The History of the Common Market

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THE HISTORY OF THE COMMON MARKET*

The successful establishment of the European Common Market on January 1, 1959, has renewed interest in the tool by which this most ambitious of all economic integration projects has been accomplished. The interest is the greater as this is only the first of three attempts to integrate economic development on a continental scale. The others are the common markets envisioned for Africa and Latin America. This article is an attempt to convey in the briefest possible space the history of economic integration that preceded the current drive toward common markets.

The tool of this far-reaching international integration policy is the ***customs union***. By this is understood the ultimate complete economic merger of two or more territories under different sovereignty ***without prejudice to their political status***. The customs union must therefore be distinguished on the one hand from economic fusions which, as in the case of the federations of Canada (1867) or Australia (1901), automatically follow the creation of political unions; and on the other, from relationships such as free-trade agreements. Of the two latter arrangements, the one establishes common markets on a constitutional basis, abolishing the political sovereignty of their parts and turning their previous international association into a strictly internal one. The other leaves the sovereignty of the parts untouched, but does not establish a common market either. It facilitates but does not integrate. Only customs unions combine the advantages of both: the continued sovereignty of the participants and an intimacy of economic association usually found only within national states.

The idea of common markets began to dominate the minds of statesmen when the Industrial Revolution created opportunities which could not be fully utilized as long as Europe's economic landscape was a patchwork of disconnected small regions. Up to a point, the condition could be corrected through the simple promulgation of appropriate laws. This was done within the Great Powers in the early part of the nineteenth century. By a law of May 26, 1818, Prussia alone abolished no fewer than fifty-seven separate customs territories whose existence had caused her to slip far behind Britain

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and France in economic development. But there was a limit to which integration could be accomplished by law. No law could be imposed on regions such as Germany as a whole or Italy, which were under the dominion, not of one, but of a great multitude of sovereigns who would have been utterly disinclined to submit to legislative unification of any kind. If further economic unification was to be pursued, it could therefore be accomplished only by means of formal state treaties, whose termination and renegotiation clauses insured the continued sovereign status of the participants.

The first move for economic unification on an *international* level was made in 1819 when Prussia negotiated a modest agreement with the tiny principality of Schwarzburg-Sondershausen for the integration of a few pieces of the principality into the economy of the Prussian territory surrounding them. It was a small beginning. But by 1831 the conclusion of a series of similar treaties with other states had established the first international common market of significance—the Prussian Customs Union. In the meantime, a similar process in the south of Germany led to the almost simultaneous emergence of the Bavarian Customs Union. When the two decided to join their economies in 1833, the union came into existence that was to become the model of all subsequent common-market arrangements—the German Zollverein (1834–1871). This union embraced eventually not only nearly all of the states which in 1871 formed the German Reich (as a result of a separate *political* unification movement which should not be confused with the forces leading to *economic* unification), but also territories which did not join the Reich. To the latter belonged Luxemburg, which joined the Zollverein in 1842 and continued her customs union with the Reich until 1918, and the two small Austrian communities of Jungholz, joining in 1868, and Mittelberg, in 1890, whose isloated location on the northern slope of the Alps made them more easily accessible from Germany than from Austria. (These two communities are to be reattached to the Austrian economy after the construction of new access roads.)

The success of the Zollverein, which demonstrated how the advantages of economic integration could be achieved without the surrender of political independence, initiated the creation of many other customs unions. San Marino joined Italy in 1862, and Monaco, France in 1865. Both unions still exist. Portuguese India was associated with British India from 1878 to 1890; Togoland with French West Africa from 1887 to 1890 and with the Gold Coast Colony from 1894 to 1904. But the two most important nineteenth-century imitators of the Zollverein were the Austrian Customs Union, comprising, besides the states of the Austrian half of the Danubian Monarchy, Parma (1852–1857), Modena (1852–1859), Liechtenstein (1852–1918), and Hungary (1867–1918); and the South African Customs Union, founded in 1889 by the Cape Colony and the Orange Free State, and successively joined by British Bechuanaland (1890), Basutoland (1891), Bechuanaland Protectorate (1891), Natal (1898), Transvaal (1903), Southern Rhodesia (1903), Swaziland (1904), North-Western Rhodesia (1905), and the former German colony of South-West Africa (1915). Four members of this customs union (Cape Colony, Orange, Natal, Transvaal) formed in 1910 the political Union of South Africa. This superseded the customs union as far as they themselves were concerned, but not with regard to the other members. Though remaining aloof politically, most of the latter have continued their customs association both with each other and with this dominion to this day. Southern Rhodesia seceded in 1935, but arranged for reintegration through the Provisional Customs Union Agreement of 1948, which provided not only for the improvement of the common market through the establishment of a previously missing joint organ in the form of a Southern Africa Customs Union Council, but also for its gradual extension to other African states and regional customs unions, such as the one existing since 1927 among Kenya, Uganda, and Tanganyika. This development, however, was cut short through the creation of a new political entity in 1953, the Federation of Rhodesia and Nyasaland, which replaced for the time being the customs union treaty of 1948 by a normal and much looser trade agreement, which came into force on July 1, 1955.

