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EARLY EUROPEAN INTEGRATION – RIVALRY AND ACCESSION. ECONOMIC AND POLITICAL ANALYSIS ON THE RELATION BETWEEN THE EUROPEAN ECONOMIC COMMUNITY, THE UNITED KINGDOM AND THE NORDIC CUSTOMS UNION

Abstract: The paper is concentrated on the pre-history that led to the so-called Northern enlargement of the European Community. Specifically, the economic and political reasons that led the United Kingdom, Norway, Denmark to drop their initial integration arrangements and seek membership in the European Economic Community. After an outlook of the European development after the Second World War, the respective developments in the named countries and their integration projects are analysed. At the end, some highlights about the rivalry caused by the creation of the continental scheme are presented, which ended with the establishing of the dominance of the European Community.

Key words: European history; European Integration, Nordic Council.

Introduction

European integration is one of the major issues of the history after the Second World War. For a continent with very turbulent past, with many failed attempts of unification, nowadays the complete dominance of the European Union gives a point for reflection in time when there are discussions about the future and the very existence of the Union, about multiple-speed Europe, core and periphery, North and South.

From that point of view, it is relevant for the possibilities of creating different integration schemes and unions throughout Europe to be analysed and for the magnetism or inevitability of unifying before copying, rivalry or just co-existence to be reviewed. Defining the economic and political reasons that prevented the durability of other competitive ideas and projects is important for unveiling today's European Union history and functioning.

1. Background

The Cold War broke out soon after the end of the Second World War, some tension was present before that. That conflict divided Europe not only politically, but also in terms of economics and trade. The USA was economically supporting Western Europe and the USSR – Eastern Europe, most of their trade was also based on this pattern. The neutral countries such as Finland, Sweden, Austria were exceptions from this rule, and thus their part in Europe's future integration was also important for breaking this polarity.

Besides exceptions such as the BENELUX agreement concluded by the governments in exile of Belgium, the Netherlands and Luxemburg during the Second World War, one of the most influential integration forces was, in fact, external. The Organization for European Economic Co-operation (OEEC) was created for the execution of the Marshall plan that provided economic aid for European recovery. This organization membered most of the countries left out of the Iron Curtain. The organization also adopted some measures for dropping much of the trade protectionism in Europe. This was a way for the USA to make Western

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Europe more interdependent thus providing German inclusion, preventing the German menace and making Europe also less dependent from the economic rise of the USSR. That support for European trade integration was seen also as a way to lesser the amounts of American payments and loans, because the USA was trying to involve in other parts of the world – providing huge support, both economic and military, for Japan and South Korea¹. However, these first attempts for trade integration failed, as the agreed measures were not at considerable amount, the economic state and policies of these countries differed a lot and there were some additional trade restrictions imposed since the Great Depression from 1929 and the war efforts before and during the Second World War. Protectionism through high tariffs and quantitative restrictions was in line with the favoured Keynesianism and full-employment policies that soared competitiveness even more.

Ruined Europe in international trade

The European role in international trade was declining as well. American economic aid and imports were speeding up this process. The main consequence of that was the adoption of the US dollar as a main currency for trade in Western Europe, which caused huge demand for it and national policies were trying to shift their export policies to the American market by putting extra restrictions to their European competitors. Thus intra-European trade was being put in uneasy conditions. Another major factor was also the disrupted trade with the colonies.

This major decline was the main reason for the revival of the integration projects. This shift was also supported by the overall Western European recovery during the 1950s which provided more demand for goods and thus trade started to grow steadily in spite of the slow processes of liberalization of trade through the OEEC and bilateral agreements. But the most important factor was the market of the newly formed Federal Republic of Germany.

German revival as a motive

After a period of concession both monetary and economic from the Allies during the occupation, West Germany was on the rise. Much of the pre-war infrastructure and factories regained its former capacities and the policies of Adenauer and Ludwig Erhart proved to be successful. They formed an economy based on relatively low taxation, which provided options for saving and thus investments. The most important thing was that it was more open than other leading trading countries. The Federal Republic soon became the larger exporter and the larger importer of goods in Western Europe and the growth rate of this trend was times higher than the rates of France or Britain, still countries with dependant colonial markets. During the period 1951–1958 their growth rate in all exports was 25%, and this of West Germany – 154%. Most of their growth rate was based on the rise of their exports particularly on the German market, for the same period French was 168% and British 147%².

2. The British and the Common wealth

The United Kingdom after the Second World War was not performing well neither economically, nor politically. The economy was soaring after the war efforts, although that more than 25% of the Marshall plan was forwarded to it³. The remaining policies from the beginning of the Great Depression such state interventions, high taxes, efforts to maintain full employment and trade protectionism were not helping either. Although Britain was still a world trading hub and major producer of manufactured goods, the upward trend was not satisfactory.

