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LESSONS OF A COMMON MARKET

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In my introduction I should like to say something about the lessons that can be drawn from the common market limited to coal and steel which was established by the six countries of the European Coal and Steel Community (the E.C.S.C.). And in considering these lessons I shall try to point out in particular those conclusions which appear to be valid for goods other than coal and steel, that is, conclusions relevant to a general common market.

I

The first result that one expects from a common market is, of course, an increase in trade after the establishment of the common market, in comparison with the trade existing before it was set up.

The common market in coal and iron ore between our six countries, — France, Germany, Italy, Luxembourg, Belgium and the Netherlands, — was opened in February 1953; the common market in steel and scrap was opened in May 1953. So you see we have three and a half years' experience on which to judge the first results. This, of course, is not a sufficient length of time to draw definite conclusions; but all the same, it is enough to allow us to try, cautiously, to draw some first lessons — especially at a moment when the Brussels negotiations are in progress and when, I hope, negotiations are about to begin between the six countries of Western Europe and Great Britain for the association of a free trade area with the general common market.

Here are a few figures which will allow you to judge for yourselves the first effects of the common market on the level of trade:

Trade in coal, coke and briquettes increased between 1952 and July 1955 / June 1956	by 21%
Trade in iron ore increased, over the same period	by 27%
Trade in scrap	by 262%
and in iron and steel products	by 114%

The weighted average trade, measured in tons, increased by 65 per cent

To bring out the importance of these results, one ought to make the following comments:

- (i) First, what we are considering are raw materials which are all particularly heavy and the transport of which is therefore particularly onerous.
- (ii) Secondly, there was previously relatively little trade in scrap and in iron and steel products between our six countries, and therefore commercial channels had still either to be created or to be developed.
- (iii) Thirdly, the figures I have just given you were not, in fact, the maximum that have been achieved. In 1955 the figures were higher: the percentage for coal rose to nearly 30%; for scrap to nearly 300% and for iron and steel to nearly 150%.

To appreciate the figures that I have just quoted, it is interesting to make a few comparisons.

- (a) First of all, it is interesting to see to what extent trade in the common market has a tendency to develop more rapidly than production. It is obvious that an increase in production nearly always results in a more or less pronounced increase in trade. Now, what has been the *additional* impact of the common market?

The fact is that, as against an increase in trade of 65 per cent in three and a half years, production in the common market products has increased by 18,5 per cent. That is to say, in the common market increase of trade has been three and a half times greater than increase of production.

We should have to look far back into the history of the world's economy to find a situation similar to this. We should need to go back, I think, before the first World War to find so great an expansion.

(b) The second comparison that I should like to make concerns the general increase of trade between our six countries. We very often hear the objection that the increase of trade within the common market since 1952 proves nothing, and that good economic activity might have led to an increase in trade with or without a common market.

I am aware that the argument is an important one, and for that reason we are always particularly careful to compare the volume of trade within the common market with the increase of other trade between our six countries for all goods other than those of the Coal and Steel Community.

Taking the year 1952 as our reference period, it can be seen that the exchange of E.C.S.C. goods rose from 100 to 192 between 1952 and 1955, while for all other non-E.C.S.C. goods, trade between our six countries rose from 100 to 164.

Thus trade in goods covered by the Treaty almost doubled between 1952 and 1955, while the volume of commerce in other goods between Community countries rose by only two-thirds.

I should like to emphasize once more that this discrepancy is all the more significant since E.C.S.C. goods are particularly heavy and difficult to transport.

I think that no one will deny that very significant results have been secured in a very short time, and that these results consequently show the potential trade development that a common market brings in its wake. It goes without saying that these lessons strictly only apply to the beginning of the common market and it is probable that the same spectacular degree of progress, — as for example, that in scrap, — could not be maintained indefinitely. But I think that few European economists or business men expected such considerable results in so short a time.

Moreover, these results confirm the conclusions that can be drawn from the Benelux Customs Union, which has been in existence now for almost ten years.

This Benelux Customs Union is limited to the three countries of Luxembourg, the Netherlands and Belgium, but on the other hand it covers all goods, although for agricultural products, certain restrictions remain in force.

Exports from Belgium to the Netherlands
have risen, between 1938 and 1955 from 1 to 13
while exports to all other countries, between
1938 and 1955 have risen from 1 to 6,5

We find the same is true from the standpoint of the Netherlands:

Exports from Holland to Belgium have
risen, between 1938 and 1955 from 1 to 13,6
while exports to all other countries have
risen from 1 to 10

I conclude from this that everyone must agree that these figures are very significant and are not the result of mere statistical manipulation. Moreover, no one in the Benelux countries any longer disputes the success of this scheme.