The period following World War I saw a number of new common-market arrangements on a smaller scale and of varying viability. Charactertistically, those established in pursuit of strictly economic aims, such as the customs unions between Luxemburg and Belgium (1921), and Liechtenstein and Switzerland (1923), continue to flourish in undiminished vigor. On the other hand, those based on the political aspirations of the peace treaties have either collapsed or lost significance as a result of newer political aspirations. Into the latter category may be ranged the customs unions between the Saar territory and France (1920–1935), Danzig and Poland (1920–1939), and the Memel Territory and Lithuania (1923–1939)—all brought to an end by the advent of Hitler; or the somewhat longer-lived unions, such as between Nigeria and the Cameroons (since 1921), Ruanda-Urundi and Congo (since 1922), Syria and Lebanon (1922–1950), and Palestine and Transjordan (1928–1948). As an example of politically tinged economic unions may be mentioned the short-lived customs union existing between Italy and Albania from 1939 to 1943.

By contrast, the period during and following World War II was characterized by a return to the common-market idea as a tool of large-scale and lasting economic integration. The exceptions are the brief customs union between the French Indian colonies and India from 1942 to 1948, the customs union between France and Tunisia from 1955 to 1959, and the Franco-Saar customs union from 1947 to 1959, which having been established by unilateral decree rather than by treaty, never qualified as a customs union in the proper international sense in the first place.[1] For the first time Latin America, under the leadership of Argentina, long an interested student of the *Zollverein,* took concrete steps toward a common market through a series of preparatory treaties between Argentina and Brazil in 1941; other moves were made by Argentina, Chile, and Paraguay in 1943; by Argentina and Bolivia in 1947, and by Panama, Venezuela, Equador, and Columbia in 1948. The last named led to the signing of the Quito Charter, creating the Grancolombian Economic Organization for the eventual establishment of a common market among the signatories. Also in this category belongs the common-market treaty signed by Guatemala, Nicaragua, El Salvador, Costa Rica, and Honduras in 1958 for the establishment of a customs union among the signatories within ten years.[2]

A case apart is the British West Indian Customs Union, planned on the basis of a resolution of 1947. Since this is meant to be a mere adjunct of the political federation of the British Caribbean territories which came into existence in 1958, it will ultimately have the character of a constitutional customs unification rather than an international customs union among sovereign members. In Africa, the latest development is the establishment, in 1959, of two free markets—one among the republics of Chad, Congo, Gabon, and the Central African Republic, and the other among Mauritania, Senegal, French Sudan, Ivory Coast, Volta, Nigeria, and Dahomey.

The most important post-World War II development, however, occurred in Europe. On the basis of treaties signed in 1944 and 1947, Belgium and Luxemburg, already associated since 1922, joined on January 1, 1948 with the Netherlands in forming the Benelux Customs Union, the first major common market to be established in the twentieth century. Further, in 1947 the Marshall Plan countries set up the European Customs Union Study Group, with headquarters in Brussels. Besides functioning as a data-collecting and information center, issuing valuable annual reports, the main purpose of this group has been to encourage the formation of other regional customs unions on the Benelux pattern, particularly among the countries of Scandinavia, western Europe, and the Balkans. Its first accomplishments were the signing of a treaty for an Italo-French customs union in 1947, to have been brought into force by 1950, and a Greek-Turkish

[1] The treaty ending the customs annexation of the Saar to France was concluded with the Federal Republic of Germany in 1956. By this treaty the Saar was politically restored to Germany on June 1, 1957, and economically on July 5, 1959.

[2] On the basis of a new treaty of 1960, three of the signatories of the 1958 agreement—Guatemala, El Salvador and Honduras—have committed themselves to establish their full common market within five years.

declaration in 1947 to explore the possibility for a similar union. Neither proved successful, but they released the forces leading to the crowning achievement of the efforts for economic integration: the treaty signed in Rome on March 25, 1957, by France, Western Germany, and the three members of the Benelux Customs Union for the establishment of the largest common market ever to be set up by sovereign states.

