

The Economic Integration of Western Europe

by

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1. — *Unification, an age-long aspiration of Europe.*

The unification of Europe is not — as many be inclined to believe — a problem arising from World War II. It is an old problem dating back hundreds, perhaps thousands of years (1). Even since the fall of the Roman Empire, in spite of the incorrigible dissensions of her component peoples, the history of Europe points to the unquenchable yearning of her scattered members to be brought together once more in a new and fuller unity, inclusive of areas that laid outside the dominion of Rome.

This unity, that the peoples have desired and the most powerful monarchs — from Charlemagne to Napoleon — have sought to secure in their own interest, was for long centuries essentially a political one. Following the habit of planning the future on the pattern of the past, the peoples of Europe saw no other way of improving their situation than that of reorganising the Empire or something resembling it, even if with different attribution of tasks and different ranks. The economic problem was not taken into account because it was overshadowed and outranked by the earnest desire, that summed up all others: that of seeing an authority and an organisation re-established that could assure the possibility of living peacefully together, to peoples differing so widely and yet having so much in common as those inhabiting this old Continent. But political unity implied economic unity, and there can be no doubt that if our forefathers had succeeded in building up a politically united Europe, as other Europeans succeeded in creating, on the other side of the Atlantic,

that politically united nucleus which has given rise to the Federation of the Stars and Stripes, the economic situation of Europe would now be totally different from what it is, and the whole world would probably by now have attained that economic prosperity which is still no more than a dream.

However this may be, the problem of the economic unification of Europe or, at least, of the formation within Europe of economic spaces stretching far beyond the political boundaries of the individual States, and covering a large part, if not the whole, of the Continent, was clearly envisaged since the opening of the nineteenth century.

The Continental Block, decreed by Napoleon in 1806 and 1807, was already something more than a war measure. But as soon as the Napoleonic wars ceased, discussions and proposals for customs' unions, for the enlargement of economic spaces, acquired really exceptional activity and extension in Europe. And the movement, which perhaps Frederick List had done more than anyone else to set going, drew new vigor from the happy conclusion of the German *Zollverein*. This enabled it to survive, in spite of the failure of all the subsequent proposals, throughout the century and beyond it, acquiring new impulse from the events of the first world war. Those events gave rise first to Naumann's « *Mitteleuropa* » and then to the « *Pan-Europa* » of Coudenhove-Kalergi (2).

The Geneva League of Nations lacked however the courage and foresight to adopt from the start a program for the economic unification of Europe; and when, in 1930, it had to consider Briand's plan, too much water had passed under the bridges of the Rhone and

(1) See JULIUS WOLZ, *Vorläufer und Parallelen einer europäischen Zoll-union* (in HANNS HEIMANN, *Europäische Zollunion*, Reimar Hobbing, Berlin, 1926, pp. 9-22).

(2) See THEODOR HAUS, *Der Einfluss von Krieg und Frieden auf das Europäische Problem*, (in the above mentioned *Europäische Zollunion* of HEIMANN, pp. 23-35).

too many doubts had arisen as to the executive capacity of the League to allow of hopes in even a partial achievement of such a plan.

The second world war, undertaken by Germany with « *Lebensraum* » for a slogan, clearly aimed at unifying, if possible, the whole, and in any case the larger part of Europe under a German hegemony, modifying its economic structure so as to rationalise its organisation and raise its efficiency to the highest attainable degree. Deep studies had been undertaken with this end in view and were carried on for some time during the war so as to draw up an elaborate plan for localizing the several productive activities, which would certainly have been forced on the several countries of Europe, which, at the end of the war, would have come within the boundaries of the Nazi « living space »).

The result of the war doomed to failure the plan of unification conceived by Germany, but has led to the realisation of another of similar character carried out by the U.S.S.R. Much more than half the territory and nearly half the population of Europe is now behind the iron curtain, and is, with the exception of Yugoslavia, undergoing an accelerated and intensive process of unification, conceived and forced on them by the Kremlin, primarily in the interest of the Soviet Republics.

On this side of the iron curtain we have the other half of Europe which, for some time past, has been feeling in an ever growing degree the pressure exercised by the United States of America urging them to find the strength to overcome their persistent national enmities, and to set going as rapidly and radically as possible a process of economic integration.

But this pressure is neither enforced by adequate coercive measures nor guided by a clear vision of the ends to be attained, of the requisite conditions, and of the limits within which the desired integration could take place, and is not likely therefore to last long enough to secure practical results. This is partly due to the fact that while the U.S. have an interest in strengthening Western Europe so as to save her from the danger of being absorbed by the Soviets, they are not interested in making her strong enough to become a power able to act

independently and, may be, antagonistically in the political arena or on the economic and commercial ground.

Those to whose interest it would undoubtedly be useful to unite politically and complete each other economically are the countries of Western Europe, whose safety and whose future are inextricably bound up with their ability to make the necessary effort, and with the results they will succeed in achieving in this direction. But it takes no great insight to perceive that in none of those countries is there a clear perception of this imperative need, and even where the desire for unification exists, the governing classes display great timidity and show very little ability to overcome the obstacles that stand in the way.

2. — *The difficulties that hinder European Union.*

The chief difficulty in the way of the economic union of Europe is the incapacity her peoples have shown in solving the problem of living together in peace, that is to say of finding the middle way which would allow of their preserving their national traditions and exercising national home-rule, while at the same time accepting a uniform regulation of their political and economic life. The prevalence of centrifugal forces within Europe has been greatly intensified in recent centuries by the formation of the British Empire and by the corrosive action that Great Britain has necessarily exercised on the European continent. This action is due to the fact that she has been unable to identify herself with continental Europe without compromising her imperial interests, nor has she been able to allow Europe to unify without her, as that would have meant for her not only the loss of her hegemony but even of her independence.

