

The Origins of EU and the Flight from Liberalism

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In this paper I try to refute the thesis that European integration – the way the European states embarked upon with the creation of The European Coal and Steel Community – was indispensable for the preservation of peace among the continent's nations. The main line of argument is that, instead, the integration process was a logical consequence of the reluctance of states to renounce domestic interventionist policies inherited from the war (and interwar) period. The beginnings of European integration are usually presented under the form of a dilemma: integrate or fight. I believe that this is a false alternative, and that the dilemma was actually a "trilemma": integrate, fight or return to the sound policies of free trade and laissez-faire. Liberalism, that is.

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1. Integrate or Fight: a Genuine Dilemma?

Should anyone question the benefits of European integration, he is in for some taboos, the long period of peace on the continent being among the most important of them (and especially the idea that the only way conducive to it was to initiate European intergovernmental and supranational integration). Opinions such as the following are already a well established "common good":

The creation of the European Union will go down in history as one of the most remarkable achievements of the twentieth century. In the space of just forty years – less than two generations – Europeans fought two appalling wars among themselves, finally appreciated the dangers of nationalism and the futility of violence, and sat down to design a system that would make it inconceivable that they would ever take up arms against each other again. (McCormick, 1999, p. xii)

And moreover,

The results have been substantial. A body of treaties and laws has been agreed and a set of institutions has been created that have altered the political, economic and social landscape of western Europe, changed the way Europeans relate to each other, redefined the balance of power in the world by creating a new economic superpower, and helped bring Europe the longest uninterrupted spell of peace in its recorded history. (McCormick, 1999, p. xii)

Even the official discourse of EU itself centers upon such a claim that it was first and foremost the urge not to fight each other anymore that made the European founding states join the ECSC (European Coal and Steel Community) after the Schumann Declaration (9th of May, 1950) and the Treaty of Paris (18th of April, 1951):

The aim, in the aftermath of World War Two, was to secure peace between Europe's victorious and vanquished nations and bring them together as equals, cooperating within shared institutions.¹

In the same place, it is also written:

...a new kind of hope emerged from the rubble of World War Two. People who had resisted totalitarianism during the war were determined to put an end to international hatred and rivalry in Europe and create the conditions for lasting peace. Between 1945 and 1950, a handful of courageous statesmen including Robert Schuman, Konrad Adenauer, Alcide de Gasperi and Winston Churchill set about persuading their peoples to enter a new era. New structures would be created in Western Europe, based on shared interests and founded upon treaties guaranteeing the rule of law and equality between all countries.²

Again, one one should bear in mind is not the fact that EEC (later EU) structures happened to bring peace to the continent, but that they were *indispensable to the maintenance of peaceful relations*.³ Such wording is used by Schumann himself in his famous Declaration.⁴ And the idea is also present in the text of the European Coal and Steel Community treaty⁵.

Now one can only wonder why such an (exclusive) alternative? Is it true that Europeans at the end of World War II had only two options – fight each other some more or integrate institutionally into a structure such as ECSC, or later EEC (and now EU)? Because if such a statement were true, then the case for European integration would be compelling, and all those “euroskeptics” just a bunch of unreasonable (even dangerous, unpatriotic and unhuman) critics.

¹ See *The EU at a Glance* (the “Europe in 12 lessons” chapter, “Lesson 2”) material available online at http://europa.eu/abc/12lessons/lesson_2/index_en.htm.

² Idem, “Lesson 1”, available at http://europa.eu/abc/12lessons/lesson_1/index_en.htm

³ On his way to find the text of the Schumann Declaration, the reader will encounter such a bold claim at http://europa.eu/abc/symbols/9-may/index_en.htm.

⁴ See the Declaration text at http://europa.eu/abc/symbols/9-may/decl_en.htm

⁵ The first words of the preamble of the treaty sound as follows: “Considering that world peace may be safeguarded *only* (underlining mine) by creative efforts equal to the dangers which menace it; convinced that the contribution which an organized and vital Europe can bring to civilization is *indispensable* (underlining mine) to the maintenance of peaceful relations; etc...”. See the ECSC Treaty at <http://www.ena.lu/mce.cfm>.