It has often been said that customs unions or common markets are tools for the achievement of ultimate political union. History seems to indicate that, not always, but generally, the opposite is true. In the case of Germany or South Africa, political union resulted not so much because as in spite of customs union. For customs union gives the advantages of large markets *without* the need of political union. When the latter is sought nonetheless, it will as a rule be achieved as a result of political aspirations and by political means, such as military or economic warfare, and not by customs union. One of the few cases in which customs union has been used as a preparatory step toward political unification is the case of Moldavia and Wallachia, whose economic union (1847–1860) was established for the specific purpose of creating a common state: Romania. The only other case that comes to mind is the Thuringian customs union of 1833, which, with the collapse of the German monarchies in 1918, became the Thuringian state. Even in this case, however, the purpose of its original creation was not to form a political entity, but to facilitate, without prejudice to the sovereignty of its eleven members, their entry into the Zollverein by means of a single treaty. When families join in the electricity, elevator, water, and heating union of an apartment house, they do so for facilitating, not their joint, but their separate existence. And so it is when nations join in customs unions, although their benefits have all too often been shunned because of the unsubstantiated fear, based on historic misinterpretation, that this might endanger national independence. If the current Common Market ultimately gives way to the political union of its members, this will not be the work of the customs union, which makes their political union economically superfluous, but of their own desire for, rather than fear of, political union.

The following diagrams (Nos. 1–3) give a graphic presentation of the three most important historic common-market arrangements: the Zollverein, the Austrian Customs Union, and the South African Customs Union. Diagram 4 illustrates the history of the insignificant Holstein Customs Union, which is included to demonstrate how a common market can be organized across a most complicated political landscape without touching upon the structure of its sovereign states. The map summarizes the entire history of past, present and planned common markets that have been negotiated by means of formal international treaties (those currently in force being listed in the area of the Atlantic).[3]

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APPENDIX

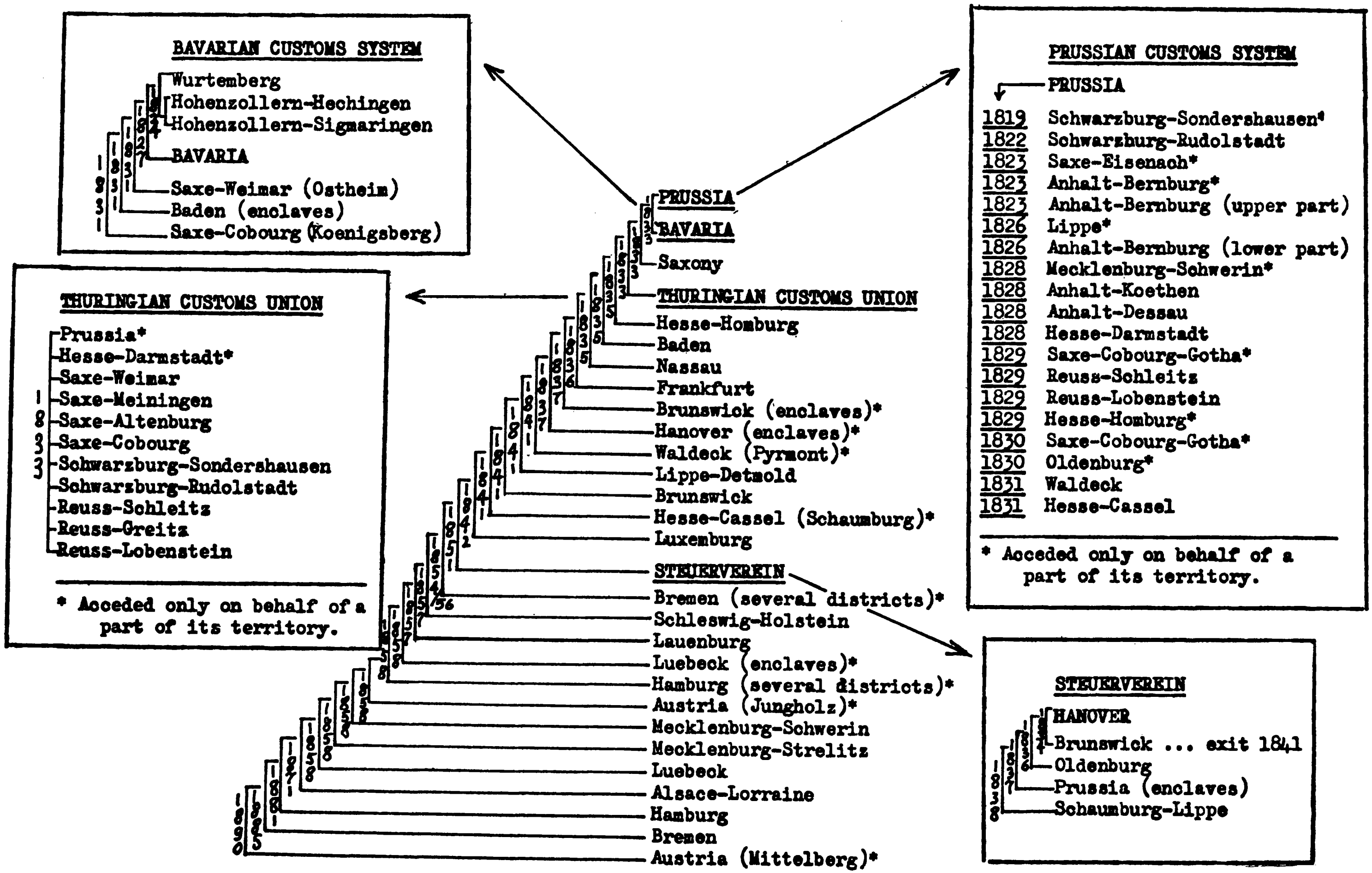
Diagram 1.

