

C'est là le dilemme de l'Europe ...: comment intégrer des economies collectives, qui ne songent pas à se liberaliser...

Racine (1954, p. 9).

Coal and Steel: First Steps in European Market Integration

Introduction

The European Coal and Steel Community was a precursor of the European Economic Community and, therefore, of the European Union. In a formal sense, the ECSC existed from July 1952 to July 2002, and the rules it lay down for European coal and steel were in force throughout that period. Much of the distinct institutional role of the ECSC came to an end, however, in July 1967, when the ECSC, Euratom, and the EEC were merged and the European Commission assumed the powers and obligations of the ECSC's executive branch, the High Authority.

The 15 years of the independent existence of the ECSC are rich in lessons that illustrate the limits that markets impose on the nature of government policy.

Some of those lessons are primarily economic: markets work, and the way they work reflects the interaction of both the demand and the supply sides of the market. Policy that is developed with a primary focus on the supply side alone is likely not to accomplish its purposes.

In a market economy, it is the business of business to make as large an economic profit as possible; it is the business of government to ensure that the free play of rivalry among competitors keeps this greatest possible economic profit as small as possible over the long run. In any market, even a perfectly competitive one¹, there is no reason to

¹ For a precise definition of a perfectly competitive market, see any introductory economics textbook. Currency markets may be the best real-world example of a perfectly competitive market. Many agricultural markets have structures that would permit them to be perfectly competitive, but government policy generally prevents the forces of competition from having their full effect.

expect that economic profit will be low over any short-run particular period. Indeed, short-run profits and losses serve a valuable function in a market economy. Profits attract new resources into a sector, losses drive them out. Such resource reallocations are essential to the smooth functioning of a market economy. They guarantee that if a market is perfectly competitive, in the long run price will just cover the cost of production and allow only a normal rate of return on investment. If a market is imperfectly competitive, the flow of resources into or out of a market guarantees that in the long run price will be so low that it is not profitable for an additional supplier to come into the market. Policy that takes it for granted that price should equal cost plus a normal rate of return on investment over every short-run period will not work, because that is not the way real-world markets work. Policy that aims to keep resources in or out of a sector aims to prevent the market mechanism from guiding the allocation of resources throughout the economy. Such policies will be expensive, either directly in the form of higher taxes or indirectly in the form of poor market performance.

Other lessons from the ECSC are more political economy than economics. They have as a common element that governments are reluctant to accept the limits that markets impose on their policy options.² An early European leader, Canute the Great, commanded the tide to retreat as a way of demonstrating to his courtiers that all power has limits, and that the effective exercise of power must take those limits into account. ECSC Member State governments sometimes appeared to want to promote market integration while commanding the market to retreat, and it did not work.

² The governments of EU Member States are by no means unique in this regard.

The Schuman Plan

The European Coal and Steel Community arose out of what is known as the Schuman Plan, after French foreign Minister Robert Schuman. The Schuman Plan was first outlined by Jean Monnet, the manager of postwar French economic planning, and a circle of close collaborators, in mid-April 1950. Monnet solicited Schuman's support, and Schuman announced the Plan to the world a mere three weeks later, early in the evening of the same day that it had been approved by the French government (Monnet, 1976, pp. 349-360). A pregnant nine months of negotiations followed, with final details settled in a week-long conference that delivered the Treaty of Paris, on 18 April 1951. The Treaty established the European Coal and Steel Community, which came into effect on 25 July 1952 for a period of 50 years. It also created an institutional framework to manage the integrated the coal and steel markets³ of the six Member States, Benelux, France, Germany, and Italy.

Why *Market* Integration?

The Schuman Plan embraced the strategy of pursuing European integration by way of market integration. If the means of the Schuman Plan were microeconomic, the goals were political (Schuman, 1953, p. 272):⁴

Mais à travers ces perspectives d'ordre économique ..., nous avons surtout eu en vue les avantages immédiatement atteints dans le domaine politique. Conclure une union durable et contrôlée au sujet du charbon et de l'acier, ce serait enlever à chacun des pays ainsi associés la possibilité, non seulement de faire, mais mêmes de préparer une guerre contre les autres associés.

³ As well as iron ore and scrap. Transportation markets and sectoral labor markets were also touched by the ECSC.

⁴ Monnet (1976, pp. 342-343), who had used international cooperation to promote common interests during both world wars (Gerbet, 1956, p. 540), raises similar considerations, emphasizing the somber atmosphere at the dawn of the Cold War.

