



Creation of a Customs Union: Proposal of the Hague Congress and its Recent Impact toward the Integration of the European Union

Shalva KHUPHENIA¹, Ignas DZEMYDA²

¹*Institute of European Studies, Tbilisi State University, address: Ilia Chavchavadze Ave. #1, 0179, Tbilisi Georgia*

E-mail: shalvakhuphenia@gmail.com

²*Vilnius Gediminas Technical University, Sauletekio al. #11, 10223, Vilnius Lithuania*

E-mail: ignas.dzemyda@vgtu.lt

Abstract

Since the early 1920s the idea of European integration has been a main question of debate among European intellectuals and policy makers. The concept could be drawn back to the middle ages. However, in this article is discussed period after the Second World War, specifically, main consequences of Hague Congress and its recent impulse toward the European Union integration. The Hague Congress which was held in 1948 proposed the creation of a European Assembly (later Council of Europe) and a customs and economic union (later European Coal and Steel Community). However, in the article will be avoided discussion about European Assembly, as it will be dedicated to the critical analyze of the issue of the customs and economic union.

Key words: Integration, intergovernmental, supranational, cooperation, unity, free trade, protection, progress.

Introduction

Many deep scars were left after the war in Europe. This included not only the eradication of a large part of the economy, population and production potential, but existence of foreign military troops in many countries. It was urgent to think about recovery from this situation for whole continent. Minds were open to radical change. The urgency of some form of European integration in a new way of thinking to regain the European political map became obvious. Three matters evinced the necessity of this new direction towards the European integration: Firstly, the Europeans alertness of their own weakness. WW2 had put a clear end to the traditional European world hegemony. The two new superpowers, the Soviet Union and the United States of America had a very preferable strong political, economic and military might than the progressive group of European countries. Secondly, the view, that it was crucial important to avoid, by all possible power, coming back to a contest or crisis among European countries. Both World Wars had started as civil wars in Europe and the continent of Europe had been the main bloodshed field in both. Actually, it was a main issue and question of seeking a compromise between Germany and France, an accommodation that would be ratified by the United State of America. The European integration will be the only way to guarantee peace and development. Thirdly, the continued will of European citizens to create a fairer, freer and wealthier territory in which the international relationships were based of cooperation. The first step to economic unification was congress which was held in Hague, in 1948, 7-11 May, with 750 delegates from around Europe and observers from United States of America and Canada. The congress gathered together policymakers of European political spectrum and gave them opportunity to present ideas about the creation and development of European political and economic cooperation. In The Hague congress was made first proposal about creation of Economic and customs union, which made huge step forward to the political and economic cooperation and has colossal impact toward the recent European Union integration. However, it has advantages and disadvantages also, which will be discussed and criticize below.

Literature review

The principle of integration of products markets is relatively recent (Machlup, 1977). It is based on international trade theory. Classical economists occupied themselves quite frequently with the problems of free trade (Ricardo) and also with preferential trade agreements. International economic integration only became a separate object of economic thinking after the Second World War (Viner, 1950). Since then, the literature on subject has accumulated, not least because the post-war integration process greatly stimulated profound theoretical studies (Tovias, 1991) From a geographical perspective the European Union is by no means a clear-cut entity (Mamadouh and van der Wusten, 2008). Yet the promise of the EU arguably lies not just in the creation a larger-scale social and political-economic space. As this vision appears to be in considerable trouble at the moment, the EU offers the possibility of overcoming some of the territorial rigidities of the modern state system (Murphy, 2008). The integration of the continent, necessary for an apparently 'banal' social-economic reason of post-war reconstruction under the US 'supervision' first and economic globalisation later on (Bufon, 2006). "The attempts to build up European elite with a program of intra-European understanding based on the common experience of the consecration camps have foundered in much the same manner as the attempts following the First World War to draw political conclusions from the international experiences of the front generations. In both cases it turned out that the experiences themselves could communicate no more than nihilistic banalities" (Arendt, 1951) Thus the integration, did not follow common patterns of internal standardization: the challenge for present Europe is to perform a social, economic, and political integration maintaining cultural diversities, and accordingly to offer after three centuries a new civilization model to the world (Bufon, 2006). The concepts of cultural identity and all the relics, prejudices, distrust, fears and old historical injustices are still making great influence in integration processes of European Union. These prejudices and historical injustices were often deliberately wheeled out by the political elite for the purpose of maintaining political power and uniting the nation in the face of external threats etc. (Leska, 2012). European people still exist within boundaries of the nation-states, where they bound themselves with cultural identity and prejudices, that comes from historical perspective. Quenzel and Albert (2008) indicates a declining euphoria about the further transmission of sovereign national rights to the European Union among young people and find a growing skepticism against further EU enlargement. Johnson (2012) outlines, that Europe has come to form the boundaries around webs of significance, and the idea of "Europe" is itself a shared mediating orientation. Perhaps the answer to creating a cultural space that is not xenophobic lies in turning inward, in searching within the cultural space of Europe to find ways for culture and identity to be linked to the self and to humanity, rather than to territory or borders (Johnson, 2012)