This diagram shows the contemporaneous development of the various German customs unions and their gradual absorption into the Zollverein. The years indicate the dates of the individual accession treaties, the union usually coming into effect the following year. Asterisks indicate accession by states only on behalf of territory mentioned in parenthesis. While the Prussian and Bavarian unions developed as separate systems (see the text above), the Thuringian Customs Union was organized solely for the purpose of facilitating the joint accession to the Zollverein of nine small states, and bits of territory of two others, by means of a single treaty. By contrast, the Steuerverein, under the leadership of Hanover, was created as a rival to the Zollverein, though it ultimately joined it in 1851. The other rival, the Central German Handelsverein, which was to have been established under the leadership of Saxony on the basis of a treaty of 1828, never came into existence. Based on the rather vague Article 19 of the Act of the Congress of Vienna on the Federal Constitution of Germany, the initiation and continuation of the Zollverein system required no fewer than ninety-two international treaties among its sovereign states. Fifty-eight of these treaties created customs unions, and thirty-four extended their duration, indicating not only the readiness of the member states to continue the advantages of economic union but also their insistence on continued political independence. Besides the customs union treaties proper, a host of subsidiary treaties had to be concluded to give content to the union, such as treaties for uni-

[3] For a complete list of documents relating to the establishment of customs unions from 1815 to 1949 see: Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950), pp. 141–69. A list of past and present unions up to 1949 is contained in Leopold Kohr, *Custom Unions, a Tool for Peace* (Washington: Foundation for Foreign Affairs, 1949). Both volumes contain documentary material and bibliographies compiled by the author of this article. The data in this article and the accompanying diagrams are based on research leading to these two publications. The years referred to are those of the conclusion of common market treaties, not of their entry into force, which in most cases took place the year following their signing. The treaty year, rather than the year of entry into force, has been chosen to facilitate quick location of basic documents.

Diagram 1

THE GERMAN ZOLLVEREIN



form tax, money, weight, and measure systems, for the prosecution of customs offenders, etc. The development of this unique treaty system, which created economic unity out of chaos solely through negotiation, covered the greater part of the nineteenth century. After the political unification of Germany in 1871, the customs union ceased to be an international treaty organization, giving way to economic unification by ***constitution.*** Only with Luxemburg and two small Austrian communities, which did not become part of the German Reich, was a treaty union maintained (with the two latter, until today). Though the members of the Zollverein retained their full sovereignty, it had two joint organs: a Customs Parliament acting as a legislature in economic matters, and the Bundesrat acting as its executive.

Diagram 2.