Some see the indirect pursuit of political goals by economic means as return to interwar attempts to use international cartels as a way of forging economic links so strong that another European war would be impossible (Kiersch, 1963; Gillingham, 1989; Nocken, 1989). It may also be seen as the triumph of optimism over experience. There had been extensive economic linkages in pre-World War I Europe, in particular in coal and steel (Greer, 1925). Lorraine iron ore and Ruhr coal were complementary inputs in production of the steel that made up the industrial skeleton of Europe. In many cases, the same firms operated in both regions. Germany and Britain were also bound by economic ties (Greer, 1925, pp. 82-83):

Germany exported to Great Britain much more iron and steel than she imported from that country; but on the other hand, Great Britain exported to Germany much larger quantities of a number of other products. ...In the total export trade Great Britain was Germany's largest customer, and Germany was Great Britain's largest customer except India. ...Like all the industrial nations of the world, Germany and Great Britain were competitors; but to an even greater extent they were economically inter-dependent.

These economic connections did not prevent the First World War, any more than interwar international cartels prevented either the consequences of the Great Depression or World War II (for discussion, see Mioche, 1998, p. 274). But in the early 1950s the political will to pursue European integration directly was absent,⁵ and the economic approach was taken because it seemed feasible (Gerbet, 1956, p. 541):

la creation d'institutions supra-nationales se révélait impossible sur le plan politique... D'où la nécessité de se limiter au plan technique, une mise en commun économique paraissant souhaitable à l'opinion et les susceptibilités nationales étant moins vives dans ce domaine.

⁵ This fact was driven home by the failures, early in the 1950s, of the European Political Community (Griffiths, 1994) and the European Defense Community (Abelshauser, 1994).

Why Coal and Steel?

Taking the pursuit of overall integration by means of market integration as given, there remains the question of the choice of coal and steel as the first European sectors to be integrated. The pursuit of lofty political goals does not preclude the simultaneous pursuit of more immediate objectives, and it is to such immediate objectives that one must turn to explain the specific choice of coal and steel.

One such immediate goal was the deconcentration of Ruhr steel firms (Bock and Korsch, 1956; Willner, 1956; Warner, 1996). Deconcentration was a major initial objective of U.S. occupation authorities, although this attitude evolved considerably in the run-up to the Korean War. The deconcentration drive was due in part to the perception that German heavy industry had played a role in leading Germany, and the world, into war (Adams, 1961, p. 543):⁶

some students contend that the rise of Hitler in Germany was facilitated by the pervasive cartelization of the German economy—by the absence of competitive freedom in German business and the lack of democratic freedom in German government. Similarly, they point out that unregulated private monopoly was the breeding ground for Italian fascism and Japanese totalitarianism.

The initial reaction of many American observers (including then-Secretary of State Dean Acheson) to the Schuman Plan was that the Coal and Steel Community would simply be a cover for the revival of pre-war cartels (Monnet, 1976, p. 356; Gillingham, 1991, p. 234).⁷ In that time and place⁸ American views were not without influence, and

⁶ Scheingold (1965, p. 228) writes that one factor in the willingness of other Member States to accept an American-style antitrust policy was “latent hostility for Germany.”

⁷ This view of the likely nature of the ECSC (which was shared by the British economist Lionel Robbins; see Diebold, 1988, p. 29) cannot have been helped by the French practice of referring to what became the ECSC as the coal-steel “pool” (Gerbet, 1956; see also Mioche, 1988). Randall (1951) anticipates ECSC “monopoly” in what are really two distinct senses, the first the heavy hand of government stifling private

the result was Articles 65 and 66 of the Treaty of Paris, descendants of Section I and II of the U.S. Sherman Act and ancestors of Articles 85 and 86 of the Treaty of Rome,⁹ giving the U.S. approach to antitrust a place in European competition policy.¹⁰

U.S. views on the possibility and the desirability of putting in place a less vertically integrated and a less horizontally concentrated supply-side market structure in the Ruhr were welcomed by France, which wished to ensure at one and the same time access to an essential input and a market for the finished product (Haas, 1958, p. 242):

The common market would open for France a new outlet for her vastly expanded steel production, thus safeguarding the planning and investment for steel carried on in the four previous years by Monnet's Commissariat du Plan, then beset by fears of having overinvested. The common market, finally, would assure a French coal supply from the Ruhr, all previous French efforts for international control of that area, compulsory deliveries of coal or transplantation of German equipment to Lorraine having been blocked by Britain and the United States.

Modern industrial economics recognizes that firm structure and market structure are both the result of economic forces. Vertical integration may bring with it efficiency advantages, and it was recognized before the war (Greer, 1925, p. 55) that such efficiencies were present in the Ruhr.¹¹ French steel firms were prevented from

initiative and the second the heavy hands of private initiative cooperating to stifle rivalry. It was the second rather than the first that materialized.

⁸ And, let it not be forgotten, with the leverage of Marshall Plan aid (Kipping, 1994).