The thesis of the present author is that the mentioned alternative was (and still is) a false one and that at least one other solution was available for a war ravaged Europe: the return to liberalism. More on that later. Moreover, the problems that plagued European nations at the end of the wars were caused by the reluctance to give up the massive government intervention previously deemed necessary for war purposes. When contemplating the beginnings of Europe, it is vital to bear in mind the tremendously interventionist context, with countries such as Britain on the verge of socialism (and Germany having been there already). Otherwise, all the “impending” needs of the moment (intergovernmental cooperation or even integration) appear to be meaningless to the honest researcher.

2. Interventionism: National and International

I believe that an understanding of the beginnings of the European process of integration presupposes familiarity with the theory of interventionism, both domestic and international. To this we now turn.

The first instance in which interventionism can be contemplated, is the national scene. And here, one general form of interfering with the economy is *price controls*, while, in particular, governments can hamper the market for certain goods, money or labor, and at the same time face unavoidable consequences pertaining to international trade (commodity imports and exports), international payments and international labor force migration. More on these later.

Maybe one of the best descriptions of how price controls disturb the market and cannot be a durable solution to any problem is provided by Mises (1995, p. 39 and the following), who contemplates the situation where a government institutes a maximum price for milk. The declared purpose is, of course, to better the access of the needy to this vital product. Moreover, for such a measure to be effective, the fixed maximum price has to be below the one that would have otherwise been set by the unhampered market forces of supply and demand.

Now, what happens? In Mises' own words:

On the one hand, the lower price of milk increases the demand for milk; people who could not afford to buy milk at a higher price are now able to buy it at the lower price which the government has decreed. And on the other hand some of the producers, those producers of milk who are producing at the highest cost – that is, the marginal producers – are now suffering losses, because the price which the government has decreed is lower than their costs...And as he cannot take losses in milk, he restricts the production of milk for the market. (Mises, 1995, p. 45)

Thus the government's interference with the price of milk will result in less milk than there was before, and at the same time there will be greater demand. Some people who are prepared to pay the government-decreed price cannot buy it. Another result will be that anxious people will hurry to be first at the shops. They have to wait outside. The long lines of people waiting at shops always appear as a familiar phenomenon in a city in which the government has decreed maximum prices for commodities that the government considers as important. (Mises, *ibidem*)

Such an outcome is not a very glorious one, so the government will try to step in and fix the problem once more. At this point it should be observed that the governmental authority is at the point where every instance of intervention puts it: that of choosing between the scrapping of the previous intervention(s) and the cumulation of new interventions. Discard old interventions or intervene some more – this is the dilemma¹.

So, in the case of milk above, the government might intervene with a system of rationing, which would not be a genuine solution, as it would imply arbitrary decisions and it would not fundamentally solve the main problem: the lower quantity of milk available. (Not to speak of consequences such as the “need” to create a governmental body to supervise the functioning of the quota system and to prevent the development of black markets etc.)

One other – seemingly more promising – solution would be to try to create better production conditions for those who supply milk to the market. Fixing maximum prices (of course, below the free market level) for their inputs would be a possible way to solve the problem. But the same kind of problems will now arise, only on a different market. And so on. Therefore, the government will have to choose between a return to the free market or all-round price-fixing which is one and the same thing with socialism. We contemplate here the classical argument against interventionism: its *inherent instability*.

One unpleasant (from the point of view of governments) factor hampering governmental efforts to “correct” market inefficiency or injustice is the world market. Assuming that the former maximum price fixing for milk was undertaken in the context of free imports of milk, a situation will follow in which national milk producers will be at a disadvantage (as they presumably had the higher prices, or were more dependent on them than foreign competition). Therefore, in order to make the price control more acceptable to its own national producers, a government will have all the political reasons to de-

¹ This fact should make it clear that interventionism is no genuine “third economic system”, apart from socialism and capitalism, as renouncing previous interventions means approaching capitalism and cumulating new ones pushes the economy towards socialism. One way to syntetise this aspect of interventionism is to speak of its inherent *instability*. Thus, thinking of the consequences of consistent interventionism, Hayek could speak of a “road to serfdom”.

part at the same time from the previous free trade regime (or, from a relatively freer regime, if such is the case)¹.

