated British membership in the first place. This view seemed to sum up Davignon's career-long perspective of integration: that big corporations, mobilized by the threat of globalization, could drive the integration project, aimed at the creation of a large, homogenous, single market.

places Davignon squarely at the center of his structural analysis of the "transnational policy-planning network."[222]

First, it is important to acknowledge what the critical theorists neglect: that there is significant utility in the convergence of business elites and policymakers. Indeed, as the examples of Davignon and Delors show, crossover between the two groups fortifies the proficiency of each and magnifies each group's impact. This is particularly true in the case of late twentieth century Europe; without the partnership between the Commissions and corporations, the European Union may have remained a distant vision, rather than a reality. But the alliance did not only serve the cause of European federalism. Corporations, too, benefitted greatly from the relationship, and perhaps even more so from the recruitment of regional policymakers into executive positions, as was the case with Davignon. Brussels Airlines and Société Générale de Belgique, corporations with designs on regional expansion, can hardly be faulted for hiring the most prominent and business-friendly policymaker in Europe to steer their companies through the challenge of globalization. They recognized the value of his unparalleled perspective, expertise, and commitment to the success of the region's businesses, which he employed effectively in his efforts to shape the airline into a premier regional carrier and Société Générale into a profitable investment bank.

Moreover, Davignon's career trajectory through the revolving door is hardly an anomaly, although the intensity with which he rose to the highest levels of regional governance and the sheer number of corporations he has run does stand apart from the rest. The so-called revolving door has long been a feature of national political and economic power in the United States, Europe –

[222] William K. Carroll and Jean Phillipe Sapinski, "The Global Corporate Elite and the Transnational Policy-Planning Network, 1996-2006," *International Sociology*, Vol. 5, no. 4 (2010): http://journals.sagepub.com/doi/pdf/10.1177/0268580909351326
See also: William K. Caroll, *The Making of a Transnational Capitalist Class: Corporate Power in the 21st Century*. (Zed Books, 2010). Similar arguments are made by critical theorists like Alan Cafruny and Magnus Ryner in their book *The European Union and Global Capitalism: Origins, Develepent, Crisis*. (New York: MacMillan, 2016), and by Leslie Sklair in her "The Transnational Capitalist Class and Global Politics: Deconstructing the Corporate: State Connection," *International Political Science Review*, Vol. 23, no. 2 (April 2002), pp. 159-174.

particularly France –, Latin America, and Asia.[223] What is more, Davignon is hardly unique among his colleagues on the Commission. As the graph below illustrates, elites have moved freely and frequently between business leadership and regional policymaking for decades. This trend became especially pronounced in the 1970s, when corporations looking for greater regulatory insight looked to recruit former policymakers onto their C-floors and into their executive boards. Throughout the 1980s and 90s, this trend of retired commissioners becoming business administrators strengthened, and by 1998, nearly three quarters of all commissioners (11 out of 15), who were formerly career civil servants, became business elites and assumed roles on the boards and at the helms of major corporations.

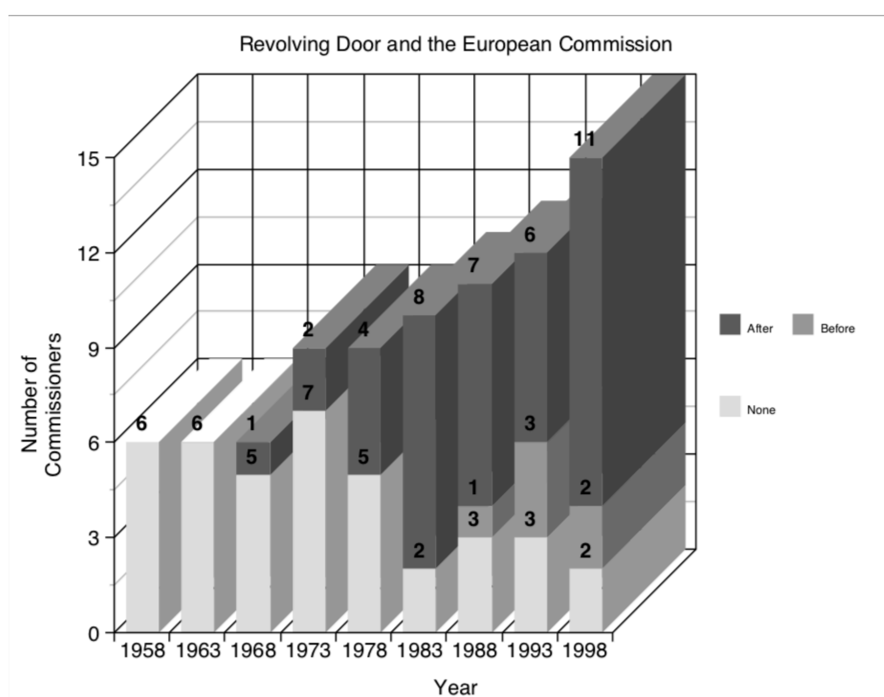

Figure 3: The 'Revolving Door' and the European Commission[224]

This movement from policymaking into business, and, increasingly in the late 1980s and 1990s from business into policymaking caused concern among watchdog groups worried about the growing

223 In fact, the current US President represents an even greater degree of the convergence of business leadership and political power, a characteristic that undergirded his entire election campaign.

224 Data compiled from the European Commission annual rosters with the help of Elizabeth Anastasi.

influence of corporations over the political agenda in Brussels.[225] In their view, the revolving door undermined the already compromised democratic integrity of EU decision-making and impeded regulatory reforms on social, environmental, and consumer-protection matters.[226] Groups like the *Corporate Europe Observancy* continue to raise questions about the power of corporations in the EU and sound alarms about the dangers of a system advised – even controlled – by the interests of large multinational firms. The current populist backlash against elites seems to be raging against the same perceived machine. It is important to ask, then, to what extent was the involvement of corporate elites in EU policymaking evidence of corruption, and what accountability measures were in place to guard against it? In other words, in the seemingly positive sum game of business elites serving as policy consultants, what were the costs?

It was not until the turn of the millennium that the outcry against corporate influence in and on the Commission become too loud to ignore. A *Commissioner Code of Conduct*, which required the independence of its members and ruled against Commissioners having conflicts of interest in business, was implemented in 1999. In 2000, Article 43 of the *Charter of Fundamental Rights of the EU* created the role of the European Ombudsman, tasked with tasked with "enhanc[ing] openness and democratic accountability in the decision-making and administration of the EU's institutions" and investigating complaints about maladministration.[227] Staff regulations put in place in 2004 declared a moratorium

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[225] The media-frenzied Bilderberg Group meetings are just one of the most intriguing and popular examples of the ways in which alliances of elites have captivated the imaginations of average citizens. It is worth asking why the general public is so riveted by the prospect of power congregating. Especially in Western democracies, citizens seem generally content with the authority bestowed upon elected officials and are perhaps only less perturbed by the power of the heads of major corporations, especially when their personal wealth exposes the flagrant inequalities of big capitalism. Why, then, if the public acknowledges the power of these groups individually do we take issue with them meeting, planning and collaborating together? Why does it trouble us when these groups converge and intersect?

[226] The Alliance for Lobbying Transparency and Ethics Regulation (ALTER-EU) is one such group. In its own words, it is a "coalition of over 200 public interest groups and trade unions" that share concerns about corporate influence in Brussels.

[227] European Commission, Articles 20, 24 and 228 of the TFEU

on Commissioner involvement in lobbying for 12 months after vacating a position.[228] After a spate of commissioner "resignations due to corruption" in the mid-2000s, TFEU Article 245 demanded the "complete independence of Commissioners" and set a two-year restriction on movement from the Commission into business leadership. The *Revised Code of Conduct* introduced an ad hoc ethical committee in 2010. Importantly, all of these measures were self-regulatory and set by the Commission itself. Finally in 2013, another branch of EU government, the European Parliament, laid out *Transparency Guidelines* for members of all EU institutions. Before these measures – during the crucial years in which integration was relaunched through the partnership of Commissioners and business leaders – there were no such accountability mechanisms in place. Not only were there no mechanisms in place to hold the ERT accountable during the years in which it exercised its most direct influence, the Commission put in place fairly robust checks on what it called "disagreeable" lobbying by organized interest groups when it established a single mandatory registry, yet it exempted the ERT from these checks and described the roundtable instead as a "welcomed" form of influence, both because it was created by the Commission itself and because the ERT's agenda is in direct alignment with that of the Commission. In short, the ERT, a chief network of convergence between the most powerful groups of elites in the EU and central force in shaping the common market, was historically exempt from the checks put in place to hold accountable other outside influences on EU policymaking.

While the lack of accountability mechanisms in place in the twentieth century might raise the red flags of corruption in the minds of many, we must remember that effective policymaking requires expertise. The unprecedented construction of a homogenous common market across a region as heterogeneous as Europe demanded expertise beyond national policymaking. When the networks of business and political power converged in Brussels in the 1980s, only the executives of multinational

[228] European Commission, Article 16(3) of the Staff Regulations, European Commission Code of Conduct

corporations had the broad market knowledge Commissioners needed in order to set the agenda and standards for completing the common market. Likewise, after the merger mania of the 1980s and the intensive regionalization of corporations in the same period, only regional-level policymakers had the perspective corporations sought in order to optimize their businesses. Recent inquisitions of corporate executives by both the US Congress and European Parliament have offered further reminders of the importance of electing politicians with experience enough to understand the industries they regulate and the policies they make, and made obvious once again the corporate need for executives with extensive regulatory experience.

Having examined the human side of the relationships between business and political elites in the history of the European Community and Union, the following chapters will focus on the ways in which firms facilitated regional integration by means of their supply, value chain, and distribution networks.

Chapter IV: Manufacturing the Common Market: ***Die Deutschen Autos***

> *The economy, even the population, is usually years ahead of politics. …As a result, I recommend only one thing to get a clear picture of world events: always consider both spheres: the economic with perhaps more attention than the political. There our future is more often described.*
>
> Dr. Eberhard von Kuenheim, CEO of BMW from 1970-1993
> Speech given at the opening of the BMW-Steyr plant in Austria, August 1979[229]

The development of the automobile industry is one of the most dynamic stories of the twentieth century. Within just a few decades, the *fin de siècle* horse and buggy gave way to the motorized car, and the interwar boom concretized automotion's primacy in both economic and cultural terms. Germany was the birthplace of carmaking with the internal combustion 'Otto engine' in the 1860s. During the Great War, car companies in Europe became tank, aircraft, and munitions manufacturers, proving both their adaptability and tremendous national value. In the interwar period cars became luxury items once more, and it was during these gilded years of the 1920s that Germany and Italy developed the famous roadways, the *autobahn* and *autostrade*. When the Second World War broke out, car producers played a central role in furnishing the mobility of armed forces. Then, in the war's aftermath, automakers in nearly every industrialized country marshaled latent wartime infrastructure to their advantage. As a result, car manufacturing was one of the first industries to rebound following the wars and depressions of the early twentieth century.

Indeed, in the case of postwar West Germany, it was the auto industry that actually spearheaded economic recovery and paved the way for widespread growth, a surprising fact given the initial hurdles it faced as a steel-reliant industry subjected to the harsh Coal and Steel Community material regulations of the 1950s.[230] Because of the strategic security, export, and employment value

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[229] "Möglichkeiten Industrieller Kooperationen," Eberhard von Kuenheim, UR 4850-1 (1979), BMW Archive, Munich, Germany. (Translated from the original German.)

[230] Article 58 of the Treaty of Paris, which established the Coal and Steel Community, stipulated that "The High Authority, after consultation with the enterprises and their associations, shall establish quotas on an equitable basis in accordance

of auto production, the governments of industrialized countries have historically shown a strong preference for automakers. West Germany was again a prime example of the postwar protectionism of auto production, a fact which reinforces the immense economic and even cultural value Germans have historically ascribed to their auto industry. Yet, German car companies did not remain domestic; in fact, they were among the first to internationalize and did so at an ever-increasing rate when faced with global competition in the later decades of the twentieth century. Thus, German car companies serve as an excellent opportunity through which to examine the ways in which multinational manufacturers were both influenced by the political framework for common market integration begun by the Treaty of Rome and, in turn, acted as agents of integration by means of their cross-border, pan-European operations.

Further proof of Germany's primacy over other car-making countries in Europe is the sheer number of auto manufacturing firms based in the country. While France is home to just three car companies of significant size – Citroën, Pugeot and Renault – and Italy has just Fiat and a handful of high-end, but low-volume producers like Lamborghini and Maserati, Germany boasts several major auto manufacturers, including the "Big Three:" Volkswagen, Mercedes-Benz (Daimler AG), and BMW, each of which is larger in both production and revenue than any other European manufacturer.[231] Moreover, Germany's automakers are incredibly diverse in their market orientations, product lines, managerial strategies and international operations. This comparative analysis considers the German automakers with the widest market and strategy variance: Volkswagen, the household name whose Third Reich origins and *Wirtschaftswunder* success epitomize Germany's historical relationship with its cars, and BMW, a luxury, boutique brand, firmly rooted in its German-engineered

with the principles defined in Articles 2, 3 and 4. The High Authority may in particular regulate the rate of operation of the enterprises by appropriate levies on tonnages exceeding a reference level defined by a general decision."

[231] These six are the result of decades of industry consolidation, meaning Germany's industry in the mid-twentieth century had even more players and competition.

identity and catered to a global network of enthusiast drivers. Despite their obvious differences, however, their common responses to the challenge of globalization shaped Volkswagen and BMW into truly European companies and made them, rather inadvertently, agents of integration.

Volkswagen and BWM, from Re-privatization to Globalization

Originally commissioned by the Third Reich and designed by Austrian-born Ferdinand Porsche, Volkswagen's people's car, lovingly called the "beetle," quickly became the symbol of the postwar German economic miracle. Despite its problematic public image issues stemming from the war, it outsold Ford's Tin Lizzy – previously the record holder for most cars sold in the world – by the 1960s and became the number one car in Europe. Volkswagen's early success can be attributed to a few key factors. First, and most simply, Volkswagen received significant government support, first from the British occupants in the late 1940s, and then from the West German government, which realized the economic and cultural value of a thriving German auto manufacturer. Second, the company capitalized on pent-up consumer demand for a cheap, efficient family car. Germans in particular and Europeans in general were in need of new durable goods in the postwar decades of rising consumerism, the likes of which had not been available during the previous decade of conflict. By committing to an astonishingly low sale price and offering financing and paycheck repayment plans, Volkswagen was able to capture majority market share within just a decade and a half of the German defeat. Third, and closely related to its bottom of the market strategy, Volkswagen embraced its Third Reich legacy in terms of production methods. Inspired by Hitler's obsession with Henry Ford, the company was founded on the same method of a high-volume, labor-intensive factory line, which, being capable of huge production runs, reduces the cost per unit. This Fordist strategy, which requires a tremendous labor force, is only really effective for a company marketing single, low-end model, *a la* the VW *Beetle*, and proved to be extremely successful in the decade after the war.[232]

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[232] Even today, over 70,000 employees work the factory floor at the corporate headquarters in Wolfsburg.

Where the company's leadership deviated from Hitler's original, domestic production plan was in its pursuit of cheap, international labor markets. Soon after its postwar privatization, Volkswagen set up subsidiary production in South Africa (1948), Brazil (1953), and Mexico (1954). In this regard, VW became a classical export firm quite early in the postwar period, operating globally. Initially successful, many of these African and Latin American sites succumbed to the destabilizing effects of decolonization in the late 1950s and 1960s, causing Volkswagen, like many other global export firms at the time, to withdraw from foreign markets. Simultaneously, the period of *Wirtschaftswunder* came to an end. West Germany's growth rate plateaued, largely because postwar recovery had occurred and the economy had finally caught up to its pre-shock trend line. The unrest of '68 was compounded by the United States' simultaneous decision to allow the dollar to float in 1971, resulting in the collapse of the Bretton Woods fixed exchange rate system and a consequential sharp decline in US sales and the subsequent need for labor layoffs. The oil crises of 1973 and 1979 led to a liquidity crisis for European firms, including Volkswagen, forcing it to withdraw from its global investments and severely restricting its capacities for investment and expansion. Still, as difficult as these macro-economic circumstances were, the primary challenge to German car companies in the postwar period was globalization, the invasion of foreign firms into their domestic markets, first from the US, then from Japan.

As discussed in Chapter II, American manufacturers, which had long conducted business overseas, were first to understand and capitalize on the benefits of manufacturing in postwar Europe. They recognized in this period the advantages of producing and distributing in the European Community, which offered them underemployed, highly-skilled labor at a discount compared with domestic US workers, as well as a large consumer market with pent-up postwar demand. Thus, the American threat to the European auto industry in the postwar period was two-fold: US automakers saw Europe as both an opportune factory and a robust marketplace. Most importantly, by producing

cars in Europe, US-based carmakers could distribute across the Community tariff-free, thereby taking advantage of the customs union created by the Treaty of Rome and edging European automakers out of their own domestic markets.

Among the American manufacturers capitalizing on the European labor and consumer markets in this period were Ford and General Motors, both of which rapidly outpaced the production and sales volumes of the formerly preeminent European manufacturers. That these American automakers shifted so much of their production to Europe in the 1960s reveals the extent to which the threat of globalization was not merely the rise of new competitors in other parts of the world, but rather the invasion of foreign producers in European home markets. Within just a few years of manufacturing in the region, Ford and GM had subsidiaries in several European countries, including Britain and Germany, and had claimed in France, Germany, Italy, and the United Kingdom market shares equaling the leading domestic producers.[233] This trend only strengthened in the years that followed. In fact, the Escort, Scorpio/Granada, Mondeo and Focus models produced by Ford, a quintessentially American company, were all named "European Car of the Year" in the 1980s and 1990s, a major blow to European manufacturers.

In addition to the American challenge faced by European carmakers like Renault, Peugeot, Fiat, BMW, and Volkswagen, changes in consumer preferences among Europeans also posed a threat to the region's auto industry. With the postwar boom came a rapid increase in the standard of living among Europeans. Higher wage levels and rates of employment, coupled with the pent-up consumer demand for durable goods following the war, meant that demand for automobiles spiked in the 1950s and 60s. While such demand initially fueled the recovery and growth of the region's automakers, it also made room for American producers to gain market traction. Europeans took quickly to the

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[233] Mira Wilkins and Frank Ernest Hill, *American Business Abroad: Ford on Six Continents*. (Detroit: Wayne State University, 1964).

American models, which offered more consumer comforts than the French, German, and Italian cars. Moreover, it was in this period that European families, similar to American ones, traded crowded – and war-torn – cities for spacious – newly-built – suburbs.[234] Suburbanization required mobility, and single family cars became the norm. But, as the postwar growth rate plateaued and the 1970s oil crises hiked fuel prices threefold, consumer preferences shifted away from the long, heavy, gas-guzzling sedans made by Daimler, Mercedes, and GM and favored instead lighter, faster, more cost-effective family cars.

Competition intensified in the late 1970s when, fueled by widespread deregulation and revolutions in communications and technology, Japanese carmakers claimed more than a quarter of all global car production, a total nearly equal to all the output of European automakers combined.[235] Not only did Japan quadruple its auto exports and develop several of the world's most successful car companies during the 1970s, but by 1984, the European Commission also expressed shock at the extent to which firms like Toyota had mechanized production and exponentially improved efficiency by using new production methods like flexible specialization.[236] This method enabled Japanese automakers to increase their production power over their American and European rivals, with Toyota increasing its vehicle per worker production rate from four to 60 between 1955 and 1985. In the same period, GM and Ford each saw an increase of only three cars per worker to Toyota's 56.[237] As a result, Volkswagen's leadership expressed concern that "the shift in Japanese exporters' focus from the USA

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[234] Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community.* (New York: Simon & Schuster, 2000).

[235] Berend, *The History of European Integration*, 108.

[236] *ibid*, 109.
Flexible specialization, whereby a firm's competitive strategy is oriented around diversification, innovation, and production speed, developed as a response to the rise of consumerism and increased competition. This strategy of manufacturing a diverse product line very quickly was made possible by the technological revolutions of the 1970s, which introduced multi-function machinery into factory production, and simultaneous changes in the labor markets of industrialized countries, which afforded carmakers highly-skilled employees at low wage levels.

[237] Michael Cusumano, "Manufacturing Innovation: Lessons from the Japanese Auto Industry," *MIT Sloan Management Review* (1988).

to Europe in 1980 resulted in a competitive battle that could not be won on the price front alone."[238] In short, in the contest of global competition among automakers, Europe was losing.[239] Mere product line differentiation could not save the European auto industry.

As auto sales in West European markets slowed in the late 1960s and 1970s, European producers were forced to adopt new business strategies. The first of these strategy changes was the development of new product lines in an effort to differentiate and capture more of the market, an approach that proved to be extremely difficult at first, but one that would shape the European auto industry for decades to come.

The *Bayerische Motoren Werke*, which had begun as an airplane engine manufacturer in 1919 and transitioned to producing consumer motorcycles in the interwar period before it was conscripted to furnish the *Luftwaffe* in the Second World War, floundered in the postwar years. Following its re-privatization, BMW struggled to remain in the black during the 50s and early 60s. Unlike Volkswagen, which quickly dominated the domestic market for economy cars, BMW had difficulty recovering from the war – in large part because it did not benefit from the same government protections or material support as its larger northern counterpart.[240] Moreover, BMW was confronted with the challenge of determining its brand identity and target market. It knew it wanted to make cars, but it struggled to identify its target customers were. While motorcycle sales rebounded immediately after the war, the subsequent and widespread shift in demand for single family economy cars proved too much for the Bavarian manufacturer. It failed repeatedly at attempts to make small economy cars like the *Isetta*, and

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[238] Volkswagen AG, *Aktiengesellschaft.* (Wolfsburg, 2008), 119.

[239] And yet, today, just 30 years later, the EU is the world's largest economy, and half of the world's largest carmakers are European, including Volkswagen and BMW, which rank as the largest (by sales volume) and most profitable, respectively.

[240] First the British military and then the West German government secured steel supplies for Volkswagen, even during the restrictive period during which the European Coal and Steel Community was formed to limit German access to the material resources of heavy industry.

experienced equally spectacular defeats when launching large sedans in an effort to compete with Daimler and Mercedes.

BMW nearly met its fate in the late 1950s when the bankrupt company considered a fire sale to Daimler. Along with the Bavarian government, which was adamant that the region's flagship manufacturer not collapse at the same time as the regional elections, visionary businessman Herbert Quandt, resolved to preserve the company and acquired 25%.[241] Under his leadership BMW finally turned a profit with its better-engineered and strictly quality-controlled 700 model, which would serve as a benchmark for future production. As demand gradually increased, the company began to expand, first in Bavaria through the acquisition of the carmaker Glas, and then throughout Germany. This domestic expansion helped BMW return to solvency, but it did not mitigate the challenges expressed in the company's annual report from 1970: 'even an increase in production by 11.4%, compared with the German average of just 6.5, and even increased demand for their cars could not compensate for the threat of foreign competitors in their domestic market and its own lack of success on foreign markets.'[242] It recognized that customers wanted differentiation.[243]

BMW realized that it could capitalize on the model gap between Volkswagen's small economy cars and the larger, more expensive sedans of Daimler-Benz. Under the leadership of engineer Dr. Eberhard von Kuenheim, who became CEO of the company in 1970, BMW refined its product line and focused on the performance of its vehicles. von Kuenheim's engineering background inspired him to transform BMW into a luxury brand for driving enthusiasts, making engines so well-designed that they would eventually amass a cult following. BMW's shift in production focus to superior engineering carved a new market niche for itself, one that remains lucrative even in the present.

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[241] Grace A. Ballor, Interview with Dr. Eberhard von Kuenheim, October 24, 2016.

[242] *BMW Annual Report 1970*, pp. 12-13.

[243] *ibid,* 13

Technological innovations particularly influenced the expectations on the part of luxury car consumers, for whom driving was no longer a transportation necessity, but was increasingly becoming a luxury in itself. These new technologies brought about deep structural changes across economies, felt most acutely in manufacturing and made evident in the case of auto-production.[244] Widespread mechanization resulted in a downward pressure on the demand for manual labor. Simultaneously, however, new machinery and technologies on the factory floor required a labor force more technically skilled than ever before. Thus, technological innovations in the auto sector brought about changes in market preferences and changes in work. Along with layoffs came changes on the demand side: consumer willingness to pay the prices at the high end of the market became contingent on a product's prestige, engineering, luxury materials, and updated electronic equipment. These innovations, along with the stagnation of wages amid the recessions of the 1970s and the decline of disposable income and funds needed to reinvest in durable goods like cars,[245] caused the Western European auto market to bifurcate into two preference segments: compact, fuel-efficient and cost-effective cars on the one hand, and luxury, performance vehicles on the other – in short, into the segments including Volkswagen's economy cars and BMW's luxury performance vehicles.

From Bonn to Brussels: National and Supranational Politics

Like firms from other sectors and national contexts, German automakers appealed to their domestic national government for support in responding to the American and Japanese challenge. This turn to Bonn was not unusual, given the German state's longstanding patronage-style relationship with domestic industrial companies, itself a legacy of nineteenth-century Bismarckian investment in industrial development and the mobilization of firms for the war efforts in the twentieth century.

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[244] Historically, the auto sector has boasted some of the highest rates of innovation, with radical changes in both production and product coming every few years. See: European Commission, "Automotive Industry: Comprehensive Analysis of the Evolution of the Automotive Sector in Europe – Executive Summary," 14.

[245] Barry Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond*. (Princeton University Press, 2007).

When German firms began to petition Bonn for support to fend off the challenge of global competition, the state readily implemented foreign import quotas and offered subsidies. In addition, it facilitated mergers and permitted consolidation according to the logic of creating "national champions."[246] Still, as became clear by the early 1970s, these efforts proved insufficient, motivating even German firms to bypass the relative ineffectiveness of Bonn and engage with Brussels. During this period, corporations cultivated two channels through which they related to Brussels: collective interest representation and exclusive clubs of elite networks. Despite the longevity and conventionality of organized interest groups, it was elite networks that proved to be the most effective mode of exercising influence at the European level.

When the *Bundesverband der Deutschen Industrie e.V.* (BDI), whose primary aim had been to lobby the domestic German government, opened its first office in Brussels in 1958, it did so with the support of its three-dozen German trade association member groups,[247] including the *Verband der Automobilindustrie* (VDA), the German automaker lobby.[248] The BDI's mission was then–and is still–to "[convey] the interests of German industry to the political decision-makers and in the process

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[246] Chansoo Cho, "Manufacturing a German Model of Liberal Capitalism: The Political Economy of the German Cartel Law in the Early Postwar Period," *Journal of International and Area Studies* 10, no. 1 (2003): 49. Cho makes the case that cartelization originated in Germany in the 1870s as a way to shield nascent German firms from competition. He says that while this logic seemed to undergird most nationalization and state capital relationships, the German case is particularly strong with regard to industrial firms.
Etienne Davignon also stressed the close relationships between European nation states and big corporations in an interview on June 16, 2016.

[247] Bundesverband der Deutschen Industrie, *Jahrbuch* (1958).
1958 was a pivotal year for automakers the world over, with strikes occurring at GM factories in the US,
See also: Karl Orfeo Fioretos, *Creative Reconstructions: Multilateralism and European Varieties of Capitalism* (Ithaca: Cornell University Press, 2011).

[248] The BDI is now made up of 38 associations and more than 100,000 businesses with more than 8 million employees. The VDA group alone has more than 600 members, which are divided into 6 groups and include every major German car company, as well as Original Equipment Manufacturers (OEMs), sub-contractors, suppliers, and accessories producers.
It is important to note that collective organization among German industrial firms was initially led by the SMEs, who appealed to the German state in an effort to eke out their existence *vis a vis* the large and increasingly liberalizing corporations in the 1950s, surprisingly by opposing decartelization policy proposals, which, as Chansoo Cho explained in a 2003 article, they believed would result in 'even further concentration of power, per the Spencerian logic of economies of scale.'

[provide] support for business enterprises engaged in global competition," calling itself the "network for free trade," and making the case that free trade is the only path to prosperity and healthy societies in Europe.[249] In order to achieve the success of seeing its liberal "positions implemented into political reality," the BDI maintained close contact with the heads of government, EU Commissioners, political parties, parliaments and ministers, academics and diplomats that comprised the Brussels bureaucracy. While all major German car companies maintained membership in the BDI and VDA from the 1950s, documentation of their efforts to reach consensus in spite of the multiplicity of agendas among their members reveals that these national level interest groups suffered from institutional bloat that rendered them less effective in Brussels than they had hoped.[250]

If the national-level associations struggled to shape European policy to their interests, international associations suffered even more in this regard. The constituents of the sectorally-organized interest group called the Brussels Automotive Representatives (BAR) were diverse and numerous enough that by the 1980s the group needed to bring in a general secretary from another industry entirely in an effort to find neutral common ground among its members.[251] Similarly, the Union of Industrial and Employers' Confederations of Europe (UNICE), which formed in 1958 as an international industry group with representation in Brussels, was initially the largest and most powerful business interest group in the EC but similarly faced problems of efficacy due to its size, diverse membership, and lack of strong, centralized leadership.[252] A common and persistent problem

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[249] "About Us," *BDI*, 13 January 2016, http://english.bdi.eu/bdi/about-us/#/article/news/our-mandate-our-mission-statement-our-assignments/.
Today, the BDI is an active member of Business Europe, and its participation is largely motivated by the fact that 'the EU has created a rulebook of almost 100,000 pages of rules that apply to companies of all sizes. Brussels is a crowded place, and German firms feel the need to band together to make sure that those many rules have the interests of German industry in mind.'