The trade with the United States was favoured by the Marshall Plan through strategic imports and investments, but the United Kingdom was losing its economic leverage to the United States, even though just after the War, the partnership between the two countries was in its peak. The American government saw Britain as the only stable ally in Europe, mainly because of the large Communist party present in France. In that order the United Kingdom gained a special place in the North Atlantic Treaty Alliance (NATO) and was the only country with which the USA shared its nuclear research. However, this position was declining after the Suez Crisis, when American-British clash occurred and many countries of the Commonwealth became to be in fact protected and influenced by the USA.

¹ **McWilliams, W. C., Piotrowsky, H.** *The World since 1945: A History of International Relations*. Boulder: Lynne Rienner Publishers, 2005.

² **Milward, A. S.** *The European Rescue of the Nation-State*. London: Routledge, 2000.

³ **Howorth, J.** *The Marshall Plan, Britain, and European Security: Defence Integration and Coat-tail Diplomacy*. – In: M. A. Schain, *The Marshall Plan: Fifty Years Later* (pp. 39–59). New York: Palgrave Macmillan, 2001.

The United Kingdom was trying to recover also its military presence in the Commonwealth and to restore the normal trading relations within it. Trade and cooperation in the Commonwealth was getting more liberalized by the unilateral decisions by Britain and there was another round of preferential trade agreements such as those after the Irish Independence. However, the shift of Canada towards the USA and New Zealand and Australia to Asia was inevitable. The colonial system of trade was cracking. Although Britain was dependant on supplies from the colonies, the demand in them for manufactured goods was not sufficient as there was not enough industry or purchase parity of consumers.

Another major market, except for the USA and the Commonwealth was after-war Europe. The considerations about the recovery of Germany were bringing memories about the trade rivalry that dated back to the 19th century. That was the reason why the United Kingdom was trying to cripple the German economy by different measures such by restricting the opening of the Volkswagen factories for several years⁴.

3. Nordic cooperation

The cooperation between Nordic states had very long history and various implications. It dated back to the 19. century and was initially established between Denmark, Sweden and Norway with countries and territories that joined at different levels and different times such as Iceland, Finland, the Faroe Islands, the Aland Islands and Greenland.

This co-operation included integration at many areas – from recognition of diplomas to adopting coordinated legislation and mutual acceptance of national court decisions. This cooperation was taken at intergovernmental level with unanimity, included representation from every party of each national parliament, and was quite transparent and publicly discussed process.

However, the Second World War caused difficulties for some areas of integration. The first one was the field of foreign policy and defence. During the war Norway and Denmark were occupied by Germany, Sweden remained neutral, Finland fought a bitter war with the Soviet Union and Iceland became an independent republic. The result from the war was that Norway and Denmark lost most of their defence forces, Sweden was trying to remain neutral by producing many weaponry, Iceland was occupied by the USA and Finland was heavily damaged by the war with the USSR with heavy concessions of land, reparations and most of all lack of full initiative in foreign policy with the Finno-Soviet Treaty of 1948. Given the different situations, the governments of Norway and Denmark thought that a political or defence treaty with well-armed Sweden would subdue their independent foreign policy so they turned away its proposal and joined NATO.

The other field with less politics was the economy, and in particular – trade and customs. As other European governments realized after the war, the Nordic ones also came to idea that a customs union between their countries would create a bigger market with bigger competitive advantages and bigger options for negotiations with third trading partners. The first initiatives towards investigating such integration started in 1948, a year after the formation of BENELUX, and the official discussions at Nordic Council level in 1954. Forming such a customs union was understandable on the level of international trade. The Nordic countries accounted for 5% of the whole international trade and possessed 12% of all the merchant ships tonnage in 1954⁵. The similarity of economic and property laws and the eased procedures of executing them was making the project even more appealing.

As a customs union is aimed at trade expansion, the national governments were highly concentrated on the structure of their exports. The main export industries for the three Nordic countries were – agriculture for Denmark, fish and whale oil for Norway, and mining, metallurgy for Sweden. This division of export led industries was somehow complementary, but, on the other hand, it meant that a common tariff would expose national industries to pre-emptive measures from other trading partners. Thus, the Norwegian government was cautious about sanctions from its biggest trading partner – the UK, Denmark was cautious in the same way of reactions from the Federal German Republic. Another consideration was that in a common market less developed national industries would meet fierce competition from removing the tariffs and the quotas for other Scandinavian imports. This was especially the case for Norway as the government was afraid that

⁴ Milward, A. S. *The European Rescue of the Nation-State*. London: Routledge, 2000.