⁹ Now Articles 80 and 81 of the Treaty of Amsterdam.

¹⁰ The first versions of Articles 65 and 66 were drafted by Robert Bowie, assistant to the American High Commissioner to Germany (Ball, 1973, p. 88; Monnet, 1976, p. 413; Bowie, 1989; Spierenburg and Poidevin, 1994, p. 28). For an early comparison of Articles 65 and 66 with the provisions of U.S. antitrust law, see Lang (1958).

¹¹ That firm structure is the result of economic forces does not mean that equilibrium firm structure everywhere and always reflects efficiency considerations alone; this is a frequent assumption, but only an assumption, of transaction cost economics (Boyer and Jacquemin, 1985). Chandler (1977) emphasizes vertical integration as a basis for enduring market power in the late-nineteenth- and twentieth-century America; Langlois (2003a, b) makes the case that the equilibrium level of vertical integration has declined moving into the twenty-first century.

integrating backward into coal because they were constrained by government policy: France had nationalized its coal industry.¹²

Willner (1956, p. 180) writes of Ruhr vertical integration that “it was clearly not compatible with the basic approach underlying the Schuman Plan in its conception of a single Western European economy for coal and steel, in which the respective national enterprises would compete solely on the basis of economic efficiency.” The view reflects a profound misunderstanding, because Ruhr vertical integration had a basis in economic efficiency.¹³ Germany complained about the deconcentration program that vertical disintegration had destroyed (Diebold, 1959, p. 363) “the links that were the crux of technical, managerial, and commercial efficiency, thereby laming German production and raising its costs.” Vertical deconcentration did not enable competition based on efficiency, it prevented it.

Bock and Korsch (1956, p. 144) view cartel actions “to secure enterprises which often had to struggle for sheer survival against a completely uncontrolled competition” as socially beneficial. This view also reflects a profound misunderstanding. Maintaining less efficient firms in operation, and limiting the expansion of more efficient firms, is as much a socially harmful exercise of market power as the raising of price above marginal cost.

¹² Greer (1925, pp. 27-29), writing of the period between the wars, notes abundant French supplies of coal along with a high demand for coal for the production of energy, while an ample German supply of coking coal resulted in part from the demand of German chemical and dye producers for byproducts of the coking process.

¹³ Lenel (1981, p. 177) argues that changes in relative prices made Ruhr vertical integration inefficient in the early 1960s. Such changes emphasize that equilibrium firm structure is the endogenous result of economic forces.

There was also symbolic value to the choice of coal and steel (Gerbet, 1956, p. 542):¹⁴

le charbon et l'acier possédaient aux yeux des masses et particulièrement des Français une valeur psychologique certaine. Les difficultés franco-allemandes ont souvent revêtu l'aspect d'une lutte pour le charbon... Quant à l'acier, il évoque à la fois les « marchands de canons » et la puissance militaire allemande. Internationaliser l'acier doit donc apparaître comme un gage de paix entre les nations. D'autre part mettre en commun le charbon et l'acier, commencer par l'organisation des industries de base ... présentait pour M. Monnet l'immense avantage de donner au pool des possibilités considérables d'élargissement. ...Le charbon et l'acier constitueraient donc le point d'attaque de l'effort de construction européenne, point d'attaque choisi en fonction de considerations plus politiques qu'économiques.

The Suitability of Coal and Steel for Market Integration

It has been argued that coal and steel were good places to start the integration process, both politically (Mioche, 1998, p. 276):

It clearly appears that the choice of steel and coal was a good one for the promoters of European integration. It greatly facilitated the adoption of the Treaty of Paris and the setting up of the ECSC, particularly since it built upon historical traditions, geopolitical realities and on a more-or-less general consensus.

and economically (Haas, 1958, p. 242):

a start toward economic unification seemed most promising in two industries responsive to internationally identical investment, rationalisation and organisational principles, accounting for relatively few firms and including a labour force not more than 1.5 per cent of the total ECSC population.

The last figure may underestimate the place of ECSC sectors in the ECSC economy (Table 1), but only modestly so.¹⁵

¹⁴ For an understanding why coal and steel were perceived as key from both political and economic points of view, see Eckel (1920). In less than a decade, coal would cease to be an "industrie de base," and in two decades the role of steel in developed economies would be very much reduced.

¹⁵ An exception to the average (and a source of ongoing difficulty) was the Belgian coal industry, which in 1953 employed at least 10 per cent of the Belgian industrial workforce and accounted for at least 12 per cent of the value of all goods produced (Meade *et al.*, 1962, p. 290).