[250] Justin Greenwood, *Interest Representation in the European Union* (London: Palgrave, 2003), 120.
This evidence includes bottlenecking in the process of developing proposals and firm decisions to cultivate new channels of influence.

[251] Greenwood, *Interest Representation*, 120.

for all of these international industry groups in the 1970s and 1980s was their attempt to lobby for a huge number of issues, ranging from adjustments to general trade and tariff policies to the highly-specialized interests of niche producers, reducing their power to achieve any single issue.[253]

Increasingly, the largest companies in Europe cultivated direct channels of access to policymakers in Brussels via exclusive clubs of elites. The best-known of these executive clubs was the European Roundtable of Industrialists (ERT), discussed in the previous chapter. It is important to note that German car companies were latecomers to the ERT.[254] This was both because of the influence exercised over the initial membership cohort by rival CEOs, namely Pehr Gyllenhammar of Volvo and the Agnellis of Fiat, and, perhaps more importantly because according to the logic of grand bargains,[255] German corporations initially perceived a net loss in the outcome of reorienting themselves around Brussels and separating themselves from the patronage of Bonn.[256] That calculus changed by the 1980s, though, when it became clear that the locus of power in Europe was in the institutions of the EC/EU rather than in national capitals, which were becoming increasingly impotent. Even German firms realized that their needs exceeded the purview of their national

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[252] At its height, UNICE represented more than 17 million SMEs and large businesses.

[253] This evidence contradicts the arguments made by Andrew Moravcsik and Geoffrey Garrett, who argued that industrial groups promoted a single market agenda at the domestic level. Additionally, these national level associations represented just one set of voices from one Community member state, and, although German industry waxed strongest in Europe throughout the postwar period, it is important to remember that these were just a few among a growing crowd of concerns. See: Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organization* 45, no. 1 (1991): 55.
Geoffrey Garrett, "International Cooperation and Institutional Choice: The European Community's Internal Market," *International Organization* 46, no. 2 (1992): 533-560.

[254] In fact, neither Volkswagen nor BMW joined until the 2000s after the single market was complete.

[255] Andrew Moravcsik, *The Choice for Europe.* (New York: Cornell University Press, 1998).

[256] According to Jacques Delors, the German state's support for its firms was so strong that he argued that in order for the idea of Europe to work–in order for "*le Marché commun marcher*"–Germany must end its protectionism and corporatism. See: Fondation Jean Monnet pour l'Europe: Jacques Delors Archive, "Marche commun avec automobiles" – interview with Jacques Delors. JD-70 (1988): 53-72.

government and that their futures depended on having a proverbial seat at the regional policymaking table.[257]

In addition to the ERT, large corporations developed industry-specific executive clubs to appeal to Brussels. For automakers, one of the most crucial networks by which they gained direct access to policymakers was the *Comité des Constructeurs du Marché Commun* (CCMC), which became the *Association des Constructeurs Européens d'Automobiles* (ACEA) in 1991. Like the ERT, the ACEA served as a space in which big business engaged in direct exchange with the European Commission and pushed for further integration according to their own interests. As Ivan Berend described in his *History of European Integration*, the Commission reciprocated by developing the practice of submitting questions to the ACEA, which responded with "policy measures in support of the European automobile industry's structural adjustment process."[258] In this way, firms came to serve as policy consultants, even drafting Community-wide regulations for their own industries, particularly on issues like VAT tax rates and import quotas, thereby playing a major role in the harmonization process essential to integration, albeit at a cost to democratic representation in the EC and in a way that continues to fuel critiques of Brussels and its apparatus of elites.[259]

In many ways, the 1986 Single European Act marked a turning point in the relationship between German automakers, less involved in prior organizations of industrial lobbying Brussels than their counterparts from other member states, and the institutions of the European Community and

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[257] Moreover, the SEA's qualified majority voting system (QMV), implemented in 1987, did away with national veto power, augmenting the power of regional politics, and precipitating a surge in the volume and intensity of lobbying in Brussels.
See: *Single European Act*. (Brussels: Council of the European Communities, 1986).
See also: Camerra-Rowe, "The Political Response of Firms," 2.

[258] Berend, *The History of European Integration*, 149.
Archive of European Integration, European Motor Vehicle Industry: Situation, Issues at Stake, and Proposals for Action. Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee, COM (92) 166 final (8 May 1992).

[259] Multinational manufacturers were most invested in a harmonization of the VAT tax rates, the wide disparity of which inhibited their exports.

later European Union.[260] The ERT had been instrumental in this first major revision to the 1957 Treaty of Rome, which re-launched integration and initiated the Single Market Program (1985/6-1992/3). In a 1985 document related to the SEA process, the Commission prioritized the completion of a single market for automobiles,[261] which was viewed by the Commission as critical to the success of the program because of the importance of the sector to the European economy."[262] Moreover, as Pierre-Henri Laurent explained in an article on the role of elites in the Single Market Program, both firm executives and European politicians were aware that "if Europe's one internal market was brought about, the full mobilization and utilization of its productive forces and technological development capacities could be translated into a world trade role equal to Japan and the US," on the sheer basis of consumer volume alone.[263]

As was the case with multinational firms from other sectors, the primary convergence of carmaker and Commission interests occurred around issues of harmonization and standardization,[264] which together constitute the defining difference between a common market and a customs union.[265] Whereas the EEC customs union, established by the Treaty of Rome in 1957,[266] was limited to free trade and common import tariffs, a true common market required the adjustment of national norms

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260 The Commission White Paper from the 1985 Council in Milan produced a seven-year plan (spanning from 1985-1992) to complete the single market.

261 The motor vehicle industry represents about 9% of EC industrial value-added and directly employs 1.8 million people. It is estimated that one out of 10 jobs in the EC depends directly or indirectly on the automobile sector. Commission of the European Communities, Panorama of EC Industry 1990, (Luxembourg: EEC, 1990), 13-16.

262 Camerra-Rowe, "The Political Response of Firms," 10.

263 Pierre-Henri Laurent, "The European Technology Community, the Meeting of the Elites, and the Completion of the Internal Market," *Il Politico* 52, no. 2 (1987): 315.

264 It is important to note that the involvement of these firms in standardization must be understood within the context of their need to preserve certain heterogeneities across European markets, particularly with regard to labor, which is the stickiest of the Treaty of Rome's four freedoms.

265 Carol Cosgrove Twitchett, ed., *Harmonisation in the EEC.* (London: MacMillan, 1981).

266 *Treaty of Rome* (1957), Article 2.1

and standards to conform to those mutually agreed-upon at the Community level.[267] Such regional norms and standards were particularly crucial since import quotas and trade frictions like transport infrastructure inefficiencies far outweighed tariff barriers, yet they were difficult to achieve since they required unanimous buy-in from member states. Under the leadership of Etienne Davignon and Jacques Delors, the Commission established a harmonization agenda, which prioritized the creation of "all-European standards, [to] eliminate heterogeneous regulations and the huge differences in vehicle purchase taxes," for example.[268] Not surprisingly, multinational firms strongly supported the tax-centered homogenization program,[269] and Commission documents suggest, especially in the case of technology companies, that it was actually firms who first brought the standardization agenda to the Commission.[270] Harmonization remains a core value for manufacturers even today. In fact, in a recent survey of European automakers, 83% named harmonization as the most important issue to facilitate business in the region, indicating both their hope for more standardization from the policy arena and also their willingness to actively work toward it.[271]

Perhaps more than the harmonization of taxation and import restrictions, firms and the Commission alike realized the need to address non-tariff barriers to trade as well, which 'actually cover

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[267] Alan Dashwood, "The Harmonisation Process," in *Harmonisation in the EEC*, ed. Carol Cosgrove Twitchett. (London: MacMillan, 1981).

[268] Archive of European Integration, Commission Statement on the European Automobile Industry. Structure and Prospects of the European Car Industry (1981), 4, 28, 29, 33, 39, 42-44, 50 Commission communication to the Council presented on 16 June 1981, COM (81) 317 final.

[269] In this period of the 1970s, BMW referenced Price Waterhouse's *EC Bulletin*, which proclaimed the serious need for tax harmonization for manufacturers in Europe and cited another document from Speiss & Erwisch called "Symbiosis and Why We Need More than Just Economy."
See: BMW Archive: UR 860/1 and BMW Archive: UR 1027/1.

[270] Etienne Davignon's entrepreneurial inclinations and career in business support the theory that, even if the Commission was the driving force behind harmonization, his involvement could at least count in both the politics and corporations columns.

[271] Statista, "Distribution of Car Companies' Assessment of the Severity of Challenges in the Connected Car Market" (2015).
38% of European car companies listed standardization a minor challenge and 45% called it a major challenge to their business.

a multitude of abstruse, complex, and often esoteric regulations with which producers must comply before putting their products onto the markets of member states."[272] Different quality, measurement, and safety standards present barriers to trade, preserve market heterogeneity, and inhibit the scale of production, which necessarily restricts the size of companies.[273] By reducing trade friction and enabling cross-border business and collaborations, standardization would, in the estimation of Pascal Lamy's report on the 1992 Program, benefit big business as well as small and medium enterprises (SMEs).[274] Both in terms of regional policymaking and in their own business operations, automakers were particularly invested in standardization because of its knock-on effects for economies of scale. In short, the regulatory homogenization, together with industry standardization would not only complete the common market and increase trade between EC member states, but would also enable European companies to compete with their American and Asian rivals.[275] Harmonization became, in many ways, the touchstone of the efforts to re-launch the integration process in the early 1980s, first with the Single European Act of 1985 and then with the Single Market Program, which culminated in the 1992 signing of the Maastricht Treaty. From a policy perspective, the 1979 ECJ decision requiring widespread recognition of *Cassis de Dijon* as liquor set the precedent for a new approach to achieving the standardization required for a common market through mutual recognition rather than through the forcible implementation of a singular regulatory regime.

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272 *Bulletin of the European Communities* 6 (1978): 7.
See also: Geoffrey Dennis, "The Harmonisation of Non-Tariff Barriers," in *Harmonisation in the EEC*, ed. Carol Cosgrove Twitchett. (London: MacMillan, 1981).

273 *Commission on Transnational Corporations, 8th session*, UR 860/ (30 Aug – 10 Sept 1982), BMW Archive, Munich, Germany.

274 Fondation Jean Monnet pour l'Europe: Jacques Delors Archive, Pascal Lamy, "La France a l'Horizon 1992." (1992), 52.

275 Jean-Jacques Servan-Schreiber's *Le Défi Américain* named the primary threat to Europe in the 1960s as the sheer size and power of American firms, both because of the large American consumer market and because of the strong support of the American government for corporations.

Neither Volkswagen nor BMW expressed opposition to regulatory homogenization, despite their preference for some market heterogeneity. Per the logic of economies of scale, large multinationals could profit from abiding by a single set of regulations and a unified tax code across the region, rather than having to meet several different sets of national standards. In fact, it was in the Commission's standardization agenda as part of the Internal Market Program that large carmakers perceived the necessity of participating in the shaping of such regional-level standardization. Davignon described the efforts of firms to maintain proximity to Commissioners in an attempt to both influence and preempt new regional standards, and he explained that the new competition between large carmakers was in adjusting to the new standards first and beating one another to the market with them.[276] Like the Agnellis at Fiat and George Besse and Louis Schweitzer from Renault,[277] the executives of Volkswagen and BMW strongly supported the Single Market Program, which not only bolstered their confidence in regional investment, but was also responsible, in their view, for tremendous growth. In 1979, BMW's Eberhard von Kuenheim spoke of the impending enlargement to include Greece, Spain, and Portugal as a boon for the "substantial reduction in trade barriers. The spread of the global economy is too great a challenge for individual countries to be able to grow their national car industries."[278] When the Internal Market Program was completed thirteen years later with the signing of the Maastricht Treaty, von Kuenheim, still CEO, lauded the "great success for the Brussels bureaucracy, which has been often (and rightly) criticized," for forming for the first time in Europe "an economic area of over 380 million in which people, goods and ideas can move

[276] Etienne Davignon, interview by Grace Ballor, 16 June 2016.

[277] These were the representatives of their respective companies on the ERT in the 1980s and early 1990s.

[278] "Kuenheim in Europe," UU 957/10, BMW Archive, Munich, Germany.

freely…across an area from the North Sea to Malta, something that has never yet existed in the past history of this ancient continent."[279]

Whereas harmonization addresses the mutual recognition of regulatory regimes, standardization is the process of creating uniformity – of regulations, of production, and of products. Large firms like Volkswagen and BMW were not merely beneficiaries of a large common market, freer trade and lower taxes; they acted as agents of integration by implementing regional standards and norms. Indeed, while Article 100 of the EEC Treaty tasked the Council of Ministers with executing approximation laws in their respective member states, they were certainly not the only actors involved in the process of developing and realizing Community-wide standards. Not only did corporate representatives play a role in proposing and drafting standardization policies as described in Chapter III, but the practical achievement of the standards set by heads of state could only be effectively implemented by business. That standardization is essential both to the competitiveness of European firms and to the formation of a single market is made obvious by the sheer number of discreet component parts in a manufactured automobile and the tremendous resource input and labor power required for their production. As will be discussed in the following section, it was in their regional expansion that multinational automakers like Volkswagen and BMW most influenced the creation of European-wide standards for carmaking and cars.

Davignon explained that in his view, the Brussels "regulatory framework created a stable environment" in which "firms could facilitate the practical creation of the standards that make a single market."[280] As explained in Chapter III, the short-staffed, civil servant Commission relied on the expertise of corporate executives in the drafting of policy and regulation. Thus, the relationship between big business and the Commission became a kind of symbiosis: the Commission relied on

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[279] "Kuenheim in Europe," UU 957/10, BMW Archive, Munich, Germany.

[280] Grace Ballor, Interview with Etienne Davignon, 16 June 2016.

large firms with significant market share to implement industry-wide standards and, in turn, invited firm executives to consult on and even to draft regulatory standards for their own industries in a pragmatic acknowledgement that firms would be much more likely to follow standards they themselves had set and could easily follow. Convenient for both policymakers and big business, this arrangement allowed the common market to be designed by and developed for the benefit of the largest corporations. This process, which mirrored the relationships between large companies and domestic governments at the national level, effectively created new "regional champions," 'European companies' with favor in Brussels. The ethical implications of this are very significant, and the most stringent critics have decried the intimacy of select large firms and the Brussels bureaucracy as inherently corrupt and a threat to the integrity of societies across Europe. In the most objective sense, it is clear that the standardization required for a common market was achieved by the collaboration of big business and Brussels.

Over the course of the 1980s, big business involvement in policymaking and standardization through executive clubs and elite networks brought about the full realization of firms' shift in orientation from the nation state to the European Community. Brussels policymakers responded in kind. For example, one of the primary agenda items brought by European automakers to the Commission in this period was the EC's external trade policy with Japan, which they said warranted Community-wide import quota restrictions in order to stave off the competition.[281] In response, with the completion of the Internal Market Program (1992) on the horizon in the early 1990s, Jacques Delors, then president of the Commission, expressed his willingness to risk a "fortress Europe" with import quotas for Japanese producers in order to protect the European auto industry.[282] But, while no

[281] The 1957 Treaty of Rome had stipulated the removal of all national level restrictions on import quotas. See also: Justin Greenwood, *Interest Representation in the European Union* (2003), 100.

[282] Fondation Jean Monnet pour l'Europe, "Press Conference by President Delors," Tokyo-Bruxelles (24 Mai 1991), 2-3.

carmakers protested Delors' support, their circumstances were markedly different in the 1990s than they had been in the 1970s and 1980s. No longer were they operating on the margins of global and European markets; in fact, they had returned to competitiveness, even preeminence, largely by means of their regional response to globalization.

Manufacturing the Common Market

While support from the European Commission and the opportunity to advance their corporate agendas through regional policymaking certainly bolstered large European firms in their efforts to stave off competition, the need for cheap, skilled labor and robust, proximate consumer markets[283] remained unmet by policy alone. Indeed, historical data on German industrial foreign direct investment (FDI) in the 1980s reveals that the crucial target market determinants were not, as one might expect, membership in the customs union or monetary system; instead, it was the size of the host country market and the proximity of opportunity markets to the German border that made nearby European countries most ripe for investment.[284] In order to compete with American firms, for whom those criteria were easily met by their own domestic market, and Japanese firms, whose strategy of undercutting their own profits had secured their foreign market shares and who had a steady supply of cheap labor both at home and in neighboring countries, Volkswagen and BMW regionalized, and established pan-European production and distribution networks. While their markedly different production models and product lines warranted diverse approaches to regionalization, both deployed strategies that proved profitable for the firms themselves and positioned them as forces for integration.

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[283] Path dependence has some import here too, since the longstanding cultural, social, political and economic frameworks are what contribute to highly skilled, yet cost-effective populations of labor.

[284] Michael O. Moore, "Determinants of German Manufacturing Direct Investment: 1980-1988," *Weltwirtschaftliches Archive* 129, no. 1 (1993): 120-138.
See also: Nigel Grimwade, *International Trade: New Patterns of Trade, Production and Investment*. Here, Grimwade argues that regional investment was ironic given the uniformity of the tariff-free zone created by the European Community. According to his logic, firms should have either remained domestic, or expanded into markets beyond the customs union.

Volkswagen's regional investment strategy was borne out of its equal prioritization of cheap labor and robust consumer markets. Rather than produce complete units at one factory, VW organized its production along the lines of Taylorist rationale, but on an international scale: component parts were produced on a factory-by-factory basis, often hundreds of kilometers from one another; a plant in Barcelona produced stamped body parts and components, while the foundry in Kassel made gearboxes.[285] This spatial division of labor was largely informed by Volkswagen's limited model approach; from Ferdinand Porsche's sketch of his "Type 32" design in the 1930s to the introduction of its second primary brand model in the late 1960s, the beloved Beetle was Volkswagen's only car model in production. As a result, the company could justify entire factories producing single component parts, high-volume transportation, and massive assembly efforts back in Germany. As Volkswagen introduced its Type 3 and Type 4 models in the 1960s and 1970s, and as its sales demands and model lines grew, it continued its broad geographic approach to production, which necessitated both domestic and regional transportation infrastructure to facilitate shipment of its component parts back to assembly facilities in Germany and positioned it to lend political support for roadways and rail lines.

Volkswagen's production expansion was admittedly, yet reasonably, conservative in the 1960s and 1970s and was driven by the company's need to expand beyond its single Type 32 "Beetle" model and manufacture a diverse line of products, including the Golf, Passat, and Jetta. By initially forming horizontal partnerships, Volkswagen would test a production market while defraying its investment risk, then either build a wholly-owned and operated greenfield production site from the ground up, or, more frequently, it would acquire a domestic manufacturer, often its original partner company. Crucially, foreign business was conducted by its subsidiaries, which operated essentially as holding companies, beholden to the parent firm administration, yet for which the parent firm had limited

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[285] Volkswagen, *Aktiengesselschaft*, 93.

liability. In this way, Volkswagen established a huge regional production network with minimized risk. In 1965, VW acquired Auto Union GmbH from Daimler-Benz in Stuttgart, which became the independent subsidiary now known as Audi, itself forming several subsidiary companies, including the Audi Hungaria Motor Kft. in Györ.[286] In 1972, Volkswagen also signed an investment agreement with the Yugoslavian importer UNIS for the construction of a local production site. Per this agreement, the joint venture *Tvornica Automobila Sarajevo* (TAS), based in Vogosca, produced replacement parts and standard production parts for VW and its new Golf model until the war of 1992.[287]

Volkswagen's labor-intensive production model found its fulfillment in the company's acquisitions and greenfield investments in production in peripheral Europe in the 1970s, 80s, and 90s: first with the acquisition of SEAT in Catalonia, even before Spain's accession into the EC,[288] and then through more acquisitions and new factories in Steyr, Austria and Palma, Portugal in the late 1980s. But it was in the collapse of the Soviet Union that Volkswagen found its ideal convergence of highly-skilled cheap labor and robust mid-range consumer markets in the former Bloc states of Central and Eastern Europe.[289] As one of the first European companies to capitalize on the opening of Eastern Europe, Volkswagen began to produce in Bratislava, Slovakia, Poznan, Poland, Györ, Hungary, and Kvasiny, Czech Republic between 1991 and 1997, beating its global competitors to the region with both acquisitions, as was the case with the Skoda company, as well as greenfield investment, much more common since the producers that did exist in the Soviet Bloc were neither well-capitalized nor profitable. According to BMW CEO von Kuenheim, and per the logic of Krugman's economic

[286] Volkswagen, *Aktiengesellschaft,* 96,
Audi was VW's second independent brand.

[287] *Aktiengesellschaft,* 112.

[288] SEAT became VW's third independent brand.

[289] Paul Krugman, *Rethinking International Trade* (Cambridge, MA: MIT Press, 1994).

geography,[290] Volkswagen, which was "targeting a lower segment of the consumer market, found it advantageous to enter Eastern Europe and produce there, because those [employees] were also their consumers."[291] Volkswagen's investment in production in Eastern Europe in the 1990s resulted in its operation of manufacturing plants in seventeen European countries by the year 2000, many of which opened in the immediate aftermath of the Soviet collapse (1991-1999). This aggressive move into Eastern Europe in the 1990s afforded it the competitive advantage of securing cheap and well-trained labor, thus reducing production costs significantly considering its labor-intensive mode of production with tens of thousands of employees at each plant, as was the case with its factories across Germany, as well as in Mlada Boleslav, Györ, Bratislava and Catalonia. Moreover, Volkswagen increased its market share in Central and Eastern European markets to 13% by the year 2000, with 16% of its total global sales in former Soviet Bloc markets, the strongest being Poland and Hungary, followed by the Czech Republic and Slovakia.[292] In this way, Volkswagen built a production network spanning from the Iberian Peninsula to the Iron Curtain, the North Sea, to the Alps between the 1960s and late 1980s. Similarly, the French carmaker Peugeot also developed a regional production network with factories in France, Portugal, Spain, Slovakia, Austria, the Czech Republic and the Netherlands. Opel, Daimler, Benz and Volvo followed suit.

As a result of its expansive production strategy, Volkswagen saw a clear increase in its market share and profitability by the late 1980s, at one point contributing as much as 20% of the total West German industrial revenue.[293] It also motivated the company to increase the flexibility of its

[290] In his *New Economic Geography,* in which he explained: 'companies want to be close to their customers, workers want to be close to their employers, and customers and workers are the same people.'
See: Paul Krugman, *New Economic Geography*, 1990.

[291] Dr. Eberhard von Kuenheim, interview by Grace Ballor, October 24, 2016

[292] Volkswagen, *Annual Report* (2000), 36, 18.

[293] Volkswagen, *Aktiengesellschaft*, 118.

manufacturing system by decentralizing its supply chain and rationalizing its regional production.[294] A new modular kit system in which component parts for one model would work for others allowed Volkswagen to build up a huge and robust supply chain, which was controlled by its many subsidiaries. This new system eased Volkswagen's ability to produce in foreign markets during a period of mass-internationalization of production. The system of subsidiary production was not only profitable for parent companies like Volkswagen, Fiat, Daimler, and other multinational European automakers, but it was also a boon to their host markets. By some accounts, subsidiaries contributed almost half of all manufacturing output in Belgium and a full quarter in Germany. Time-series maps of Volkswagen's FDI also correlate with the chronology of EC member state applications in the 1970s, 1980s, and 1990s, revealing the extent to which Volkswagen's investment confidence was bolstered by the promise of future Community infrastructure, development and support. By 2015, more than 80 of the auto group's 120 factories were in Europe, with distribution and sales in all of its host markets.

The issue of labor economization warrants further analysis, as it was one of the primary motivations behind the transformation of European companies from various national origins into multinational firms, especially in manufacturing. One BMW report from 1979 lists the high cost of unionized labor in West Germany as 24,50 Deutsche Marks (DM) per hour, while the same labor would cost DM 17,81 in Japan, BM 17,80 in the US, DM, 17,57 in Austria, and, shockingly, DM 13,65 in France, DM 12,80 in Italy and BM 9,55 in the UK.[295] In fact, as a result of the rise of the strong postwar welfare state, wages were the fastest growing cost category for large companies in Western Europe. Additionally, labor mobility proved to be extremely sticky, despite the Treaty of Rome agreement to allow for the free movement of labor. With no cheap labor supply available in their own home markets, manufacturers had to look to foreign markets for employees, all the while hoping that

[294] Volkswagen, *Aktiengesellschaft*, 119.

[295] "Ansprachen - Reden 1979," UR 4850-1, BMW Archive, Munich, Germany.

those employees would also be consumers since the long sales cycles of durable goods like automobiles rendered the size of their home consumer markets insufficient to meet their growth goals *vis a vis* the Americans and Japanese. While an investigation into whether the impetus behind moving into a particular market was driven more by opportunities for labor or consumption is a bit of a chicken and egg question, the evidence reveals that in the peripheral markets that most attracted foreign investment from the European core, both labor and consumer markets were robust.

At its Bratislava factory, which it acquired in 1991, Volkswagen reduced its labor and benefits cost per employee from $40 per hour in Germany to just $6 per hour, a tremendous boon to labor-intensive production.[296] While this was certainly a payroll savings for the parent company and resembles the kind of exploitation critics of capitalism protest, Volkswagen paid twice as much as the average domestic wage in these markets and thereby contributed to an increase in the domestic GDP of its subsidiary host countries. In this respect, manufacturers like Volkswagen sought out labor market differences. In fact, its very status as a multinational firm was contingent on such heterogeneities, especially because, unlike its German labor force unionized under the collective bargaining giant IG Metall,[297] its foreign labor forces did not benefit from such robust organizations. Like other European manufacturers with production in Eastern Europe in this period, Volkswagen paid their foreign employees less 'simply because they could.' Thus, for all of the progress made with economic integration, there was very little labor market integration in terms of efforts to homogenize or set standards.[298] What is more, despite the longstanding Treaty of Rome agreement to allow the

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[296] Bernhard Rieger, *The People's Car*. (Cambridge: Harvard University Press, 2013).

[297] IG Metall offered an elaborate conflict resolution mechanism to prevent striking, and under its membership, workers were additionally protected by the German constitution's support for works councils, which preemptively solve tensions between management and employees.
See: Kevin C. Brown, *Remapping Debate*, 2011.

[298] Due to its markedly different production process, BMW was largely exempt from these labor market concerns. According to von Kuenheim, labor costs accounted for as little as 5% of the final cost of BMW's cars. Instead, its highest

free movement of labor, the human realities of labor migration in Europe kept the volume of movement low, preserving the supply of cheap labor in peripheral markets for firms like Volkswagen.[299]

BMW's luxury, German craftsman brand identity, developed in the 1970s under the leadership of von Kuenheim following decades of failure to compete in the economy and family sedan market segments, precluded its largescale manufacturing expansion beyond the West German border. Yet, von Kuenheim, who dismissed Japanese production as "cheap imitation" and cited reasons of path dependence and backwardness in his decision against production investment in the former Soviet Bloc, implemented a decidedly Japanese approach to European manufacturing.[300] In response to the downturn of the 1970s and the company's inability to both make its growing payroll and cache reserves for expansion, BMW determined rationalization to be 'the most important way out.'[301] As a means of scaling production and maintaining tight quality control, BMW embraced "system sourcing," by which it sub-contracted much of its component part production to an immense and elaborate web of suppliers, most of which were small, often family firms who focused on producing a single specialized part under contract.[302] By 1984, BMW sourced parts from more than 1,200 such suppliers across Europe, who, in turn, cooperated with between four and five thousand sub-contractors, about half of which were located in Germany and the other half split evenly between Western and Eastern

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costs – as much as 50% – were attributable to subcontractors, who, as explained previously, produced the majority of BMW's component parts, leaving only the tasks of research and development and assembly for its in-house teams. See: Fondation Jean Monnet pour l'Europe: Jacques Delors Archive: "Entretien du President avec M. von Kuenheim," Bruxelles (22 July 1992). JD-1717, 1-5.

[299] The Treaty of Rome promised the free movement of labor across the customs union and then common market, but data indicates that movement proved quite sticky, causing labor-seeking firms to move operations to new labor markets at much faster rates than labor moved to firms.