The political integration process formally establishing a European level in the system of governance within the European state system has nonetheless moved forward for more than a half century incorporating this increasing collection of member states (Mamadouh and van der Wusten, 2008).

Research Methods

The research methods of the article are based on the theory of neo-institutionalist history. Rowlinson and Hassard (2013) highlights, that the first contribution of neo-institutionalist history would be to provide a more rigorous approach to historical research, ensuring that it conforms to the standards of source criticism and verification that are generally accepted by historians; the second contribution would be to highlight the potential for research using the kind of documentary primary sources that historians are familiar with; the third contribution of neo-institutionalist history would be to shift the emphasis away from importing historical data and towards exporting theory to history. The "new institutionalism", and in particular, the branch of the new institutionalism known as "historical institutionalism" has not only influenced the study of West European politics, but indeed, in some respects, this approach emerged out of the study of West European politics itself (Immergut and Anderson, 2008). It is remarkable that the political science theory of historical institutionalism, which is best known for its studies of macro-historical radical and revolutionary changes and for concepts like "path dependency" (Kickert and van der Meer, 2011).

"Path dependence" offers a useful tool to pursue this objective, given its core socio- historical construction (Robertson, McIntosh, Dmyth, 2010) Path dependence is that it is a process whereby what happened at an earlier point in time affects the outcomes of a sequence of events later on (Sewell, 2010). The basic conception is that historic events or accidents – critical junctures – then act on the dynamic process of history, limiting future opportunities for alternative courses of action (Robertson, McIntosh, Dmyth, 2010). Path dependencies are shaped by "lock-in" effects which shoehorn communities into positive or negative pathways of change (Wilson, 2014). Kuipers (2009) claims that path dependency is not just the notion that "history matters"; rather, path

dependency theory explains how institutions and public policy get increasingly consolidated, protected and legitimated by the elites governing a policy sector, and that precisely this rigidity precludes inevitable large-scale reform.

Interdependence of states

The issue of interdependence of states was very important as it was the start of economic cooperation and integration in post-war period. The impact of modernization is generally agreed to be a main point for this. "It has broadened the international agenda from its traditional power and security concerns to embrace a range of economic and social issues, and at the same time it has produced an interconnectedness between states and interrelatedness between states, especially in the economic and monetary spheres, that amounts to and interdependence" (Nugent N. , *The Governments and Politics of the European Union*, 1994) Within Western European countries there have been many regional aspects to this development of interdependence, two from this dimensions have been specifically important. First, "all significant Western European countries have, since the Second World War, seen their external trade become increasingly West European focused. The EC/EU "has played an important - although - by no means a sole - role in encouraging this trend: a trend which has produced situation today whereby all EU member states and potential member states conduct at least 50 per cent of their trade inside the European Union. Second: monetary power" (Nugent N. , 1994).

As a consequence and result of interdependence a wide variety of financial and economic issues can thus no longer be limited to, national barriers. States are more and more sensitive to outside events and are increasingly unable to act in policy of isolation. They must have cooperation; have consultation and some would dispute integrate with one another in the interest of international and national economic growth and stability. And this was the main purpose of proposal of Hague Congress, creation of a customs and economic union. European countries had to prepare jointly a reconstruction programme.