	ECSC products as per cent of GNP	Employment in ECSC industries as per cent of total employment
Germany	10	2.7
France-Saar	6	2.3
Belgium-Luxembourg	16	5.7
Italy	4	0.3
Netherlands	4	1.5
ECSC	8	2.0

Table 1: Output and employment in ECSC industries as per cent of GNP and total employment, by country, 1955. Source: Lister (1960, p. 12).

In fact, no particular economic studies of the coal and steel sectors were undertaken in advance of the Schuman Plan proposals.¹⁶ Their economic characteristics suggest that integration of the Member State markets should have been expected to entail an extended period of disequilibrium, with substantial political and economic costs (Lister, 1960, p. 403):

The coal and steel industries were not the most tractable ones with which to start the experiment of freeing trade and prices because freight costs in both industries tend to create separate markets, because of the structure of ownership and the long history of concerted practices, because individual governments exercise strong influence over the two industries, and because the coal industry is so labor intensive.

The equilibrium market structures of the coal and steel sectors make them imperfectly competitive markets. It is in imperfectly competitive markets that market integration has the greatest potential for improving market performance, for at least two reasons.¹⁷

¹⁶ Gerbet (1956, p. 542). Milward (1992, p. 105) writes “Monnet, as all who worked with him in the ECSC agree, had little interest in or knowledge of the details of the coal, iron and steel industries. For him, they were merely instrumental to his higher political goals.”

¹⁷ In product markets where differentiation is important, integration may increase the number of varieties available in either market. Where product differentiation is important, competition will of necessity be imperfect; the monopolistic competition model is often applicable. The impact of market integration on dynamic market performance in industries where research and development (R&D) is important is uncertain, *a priori*. However, to the extent that R&D involves large fixed investments in facilities, market

First, holding the number and asset structure of suppliers of each component market fixed, integration increases the total number of suppliers. Equilibrium prices will fall toward marginal cost, provided firms behave noncooperatively — in lay terms, provided firms compete.¹⁸ Second, integration should allow the concentration of production in the most efficient firms, permit taking advantage of available economies of scale,¹⁹ and allow the transfer of productive resources out of the integrating market and into other parts of the economy, with a consequent increase in the value of overall output.

Integration generally implies that the equilibrium number of firms in the integrated market is less than the sum of the equilibrium number of firms in the pre-integration component markets.²⁰ Concretely, integration means some firms will go out of business. Realization of gains from integration due to a more efficient market structure requires that resources be able and permitted to leave the integrated market. In some cases, the market structure that is efficient from the point of view of the integrated market as a whole may require all suppliers in some component market to shut down (this seems to have been the case with Belgian coal).²¹

concentration is likely to be greater, and product market rivalry less intense, all else equal, the more important is R&D. For an argument that the ECSC had the effect of impeding innovation in the steel sector, see Moore (1998), Kipping *et al.* (2001).

¹⁸ This is not a necessary result (for a review of predictions of the impact of integration on market performance from alternative models, see Martin, 2001, pp. 212-217). It is what one would expect based on empirical evidence.

¹⁹ It may be possible to realize economies of scale in moving from markets the size of ECSC Member States to markets the size of the EU. Empirical evidence suggests that efficient-scale firms in markets the size of the EU operate where returns to scale are constant (Martin, 2004).

²⁰ For a discussion using the Cournot model, see Martin (2001, 217-219). The result holds in other models of imperfect competition as well.

²¹ If one analyzes market integration using a comparative advantage trade model, such specialization would be the expected result, and such a prediction would raise questions about the political feasibility of forming sector-specific integrated markets. Models of trade in differentiated products suggest the possibility that firms in different Member States may specialize in the production of different varieties of a differentiated product group.

Yet the nature of coal and steel technologies make the reallocation of resources outside those sectors a difficult matter. Physical assets in coal and steel are highly specific to those industries.²² Investments in such assets are sunk, which is to say that little if any of the funds invested in such assets can be recovered if a firm should withdraw from the market.²³ Even left to the market's own devices, the efficient adjustments in market structure permitted by integration are likely to take place slowly when investments in physical assets are sunk.

Human capital, like physical capital, may be sunk. The cost of seeking employment in other sectors is much less if skills can be used in more than one line of work. Where skills are highly sector-specific, workers will rationally delay changing jobs. Where an industry is labor intensive and politically sensitive, political pressure will be generated to resist efficient adjustments in market structure. To the extent that such pressure is successful, potential gains from integration are delayed or eliminated.

In perspective, therefore, there were economic reasons to think that coal and steel would to be difficult testing grounds for European market integration.²⁴

²² See the discussions of Meade *et al.* (1962, p. 206), Comhaire and Oury (1964, p. 248).