[300] Dr. Eberhard von Kuenheim, interview by Grace Ballor, October 24, 2016.

[301] *BMW Annual Report 1970*, p. 13

[302] "Möglichkeiten Industrieller Kooperationen," (1979), UR 4850-1, BMW Archive, Munich, Germany.

Europe.[303] One historical account estimates that in the 1980s and 1990s, these suppliers and sub-contractors were responsible for fully two thirds of the work of producing BMW cars.[304] In this way, BMW was able to rationalize its production and keep overhead and labor costs at bay, especially because their small, family-run sub-contractors were largely un-unionized.

Commission Vice-President Etienne Davignon explained that BMW's incorporation of these small and medium enterprises (SMEs) positioned BMW to play a major role in the standardization requisite to transform the Treaty of Rome's customs union into a veritable common market and overcome the many non-tariff barriers to trade that resulted from the heterogeneity of both markets and differing domestic regulations.[305] By its sheer volume and through its vast supply chain, BMW facilitated the standardization of both production and products according to the EC's safety, environmental and metric criteria, which it also had a hand in drafting.[306] What is more, with their forward and backward linkages, the business operations of both BMW and Volkswagen served as a force for standardization for their raw material suppliers as well as their supply chains. Additionally, their widespread operations in the region motivated these automakers to lobby for renewed investment in the pan-European transportation infrastructure on which their extensive production networks relied. [307] Distribution was equally reliant on pan-European infrastructure: whereas Volkswagen's transportation interests aligned for both its production and distribution networks, BMW

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303 Manfred Grunert and Florian Triebel, *Das Unternehmen BMW seit 1916*. (München: Bayerische Motoren Werke, 2006), 196.
Dr. Eberhard von Kuenheim, interview by Grace Ballor, October 24, 2016.

304 Grunert and Triebel, *Das Unternehmen BMW seit 1916*, 189.

305 *Bulletin of the European Communities* 6 (1978): 7.
See also: Geoffrey Dennis, "The Harmonisation of Non-Tariff Barriers," in *Harmonisation in the EEC*, ed. Carol Cosgrove Twitchett. (London: MacMillan, 1981).

306 Etienne Davignon, interview by Grace Ballor, 16 June 2016.

307 "Die Bedeutung Leistungsfähiger Internationaler Verkehrs Wege fur die Bayerische Wirtschaft," UR 4850-1, BMW Archive, Munich, Germany.

required sufficient infrastructure to support its "just-in-time" system-sourced production across Germany, Western and Eastern Europe, a strategy to reduce inventory and deliver products as ordered, which was as cost-effective as it was resonant with BMW's boutique brand identity. The company's full-service "European Delivery Plan"[308] directed the production of made-to-order cars to its target markets of affluent, "discerning" consumers in Scandinavia, Northwestern Europe and the UK, where it had built up an infrastructure of service centers and show rooms to cater to its enthusiast drivers and dispel any apprehensions about maintaining a foreign-made car.[309] This regional production and sales strategy positioned BMW, like Volkswagen, to advocate for the material infrastructure of a European common market on which its own business depended.[310]

The relationship between multinationals and the integration process evolved further during the period from 1975 to 1995 when European firms began to merge at a frenetic pace. This "merger mania"[311] was borne out of the need, as Servan-Schreiber described it, for European firms to reach a certain size in order to be able to compete with giant American companies.[312] While American companies engaged in both horizontal and vertical mergers during this period, giving them maximum control over every aspect of supply, production, or sales related to their core industries, European firms focused on horizontal mergers – the consolidation of power within industries into the hands of fewer larger firms – in order to match the size of their American rivals. Every industry in Europe

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308 "Letter from BMW Aktiengesellschaft (Bullock and Schweickhardt) to the BMW Concessionaires (Mr. Morris-Marsham) in London," UA 824, BMW Archive, Munich, Germany.

309 In the company's annual report from 1970, BMW executives identified 'their most important foreign markets the EEC and EFTA countries as well as the USA.' See: BMW Annual Report 1970, p. 14.

310 One of the earliest meetings of the European Roundtable of Industrialists produced a document called "Missing Links," in which the group identified the road and rail infrastructure needed to connect the more remote parts of Europe to its core.
See: *Delors Meets with Business Roundtable*. Express, September 1985. 48.

311 Berend, *The History of European Integration*, 150.
See also: Alfred Chandler, *Leviathans: Multinational Firms and the New Global History*. (Cambridge University Press, 2005).

312 Jean-Jacques Servan-Schreiber, *Le Défi Américain*, 1967.

experienced this kind of consolidation, often facilitated by national governments, for whom regulation was made significantly easier as a result.[313] The auto industry was no anomaly in this respect. As Ivan Berend calculated, "between 1970 and 1986, there were twenty-three horizontal mergers and acquisitions and thirty-three major joint ventures" in auto production alone.[314] BMW was explicit about its constant search for horizontal partnerships and cooperations in its sector, and, in a 1979 document called "Möglichkeiten Industrieller Kooperationen," surveyed its existing partnerships and outlined prospects for future ones, motivated, as it said, by competition with the US and Japan.[315] As a smaller carmaker relative to its German, Asian, and American counterparts, BMW determined that it would need to "utilize industrial cooperation" and "collaborate" in order to compete in scale and scope.

Throughout the postwar period, the largest firms in Europe grew ever larger through consolidation. Volkswagen AG acquired eleven diverse independent brands between 1960 and 2000 and incorporated the control of their production facilities, supply and value chains and sales and distribution networks into its parent company. These VW subsidiaries both represent Volkswagen's strategy of remedying the shortcomings of its previously limited model product line with market-tier diversification and the ownership of brands at all market levels and also illustrate the breadth of Volkswagen AG's reach across the European region. BMW also made several important brand acquisitions in the 1980s, 1990s, and 2000s, mostly in the UK, its target market for high-end consumers outside of its native Germany. It bought Rolls Royce and Mini Cooper and owned the

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313 In fact, regulatory streamlining was a primary incentive for allowing mergers, consolidation, even cartelization, both at the national domestic level and at the EU level.

314 Berend, *The History of European Integration*, 210.

315 "Möglichkeiten Industrieller Kooperationen," (1979), UR 4850-1, BMW Archive, Munich, Germany.

Rover Group for a brief period in the 1990s, thereby further embedding itself within the British market.

During the recent debates leading up to the British referendum on EU membership, Mr. Muller-Otvos, chief executive of Rolls-Royce Motor Cars, a subsidiary of the BMW group, explained the extent to which BMW is inextricably rooted in the British market and articulated the crucial importance of Britain's continued membership in the common market for the BMW Group: "Free trade is important for international business. Rolls-Royce Motor Cars exports [automobiles] throughout the EU and imports a significant number of parts through the region. For BMW Group, more than half of Minis built and virtually all the engines and components made in the UK are exported to the EU, with over 150,000 new cars and many hundreds of thousands of parts imported from Europe each year." The sheer volume of cross-border business reveals just how extensive the auto group's production and sales networks are across the region and the degree to which auto markets in Europe were increasingly consolidated into one, which corporate executives describe as "free," providing their interests are protected. This case also sheds light on a much deeper and further problematic political issue, since the United Kingdom's decision to leave the EU was predicated on a narrative that the elites in Brussels maintain undemocratic control over Europe. This chapter adds a new element to that narrative since opposition to EU membership in the British rust belt was also closely connected to the history of foreign firms like Volkswagen and BMW acquiring British car companies with the blessing of Brussels and the German state, and steering them through the structural changes that resulted in the decline of manufacturing employment and the marginalization of industrial workers in what became an increasingly service economy.[316]

Impact of Regionalization

[316] The fact that Niedersachsen maintains an 11.8% ownership stake in Volkswagen motivates critics to decry the German firm's foreign investment as a kind of new German colonization.

There remains much debate among business historians about how to measure the size and success of firms.[317] Comparative market share data takes into account the wide variance among firms with different market orientation and from different national contexts and allows us to evaluate the impact of regionalization on the firms themselves. By the late 1970s, Volkswagen became the leading automaker in Europe, increasing its market share from 11 to 18% between 1973 and 2003.[318] By the 2010s, Volkswagen was producing nearly one quarter of all cars purchased in Europe. The French Peugeot, which also regionalized during this period, experienced similar growth from 5 to 15%. In contrast, Fiat, Renault and Volvo, which, despite their close ties to the Commission via the European Roundtable of Industrialists, did not regionalize, stagnated and even declined in their overall European market shares. During the same period, Ford and General Motors did not make any gains in their share of the European market, and the Japanese firms, predominantly Toyota and Nissan, experienced only a modest increase in European market share from 7 to 12%. While BMW's overall European market share was significantly lower than that of Volkswagen and Toyota, largely because of the difference in demand for luxury vehicles over budget cars, BMW's 1999 Annual Report stated: "Europe remains by far the BMW Group's leading market, accounting for 64.4 % of the Group's overall sales," compared with just 23.5% in North America and 12.1% in Asia.[319] As a result of its regionalization, BMW quadrupled its share in the European market from a meager 1% in the early 1970s shortly after considering bankruptcy, to more than 4% of the European market by the 2000s. Moreover, by the 2000s, BMW ranked among the most profitable carmakers in the world, thanks to the wide margin between its luxury brand sales prices and cost-effective sub-contraction of

[317] In his comprehensive text on big business, Youssef Cassis evaluates common methods of evaluating firm size and success, an issue particularly important in comparative and transnational studies of companies.
See: Youssef Cassis, *Big Business: The European Experience in the Twentieth Century.* (Oxford: Oxford University Press, 1999).

[318] D. Garel Rhys, The Motor Industry in an Enlarged EU," *The World Economy* (2004): 883.

[319] BMW, *Annual Report 2009*.

production. In short, consistent with the findings of Alan Rugman and Simon Collinson, the success of a European automaker in this period is closely connected to the degree to which it regionalized in response to globalization.[320]

More than the individual successes of these particular firms, the aggregate power of the European auto industry *vis a vis* that of the US and Japan reveals the impact of regionalization. According to Jacques Delors, "whereas the American car market was more than 25% superior to that of Europe in the mid-1970s, by 1988, even before the political Single Market Program was complete, the European Union auto market had surpassed the American market with roughly 10% more registrations."[321] Not only had the European market widened to include Greece and Spain and Portugal, growing to 320 million consumers, but more importantly, it had deepened, become more cohesive, homogenous and standardized, changes initiated by policymakers, but advised and implemented by firms. As a result, Europe was once again competitive with America and Japan, both at the firm level and at the macroeconomic market level.

Chapter III made explicit the fact that Commission heads Jacques Delors and Etienne Davignon credited big business – manufacturers in particular – with achieving the common market. In response to global competition, Volkswagen and BMW, along with big businesses from other sectors and member states, facilitated the completion of the common market by regionalizing their production and distribution, transcending their German identities and becoming truly European companies.[322] It is crucial to keep the motivations of these firms in context. While Volkswagen and

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[320] Alan Rugman and Simon Collinson, "Multinational Firms in the New Europe: Are They Really Global?" Indiana University, Kelley School of Business. Working Paper 2005-12.

[321] Jacques Delors, "Marche commun avec automobiles." Interview by publication. 12 January 1988. 53-72.

[322] Community Regulation no. 2157/2001 created the "Statut de la Société Européenne" designation, which acknowledged both the economic and social status of firms in the region, with an initial share capital requirement of €120,000, a head office in a European member state (or a holding company headquarter, in the case of foreign subsidiaries), and close consultation with employee representatives.

BMW's operational networks across the region and increased cooperation with Brussels in the 1970s, 80s and 90s facilitated the completion of the common market, their regionalization was motivated solely by their own bottom lines, by their own need to compete with rival carmakers from the US and Asia, and by their pursuit of profit. They were not dedicated Europeanists, nor did they share in a federalist ideology. Simply by serving their self-interests, these large manufacturers effectively integrated European markets and helped to finally fulfill the vision put forward by the visionary federalist founders decades prior.

Chapter V: Investment Banking during Decolonization, Integration, and Globalization: The Case of the *Banque de Paris et des Pays-Bas* in Twentieth Century Europe

> "Founded a hundred and twenty years ago by bankers from all over Europe – Germans, English, Swiss, Danish, and of course French – *Banque de Paris et des Pay-Bas* stood at the crossroads of a Europe still in its formative stage. Since then it has never deviated from its European mission, either as regards its industrial investments, its banking activities or its role on the international capital markets."
>
> Michel François-Poncet and André Lévy Lang[323]

> "In order to establish the *New Europe* [on the eve of the single market], the banks must look to the spirit of the 1870s for inspiration. Perhaps some have not yet made the break with the nationalist ethos of the inter-war period. From this point of view, the *Paribas* group can serve as a historical reference point, for its original European and more broadly international vocation has never been abandoned. This is an essential part of its identity."[324]
>
> François Caron[325]

While the American challenge to Europe began with the invasion of US manufacturers and automakers, it quickly evolved to a trans-Atlantic competition between banks and financial institutions as well. Beginning in the mid-1960s, American banks moved into Europe *en masse*, "as followers or escorts of US multinationals," capitalizing on the need for investment capital to fund industrial

323 Michel François-Poncet and André Levy Lang, "Foreword," in Eric Bussière, *Paribas: Europe and the World, 1872-199*2. (Antwerp: Fonds Mercator, 1992), p. 7.

324 Corporate identity is a hotly contested concept among business historians, although popular among management scholars. It is nearly impossible to decipher and is often indistinguishable from marketing strategy, obfuscating the fact of being what a firm *is* with market opportunism. In this case, *Paribas'* commissioning of a Eurocentric corporate history by a historian of European integration on the eve of the completion of the 1992 Single Market Program reveals the bank's self-conscious cultivation of a 'European identity.' In the foreword to Eric Bussière's 1992 book on the bank, Chairman of the Supervisory Board Michel François-Poncet and Chairman of the Board of Management André Lévy Lang described themselves as "committed Europeans," who felt that the "time [wa]s ripe, with the setting up of the Single Market, for the publication of a work which provides a broad outline of both our bank's European history and its international calling" (Bussière 7). It was during this period that the bank also branded itself the 'Bank for Europe.' Moreover, the bank's commitment to its open archives and the mission of its l'Association pour l'histoire de BNP *Paribas* further reveal its efforts to position itself as a European enterprise.
See also: Pierre de Longuemar et Laurence de Saizieu, "Nouvelles des Archives: l'Association pour l'histoire de BNP *Paribas* dans le context de l'histoire des entreprises à la Française," *Entreprises et Histoire*, no. 48 (2007), pp. 125 à 135.

325 François Caron, "Introduction," in Eric Bussière, *Paribas: Europe and the World, 1872-199*2. (Antwerp: Fonds Mercator, 1992), p. 15.

projects abroad, and also escaping domestic regulatory constraints on foreign lending.[326] Within just a few years, the growing network of American banks in Europe dominated Eurocurrency – Eurodollar, Eurocredit, and Eurobond – markets. That Bretton Woods convertibility and the dawn of liberal international order in trade and finance fueled the success of American banks in Europe in this period reveals the degree to which this postwar insurgence of US finance was not merely a return to the state of international banking from the first wave of globalization (1880s-1930), but was rather indicative of major structural change. Initially, the ability of American investment and commercial banks to ironically exploit the European financial innovations developed during postwar reconstruction – *apropos* of the opportunism of American manufacturers in Europe observed by Jean-Jacques Servan-Schreiber – breeched what had been a "virtually impenetrable fortress" Europe,[327] and the American share of Eurobond market topped that of all European shares in aggregate.[328] European banks responded weakly to this challenge at first, with only a few German *universalbanken* and British merchant banks able to 'stand up to American hegemony,' and most banks, the French in particular, failing even to participate in the Eurobond competition. By the 1970s, however, the collective response of European banks became much more dynamic, "aggressive and successful."[329]

This chapter examines the response of European investment banks to the American challenge through the case of the French investment bank *Paribas*. The *Banque de Paris et des Pays-Bas*, created through a merger in 1872, developed a highly international portfolio from its inception, with investments spanning from Western Europe to Russia, Africa to China, and the Middle East. In response to the intensive wave of globalization discussed in Chapter Two, *Paribas* made two significant

[326] Stefano Battilossi, "Introduction: Historical Perspective," in Stefano Battilossi and Youssef Cassis, eds., *European Banks and the American Challenge.* (London: Oxford University Press, 2002), p. 2.

[327] Battilossi, "Historical Perspective," 27

[328] *ibid*, 18

[329] *ibid*, 2

changes in its business. First, it altered the areas of activity in which it invested, moving away from public services and toward industrial financing and, increasingly toward the end of the twentieth century, to financial products. As a result, the bank became closely connected to the real economy in the postwar period. Second and most importantly, *Paribas* shifted the geographic distribution of its investment portfolio, withdrawing from foreign regions and focusing increasingly on its "home" region of Europe.[330] Whereas the instability and conflict of the Second World War had prompted the bank to seek more secure markets outside of conflict-ridden Europe, the destabilizing effects of decolonization combined with the immediate threat of American competition motivated *Paribas* to withdraw from its holdings in Africa, the Middle East, and Latin America, in favor of intensified investment in its home region of Europe. By the 1980s, nearly 90 percent of *Paribas'* holdings were in Europe. Ironically, then, the bank shifted from being itself a force for globalization, to reacting defensively against it by regionalizing instead.

Despite the fact that British banks bore the brunt of the American challenge, the French *Paribas* serves as an ideal case through which to examine the response of banks in Europe to the American challenge for several reasons. First, since it was investment banks that moved into Europe from the US in pursuit of US multinationals in the postwar period, a European investment bank provides the best case by which to examine the European response to the 'invasion.' Second, as noted above, few banks marshalled an effective response to the takeover of the Eurobond and Eurocredit markets by Americans, and French institutions of finance were notably absent from the contest, with the exception of *Paribas* and *Crédit Lyonnais*, both of which did engage US banks in Eurobond market competition. Third, as an investment bank, *Paribas* not only provides a window into the banking sector,

[330] Several European-headquartered companies began to use the language of "home market" to describe the European region during the 1970s and 1980s, reflecting their support for the integration project and the impact such developments had on their business.
See: HB8TNB: Harvard Baker Library; Siemens AG 1988 Annual Report

but also sheds new light on the state of competition and development in utilities, public services, infrastructure, and industry in this period as well, revealing much about the European real economy in these transformative postwar decades.[331] Finally, *Paribas* weathered the storms of the postwar period better than most of its counterparts on the continent, avoiding nationalization until the 1980s, successfully acquiring several other smaller banks, establishing a widespread presence across the region, and eventually becoming one of the most successful banks in the world, and as a conglomerate with the *Banque Nationale de Paris* (BNP) in the twenty-first century, the second largest in Europe by total asset value.[332]

This analysis of *Paribas'* response to the American challenge reveals first the strategies by which the bank survived globalization, which tells us a great deal about the methods by which European banks proved resilient in the face of globalization and adapted to the structural changes in international finance and political economy of the 1960s, 70s, and 80s. More importantly, however, a historical examination of the bank in this crucial period reveals the ways in which its regional response to globalization contributed to the process of European integration. Because the movement toward a European Monetary Union and the implementation of the common currency dominated financial debates in Europe during the 1990s, relatively little attention was paid to the realities of a common banking market. Indeed, very little scholarship on European integration has assessed what the Single Europe Act and 1992 Program meant for the banking sector, and still less has considered the relationship between these developments in regional integration and the financial institutions that make up the sector.[333] This chapter argues that by reinvesting in its home region in the wake of

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[331] In many documents, bank executives refer to *Paribas* as a "merchant bank," which, in modern parlance, is synonymous with "investment bank." What is more, most banking histories and studies of financial institutions have focused on retail banks. By examining the case of *Paribas*, this chapter contributes to an understudied segment of scholarship.

[332] Statista, "Largest Banks in Europe 2017:" https://www.statista.com/statistics/383406/leading-europe-banks-by-total-assets/

globalization, *Paribas* facilitated the development of European capital markets and also supported the growth of regional industrial projects. In turn, the industrial projects in which the bank invested, many of which were transnational or focused on transport and communication infrastructure, facilitated the development of an integrated, single market.

A brief history of the bank's heritage and early growth, along with a detailed study of its wartime survival strategy of global investment, together provide a context for the bank's subsequent regional strategy in the postwar period. In fact, *Paribas'* business strategies during its early years and its experience as a successful *banque d'affaires* prepared the bank to respond to the competition in foreign issues and industrial financing that characterized the contest of globalization.[334] As later sections will describe in more detail, *Paribas'* regional approach in the wake of globalization, at the center of which were the bank's various business networks, was not actually a new one: the bank had developed networks of branches, subsidiary banks, partnerships, and associations throughout its history, the core of which were located in Western Europe, and the extensions of which expanded into Central and Eastern Europe and beyond to other regions of the globe. Adapting Eric Bussière's description of these networks as "concentric circles" emanating out from the joint headquarters in Paris and Brussels in rings that reached the "edges of Europe" and eventually "covered the whole continent," this chapter offers a multidimensional analysis of *Paribas'* various networks in the postwar period, which are similarly geographically situated.[335] The bank maintained head offices and branches in Western

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333 Emmanuel Mourlon-Druol's current EURECON project will investigate some elements of this question, insofar as they pertain to the EMU.

334 From the type of activity it conducted to the regions in which it facilitated capital transfers and investment financing, *Paribas'* business strategies during its early decades paved the way for similar activity in the postwar period, which would preserve its standing amid the threat of globalization.

335 In Bussière's schematic, at the heart of the concentric circles is an inner circle comprised of head offices and branches located in Western Europe, beyond which is a second circle of capital importers in Italy, Austro-Hungary, and Scandinavia, and finally an outer circle of Spain, Russia, and the Balkans, which *Paribas* described as beneficiaries of the bank's capital and financial expertise, and others, like the skeptic Rudolf Hilferding, described as an attempt at investment hegemony. See: Bussière, *Paribas,* 56

Europe, opened subsidiary banks in Central, Eastern, and Mediterranean Europe, and engaged in mergers and acquisitions across the region, participated in industry associations and partnerships with peer banks, formed and funded organized interest groups, benefitted from the social capital of its elites and executives, and developed a secondary network of beneficiary industrial firms in which it invested.[336] By examining these networks as mechanisms through which the bank became the investment "Bank for Europe" and reclaimed its prominence in European capital markets, this chapter will also shed light on impact of *Paribas'* regionalization on the integration process.

The Bank's International Origins and Experience of World War

Paribas' history is inextricably linked to the history of Europe at large and indeed parallels the region's trajectory in many ways. The bank was founded during the bipolar period of the late nineteenth century, characterized by robust economic growth and the rise of international banking amid the first wave of globalization on the one hand, and a climate of 'armed peace' and increasing competition among imperial powers on the other. During this period and driven by the need for empires and their colonies to finance large scale projects, international banking activities expanded, as did the liquidity controlled by banking institutions. Amid this boom in international finance and during the competition with the Rothschilds to finance the payment of war reparations from France to Germany after the Franco-Prussian War, two *haute banques* (large, private merchant banks), the Banque de Paris, founded by a collaboration between the Bischoffscheims, a German Jewish banking family that had helped to establish *Société Générale*, and the *Banque de Credit et de Dépôt des Pays-Bas*, which invested primarily in industry, merged together to form *Paribas*. British, German, Swiss, Danish, Dutch, Belgian and French financiers joined together to shape the new bank.[337] In its early years of

336 François Caron, "Introduction," in Eric Bussière, *Paribas: Europe and the World, 1872-1992*. (Antwerp: Fonds Mercator, 1992), p. 15.

337 Nicolas Stoskopf, "What is the Parisian "haute banques" in the nineteenth century?" *Journée d'études sur l'histoire de la haute Banque* 2000, France. https://hal.archives-ouvertes.fr/hal-00441164/document

operation, the bank maintained joint headquarters, which it called "houses," in Paris, Amsterdam, Brussels and Geneva.[338] Thus, the bank was highly international and European from its inception, although, Paris soon became the epicenter of banking on the Continent as a counterpoint to the City of London. As capital increasingly flowed into the French capital, *Paribas* shifted its center of gravity there as well. The primacy of Paris as a financial center was further proven by the US monetary crisis of 1907 when the *Banque de France* with its high savings rate and unrivaled gold reserves intervened in a country several times its size. By the early twentieth century, *Paribas* had become a 'French' bank, while still maintaining what Bussière called the '*Paribas* system' of flexible organization with networks of corresponding banks and subsidiaries across Northwestern Europe.[339] Still, maintaining several centers or "houses" in this period afforded the bank the opportunity to approach companies and governments from the national context most advantageous to doing business. As British shipping and thus London's prominence as a financial center waxed in the late nineteenth and early twentieth century, *Paribas* marshalled its multi-nodal structure into partnerships with British banks, giving it a foothold in an increasingly important market. As the *fin de siècle* gave way to the twentieth century, the bank's accounts mirrored that of the larger West European and indeed the world economy; "[s]uch a correlation suggests that a close reciprocal relationship existed between the activities of a bank like *Paribas* and economic forces at both a national and an international level."[340]

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338 The Bank's early success was thanks in large part to the Bischoffsheims, a legacy banking family in Western Europe, who facilitated the union of the two banking houses and lent to the new enterprise its esteemed reputation.

339 Again, nationality and national identity are contested concepts in business and management studies. In the case of *Paribas*, its management and epicenter were increasingly oriented around Paris, and it had traded its early Belgian and German style for traditionally French business strategies. That the pattern of its investment closely resembled the map of the French empire in this period provided further evidence of *Paribas'* alignment with France in the late nineteenth and early twentieth century. The one area in which the bank behaved as more of a Belgian institution than a French one was in the preference of the directors to conduct business in a neutral, European way, rather than a provocative nationalist one.
See: Bussière, *Paribas*, 33, 82

340 Bussière, *Paribas,* 59-60

Paribas was born into the *Crédit Mobilier* tradition: in which merchant banks founded industrial companies and managed them at a profit. By adopting this business strategy and by issuing bonds in heavy industry and in international markets, the bank quickly developed into one of the first and most successful *banque d'affaires*, whose business centered equally on government stock bonds and business financing.[341] From Russia to Iberia, the Ottoman Empire to Austria, *Paribas* invested intensively in such heavy industries as railways, steel mining, construction and manufacturing, and by so doing, it supported the developments of the Second Industrial Revolution and contributed to the robust industrial economy of the early twentieth century. *Paribas'* growth during this early period in its history mirrored the growth of the European economy. The bank's total value increased nearly 4 times between 1872 and 1913, and European GDP increased by 2.5 times in the same years.

The two world wars shocked both the European economy and *Paribas*. From 1914 to 1945, trench warfare, aerial bombing, infantry combat, and the intervening depression destroyed the transportation networks, communication infrastructure, and stability required for cross-border business. Although *Paribas* had responded creatively to the constraints and cautious optimism of the interwar period and had financed much of the reconstruction effort in France and in Central and Eastern Europe by funding technological development, public utilities, and heavy industry, its investment in the region was eroded by the depression and the restrictions on capital movements and currency convertibility that followed. It suffered huge losses again when armed conflict resumed in the late 1930s. As the economy contracted amid the Second World War, so too did *Paribas'* networks, investments, and total asset value, which was reduced to a tenth of its prewar total.[342] In an effort to secure its capital, *Paribas* relocated a significant portion of its portfolio to other regions of the globe – primarily French colonies in the Third World – including Africa, which received as much as 25% of

[341] Bussière, *Paribas*, 19, 59

[342] *Paribas Annual Reports* 1938, 1945

Paribas' total investment during the so-called 'Thirty Years War' of the Twentieth Century, the Near and Middle East, where the bank invested as much as 7% of its capital in this period, and Latin America, where *Paribas* invested as much as 40% of its total capital during these decades of conflict.[343] By the end of the Second World War, just 20% of *Paribas'* capital was in France, and less than 50% total in both Western and Eastern Europe. Even these efforts to safeguard its assets against the threat of war proved insufficient; its balance sheet reveals steep losses during the decades of conflict. By 1945, the bank's net asset value was just one tenth of its prewar total.[344]

Following the wars, France, like many other European states, implemented protectionist measures in an effort to recover economically. One such protectionist measure was the nationalization of major strategic companies and industries, which placed these entities under domestic government control and ensured that French money would support the French economy – a kind of national vocation. In a radical shift of political economy, the liberalism that had fueled international business in the 1880s, 1890s, and 1900s was supplanted by rigid economic nationalism. There was certainly a rationale for this shift, though: throughout the early 1900s and until as late as 1914 Western European banks had funded the German and Austrian operations that became part of the offensive war effort. Thus, nationalization had a punitive dimension. Moreover, national governments, motivated to pursue rapid recovery, sought to divert all resources toward reconstruction. By nationalizing the *Banque de France*, as well as the major commercial banks like the *Crédit Lyonnais* and *Société Générale*, the French state could set the agenda for the country's banking sector.[345] Although it was certainly economically

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343 Bussière, *Paribas,* 307

344 *ibid,* 145

345 Alain Plessis, "A History of Banks in France," *Fédération Bancaire Française.* (Edward Elgar Publishing, Ltd. 2003): http://www.fbf.fr/en/files/888HK2/History_banks_france_EN.pdf
According to Plessis, the nationalized banks "played only a secondary role in the reconstruction and modernization of the economy," in part because the fourth and fifth economic plans by the French state restricted the opening of new branches and the range of permissible activity by these banks until the Debré Laws of the mid-1960s.

important to the French government as the largest investment bank headquartered in the Hexagon, *Paribas* escaped nationalization in this period thanks in large part to the fact that President Charles de Gaulle's Minister of Finance, Christian Pineau, who began his career at *Paribas*, advocated for the bank to remain private. Pineau's advocacy and de Gaulle's support afforded the bank the privilege of remaining private until Mitterand nationalized the entirety of the French financial system in the mid-1980s. While most other nationalized banks were compelled to limit their activities to the French borders, private control throughout the mid-twentieth century enabled *Paribas* to continue to develop its highly international business – although the rise of financial centers did attract a significant portion of the business being relocated.[346] Moreover, private control allowed the bank sufficient elasticity to respond to the new postwar climate with both speed and creativity. With full autonomy, *Paribas* appointed new management in the postwar years and adopted new business strategies – all informed by the experience of the war and crisis.