I am convinced that the very striking results obtained by Benelux and by the common market in coal and steel are due in part to two distinct factors.

- (i) First of all, the countries in question are neighbours, with good means of mutual communication, who have very often artificially cut the trade which could normally have taken place between areas of production and consumption. In this connexion, I have always been struck by the following fact:

In 1952, the common market produced about 43 million tons of iron and steel products. Of these 43 million tons, 8 millions were exported to all the countries of the world,

but less than 2 million tons were traded between the six countries of the common market.

It is clear, to those who know the geography of the six Schuman Plan countries, that these trade figures are due not to a happy coincidence of areas of production and consumption within each country, but to the incidence of political and economic frontiers. Geography undoubtedly plays a part in the extraordinarily rapid growth of trade among both the Benelux countries and those of the European Coal and Steel Community.

- (ii) But I should not like to under-estimate the second factor, that is, the structural element.

Under modern economic conditions, one can no longer ask producers to develop the production either of raw materials or of finished products without a minimum stability in the structure of the market. It is impossible to make very large-scale investments to develop a market which is located, either entirely or in part, on the other side of the frontier. This was already impossible in the economic conditions prevailing at the beginning of the first industrial revolution; and in our time, this frontier-risk is sometimes a decisive handicap.

For example it is the precariousness of the foreign market which has made it impossible for Belgium to maintain her own automobile industry.

For my part, I shall never forget a meeting of the Economic Cabinet of the Belgian Government in 1951, when a certain great country of O.E.E.C. suddenly went back on its liberalisation policy, calling a halt to the trade currents which were then scarcely beginning to re-establish themselves...

To raise living standards and to ensure full employment in such conditions as these, is no longer a matter of economic policy, but rather a task for the tight-rope walker.

II

Does the increase in trade which we have experienced, show any general line of direction?

It would be particularly dangerous to try to draw any too strict conclusions: but it does seem to me that the beginnings of a general tendency are emerging.

It looks as if the increase in trade is operating or moving, in an anti-clockwise direction on the map. Germany, that is, now supplies more to the Netherlands; the Netherlands supply more to Belgium; Belgium supplies more to France; and France supplies more to Southern Germany and Italy. There is, in fact, a genuine regional regrouping of markets.

This tendency can be illustrated by some particularly striking facts:

The Aix-la-Chapelle basin has raised its deliveries in a westwardly direction, — that is, towards the Netherlands, Belgium, Luxembourg and France, — from 30% of its total production to 48%. The Dutch Limbourg basin has increased its sales in Belgium, Luxembourg and France, from 5 or 6% to 17%.

Looking at it a little more closely, this is not at all difficult to explain: it is, indeed, a re-assertion of natural geography in two senses.

- (i) First of all, once the customs barrier between the Netherlands and Germany is suppressed, it is clear that Germany recovers part of the Netherlands' market, over which the Belgians and Luxembourgers inside the Benelux Customs Union had priority.
- (ii) Secondly, the general patterns of increased trade reflect those of the great communication-routes:
 - (a) the Rhine, linking Germany to the Netherlands;
 - (b) the close proximity of the industrial basins of Belgium and France;
 - (c) coasting and inland water trade.

I may mention here a fact which is evident, but little-known, i. e. that Lorraine is better placed than the Ruhr for supplying Southern Germany.

III

A third lesson which may be drawn, — always, of course, with the caution that is necessary in such a field — is that economic expansion within the common market has at one and the same time more dynamism and greater stability. This point is particularly important because it seems to me to be one of the aims of our generation: we do not wish to achieve expansion at the expense of stability, or stability at the cost of stagnation, as did our ancestors. We must in fact achieve economic expansion with the maximum of stability.

In so far as we can realise this aim, I believe that we shall have attained one of the major ideals of our century.

In this connection, I should like to make some observations which would not, I think, be contradicted by the statesmen, business men and trade unionists of our six Community countries.

The economic expansion of our six countries during the last few years has been absolutely unique. If we take as a base the index-level of 100 for the year 1952, the general industrial production of the six E.C.S.C. countries reached the index level 139 in the year 1956. In other words, our countries have achieved an average increase in industrial production of about 10% per year. If we look at past history, we might perhaps find a precedent for such a rate of industrial expansion during ONE year, — and yet, I am not even so sure of that. But what has never before happened in the whole of our economic history is an increase in industrial production of 10% per year lasting for three years running. In fact, a high rate of economic activity has prevailed in the Community since the beginning of 1954.

At this point one may well ask the question: what would have happened if our six countries had NOT created this common market for coal and steel?