²³ In contrast, a large portion of investments in nonspecific assets can be recovered upon exit. Such investments are not sunk. In his discussion of defensive investment, Lamfalussy (1961, p. 83) writes that capital may be maintained in a declining market indefinitely if "the life-span of capital goods is long" and "the break-up value of the assets is substantially lower than their profit value." These properties capture the gist of the notion of a sunk investment. (Lamfalussy also requires that the planning horizon of the entrepreneur be short to reach his conclusion; it would not now be thought that this is a necessary assumption.) See, generally, Martin (2002).

²⁴ This was acknowledged, if in a backhanded way, by the High Authority (ECSC, 1965, p. 20) "...energy and steel questions as such are not directly on a par with questions of industry in general; nevertheless, the oligopolistic structure of the coal and steel markets, and the special production and marketing conditions prevailing in sectors so sensitive to business fluctuations, do present all kinds of major problems which are also to be found in varying degrees in other sectors of industry."

Market structures

The view is often expressed that seller concentration was high in ECSC markets (Haas, 1958, p. 80):

The basic economic fact underlying both the production of coal and of steel in ECSC ... is that production is concentrated in a few enterprises. Thus twenty-eight groups of enterprises control 82.1 per cent of ECSC coal production. This includes the totally nationalised coal of France, the state-administered Saar production, the 60 per cent of Dutch coal mined by state-owned firms, as well as the highly concentrated private firms of Belgium and Germany. It must be added that despite private ownership and control in Belgium, coal prices and investments are in fact completely determined by the Belgian Government acting in co-operation with the High Authority.

In steel the picture is the same. Twenty-one trusts account for 80.8 per cent of pig iron production, and twenty-two for 76.2 per cent of crude steel.

The initial reaction must be, comparing this view with data like that of Table 2, is that thinking does not make it so. In terms of the number of firms in different Member States,²⁵ the Dutch and Luxembourg iron and steel sectors could be said to be concentrated, as might Italian and Belgian iron mines. The supply of French coal was concentrated, but this was a result of government decision.

	Coal mines	Iron mines	Iron and steel mills	Iron and steel trusts
Germany	247	14	100	11
Belgium	79	1	38	3
France	60	59	100	6
Italy	21	5	134	1
Luxembourg	0	26	3	1
Netherlands	8	0	3	1
Saar	14	0	6	1
	429	105	384	24

Table 2: Number of firms, ECSC product markets. Source: Haas (1958, p. 80). Figures appear to refer to the early 1950s.

²⁵ Even before the formation of the ECSC, it could not be said that different Member States were distinct geographic markets in an economic sense.

Concentration ratios and numbers of firms such as these would not normally be considered by industrial economists to indicate a high degree of supply-side concentration.²⁶

	Per cent
Ruhr, Aachen, Limburg, Campine	60.7
Nord and Pas-de-Calais, south Belgium	19.86
Saar, Lorraine	12.4
Other	7.1
ECSC	100

Table 3: Percentage distribution of coal produced by major coal fields in the ECSC, 1955. Source: Lister (1960, p. 21).

The bulk of ECSC coal deposits, and production (Table 3), were located in a roughly triangle-shaped region with the Lorraine in the South, the Ruhr in the Northeast, and Lille to the West: (Greer, 1925, p. 14): “The total area of the [Ruhr-Lorraine] region is hardly as great as that of the state of Vermont, but the quantity and quality of its coal and iron deposits are such as to make of it the industrial heart of continental Europe.”

	% Government Owned
Germany	16
Saar	100
France	98
Belgium	0
Netherlands	63
Italy	94
Total ECSC	42

Table 4: Government ownership of coal production, ECSC, 1959. Source: Lister (1960, p. 165).

²⁶ One might argue that information of the kind reported in Table 2 is illusory. It could be generally, as Meade *et al.* write of Ruhr coal (1962, p. 246) “...it must be remembered that although on paper the mining companies number more than fifty, very many of them are linked though share holdings and quite a few are commonly owned...”. In support of this statement, Meade *et al.* make reference to Table 46 of Lister (1960, p. 261), showing cross-links of ownership between the three Ruhr coal sales agencies as of 1959. This table does not, however, make a compelling case for common ownership. Ownership in each of the three sales agencies was dispersed. The largest private interests were, in Geitling, Haniel at 13.2 per cent, with an 11.2 per cent interest in Präsident; in Präsident, Mannesmann at 16.7 per cent, with no interest in the other two sales agencies; in Mausegatt, Thyssen at 17.1 per cent, with a 12.6 per cent interest in Geitling. The German state had a 40.6 per cent share in Mausegatt, 6.8 per cent in Präsident.