That *Paribas'* business model as an investment bank relied on liberalized political economy was never more obvious than in the recovery period of the 1950s and 60s. After reconstruction of the decimated region was facilitated, at least in part, by the US Marshall Aid, a new world order was established, complete with new international institutions and agreements including the General Agreement on Tariffs and Trade (GATT). This agreement, signed in 1964, fueled a massive surge in international trade. For the same reasons that the bank thrived in the liberal *fin de siècle* period, namely liberal policies and unfettered access to foreign markets, *Paribas* experienced exponential growth in the liberal 1960s. In fact, in 1968, its net asset value was five times greater than that of its low point in 1952.[347]

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[346] Catherine R. Schenk, "International Financial Centres, 1958-1971: Competitiveness and Complementarity," in Stefano Battilossi and Youssef Cassis, eds., *European Banks and the American Challenge.* (London: Oxford University Press, 2002), p. 75.

[347] Bussière, *Paribas*, 145

Not only did the world economy begin growing again and continuing to open up to international business, but the integration process provided further stability through the return to convertibility for European currencies and open access to markets in the customs union created by the Treaty of Rome in the late 1950s. For reasons obvious to its bottom line, "[t]he management of *Paribas*, led by [Chairman] Jean Reyre, enthusiastically encouraged and even participated in this development by their initiatives."[348] *Paribas* executives expressed their political support for the integration process, lobbied French officials for an ever closer union with no barriers to trade and an even larger membership, and they also practically contributed to the process by facilitating capital transfers and funding new industrial development all across the Economic Community and potential future members. In many ways, Jean Reyre served as the architect of the bank's recovery in this period, and he did so within the structure of the new Common Market, which "encouraged a strong presence in the main Community countries" and incentivized the kind of branch organization upon which *Paribas* had been founded.[349] It was Reyre who re-committed the bank to industrial financing as a postwar strategy, echoing his interwar predecessor Horace Finaly, and he who "believed in Europe, on the condition that it was an economically liberal Europe," a vision he "shared with his foreign banking colleagues such as Hermann J. Abs, the chairman of *Deutsche Bank*, or Louis Camu, the chairman of the *Banque de Bruxelles*."[350] Over the next several decades, the bank's decision to uphold Reyre's prioritization of industrial financing and a European focus, coupled with its continued relationships with foreign peers like *Deutsche Bank* and the Italian *Banca Commerciale Italiana*, proved to be a winning strategy when faced with the threat of globalization and the invasion of foreign banks.

[348] Bussière, *Paribas*, 152

[349] In the 1940s, French company law consolidated the power of the chairman and general manager into a single title, the *président directeur générale*. Reyre was appointed to this position at *Paribas* in 1967.
See: Youssef Cassis, "Before the Storm: European Banks in the 1950s," in Stefano Battilossi and Youssef Cassis, eds., *European Banks and the American Challenge*. (London: Oxford University Press, 2002), pp. 44-45.

[350] Cassis, "Before the Storm," 153

In a survey of the state of European banking "before the storm" of foreign competition, financial historian Youssef Cassis noted that contrary to the assumptions of many, European banks were not merely outdated and outmoded institutions on the eve of the American arrival. While they were, indeed, smaller than their Yankee counterparts, they had considerably more experienced in multinational banking, to the tune of 300 foreign branches to 1 when comparing British banks to American ones. Even French and German banks, less far-reaching than the Brits in a sign of the heterogeneity among banks on the continent, maintained 5 times as many foreign branches as American banks in the mid 1950s.[351] Still, European banks were, on the whole, at a significant disadvantage relative to their massive, dynamic, and innovative American rivals on the eve of the 'invasion.'

The American 'Invasion'

Perspective matters a great deal when describing the international business developments of the 1960s and 70s. From one side of the Atlantic, the movement of American banks into European markets seemed to be an offensive invasion. The view from the Western hemisphere was rather different, though. Financial historian Richard Sylla described the American strategy as being motivated by the logic of *escape* rather than offense. With the dollar as the new world reserve currency, two decades of explosive growth in the rear view, and global demand for capital, American bankers eagerly brokered finance deals both at home and abroad. But, "as the US money-centre banks tried to meet the growing demands for finance and other services from their corporate clients, and to realize their own ambitions for expanding the scale and scope of their activities, they bumped head-on into the craziest patchwork quilt of banking regulations ever devised by the mind of man."[352] Because New

[351] Cassis, "Before the Storm," 42

[352] Richard Sylla, "United States Banks and Europe: Strategy and Attitudes," ," in Stefano Battilossi and Youssef Cassis, eds., *European Banks and the American Challenge.* (London: Oxford University Press, 2002), pp. 54.

Deal reformers placed blame for the Great Depression squarely on the shoulders of bankers, the US had enacted strict anti-concentration laws in the late 1930s. These rules, like the Glass-Steagall Act and its Regulation Q which limited interest rates, prevented US banks from engaging in more than one type of banking activity and restricted their market shares to around three percent of US bank assets.[353] As a result, "[f]or the big US banks around 1960, hamstrung as they were by draconian regulation at home, Europe" – with its 'single market' and open borders – "was a godsend. Their US corporate clients were directly investing in Europe and could use familiar banking services from familiar American banks."[354] From 1963-1974, from the time US manufacturers set up shop and needed capital in Europe until the time the US government implemented protectionist banking policies that prevented continued activity abroad, American banks – led by Citibank, J.P. Morgan, Chase, and Bank of America – invaded/escaped to Europe.[355]

It is important to examine the motives and means by which American banks entered European markets. In the 1950s, US lenders reframed the criteria by which they evaluated domestic borrowers and began to consider 'creditworthiness,' a "forward-looking analysis of the cash flow the borrower could be expected to receive over the life of the loan," rather than the traditionally-used total asset value.[356] This change in borrower evaluation criteria created a new financial product: the term loan, which immediately caught the attention of international borrowers and lenders. Because cash already in the bank had been filtered through – and compromised by – the liabilities of risk, loss, and taxes, the promise of untapped business assets and unfilled purchase orders could be valued much higher

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[353] Sylla, "United States Banks," 54
Regulation Q was a Federal Reserve Board rule, which prohibited the payment of interest on demand deposits by institutions that are members of the Federal Reserve Board system.
See: FRB Regulations 7500, Part 217

[354] Sylla, "United States Banks," 54-55

[355] *ibid,* 55

[356] *ibid*, 57

than existing assets. In addition to the popularity of these term loans, money market developments, triggered by the combination of rising interest rates, strict lending limits, and high demand from the large and growing size of US corporations, compelled American banks to both expand their own size through mergers, and to innovate, developing several creative ways to get around the constraints they faced. No new innovation proved more effective than the modified certificate of deposit (CD) with a secondary trading market, which allowed banks to participate in – rather than be outmoded by – money markets. Still, CD interest rates were restricted by Regulation Q, and the Kennedy administration implemented the Interest Equalization Tax (1963), designed to decrease the balance of payments deficit by charging a premium on the purchase of foreign securities. Secondarily, the IET was an effort to stem American banks' attempts to use these money market tools to service their corporate clients that had multinationalized in Europe.[357] Eurodollar reserves, however, (offshored US currency) were not regulated by the US Federal Reserve, and US banks quickly capitalized on Eurodollar markets as a means of growing their business outside the jurisdiction of the US Fed. While the Bretton Woods system had begun with a dollar gap in Europe (a shortage of the world's new reserve currency), there was soon a dollar glut, due to growing demand for dollars outside the US, particularly in Europe. Through holding companies and issuing commercial paper, American banks came to dominate European currency markets and escaped the constraints they had faced at home. By the 1980s, Japanese banks, with their high savings rates and strong capital positions, had also followed their multinationalized corporations to Europe and posed a similar, although smaller, threat.[358]

By 1974, the factors that had motivated the 'invasion' had changed: the Nixon administration re-opened US capital and money markets to the world, and CDs became exempt from the tight

[357] Sylla, "United States Banks," 63

[358] Schenk, "International Financial Centres," 83

restrictions placed on them in the previous decade. But the damage to European capital and money markets had already been done. American banks had established hundreds of European branches. More than half of the UK banking sector's assets were controlled by foreign banks, half of which were American.[359] When Nixon's withdrawal from Bretton Woods caused the system to collapse and exchange rates floated once again, US banks "enjoyed a competitive advantage in international money transfers, and banks like J. P. Morgan easily dominated Eurobond and equity issues. Citibank, too, led the world in syndicated international loans through the merchant bank it set up in the UK, Citicorp. American banks exported their term loan product to Britain, where short-term credits were the norm, but were falling short in terms of corporate customer satisfaction, and by so doing, further cornered the commercial market for credit. While Richard Sylla's assessment might be true that "invasion did not lead to conquest," but rather to "assimilation," the entrance of US banks in Europe and the ensuing competition did produce several lasting effects for European banks.[360] The sheer size and power of American banks incentivized consolidation in the European sector through mergers and acquisitions, and it forced European banks to adapt and innovate in order to compete. As the case of *Paribas* reveals, regionalization proved to be the most effective strategic response not just to the 'invasion,' but also to the other myriad changes that affected the bank's international business in the postwar period, decolonization, integration, and globalization among them. Its reorientation around its home region in this period shaped *Paribas* into one of the most successful European investment banks of the twentieth century.

***Paribas'* Postwar Strategy of Regionalization**

In the wake of decolonization and the instability that followed the exit of former colonial empires from the regions they had controlled, Paribas also withdrew from its investments overseas.

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[359] Schenk, "International Financial Centres," 67

[360] Sylla, "United States Banks," 69

Nearly a quarter of the bank's total assets had been invested in Africa in the late 1940s and early 1950s, and another 10% in the Middle East. By 1957, though, the bank had decreased its capital investment in Africa by half, and its investment in the Middle East had been reduced to just 3%.[361] Under the leadership of Chairmen Emmanuel Mönick (1950-1961), Henri Deroy (1962-1966), and especially Jean Reyre (1966-1969), the bank had recommitted to industrial development and reinforced its identity as an investment bank, but it was in search of new markets for investment. It found new opportunities in its home region of Europe, made attractive by the institutional support of regional integration. In fact, the geography of *Paribas'* investment in Europe in the latter half of the twentieth century closely follows the pattern of the integration process. It began to invest in the emergent markets of the European periphery in need of industrial development, and it saw its investment in those countries as being insured by the promise of future membership in the European Community. It sought out business in candidate countries – first in Iberia and the Mediterranean, and, after the collapse of the Soviet Bloc, in Eastern Europe – and then petitioned for the membership of those countries as a way to safeguard its investments. Although profit-driven and certainly not philanthropically motivated, *Paribas'* injection of capital into industrial development projects in these markets prepared them to meet the EC's membership criteria, helped to close the gap between the periphery and the developed economies of the Western core, and, because of the international nature of this investment and its direction toward the development of infrastructure and the growth of industry, facilitated the practical integration of these emergent markets with the Community. Thus, the interests of the bank converged with those of the architects of a united Europe in Brussels. Insofar as a bank can be said to have a federalist bent, then, *Paribas* became both a politically active proponent for further integration, and an active participant in it. From the 1950s to 1990s, *Paribas* grew the share of its portfolio in Europe from

[361] Bussière, *Paribas*, 307

45% to nearly 90%. Figure 1 (below) offers a time-series view of *Paribas'* share portfolio broken down by geographic distribution and illustrates this dramatic regionalization.

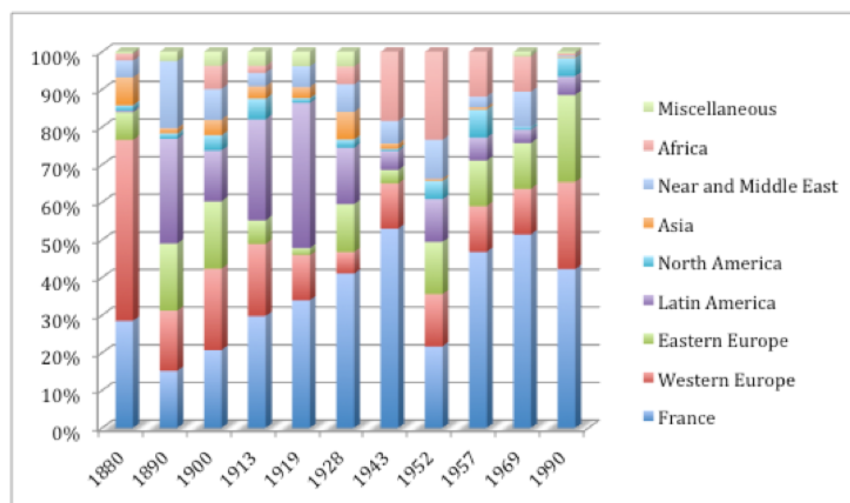

Figure 4: *Paribas'* Share Portfolio by Geographic Distribution[362]

Along with this geographic shift, *Paribas'* portfolio also underwent a parallel shift in the types of banking activity in which the bank engaged. This portfolio shift, charted in Figure 2 (below), confirms the bank's strong focus on industrial lending as an investment bank in this period, but also reveals the degree to which macroeconomic structural changes and innovations in global banking necessitated a shuffling of the bank's portfolio in order to remain competitive. The growing reach of the Keynesian welfare state and the priority of state funding over private equity for public service projects contributed to *Paribas'* move away from financing public services, which had initially constituted nearly 65% of its total portfolio. Moreover, the rise of the service sector worldwide in the 1970s and 80s prompted *Paribas* to direct more of its business toward service industries like tourism, communications, and distribution (included in the "Miscellaneous" category). It was also in services and financial products that American banks had posed the greatest challenge and to which European banks like *Paribas* needed to respond competitively.

[362] Adapted from Bussière, *Paribas*, 307

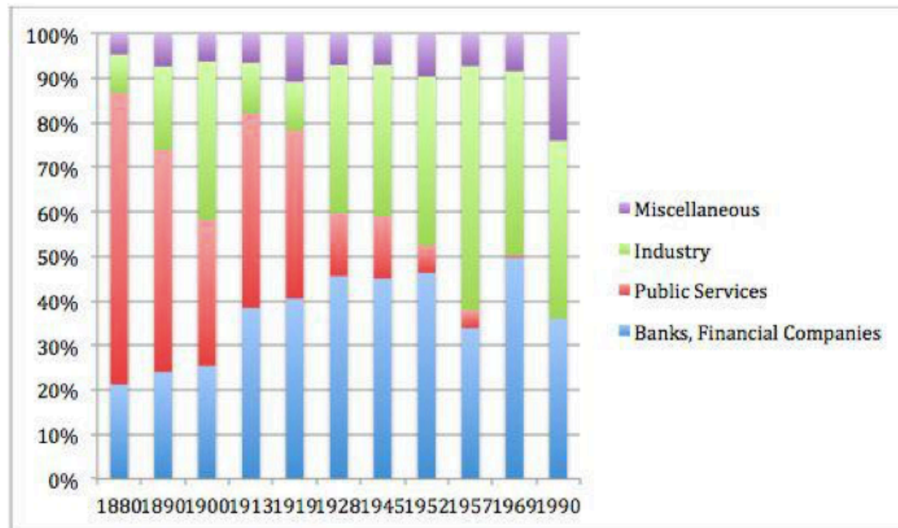

Figure 5: *Paribas'* Share Portfolio by Areas of Activity[363]

Both the geographic and activity shifts in *Paribas'* portfolio further reveal the ways in which competition with US banks, along with changes in the macroeconomic landscape, motivated Paribas to restructure its business. The methods by which *Paribas* established subsidiary banks in new markets, partnered with its peers on the continent, made acquisitions to increase its size, invested in industry in the early postwar period, and pivoted toward services and financial products after the 1970s were all informed by the globalization of banking and the 'invasion' launched by the Americans and later Japanese. The following sections examine particular examples of *Paribas'* regional response to the tumultuous changes and challenges of the latter half of the twentieth century through its various concentric networks, as well as its increasing focus on services and finance.

i. A Return to Industrial Financing in Europe, 1950s-1960s: Building a Network of Subsidiary Banks

When eighteen European countries received reconstruction funds through the US Marshall Aid Program in the late 1940s and early 1950s, Spain was one of the few excluded from list. Not only had Spain refrained from direct participation in the Second World War and pursued an autarkic policy

[363] Adapted from Bussière, *Paribas*, 307

in the war's aftermath, but the leadership of fascist military dictator Francisco Franco exempted the country from initial funding consideration. Although the US would later change its policy and extend aid to Spain, *Paribas* recognized the demand for reconstructive and industrial development funds there in the meantime. Despite Spain's lack of involvement in the war – and, thus, lack of destruction as a result – its development level was far lower than the countries that had been hardest hit by the war. Its infrastructure was severely outdated, and its industrial development nonexistent, with the exception of the region of Catalonia, which had long boasted elaborate trade networks and industrialized quite early for the Mediterranean.[364] As Catalonia's relationship with the rest of Spain has proven, the economic regions of the country were disparate and only loosely connected with the preponderance of economic activity taking place only at the local level.

For these reasons, *Paribas* saw Spain as an opportunity ripe for investment and an chance for the bank to engage in developmental industrial financing in a market in its own home region. In 1951, the same year in which the European Coal and Steel Community was formed, it founded its Spanish subsidiary, the *Corporation Espanola de Financiacion Internacional S.A.,*or Cefisa.[365] Article II of *Cefisa's* founding statutes state the subsidiary bank's mission:

> *The object of this company will be the creation in Spain of all kinds of firms and legal businesses, as well as the development of existing firms and legal businesses, proportioning to each the national and foreign support, which they likely need, and providing this support as much in the economic as in the industrial, commercial, and financial fields*.[366]

Per this objective, and with its long tradition as a *banque d'affaires*, *Paribas* financed the creation of dozens of industrial firms in Spain in the 1950s through its subsidiary bank. While the list in Figure

[364] Catalonia's early and very advanced industrial development became a popular campaign point in recent calls for referenda on Catalan independence from Spain. Catalonian agriculture industrialized shortly after the agricultural revolution in England, and, as early as the 1730s, was home to mechanized manufacturing of cotton and textiles.
See: Roma Pujadas I Rúbies, "Industry in Catalonia," *Publications IEC* (1986), 106.

[365] *Paribas* Repository Files, Combs-la-Ville, France – Cefisa, Espagna ET/573

[366] "Cefisa Statutes:" Cefisa, Espagna ET/573

3 (below) is in no way exhaustive, it does illustrate the wide variety of firms supported by *Cefisa* in just the period between 1960 and 1965, ranging from telecommunications to public utilities, industrial resources to media.

FIRM	INDUSTRY
Grands Magasins	Print Media
Orissa-Sourdillon	Telecom
Nitrogaz	Gas and Utilities
Naviera-Derman	Water
Quimicos-Sherring	Telecom
Shampanier-Shag-Enoza	Industrial Development
Rio Tinto	Mining and Processing
Air Liquide	Industrial Gasses and Services
Hydroeléctrica de Cataluna S.A.	Electricity

Figure 6: Firms Developed by CEFISA in the 1950s and 1960s[367]

These and the other firms established by *Paribas'* Spanish subsidiary significantly impacted the Spanish economy and facilitated the country's economic development; even six decades later, some of these firms founded through *Paribas'* investment in this period remain the largest and most successful firms in the region. One exemplary firm under the *Cefisa* group was *Hydroeléctrica de Cataluna S.A.*, an electricity production and transport company in Spain's Catalonia region, which grew rapidly in the postwar period, survived the political turmoil and energy crises of the 1970s, and eventually merged with the French energy company *Eléctricite de France*, finding success in the twenty-first century under its new name, *Fecsa-Endesa*. As this example illustrates, *Paribas'* subsidiary investment strategy enabled it to engage in cross-border business and profit from the need for industrial financing in markets outside of the Western European core. Not only did the Cefisa subsidiary serve as a vehicle for integration, connecting France and Spain by means of capital and

[367] "Cefisa Statutes:" Cefisa, Espagna ET/573

banking expertise, but the contribution to Spanish development by the creation of industrial firms and utility companies also readied the Spanish economy to eventually become a member of the enlarged European Community just a few decades later. In this period, amid the destabilizing effects of decolonization and prior to the 'invasion' of American multinationals and the banks that funded them, *Paribas* was also laying a strong foundation for its regional strategy going forward. During the 1970s and 1980s, *Paribas* established similar subsidiaries in Italy, Greece, and eventually across Eastern Europe as well, after the collapse of the Soviet Union.

ii. Regional Peer Bank Partnerships and Associations, 1960s-1970s

Aside from the continuation of its investment in industry across Europe, it was also in this period of the late 1950s and 1960s that *Paribas* cultivated close alliances with its peer banks in the region. In 1957, the same year as the signing of the Treaty of Rome and creation of the European Economic Community, *Paribas* initiated a partnership called the *Société Européenne de Développement Industriel*, or SEDI, with the German Deutsche Bank, aimed at jointly financing industrial development in war-torn Germany. This gave *Paribas* a foothold in a market in which it would not have otherwise been able to compete as a *banque d'affaires*. The SEDI's operation was relatively small at first, compared to the capital stock of both banks individually.[368] But by 1959, the network's balance sheets revealed the alliance's strong growth, a development that would continue over the course of the next several years. In a detailed official report from 1960, the third year of the SEDI network's existence, balance sheets on investments, expenses, and returns demonstrate the considerable success of the profitable initiative.

Similarly, *Paribas* partnered with the *Banco Nationale Italiano* in 1958 to form the *Sociéte Franco Italienne de Développement Industriel*, or SFIDI, this time to invest in Italian industrial development. As stated in the "Structure de L'Industrie Italienne," produced by the *Etudes Economique et Financaire* in

[368] SEDI Repository Files OFCH/164

1959, the SFIDI group was comprised of several important sub-groups: the *Institute for Industrial Reconstruction (IRI)*, the *National Department of Energy (ENI)*, *Edison* power company, *Montecatini Agricultural Group*, the *FIAT* auto manufacturer, and more than seven others.[369] These sub-groups provided funds for Italian firms in their respective sectors of the economy. The *ENI* group, in particular, serves as a clear example of both the valuable opportunity for *Paribas'* investment in postwar Italian industry and the lucrative appeal for the French bank, as well as the impact in turn on the Italian economy if *Paribas'* investment is successful.

In both of these cases, partnership mitigated *Paribas'* investment risk, enabled international development without foreign transaction restrictions and cultivated cross-border collaboration between major institutions. As a consequence, regions of Europe that had been most affected by conflict benefitted from fresh inflows of capital. In short, *Paribas* seized upon the opportunity to profit from postwar demand for capital, strategically built partnerships with other major banks in the region, and contributed to the recovery and development of economies most negatively impacted by conflict. It is important to recognize that the signing of the Treaty of Rome, which promised the four freedoms of goods, services, capital and labor without tariffs, undoubtedly increased *Paribas'* confidence in forming cross-border partnerships and facilitated capital transfers between the partner banks. The framework of integration had created the conditions in which banks like *Paribas*, *Deutsche Bank*, and *Banco Nationale Italiano* could form partnerships, some of which persist in modified form to the present day.

While these were not themselves a direct response to pressure from American banks on the continent, they did form foundations crucial to European banks' success in weathering the storm of globalization. When American banks did 'invade' a decade later, an alliance including these same

[369] SFIDI Repository File 7DFOM/221/48

banks collaborated once again by forming the financial club *Société Finance Européenne*, which worked to respond to the American challenge. Although the initiative ultimately failed due to a lack of cohesive vision and a shortage of effective solutions to the Eurocurrency and Eurobond markets, the club's efforts illustrate the uniqueness of the moment of the 1960s for European banks and represents a time in which collective action, even on the part of big banks, was an initial strategy. Progress toward a single common market in Europe in the subsequent decades drove these banks to compete directly with one another by establishing competing branches.

In the 1960s, before the American banks came to Europe, *Paribas* implemented the unique tactic of coming to America. Jean Reyre's friendship with Robert Lehman, head of his namesake bank, paved the way for *Paribas* to found a US subsidiary, *Paribas Corporation*, through which the French parent company could engage in capital market operations. "From 1961, it was 'major underwriter' in most of the issuing syndicates in the United States" – brokering merger deals between US and European firms. "This very soon became the greatest source of profit" for the subsidiary.[370] Soon, however, American investment banks threw their weight into capital exports, and the *Paribas Corporation*'s profits decreased significantly, forcing the bank to seek opportunities elsewhere. While *Paribas'* efforts to carve out a niche for itself in the US capital market were ultimately unsuccessful in the early 1960s, the history of the bank's American foray in these years intervenes in the narrative of US banks as offensive first movers and instead reveals that European banks were equally mobile and opportunistic in the postwar period, if not profitable.

When European banks did begin to feel pressure from the American challenge in their own region, *Paribas* returned to its experience of forming strategic partnerships with its European peers. The bank had opened its British subsidiary, *Paribas Londres*, in the City of London in 1964 in a direct

[370] Bussière, *Paribas*, 161

effort to compete in the Eurodollar market.[371] In the early 1970s, *Paribas* used this subsidiary to partner with *S. G. Warburg*, the leading British merchant bank with extensive Eurodollar market experience. Through this partnership, Paribas strove to benefit from *Warburg*'s expertise in Eurodollar market transactions while minimizing direct exposure to the volatility of international markets in this period. Alas, "the London adventure involved risks and the first years were hardly profitable. […] The results of these transactions were disappointing."[372] At the height of Eurocurrency and Eurobond competition in 1974, *Warburg* and *Paribas'* US subsidiary partnered with a third investment bank, *A. G. Becker*, in Chicago. Their joint venture proved too little too late, however, and the strategy of competing with US capital exporters from that side of the Atlantic was ineffective. Both because the intensity of the US 'invasion' subsided in the mid-1970s, and because the three partners lacked a 'joint vision,' the venture failed to turn a profit and was subsequently sold to US Merrill Lynch a decade later.[373] Although *Paribas* struggled through the Eurocurrency competition of the 1960s and 1970s, by the 1980s, it had assimilated those experiences into sufficient knowledge to hold its own in foreign issues and enjoyed success in the Eurobond market.[374] Macroeconomic structural changes including the decline and restructuring of traditional industries forced *Paribas* to diversify its portfolio. Acting as a shareholder, *Paribas* worked to restructure steel conglomerates and chemical firms. Thus, it was in this period of the 1980s that *Paribas* found its footing in export and commodity financing, in addition to its longstanding focus on industry.

iii. Organized Interest and Political Engagement in Support of Integration, 1950s-1990s

[371] Grace A. Ballor, Interview with Pierre de Longuemar, July 2015
M. de Longuemar, currently the President of the Historical Association of BNP Paribas, maintained the position of Director General of Paribas Londres in this period under the chairmanship of Michel François-Poncet.

[372] Bussière, *Paribas*, 162

[373] BNP Paribas, "*Paribas* in the US 2/2: A Strategy due to Its International Tradition," Well of History: https://history.bnpparibas/dossier/paribas-in-the-us-12-a-strategy-true-to-its-international-tradition/

[374] Bussière, *Paribas*, 233

Amid the challenge of globalization, *Paribas* remained an active proponent for further integration as a way to shore Europe up against competition. The *Ligue Européenne de Coopération Economique* (LECE), a network of banking elites established in 1947 for the purpose of lobbying for banking integration, became one of the strongest forces advocating for a single capital market in the context of the Treaty of Rome and the integration process, and convenes even now to apply political pressure for further integration. Several *Paribas* bankers maintained seats in this group, which operates with even more privilege than a lobby, putting them in close proximity to other lead bankers from firms across Europe and to EU policy makers. Most notably and most important for understanding *Paribas'* role in integration, is the presence of Bernard de Margerie, Chairman of the bank and "Deputy Director General in charge of the department of foreign investments for *Paribas* in the 1970s."[375] M. Margerie, like so many other *Paribas* bankers, including Herman Abs, chairman of *Deutsche Bank* in the same period, maintained positions as both private banking executive staff and senior officials of the LECE. Such proximity to policy makers also created the conditions in which the European Commission asked *Paribas*, as it did other leading firms, to participate in making recommendations for industry standards and regulatory policy for the banking sector, a striking case of the preferential treatment given to big corporations, and proof of the role played by *Paribas* in the development of the European Union.