To European economic unity:

A limited set of states pushed toward further integration. "That political aim was to be achieved, not through unrealistic plans for complete political union, but through a strategy of gradual integration of certain functions" (Mitrany, 1966). These could then later be followed by other functions. The first function chosen was of an economic nature, "which seemed the most practical and very good economic reasons were pushing in that direction" (Molle, 2006). This was necessary to be guided and accompanied by the creation of institutions in order to guarantee the endurance of the integration strategy. There have been disputes about the degree of which national governments needed to transfer powers to this organization, between advocates of two main concepts:

- Firstly, "an intergovernmental organization, where the representatives of the national governments take decisions by unanimity.
- A second, supranational organization, with an organ independently executes policies and prepares decisions. Where the representatives of national governments may take decisions by majority rule" (Molle, 2006).

Joining together the German and French main industries under the High Authority was based on a supranational and functional approach. The course Europe took at that moment towards economic and political integration has followed since, consisted in the creation of a factual solidarity based in practical realizations. What were the main reasons for this success, where other attempts could not achieve? What were the main consequences of this success? The issue will be discussed below. Moreover "the basis for further integration had been enlarged as the social differences among European countries had gradually become less outspoken, a development that gained momentum in the post-war decades" (Kaelble, 1986).

Economic integration of Europe, on the one hand, has been not so much an objective as a by-product of technological progress and on the other, aspirations to political unity. Economic and technical factors were the principal stimulus to progressive economic integration. Not only integration fact make progress, it can also once achieved, be reversed. We should all agree that, integration of goods and factor markets and of monetary and macro-economic policy making is most effective in a strong institutional settings and under strict rules.

Research Results: Customs Union theory and its implementations

One of the main consequences of Hague congress, which could be taken into the consideration, is born of the customs union theory and then its implementation. Below will be discussed legal analysis of customs union theory and structure. The customs union represents a special case of internal free trade and external protection. “20th century gave rise to a theoretical debate on the advantages and disadvantages of protection; still the subject of economic integration remained embedded in a more general economic analysis” (Molle, 1997). And as we mentioned before, only after the World War Two it become independent subject of Economic study. So, to provide the analysis of the effects of a customs union, this part of the article dedicates to clarify it.

Free trade VS protection

The theory of international trade has developed broadly from the comparably elementary case of two countries: Let’s take an example A and B countries, each produce two products x and y, with two production factors: Labor (l) and capital (c). The availability of production factors is different in two countries, which implies different production costs. The figure 4.1 (advantages of international trade) represents the situation in both countries: A and B.