The extent of government ownership varied substantially throughout the Community (Table 4). Regional joint-selling and joint-buying agencies abounded at the dawn of the ECSC. The High Authority considered five of these as being able to influence the price of coal (Meade et al., 1962, pp. 232-233):

- (a) GEORG (Gemeinschaftsorganisation Ruhrkohle): joint sales agency for Ruhr coal
- (b) OKU (Oberrheinische Kohleunion): (emphasis added) “which controlled the sale of both German and French coal *in the potentially competitive South German market*”
- (c) Charbonnages de France: French nationalized coal industry
- (d) ATIC (Association Technique de l’Importation Charbonnière): “in effect the sole French purchaser of imported coal”
- (e) COBECHAR (Comptoire Belge des Charbons): Belgian joint sales agency.

Supply-side concentration in ECSC coal and steel was the result of government policy or government acquiescence in private arrangements to coordinate behavior. It was not inherent in the technical conditions of production of either sector.

Price policy

The Treaty

Article 60(1) of the ECSC Treaty banned pricing practices that are contrary to Articles 2, 3, and 4 of the Treaty. Roughly half of these articles consisted of glittering generalities that lay out the goals of the Community. Article 3(b) commits the Community to “ensure that all comparably placed consumers in the common market have equal access to the sources of production.” Article 4(b) prohibits “measures or practices which discriminate between producers, between purchasers or between consumers, especially in prices and delivery terms or transport rates and conditions, and measures or practices which interfere with the purchaser’s free choice of supplier.”²⁷

²⁷ Article 4(c) prohibits state aids; Article 4(d) prohibits “restrictive practices which tend towards the sharing or exploiting of markets.” The latter would seem to cover collusion (sharing) and what has come to

Article 60(1) has two subparagraphs. The first bans unfair competitive practices, of which predatory pricing (“purely local price reductions tending towards the acquisition of a monopoly position”) is offered as an example. The High Authority is given the right to generally define unfair pricing practices.

The second subparagraph bans “discriminatory practices involving, within the common market, the application by a seller of dissimilar conditions to comparable transactions, especially on grounds of the nationality of the buyer.” This reiterates the content of Article 4(b).

Article 60(2)(a) provides that for the purposes of accomplishing the prohibitions of Article 60(1) “the price lists and conditions of sale applied by undertakings within the common market must be made public to the extent and in the manner prescribed by the High Authority...”.

Article 70 of the Treaty similarly bans price discrimination in the transport of coal and steel, and provides that transportation rates should be published or brought to the knowledge of the High Authority.

The Rationale

The rationale for the stated policy of prohibiting price discrimination is obscure.²⁸ It can be understood that a European common market would not permit discrimination based on national identity. But the prohibition of price discrimination contained in the

be called abuse of a dominant position (there is no indication that exploitation must be by more than one firm for the prohibition to apply).

²⁸ See Griffiths (1988, pp. 47-51) for a detailed account of the process by which the price provisions of the Treaty were arrived at. As is often the case with the offspring of committees, even the paternity of the policies settled on is unclear: for Diebold (1959, p. 240) “Broadly speaking, the Treaty has conformed to the pricing philosophy set out by Monnet and his French colleagues in the working paper they submitted ... at the onset of the drafting negotiations,” whereas Griffiths (1988, p. 40) writes “very little of Monnet’s original ideas survived unaltered in the final treaty.”

Treaty is a general one.²⁹ Since price discrimination is a normal form of rivalry (that is, of competition, in the lay sense in which the word is used in the Treaty) in imperfectly competitive markets, it follows that by seeking to prohibit price discrimination in general, the Treaty sought to prohibit a normal form of oligopolistic competition.³⁰

For Haas (1958, p. 245), the prohibition of price discrimination had a protectionist purpose:³¹

Monnet's specific proposals on market rules, prices, access to raw materials, non-discrimination, subsidies, re-adaptation, and exemptions during the transitional period were accepted in essence in the final version of the Treaty, including the rigorous interpretation of Article 60 which make "non-discrimination" almost the equivalent of "no price competition," a deliberate device to limit the flow of German steel to the French market.

The rationale for *publication* of prices was to provide consumers with information that would allow them to make the best choice of supplier (Spierenburg and Poidevin, 1994, p. 101, writing of the rules for steel):³²

²⁹ The prohibition of discrimination is not limited to discrimination based on national identity, nor is there a requirement that discrimination have an effect on competition (Lang, 1958, p. 768). In fairness, it should be noted that early authorities did emphasize the absence of price discrimination as a characteristic of market integration is (Belassa, 1961, p. 5): "Economic integration as a process ... represents various measures leading to the suppression of discrimination between economic units of nation states, and the resulting forms of economic integration can be characterized by the absence of discrimination in various areas." Against statements like this, which like the Treaty seem not sufficiently to distinguish market integration and perfectly competitive market performance, the U.S. economy (many markets of which are integrated while at the same time exhibiting price discrimination) is a counterexample.