It is not our task to enquire if and to what extent the historical reasons that have prevented the political unification of Europe still exist. It is nevertheless our duty to point out that if they do, and if there is no hope of seeing them overcome or wiped out, then it will be vain to hope for economic unification. This may within certain limits, and under certain conditions, precede and facilitate political

union, just as it might arise as a consequence thereof, but if the will or the possibility of attaining sooner or later an open or virtual political unification is missing, then it would be vain to hope to introduce a lasting economic integration (3).

Not without reason have those who have dealt with these problems stressed the need of the close coordination of the economic, monetary and financial policies of the several countries desirous of uniting to form a common economic territory. But if such a coordination is to be efficient and effective the governments of the individual countries must, in practice, renounce their full freedom of action, i.e. the exercise of their sovereignty rights on all matters that directly or indirectly affect financial, monetary and economic policy. And this, if it does not annul the juridical personality of the member States, would nevertheless so reduce its content that it would not greatly differ from real political unification.

That economic unification entails the renunciation by the member States of most of their sovereign rights cannot in any case be put in doubt today, when economic and social problems have acquired such preeminent importance. And this is more especially the case with countries like those of Western Europe, with advanced and complex economic systems, whose amalgamation would give rise to innumerable problems of exceptionally wide range, which can only be solved by a single

(3) « To be really effective and enduring true customs' unions must be based on the elimination of important differences in economic structure, in political and administrative organisation, and in the taxation systems of the member states; moreover, the authority in tariff matters must be delegated to a superior body and the independence of each member stringently limited ». J. PURNAM, *Customs' Unions*, Encyclopaedia of the Social Sciences, Macmillan, 1948, vol. 3-4, p. 673.

« From such a conclusion, given that economic union is really desired, the next step logically to be taken is obvious, though it may well be politically difficult or even impossible. A democratic body must be established, able to make decisions on these economic matters, and able, moreover, to see that they are put into effect without the necessity for drawn-out negotiations. If the integration of Europe is to be something more than a façade designed to deceive the Americans into continuing Marshall aid, if it is really to be a means of re-building Europe's security and economic viability, then some form of political federation is necessary ». *Progress towards Western Union*, in « Westminster Bank Review », February 1950, p. 15.

organ vested with full powers; i.e. neither more nor less than by a sovereign super-State organ.

Therefore, as we have said, among the many difficulties that stand in the way of the economic unification of Western Europe, first and foremost ranks the stubborn reluctance of the European countries to renounce a conspicuous part of their sovereign rights.

Nevertheless, there is no lack of serious difficulties even outside the political field, although in addition to the real ones many only seeming ones are added.

One of the objections most frequently raised to proposals for the economic unification of Europe is that the several national economies are not sufficiently complementary in character. It would be — objectors say — « a union of peoples producing like things, of competing manufacturers, competing moreover under the most unfavorable conditions as they are all in the same geographical zone, possessing like natural resources, similar natural and social aptitudes for production, a single limited local market, and all located at almost the same distance from the other world markets, each brought up in a small protected area, duplicating each other, in immediate contact one with the other, in a continent of restricted size from which they must escape if they are not to suffocate and mutually destroy one another » (4).

In our opinion, this objection is only partially valid. Undoubtedly the union of countries whose economies are complementary offers the ideal pattern of economic integration, and — apart from the obstacle that may arise from the possible change of structure that in the course of time may become necessary for one or other of the member countries —, it can only offer advantages which do not cease to be such because of the fact that, generally speaking, they are unevenly distributed. But this does not mean that an economic union may not be advantageous even in the case of countries whose economy is not complementary.

On another occasion we have dealt with the proposed Franco-Italian customs' union, and we then claimed that the parallel character

(4) GIACOMO MAZZINI, *A proposito di unione doganale europea*, in « *Economia* », July 1930, p. 25.

of the two economies was far from excluding the usefulness of their integration and might even be considered favourable to the success of the enterprise, as the absence, in general, of excessive disparities in French and Italian costs of the same products would allow of the specialisation of the several concerns in the branches of production best suited to each taking place without entailing heavy losses on one or other of the two countries (5).

More serious and pertinent is the objection raised to the economic unification of Europe when it is claimed that it would not solve the fundamental problems facing our old Continent. « Customs' unions between countries » — Mazzei further writes (6) — are generally formed so as to secure a large domestic market, assure supplies of food and raw materials, produced on a territory forming an economic unit. But the problems that our old Europe is unable to solve unaided, are precisely: *those of outlets*, for the European markets are unable to absorb all her exuberant and growing production; the *agricultural problem*, as the European lands are insufficient for feeding her dense population; the *problem of raw materials* many of which are lacking or scanty. Therefore, by forming an economic union, Europe cannot find assured economic advantage in making the purchases needed to provide her with the possibility of production, nor in effecting the sales which justify that production. Ever since the XVIIth century Europe has been bound to the outside world by her need of importing raw materials and exporting her products. In the XIXth century the need of importing foods in order to live made itself felt; and moreover the industrialisation of Europe has led to the formation, in narrow watertight compartments, of many duplicates of England — similar the one to the other, tied up with the overseas countries by the need of importing raw materials and exporting finished products — which might be able to breathe more freely if they intercommunicated, but would not by that means secure food and economic viability ».