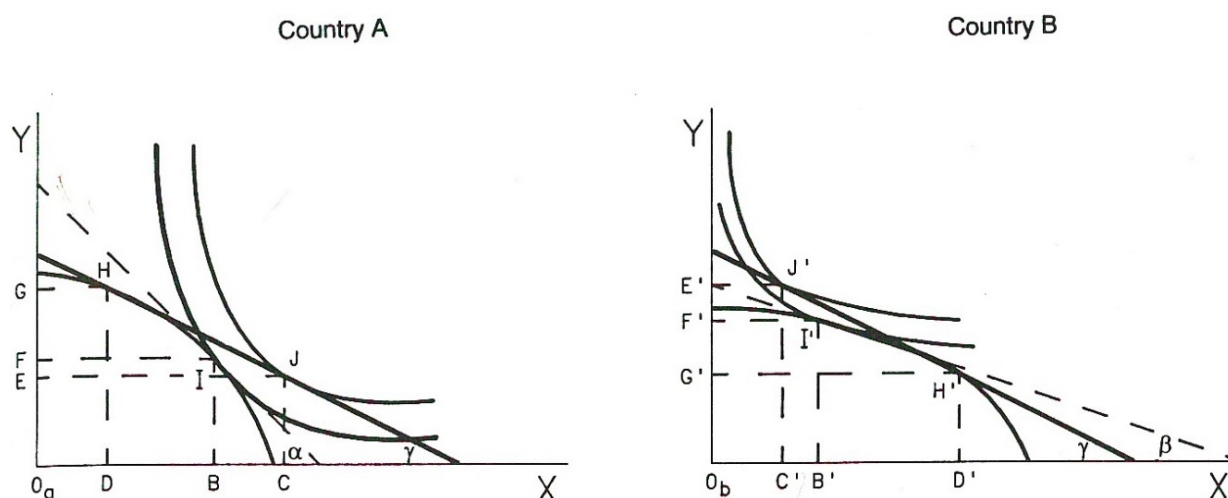


Fig. 1. Advantages of International trade
Source: (Molle, 1997)

The concave curves are the so called “production possibility”, “reproducing for either country the combined quantities of goods x and y that can be produced with the available quantities of production factors. The curves are different for the two countries owing of two differences in availability of production factors and technology. The convex curves are the indifference curves of the collective consumers in either country. They represent the combinations of goods x and y that yield equal utility. Let’s consider that indifference curves of the two countries are dissimilar. In either country, production and consumption will take place where the indifference and transformation curves touch. The price ratios of the goods, given by the tangents α and β are evidently different for the two countries” (Molle, 1997)

Let’s suppose two countries started trade relations, “each country specializing in the production of that commodity for which it needs the smallest relative input of production factors. Specialization will be continuing until the price ratios in both countries have become identical. In country A production will shift from point I to point H owing to more of y and less of x being produced and in country B from I to point H because production shifts from y to x. Such trade increases welfare follows from the indifference curves” (Molle, 1997). Because of the changed price ratios and trade two curves does not need any more to have a touching point in both countries and more, country can reach a higher indifference curve touching the common price ratio tangent γ. It is possible already to indicate each country’s trade and production: “In country A a quantity equal to OaD of good x will be produced domestically and a quantity equal to DC imported. Of good y, a quantity OaG will be produced of which OE will be consumed domestically and EG exported (Molle, 2006). In country B the situation will be contrary: “once the frontiers have been opened, a quantity equal to ObD will be produced and only ObC

consumed a good x , so that CD could be exported, while a good y , OG is produced and OE consumed, so that GE must be imported (Molle, 1997).

There is question: What are the essential advantages and disadvantages consequent from the customs union and the tariff? On the one hand trade deviation contributes to make production less rational, which is obviously disadvantage. On the other hand, “trade creation and trade expansion” (Molle, 2006) make products more valuable which is advantage. To have a clear idea of the significance of the effects, take a look for figure 4.2, starting from protectionism. Let’s consider that the price for the customs union is P_{cu} .