In 1960, banking associations across Europe joined together to form the European Banking Federation (EBF), the goal of which was to submit collective comments and proposals to the European Commission on matters regarding the desire to form a true common banking market. It suffered, though, from the same institutional 'bloat' described by Justin Greenwood in his examination of the failures of supranational business interest groups, as discussed in Chapter IV. Ultimately, it was through elite interest groups and direct exchange with the Commission that

[375] Hubert Bonin, *Le monde des banquiers francais au XXe siècle.* (Paris: Broché, 2000), p. 114.

Europe's chief banks exerted influence over the debates in the 1960s and 1970s about a European Monetary System and possible Monetary Union.

In 1987, a group of banks and industrial corporations – the roster of which had considerable crossover with the original cohort of the ERT described in Chapter III – formed the *Association pour l'union monétaire de l'Europe* (AUME), the goal of which was the achievement of a monetary union in the region.[376] *Paribas* became a member of this group as well and advocated forcefully for monetary union, citing the benefits of easy capital transfers, homogeneous banking regulations, and the region's greater resilience to exogenous threats. The AUME remained active in its appeals and even consultation on matters of monetary union through the late 1980s and 1990s and provided frequent comments on draft agreements for the European Monetary Union, achieved by the end of the century.[377]

iv. Expansion across the Region, 1970s-2000s

Under chairmen Jacques de Fouchier, Pierre Moussa, and Jean-Yves Haberer, *Paribas* expanded intensively across the region in the 1970s and 1980s. By building partnerships, acquiring smaller banks and merging with larger ones like *Compagnie Financière*, and by establishing subsidiary banks and focusing on industrial financing, the bank was able to recuperate its losses from the previous decades and grow its foothold in proximate markets: "Frankfurt and Düsseldorf in 1973, Milan and Madrid in 1979, Copenhagen and Hamburg in 1984, to mention a few."[378] Under Pierre Moussa, *Paribas* also established a strong presence in Italy and Greece, and renewed its investment in Spain. Of the three, Jean-Yves Haberer articulated his vision of *Paribas* as a "European bank" most forcefully,

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376 Association pour l'union monétaire de l'Europe, "Répertoire numérique:" http://www.archivesnationales.culture.gouv.fr/chan/chan/AP-pdf/109-AS.pdf

377 Harold James, *Making of the Monetary Union*. (Cambridge: Harvard University Press, 2014).
Emmanuel Mourlon-Druol, *A Europe Made of Money: The Emergence of the European Monetary System*. (Ithaca: Cornell University Press, 2012).

378 Bussière, *Paribas*, 225

although it was during his tenure that the bank was nationalized, thus severely restricting the operational flexibility he desired. He went on to lead *Crédit Lyonnais* in 1988, where he worked to prepare the bank for the "Europe of 1992," the completion of the single market. Although he could not bring his full federalist vision to bear on *Paribas*, his leadership paved the way for the expansive directions in which Michel François-Poncet would take the bank in the 1990s.

When the collapse of the Soviet Bloc threw open the doors of opportunity to manufacturers like Volkswagen and BMW as discussed in Chapter IV, it also presented a huge new market of opportunity for banks like *Paribas* as well. In general, manufacturers from industrialized European countries like Germany and Austria made the first moves into former Bloc countries, and, because they preferred to be financed by their home institutions, German and Austrian banks soon followed suit. For *Paribas*, the story went a bit differently. The bank did not wait to follow French multinationals into Eastern Europe; rather, it moved quickly to establish subsidiary banks in Central and Eastern European countries and offered foreign banks and industrial companies alike its capital and expertise.

As was the case for firms across all sectors of the economy, Hungary was a particularly appealing place for investment in this period of the early 1990s. According to former Hungarian Minister of Finance (1995-6), Director of the World Bank (1996-2004), and Member of European Parliament (2009-2014) Lajos Bokros, Hungary's history of *goulash communism*, a much more market-oriented economy than its fellow Soviet bloc states, prepared it for economic transition by the time political change occurred. With relatively little shortage, flexible prices, and increasingly liberalized trade, Hungary's transition did not require the kind of intensive shock therapy of its neighbors.

> In addition, the first democratically elected Hungarian government was keen to attract foreign investment and undertake a proper privatization, avoid default on foreign debt and accelerate corporate restructuring. It introduced the necessary laws early and established a relatively strong state property agency which was entrusted in negotiating good deals with foreigners in a rather effective way. By 1995 Hungary was able to attract half of all [foreign direct

investment] FDI in [Central and Eastern Europe] CEE. [Hungary] also had a properly functioning capital market and stock exchange with all the necessary rules and regulations.[379]

That Hungary already had a proclivity toward market-based economic activity and a government open to privatization positioned it to receive the lion's share of foreign investment in the early 1990s, as did the government's policies of offering new foreign investors tax grace periods and "[o]ther subsidies […] for retraining local employees, buying building sites at low cost, providing preferential access to public utilities."[380] These generous policies, which attracted a massive influx of investment, were motivated by the Hungarian government's strong desire to position the country for future membership in the European Community. Other CEE countries, including Poland, Slovakia, Romania, Croatia, Serbia, and Ukraine, soon followed Hungary's lead and looked to attract FDI from the West, calling on Bokros to advise the "privatization of hundreds of [state owned enterprises] SOEs and [state owned businesses] SOBs in more than a dozen countries in CEE," as well as the creation of "proper institutional and regulatory framework[s], stable and predictable tax systems, [the guarantee of] legal certainty, [and mechanisms by which to] avoid corruption."[381] Privatization within the rule of law was so essential, because, in Bokros' view: "There [could be] no European integration without private sector involvement. The single market is absolutely beneficial for private entrepreneurs. Their supply chain gets more and more integrated."[382]

With Hungary open for private foreign investment, and *Paribas* continually in search of opportunities to fund industrial development, the bank seized on the chance to enter Hungary immediately after the country opened to the world. Similar to its strategy when entering other markets, but this time under the direction of Chairman André Lévy-Lang, *Paribas* founded a subsidiary

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379 Grace A. Ballor, Interview with Lajos Bokros, June 2016.

380 Ballor, Interview with Lajos Bokros, June 2016

381 Ballor, Interview with Lajos Bokros, June 2016

382 Ballor, Interview with Lajos Bokros, June 2016

investment bank in Budapest, called Magyar-Paribas, on May 22, 1990. As is delineated in the Founding Constitution agreement for the subsidiary, which was signed by *Paribas* manager J. P. Limousin, *Paribas* applied the principle of subsidiarity to the construction of *Magyar-Paribas* by maintaining a slight majority of the company's stock and supplying 57% of the capital, while two Hungarian banking leaders, M. Robert de Balkany and M. Peter Medgyessy jointly would maintain the other 43% authority of the bank. As stated in *La Vocation de Magyar Paribas S.A.*, the mission of the Hungarian subsidiary of the *Paribas* investment bank was simply to "participate in the restoration of the Hungarian economy," by responding to the "needs of Hungary and concentrating its activities as a *banque d'affaires* on the matter of privatization" by facilitating both direct and indirect investments and industrial operations.[383] *Paribas* offered *Magyar-Paribas* financial backing, experts and international banking clientele, and specific sector knowledge it needs in order to be successful in its stated mission of privatizing and developing industries of "highest importance (transports, energy, and telecommunications)."[384]

The "Proces Verbal du Conseil d'Administration de *Magyar Paribas, S.A.*, tenu le 25 juin 1991 a Budapest," essentially the Minutes from the Board of Directors Meeting, outlines in careful detail the objectives for the investment bank and its role in Central and Eastern Europe in the post-Communist period.[385] Even with its lofty ambitions of facilitating economic development in Hungary, *Magyar-Paribas* acknowledged that "le processus de changement dans cette partie de l'Europe sera plus lent" – change would be slow because of the 'radical change of the political regime' and the 'need for German reunification in the region.'[386] The first question to be addressed

[383] La Vocation de Magyar PARIBAS S.A., DG/313

[384] La Vocation de Magyar PARIBAS S.A., 2, DG/313

[385] Proces Verbal du Conseil d'Administration de Magyar PARIBAS, S.A., tenu le 25 Juin 1991 a BUDAPEST, 1, DG/313

[386] Proces Verbal du Conseil d'Administration de Magyar PARIBAS, S.A., tenu le 25 Juin 1991 a BUDAPEST, 1, DG/313

by the Hungarian government in theory and by firms like *Magyar-Paribas* in practice was that of the "vitesse des privatisations," the speed at which firms in the region could become private.[387] Second, and perhaps even more difficult than the first, was the trifecta of three political uncertainties: *le problem des minorities* (the problem of minorities), *les difficulties que 'on recontre normalement lors de tells changements* (the difficulty normally encountered during such changes), and *la manque de confiance des populations* (a lack of confidence among the people).[388] But, in an effort to encourage Hungary through its challenges, the document cites the case of France in its own period of postwar reconstruction, when the French state addressed such problems and worked diligently for nearly fifteen years in order to restore France successfully to its prewar stature.

With these challenges in mind, the board members of *Magyar-Paribas* proposed to provide financial and structural support to firms wanting to privatize, to the Hungarian government to achieve a positive balance of payments, and to solve the budget deficit and to ameliorate inflation, which had reaches 32-36% in the late 1980s and early 1990s. In order to achieve these high goals, *Magyar-Paribas* committed to contributing its "*très bonne perception*" to the National Bank of Hungary to restore popular confidence in the public bank. Moreover, *Magyar-Paribas* committed to 'equip bankers in Hungary with the expertise they need' to facilitate privatization, especially of large industrial firms such as "*Autoker, MAT, Magyar Kábelmüvek, Debreceni Baromfifeldolgozo*" and more.[389] To this end, *Paribas* promised a close relationship between its Hungarian partners and its Paris headquarters.[390]

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387 Proces Verbal du Conseil d'Administration de Magyar PARIBAS, S.A., tenu le 25 Juin 1991 a BUDAPEST, 1, DG/313

388 Proces Verbal du Conseil d'Administration de Magyar PARIBAS, S.A., tenu le 25 Juin 1991 a BUDAPEST, 2, DG/313

389 Proces Verbal du Conseil d'Administration de Magyar PARIBAS, S.A., tenu le 25 juin 1991 a BUDAPEST, 3, DG/313

390 La Vocation de Magyar PARIBAS S.A., 1, DG/313

The *Magyar-Paribas* mission statement, which is reproduced in Figures 9 and 10 below, makes clear the role in which *Paribas* saw itself, not only in Central Europe in the 1990s, but throughout Europe since its founding in the nineteenth century – that is, as the premier investment bank for Europe. The document states that *Magyar-Paribas* will facilitate the privatization of formerly communist firms in Hungary, it will enable both direct and indirect investments for the country, and it will anchor both traditional industries as well as provide for the creation of new and innovative ones. In the final paragraphs, the document declares:

> *In order to meet the needs of Central Europe under development, Magyar Paribas intends to establish a system of succession Bank d'Affaires in Central Europe. […] In all of its activities, Magyar Paribas intends to establish in Hungary and later in Central Europe, a role of industrial leadership similar to that of the Paribas Bank in France and other European countries for 120 years.*[391]

Thus, through its subsidiary investment bank, *Paribas* declared its intention to instigate change in post-communist Hungary and facilitate its transformation to capitalism by making loans available to old and new firms alike and by serving as a kind of mentor group from France and the West to Hungary and Central and Eastern Europe. Of course, this strategy profited the bank considerably as well, since it afforded *Paribas* an easy monopoly on industrial banking in the country, where no other Western banks had yet laid their claim. But it also contributed to both the development of Hungary in its post conflict circumstances and to the integration of the Hungarian economy with Western European capital, banking practices, managerial structures and institutional expertise. Thus, in many ways, Hungary also benefitted from *Paribas'* investment.

Shortly after entering Hungary through its subsidiary, *Paribas* established *Franco Polonaise*, its subsidiary bank in Poland, which developed an investment portfolio similar to that of *Magyar-Paribas*.[392] *Paribas* would repeat this pattern of establishing subsidiary industrial investment banks throughout

[391] La Vocation de Magyar PARIBAS S.A., 2, DG/313

[392] Franco Polonaise: 4DFOM/221/583

Central and Eastern Europe over the coming decade. By the time of its merger with the *Banque Nationale de Paris* (BNP) in 1998, *Paribas* had established nearly a dozen subsidiary banks in the European periphery. It is important to note that even today the majority of the financial sector of Central and Eastern Europe – as much as 87% – remains under the control of Western banks.[393] Thus, while *Paribas'* networks facilitated the inflow of capital into countries in need of development and to the integration of markets in the region, they also contributed to the persistence of inequalities between European economies. In many ways, the banking sector sheds the most light on the tensions between integration and inequality, especially in the wake of late-twentieth century financialization.

Regionalization: A Winning Strategy for the Bank and a Boost for European Integration

Paribas' response to the various conflicts, crises, developments and challenges of the twentieth century was, in a word, adaptive. After World War had forced the bank overseas and then decolonization destabilized its foreign investment, *Paribas* recommitted itself to its home region of Europe. By creating a vast network of subsidiary banks in the region, investing in industry, partnering with peer banks, and advocating for further integration and monetary union, *Paribas* both ensured its own success and contributed to regional integration in several ways, not least of which was its contribution to economic development on the periphery through its support of industrial development across five postwar decades. Consequently, as an investment bank, *Paribas* remained closely connected to the real economy throughout the tumult of the twentieth century. It also facilitated social, institutional, and economic connections between European countries through its partnerships in the region, both with institutions that were its equals like *Deutsche Bank*, and with those that benefitted greatly from its shared knowledge and expertise like the smaller national banks it acquired. Indeed, in the latter years of the twentieth century, acquisitions and mergers became an increasingly important part of the bank's growth strategy, and by 2000, *Le Groupe BNP Paribas*

[393] Ivan T. Berend, *An Economic History of Twentieth Century Europe*. (London: Cambridge University Press, 2006.)

encompassed several dozen banks, a figure that would rise to more than 150 in the first decade of the twenty-first century.[394] This trend on the part of the group as a single institution was reflected in the general trend of consolidation among banks in this period, with an average rate of attrition of 33% per decade in France alone.[395] Such conglomeration also precipitated changes in the banking group's activities. As the macro-economy increasingly shifted away from industry and toward services, and as economies increasingly financialized and the demand for consumer credit rose exponentially, *Paribas* strategically made acquisitions in new banking areas. It added commercial and retail dimensions to its formerly industrial investment-heavy portfolio, which cemented its place as the largest French bank in terms of asset value.

In just a few decades between the 1950s and 1990s, Europe transitioned from postwar autarky and isolationist economic nationalism to a single common market and unprecedented interdependence with intra-European trade rates as high as 75%. Even though *Paribas'* efforts on both sides of the Atlantic to beat the Americans at their own Eurodollar game were unsuccessful, the bank's regional response of establishing a huge network of subsidiaries following the American 'invasion' positioned the bank to become one of the largest and most successful in the twentieth century, especially after its merger with BNP in 1998. Figure 4 depicts *Paribas'* historical asset value and reveals the rate of growth the bank experienced in correlation with the events of the 1940s-1990s.

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394 "Le Groupe BNP Paribas," *Association pour l'histoire de BNP Paribas*. Paris, France.

395 Plessis, "A History of Banks in France," 7.

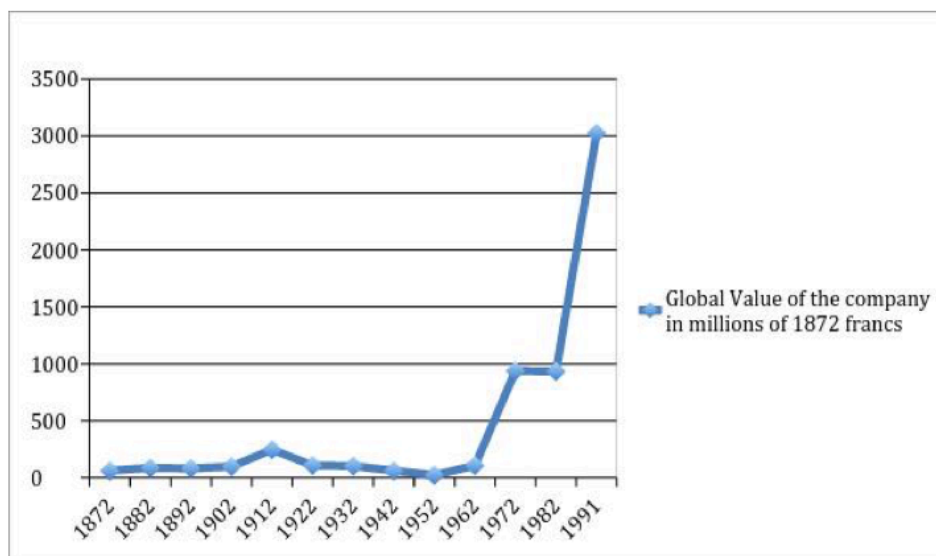

Figure 7: *Paribas'* Historical Asset Value[396]

Of course, this growth in *Paribas'* asset value strongly correlates to the general rise of the banking sector in the late twentieth century. That the data also reveals the toll globalization initially took on the bank offers further proof of the success of *Paribas'* strategy of regionalization, especially in response to the American challenge. By the time the Single Market was completed in 1992, Paribas' profitability reached a historical peak, and it had become a premier bank for Europe.

***Paribas* in Comparative Context**

While *Paribas* stands out as having been the most internationalized French bank in the twentieth century, it is certainly not an anomaly among European banks. A brief comparison of *Paribas'* regionalization with other European banks sheds further light on the ways in which the strategy of establishing branches, partnerships, and subsidiary banks across the region both served private interest in profit and also facilitated integration in Europe and contributed to the creation of a common market. Other investment banks like the British *HSBC*, similarly focused on servicing big companies and facilitating trade, also responded to the many macroeconomic changes of the twentieth

[396] Adapted from Bussière, *Paribas*, 306

century by developing regional networks of branches and partner and subsidiary banks. *Deutsche Bank*, too, redoubled its European strategy in the wake of global competition and the macroeconomic shifts that threatened its profitability. The German giant invested heavily in nearby Italy, capitalizing *FIAT*, *Olivetti*, and state construction of the *Autostrade* project in the 1960s, and it opened subsidiaries and made acquisitions in Italy, France, Spain, and the United Kingdom in the 1970s and 80s.[397] In the 1990s, it opened offices in Budapest, Prague, and Warsaw, in much the same way that *Paribas* had moved into Central and Eastern Europe after the collapse of the Soviet Union. These banks equally engaged in the kinds of activities that made *Paribas* an agent of integration in this period: forming lateral partnerships, opening foreign branches, acquiring and establishing foreign subsidiaries, participating in organized interest group appeals to Brussels for increased integration, and funding the industrial and infrastructure development of both the core and the periphery. In short, the case of *Paribas* illustrates a much larger strategy on the part of European banks to regionalize in response to the challenges they faced in the latter half of the twentieth century. Their collective response, in turn shaped the integration process toward a larger, better capitalized, more developed, and more connected single market.

[397] Deutsche Bank Chronicle, "Internationalization, 1958-1988," 8.

Chapter VI: Regionalizing Retail from Neighborhood Markets to Super-grocers: The Vertical and Horizontal Expansions of Belgian Delhaize and British Tesco

Like automakers and investment banks, European retailers also internationalized intensively in the later decades of the twentieth century. They opened outlets, acquired new brands, and created distribution chains, first in proximate markets in the region, and then increasingly in markets outside Europe as well. In that sense, the story of European retail from the 1960s to 2010s reveals the process by which European corporations in this sector built a strong regional base and then expanded in their efforts to match the size and scale of their American counterparts. Initially, their expansion was predominantly regional and European. Differently from their fellow European multinational manufacturers and banks, however, European retailers experienced a far less upwardly linear growth trajectory as they expanded across the region, and faced many challenges, particularly at the turn of the millennium. By the 2000s, many European retailers were divesting from their European assets and were directing their expansion initiatives to other areas of the globe. Still, it was their regional expansion that provided the foundational experience from which they successfully globalized. Their patterns of investment and ultimately divestment reveal much about the heterogeneity of European political economy and the developmental unevenness of European countries at a time when the integration project was rapidly enlarging to include a dozen more members. In addition, the regional investment and divestment patterns by European retailers during the 1970s to 2000s provides insight into the impact of multinational investment and their networks of supply chains on the development of their peripheral host markets, an issue crucial to understanding the relationship between multinationals and their many smaller supplier firms, which remains understudied by management scholars working on FDI.[398] Thus, the history of European retail gives us purchase on the relationship

[398] John Fernie and Harry Staines made this argument nearly two decades ago in their article on grocery supply chains. Unfortunately, the literature gap has not made any significant progress since their publication. See: John Fernie and Harry Staines, "Towards an Understanding of European Grocery Supply Chains," *Journal of Retailing and Consumer Services*, Vol. 8 (2001), pp. 29-36.

between business interests, globalization, regionalization, economic development, and shaping of the European common market.

Although the retail sector offers a valuable lens through which to examine the interplay of business and politics, as well as the ways multinational corporations and macroeconomic changes affected both production and consumption in the region, scholarship has largely neglected it in favor of studies of manufacturing and finance. There seem to be two primary reasons for this neglect. First, even a cursory glance at the sector between 1950 and 2000 makes very clear that the sector, initially made up of millions of small, diverse 'mom and pop' shops, rapidly consolidated in the late twentieth century and is now controlled by a few conglomerated monoliths. Such obvious consolidation has caused many to overlook the importance of conducting close analysis of precisely how this process unfolded, what circumstances motivated, even facilitated such consolidation, and what its effects were. Second, and perhaps as a result of the sector's rapid, yet piece-meal consolidation, the historical records of European retailers are often incomplete, poorly kept, or inaccessible to researchers.

This chapter aims to remedy the first issue by wrestling with the problems of the second. It makes use of archival documents, annual reports, corporate histories, executive interviews, and secondary sources in order to analyze the response of European retailers to the developments of the second half of the twentieth century and investigate how firms in this sector related to the processes of globalization and integration. In particular, it studies the transformation of food retail in the region, once comprised of a multitude of small shops offering limited, locally-produced items in the nineteenth century, and then consolidated into the hands of a few huge multinational distributors with a vast network of subsidiaries, global supply chains, and command of a majority of the European market. The history of food retail is particularly revealing of the ways in which the macroeconomic developments of the twentieth century shaped the lived experience of Europeans across the region, affecting a ride range of issues from nutritional intake to the kinds of dishes on holiday dinner tables.

Moreover, in contrast to the histories of manufacturers like *Volkswagen* and *BMW* and banks like *Paribas*, the history of food retailers in the second half of the twentieth century reveals the diversity of motivations for and paths toward regionalization. Whereas European manufacturers and banks regionalized defensively in response to the American – and later Japanese – "invasion" in the 1960s, 70s and 80s, European retailers regionalized more offensively in their search for new opportunities in new markets. Still, as this chapter reveals, their regionalization followed a similar pattern, giving further evidence for the fact that European firms from every sector increasingly treated Europe as a single common market in the later decades of the twentieth century and were eager to capitalize on the enlargement of the single market especially in the 1990s. In turn, the supply chains these multinational grocers established to stock their many, widespread retail locations further facilitated the integration of the region's markets and contributed to the standardization of European food supply and distribution.

Much like the automobile industry, there was a diversity of business types, strategies, and approaches to regionalization among food retailers in this period. Some, like the French *Carrefour*, pioneered the European supermarket model and expanded into other regions of the globe as early as the 1950s. Others, like the German *Metro AG*, directed its efforts to building a strong European network of brands with stores across the region. Of all of the European-headquartered food retailers whose business spans the twentieth century, two stand out as offering perspectives from both ends of the spectrum: *Delhaize*, a relatively small, family-run specialty chain from Belgium, and *Tesco*, a large, British super-grocer. In fact, *Tesco* holds the title of being the "UK's largest retailer by sales volume" and is the largest private employer in Britain as well. While the sizes, market segments, and business strategies of *Delhaize* and *Tesco* were – and continue to be – drastically different, both companies followed a similar pattern of expansion beginning in the 1970s. *Delhaize* operated in its native Belgium until its first foreign acquisition in the US in the late 1970s, after which it made acquisitions in the

Portugal and Greece. After the collapse of the Soviet bloc, the family board decided to set up neighborhood shops in Czechoslovakia, Poland, and Hungary, sourcing and selling local products and relying on local management. In contrast, *Tesco* first moved into Ireland in the 1970s and then France in the 1980s with mixed success before capitalizing on the newly opened markets of Central and Eastern Europe in the 1990s, where it built large stores with goods sourced through its centralized, "lean" supply chains. While internationalization contributed to the growth of both companies and to the economic growth and development of distribution infrastructure in host countries, both *Delhaize* and *Tesco* were ultimately forced to divest from many of their international acquisitions as competition ate into their profits and the transition to capitalism proved difficult, revealing both the unique challenges of multinational retailing, especially on the European periphery, as well as the new obstacles European multinationals faced in a changing global economy.[399] In deciphering the signal from the noise, however, it becomes clear that despite the ambivalent results of their regionalization in this period, their investment did play a role in integrating home and host markets. By comparing their divergent regionalization strategies and analyzing their subsidiary operations, this chapter sheds light on the impact of the supply chains, corporate identity, and consumer relations of *Delhaize* and *Tesco* on the integration process.

A Brief History of European Retail and Food Distribution

In order to contextualize the approaches of these food retailers to late twentieth century expansion and their contribution to regional integration, it is important first to trace the historical development of modern European retail and food distribution and its radical transformation from highly-localized and specialized production sold directly to consumers to the transnational supply chains of modern multinational supermarket chains. In early nineteenth century Western Europe, as

[399] Mark Palmer, "International Retail Restructuring and Divestment: The Experience of Tesco," *Journal of Marketing Management*, vol. 20, no. 9-10. (2004), pp. 1075-1105.

was the case for the centuries prior, the retail economy consisted of community markets and small, family-run specialty shops, often serving as a point of sale for the goods made by the shop owners. Beginning in the mid-nineteenth century, the Second Industrial Revolution precipitated a radical shift in how Europeans made, sold, and bought goods. Technological innovations and rapid industrialization reshaped manufacturing through mechanization. With new factories churning out large quantities of goods across the region, there was downward pressure on the kind of cottage industry producers that supplied the small 'mom and pop' shops of previous generations, whose owners – like their customers – increasingly became members of the assembly line. Factory jobs required many to relocate to sites of production, around which developed dense urban centers. An influx of cheap, mass-produced goods flooded the market, and the consolidation of production and distribution fueled capital accumulation and led to the creation of a *nouveau riche*.[400] This new upper middle class in Britain, France, Germany, the Low Countries, and the United States began to engage in what sociologist Thorsten Veblen called "conspicuous consumption," the public display of wealth through the acquisition of material goods.[401] Bourgeoisies reigned over their 'cabinets of curiosity' and collections of exotic treasures, while bourgeois men became managers, bankers, and businessmen.[402] At the same time that industrialization restructured society and revolutionized production, colonization and international trade also unleashed a huge range of diverse and exotic products onto the European market. In short, the stage was set for a European retail revolution.

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[400] While economists and historians largely agree about the development of a new upper middle class as a result of the Second Industrial Revolution, historian Sarah Maza's work has raised questions about the "Myth of the Bourgeoisie." While, her cultural study of France before, during, and after the French revolution found that no group explicitly identified itself as the bourgeoisie, we can certainly locate the creation of a new socioeconomic class in the later decades of the nineteenth century, and the social engagements in which they participated, along with the collections of objects they left behind, reveal a culture of materialism and commercialism commonly described as 'bourgeois.'
See: Sarah Maza, *The Myth of the Bourgeoisie: An Essay on the Social Imaginary, 1750-1850*. (Cambridge: Harvard University Press, 2005).

[401] Thorsten Veblen, *The Theory of the Leisure Class: An Economic Study in the Evolution of Institutions*. 1899.

[402] Bonnie G. Smith, *Ladies of the Leisure Class: The Bourgeoisies of Northern France in the Nineteenth Century*. (Princeton University Press, 1981).