(5) See F. COPPOLA D'ANNA, *L'Unione doganale italo-francese*, in « Rivista di politica economica », 1948, pp. 1002-1004.

(6) *Loc. cit.*, pp. 25-26.

After twenty years these remarks are no less true than when the late lamented Prof. Mazzei wrote them. It would be a mistake to suppose — as many seem to do, — that, if the economies of the European countries were combined in an integrated whole, the fundamental problem of our Continent would be automatically solved. The problem is that of securing those additional supplies of raw materials and foods without which Europe can neither run her factories nor feed her people. The solution of this problem would be facilitated by economic integration, which would promote a more efficient use of Europe's natural resources, thus reducing the need of supplementary supplies, and it would also reduce costs, enabling Europe to recover and increase her exports to other continents. But as things now stand, with the rapid industrialisation of the non-European countries, it is not to be supposed that Europe, whether economically unified or not, can count on outlets or supplies large enough to meet her needs unless European economic rehabilitation is matched by the development of the economy of the non-European countries which still have vast natural resources to exploit.

This is a matter which should never be lost sight of, as otherwise efforts to promote the economic unity of Europe would be rendered vain by the persistent disequilibrium of world economy which might force Europe, to her own loss and that of others, to follow an autarchic policy (7).

(7) The European crisis is, but the reflection and the consequence of the dislocation of world economy in the last fifty years. In this connection the answer given by Sir Stafford Cripps to Mr. Charles H. Kline, Co-Editor of the « U.S. News and World Report » is highly significant. Mr. Kline asked the British Chancellor of the Exchequer (see the No. of December 26, 1949, pp. 32-37) how he could explain Britain's persistent shortage of dollars at a time when her industrial output and exports exceeded so notably the prewar figures. « It — replied Cripps — is the result of a change in the pattern of world trade. Before the war the United Kingdom was able to earn enough gold and dollars not only to fill the gap in her own direct trade with the United States, but to finance the deficit of Canada and of continental Europe with the United States.

She did this partly through the interest she received on her investments, her income from shipping and other services, partly through the very substantial net dollar earnings of the other sterling-area countries (who sold their primary products to the United States), and partly through sales of gold.

Now the investments have to a large extent gone. The net dollar earning of the rest of the sterling area has turned into a net annual deficit and the gold they produce has

But in addition to the difficulties above referred to, which are not indeed difficulties to be overcome but are rather in the nature of limitations and conditions for the economic integration of Europe, many real obstacles of an economic and social description stand in the way of the proposed unification and are likely to wreck it. Here it is a question of real obstacles, real risks, that the individual countries will run, and not of mere opposition raised by special interests that fear they may be injured, as is often seemingly thought or openly declared. Undoubtedly opposition of this latter kind does exist and it should not be neglected or undervalued by politicians. But apart from and above special interests there are collective ones, both economic and social, deserving of the most careful attention for, should they be neglected, they might give rise to situations which would endanger not only economic unification, but the very social and political stability of the countries concerned. The economic amalgamation of countries whose economies are as developed as are, generally speaking, those of Europe, whose structure has been slowly built up in the course of centuries on definitely national lines, must be judged, if not an impossible, at least an extremely difficult task, calling for long continued effort, and involving from many points of view serious risks. It is therefore one which cannot be lightly undertaken, but demands the greatest care and circumspection.

3. — The integration of complex and highly capitalised economies.

When we are told that the extraordinary economic progress achieved by the United States can be accounted for by the unrestricted free trade prevailing on a vast market area covering a space equal to that of Europe from the Atlantic to the Urals, and with an even

mainly gone to meet this deficit. It has not been available to the United Kingdom for covering her own deficit.

This all adds up to a tremendous change in our position and it explains why with our production one-third higher, our exports half as high again, our productivity steadily rising and the proportion of our dollar needs which we earn by our own exports 33 per cent above what it was before the war, we still have the difficulties you mention. It also shows how deeply affected the world economy has been by two world wars within 30 years of one another ».

higher purchasing power, and when the purpose of this is to convince us of the extraordinary opportunities we should enjoy if we were to succeed in establishing, in Western Europe, a single market territorially smaller but with almost double the population, we may or we may not accept the analogy on which this reasoning is based. We know indeed, that if we were to pin our faith to analogies we could easily come to quite opposite conclusions, for countries no less vast and more populated than the United States, and whose internal trade is perhaps freer than the inter-State commerce of America, have remained for centuries at the lowest levels of production and economic prosperity, while such small countries as Switzerland and Belgium have achieved enviable progress, and all the countries of West-Central Europe progressed and prospered for a long time, even in the machine and mass production age, in spite of territorial divisions and trade barriers hindering the movement of men and goods.

But if the argument based on a « large space » and on « the free movement of goods, services and capitals » may give rise to some legitimate doubts, and if the analogy drawn between the great North American market and the market to be set up by amalgamating the West European countries may not seem convincing, there can be no shadow of doubt on the impossibility of drawing a comparison between the present situation of Western Europe and that of the thirteen States on the other side of the Atlantic that a little less than two centuries ago decided to form a political and economic union; and no comparison can be drawn between the difficulties that stand in the way of the unification of Western Europe and those that then hindered the formation of the United States of America.