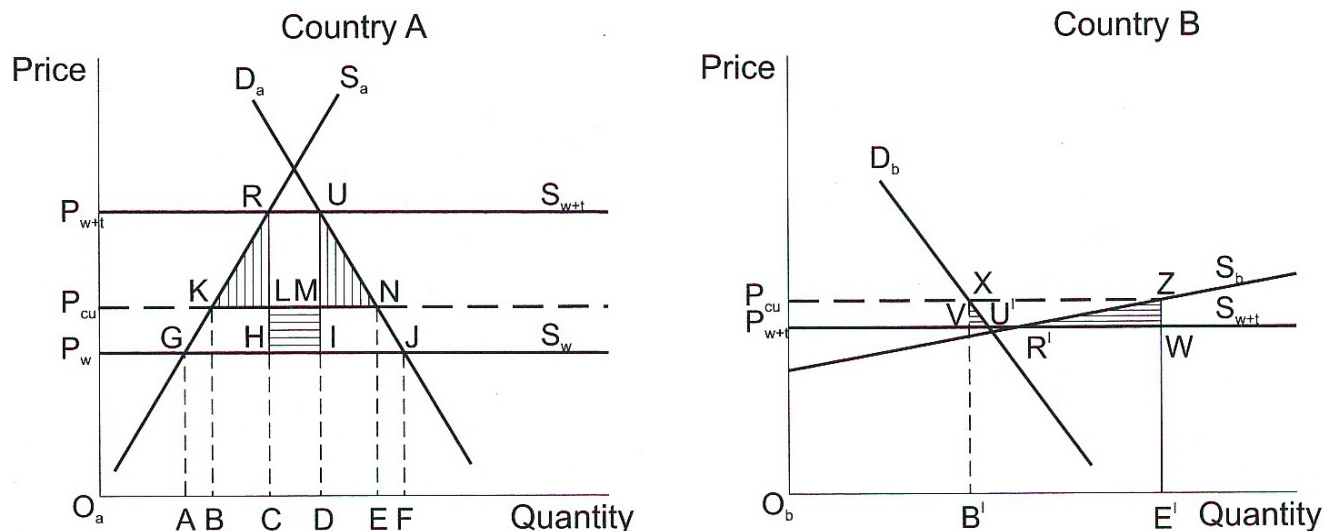


Fig. 2. Welfare effects of a customs union
Source: (Molle, 2006)

We see in the country A , that “advantages of the production side (BC) are represented by the triangle KRL . This indicates that the saving on production costs equals, on average, half the difference in costs between home production and that in country B ($P_{w+t} - P_{cu}$), leaving economic resources available for other purposes. On the consumption side (trade expansion equals to DE) the advantages are represented by the triangle MUN . The disadvantages for country A are represented by the square HLM . For the amount of trade equal to CD , which has been diverted, production inputs have been higher than necessary. In this example the creation of a customs union produces a net advantage for country A .

In the country B , “the disadvantages are on the consumer as well as the producer side. The consumer gets less quantity for more money, his loss is indicated by the horizontally shaded little triangle VXU . On the producer side, there is a production loss indicated by the horizontally shaded triangle $R'ZW$. The producer in B will enjoy a net gain (Molle, 2006). The effects of custom unions union between A and B countries could be better examined by making a contrast between trade creation, trade diversion and trade expansion:

- *Trade creation* “will occur when trade between partners A and B increases. I country A demand will shift from the expensive protected domestic product to the cheaper product from the partner country, implying a shift from a less efficient to a more efficient producer” (Molle, 1997)
- *Trade diversion* “will occur when imports from the efficient or cheap producer “world market” are replaced by imports from a higher-cost producer, namely, “the partner country”. That country’s products can be sold more cheaply in country A than World market production, because the Customs Union imposes a protective tariff on imports from World, while leaving imports from the partner country free” (Viner, 1950).
- *Trade expansion* “will occur because the lower market price in A stimulates total domestic demand, which will be satisfied by foreign trade” (Meade, 1955).

It should be mentioned here, that above presented examples have a several limitations. Firstly, they assign only to single product. To explore the economic appeal of a customs union by its stagnant effects, the losses and profits for total products concerned need to be calculated, under consideration of the definite circumstances achievable for each. Second, they treat only tariffs. The welfare and production effects of non-tariff barriers

contrast from those of tariffs, however are quantitatively at least as influential. “Analysis based on mathematical models shows that regional integration unambiguously benefits the member countries and hurts the outside country” (Olofsdotter and Torstensson, 1998)

Several aspects effects the circumstance of positive and negative effects of a customs union and would be helpful to analyze some and main of them. The production structure – “two countries can be complementary or competitive. If one country is a potential competitor of the other, specialization along lines the inter-industry trade is probable and the advantages of the customs union are likely to be important. With complementary production structures the advantages of a customs union cannot be very important” (Viner, 1950). The size of the union – “the more numerous and the larger the countries participating in a customs union, the larger its share in total world trade, the better the prospects for division of labor and the smaller the risk of trade diversion” (Tinbergen, 1959). Next factor could be the level of the tariffs – “as the initial tariffs of the trade partners are higher, the attendant inefficiencies will be worse and the welfare effects of the abolition tariffs greater. On the other hand, the introduction of high common external tariffs against third countries will reduce the positive effect” (Meade, 1955). Transport and transaction cost – “the increased trade has to be realized physically, for which efficient transport is required. Failing that, the transport cost will replace the tariffs as an obstacle to further specialization. For that reason, customs unions tend to be concluded between contiguous countries” (Balassa, 1961). The last one is flexibility – “the advantages are smaller if production bottlenecks prevent the full accomplishment of advanced specialization and the corresponding reallocation of production” (Molle, 2006).