When the first department stores opened in the mid-nineteenth century – most famously the giant *Le Bon Marché* on Paris' left bank (1852) – they offered an unprecedented array of goods, from housewares to clothing and even furniture. The central objective, according to the French store's founder Aristide Boucicaut, was "to sell everything at a small profit and to retain the entire confidence of his customers."[403] Helpful attendants served as purveyors of the store's wares and enticed customers to buy by appealing to status and taste. For their part, customers quickly developed loyalties to such stores thanks to the confidence that they could find anything they needed – along with many things they didn't – in one central location. This new model of retail became intensely popular among the upper middle classes and grew exponentially in the following decades with new similar stores opening in Britain, France, and later Germany. As retail points of sale increased, so too did the standard of living. Downward pressure on prices, thanks to mass production, bulk-buying, and increased competition, encouraged widespread consumerism, which, in turn, fueled economic growth and filled homes with a stunning array of items.

Department stores relied on vast supply chains and effective transportation networks to deliver their multitude of diverse goods to central urban locations. These department stores were essentially the first mega-distributors, departing from the traditional approach of selling self-produced goods and acting instead as a distributor for the goods made by many producers. As the numbers of goods and their points of origin increased, shipping routes and rail lines became crucial to the timely delivery of goods to the store. National government investment in transportation networks, which reinforced the primacy of major cities as central economic hubs, consequently contributed to the growth of these new models of large-scale retail. Thus, by the turn of the twentieth century, the retail sector had become a tangible manifestation of the states of large-scale production and consumption,

[403] "History of Le Bon Marché," *Women's Wear*, Vol. 13, Issue 9 (24 July 1916).

a visible measure for the standard of living, a reflection of national capital investment in infrastructure, and equally a barometer for individual success, business development, and macroeconomic growth.

The only goods department stores did not offer, it seemed, were food products. In fact, despite all of the retail developments described above, food purveying looked in 1850 much the same way it did in 1800 – and in urban areas, even as it did a full hundred years before. Whereas sales in clothing and home items had evolved during the early nineteenth century from specialized boutiques, to conglomerate shops, to department stores like *Le Bon Marché*, informal produce vending and small specialty shops persisted in the realm of food sales. Moreover, nineteenth century food distribution was highly localized, with irregular supply and arbitrary pricing. For all of the positive effects of the industrial revolution on economic growth, it seemed to have had a negative impact on Western European nutrition. As farming gave way to industrial manufacturing and fields were replaced by factories, the Belgian government reported that "the majority of manual workers ha[d] a crude and mainly vegetable-based diet," with only occasional, but inferior meat.[404] Moreover, "inadequate yields, crop disease and speculation regularly increased food prices," and "the threat of shortage was never far away […]."[405] Governments across Western Europe encouraged scientists to work to remedy problems of food shortages and poor nutrition. In the 1850s and 60s, innovators like Louis Pasteur and the German chemist Justus Freiherr von Liebig worked to develop better agricultural techniques, food products, and preservation, which increased the shelf life of foods and made stable food supply chains possible for the first time.

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[404] *Rapport Ducpétiaux*, Belgian Government, 1855.
Anthropological and anthropomorphic scholarship has only recently been able to reconstruct the dietary habits and nutritional intake of past peoples. Their work offers valuable information about the degrees to which nutritional needs were being met during the period of industrialization and urbanization in the mid-nineteenth century.

[405] *Delhaize Company History.* (Brussels, 2003), p. 8.

These innovations, coupled with the new ideas about food retail developed in Britain and then implemented in the United States and France, resulted in a 30% decrease in the cost of food products in this period and led to the creation of a new platform for the buying and selling of food: the modern grocery store, a point of sale offering produce, meat, and non-perishable foods, supplied by a network of producers. The first of these was opened in Paris in 1860 by Félix Potin, who first sold goods sourced directly from local growers and canners, and then optimized his profit margins by contracting producers to make goods under his own private label.[406] The revolution in food retail quickly expanded: successful grocers opened new branches and developed the model of chain stores. With stores across a local region, these grocers cultivated competencies in distribution as well, and their supply chains increasingly included more and larger producers in order to stock the shelves at their many locations.[407]

Jules Delhaize, a young Belgian professor of commercial accounting at the Brussels Royal Secondary School, observed the drastic changes in retail, marveled at the luxury and abundance of the department store model, and recognized the opportunity for food sales in his country to evolve similarly, beyond the scant items proffered by the typical Belgian food seller out of single rooms in private homes at unsustainably high prices due to the several middle men involved in the very decentralized distribution process. As the company recounted of its founder, "[h]e decided to study food distribution in Belgium and in doing so highlighted the archaism and the adverse effects on retail prices of having so many intermediaries between the producer and the consumer."[408] Driven by this

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406 Alain Faure, "L'epicerie parisienne au XIXe siècle ou la corporation eclatée," en *Le Mouvement social*, No. 108, L'atelier et la Boutique études sur la petite bourgeoisie au XIXe siècle (Jul. - Sep., 1979), pp. 113-130.
According to Faure, retailers and distributors like Potin played an essential role in bringing the revolutions in agricultural production and food preservation to the consumer public.

407 Also, in an effort to diffuse consumer confusion and skepticism of food prices in modern stores, some retailers embraced the uni-price model, which offered a "basket" or tier of goods for a singular price. By eliminating price variance, these grocers attracted customers who prioritized convenience and appreciated at least the illusion of a discount. This strategy further popularized one-stop shopping at grocery stores rather than single specialty markets.

ambition to improve food distribution, he conceptualized a supply chain made up of a large network of producers, all supplying the many chain locations of the parent company. Thus, it was with Jules Delhaize that multiple-branch distribution was born, revolutionizing food retail in Europe. Along with several of his eight brothers and his brother-in-law Jules Vieujant, Jules Delhaize formed *Delhaize Freres et Cie* in 1867 – an innovative, modern, well-stocked grocery store chain distributing specialty items and exotic foods and offering excellent customer service – to immediate success. By the time the First World War began, the Delhaize brothers had 774 stores in Belgium alone and captured a huge market share, bringing fresh, high quality food to communities across the country.[409]

In the brothers' minds, their supply chain innovation was so revolutionary that they declared to have solved the problem of food scarcity caused by Adam and Eve's original sin. The French edition of *Delhaize*'s internally-produced corporate history depicts the company's modern retail business as the corollary to the curse of Adam and Eve:[410]

> Genesis tells us that Adam and Eve poorly understood the problem of consumption by reducing it to the dilemma: to eat or not to eat the apple. This mistake condemned them to earn their bread by the sweat of their brow. […] From this curse was born the economy and, consequently, the need for man to default to the most effective way of satisfying his needs. […] Unlike Adam and Eve, the founders of Delhaize and their parents and successors have perceptively analyzed the problem of consumption [and] helped to remove the specter of scarcity.[411]

By casting the Bible story in terms of consumption and reframing the first parents' original sin as the prime cause of food scarcity, *Delhaize* envisioned the development of its late nineteenth century food distribution operation as having redeemed humanity through its robust supply chains, everyday low

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[408] *Delhaize Company History*, 13

[409] *ibid,* 36

[410] Curiously, this foreword is not included in the English edition of the corporate history, a distinctly different text overall that reads much more as a public relations outreach to the parent company's US subsidiaries than a heroic tale of the Belgian firm's founding.

[411] *Delhaize "Le Lion:" Epiciers depuis 1867*, sous la direction d'Emmanuel Collet. (Bruxelles: Editions Racine, 2003), translated by Grace Ballor.

prices, and ready-made meals, a view that seems to pit the inherent shortcomings of humanity against the 'solution' of capitalism. While "*Le Lion*" – the company's parent brand, designed to reflect the legacy of the Belgian crown – might have been the only grocer to so explicitly cast itself in such a grandiose fashion, it was hardly the first retailer to recognize the ways in which its sector had uniquely transformed modern standards of living and the human experience.

Unsurprisingly and as was the case for most European businesses, the two world wars and intervening depression resulted in tremendous losses for *Delhaize*. Stores were bombed, suppliers and producer farms were destroyed, shipping routes were severed – the company even lost a sizeable group of Jewish employees from one Belgian area to German concentration camps. Of course, its customers suffered similar fates. When the war ended in the mid 1940s, *Delhaize* initially struggled to get its stores restocked, re-staffed, and back open to the public. But the 1950s would mark the beginning of a new chapter in the grocer's history.

As influential as *Delhaize*'s early innovations were, its postwar expansion made an even more significant impact on European retail. A history of its operations – in its home market, as well as its expansion into foreign markets – also reveals much about the structural changes that occurred in the late twentieth century, the evolution of Europe in the postwar period, and the challenges and advantages of global interconnectivity. While *Delhaize* was unique among European grocers for its high quality and service-oriented business strategy, it was not alone in its regional expansion in the late twentieth century. British super-grocer *Tesco*, which was founded as a war surplus booth in 1919 and operated according to its founder Jack Cohen's logic of "pile it high and sell it cheap," cornered the lower end of the market in Britain during its early history using the same strategy, and then implemented the same approach throughout its subsidiary brands across Europe in the 1970s, 80s and 90s. The similarities and marked differences between the two retailer's approaches to distribution at home and abroad in the latter half of the twentieth century shed light on the impact of these retailers

on the lives of Europeans, the health of regional supply chains, the growth of European economies, and the process of regional integration.

Postwar Recovery and Domestic Growth

The Second World War devastated supply chains across the European continent. With rail lines decimated and roadways in disrepair, European supply chains were set back as much as a century in some areas.[412] With help from US Marshall Aid funds, countries in Western Europe began to rebuild in the late 1940s, prioritizing infrastructure reconstruction as the lifeblood of the economy.[413] Whereas postwar reconstruction and the early steps toward integration invited American investment by automakers and banks, few American retailers pursued European investment during the recovery period, since consumer buying power in the region was so depressed and supply chains were so disjointed. The wars had largely re-localized European retail, and the sector experienced a relatively long lag time in its recovery. In these years, European retailers focused on rebuilding the capital and assets they had lost in the war and worked toward restoring the success they had enjoyed in the interwar period. As part of their effort to rebuild, executives from *Delhaize* took advantage of the opportunity afforded them by the Marshall Plan to visit the United States to study the new distribution method of self-service, and education that would transform its business in the coming decades.[414]

Although its effects might have been delayed relative to the timeline for other sectors, reconstruction did ultimately set the stage for a new revolution in retail too. The economic miracles of the 1960s resulted in an increase in the standard of living and the development of a consumer

412 Ivan Berend, *An Economic History of Twentieth Century Europe.* (Cambridge: Cambridge University Press, 2006).

413 Alan Milward, *The Reconstruction of Western Europe, 1945-1951.* (London: Routledge, 1987).
Milward, "Was the Marshall Plan Necessary?" *Diplomatic History*, Vol. 13 (1989), pp. 231-253.
In this article, Milward makes the case that the effect of the Marshall Plan has been overstated by most scholars. Using the share of GDP as evidence, he argues that the US' aid package was not solely responsible for European reconstruction, but rather that it facilitated recovery processes that were already taking place.

414 *Delhaize Corporate History*, 86

society in Western Europe. "Household consumption increased by 80% between 1948 and 1968."[415] Average people could afford cooking appliances, and refrigerators, thereby transforming the home and its relationship to food products. Additionally, by the 1960s, increased wages and new financial products enabled most middle class households to afford their own cars, signaling growing consumer power and also precipitating widespread suburbanization. Encouraged by such economic growth, retailers embarked on massive campaigns to modernize their businesses and expand across domestic markets. In the case of *Delhaize*, domestic growth during this period was further made possible by the fact that the padlock laws, which had prohibited stores larger than 400 square meters in communes with fewer than 50,000 residents, expired in 1961.[416]

It was during this period that Europeans, like Americans, relocated their lives to the suburbs.[417] Following *Carrefour*'s innovative lead, *Delhaize* responded to these societal shifts by directing its energy into supermarket development and orienting its new store openings, which offered ample car parking, around new suburban communities.[418] These new "one-stop" stores attracted customers with fresh produce, butchered meats, exotic offerings, impeccable customer service, and an unrivaled wine department, which became *Delhaize*'s crown jewel.[419] Because both adults in Belgian households increasingly worked, these stores stayed open late and offered prepared food to accommodate the

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[415] *Delhaize Corporate History*, 99

[416] Belgium, like other European countries, had imposed Padlock Laws in 1930 in the wake of the Depression in an effort to support small business and prevent monopolization by large chain stores. See: *Delhaize Corporate History*, 98

[417] Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community*. (New York: Simon and Schuster, 2000).

[418] Carrefour had first pioneered the supermarket, a large and comprehensive retail model, offering housewares and hygiene products in addition to a full range of butchery, bakery, produce, and dry goods items.

[419] Delhaize invested heavily in its wine department. It dedicated itself to consumer education in wine and circulated magazine campaigns and posters – focused essentially on terroir: "grape varieties, soil composition and types of maceration."[419]The Wine List it published also included "detailed summaries of the wines," as well as "information garnered after a trip to the actual region and direct contact with the vineyard's growers."[419] In 1987, Delhaize published its first installment of "Lion," a "full-fledged editorial magazine, written by experts from outside the company, bringing customers and readers a thousand-and-one details about various products: their history and method of production, as well as recipes and nutritional properties."[419]

demanding schedules of working professionals. The growth of its new stores, along with the inspiration and know-how it gained from its exchange with American business leaders in Washington DC the year prior, *Delhaize* opened the first supermarket in continental Europe at Flagey in 1957.[420] Rival Belgian retailer *GB* soon followed suit, initiating a contest in the sector that would radically transform Belgian – and European – food retail. The following decade was one of expansive growth for *Delhaize*: it opened hundreds of new stores across Belgium, and also acquired several smaller Belgian chains and integrated those into its supply and distribution chains.

Similarly, *Tesco* expanded across its home market in the postwar period, acquiring more than 600 stores from *Williamson's* (1957), *Harrow Stores* (1959), *Irwin's* (1960), *Charles Phillips* (1964), and the *Victor Value Chain* (1968). By 1970, it operated more than 800 shops in England alone. These shops were largely bulk-buying discount outlets, which prioritized low cost over customer experience. Still, the concept proved very popular in 1960s England, and the company posted record growth over its domestic competitors like *Sainsbury's*. The development of supermarkets and the supply chains these retailers cultivated in order to furnish their new stores laid a strong foundation for the regional expansion that would characterize the later decades of the twentieth century.

Crisis and Strategic Innovation

When the boom of the 1960s gave way to the bust of the 1970s, European retail business suffered greatly. Not only were consumers buying less as a result of the rise in unemployment and falling wage levels, but amid the recession and crises of the 1970s many European governments enacted strict protectionist policies. It was also during this period that governments once again moved to nationalize corporations in strategic industries, a practice common in the Second World War and

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[420] *Delhaize Corporate History*, 93
Delhaize executives and managers were invited, along with the heads of several other European food retailers, to Washington DC in 1956 as part of a goodwill exchange. There, American businessmen shared their practices and strategies with their European counterparts in an effort to bolster European economies and cultivate productive partnerships for both groups.

its aftermath, revealing the degree of difficulty the developments of the seventies posed to corporations and economies. Food production and distribution were among the industries protected for national security purposes. After the Yom Kippur war and ensuing oil embargo imposed by Arab countries on the West, economic growth in many European countries dropped to zero, and domestic governments responded with defensive measures. While no major western European food retailers were nationalized in this period, they were subject to heavy-handed protectionism. As the following paragraphs explain, food retailers like *Delhaize* and *Tesco* innovated their way around both economic downturn and restrictive policies, and in so doing developed strategies that proved essential to their expansion.

"[A]s consumption fell [in Belgium], the Belgian lawmakers adopted what was known as the Ackerman Act, a genuine 'padlock' law," reminiscent of the country's earlier, rather paradoxical restrictions on retail expansion, which had "pitt[ed] small, family enterprises against big, capitalistic businesses," and fueled the "dichotomy of modernity versus tradition."[421] Similarly, the 1973 act "placed a savage break" on *Delhaize*'s designs on supermarket expansion within its home market.[422] The subsequent Business Premises Act of 1975 formalized the limits on *Delhaize*'s domestic growth, which had enjoyed a 26-fold turnover increase in the previous decade of the roaring sixties.[423] Concurrent collective labor agreements capped full-time employment at 36 hours and raised overtime pay. To make matters worse for big retailers, the Belgian government moved to freeze prices in 1980

[421] Peter Heyrman, "Unlocking the Padlock: Retail and Public Policy in Belgium (1930–1961)," *Business History*, 10 May 2017.
Delhaize Corporate History, 136

[422] *Delhaize Corporate History*, 135

[423] Dirk Pilat, "Regulation and Performance in the Distribution Center," OECD working paper, no 180 (1997).
Delhaize Corporate History, 135
The so-called Second Padlock Law remains in place to the present day. In order to establish a retail store in Belgium, entrepreneurs must file a "socio-economic request" to the *Comite socio-economique pour la distribution* to request permission to add a new player to the protected sector. Dirk Pilat explained that the padlock laws fueled the internationalization of Belgian firms in this period, as well as the unparalleled pace of franchising by Belgian firms, since these methods of expansion circumvent the padlock laws.

and increased VAT taxes in 1982. In short, the global turmoil of the 1970s motivated policy changes that deeply affected the business model of retail distributors like *Delhaize*.[424]

Amid the price war sparked by fierce competition for consumers' tightening pocket books in the 1970s, *Delhaize* "*Le Lion*," the grocery core of the parent company's business, developed a three-tiered product range. This strategy revealed *Delhaize*'s ambitions to capture all segments of the Belgian consumer market within the same store: "First, were the national brand items that could be found in all retail networks. Their prices were easy to compare and the overkill generated by promotional campaigns between the various chains was affecting their profitability."[425] In addition to the national brand items sold by most retailers and on which they had little room to discount below its own cost, *Delhaize* decided to develop its own private label products by subcontracting custom bulk production out to suppliers and selling them under its own brand. By bulk-ordering from contracted suppliers – sometimes a risky two to three years in advance of distribution – *Delhaize* was able to control quality while undercutting prices, boosting profits, and eroding the monopoly supplier conglomerates previously enjoyed over large-scale food distribution in the region. This effort went hand-in-hand with the company's many customer loyalty programs, aimed at securing dedicated repeat customers by hooking them on exclusive products and rewarding their shopping with points cards and rebates. By the mid 1990s, *Delhaize* had expanded its private label range to more than 3,000 products, which accounted for more than 25% of its total sales.[426] In 1978, the company relaunched the *Derby* range of products, originally a 1930s depression-era product line of basic and affordable items.[427] These items competed on price with the products sold at discount markets, positioning *Delhaize* to compete even

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[424] *Delhaize Corporate History*, 136

[425] *ibid*, 139

[426] Delhaize Annual Report 1996, p. 30

[427] *Delhaize Corporate History*, 139

on the lowest end of the price scale. "*Le Lion*" also rolled out "Minix prices" in the mid-seventies, permanently low prices on a select basket of goods.[428]

Not only did *Delhaize* develop a multi-tiered pricing system within its central grocery company, but it also diversified its business by opening new types of sales outlets and partnering with or acquiring other chains. In the wake of the first oil crisis and re-enactment of the padlock laws, *Delhaize* consulted on the creation of a discount chain called *Smits*, which had a sales floor of just 350 square meters and a product range of roughly 500 items, numbered as "stock keeping units" or "skus."[429] Within just a few years, the parent company assumed full control of the outlet and launched the *DIAL* chain with the same small footprint and mass market discount product line.[430] *DIAL* helped *Delhaize* compete at the bottom of the market. In 1975, *Delhaize* launched *Di*, a "cousin of the American drugstore" offering cosmetics, hygiene products, and even hardware items – filling the gap left when specialty hardware stores across Europe largely closed up shop in the 1960s, and responding to the huge growth in both the volume of and demand for health and hygiene products in the same period. The concept, which featured highly-trained consultant staff and a large product range, was immediately successful, especially because it had no real competitors in Belgium. These ventures both contributed to the company's bottom-line growth and also gave *Delhaize* the diversity of experience required for its foreign ventures in the coming years.[431]

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428 *Delhaize Corporate History*, 141

429 The term "stock keeping unit" and the practice of numbering items in a product range first developed in the late 1960s but came into widespread use in the 1970s when computing became a central component of retail and distribution.

430 *Delhaize Corporate History*, 144

431 Whereas the large middle-class suburban market with ample parking had been Delhaize's bread and butter in the 1960s, the changing shape of life for Belgians in the 1970s prompted the company to experiment with a new segment of the market. With fewer and smaller nuclear families, more women in the work force, and a resurgence in urban living for young working professionals, there was fresh demand for urban groceries. In 1979, Delhaize targeted affluent metropolitan gourmands with its *Fresh Market* stores, which sold specialty items like cheeses and charcuterie, meats and produce. While the chain operated independently for only a decade, it was popular with its urbanite customers and became a central part of the supermarket business when it was reincorporated in the late 1980s. In the 1990s, too, Delhaize further evolved to target affluent urbanites with its first supermarket in Brussels, where they featured a new ambient shopping experience,

Tesco, too, experienced setbacks in the 1970s and was forced to innovate in order to minimize its losses and expand in order to maintain its growth rate for its shareholders. The opening of its new headquarters, "New Tesco House," and name brand petrol stations were rather ill-timed, though, in 1973, coinciding with the fallout of the Bretton Woods collapse and the first Oil Crisis. Under Managing Director Ian MacLaurin, *Tesco* sought to compete with its domestic rivals by ending the 'Green Shield' customer loyalty program started by founder Jack Cohen in favor of a new price cut plan called 'Operation Checkout,' which refreshed the company's public image as a low-cost grocer. While the new plan, implemented in 1977, was designed to appeal to discount-hungry customers, it served a secondary, perhaps more important purpose for *Tesco*'s management: as the company increasingly digitized its inventory and points of sale systems in the following years, the loyalty plan became an increasingly valuable way to track consumer preferences and inform strategies for future purchase orders. *Tesco* also bolstered its private-label program during this period in an effort to retain a larger share of the profits from its sales. By ordering massive quantities of goods from producers

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advanced self-checkout technology, and a new merchandising plan, modeled after customers' everyday use of products. (The opening of this supermarket was rather ironic, given Delhaize's dispute with Pingo Doce and its subsequent withdrawal from the Portuguese market over supermarket strategy.) Also in the mid-90s, Delhaize launched a marketplace on the world wide web, mostly focused on wine sales, complete with wine education for customers.

An even more effective strategy to work around the padlock laws than private-label products and new brands was the network of independent affiliates Delhaize cultivated. In fact, the approach of licensing the parent company's powerful name to affiliates was not new for Delhaize, which had, in its own words, "pioneered" the system of affiliate licensing in the 1880s. With increased market share as its chief goal amid the crunch of the 1970s, Delhaize licensed its name to as many as 124 supermarket stores. (*Delhaize Corporate History*, 146) In an effort to further differentiate its business, Delhaize's Affiliate Department devised a two-pronged approach: in addition to the affiliated supermarkets, it also launched the Delhaize *Superette* chain of mini-markets, small markets designed to service populations with limited access to the super stores. Such a partnership strategy between Delhaize and its affiliates increased the parent company's revenue and market share, and also lent expertise in "the various facets of self-service retailing, its range of wines, logistics and computerization, as well as management, marketing and advertising skills" to smaller, often family-run companies. Perhaps most important to the small partner firms was the fact that Delhaize centralized distribution spared them from having to front the cost and assume the risk for inventory. Not only did this affiliate program generate for Delhaize the largest single thrust of growth in its long history, but its popularity among affiliates proved the benefit to the smaller partners as well. In just the few years between its 1983 launch and 1986, the affiliate program had grown from nine supermarkets and three 'superettes' to 34 supermarkets and 28 'superettes.' Within these three tiers, Delhaize strove to develop areas of expertise to further differentiate itself from the competition. It decided to specialize in wine sales, which had previously been the monopoly of small purveyors. By forming partnerships with winemakers themselves, Delhaize was able to secure for itself large quantities of wine far above the palate expectations of the average Belgian and at a surprisingly low price. It equipped its managers with the skills needed to advise customers in their purchase of wine and the background knowledge of wine production required to convince the public that Delhaize was the new viticulture expert in town. Within just a few years, Delhaize became the market leader for wine distribution in Belgium. (*Delhaize Corporate History*, 139)

with as much as a two-year lead time, the company was able to preserve the "pile it high and sell it cheap" strategy on which it was founded.

By the end of the difficult 1970s, several of the major grocery chains in Europe had disappeared, "and the sector went through a significant consolidation phase."[432] Across Western Europe, the number of retail parent companies was essentially halved, largely as a result of acquisitions rather than bankruptcy. Amid the shuffle, *Delhaize* '*Le Lion*,' *Colruyt*, a discount super-grocer with operations in Benelux markets, and the German *Aldi* companies with widespread European operations emerged as leaders of their respective market segments in the region, thanks to the strength of their core business operations and their capacity to adapt to crisis.[433] For example, *Delhaize*'s strategic decision to function as a discount market in this period fueled its remarkable growth even amid the recession: '*Le Lion*' experienced a 40% increase in its number of stores, a 70% increase in its workforce, and a nearly four-fold surge in its sales during the 1970s.[434] The strategic foundations laid during this difficult decade of the 1970s would largely determine how retailers across Europe would fare amid the period of intensive globalization and enlargement of the European Community that would follow in the 1980s and 1990s.

Regional Expansion

In addition to their strategic innovations, food retailers headquartered in Western Europe were also motivated by the crises of the 1970s – and by an increasing sense of competition on size and scale

[432] *Delhaize Corporate History*, 155

[433] In 1960, Aldi split into two companies, Aldi Nord and Aldi Süd, although many references simply use the name Aldi and do not specify which of the two distinct companies they mean.

[434] *Delhaize Corporate History,* 155
In this period, Delahize sought to service the bottom of the consumer market, selling produce and dry goods at a reduced price. Its marketing strategies at this time targeted price sensitive customers by highlighting mark downs and sales.

with American firms[435] – to expand into new markets in search of consumers and corporate growth. In some cases, too, international expansion was also an act of regulatory arbitrage in light of the protectionist measures put in place by domestic governments in the wake of crises. Especially during the 1980s and 1990s, western European food retailers expanded rapidly across the region, largely through smaller brand acquisitions in new markets, which they then grew into larger subsidiary chains with dominant market shares in their respective countries. Such expansion required these multinationals to develop regional supply chains. It is in analyzing their expansion and supply chains that the contribution of these firms to regional economic integration becomes clear.

i. Delhaize's Early Expansion Overseas: A Successful New World Experiment[436]

Before analyzing Delhaize' expansion in its home continent, it is important to consider the company's first international expansion from which it gained the strategic knowledge it would need to expand successfully in Europe. The restrictive padlock laws in its home country restricted *Delhaize*'s growth and forced the company to look to foreign markets for new opportunities. After much consideration, the board determined the United States to be the "cradle of the supermarket, a stronghold of free entrepreneurship, and an economy in full expansion," an opportune market for new investment.[437] Strong consumer culture, the availability of credit, a business-friendly regulatory climate, and unrivaled economic growth convinced the Belgian grocer to do what no other European retailer – and very few European firms at all – had yet attempted: to expand its business into the US. Consultants hired by *Delhaize* determined that rather than assume the high risk of greenfield investment, the company should partner with or acquire an existing American chain. They identified

[435] Differently from the cases of manufacturing and finance, few American retailers moved into Europe in the postwar period. As a result, European firms were not competing directly with American ones for market share, but rather out of a sense of competition in size and scale.

[436] While Delhaize's US business is certainly not the focus of this chapter, it did comprise the majority of the parent company's international business throughout the 1980s, 1990s, and 2000s.

[437] *Delhaize Corporate History*, 166

Food Town Stores, a young, dynamic food retailer on the Eastern Seaboard with industry-leading profitability, high return on investment, a rapid rate of growth, and a debt-free balance sheet as being the ideal American company for partnership. *Food Town*, which had been operating quite austerely in the previous decades, mutually recognized in the Belgian giant the advantages of financial partnership. In 1974, CEO Guy Beckers led '*Le Lion*' to become "one of the first European retailers to enter the U.S. grocery industry" ahead of *Aldi*, *Ahold*, and *Tengelmann AG*, when *Delhaize* acquired 34.5% stake in *Food Town Stores*.[438] A year later, *Delhaize* increased its stake in *Food Town* to 52%, the majority stake needed in order to be able to fully consolidate sales from foreign shareholdings per Belgian accounting rules.[439] This investment 'catapulted it from a mid-sized European supermarket operator to a large international retail company.'