³⁰ See ECSC (1965, p. 25), which emphasizes the importance of Treaty rules on market transparency "which is in turn to help eliminate all forms of discrimination, in order to maintain normal competitive conditions in an oligopolistic market." The idea that normal rivalry in oligopolistic markets does not include price discrimination is symptomatic of a profound misunderstanding; as indicated, for example, by the remark of Lister (1960, p. 208, footnote 6), who writes that "Hermann Witte has pointed out that the coal and steel producers experienced difficulty in trying to understand the concept of nondiscrimination in the early years of the ECSC...".

³¹ See Monnet (1976, p. 346), in particular the reference to "German export dumping." Lenel writes (1985 pp. 173-174): "Of those agreements signed when the European Communities were founded only the prohibition of discrimination is relevant for coal mining and consumption, and then only indirectly through its influence on competition. ... The aim of this prohibition, which was later limited, was indeed the furthering of competition. Considering the given structures, it has probably led rather to a lessening of price competition." The European Commission writes (1977, p. 61, emphasis added): "The reason for this prohibition was the risk of market disturbances *resulting from undertakings making use of all the possibilities for competition offered by alignment.*"

Under Article 60, producers were obliged to publish their prices. Accordingly, the High Authority drafted rather elaborate rules to cover not only basis prices but also conditions of sale, delivery dates, standard surcharges for special qualities and discounts for quantity and loyalty. It explained clearly that steel producers ‘must ensure that users are able to ascertain the quality and calculate precisely the cost of the products they are considering buying, and also to compare offers from various suppliers’.

Ensuring that users have the ability to make such comparisons ensures as well that any producer cutting price would know that rivals would be aware of that price cut in advance, and able to match it. An elaboration of the implications of this point appears, below, in discussion of the first decisions of the European Court of Justice.

Implementation

Different rules were at first applied to steel and coal. Under Article 60(2) of the Treaty, steel firms set up a basing point system (Phlips, 1983, pp. 27-30; 1993). A steel firm could depart from its published price list to meet (align on) the legitimate lower price of another ECSC supplier or of a supplier from outside the ECSC.³³

By these rules the Treaty confuses “price difference” and “price discrimination.” There is price discrimination if a supplier’s profit margin is different for customers with different costs of supply.³⁴ If there is no price discrimination, then customers with different costs of supply will pay prices that differ by exactly the difference in those costs. If, under a basing point system, a supplier charges the same or a lower price to a

³² See also Meade *et al.* (1962, pp. 216-217): “The object of the publication rule had been to ensure that the charges and conditions of sale applied by common market enterprises conformed with the provisions of the treaty, and that consumers were in a position to compare prices, qualities, &c. Accordingly, the High Authority required that a price list should not only contain information on such obvious points as price per ton, the point of dispatch, and conditions of payments, but should also indicate the costs arising in connexion with loading, taxes added to the purchase price, and any special rebates or premia. Moreover, the quality of the coal had to be described in detail.”

³³ Subject to procedural requirements, the High Authority could under Article 60(2)(b) suspend the right of alignment on lower prices of other ECSC firms “to avoid disturbances in the whole or any part of the common market.” The right to align on lower prices of extra-ECSC firms was guaranteed by the Treaty (that is, could not be suspended by the High Authority).

³⁴ This point is made by Lister (1960, p. 211), in discussion of international price discrimination: “Price discrimination may be defined as unequal net mill returns on comparable sales...”

more distant customer as to a nearer customer, aligning on the price of a supplier located at a different basing point, the aligning supplier has a smaller net profit margin³⁵ on sales to the more distant customer than on sales for which alignment does not take place. The Treaty, which states that it bans price discrimination, permits price discrimination by permitting alignment on lower prices of suppliers using other basing points.

The basing point system creates regions where there is an appearance of rivalry between producers. As long as the basing-point price from a distant basing point is above its own marginal production cost plus transportation cost, it will pay a firm to discriminate in price and make a sale to a distant customer (at a smaller but still positive net rate of return). In a region where such alignment takes place, a customer will have a choice of willing suppliers. But this quantity rivalry does not translate into lower prices for customers (Lister, 1960, p. 240):

When producers absorb freight by aligning prices on a basing point other than their own, they forego the right to establish an independent price in the rivals' market. It would be illegal for them to undersell the rivals under Article 60 unless they reduced prices at their own basing point.

Under the terms of the Treaty, steel producers could match but not undercut the delivered price of a distant rival. Downward pressure on prices was blocked.

The High Authority initially prevented the use of basing point pricing in the coal sector (Lister, 1960, pp. 287-288):

The High Authority in 1953 forbade the coal producers—unlike the steel producers—to absorb freight on sales made at another basing point, for fear the supply of coal in each producing district would be disturbed; this interdiction did not prevent a district from lowering its whole price schedule in order to broaden its sales area.