Conclusions

European integration has always been considered as a political event with main purpose, prevent the war between states. Share this “sweet fruit” with the newly emerged democratic countries in central and Eastern Europe. However, while the ambitions were always political, the instrument and mean were always economic. Implementation of customs union 1958-68, arouses discriminatory effects that prompted reaction in the non-member states. Economic integration of the economies of European Union member states through the collective exchange of goods has enormously increased over the past decades, quite more than the exchange with third countries. Specialization took the model not so much to each member country focusing on a definite sector, but of specialization within sectors. Where the European Union was externally accessible, the welfare effects were positive; when union was externally preserved the effects were negative. Integration has led to only defined and narrow static welfare effects; the enormous advantages came from its dynamic effects. However, if it is declared that EU’s goal is not to cause loss of national sovereignty, then it is understandable what the EU tries to achieve. The European Union established the customs union that is extensive, wide and which is getting wider; created some other institutions, like is single currency within the Eurozone; taxation and foreign policy. Once those are absent from the national level, so is sovereignty. It means that members have lost their national sovereignty.

References

- Altomonte, C. and Nava, M. (2005). *Economics and Policies of an Enlarged Europe*. Cheltenham: Edward Elgar.
- Artis, M. and Nixon, F. (2007). *The Economics of The European Union (fourth edition)*. New York: Oxford University Press.
- Brent F. Nelsen & Alexander Stubb. (2003). *The European Union (third edition)*. London: Palgrave Macmillan.
- Cini, M. (2003). *European Union Politics*. New York: Oxford University Press.
- Cini, M. (2007). *European Union Politics (second edition)*. New York: Oxford University Press.
- Dinan, D. (2004). *Europe Recast*. London: Palgrave Macmillan.
- Dobrinsky, R. and Landesmann M. (1995). *Transforming Economies and European Integration*. Hants: Edward Elgar.
- Eeckhout, P. (2005). *External Relations of the European Union*. Oxford University Press Inc.; New York.
- Elizabeth Bomberg and Alexander Stubb. (n.d.). *The European Union: How Does It Work?*.
- El-Agraa, A. (1994). *The Economics of the European Union*. Hertfordshire: Harvester Wheatshead.
- Harrop, J. (2000). *The Political Economy of Integration in The European Union (third edition)*. Cheltenham: Edward Elgar.
- Hyland, S. H. (2011). *The Political System of the European Union*. Palgrave Macmillan.
- Immergut, E. M., Anderson, K. M. (2008) *Historical Institutionalism and West European Politics*, West European Politics, 31:1-2, 345-369, DOI: 10.1080/01402380701835165
- Jones, E. (2002). *The Politics of Economic and Monetary Union*. Oxford: Rowman & Littlefield Publishers.
- Jones, R. (2001). *The Politics and Economics of The European Union (second edition)*. Cheltenham: Edward Elgar.
- Jovanovic, M. N. (2005). *The Economics of European Integration*. Cheltenham: Edward Elgar publishing
- Johnson, L. S. (2012). *The Integration of the European Union and the Changing Cultural Space of Europe: Xenophobia and Webs of Significance*. International Journal for the Semiotics of Law. 25:211–224. DOI 10.1007/s11196-010-9187-4