The objections and oppositions that seemed likely to prevent the birth of the new Confederation were mainly of a political character. And although the discussion of that special situation does not come within the scope of this paper, we may be allowed to remark that from this point of view also the difficulties in the way of the unification of Western Europe are infinitely more serious and harder to overcome than those which arose across the Atlantic,

among populations long accustomed to living under the same rule, the same kind of administration, and therefore inclined by force of inertia, to keep to the same paths and follow a like line of conduct. This is just the reverse of what happens in Western Europe. As the Westminster Bank Review rightly remarked not long ago « over the last 500 years in Europe the periods of war have not been conspicuously less than those of peace; and now many of the component nations have just emerged from a struggle in which they expended blood and treasure with the sole object of averting enforced integration. In these circumstances it will require a great change in public opinion to overcome the natural suspicion with which any surrender of national sovereignty is viewed » (8). And in its turn the Swiss Bank Corporation remarks: « At all events, no democratic government has the authority to relinquish national sovereignty without an explicit mandate from its people. That is where the greatest obstacle lies » (9).

But while the difficulties to be overcome of a political nature are immense, those met with on the economic ground are not less so, and perhaps they make it even more difficult to clear the way for the unification or, as some say, the integration of the several countries of Western Europe. And this is due precisely to the fact that we are dealing in their case with countries of advanced civilisation, with complex economic systems, whose structure is the result of the evolution of centuries, which has obeyed strictly national requirements in the economic and demographic no less than in the military and political field.

This vital aspect of the problem has evidently not claimed sufficiently the attention of the leading advocates of European economic integration. They have seemed and still seem to think that a little goodwill would suffice with the assistance of E.C.A. to amalgamate the economies of eighteen or nineteen European countries as if we were dealing with primitive scantily peopled areas, producing raw materials

(8) *Progress towards Western Union*, in « Westminster Bank Review », February, 1950, pp. 12-13.

(9) Supplement to the Swiss Bank Corporation Bulletin, No. 19, February 1950 (*Is Integration Feasible?*).

intended mainly for local consumption, which could not be replaced as such by similar goods produced in other parts of the economic union to be formed.

Such was indeed the situation in the thirteen countries which formed the nucleus of the United States of America. Nor was the situation of the German States which in the middle of the XIXth century formed the Zollverein and later on the German Empire, a very different one. Now, it is obvious that under such conditions, even if the economies of the member countries do not possess that markedly complementary character that some writers consider indispensable for the success of an economic amalgamation, unification will not meet with very strong opposition because it will not greatly endanger vested interests and will not risk causing severe losses, at least in the case of existing activities. The only negative side of an economic union carried out under such conditions would be that each participating country would have to relinquish economic policies likely to develop its own specific productive possibilities on lines which might run counter to the general interest of the union, or of that country or group of countries that might acquire preeminence in the political leadership of the Union. But it is evident that the renunciation of such a future and vague possibility would not be likely to have much weight in forming decisions relating to unification.

But the situation is very different in the case of countries which have acquired a definite physiognomy of their own, which have already developed their economies in definite directions to meet specific needs arising in the course of their history, and which have therefore acquired equipment suited to these needs and developments. For them economic unification, that is the amalgamation in a larger political and economic organisation, inevitably entails marked structural changes. Certain activities are no longer required and can no longer survive in the enlarged space; others will be found superfluous or ultra-marginal and will have to be curtailed; while for others again unification will afford wider and more favourable conditions and they will have to be enlarged. All this will entail shifting labour from one area

to another to meet the altered opportunities for employment, accompanied by the migration of family groups. It needs no great insight to realise that each of these structural changes will be accompanied by economic loss of capital invested in enterprises no longer required with their accompanying equipment of houses, public buildings, means of communication, public utilities, serving localities which will either lose or reduce their population or forfeit their opportunities for growth (10) and by that lowering, even if only temporary, of total production that inevitably accompanies such displacements. Nor should we neglect the fact that while there is a more or less great waste of capital for the aforesaid reasons, the need of new capital for opening new and enlarging existing plants in the most suitable localities is enormously increased as a result of the amalgamations and structural changes that unification entails. Capital is also needed for the development of public works and services required by the increase of business and the growth of population in those areas which benefit by the new conditions. We need hardly add that here again the problem may offer aspects which are far from negligible and lead to far from favorable results if, as is very likely, available capital is insufficient, or if, as is also possible, the sudden change in outlook should cause the beneficiaries to lose their sense of proportion, or if, for any other reason, the rapid changes should give rise to booms inevitably followed by slumps.

When all this is borne in mind, not only shall we see that it is inevitable that plans for unification or economic integration arouse opposition and are received with reservations, both by business men and the governments concerned, but we shall also perceive that their opposition plays a necessary and irreplaceable part in protecting the general interest, and that it is essential that those on whom rests the

(10) « Omelettes cannot be made without breaking eggs, and increased specialisation cannot be achieved without destroying some existing trades. Governments must therefore be ready to move resources-out of distressed industries to those that may now expand (including plans to move skilled workers from one country to another, if this be desirable and if they want to go) ». (ARNOLD LEWIS, *The principles of economic planning*, Appendix I, On Economic Union, pp. 116-17).

responsibility of taking decisions, avoid ill-advised superficiality or undue haste (11).

Otherwise, not only would large groups of business men suffer unfair loss in every country, but the attempt at unification would definitely fail.