Emboldened by the success of its acquisition of *Food Town*, Delhaize acquired another American outlet, *Alterman Foods*, in 1979. Despite the fact that both US acquisitions were roughly the same size in the late 1970s, their paths diverged significantly in the 1980s. *Food Town*, which was quickly renamed *Food Lion*, for the sake of company cohesion, so as to capitalize on the Belgian company's robust image, and in an effort to resolve a disagreement with a similarly brand, was named by Forbes magazine the "fastest growing food chain in America" by 1982.[440] *Food Lion* expanded on every horizon; it entered new US states, grew its product range and supply chain, and increased its store number by eight times in just a decade. Such growth was perhaps best reflected on *Food Town*'s balance

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438 *Delhaize Corporate History*, 169
Part of its strategy for expansion was to "leave the management of the foreign operating companies over to local managers, and to work with local partners." Per the principle of subsidiarity and the logic of decentralization, Delhaize put representatives on the boards of its acquisitions and subsidiaries, but not in management positions. Its board believed that empowering local leadership would increase motivation, and therefore sales. "In line with the decentralization philosophy of Delhaize "*Le Lion*," *Food Town* continued to be managed autonomously by its local management team." (*Delhaize Corporate History* 165, 169)

439 *ibid*, 170

440 "Le Lion's" domestic branding featured stylistic references to the Belgian crown, an image effective at home, but the parent company wondered whether its new American customers would appreciate the royal association.

sheet, which reported an earnings hike from 3.8 million in 1975 to 172.6 million in 1990.[441] *Food Lion*'s "rust belt" strategy of providing good quality products at a steep discount in a friendly and well-kept store proved to be a winning one with American blue collar workers. This rate of growth was particularly impressive in a decade during which household income declined, and both inflation and unemployment were high. *Food Lion* consistently offered prices 15% lower than their competition in this period by reducing operating costs, and more importantly, by forward buying, sometimes up to two years in advance of delivery. In contrast, *Alterman Foods* struggled, despite a major restructuring and rebranding effort in the early 1980s, during which *Alterman* became *Food Giant*. In 1986, *Delhaize* sold its *Food Giant* stores to a value chain, the resulting subsidiary of which *Delhaize* retained 80% ownership. Even so, the stores remained insolvent, and *Delhaize* was forced to close them at the turn of the millennium.[442]

While *Delhaize*'s acquisition of American subsidiaries would prove to be an anomaly for European food retailers in this period – both in geographic terms and because of its overwhelming success – it nevertheless resonates strongly with the concurrent strategies of expansion in the European region undertaken by European many food retailers. The case of *Delhaize* in America does present a significant contrast to regional expansion in this sector, though. Whereas *Delhaize*'s strategies of managerial and supply chain decentralization worked well in America, they ultimately proved to be far less profitable, or sustainable, in peripheral European markets. Finally, *Delhaize*'s foray into the United States differed from its other twentieth century expansion in Europe in one other crucial way: through *Food Lion*, *Delhaize* capitalized on an opportunity to take advantage of a large and growing market and to learn from US business strategies. In the 1980s and 1990s, *Delhaize* turned its attention to the advantages of expansion within its own region, largely brought about by the integration process.

[441] *Delhaize Corporate History*, 172

[442] *ibid*, 176

As the following examples illustrate, *Delhaize*, like other European multinational retailers, recognized the opportunities afforded by the enlargements of the European Community and moved into the peripheral markets that were newly or would soon offer multinationals the chance to do business without tariffs and quotas. In turn, by investing in those regional markets, contributing to integrative infrastructure, developing cross-border supply chains, and standardizing the distribution of goods, multinational food retailers like *Delhaize* also contributed to the elimination of non-tariff barriers to trade and the completion of the European common market.

ii. Regional Food Retail Expansion in Europe

After serving in a consultancy role for Portuguese grocer *Jeronimo Martins* in the early 1980s, *Delhaize* seized on a second opportunity for international expansion, this time within its own region. Its good working relationship with the firm, combined with the "attractive economic prospects of Portugal, which would enter the European Community in 1986, made *Delhaize* '*Le Lion*' look for a more capitalistic link between both companies."[443] In 1984, the partnership between '*Le Lion*' with 40% ownership and *Jeronimo Martins* with 60% ownership opened the first store under the new brand *Pingo Doce*. Within just five years, *Pingo Doce* opened 33 points of sale and grew its sales to ESC 39 billion per year.[444] The partnership dissolved in 1992 over a dispute about whether or not to enter the hypermarket business – that is, a big box store offering the products of both a supermarket and department store. The *Delhaize* board did not support the hypermarket plan, but sale of its shares of *Pingo Doce* proved very profitable anyway, and the 'Portuguese adventure' as it was called afforded the Belgian company experience that would be valuable in its later regional expansion.

As was also the case for European banks and manufacturers, the collapse of the Soviet Union and the opening of Eastern European markets served as a watershed moment for regional investment

[443] *Delhaize Corporate History*, 177

[444] *ibid*, 177

for European retailers. Decades of pent-up consumer demand attracted multinational retailers in particular, who quickly entered Hungary, the Czech Republic, Slovakia and Poland in a race to claim market share in the former bloc states whose starved economies were hungry for new goods. *Tesco* and *Delhaize* both capitalized on the moment of opportunity in 1990 and entered the markets of Eastern Europe. Differently from firms in other sectors, though, these retailers did not experience the same kind of threat from globalization, since few retailers from America or Asia had made their way into European markets by the 1980s. Rather, the global interconnectivity discussed in Chapter II subjected European retailers to the consequences of political and economic developments happening a world away. With the fall of the Berlin Wall came the opportunity for European manufacturers to defensively cut costs, and European banks to finance those industrial projects. For retailers, though, the collapse of the Soviet Union afforded them the chance to move offensively into new markets and capitalize on pent-up consumer demand. Moreover, the European Union's promise of future EU membership for the Eastern bloc gave *Delhaize* confidence that the region would be stabilized and experience growth as a beneficiary of funds from the European Bank for Reconstruction and Development.[445]

In 1990, the Beckers family members in control of the *Delhaize* board sent their son, Pierre-Olivier Beckers Vieujant, to Eastern Europe on a scouting mission. Just out of school and as one of the youngest family members of the company's board, Pierre-Olivier Beckers-Vieujant was "sent to Eastern Europe with a backpack on his back, instructed to survey the possibilities for his family's firm" in Poland, Hungary, and Czechoslovakia.[446] Of all of the bloc states, these three countries were particularly appealing to Western European companies looking to invest in the East. Poland had quickly become familiar to Western Europeans thanks to the exodus of Polish people streaming into

[445] Grace Ballor, Interview with Beckers-Vieujant, 10 October 2016

[446] Grace Ballor, Interview with Beckers-Vieujant, 10 October 2016

Germany, France and the Low Countries in 1989 and 1990. Throughout the decades of Soviet control, Hungary had proven itself to be the most independent country in the bloc, with a deeply-ingrained rule of law and strong institutions. Czechoslovakia had a long history of close connections to Western Europe, particularly through the century-long Paris-Prague relationship. Moreover, its strong economic foundations and robust institutions promised a rapid transition to capitalism, and its population of sixteen million seemed eager for new retail offerings. The Beckers family, a branch of the *Delhaize* genealogy, and controlling owners of *Delhaize* since the 1860s, had entrusted their youngest son with the task of identifying Eastern European grocers the family firm could acquire as a means of entry into the newly opened markets of the former Soviet bloc. Initially, Pierre-Olivier disappointed them, though, having returned to Brussels with the report that the few state-owned chains in operation in the three Eastern target markets were as backward in their business strategies as they were in their balance sheets.[447] Additionally, no existing retailers in those markets seemed to share *Delhaize*'s values or key performance indicators.

Within just months of his return back to Brussels, Baron Beckers was approached by two brothers who had fled Czechoslovakia for Belgium just before the Soviet occupation and whose small desserts and sauces company *AVITA* had become part of the *Delhaize* specialty good supply chain in Belgium. Having learned about *Delhaize*'s interest in entering the markets of Eastern Europe, the Parik brothers pitched the company board and offered to bring their linguistic, cultural and culinary knowledge of their home country to a joint venture with the Belgian giant. According to the company's reports, the Velvet Revolution in December 1989 had primed Czechoslovakia for successful foreign investment. In 1991, *Delhaize* and the Czech brothers formed *Delvita*, conceptualized as a friendly neighborhood market, catering to the health-conscious upper-middle class consumer with pent-up demand for new and improved products.

[447] Grace Ballor, Interview with Beckers-Vieujant, 10 October 2016

In order to launch the Czech subsidiary, *Delhaize* purchased five existing state-owned grocery stores from the Czechoslovakian government and brought in a Belgium-based management team to launch the brand and create standards and practices consistent with the parent company's core strategies, while still being attentive to the unique preferences of Czech consumers. The primary supply-side goal was to offer a product range that went far beyond the limited line of roughly 400 items to which they had been restricted by the Soviet supply chain. In fact, *Delhaize*'s commitment to expanding the product line in its *Delvita* stores originated in the sadness Beckers-Vieujant had felt when he inventoried products in Czech stores as part of his investigative foray into the grocery market of Eastern Europe.[448] He found the product range to be so austere and uninspiring that he became all the more motivated to improve it through a retail partnership. *Delvita* certainly accomplished that goal. With designs on becoming the premier supermarket chain in Prague, and then extending its network to the rest of the country, the first few *Delvita* stores were large, modern, yet "rooted in the local culture."[449]

The 1990s were a decade of explosive growth for *Delhaize* in Eastern Europe. Within just two years of opening its first store in Prague, *Delvita* already employed 1,240 people, and by the end of the decade, that number topped 5,000. After the Velvet Divorce and separation of the Cezch Republic and Slovakia, *Delhaize* increased its ownership stake of *Delvita* to 88.5% and opened two distribution centers to support its booming business, one in Prague (1996), described as the most modern distribution center in all of Europe, and one in Moravia (1998).[450] Local distribution enabled *Delvita* to continue its growth rate – fueling its entrance into Slovakia in 1998, and also to maintain quality control and cut costs. More importantly for the region, local distribution, resonant with the principle of

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[448] Grace Ballor, Interview with Beckers-Vieujant, 10 October 2016

[449] *Delhaize Corporate History*, 198

[450] *ibid*, 199

subsidiarity the company had practiced in its other foreign endeavors, meant that the investment of the Belgian group was much more integrative, than exploitative. In 1999, *Delhaize* became full owner of *Delvita* and subsequently doubled the subsidiary's size with the acquisition of "39 *Interkontakt* stores in the Czech Republic and 11 in Slovakia."[451]

The early success of *Delvita* inspired *Delhaize* to duplicate the experience, this time in Greece. In 1991, '*Le Lion*' took a 51% stake in the Vassilopoulos family's 13 *Alfa-Beta* supermarkets in Athens, which had just been awarded the prestigious title of "best all-around European supermarket by the International Food Retail Association.[452] Stiff competition prompted the Greek *pater familias* to pursue an international partnership, and *Delhaize* promised optimization without the loss of character or quality. "In line with its strategy of decentralization and local empowerment," *Delhaize* left the local management in place and "sent four representatives to *Alfa-Beta's* Board of Directors."[453] In just 8 years, *Delhaize* accelerated *Alfa-Beta's* growth from 15 supermarkets and GRD 36.3 billion in sales to 53 supermarkets and GRD 160 billion in sales. In 2001, *Alfa-Beta* acquired another Greek retailer, *Trofo*, and became the second largest food retailer in Greece.[454]

Over the course of the next several years, *Delhaize* replicated this process of expansion into foreign markets over and over again, always though multi-staged acquisitions and subsidiaries. After establishing a presence in the United States, Portugal, Czechoslovakia, Greece, France, and Slovakia, it entered Romania in 2000 when it acquired 51% of *Mega Image*, a retailer with 10 markets in the capital city Bucharest.[455] By keeping local management in place and offering its expertise, *Delhaize*

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451 *Delhaize Corporate History*, 199

452 *ibid,* 201

453 *ibid,* 201

454 *ibid*, 201

455 *ibid*, 181, 203

helped to grow the product ranges and services of food retail in Romania, while ensuring its own profits as well.

It is important to keep these Central and Eastern European retail investments in context: they represent a relatively low percentage of *Delhaize*'s overall operations, in some cases contributing just half a percent of *Delhaize*'s overall growth, as was the case with *Delvita* in the mid 1990s.[456] In contrast, *Food Lion* contributed more than a third of the parent company's total growth during this period. But while these Central and Eastern European holdings may not have constituted a major part of the business in terms of revenue, they played an outsized role in revolutionizing retail in Eastern Europe by exposing consumers to a diversity of goods, increasing expectations for standard of living, hygiene, food safety, and transferring expertise and best practices to a region otherwise half a century behind in terms of consumer services.

In addition to its geographic expansion across Europe, *Delhaize* also forged partnerships with similar companies in markets contiguous to Belgium that "would allow it to create inner-market synergies."[457] In the 1990s, '*Le Lion*' acquired a majority stake in *P.G.*, a company operating in the northwest of France with a "focus on fresh products, wine, customer service, and an attractive shopping environment."[458] The mutual benefit was clear: *Delhaize*'s cash reserves promised *P.G.* the chance to expand its service, and the partnership offered the Belgian firm an in to another market, with low risk. Already very similar, their partnership further likened *P.G.* and *Delhaize* to one another through the exchange of practices, services, and strategies. Together, the two companies launched an

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[456] Delhaize Annual Report 1996, p. 46

[457] *Delhaize Corporate History*, 202

[458] *ibid*, 202

affiliated store network in 1995, called *P.G. Partenaires*, which contributed significantly to the growth of the partnership enterprise.[459]

Unfortunately, this joint effort fell victim to the increasingly restrictive French regulatory environment. In 1996, the French government enacted the '*loi Raffarin*,' legislation to protect against the expansion of hypermarkets like France's own flagship food retailer *Carrefour* by limiting the number of hypermarket stores permitted in the country.[460] Neighborhood and specialty shops held particular cultural importance in France, where livelihoods of constituents in the country's rural *departements* were much more dependent on the production of cheeses, wines and food products with immense cultural significance. This was not surprising given France's long agricultural tradition and protectionism.[461] The Raffarin Law sought to protect France's farmers and producers against cheaper foreign imports by defending their place in the supply chain. This meant that even *Carrefour*'s expansion beyond the Ile-de-France required expansion beyond France altogether, since the rural *departements* were no longer possibilities. In addition to the cap on hypermarket stores, those in operation were required to source from local producers, again to support native agriculture. Like *Carrefour*, *Delhaize*'s joint effort with *P.G.* was also subject to these rules. New store openings for 1997 were canceled, and *Delhaize*, which owned 100% of *P.G.* sold half of the company to French retailer *Comptoires Modernes*. *Delhaize*'s forray into France became even more complicated when *Carrefour* acquired *Comptoires Modernes*, along with *Promodes*, a "reference shareholder of *Delhaize* Group's major Belgian competitor *GB*," rendering Delhaize's investment in *Comptoires Modernes* unsustainable.[462] It subsequently sold its 50% stake in *P.G.*

[459] *Delhaize Corporate History*, 202

[460] Alan Rugman and Simon Collinson, "Multinational Enterprises in the New Europe: Are They Really Global?" p. 6

[461] LeRoy Ladurie's seminal history of the French agricultural tradition is a particularly good source for understanding the heritage France sought to protect even in the late twentieth century. In the 1960s, French wine makers and dairy farmers passionately protested the European Community's Common Agricultural Policy and its downward effect on their product price by dumping wine lakes and butter mountains rather than take them to market.

[462] *Delhaize Corporate History*, 202

to *Carrefour* in 2000 and with that, exited the French market. By the 2010s, *Delhaize* also divested from many of its Central and European investments, which had become decreasingly profitable during the early 2000s. Instead, *Delhaize* turned its attention in this most recent period to new investments in Asia.

iii. Tesco's Regional Expansion

Although the British government did not implement strict padlock laws in the wake of the 1970s crises, *Tesco* was similarly motivated to expand into nearby markets in search of growth opportunities, both because it had already thoroughly penetrated its home market and because it sought to compete on size and scale with its US and continental European counterparts. In 1979, the British super-grocer acquired a majority stake of the *Three Guys* chain in the Republic of Ireland. While this acquisition served as an important learning opportunity for *Tesco*, it ultimately proved to be an inopportune venture "given the structural capacity for expansion and the relative strength of the company within their domestic market at the time of the initial international foray."[463] In short, as a parent company, *Tesco* was unprepared for such expansion, and as a subsidiary, *Three Guys* was not strong enough in its own domestic market to claim sufficient market share to make it worth *Tesco*'s while. As one analyst explained, *Tesco*'s expansion into Ireland was also seen by financial markets to be a "distraction to the core UK business," so even investors were betting against the venture.[464] After being forced to divest from its unsuccessful Irish business in 1986, *Tesco* conducted several years of market research with the hope of further, more lucrative expansion.

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[463] Mark Palmer, "Retail Multinational Learning: A Case Study of Tesco," *International Journal of Retail Distribution and Management*, Vol. 33, no. 1 (2005), pp. 23-48.

[464] For his article on "Retail Multinational Learning," Palmer conducted in-depth interviews with a total of 62 Tesco executives and analysts on background. This quote is from one of his anonymous sources. See: Palmer, "Retail Multinational Learning," p. 30.

After an intensive postmortem assessment of its failed Irish venture, *Tesco* decided to acquire the medium-sized, densely-clustered, and "structurally-mature" French *Catteau* in 1992, intending to shape it into a major platform for growth on the continent. It sought to centralize the supply and distribution chains of the subsidiary in an economies-of-scale effort to maintain strict control over costs and margins. Unfortunately for *Tesco*, this French venture would prove as disappointing as the Irish one, largely because it could not scale its subsidiary quickly enough to capture sufficient market share to control supply chains and thereby maximize profits. Moreover, *Tesco* was learning that the gap in consumer preferences between markets is much wider than the English Channel. Its irreconcilable disagreements with the original, shareholding management it left in place in the takeover further strained the parent-subsidiary relationship. That *Tesco* was forced to divest from overseas expansion a second time in just a decade revealed both the company's difficulty in developing a successful strategy for international expansion, as well as its persistent dissatisfaction with being merely Britain's number one. After all, as the cases of multinationals from other sectors have demonstrated, the larger the firm, the stronger the growth imperative.

The opening of Central and Eastern Europe presented new opportunities for *Tesco*, which, together with its failures in the more mature markets of Ireland and France, informed its shift in strategy toward emerging market investments. In 1995, *Tesco* acquired the 43-store Hungarian supermarket chain *Global* as a means of gaining a foothold in Eastern Europe.[465] A few months later, it acquired the small chain *Savia SA* in Poland, and in 1996, in an effort to close the geographic gap between its Hungarian and Polish investments, *Tesco* entered the newly-independent Czech Republic and Slovakia through the much larger purchase of *Kmart*.[466] It was *Tesco*'s express goal to become the market leader in each of these new host countries by capturing consumer loyalty to their massive

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465 Palmer, "Retail Multinational Learning," 32

466 *ibid*, 3

hypermarkets, stores so large and comprehensive that they exceeded the imaginations of those who had lived the previous forty years under communism.

Rather than making a strong entrance into several markets at once or to rely on the strength of a mature subsidiary as it had done in the past, *Tesco* sought to bring its model to a few Central and Eastern European countries into which no other major western rival firms had entered and to grow organically, store-by-store.[467] One executive explained:

> What is important to us is not the number of countries we are present in but rather that we attain, and/or sustain number one or two position in each of these countries. The aim is to balance the global scale that comes from *Tesco* with the local strength of being a market leader. Market position gives you market share, which in turn gives you scale, which in theory, should allow you to have the lowest cost base, best buyers, best offers to customers, therefore the best revenues, earnings and dividend growth. That is why retail multinationals aim for leadership in markets and strong regional presence. It's a virtual circle.[468]

The strategy it employed in this expansion – called "seed acquisition" – proved to be much more profitable than its previous approach, and by 'cutting the fat' of smaller, proximate corner stores and opening hypermarkets in their place, *Tesco* quickly became a leader in its new host markets. Another executive explained that acquiring small assets provided a low-risk learning opportunity to the parent company, which allowed it to test ideas and work toward optimization with minimal liabilities. As a result of this strategy, *Tesco*'s "aggregate market share in Hungary and Poland [wa]s over 40%" by 2004.[469] These successes in Eastern Europe, and the growth of its new model of hypermarkets, positioned *Tesco* to re-try its hand at expanding into some of the areas in which it had previously struggled. In 1997, it re-entered the Irish market once again by taking control of the retailing

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467 Because of the sheer size of its store footprint and the vast number of skus it offered customers, Tesco saw itself as being in a category unto itself with few rivals, especially with regard to expansion into Central and Eastern Europe. No CEE food retailers could offer as diverse of a product range, nor could the smaller Western European foreign investors like Delhaize.

468 Palmer, "Retail Multinational Learning," 34

469 *ibid*, 36

operations of *Associated British Foods*, which quickly became the largest food retailer in Ireland under *Tesco*'s control.[470]

Delhaize and *Tesco* were certainly not the only retailers to expand across the European region in response to global pressures and in search of the new opportunities extended them by EC enlargements and geopolitical shifts. In fact, the relatively young German wholesale retailer *Metro*, founded in 1964, proved to be much more successful in its expansion than either *Delhaize* or *Tesco*. By 1972, it had already opened subsidiary stores under the brand *Makro* in the Netherlands, Belgium, France, Austria, Denmark, Spain, and Italy.[471] By 1980 – just 20 years after its founding – it maintained 100 stores all over Europe. Impressively, *Metro* was able to maintain its momentum despite – or perhaps even because of – such widespread expansion, and it would go on establish a significant market share in sixteen European countries, most of them member states of the EU, before expanding into global markets in the early 2000s as one of the largest food retailers in the world.

The expansion of multinational food retailers throughout Europe through their subsidiary acquisitions in the later decades of the twentieth century reshaped the region. In industry terms, it resulted in further consolidation of food distributors down to a shrinking number of ever-larger corporations. For policy makers, particularly those in Brussels, this consolidation meant fewer firms to regulate, as well as an increased chance that they could implement regional standards by enforcing the rules on just a few large multinationals, which would then pass those same rules down to their subsidiaries. Regional expansion by food retailers also resulted in intensive supply chain integration, which significantly transformed the menus, tastes, and even nutrition of grocery shoppers across Europe. Analysis of this supply chain integration through the divergent cases of *Delhaize* and *Tesco* reveals it to have been an even more extensive example of the way in which the regional expansion of

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[470] Tesco Annual Report, 1998

[471] Metro Cash & Carry, "Our History"

food retailers in the wake of crises and globalization contributed to standardization across European economies and led to the completion of a single market in Europe.

The Effects of Regional Expansion on Supply Chain Integration

Globalization resulted in major structural changes for European retail. One of the most significant changes was the consolidation of food processing into the hands of just a few powerful groups, "whose position strengthened" – especially relative to national retailers – as they grew larger and expanded into worldwide markets."[472] In response, retailers like *Delhaize* strove to adopt two intensively regional strategies. First, it worked to develop partnerships with other European retailers whose commercial philosophies were similar to its own. "At the beginning of the 1990s, *Delhaize* '*Le Lion*' founded an informal [regional] exchange platform with *Esselunga* (Italy), *Sainsbury's* (GB) and *Docks de France*, known as SEDD."[473] From joint buying to technology, packaging and logistics exchanges, these regional industry partnerships further strengthened *Delhaize*'s position *vis a vis* its global competitors. The *Delhaize* Group doubled down on its regional partnership commitments in 2001 when all of its stores joined the EMD platform, "which brought together some 1500 European retailers of all sizes." Second, it side-stepped the mega supply groups and aimed to source instead from niche producers with which it could better negotiate and from which it could secure products that would set it apart from the increasingly homogenous fray. As a result, its supply chain became extremely diverse. Because of its large order volumes, *Delhaize* increasingly determined the production methods and product standards of its supply chain.

In a sector in which business success or failure is highly contingent on the robustness of consumer demand, food retailers were also forced to respond to the socio-economic changes brought about by globalization. By the time the world economy recovered in the mid-1980s, consumer tastes,

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[472] *Delhaize Corporate History*, 184

[473] *ibid*, 184

market preferences, living standards, the retail landscape, and the very structure of middle class life had been utterly transformed. The crises of the previous decades, the decline in rates of employment, and the stagnation of wages had made many Europeans price-conscious, a mentality that persisted despite economic growth. Still, the widespread financialization that characterized the 1980s made credit easily available and fueled the development of infrastructure and the consumption boom that put credit cards in the wallets of most Europeans, more cars on the road, more appliances in homes, and more consumer electronics in offices. In short, the availability of credit and the influx of competition created a buyers' market in nearly every respect.

In response to these trends, *Delhaize*, like so many other retailers, grocers, and distributors in this period of the mid to late 1980s, expanded its product range and made an effort to capture the attention and loyalty of consumers. Food retail became particularly diverse in this period. For example, British retailers focused on the development of private labels as a means of controlling profits and cultivating customer loyalty, and New York supermarkets "offered a dazzling range of original products designed to meet the needs of customers from the widest possible range of ethnic backgrounds."[474] *Delhaize* '*Le Lion*,' too, made efforts to meet the broadening tastes of Belgians. It cut out middle man importers and established direct relationships with producers across the region. This direct approach not only cut costs, but also allowed *Delhaize* to customize orders to its customer preferences, resulting in offerings never before available in their markets, including organic produce, a fast-growing category amid the health craze of the late 1980s and 1990s. Moreover, by bypassing importers and the limitations of their supplier lists, *Delhaize* was able to incorporate a larger number of producers from across the region into its supply chain.

The evolution of *Delhaize*'s regional supply chain in this period warrants further consideration, especially because of the inclusion of small and medium sized enterprises and the resulting channels

[474] *Delhaize Corporate History,* 157

through which the company's networks were cast widely across Europe. Private label products had proven a lucrative strategy for the company since the interwar period, but they became the core of *Delhaize*'s business in the 1980s. In keeping with '*Le Lion*'s' efforts to brand itself as an eclectic and high-end retailer, private label product packaging was redesigned to be eye-catching and evoke luxury. Simultaneously, *Delhaize* developed "light" private label products to maintain the profitability of selling its own discount items rather than those of the national brands. But *Delhaize* did not produce private label goods on its own; rather, it outsourced that production to a vast network of small and medium sized enterprises across the region, over which it imposed a uniformly rigorous quality and health safety control program. *Delhaize*'s own company history credits SMEs, "working to exact specifications, [with playing] a major role in the development of the brand."[475] Thanks to these family farmers, bakers, confectioners, picklers and briners, and wine makers, *Delhaize* tripled its private label range between 1987 and 1992. The exclusivity of these products to *Delhaize* further augmented customer loyalty to the brand. These relationships with producers also required more on the part of the company's buyers and inventory managers. "Buyers [began] traveling more than before, discovering new products […] there was more dialogue with manufacturers and suppliers [and] they became genuine specialists for their particular range of products."[476] Because the same product knowledge acquired through conversations with producers needed to be translated to the sales team, '*Le Lion*' created the *Delhaize* Product School in 1990, in which buyers educated department managers on the origin and nutritional value of each item sold in the store – all in an effort to maintain its exceptional customer service.

That its strategy of specialization motivated *Delhaize* to intensively regionalize its supply chain in the 1980s is further revealed by the company's shift toward relationships with 'craftsman' producers

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[475] *Delhaize Corporate History* 159

[476] *ibid,* 161

in Belgium and across Europe. It strove to satisfy consumers' growing interest in food traceability and transparency,[477] and also customer preference for authentic, regional delicacies – previously rare in Belgian markets – and cultivate a highly diversified product range by sourcing "Appellation d'Origine Controlée (AOC) French cheese, interesting variations of ham, such as Bayonne, Parma, or Pata Negra, or that superb Belgian specialty, Trappist beers."[478] Its supply chain thus became highly regionalized in this period and both featured the handiwork and showcased the terroir of European products. As a major food retailer, *Delhaize*'s regionalization of its supply chain had the knock on effect of regionalizing the palate of its Belgian customers – a contribution too little acknowledged in studies of regional integration. Additionally, thanks to new technologies in cooling and food preservation, *Delhaize* became a high quality specialty store by offering such delicacies along with "fourth range" products like pre-washed lettuces, butchered meats, cooked food, and exotic fruit. This supply chain expansion extended *Delhaize*'s influence beyond its own stores and subsidiaries and positioned it to be a force for standardization.

It was in food safety and quality control that *Delhaize*'s role in standardization became most explicit. While the Belgian grocer claims it had always prioritized food safety, the widespread epidemics of the late twentieth century forced *Delhaize*, along with its multinational food retailer counterparts, to scrutinize their suppliers and their own distribution and sale practices. Foodborne illness scares like the outbreak of *salmonella enteritidis* in the 1980s and the mad cow disease crisis of the early 1990s affected consumer confidence across European food distribution. "In 1994, *Delhaize* became the first Belgian retailer to impose the strict standards required by the Meritus label onto its butchery procedures," and created a system by which animals were registered and tracked from birth to

[477] This was especially a concern for consumers after the mad cow disease crisis of 1993.