The development of the Austrian customs system was essentially the reverse of that of the ***Zollverein.*** Germany evolved from a commercial to a political unity, from a customs union based on treaties to a customs unification by constitution. In Austria the process was reversed. The monarchy had been a political unit for almost three hundred years before it became a common market by constitution in 1849. In 1867, however, the constitutionally established common market was replaced by a treaty-based customs union, which remained in effect until the dismemberment of the monarchy in 1918. An interesting feature of the Austrian customs union was its original tendency to expand towards Italy. In contrast to the Zollverein, it never developed joint organs such as a customs parliament. For the sake of completeness, the diagram shows also customs annexations by decree (in the case of territories under the political sovereignty of Austria). Only treaty unions constitute customs unions proper, being concluded by sovereign states without prejudice to their sovereignty (capitalized in diagram).

Diagram 3.

A primary feature of the South African customs union system is that it did not transform itself ***en bloc*** into a political union, thereby illustrating the separateness of economic and political unification movements. Only four of the original members formed a political union (1910), anchoring their previous treaty-based customs association in the constitution. The other members continued their customs union with the new state on a treaty basis, while the mandated territory of South-West Africa was joined by act of Parliament of 1921, after having previously been attached by proclamation of General Botha in 1915. Owing to the sparse settlement and

Diagram 2

THE AUSTRIAN CUSTOMS UNION SYSTEM

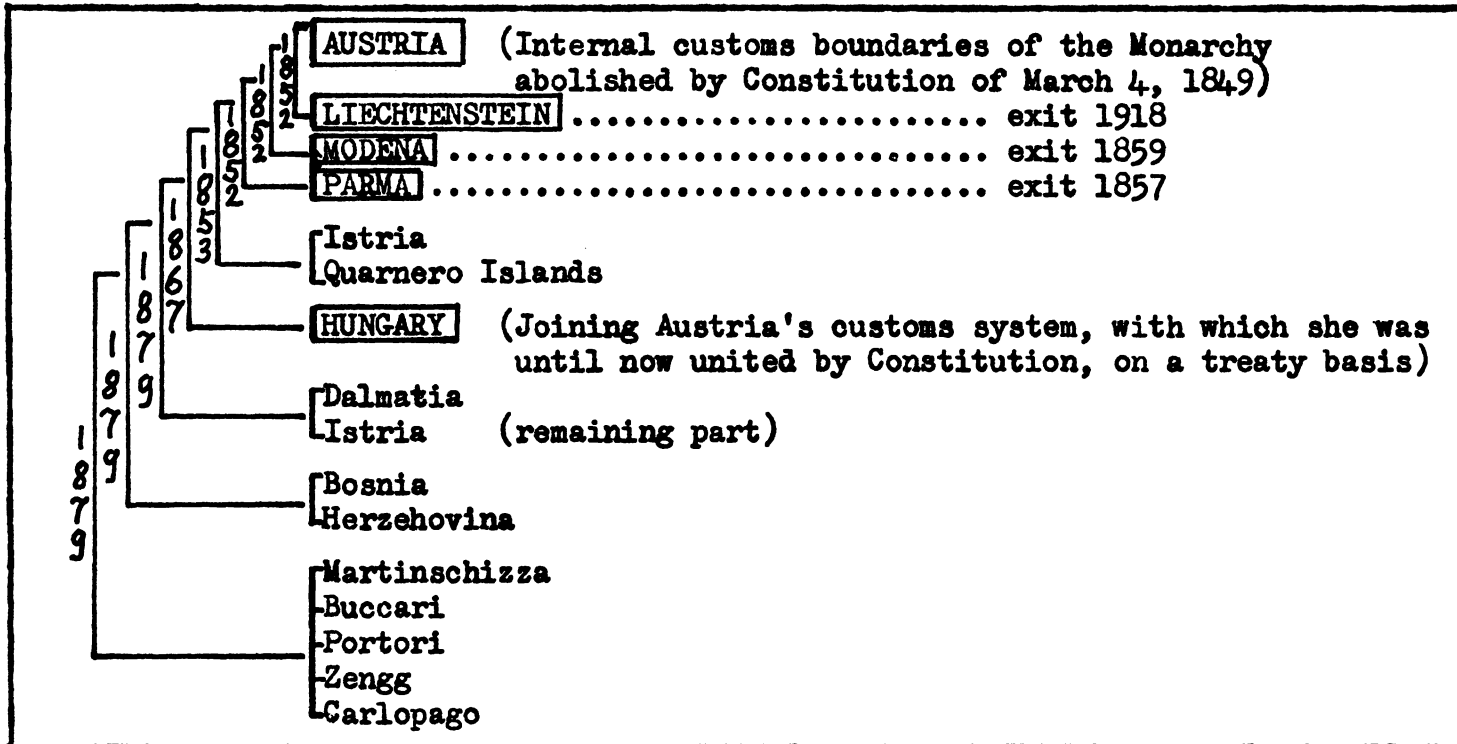
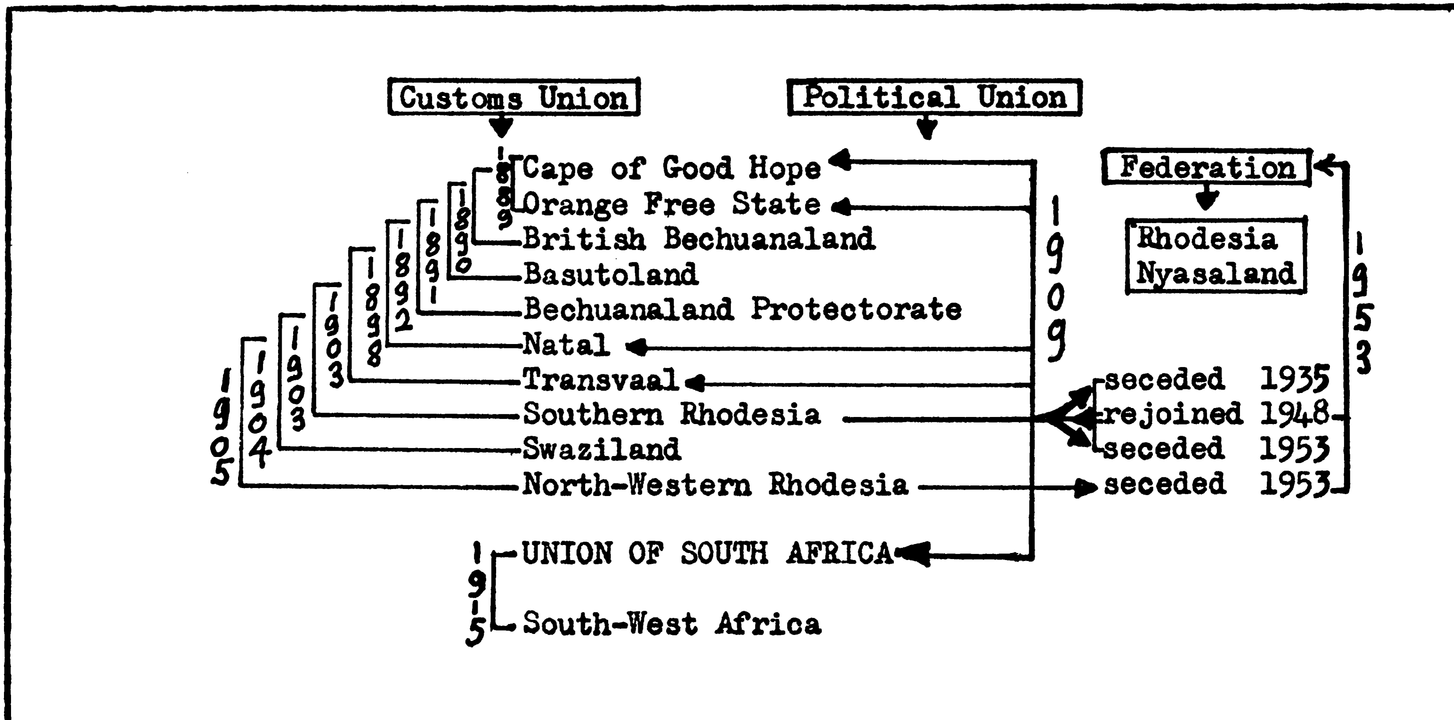


Diagram 3

THE SOUTH AFRICAN CUSTOMS UNION SYSTEM



spaciousness of the territories involved, the South African Customs Union is, compared with other such associations, a relatively loose structure. Its basis is not one mutilateral agreement, but a multitude of bilateral arrangements. The individual members negotiate separate treaties not only with the Union of South Africa but also with each other, so that each treaty series creates a number of customs unions. The trend toward centralization set in with an agreement of 1948. By this, Southern Rhodesia, which had canceled its customs union with the Union of South Africa in 1935 without, at the same time, canceling its common market arrangements with the other members of the customs union, not only prepared to resume full membership, but agreed to the establishment of a joint organ in the form of a Southern African Customs Union Council. Also the door was left open for extending the customs union to other African areas. The agreement of 1948 came, however, to an end with the formation in 1953 of the Federation of Rhodesia and Nyasaland, which concluded in 1955 a normal trade agreement with the Union of South Africa in the place of the previous customs union. The Southern African Customs Union Council ceased to function in 1953.