When speaking of the opposition raised to plans for economic integration, the general tone is one of disapproval of such attitudes on the ground that they are inspired by regard for special interests, as though people had not a right to defend their own interests; or else the opposition is held to be contaminated with economic nationalism, as if it were the duty of each country to sacrifice itself for the good of others, whereas its duty should be that of raising to the utmost its own prosperity along with that of others, and to do its utmost to avoid being injured by the actions of outside activities. If internationalism is to be sincere and effective it must not be based on the absence or the mortification of national interests, but on securing a right balance between the interests of the several countries, just as, in a well organised community, within each country, it is not necessary to cancel individual interests, nor to renounce the effort to defend personal rights; what is necessary is to contain the protection and defence of individual interests within certain limits so as to avoid that they injure the rights of the community as such. And the respect of these limits is much more efficiently and resolutely assured by the action taken by all the individual interests concerned to resist usurpation and defend their rights than it is by the generous but unfortunately to a

(11) « Nobody denies that if production were reorganised to supply a home market of 280 million consumers, the whole economy of Europe would be much more efficient. In the long run integration would bring enormous benefits. But in the short run, unless sound precautionary measures were taken, wide-spread disaster would be certain. To keep its people employed, every country in Europe is making some products other countries could supply more advantageously. Italy, for example, has to provide for a natural increase of population of 500,000 yearly. All these cannot find work in agriculture. So Italy is building up many new industries, even though this means importing high coal and iron ore. Europe as a whole does not need these industries. If the Italian home market were not protected, they would perish. So, sudden integration would turn hundreds of thousands of works all over Europe into useless junk, and deprive millions of workers in sheltered industries of their livelihood ». (*Is Integration Possible?*, in « Supplement to the Swiss Bank Corporation Bulletin », No. 19, February 1950).

large extent ineffective declarations of altruistic and self-sacrificing principles.

Therefore, instead of stigmatising the ever more outspoken and resolute opposition now coming to the fore against the plans for the economic integration of Western Europe, against the efforts to give effect to the measures taken for the liberalisation of inter-European trade, and, no less definitely, against the proposed European Payments Union, it would seem advisable to make an objective analysis of the real difficulties that stand in the way of carrying out such measures. We should study the risks they would entail on the several national economies, and probably also on the whole economy of the group of countries concerned, and the losses that would inevitably accompany any form of unification (12). A careful examination of these far from negligible aspects of the problem could not fail to afford valuable suggestions, pointing to the best way of conducting a work which may seem simple to superficial observers, but which will require much time and an unprecedented collective effort to bring it safely into port.

4. — *Need of unifying or at least harmonising the monetary, economic and social policies of the several participating countries.*

The highly complex economic structure of West European countries, and the markedly individual character of each of them, arising from the special conditions of their national life, and from their historical development, are not however the only, and perhaps not the most serious, difficulties in the way of their economic integration. Other and perhaps more serious ones, not always taken into due consideration, arise from the divergent monetary, economic and social policies now followed by each of the countries which should form part of the proposed European Union. The remarks made on this matter in a recent volume by Hawtrey are not without significance for they are founded on facts. He gives an account of

(12) R. G. HAWTREY, in *Western European Union - Implications for the United Kingdom*, London, 1949, p. 76, recently wrote:

* The new distribution of productive power may or may not be an improvement in the long run, but the transfer in itself is certain to cause loss.

the conclusions reached by a group of specialists appointed by the Council of the Royal Institute of International Affairs, to study the problems that the proposed union of the West European Countries has brought forward.

One of the major difficulties in the way of the efficient economic integration of those countries is the diversity of the economic and social policies followed by each, or, to use Hawtrey's expression, the different degree of austerity observed by each. It is not indeed possible to think of economic integration without raising the problem of suppressing the restrictions now placed on trade relations and currency transfers. Now, it is clear that these restrictions cannot be removed without giving rise to drawbacks which could not long be stood if the causes that made it necessary to introduce and continue them are not first eliminated.

Nevertheless, Hawtrey remarks: « If all were applying the same degree of austerity (and if economic conditions were in other respects sufficiently nearly homogeneous), their restrictions against one another might be wholly abandoned, and the production and disposal of restricted commodities dealt with for their combined territories as a single unit. But the degree of austerity imposed varies widely from one country of Western Europe to another. It would be quite impossible to enforce the British system of controls in all its rigour on Western Europe, nor could Great Britain afford to relax the controls on which her solvency depends » (13).

The position thus taken by Hawtrey and by the Committee of Experts who examined the matter with him, may seem at first sight not so much the expression of an impartial opinion as the result of that special British mentality which excludes even the idea of a possible adaptation of their own line of conduct to that of others. But we should not let ourselves be led astray by this impression as, even if the completely negative attitude taken by Hawtrey may not be accepted by us, nevertheless we cannot but recognise on the one hand that the condition essential for the success of

(13) R. G. HAWTREY, *Western European Union - Implications for the United Kingdom*, Royal Institute of International Affairs, London & New York, 1949, p. 70.

an economic union is the coordination, if not exactly unification, of the monetary, economic and social policies of the several countries. So far as we know, this is a need universally recognised by all who have dealt with this problem, and it must also be admitted that this unification or coordination is probably more difficult today than it would have been 35 or 50 years ago, and more difficult in the case of the countries of Western Europe than in that of any other group of countries.

The cause of this particular difficulty, arises from the fact that ever since the beginning of this century the differences in the monetary, economic and social policies of the several countries have become more and more marked and are probably more so in the Western European countries than elsewhere.