It seems almost certain that during 1955, when market tensions were beginning to appear fairly acutely, Belgium would have put a brake on her exports of coke to France; France would have put a brake on her exports of iron ore to Belgium; the Netherlands would have put a brake on their exports of coal to Belgium and France and Germany would have restricted their exports of coal and coke to the other countries now within the common market. Furthermore, it is practically certain that no country would have allowed any exports of scrap.

To this quantitative effect, moreover, there would have been added another, no less serious. In as much as these raw materials did continue to circulate among our six countries, it is well-nigh a certainty that they would have been the subject of very heavy "dual pricing".

I have often asked people the question: is there a single business-man or trade-unionist who believes that, in these circumstances, the economic expansion of our six countries could have continued at this extraordinary rate of 10% per year for three years running? For me, the answer is a simple one: it is quite unthinkable.

Perhaps a comparison will help to illustrate the point: — If each of the 48 states of the United States were able to restrict its exports every time that a generally expanding market showed signs of tension somewhere, do you think that the United States would have had the dynamism that their economy has shown in the course of the last fifty years?

For my part, I am convinced that to seek a purely partial economic or political equilibrium during an expansion only handicaps and ultimately brings the expansion to an end long before its time.

You may, of course, reply that this is arguing on the basis of what might or might not have happened. That is not entirely true: one only has to look into the past to see this economic process always at work in this way. Let us see how steel production and trade among our six countries have developed during expansionary periods in the past:

	<i>1927</i>	<i>1928</i>	<i>1929</i>
Production	100	101	108
Trade.....	100	105	97
	<i>1935</i>	<i>1936</i>	<i>1937</i>
Production	100	111	121
Trade.....	100	95	111
	<i>1950</i>	<i>1951</i>	<i>1952</i>
Production	100	119	131
Trade.....	100	103	132
	<i>1953</i>	<i>1954</i>	<i>1955</i>
Production	100	100	132
Trade.....	100	148	199

Since 1953, therefore, something entirely new has been taking place. Restrictions are no longer imposed on trade, as soon as the first signs of market tensions appear: on the contrary, the increase of trade itself forms a solid basis for economic expansion.

Here it is important, I think, to emphasize one more point: that is, the common market's elimination of dual pricing.

As I have said, in a period of high economic activity each country would normally try to pay for its attempts at internal price stability by means of dual pricing on the export market — each trying, that is, to shift the burden on to others. But since the opening of the common market, not only has trade developed in a quite exceptional way, but also the level of prices among our six countries has been remarkably stable. From 1952 to 1955 between the 6 countries, the price level of trade in Community products has dropped from 100 to 81, while that of trade in all other products has dropped only from 100 to 93. I may add that the year 1952 was a year still strongly affected by the Korean war boom, — so that our reference figure is thus fairly high.

IV

Is there any reason to believe that the common market would resist a slackening of economic activity? Or must we, on the contrary, expect the same cumulative process of the drying-up of trade that we have experienced during every recession in the past — for example during the great depression of 1930 to 1935?

The question is an important one. Indeed, if ever we fell back into a cumulative process of slackening trade during a period of recession, I should be extremely anxious for our social and political structure. I am convinced that if ever we had to put tens of millions of men in the free world face-to-face with the alternative “work without freedom, or freedom without work”, then our Western society would collapse like a house of cards.

In the common market, our experience of recession is very limited: but it is worth recalling the events of the year 1953.

In 1953, we were by no means enjoying a boom. The Community's production of coal, iron ore and steel dropped 3 % in comparison with 1952. Nevertheless, trade increased by 15%.

I have no desire to indulge in wishful thinking. I simply want to point out that our six countries and the High Authority have experienced a recession, however slight; and that we have all been extremely careful not to let it develop into a cumulative process set in motion by selfishness and hence inadequate in an expanding world.

V

The fifth lesson which I think can be drawn from our experience concerns the internal equilibrium of the common market.

It is obvious that a common market in which one or several countries enjoyed all the advantages, and another or several others had to bear all the disadvantages, would be quite impossible

to put into practice. This question was above all the subject of lively discussion in the French and German Parliaments at the time when the Treaty was ratified: everyone feared that his own national economy would face the disadvantages, while the advantages would go to the other. We encountered similar fears at the beginning of the Benelux Customs Union.

Every economist tends to judge this question optimistically. There are certain sectors or countries which gain as producers, while others gain as transforming industries or as consumers. Clearly, on balance, everyone will reap the benefit. But that, it seems to me, is an argument that does not always convince many people. They ask for proof; they ask for figures.