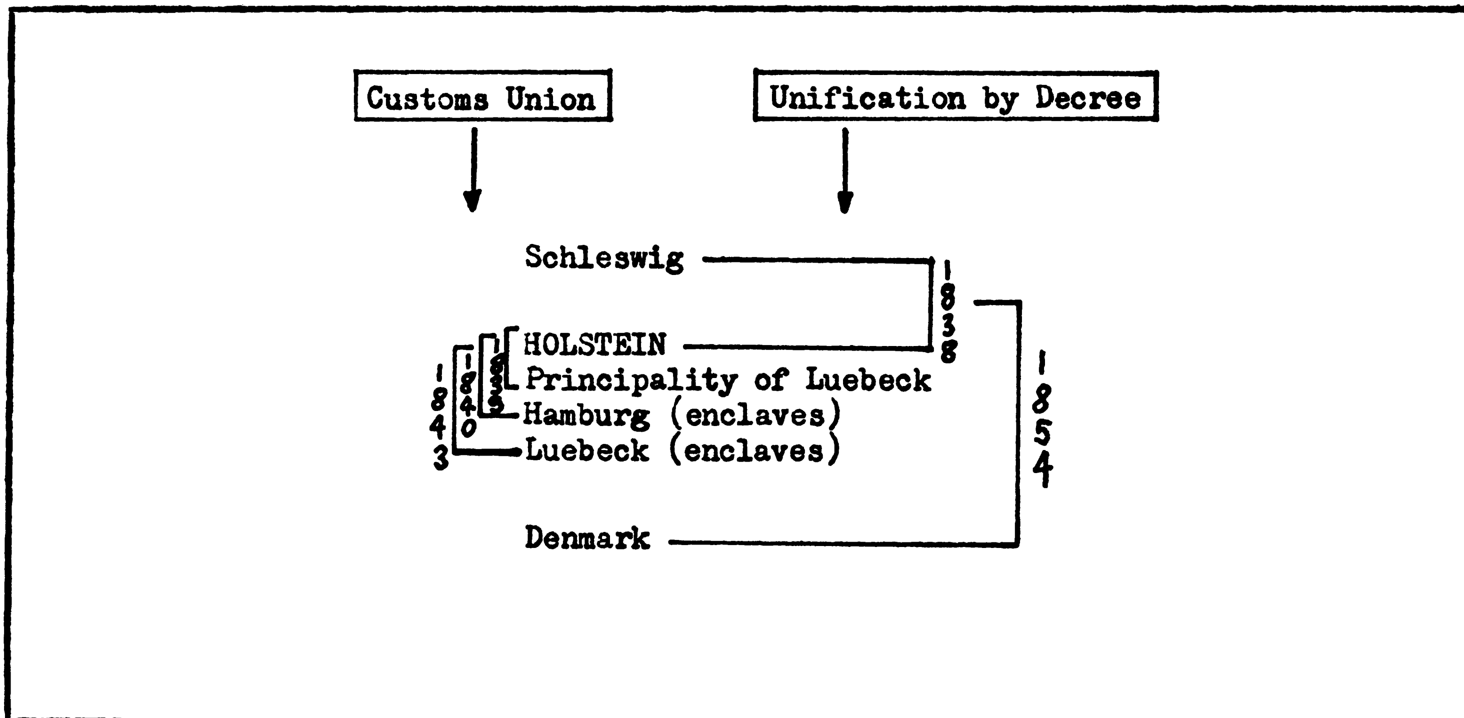
Diagram 4.

The customs union between Schleswig and Holstein united an area whose pattern of economic and political division could not have been more complicated. Dynastically, the two states had been united in an "indissoluble union" since the Charter of Rive of 1460, after both had elected Christian I of Denmark as their duke. In the face of third parties, however, they retained their separate sovereignty. Schleswig remained part, not of Denmark, but of the Danish Crown, and Holstein of the Holy Roman Empire and, after its collapse, of the German Confederation. In his capacity as Duke of Holstein, the Danish king was thus at the same time a German sovereign. The common market between the two duchies was established by a Danish decree of May 1, 1838, which specified that the "State boundary of Our Duchies shall, at the same time, constitute the Customs boundary adjoining foreign states." The same decree instituted free trade in domestic products with Denmark, and although some intermediary customs boundaries were for a time maintained, the three dominions of the Danish Crown formed henceforth a common market whose administrative center was Copenhagen.