Strange as this may seem, students and business men who have so far busied themselves with the proposed economic integration of the Western European countries, have paid little attention to the substantial changes that have occurred in the last fifty years in the structure of world economy and to the marked reactions that these changes have had precisely on those countries which should form the proposed Western Union. Nor has more attention been paid to the event which, in a certain sense, has been at the centre of these changes and reactions, of which it is both effect and cause: that is, to say the disappearance of the gold standard system.

It has indeed been repeatedly and insistently noted that in the absence of a convertible currency system, like that assured by the gold standard, it is impossible to think of a return to multilateral trade; and that under a system of bilaterally balanced trade and of inconvertible currencies it is useless to talk of world economy. It has also been noted that with the disappearance of the gold system, an important factor in securing, not only the balance, but the uniformity of the economic activities of the several countries has been lost. Nevertheless, very few have enquired whether the disappearance of this important factor for unifying and balancing international economic relations and the failure of all subsequent attempts to restore it, may not be due to some deeper seated and substantial cause than the mere unbalance of

the international payment accounts to which they are generally ascribed.

Very few have enquired whether, after all, this explanation, so generally accepted, does not need in its turn, to be explained, for if the gold system had been allowed to work, it would of itself have reestablished the equilibrium of all the international payment accounts; and it would do so today, in spite of the terrifying proportions in the disequilibrium of the international payment balances if it were possible to reintroduce in their full extent, the so-called « rules of the game », i.e. the respect of those unwritten engagements, inscribed in no law and contemplated by no international agreement, but which most of the civilised countries had been led to observe as a result of convergent interests, and which formed the system known to history as the « Gold Standard » system.

The fact is that behind the unbalance of the international payment accounts there is something much deeper seated and more substantial; there is the dual internal and international economic unbalance that exercises a decisive influence on the development of contemporary economic life, on the development of internal and international economic relations, and on the economic and monetary policies of all the countries.

A whole series of circumstances that cannot here be adequately illustrated but which are generally known and understood, jointly with the well known consequences of two world wars within a period of thirty years, the rapid and gigantic growth of North American economy and the industrialisation of most of the countries which formerly provided outlets and sources of supply for Western Europe, have produced a world split whose exceptional gravity was long unperceived, and which even now may fail to realise.

The production of the most far flung countries of the five Continents has suddenly lost that complementarity that characterised it and on which depended the possibility of balancing, by means of a very complicated net of multilateral exchanges, the debts and credits of each country, and depended also the possibility of providing, in a measure not always satisfactory but hardly ever quite insufficient,

to the essential economic needs of the producing countries. Even if the XIXth century was not that age of gold that many now like to tell of, and if there was even then no lack of serious difficulties and untoward events in the economic and social field, it is nevertheless undeniable that during that century economic life functioned with a degree of efficiency that now seems well-nigh miraculous, notwithstanding the truly portentous progress that has been made from other points of view. While technological progress has attained in the last 50 years even more impressive proportions than those that characterised the famous period of the so-called industrial revolution, there can be no doubt that, on the other hand, the structure of the several national economies and of world economy as a whole, and the fundamental conditions for the regular and efficient working of national and international economic relations, as also the system regulating the mutual relations between nations and between social classes, have substantially deteriorated and tend to become tenser rather than to improve.

Now, as already stated, it is just in this fundamental deterioration of the conditions that formerly assured a high degree of economic equilibrium, accompanied by the exceptionally efficient working of national and international economic relations, that we must seek the reason of the disappearance of the gold standard and the failure of all attempts so far made to restore it.

But this is only one aspect of the serious problem facing us. No less interesting is that of the historic evolution during this first half of the XXth century which, with the disappearance of the unifying action of the gold system (14) and the break down of international economic relations has led to a phase of progressive separation and diversification of the economies of the several countries at the very time in which the growing economic and social difficulties within each country have called for the ever more frequent intervention of the

(14) « On the economic side, the disappearance of the international gold standard after the first world war meant the end of a unifying influence in the business life of Europe » (Progress towards Western Union, in « Westminster Bank Review », February 1950, p. 13).

State, thus conferring on the monetary, economic and social policies of each country a special physiognomy of its own arising from the special conditions, existing in each of them.

Briefly, to sum up the events of the last 50 years, we may say that the process of economic internationalisation and unification which characterised the XIXth century, and seemed destined, through ever closer interdependence and the community of interests to which it gave rise, to open an era of unlimited prosperity and peace, has suddenly been replaced — apparently as a result of World War I, but really due also to conditions and developments that were making themselves felt before it — by the reverse process of ever greater and deeper separation and diversification. It is hardly necessary to call attention to the importance of this involution. Europe, which had been the centre of the former process leading to a unified, organised and operative world economy (due essentially to European enterprise and chiefly at the service of European interests and vital needs), is now unable to avoid the effects of the opposite process still evolving, and which, in her case, entails the most serious and well-nigh insuperable difficulties.

These considerations show that the economic integration of Europe now planned, amounts substantially to a last and supreme effort to save so important a part of the world from the decline and ruin which so evidently threatens it. The effort is to arrest and reverse, within the narrow circuit of Western European territory, that process of diversification and contraposition which so evidently characterises the present stage of world economic development. Now, no one can fail to see how difficult and arduous must be the task of carrying out such a program on the limited area for which it is planned, at a time when there is no reason to believe that a like inversion will take place simultaneously in the other parts of the world.