Should the government desire to engage in fixing the exchange rate between the national currency and foreign currencies, an additional intervention on the money and capital market is necessary (various form of capital and foreign exchange control, quotas, conditions for purchase etc.) so as to make such exchange rate fixing effective. Again, a seemingly domestic business has consequences at the international level, slowly secluding the national market from the world market.

The same reasoning applies to protection for workers by means of minimum-wage laws and migration problems. When a government tries to better the lot of its domestic workers by means of fixing a minimum wage (above the free market level, of course; otherwise it would have no effect), it should at the same time preclude foreign immigrants from countries with lower wage levels to enter the domestic labor market and enjoy the benefit of this fixed (higher) wage – thus replacing national workers, who remain unemployed. The same thing happens: domestic interventionism implies logically the need for supplements of protectionist measures (immigration barriers in this case), which disconnect the economy from the world markets and lead it more and more towards relatively higher levels of autarky.

The conclusions of the previous paragraphs can be well summarized by the words of Hans Sennholz:

Policies of government planning and welfare and the disintegration of the world economy into heterogenous national units are two aspects of the same phenomenon. ...every welfare measure by a national government bears inescapable effects on foreign relations and the international exchange of goods. (Sennholz 1955, p. 1)

A disintegrated international order with nation states insulated from each other in different degrees of autarky has multiple disadvantages. Chief among them – from the point of view of governments, but not only – is the higher and higher cost of each governmental interventionist measure. Maintaining the internal market of, let's say, coal secluded (absolutely or relatively) from the world market implies lower level of efficiency in coal production. As this product is an input in numerous other lines of production, coal

¹ Such a connection between domestic interventionism and protectionist policies can be very well contemplated in many other instances. A subsidy, for example, given to domestic producers for various reasons (“structural problems”, “infant industry reasons” etc.) will be much more effective in enhancing the position of the supported companies if doubled by protection from foreign competition. (Otherwise, under free trade conditions, depending on the height of foreign companies’ profits, the government might see its subsidy compensated by price reductions of imported products.)

protection leads to higher production costs in all sectors which use coal. Should some of these sectors be exporting ones, the government indirectly impairs the country's exports, which, in their turn require governmental intervention for support. This – no matter the means: subsidy, preferential exchange rates etc. – has effects on foreign markets, prompting foreign governments to deal with the problems they now face (ensuring further obstacles in front of the said exporters: higher tariffs, quotas etc.).

Long before extreme levels of autarky (which implies very low levels of efficiency and standards of living) governments will foresee the possibility to cooperate so as to render their particular instances of intervention more fruitful. This leads to *international interventionism*: intergovernmental cooperation for feasible intervention purposes. If governments manage to intervene in concert, then they will no longer hamper each other's policies. For instance, if governments manage to reach an "international agreement" concerning coal production – agreement involving quotas (production, export and import) or even prices – then the situation at home becomes (at least on the short run) more manageable. The proportions of the feasible domestic intervention are in a way preset. Of course, the more a government is inclined (ideologically or pragmatically) towards interventionism, the more it will find it useful to cooperate with foreign governments on each and every possible aspect of the economy. At this moment a general impression that "union", "integration", "cooperation" is necessary sets in.

Judging from the openly declared purposes of various forms of international cooperation, one is under the impression that this phenomenon can only be a beneficial thing. Nevertheless, the eye of the trained economist must spot the fact that such phenomena are the necessary consequence of problems raised at the international level by domestic protectionist policies of all sorts: welfare schemes, trade barriers, money and capital movement controls etc. Therefore, an economist perspective on such schemes is not at all as glorious as that of the politician.