For a partial common market, moreover, that optimistic answer is not evident a priori. It may be that the advantages which a country should enjoy on account of its transforming industry will not, in fact, operate because there is no common market for the finished product. In the extreme case, a common market for a single product could even concentrate all the advantages in one country and all the disadvantages in another. This being the case, it is interesting to see what has in fact happened in the partial common market constituted by the Schuman Plan.

Let me remind you first of all that this includes a fairly large part of the national product of our six countries, since on an average the industries of the common market represent 10 to 15% of the national product. I may add that trade in Community products represents between 20 and 25% of the total trade between our six countries, and that since the four products can each be considered from the producing and the consuming side, this gives us eight aspects from which to seek a reasonable equilibrium.

The question then is: is there an equilibrium or not, in the sharing-out among the six countries of the advantages and disadvantages of the common market?

My answer is based on four years' experience and observation. I hope it is objective. It is this:

- Germany seems to me to have gained, and to stand to gain in the future, as a producer of coal; up till now Germany benefited as an importer of steel;

- France undoubtedly gains as a producer of steel and as a consumer of coal;
- Italy benefits as a consumer of scrap and, consequently, as a steel producer;
- The Netherlands gain both as a producer and as a consumer of coal, since their own coal lies far from its industrial centre;
- Luxembourg gains as a producer of steel;
- Belgium gains as a consumer of coal and iron ore and as a producer of steel.

Besides, a common market has some surprise in store for us. No one would ever have thought that the highest percentage of increase in deliveries to the other member countries would be achieved by the Netherlands, who thus show an unsuspected vocation for steel-making. To everybody's satisfaction, both France and Germany, between 1952 and 1956, multiplied their own deliveries of steel to the common market by 3.

Finally, I should like to say a word about the ways of achieving fair distribution of advantages and disadvantages where this fair distribution does not come about naturally.

- (i) It is clear that the common market must include a period of transition, to permit a gradual progress from closed markets to a common market.
- (ii) It must include, as well as free circulation of merchandise, free circulation also of men and capital.
- (iii) It must include financial mechanisms to facilitate transition without being an obstacle to an optimum location of firms at the highest possible level of productivity.
- (iv) It must include, finally, investment and readaptation funds, to aid reconversion in less favoured regions or economic sectors.

The Schuman Plan includes these indispensable elements. It includes a transition period of 5 years, and — under certain conditions — 7 years. It allows for free circulation for skilled workers —

in which Italy is very much interested. The Schuman Plan includes also financial mechanisms of which we have already made great use --- in particular to set up a compensation fund, with contributions from Dutch and German collieries, to lower the price of Belgian coal, as well as a large compensation fund for imported scrap. Then again, on the proceeds of its loans, the High Authority has contributed to the financing of investments for industrial expansion and reconversion, and to the building of workers' houses. Finally, the readaptation fund has contributed to the indemnification, re-employment, and re-training of laid-off workers in Belgium (the Borinage), in France (Centre-Midi and Loire areas), and in Italy (in Sardinia and in the steel industry of the north, now undergoing reconversion and expansion).

The question of equilibrium of fairly spreading advantages and disadvantages is not, then, a question of "gains *or* pains", but a question of "gains *and* pains" with the "pains" borne by everyone in common.

VI

A sixth point that I should like to examine is whether it is possible to work out a single economic policy for a common market which at the same time must be accepted by the political parties of the different countries and also must conform to the necessities and hopes of the different nations.

The question is important, since although one might not expect it, the political programmes and, to a certain extent, the general underlying philosophy of parties of the same name, are far from being identical in the six countries of Western Europe. A Dutch liberal has a different programme from a French liberal. A Belgian Christian-social has a different programme from an Italian Christian-democrat, a French socialist has a different programme from a German socialist. Moreover, Dutch economic policy has always been much more liberal than French, or Italian, economic policy, etc.

Is there any means of finding an economic policy which so to speak, will transcend the different tendencies which exist

inevitably in a collegiate body of 9 members with different political affiliation? We must, from the start, exclude a "laisser-faire" policy as impossible for a common market. It is just not feasible to try to create in 1950 the Europe which might have been possible in 1880. Nobody nowadays except for a few Utopians, still thinks of creating a common market without rules, without safeguards, without control levers and without institutions.

Another hypothesis is that from the beginning one should formulate in the Treaty all the concrete solutions to all the hypothetical questions which might present themselves throughout the whole duration of the common market. In modern economic conditions this is ruled out.

Then remains the third possibility: that is to create institutions which should put into effect an economic policy whose principles are written into the Treaty; the detailed working out of those principles to be left to the executive power, under the control of a parliamentary Assembly and of a Council of Ministers. In this case, the question at once arises: is there any way of finding the common economic doctrine which will provide the basis of common action?