[478] *Delhaize Corporate History,* 158

butchering to packaging to point of sale.[479] The company established a Quality and Food Safety Department in the following year, and by the end of the decade, *Delhaize* had implemented a rigorous program of eliminating the contamination of products by implementing what it called Hazard Analysis Critical Control Points standards.[480] By 1996, *Delhaize* was operating several laboratories for food safety testing and research, the findings of which were used to create standards to be implemented across its many brands and affiliates.[481] It also developed its own transparency labels to guarantee that its meat products exceeded the standards for "European Quality Beef" and "Belgian Controlled Veal" and that its produce was integrally grown with minimal pesticides, indicated by the label "Fruitnet."[482] Importantly, and similarly to *Carrefour* and *Metro* which also developed rigorous quality control programs during the 1980s and 1990s, *Delhaize* imposed these standards across its vast supply chain, which was scattered across France, Italy, Spain, and the Low Countries. As a result, *Delhaize* served as a homogenizing force for the local producers in its vast supply chain – as well as for the products they produced – even as it brought higher quality goods to market for consumers and protected itself from costly recalls and health bureau oversight.

In contrast, *Tesco*'s supply chain was relatively centralized in the 1980s and 1990s, as it worked to secure profitable distribution for its growing family of brands through the major food processing conglomerates. It was in this period that the British grocer formalized its "lean" supply chain strategy, a much more centralized approach than that of *Delhaize*.[483] In *Tesco*'s model, rather than incorporate small local producers in each market, the parent company sought to consolidate the supply for its

[479] *Delhaize Corporate History,* 185

[480] *ibid,* 185

[481] Delhaize Annual Report 1996, p. 30

[482] *ibid,* 30

[483] Robert Mason and Barry Evans, *The Lean Supply Chain: Managing the Challenge at Tesco*. (London: Kogan Page, 2015).

many chain stores and subsidiaries into a centralized distribution system. In some ways, *Tesco*'s centralized distribution brought its regional subsidiaries and the markets in which they operated into an even tighter-knit unit than the decentralized, local supply chain strategy of *Delhaize*. But in both cases, their expansion across Europe in the 1980s and 1990s, and their regional supply chain integration became both a vehicle for standardization and a force for market integration.

Competition, Consumption, and Divestment

That several other continental European food retailers also capitalized on the opportunity to expand into Eastern Europe in the 1990s and early 2000s created significant competition among the foreign multinationals operating in the region. As explained above, *Carrefour* and *Metro* had been among the first retailers to multi-nationalize in the 1970s, 80s, and 90s, expanding their subsidiary and supply chain networks from the Iberian Peninsula to the Benelux countries, central continental Europe to the Mediterranean.[484] With the opening of Eastern Europe in the 1990s, *Metro* swiftly made both acquisitions and greenfield investments in Hungary and Poland (1994), Romania (1996), the Czech Republic (1997), Bulgaria (1999), and Slovakia (2000). While the scale of its investment in the East was smaller than that of its German counterpart, *Carrefour* also moved into Poland (1997) and Romania (2001), adding Eastern Europe to its already expansive portfolio including holdings in Latin America, Western Europe, and Asia.[485] That smaller retailers like the British *Marks & Spencer* also entered former Soviet bloc markets in the 1990s offers further proof of the widespread appeal of Eastern European investment to Western European retailers. Notably, the retailers that regionalized most intensively in the twentieth century were best positioned to then use their European networks as foundations from

[484] The French *Carrefour* acquired subsidiaries and opened stores in Spain (1975), Greece (1991), and Italy (1995), and *Metro Cash & Carry* (the wholesale arm of German parent company *Metro AG*) did the same in the Netherlands (1968), Belgium (1970), France, Austria, and Denmark (1971), Spain and Italy (1972), Portugal (1990), Greece (1992).

[485] Carrefour Group, "History," http://www.carrefour.com/content/history

which to grow into global retail giants. These firms remain some of the largest and most profitable retailers even today.

While this preponderance of investment by retailers in Eastern Europe attests to the pattern of regionalization by Western European multinationals and contextualizes the approaches of *Delhaize* and *Tesco*, it also indicates the degree to which these markets quickly became over-saturated with foreign competition in the sector. This is the first of three reasons behind what became an equally widespread trend of divestment by Western European retailers from their newly acquired Eastern European assets in the early 2000s. Overcrowding simply forced some players to exit the game, despite the fact that some of the acquisitions and new brands in the region had hardly seasoned in the few years since they launched. In 2005, for example, *Carrefour* divested from its holdings in Poland and Slovakia. In 2001, *Delhaize* was forced to sell several of its *Delvita* stores in the Czech and Slovak Republics, and by 2013, *Delhaize* had withdrawn from its investments in Romania, Albania, Montenegro, Bulgaria, and Serbia. *Jeronimo Martins* and *Dohne Handelgrouppe Service GmbH* both sold assets in Poland in 2002.[486] *Tesco*, too, divested from several of its Eastern European markets during the early 2000s, initially in favor of its burgeoning business in East Asia. In short, the rush to capitalize on newly opened markets in Eastern Europe was mirrored by a similarly hasty mass exodus.

But market saturation does not fully explain this divestment trend. Sweeping changes in consumption also motivated Western European retailers to restructure their portfolios in a scramble to maintain their positions. That retail success is contingent on consumer patterns set firms in this sector apart from their counterparts in banking and manufacturing, who were less adversely affected by the unpredictable undulations of consumer preferences, the immediacy with which social changes affected shopping habits, and the emergence of ecommerce. Although Europeans liberated from the scarcity constraints of the depression and war had engaged in reactionary and unfettered "*fressen-welle*"

[486] Palmer, "International Retail Restructuring and Divestment," 1079

consumption during the postwar decades – a boon for retail growth, their rates of discretionary spending slowed in the 1970s and 80s as consumers began to prioritize the purchase of more durable and luxury goods like homes, cars, and haute fashion in what has come to be called in German the "*kleidung-welle*," or fashion wave.[487] This second wave boosted the revenues of banks and contributed to the rise of the finance and service sectors. By the 1990s, consumer preferences had shifted yet again in favor of travel and experiences rather than materialism. This "*reise-welle*" further explains the preeminence of services by the new millennium. While food retail felt these changes less acutely than other shopping outlets, such shifts in the patterns of consumption by Europeans did increase the risk of super- and hyper-market business models, not only because of the high proportion of less-stable non-food items among their skus, but also because of the long purchase order lead times required for their economies of scale. The three waves described above, initially used to describe shifts in Western European consumption in the 1950s-1990s, evolved similarly but on a delayed timeline in Eastern Europe. Consumer demand for goods boomed after the collapse of communism, then shifted toward durable and luxury items in the 2000s, and to travel and tourism in the 2010s.[488]

Finally, because of the central importance of parent companies in the structure of multinational corporations, these reasons of market saturation and structural changes in consumption must be analyzed together with domestic factors in order to fully explain the divestment of Western retailers from Eastern Europe.[489] Tightening markets at home, changing regulatory regimes, labor movements, and the increasing threat of ecommerce forced many traditional brick and mortar retailers to adopt defensive strategies, namely divestment and retraction. The fundamental lesson in the

[487] Ivan Berend, An Economic History of Twentieth-Century Europe: Economic Regimes from Laissez-Faire to Globalization. (New York: Cambridge University Press, 2006).

[488] Michael R. Solomon, *Consumer Behavior: A European Perspective.* (New York: Pearson, 2010), p. 596.

[489] Neil M Coe, Yong-Sook Lee, and Steve Wood, "Conceptualizing Contemporary Retail Divestment: Tesco's Departure from South Korea," *Environment and Planning A*, Vol. 49, no. 12 (2017), p. 2741.

trajectories of *Carrefour*, *Tesco*, and *Ahold* is a rather obvious one: the interests of the parent company precede those of its foreign subsidiaries. But as the next section will show, contraction was not the only strategy employed by Western European food retailers in response to these challenges in Eastern Europe.

Going Global: European Divestment and Asian Investment

Unlike its manufacturing and banking counterparts, yet similar to its fellow retailers – including even hypermarkets like *Tesco* – *Delhaize*'s European business began to suffer around the turn of the millennium. Although it had operated in seven European countries, disputes about company direction prompted *Delhaize's* withdrawal from Portugal, and the Raffarin Law and competition with *Carrefour* forced it out of France. Its acquisitions in former Soviet bloc states and Greece that had initially shown such promise began to falter when economic growth lagged behind expectations, especially when the transition to capitalism moved much more slowly than private enterprise had hoped. Delhaize doubled down on its strategy of product line differentiation, extraordinary customer service, and amenities, but had no choice but to close several underperforming stores by the turn of the century.[490] By 2000, the Belgian firm had to withdraw from declining markets in Central and Eastern Europe and divested from its Czech and Slovakian subsidiaries, but not without making a lasting impact on food retail in those markets. In search of new growth, *Delhaize* and *Tesco* both moved into Asian markets, which were posting much higher growth rates than Europe and where demand for more and diverse good was on the rise: Thailand, Malaysia, Taiwan, Japan, and China.

In a rationale that reveals much about the shape of the global economy in the new millennium, *Delhaize* saw in Asia an opportunity to balance its portfolio and hedge its bets against Europe and the United States.[491] In 1997, the *Delhaize Group* acquired 45% of *Bel-Thai Supermarket*, a new conglomerate

[490] *Delhaize Corporate History*, 199

[491] *ibid,* 204

with two stores. A joint venture with the *Salim Group* gave *Delhaize* an entry into the otherwise closed-to-foreign-investment Indonesian market in the same year, under the banner *Lion Super Indo*. Fortunately, new legislation in 1998 permitted *Delhaize* to acquire a majority ownership stake in the company and fully invest in Indonesia. In 1999, *Delhaize* entered yet another Asian market when it acquired a 49% stake in *Shop N Save*, a Singaporean food chain.[492] Hygiene was *Delhaize's* key differentiator in its Asian stores, and it further set itself apart with new products and services, thereby revolutionizing food retail in those markets.

Just as *Delhaize* had played an integrative role in Europe when it served the company's interests, so too did *Delhaize's* investment, operations, supply chains, and distribution integrate the Asian economies in which it made acquisitions and controlled subsidiaries. The parent company organized four Asian synergy groups, which brought "together specialists from the three Asian divisions" and also coordinated a cooperative 'Asian Fair,' which 'underscored the common strengths' of the three divisions.[493] These efforts were clearly designed to bolster *Delhaize's* success in Asian markets and safeguard its investments, but had the added benefit of fostering collaboration and facilitating the exchange of ideas and practices. While it is difficult to measure *Delhaize's* integrative impact in Asia, it is very easy to measure its initial success: in 2002, it opened its 100th store in Asia, and its business in the region was generating €218 million in sales.[494] Within just a decade, though, competition, changes in consumption, re-regulation favoring domestic companies, and supply chain problems forced many of the European food retailers that had invested in Asia to divest from there too.[495]

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492 *Delhaize Corporate History*, 205

493 *ibid*, 205

494 *ibid*, 205

495 Coe, Lee, and Wood, "Conceptualizing Contemporary Retail Divestment," pp. 2739-2761.
For *Delhaize*, its US assets proved to be the most valuable year over year. According to the company's (now *Ahold Delhaize*) most recent annual report, 61% of its net sales were in the US, compared with just 39% in Europe and none in Asia. See: *Ahold Delhaize*, "Annual Report 2017," p. 20.

With all of this international expansion, *Delhaize "Le Lion"* was transformed from a holding company into an integrated group in 2000, under the direction of new CEO, the same Pierre-Olivier Beckers-Vieujant who had scouted post-Soviet Eastern Europe for his family's company a decade before. Beckers-Vieujant brought to his position the global perspective of a young, well-traveled international businessperson, whose coming of age took place in a world that looked very different – and much more open – than it did to the generation before him. With him at the helm, *Delhaize* developed intra-group networks of young managers, international training programs for its staff, and synergy groups working to optimize and homogenize all areas of its business. "In 2000, *Delhaize Group* co-founded the Worldwide Retail Exchange, a global web-based business-to-business marketplace," […] "offering electronic options, aggregate buying, Collaborative Planning Forecasting and Replenishment (CPFR), and catalog synchronization."[496]

Beckers-Vieujant's leadership was further characterized by internationalism when he joined his company and its subsidiaries to the new European Retail Roundtable in 2012, a group modeled after the European Roundtable of Industrialists, aimed at advancing the European common market.[497] Even – or perhaps especially – after its recent merger with the Dutch retailer *Ahold*, *Delhaize* has remained active in its support for European integration. In fact, the current president of the Roundtable is Franz Muller, CEO of *Delhaize*. *Tesco* is also a founding member of the group. The political engagement of these food retailers in support of integration merely confirms the fact that their business interests align with those of European federalists: privileged access to a large single common market drives corporate growth and fulfills the vision of creating a 'United States of Europe,' complete with its own regional champions.[498] That European-headquartered retailers would establish

[496] *Delhaize Corporate History*, 207

[497] European Retail Roundtable, "About ERRT"

their own pro-European PAC in 2012, coincident with the patterns of divestment described above, further reveals their desire to safeguard the strength of their core 'domestic' markets in an integrated region.

Conclusion

This latest chapter in the history of European retail reveals the degree to which globalization had reshaped the economic geography of the world and influenced the behavior of corporations. Whereas the pressure of rival firms from the US and Japan and the opportunities afforded by the growing European Community had incentivized regional expansion in Europe by companies like *Delhaize* and *Tesco* in the later decades of the twentieth century, by the turn of the millennium, the opening of new global markets made possible by geopolitical changes, technological advancements, increasingly global supply chains, and the rise of new middle classes motivated European firms to begin to expand into new regions of the globe. Retailers were certainly not alone in developing a global strategy in the twenty-first century: automakers and banks also expanded considerably into Asia, North, and South America in the first decade of the new millennium, in some cases restoring their international profiles from the postwar period, and in other cases building global enterprises for the first time. In many ways, this global expansion of the 2000s marked the end of the period of intensive regionalization on the part of European firms, and the beginning of a period in which European corporations directly competed on size and scale and in the same markets as American and Asian rivals. In fact, it the capacity to compete on the world stage in the twenty-first century was itself a result of the regional strategies employed by European firms in the last decades of the twentieth.

Not only did *Delhaize* and *Tesco* play a role in integrating European supply and distribution chains, create regional standards for production and food safety, facilitate the circulation of cuisines

[498] In many ways, the European Commission began to cultivate 'regional champion' firms much like the national champion companies supported by domestic governments in the 2000s.

and contribute to the creation of a broad, regional palate, but the political integration process also deeply influenced their business strategies. As was discussed previously in the case of *Delhaize's* expansion into Portugal, the horizontal enlargement of the European Community – and later European Union – motivated the company's expansion into new markets, just as the EU's membership invitation to former Soviet states in the early 1990s drive *Delhaize's* expansion into Central and Eastern Europe. The implementation of the euro currency in 2002 prompted *Delhaize Belgium* to launch a new commercial policy based on an *Everyday Fair Price* concept, rather than on weekly promotions.[499] In turn, in different ways, both *Delhaize* and *Tesco* played crucial roles in integrating the economies of Europe and facilitated the completion of a common market through their subsidiary acquisitions, local and centralized supply chains, and the regional standards they implemented across their networks. Like their counterparts in manufacturing and banking, their size and scope, along with their mutual interest in a large common market, positioned them to carry out the practical achievement of the Single Market. Additionally, the foreign direct investment of these multinational food retailers made a significant impact on the peripheral economies of Central and Eastern Europe, contributing to shared tastes, diets, and standards of living at a critical time in their transformations to capitalism. Simply by serving their own self-interests, then, these retailers helped facilitate Europe's economic transformation from disparate national markets to a large common one.

[499] *Delhaize Corporate History*, 189

Chapter VII: The 'Single' Market: Limitations and Paradoxes of Firm-Driven Integration

> *The elimination of border controls, as important as it is, does not itself create a genuine Common Market. Goods and people moving within the Community should not find obstacles inside the different Member States as opposed to meeting them at the border.*
>
> 1985 White Paper on Completing the Single Market[500]

Archival and interview evidence from EU institutions and private corporations reveals that in large part, Europe's common market was designed for and built by multinational corporations. As the previous chapters have argued, globalization pressured European big business to turn to Brussels for a regional solution. In response, European policymakers invited leaders of some of the largest companies into the process of relaunching integration and allowed them to set the agenda for Europe going forward.[501] But plans for a single, common market – the vision laid out by the Treaty of Rome – could only be realized if goods, services, capital, and labor crossed borders. The same multinational firms with the greatest vested interest in their own access to a larger, less restricted market with protectionist external borders were also best positioned to practically achieve the goal of a Single Market. While they did so in different stages and with different strategies, corporations from every sector of the economy and headquartered in many different member states, including Volkswagen, BMW, Paribas, Tesco, and Delhaize, equally served as agents of integration. They expanded beyond their home markets, withdrew from investments in other regions of the globe, and regionalized their business, building supply and value chains, opening production sites and distribution centers, setting up retail shops and banking branches, all across Europe in the 1970s, 80s, and 90s. By so doing, they imposed uniform product, safety, health, and environmental standards, much to the appreciation of the European Commission, which relied on the cooperation of big business in its work of both

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[500] European Commission, "Completing the Internal Market," white paper to the European Council. Milan, 28-29 June 1985. COM(85) 310 Final.

[501] Cowles, "Setting the Agenda for a New Europe: The ERT and EC 1992," *Journal of Common Market Studies*, (1995).

regulating and expanding economic activity in the community. In short, the cross-border business of multinational firms, while motivated by self-interest, played an essential role in advancing the completion of the EU's cornerstone: the single common market.

But what this dissertation has yet to consider are the implications of firm-driven integration. What does it mean for private companies to have played so large a role in shaping the core facet of the European Union? Did their influence exacerbate the EU's democratic deficit? How have small and medium sized enterprises fared in a market dominated by big business? Finally, how complete, how "single," how "common" is the market they helped to build? Was the vision laid out by the founding federalists in the Treaty of Rome really achieved? Is a fully homogenized single market even the best interest of multinational corporations?

Of course, these questions must be considered within the context of contemporary developments in the European Union, namely the series of crises that have plagued the region in the past decade, many of which have cast a spotlight on the Union's inherent flaws. That euroskepticism is on the rise in every member state while Britain prepares to make its unprecedented exit adds further urgency to the demand for a historical explanation of the origins of the EU's design flaws capable of informing the policymakers now tasked with repairing the Union's fractures and engineering a new version for the future. Thus, the crises that motivated this inquiry into the role of big business in the integration process also drive its final analysis.

One shortcoming that has become abundantly obvious in light of recent crises is the fact that the single market, what many call the greatest achievement of the integration process and the facet of the EU for which there is the most support, remains incomplete. Certainly, goods cross borders within the EU with ease and without taxation or quotas. But in the service sector, which, according to the World Bank, is now responsible for more than three quarters of Europe's total GDP, huge gaps

remain.[502] Consider, for example, the importance of ecommerce to the European economy since the early 2000s; yet in 2018 the Commission is still working to develop a cohesive, competitive design for a Digital Single Market.[503] Of similar importance is the completion of a single banking market, and yet, with no systems in place for the mutual recognition of consumer credit worthiness, Europeans still find it extremely difficult to qualify for loans and execute financial transactions across member state borders. Businesses, too, encounter heterogeneous "national policies on services, corporate law, telecommunications, energy, taxation, gambling, and even the EU's uneven transportation network" when they attempt to trade, build supply chains, and operate subsidiaries across member state lines.[504]

David Howarth and Tal Sadeh argue that the single market remains incomplete because the goal line is continuously being pushed forward: "[a]s technology and societies develop, the project [of completing the single market] is reinterpreted and new ambitious goals are formulated. Thus, the S[ingle] M[arket] is an incomplete project and it is difficult to envisage its completion."[505] While Howarth and Sadeh are certainly right in observing the ever-changing objectives of the integration process and the ways in which innovations, technologies, macroeconomic developments, institutional evolutions, and geopolitical changes influence regional political economy, they, like much of the integration literature discussed in Chapter I, neglect the role of non-state actors in this equation.

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502 Statista, "European Union: Gross domestic product (GDP) in current prices from 2007 to 2017 (in trillion euros)," accessed 3 December 2018.

503 In 2016, the Commission released several strong statements on its new priority of completing the Digital Single Market, which it says will contribute €415 billion per year. It began the process of pursuing its vision for a digital common market focused on job creation and social capitalism by implementing the General Data Protection Regulation in 2018, which protects the online privacy of individuals engaging with websites hosted in Europe. This directive certainly attends to the need for humane and rights-based transactions in a digital economy, but many critics insist that the regulation will impede the growth of a European counterpart to the American Silicon Valley.
See: European Commission, "Digital Single Market: Bringing Down Barriers to Unlock Online Opportunities," https://ec.europa.eu/commission/priorities/digital-single-market_en.

504 David Howarth and Tal Sadeh, "The Political Economy of Europe's Incomplete Single Market," *Journal of European Public Policy Special Issues as Books.* (London: Routledge, 2013), abstract.

505 David Howarth and T. Sadeh, "The ever incomplete single market," *Journal of European Public Policy*, Vol. 17, no. 7 (2010), p. 923.

Indeed, many of the obstacles impeding the completion of the single market require policy interventions for their resolution. But firms are not without responsibility in the shaping and preserving of these differences, nor are they without the capacity to influence the shape of the single market going forward, just as they did during the design and implementation stages that took place in the later decades of the twentieth century.

This concluding chapter evaluates the incomplete and lopsided nature of the common market, both as a consequence of big business influence on the integration process and also as a result of the multiplicity of forces working for and against the European integration from the 1970s to the 1990s. It begins by assessing the development of the single market in historical perspective, then discusses the contributions of big business to its current shape and shortcomings, and finally offers, within the context of political science theories of integration, some thoughts on the negotiations required among the EU's diverse group of stakeholders to complete the common market at last.

Rome Fulfilled? A Brief History of the Single Market

While its ratification formally created a European customs union, the Treaty of Rome, signed by heads of state "determined to lay the foundations of an ever-closer union among the peoples of Europe," laid out a bold vision for a common market across the Community's member states, free of barriers to trade like tariffs and quotas, and homogenized with shared standards to the extent that goods, services, capital, and labor could move just as freely across borders as they could within them. They "resolved to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe," "recognize[ed] that the removal of existing obstacles calls for concerted action in order to guarantee the steady expansion, balanced fair trade and fair competition," committed to reducing "the differences existing between the various regions and the backwardness of the less favored regions," and stated their desire "to contribute, by means of a

common commercial policy, to the progressive abolition of restrictions on international trade."[506] The founding six member states committed to achieving the goal of a common market within twelve years of the treaty's ratification, but as explained in Chapter III, the stalled single market project would not be relaunched until the interests of big business and the Commission converged in the late 1970s and early 1980s. Together, the Commission and business elites collaborated to draft the Single European Act (SEA) of 1986, which laid out a program to complete the single market within seven years.

How much progress was actually achieved in the intervening seven years? Already at the occasion of the first assessment of progress in implementing the roughly 300 proposals for the market's completion put forward by the Commission in the 1985 Milan White Paper by Lord Cockfield, 27 proposals had been implemented: progress, yes, but at a much slower rate than had been expected, given the goal of achieving 61 proposals in the first year.[507] The European Roundtable of Industrialists, in observing this slow progress and voicing their skepticism about whether such an ambitious project could be achieved in just a few years, formed the Internal Market Support Committee (IMSC) "to monitor governments' response to the single market initiative and apply pressure to government leaders and domestic groups when progress was slow."[508] At the Luxembourg Summit in December 1987, the IMSC made their position on the market's completion clear to an audience of the Community's heads of state: "[Show political will, or European industry will invest elsewhere."[509]

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[506] European Commission, Treaty of Rome, preamble.

[507] Commission of the European Communities, "First Report from the Commission to the Council and the European Parliament on the Implementation of the Commission's White Paper on Completing the Internal Market," Brussels, 26 May 1986. COM(86) 300 Final.
Lord Cockfield is often called the "Father of the Single Market" for his role in laying out the tasks ahead of the Community in order to fulfill the vision set forth in Rome thirty years prior.

[508] Erik Jones and Anand Menon, *The Oxford Handbook of the European Union*. (London: Oxford University Press, 2012), p. 114.

[509] Jones and Menon, *The Oxford Handbook on the European Union*, 114.

Thanks to Jacques Delors' position at the head of the Commission and to continued pressure from business interest groups and elite associations like the ERT and IMSC, the political will coalesced around implementing Cockfield's proposals. By 1992, 90% of his original 300 recommendations had been completed, a success by any measure. The remaining 10% carried a much greater weight than the other 90% however, since the easiest objectives were completed first. That the homogenization of company law, double taxation, and sectoral regulation remained outstanding would prove to be a far greater issue in the coming years than it seemed amid the optimism of 1992.

Business and the Lopsided, Incomplete Single Market: Avenues for Further Research

As actors in the integration process, especially in light of the major role it played in the shaping of the 1992 Program, business indeed bore some responsibility for the market's incompletion. The findings of the previous six chapters reveal three primary ways in which business contributed not just to market integration, but also to the lopsided and incomplete nature of the market.

First, and as was raised in the discussion of manufacturers and labor markets in Chapter IV, multinational corporations thrive on heterogeneity.[510] It is precisely the difference between markets and regulatory regimes that motivates corporations to invest in foreign markets, make acquisitions, form subsidiaries, and multinationalize. While large European corporations feeling the pressure of globalization appealed to Brussels for trade liberalization and open access to markets across the region, they were not in search of pure homogenization. Moreover, as will be discussed in the coming pages, the capital flows conducted by multinational corporations have contributed to the growing inequality among countries in the EU.[511] Path dependence explains the static differences between Greece and Germany, for example, but the difference in acceleration between the two countries' growth rates

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[510] Stephen D. Cohen, *Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity*. (London: Oxford University Press, 2007).

[511] Giorgio Barba Navaretti, Anthony J. Venables, Frank Barry, *Multinational Firms in the World Economy*. (Princeton: Princeton University Press, 2006.)

owes much more to the flow of profits out of host economies and back to MNC headquarter economies, as well as the huge wage gaps between headquarter economies and host economies.[512] The efforts – intentional and accidental – of multinational firms to preserve advantageous differences between markets in which they operated presents a further avenue for research.

A second and related way in which the same multinational corporations that contributed to market integration also bear some responsibility for its lopsidedness is the fact that the overwhelming majority of MNCs are headquartered in the Western European core and operate subsidiaries in the periphery. Consider the statistic raised in Chapter V that quantified the degree to which control of assets in Central, Eastern and Mediterranean Europe remains securely in Western European hands: 87% of CEE financial institutions are owned by Western European banks. The figures are similar for other sectors too, although none quite so striking as the banking sector. Not only do profits flow back to the parent company, but the standard-setting, rule-making, and agenda-setting remains the privilege of MNCs and not of their subsidiaries or suppliers. Thus, the structure of multinational corporations in Europe, created by the strategy of regionalization, demands further attention within the context of the uneven, unequal, and lopsided single market.

Finally, the access of business elites to regional policymakers discussed in Chapter III and the influence they wielded in Brussels through various associations, clubs, and roundtables had significant implications for the shape of the single market. While the European Roundtable of Industrialists certainly made net positive contributions to the forward momentum of the integration process, their interests were unsurprisingly tilted heavily in favor of the structures most beneficial to large corporations, rather than to other kinds of business. As Chapter III noted, small and medium enterprises were absent from the ERTs policy recommendations and only rarely mentioned by the

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[512] Paolo Figini and Holger Gorg, "Multinational Companies and Wage Inequality in the Host Country: The Case of Ireland," *Trinity Economic Paper Series*, no. 98/16 (1999).

Commission before the late 1980s.[513] As Commission President, Jacques Delors expressed his commitment to a social market economy and demonstrated his support for SMEs. After Delors left the Commission, though, regional policymaking became increasingly more neoliberal and decreasingly concerned with the kinds of policy decisions that would prioritize SMEs over MNCs. Thus, the near exclusion of SMEs from the design of the single market in the early 1980s, late 1990s, and indeed even during the Delors presidency poses significant questions, which certainly must be explored in further research.

In these three ways, big business, which played a central role in advancing the progress toward a single market, also helped to give it its lopsided shape. Today, more than sixty years after the Treaty of Rome was signed and more than thirty years after the Single European Act, the single market remains incomplete. That the size, scale, and power of multinational corporations have only increased in this period and that MNCs persist in their interests in market heterogeneity, proximity to policymakers, protections, and clear legal structures in the Western core while maintaining access to cheap labor and large consumer markets in peripheral economies, and policymaking designed for large corporations rather than SMEs forecasts a future of continued market fragmentation, inequality, and discontent in the EU without significant changes to the relationship between big business and Brussels.[514]

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513 Additionally, the social dimension of the common market warrants further attention, since it has become a present-day myth of European capitalism and was certainly in the minds of federalists and policymakers at certain points in the history of integration, but absent at other times, particularly when neoliberalism became the operational logic in Europe as it was in the US.

514 Ivan T. Berend, *The EU and Its Discontents*. (Monograph forthcoming, 2018.)

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