Last, but not least, one should not be under the impression that international cooperation solves the dilemmas of domestic protectionism and that's that. The instability argument against interventionism applies both to the domestic and the international level. While on the short run cooperation means feasible intervention, on the long run it sets the world economy on a path to world socialism.

What happens if states fail to cooperate and at the same time refuse to abstain from further intervening in their economies? Well, assuming (unrealistically) very pacifist ideologies on the part of all states, a situation is begotten where the world consists of autarkychal states, completely insulated from each other, with (very) low levels of productivity and standards of living. Everything consumed must be produced at home. Of course this means that many of the goods now familiar will never get to be produced.

More probably, the other possible outcome – given the fact that there are no more viable economic ways to cooperate with the other states through free trade and free markets

– is war: the use of the political means¹. This was the path of Germany (see Mises, 1944) towards World War II, as an economy oriented toward production for war purposes precluded the possibility of sufficient internal food production and presupposed a constant flow of different types of natural resources from abroad (not all available – at all, or in sufficient amounts – on the domestic market).

To sum up, states that embark systematically on interventionist policies, face – at the international level – a “trilemma”: to maintain interventionism and advance more and more rapidly towards autarky or, more probably, war; cooperate on an international level (international interventionism and planning) so as to render interventionism more feasible; to return to free trade and *laissez-faire*, renouncing interventions – this way “reintegrating” the world market but with no “positive” elements of governmental intervention (intergovernmental or supernational).

From most presentations of the beginnings of Europe, the third option is left out – more or less deliberately. If it is left out of the picture, it follows naturally that European states were facing the “fight or cooperate” alternative. But if the third option is included, one can immediately see that there would have been at least one other way to peace and prosperity, besides European integration. Only because the ideological climate of the era was profoundly anti-liberal, was the cooperation among European states seen as indispensable for peace.

In the last part of this chapter I would only want to draw attention to the fact that at the end of the World War II, the European countries who were to become the founders of what would in our days has become the European Union were indeed highly interventionist – with decades of interventionist policies behind them. The first half of the twentieth century can be called the “international economic disintegration era”.

It is usual to consider the nineteenth century (and even the era up to 1913-1914) as the “liberal century”. In the words of Sennholz:

It was a century of individual freedom and decreasing international restrictions upon the movement of men, goods, and capital. The world economy was an interdependent system, on the way to economic unification which makes political unification irrelevant. It was an era of unprecedented success. (Sennholz 1955, p. 2)

This period is even seen as “the first globalization” period, with the world integrated by free trade and open borders. The other important ingredient of the liberal century was the gold standard, which meant a *de facto* monetary integration of the world.

¹ In the terminology of Franz Oppenheimer. See Franz Oppenheimer, *The State. Its History and Development Viewed Sociologically*, New York, B. W. Huebsch, 1922, p. 24 and the following.

Things started to change visibly (even though elements of change can be observed well into the nineteenth century with the policies of the German Reich under Bismark) around the beginning of the Great War (which some even explain by the resurgence of protectionist and interventionist ideologies). In the words of the same author:

The liberal century was followed by the age of economic and social planning. And, again, ready plans for international unification and government cooperation followed the early symptoms of disintegration and international conflict. (ibidem)

To grasp the point of the present author, the reader should bear in mind instances of interventionist (sometimes even socialistic) policies such as: the Hindenburg Plan, the great German inflation, the *Zwangwirtschaft* of Hitler, the fascist system of Italy (with institutions such as IMI (Istituto Mobiliare Italiano) and IRI (Istituto per la Ricostruzione Industriale), with powerful syndicates/unions and the corporations system and with more decisive steps towards autarky after the Ethiopian episode and the problems with the League of Nations) and also with the equally protectionist regimes of France and England (especially after 1930, which prompted F. A. Hayek to write *The Road to Serfdom*). At the end of the World War II, exchange controls, capital transfer restrictions and controls, tariffs and quotas of all sorts, migration barriers were a common thing in Western Europe. Under these circumstances the need for intergovernmental cooperation seemed vital.