⁵ Wendt, F. W. *The Nordic Council and Co-operation in Scandinavia*. Copenhagen: Munksgaard, 1959.

native agriculture, seen as part of the national security, would be ruined by Danish imports, or mining and metallurgy by Swedish ones.

However, there was an „Economic Co-operation Committee” set up in order to come to a common conclusion. Even though the work of this committee was one of the most entire and conclusive in comparison with the plans for BENELUX or later the European Economic Community, its work was interrupted by claims such as different phasing-out periods for tariffs and quotas for Norway and Finland, which joined the work in 1956, the Norwegian claims for lesser areas of free trade but instead more common projects such as electricity, industry, research and development, etc.⁶

4. The rivalry with the European Economic Community

After the failure of the European Defence Community and the European Political Community in 1954, there was a change in attitude towards integration. The next year, on a meeting in Messina, the delegates of the six countries took the decisive step forward – creating a customs union. Though open to other countries to join, the Nordic governments were concerned with their integration scheme and the British send an observer.

In economic terms, however, the governments of the Nordic countries were cautious that a continental common market with common customs tariff could harm their trade. The importance of trade was getting higher through the boom of 1954-57 led by West Germany and such a move was dangerous by creating even bigger trade deficits with the German and European markets. Moreover, the character of the trade was not favourable to the Nordic countries as their exports were less industrialised, thus not forming a part in the more sophisticated intra-industry trade of continental Europe. The percentage of total exports of natural-resource-based products in 1961 was 66 for Sweden and 98 for Finland which meant that they were semi-industrialised countries⁷.

The role of the European Economic Community in their trade was arguable because, in fact, Britain was still the bigger trading partner and its import policies were more restrictive than those of West Germany, and through the GATT agreements, a common customs tariff of newly formed customs union could not be higher than before the establishing. Another fact was the galloping decline in the British market due to the overall economic underperformance.

In the case of Denmark, Britain was still the biggest market for its agriculture products, even the high tariff walls and its policy of preferring imports through Commonwealth agreements. But the steady rise of the German economy and the creation of a customs union between Germany and the Netherlands, the biggest Danish competitor for the German food imports market was of great importance. There were voices in the agriculture sector in Denmark for joining the future European Economic Community, because even with high competition, the country could lose the German market⁸. The case got especially stronger as Denmark saw periods of agriculture drops and reallocation of arable areas such as that after the last war with Prussia and the whole system was until then formed by lots of popular will and cooperation. The decline in the employment in agriculture in just ten years by 6% from 1949 to 1959 was undisputedly causing social pressure and the major importance of the sector – 14% of GDP⁹.

In this light, the other Nordic countries, especially Sweden, which was also an exporter of food, but way smaller than Denmark, ceded this area to the proposed Nordic common market in order to make Denmark more willing not to leave the project. The Swedish governments were concerned about the project for the common market in which Sweden would undoubtedly be the leader. As the biggest economy in-between the Nordic countries, with the most developed industry, it would dominate such an arrangement. It was also in line with its neutrality policy. A Nordic common market was not only a way of remaining neutral and gaining leverage in future bargaining on the international market.

Norwegian officials were also reluctant to the idea of becoming a part of a customs union with these six countries, which reviewed other projects, although unsuccessful, about political and defence unions. As newly independent, the country and was somehow unwilling to cede authority to a supranational administration. Norway was very cautious even to step in the Nordic market, with countries with which was cooperating for

⁶ **Wendt, F. W.** *The Nordic Council and Co-operation in Scandinavia*. Copenhagen: Munksgaard, 1959.

⁷ **Lyck, L.** *The Nordic Countries and the Internal Market of the EEC*. Copenhagen: Nyt Nordisk Forlag Arnold Busk, 1990.

⁸ **Wendt, F. W.** *The Nordic Council and Co-operation in Scandinavia*. Copenhagen: Munksgaard, 1959.

⁹ **Milward, A. S.** *The European Rescue of the Nation-State*. London: Routledge, 2000.

a century and organised by the principle of inter-governmentalism. But the Norwegian government was also paying attention to the moves of Britain as Denmark was doing. Its market was a destination for the Norwegian canned fish and whale oil too, thus an eventual decision of the UK to join the European Economic Community would bring those two countries in as well.

The British response to the creation of such customs union was concerned with just the opposite. British preferential agreements through the Commonwealth for agriculture and raw materials provided that there would be no need for liberalization on that level with the European Economic Community. Its initial concerns were the possibility of uneasy access of manufactured products on the European markets after the imposing of the common customs tariff. Thus, the first response was seeking a free trade agreement on the level of the OEEC with the EEC. However, such an act would impose the markets of the Nordic countries on the higher competition in manufacturing, while providing no ease in agriculture and raw materials. This first response was a failure when discussed within the OEEC.