Nor is this all. The diversification process, whose importance and bearing we have tried to outline, has taken place — and to what an extent! — within Europe herself, and more especially in those countries of Western Europe which the E.C.A. is now assisting and who are precisely those in need of securing rapid

and as far as possible, complete economic integration. If, as we have seen, and as we shall soon see still more clearly, economic integration demands complete coordination, and an almost complete practical unification of the monetary, economic and social policies of all the participating countries, one can clearly see that never could such a task be undertaken under more unfavourable conditions than those now prevailing. It entails retracing backwards the road along which the countries have been travelling for the last 50 years in their march towards diversification; and this must be done in a century in which it is more than likely that the same factors will continue to act which, both outside and inside Europe, replaced internationalism and uniformity by economic diversification and nationalism.

So far as we can see, in no part of the world can there be found fundamental conditions so diverse as those prevailing in this furthest corner of the European Continent. And this fact could not have been more clearly shown; could not have been made more evident than it has been — such is the irony of fate — by the most sincere and earnest attempt at integration that has been made in this post-war period. If ever two countries have really and deeply desired in this period to integrate their economies, those two countries, have undoubtedly been Belgium and Holland. But if the choice was to fall on two countries whose economic structure, whose mentality and whose respective monetary, economic and social policies were at the antipodes, then the choice would also undoubtedly have fallen on Belgium and Holland. And if this has not prevented Benelux from achieving already notable results, this experiment, so prudently made in this first post-war quinquennium, is full of precious lessons which it would be really criminal not to take into due account in the attempt we are preparing to make in the direction which should include pretty nearly the whole of Western Europe.

The first lesson to be drawn from the Benelux experiment is that the preliminary condition essential for any economic integration is the concordance and, within certain limits, the uniformity or even the unification of the monetary, economic and social policies

followed by the participating countries. This concordance and uniformity would not present serious problems if it were a question of uniting countries all practicing the *laissez-faire* policy, for in such a case there would be no discrepancy or antimony to overcome, but the most serious difficulties are encountered when the countries that are to be integrated follow policies partially liberal and partially state-controlled; and also when all the countries to be integrated are following State controlled policies, unless those policies are mutually compatible. « A union between *laissez-faire* peoples — Arthur Lewis writes — is easy to achieve, because each of the peoples knows that the federal authority will pursue the same sort of economic policy that its own national government would have pursued. But a people that favours planning cannot live in the same federation with a people that favours *laissez-faire*. And even the peoples that favour planning cannot agree on a federation unless the types of planning that they favour are broadly similar » (15).

As we see, Lewis starts from the assumption that « an economic union cannot long operate without friction unless it become a political federation »: an assumption which we share to a large extent. But even setting aside this aspect of the matter and restricting ourselves to the hypothesis of mere economic integration, Lewis' statements lose none of their value.

5. — *The economic integration of such countries as those of Western Europe is a long and very difficult task and must therefore be faced with tenacious energy and full realisation of the difficulties and risks implied and the costs entailed.*

In the preceding pages we have tried to make a careful and realistic study of the problems related to the proposed economic integration of Europe, of the difficulties of all kinds that will have to be met, of the far from negligible risks involved and, last but not least, of the inevitable costs, not only economic but also psychological and political. Such integration will mean loss of capital consequent on

(15) *Op. cit.*, p. 110.

abandoning or rendering partially useless industrial or agricultural enterprises, public works, trading equipment, public utilities; it will mean losses due to uncertainty and to the impediments arising from the passage from one economic structure to another; and finally the upset and moral suffering that accompany migrations and the long and painful adjustment of emigrants to other languages, other environments and way of life. When a calm and impartial study is made of all this, as we have tried to do in considering the leading points in these pages, there will certainly be no room for easy-going optimism or for the superficial opinions which fill the pages of so much of the official writing and of the academic literature on the subject.

Faced by the alternative of stating the problems of economic integration in practical terms (facing them on the practical ground of specific agreements and prudent arrangements for reducing efforts and tensions, and graduating achievements to adjust them to practical possibilities), or of rushing to the assault moved by quixotic sentiments, to carry out flowery programs based on unreal assumptions, simplifying everything to follow the so-called dictates of economic theories; the preference has been and still is given as a rule to this latter system.

And, if a choice were possible, there would be no reason to opt, *a priori*, for the path that is the slowest and most difficult instead of treading what seems to be straight and easy way. Unfortunately, it is just the possibility of making a choice which is missing. It is not possible to set up a policy of *laissez-faire* in all the countries that should form part of the proposed Western Union. There is no possibility that a plan of this kind be willingly accepted by the aforesaid countries, not even by those who are most inclined to accept the ideal of a liberal policy. Had Holland accepted, in the case of Benelux, to an integration of a liberal description, entrusted to the free play of economic forces, it is far from certain that Belgium would have agreed to do so, though her trend is certainly more liberal than that of Holland and though her economic structure is better suited to such a trend. But she also has to meet problems which cannot be solved by such methods, or which at least need time and

prudent arrangements before a satisfactory solution can be found.

It is certainly no easy matter to convince people whose convictions or whose temperament lead them to deal in abstractions and to minimise practical difficulties, that the shortest way, that of automatism and « come what will », is not practically possible and that even if it were, it would not be advisable to follow it. But there is no doubt that if one day the economic integration of Western Europe will emerge from the world of wishful thinking and eloquent speechifying to enter the arena of practical achievement, and if this achievement is not to be the result of external compulsion, by whomsoever or howsoever exercised; it would be in the best interests of all to follow the longer path, proceeding gradually and with due precautions, rather than trusting to the uncontrolled and indiscriminate play of economic forces.