To those above can be replied that, in the end, Europe undertook – with the creation of ECSC – a decisive step toward free markets. But was it really so?

3. Was the European Coal and Steel Community (ECSC) a step towards freer markets?

At a first glance – and under the mediatic assault of the EU propaganda machine – the ECSC is a seemingly free market, although the founders were reluctant to such straightforward wording. The preferred version was the concept of “common market”¹. The supposed liberal spirit of ECSC is present in the famous Article 4, which states²:

The following are recognized to be incompatible with the common market for coal and steel, and are, therefore, abolished and prohibited within the Community in the manner set forth in the present Treaty:

- (a) import and export duties, or charges with an equivalent effect, and quantitative restrictions on the movement of coal and steel;

¹ Whether this common market is one and the same with the free-market, or it differs – and in what regards – it is never said. Clarity is not a virtue in politics.

² See the *Treaty constituting the European Coal and Steel Community*, available on-line at <http://www.ena.lu/mce.cfm>.

- (b) measures or practices discriminating among producers, among buyers or among consumers, specifically as concerns prices, delivery terms and transportation rates, as well as measures or practices which hamper the buyer in the free choice of his supplier;
- (c) subsidies or state assistance, or special charges imposed by the state, in any form whatsoever;
- (d) restrictive practices tending towards the division of markets or the exploitation of the consumer.

Nevertheless, this free-market orientation is so powerfully amended by a host of other provisions of the treaty that it remains practically empty. In the words of the same Hans Sennholz, the European Coal and Steel Community amounted to no less than *socialization of the coal and steel industries* of the ratifying countries. As a general overview of the scheme, he has to say the following:

The European Coal and Steel Community reverses the production structure and abolishes the social function of ownership, i.e., its employment in the best possible way for the consumers' benefit. It is the institutions of the Community that are defining the general objectives of production (Art. 5). They decide on the financing of production programs and on construction and operation of production facilities. They control investments and financial assistance and may prohibit enterprises to resort to capital and money markets to finance their expansion programs (Art. 54-56). Having decided what shall be produced and who shall produce it, the institutions of the Community are to regulate or influence general consumption (Art. 57). The High Authority not only may establish a system of production quotas but also consumption priorities, and it may determine the allocation of the coal and steel resources among consumers (Art. 58-59). It may fix maximum and minimum prices for goods consumed in the territory of the Community as well as for goods exported to other countries (Art. 60-64). It may restrict the importation of coal and steel and thus decrease the supply for consumers (Art. 71-75). Finally, having regulated production, fixed prices, and allocated quotas of consumption, the institutions of the Community may determine the costs of production by deciding wage rates and other benefits to labor employed in the coal and steel industries (Art. 68). In all these economic decisions it is the High Authority or other institutions of the Community that are sovereign. The public, the consumers, no longer control the production process. Through buying or abstention from buying they no longer determine the price and market structure. The Treaty constituting the European Coal and Steel Community has put the consumers in the care of supranational trustees. (Sennholz 1955, p. 248-249)

It is no surprise then that a handful of interventionist states decided to join steel and coal production under such a scheme, which cannot – even euphemistically – be called a free market.

4. Concluding remarks

In this paper I have tried to refute the thesis that European integration – the way the European states embarked upon with the creation of The European Coal and Steel Community – was indispensable for the preservation of peace among the continent’s nations. The main line of argument was that, instead, the integration process was a logical consequence of the reluctance of states to renounce domestic interventionist policies inherited from the war (and interwar) period. The beginnings of European integration are usually presented under the form of a dilemma: integrate or fight. I believe that this is a false alternative, and that the dilemma was actually a “trilemma”: integrate, fight or return to the sound policies of free trade and laissez-faire. Liberalism, that is.

One more thing: the present author believes that the essential “trilemma” confronted EU at every step undertaken towards what should eventually be a European super-state, and still confronts it today. As they embarked – seemingly to avoid war – on international interventionism and planning, the European states are heading towards European socialism. Therefore the genuine option of liberal policies is still relevant.

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