The occupation of Holstein by the German Confederation led to the establishment of a customs boundary between the two duchies in 1850. In a Manifesto of the king of Denmark of January 1852, however, provision was made for the restoration of a common market in the Danish Monarchy

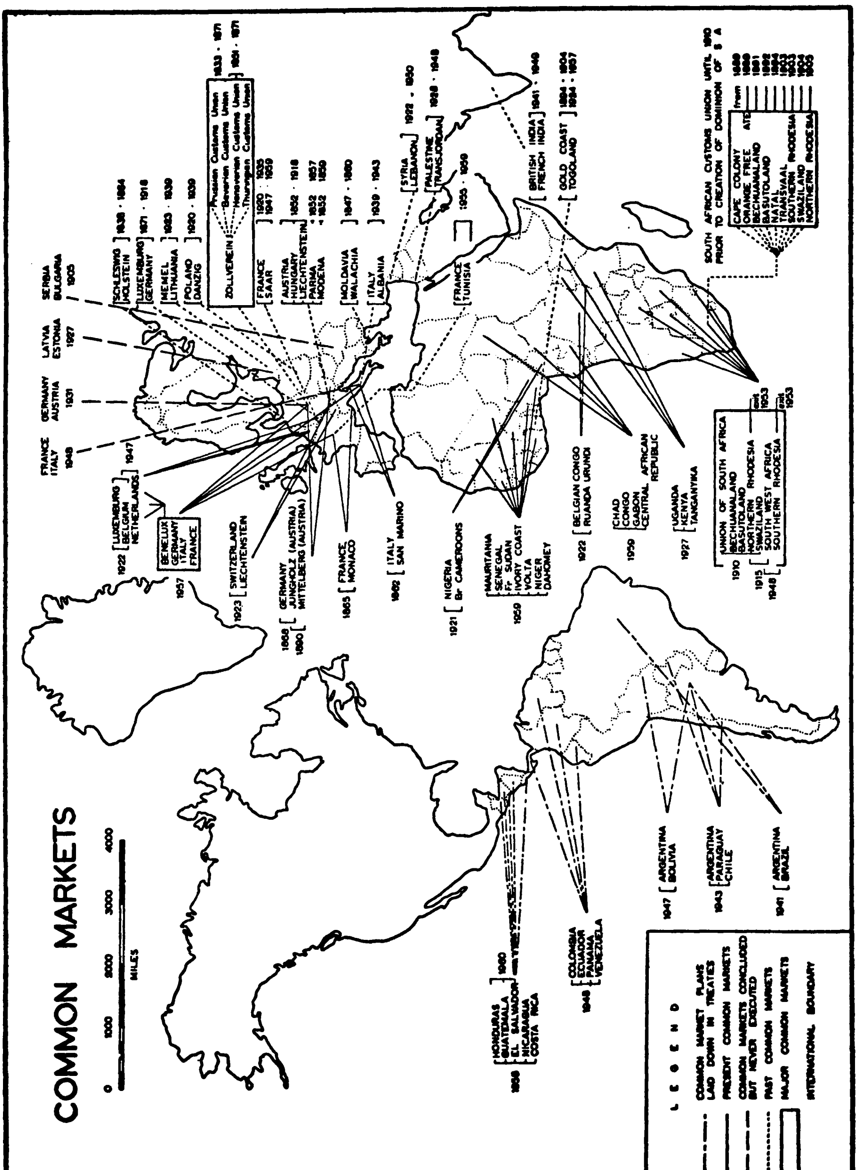
Diagram 4

THE HOLSTEIN CUSTOMS UNION



Common Markets Map

Entries at left represent common market plans laid down in formal treaties; in the center: the currently existing common markets; at the top: common markets formally negotiated but never brought to execution; at the right: past customs unions.



"as soon as Our sovereignty is again completely established in Our Duchy of Holstein." After the return of peaceful conditions, the decrees to that effect were issued in 1853 and 1854. Aside from this internal customs unification with the Danish monarchy by decree, the common market, as pictured in the diagram, was extended by treaty, leading to the establishment of the so-called *Holstein Customs Union.* Through this, the Principality of Lübeck as well as several enclaves of the Hanseatic city-republics of Hamburg and Lübeck were attached to the local customs system of Holstein, and indirectly to the general Danish customs system. Insignificant as this little union was, it demonstrated the effectiveness of customs union as a tool in overcoming even the most complex pattern of political division.