The idea of a free trade area with the inclusion of agriculture and raw materials was serving Nordic interests best. In 1957, the UK however accepted agriculture in its proposal. In these turn of events, it was clear that the Nordic Countries are going to join the proposed free trade agreement, a freer way of promoting trade than the OEEC.

The co-existence of two integration schemes was not to be. Soon after the coming into force of the Treaty that established the EEC, the Common Agricultural Policy that was part of it started to develop. In 1958 the Commission and the Council adopted the three main operating principle of the Common Agricultural Policy – common prices, Community preference principle and pool financing¹⁰. That meant that the common prices will be higher than the market prices, subsidized by the Community at the expense of the imports. The talks on the base of the OEEC later the same year became pointless. There was a clear decision of creating „Fortress Europe”. A Common Agriculture Policy on these terms was an end of the Nordic Customs Union for the next ten years as the impact of such a policy on Denmark was dictating one.

The needed eased access of British exports to the EEC could not however be abandoned. The so-called „Outer Seven” of the left outside the EEC OEEC members formed EFTA (European Free Trade Association) in 1960. This agreement also excluded agriculture and maritime liberalization, but all of the members were more or less creating a bargaining coalition towards EEC negotiations as their will was concentrated at trading with the Six (the EEC countries) instead of with each other. The cooperation was gainful, but the loose common accords and the slow rate of growth in Britain could have not sustained EFTA as a competitor of the EEC. Only a year later, the United Kingdom started negotiations for accession into the EEC. The alternative costs for Britain staying out were getting bigger each year. However, France under De Gaulle refused to accept it in.

The French position had its simple logic. Their imperial decline was more obvious. The military was dependant on British support as in Algeria and Vietnam, when British transportation planes were used for shipping French troops¹¹. There were attempts to bring the United Kingdom into a further political and military alliance, especially after the Suez Crisis of 1956, when NATO turned ineffective for its European members. De Gaulle was using this application to draw the United Kingdom into a more compact military pact as he paralely was abandoning NATO structures¹².

The effect of the French rejection to British accession is arguable. On the one hand, it was contrary to the much popularized ideology behind of the European integration as it was in fact a trade war and thus it was also against the economic logic of the welfare effect of the lager market and its bargaining capacity vis-à-vis third countries. On the other hand, however, this was a major step that preserved “the Community” with other implication for further political and economic cooperation of becoming simply a “Common Market” as officially referred by the British administration. The accession should have been arranged on European terms.

¹⁰ **Van Oudenaren, J.** *Uniting Europe: An Introduction to the European Union*. University of Michigan: Rowman & Littlefield, 2005.

¹¹ **McWilliams, W. C., Piotrowsky, H.** *The World since 1945: A History of International Relations*. Boulder: Lynne Rienner Publishers, 2005.

¹² **McWilliams, W. C., Piotrowsky, H.** *The World since 1945: A History of International Relations*. Boulder: Lynne Rienner Publishers, 2005.

6. Conclusion

The British decision to drop the Commonwealth and to join the EEC was made after three main failures. The first one was the decline as a superpower alongside the USA and the USSR. The second was to remain dependant on the supplies from the Commonwealth at low costs, while remaining politically supreme. The third one was the failure to compete with West Germany as a manufacturing and consumption leader in Europe and to step in early European Integration schemes.

The falling apart of the project for the Nordic Customs Union was caused not only by the less developed economy and thus by the uneven trade with Western Europe. Maybe equally important was the reluctance to give up some part of their sovereignty either in an intergovernmental organization, or in a supranational one. The first French rejection of a Northern enlargement was making the reasons clearer and the Northern and British governments more open to integration into the European Economic Community.

The single European integration form was a product and a result from the Second World War. This tragedy ruined Europe both economically and politically and thus provided the forming of a bi-polar world in which European countries played only supporting roles. Unity proved to be the only way to gain some leverage with the Great Powers – the USA and the USSR. There was a need for finding the way between them. At first, colonialism proved not to be it. It took time to consider that the modern trade could not be based on dependant countries. With no sufficient industry or wealthy consumers, it was destined to fail. Then, unification was a reaction against the insecurity – the common market reduced the importance of political reasoning in international trade and economics. This unification was a base for a further move towards more democratic and transparent process as pressure groups such as industry and agriculture lobbies took the initiative from the diplomats. Their consequent role in the early European integration is worth further exploration.

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