We would even go so far as to say that if, during a first stage, guided by a superficial and indolent mentality, backed by total indifference to the losses inflicted on the peoples concerned, the forces working for compulsory integration were to select the automatic way of realising their intention, they themselves would soon be obliged to see the need of changing their direction. For, unless the deliberate intention be to ruin oneself and others, it is essential, in the first place, to reduce to a minimum the losses while securing the maximum advantages of integration. And however confident one may be in the efficiency of natural forces, it would seem difficult to prove that losses can be minimised and advantages maximised by a fatalistic policy like that of *laissez-faire*, rather than by resorting to a conscious and rational adaptation of means to ends.

We are well aware that the acceptance of such a point of view and of all it implies still meets with marked resistance and is still far off. Nevertheless truth is slowly making headway, as is shown by the Second Report of the O.E.C.E. After asserting the need of increasing European productivity and of restoring for this purpose, and as far as possible, the stimulus of international competition, freeing trade from present restrictions and facilitating inter-European payments, the Report not only has

tens to point out that these measures would do nothing to solve the fundamental problem of dollar scarcity, (par. 721) but goes on to add that the countries of Western Europe « cannot proceed too far on the path of liberalising trade should such policies threaten to cause them serious payment difficulties ». And should the payment difficulties be solved, an obstacle of primary importance would still remain. « The measures for developing specialisation in Western Europe will have salutary effects on the economy of each country taken as a whole, but at first they will inevitably entail disparities and raise very serious problems of adjustment. Some sections of the population will be injured by the reappearance of competition: their means of livelihood, or at least their present standards of living, will be endangered. The fear that these adjustments will entail the loss of large investments may lead to serious resistance to the suppression of quotas. Whatever the disinvestments may be that the liberalisation of trade and the growth of specialisation may bring about, it seems probable that the participating countries will be affected in varying degrees. These problems cannot be set aside by alleging that they are raised only by the selfishness of special interests and do not concern the general prosperity of Western Europe, nor their own future. The member Governments are pledged to maintain a high and steady level of occupation. If, as a result of the liberalisation measures, serious and persistent unemployment should arise, one of the main objectives of the European Recovery Program would be endangered » (par. 724). « The problem facing Western Europe is not that of restoring conditions prevailing prior to 1914. Many things have changed since then. Governments are vested with much wider powers for acting on the evolution of the economy, and they are pledged to maintain a high and steady level of employment and to assure their peoples a certain degree of economic security. The closer integration of the economies of Western Europe would mean reacquiring the advantages inherent to the specialisation and competition prevailing before 1914, thus avoiding both unemployment and economic insecurity » (par. 726). « The solution of such a problem is not easy. The transi-

tion period towards freer exchanges should not be accompanied by serious unemployment or privation for individuals. The plans should also be devised so as to assure rapid recovery from future threats of large-scale localised unemployment. In future, the fluctuations in the level of occupation can no longer be used as the means for restoring international equilibrium as they were in the past. Moreover, gold reserves are now much smaller than they were before 1914 in relation to the volume of trade to be financed; and until they have been rebuilt gold movements will not be able to supply the necessary breathing time for adjustments. The liberalisation measures and a certain degree of trade when once acquired will, under the special conditions of our age, require that the Governments act in consultation, cooperating more closely than in the past » (par. 727).

In any case, integration cannot be given effect all at once. « It is impossible suddenly to repeal all the trade restrictions. Such action would give rise to a degree of disorder, loss of production, and unemployment whose consequences would far exceed the advantages that might be secured in other ways. It is therefore essential to proceed by degrees » (par. 730). Nor, on the other hand, can we blind ourselves to the dangers that a process of integration entails even if carried out gradually and very prudently. Provision must therefore be made for the possibility of having to reverse the process should this be found necessary, just as is done in the case of the decisions taken by the Council of the O.E.C.E. on January 31 of this year, which state: « in case the suppression of quantitative restrictions should give rise to serious economic troubles in one of the Member Countries, the Government of that country is entitled to modify the regime agreed on after informing the Members concerned and the Organisation of the changes it proposes to adopt. Consultations should also be held among the Members concerned, and with the Organisation with a view to seeing whether other measures could not be taken to meet the situation ». No less significant is the statement contained in the same decision about the advisability that « the Governments of the Member Countries should compare their financial, economic, social and customs' policies and their

investment policies so as to assure that coordination which may seem necessary for the realisation of closer economic and monetary understandings between them ».

We can thus see that truth is beginning to make some headway, as we have said, and good sense is at last being listened to. There are indeed some who regret this, fearing that it will lead to the prevalence of trends running counter to their ideologies or to their theoretical preferences. But Europe and the World can only rejoice that this is so, and must hope that the period of improvisations and experiments doomed to failure, which has already lasted too long, will make way for a period of positive constructive work which cannot consist only, and not even mainly, in removing existing embargos, restrictions and controls, but should

accompany the gradual suppression of the checks and controls by effective, and as far as possible, timely action tending to avoid or alleviate the losses entailed by structural changes; and above all to avoid the blind and unfair distribution of advantages and drawbacks, profits and losses arising from economic integration as among participating countries, throwing some to the dogs, while creating for others an unjustifiably privileged situation.

The task is certainly no light or easy one. But it is obvious that only by offering to each participating country the assurance that in no case will it be called on to suffer losses that far outweigh the benefits it will receive, can we hope to set going a movement of long duration and exceptional range, such as that of the economic integration of Western Europe.