This problem has been solved during the negotiations of the Treaty and its ratification by the six Parliaments, and solved astonishingly easily. The rule which has been adopted is that of a competitive economy, which is thus quite distinct from a purely free economy in the sense that the rules of competition are clearly defined: publication of price-lists, non-discrimination rules and an anti-cartel clause. The only exception to this rule of competition occurs at each of the two extremes of the economic cycle: extreme shortage or manifest crisis.

In either of these cases, but in these cases only, the High Authority has the power to intervene by establishing maximum and minimum prices, by quotas, by restrictions on exporting or importing and so on. In fact, the Schuman plan constitutes a compromise between different doctrines.

I am convinced that this rapprochement is not possible yet, except on an European scale. Indeed, I am sure that a Belgian government that would write into its governmental declaration

an economic policy similar to that of the Schuman Plan, would be accused on the one side of being too dirigiste and on the other side of being too liberal! None the less it is true that socialists, liberals and Christian Democrats of our six countries have ratified this plan and have given their vote of confidence to the High Authority in our parliamentary Assembly.

VII

I should like to bring to a close these few lessons drawn from the common market by making a final observation.

All those who were present at the putting into effect of the Treaty four years ago are now convinced of the necessity of autonomous institutions. I admit that when I was Minister of Economic Affairs in Belgium in 1950 and 1951, I was far less convinced of the necessity of institutions in a common market than I am now.

At the beginning, some hundreds of people who had either close or remote contacts with the Schuman Plan, were hesitant about the necessity of creating autonomous institutions for the common market. I think that at the present time those who still doubt their necessity are very few. Experience has shown us that these autonomous institutions must tend to have two essential characteristics:

- (i) the executive power ought to have no national allegiance and
- (ii) no one should have the right of veto.

I know that this is an ideal that is difficult to realize at the start. No one, I am sure, expects perfection, but it is a fact that one must recognize these two necessities if one wishes to achieve one's aims.

In concluding, I should like to outline some of the tendencies which appear to arise in a common market.

1. I have been struck by the degree in which competition has been stimulated in the common market. Clearly, theoretical reasoning would lead us to expect such a stimulus, because henceforth everyone has to reckon with the most dynamic firm in the common market and no longer with the strongest firms in the national market, where very often for one reason or another competition tends to become less keen.

2. There is also a marked tendency towards industrial concentrations. In view of the common market, concentrations such as SOLLAC and USINOR were established in France. In Germany, very considerable concentrations are still being created. In Belgium the two biggest iron and steel firms in the country, COCKERILL and OUGREE, amalgamated two years after the opening of the common market.

I would like to draw your attention upon two points which seem to me important for a general common market:

- (i) First of all, there are in Europe a number of industries whose firms are far from having reached their optimum size. This is the case for example, in the textile industries, in the leather industry, in the furniture industry. I think that in a common market all these enterprises would very quickly be encouraged to increase their size, and I am convinced that a considerable tendency towards concentration would emerge.
- (ii) My second observation concerns family enterprises. In this tendency towards concentration, it is likely that a certain number of firms which, up to now, have been able to preserve the characteristics of family businesses, would risk

losing them, because it would often be impossible to preserve the family character of a business which grew to twice or three times its traditional size.

3. In a large common market, dirigism is less necessary and governments are less tempted to practise it. In fact, a large common market shows a stability that a collection of closed markets does not show. Moreover, a European executive is less exposed to electoral and demagogic influences than are national governments. Each of us at the High Authority could quote you some extremely striking examples in this connection.

4. Finally, I would like to emphasize the growing importance, in a common market, of the localisation of industries on the coast, close to the ports and along the waterways. When, twenty years ago, the blast-furnaces of Ijmuiden were built near the port of Amsterdam, everyone regarded this location as a novelty. Since then, the iron and steel industry has shown an increasing tendency to establish itself on the coast. FIAT is just now building a factory near Genoa. A new iron and steel works is growing up at Bremen, and the French are planning to set up a completely new iron and steel industry at Dunkirk.

In a common market where the materials tend to come more and more from outside, and a considerable part of the market lies abroad, industry naturally tends to make its contacts with other industry by water, which is still clearly the cheapest form of transport. It is for this reason that there is now so much interest in setting up of industries near ports, and even more in improving the great waterways. The canalisation of the Moselle, agreed between Germany, France and Luxembourg, is only the starting point of a renewing of Europe's navigable waterways, which moreover are very much in need of being adapted to the necessities of modern times.