- Kickert, W. J. M., van der Meer, F. (2011) *Small, Slow, and Gradual Reform: What can Historical Institutionalism Teach us?*, International Journal of Public Administration, 34:8, 475-485, DOI 10.1080/01900692.2011.583768
- Kuipers, S. (2009) *Paths of the Past or the Road Ahead? Path Dependency and Policy Change in Two Continental European Welfare States*, Journal of Comparative Policy Analysis: Research and Practice, 11:2, 163-180, DOI: 10.1080/13876980902887998
- Leška, D. (2012). *Politics in an era of globalisation and European Union integration*. Human affairs, 22, 89–99. DOI: 10.2478/s13374-012-0009-0
- Mamadouh, V., van der Wusten, H.(2008) *The European level in EU governance: territory, authority and trans-scalar networks*. *GeoJournal* 72:19–31. DOI 10.1007/s10708-008-9162-8
- Müller-Härlin, M. (2003). *The Political Reconstruction of National and European Identity in France and Germany after the Second World War*. *Dialectical Anthropology* 27: 269–278, 2003.
- Murphy, J. B. (2008) *Rethinking multi-level governance in a changing European union: why metageography and territoriality matter*. *GeoJournal* 72:7–18. DOI 10.1007/s10708-008-9161-9
- Mayhew, A. (1998). *Recreating Europe*. Cambridge: Cambridge University press.
- Michelle Cini and Nieves Perez-Solorzano Borrigan . (2010). *European Union Politics*. New York: Oxford University Press.
- Mike Artis and Norman Lee. (1997). *The Economics of the European Union*. New York: Oxford University Press .
- Milward, A. S. and Sorensen, V. (1993) *Interdependence of Integration? A Natural Choice*, in: Milward et al. (eds), *The Frontier of National Sovereignty: History and theory 1945 – 1992*, London and New York.
- Molle, W. (1997). *The Economics of European Union (third edition)*. Vermont: Ashgate.
- Molle, W. (2006). *The Economics of European Union*. Burlington: Ashgate.
- Nugent, N. (1994). *The Government and Politics of the European Union (third edition)* . London: The Macmillan Press.
- Nugent, N. (1994). *The Governments and Politics of the European Union*. London: The Macmillan Press
- Richard Baldwin & Charles Wyplosz. (2006). *The Economics of European Integration (second edition)*. New York: McGraw-Hill Education.
- Richard Baldwin & Charles Wyplosz. (2009). *The Economics of European Integration (third edition)*. New York: McGraw-Hill Education.
- Rosamond, B. (2000). *Theories of European Integration*. Palgrave Macmillan.
- Rowlinson M., Hassard, J. S. (2013) *Historical neo-institutionalism or neo-institutionalist history?* Historical research in management and organization studies, *Management & Organizational History*, 8:2, 111-126.
- Robertson, D., McIntosh, I., Smyth, J. (2010) *Neighbourhood Identity: The Path Dependency of Class and Place, Housing, Theory and Society*, 27:3, 258-273. DOI: 10.1080/14036090903326429
- Scharpf, F. W. (1988). *The Joint-Decision Trap. Lessons From German Federalism and European Integration*. *Public Administration*, No. 2, Vol. 66, pp. 239–78
- Scmitter, P. (1996). *Some alternative futures for the European Polity and their implications for European public policy*, in Y. Meny, P. Muller and J.-L. Quermonne (eds), *Adjusting to Europe: The Impact of the European Union on National Institutions and policies*, London
- Sewell, W., (2005) *Logics of History: Social Theory and Social Transformation*. Chicago: Chicago University Press
- Sweet, A. S. (2004). *The Judicial Construction of Europe*. Oxford University Press.
- Tsoukalis, L. (1993). *The New European Economy (Second edition)*. New York: Oxford University Press.
- Quenzel, G., Albert, M. (2008). *Youth culture and European integration in Germany: back to European basics?* *Asia Europe Journal*. 5 (4), pp 529-540. DOI 10.1007/s10308-007-0146-y
- Vesnic-Alujevic, L., Nacarino, R. C. *The EU and its democratic deficit: problems and (possible) solutions*. *European View* (2012) 11:63–70. DOI 10.1007/s12290-012-0213-7
- Wilson, G. A. (2014) *Community resilience: path dependency, lock-in effects and transitional ruptures*. *Journal of Environmental Planning and Management*, 57:1, 1-26, DOI: 10.1080/09640568.2012.741519
- Wells, S. B. (2007). *Pioneers of European Integration and Peace, 1945-1963: A Brief History with Documents (Bedford Series in History & Culture)*.