³⁵ In the vocabulary of the basing point literature, the aligning supplier *absorbs* some of the freight charged for shipping from its basing point to the location of the more distant customer.

The marginal benefit of a price cut in the entire price schedule is the incremental profit on sales at the boundary between the region near a firm's basing point and the region near a rival's basing point. The marginal cost of a price cut, if that price cut must be offered to all buyers, is lost revenue on all sales. By forbidding alignment in coal "to avoid supply disturbances" the High Authority demonstrated an understanding that market integration would have a resource reallocation effect, if it were allowed to do so, that would cause less efficient coal suppliers to shrink (and conceivably to disappear). Such a resource reallocation effect is a necessary consequence of successful integration in an imperfectly competitive market, and one source of the benefit that flows from market integration.

The policy of preventing price alignment was more apparent than real, however. During the initial five-year transitional period that followed the coming into force of the ECSC, suppliers located in regions with excess supplies (Lister, 1960, p. 288, footnote 8):

were allowed to post zonal prices to align their prices in other sales areas ... The principal zonal prices affected the delivery of Saar and Lorraine coal in southern Germany, of Centre-Midi coal in other parts of France, of Belgian coke and Aachen coal in the rest of the Community. Certain temporary subsidies were authorized to compensate the producers, especially those in the Saar and Lorraine, for absorbing freight under zonal prices.

The zonal price discrimination permitted under this policy would, in coal as in steel, allow quantity competition while preventing price undercutting. Subsidies would allow less efficient suppliers to continue in operation, delaying the exit of resources from the coal sector.

The restriction on coal price alignment was relaxed but not entirely eliminated at the end of the five-year transitional period (Diebold, 1959, p. 252, footnote 21): "Prices could be aligned only on those of the major producers, had to conform to their sales

conditions, could not be used for road transport and had to be reported to the High Authority. Each producer could sell only a limited amount of coal in this fashion.”

Steel

European steel producers established an export cartel (the Entente de Bruxelles) in March 1953. The ECSC came into effect on May 1, 1953. The anti-collision provisions of Article 65 applied to agreements restricting competition “within the common market.” The High Authority might have taken the view that ECSC steel producers could not fix export prices without thereby restricting competition in the common market, but this position found no support with governments of the Member States and was not adopted (Lister, 1960, pp. 200-201; Spierenburg and Poidevin, p. 102, pp. 106-107).

With the opening of the common market, steel producers were freed from domestic regulation, and able to set their own prices. This they did, by raising prices to the level set by the export cartel (Lister, 1960, p. 223). The immediate result of the opening of the common market in steel was, therefore, an increase in posted prices (Spierenburg and Poidevin, 1994, p. 102):³⁶

steel producers [took] advantage of their freedom to set a uniform, relatively high price level. This uniformity was achieved by increasing French, Belgian and Luxembourg prices by 5 to 12 per cent in order to bring them up to the German level.

³⁶ For Spierenburg and Poidevin, uniformity of published price lists was evidence of collusion (1994, p. 104): “At the end of May, the publication of the price lists confirmed the existence of price agreements to which the High Authority was strongly opposed.” Collusion there may have been, but identical price lists in and of themselves is not sufficient evidence. Such price lists could just as well have been arrived at noncooperatively.

That steel producers were able to post higher list prices, however, did not mean that they could get those prices for actual transactions (Diebold, 1959, p. 265):³⁷

Probably the best evidence of the limits of collusive practices in holding up prices was the price-cutting during 1953 and 1954, the only period before 1958 when demand was weak in the Community. Though the published schedules had been set by industry agreement, and in spite of the general acceptance of the rationale against price-cutting..., the steel producers competed at that time by cutting prices.

Differences between list prices and transaction prices, particularly when demand is weak, is typical (and from a social point of view, desirable) in oligopoly (Stigler and Kindahl, 1970, p. 7). They should and could have been seen as an example of the market mechanism working to break down tacit or overt collusion. They might even have been seen as improved market performance due to market integration. Instead, viewed through the lens of Treaty transparency requirements, the downward trend in prices was viewed with alarm because transaction prices were different from published prices.

To its credit, the High Authority showed some appreciation of the implications for market performance of transaction prices below list prices. In decisions³⁸ taken in January 1954 it made a distinction between price discrimination and departure from published price lists and permitted an average deviation of plus or minus 2.5 per cent — the so-called “Monnet rebate” or “Monnet margin” — without requiring publication of a revised price list.

³⁷ Nor were ECSC steel producers an island, entire unto themselves: Spierenburg and Poidevin (1994, p. 107) write that the export cartel had had to lower its price several times “in order to align Community prices with those of the world market.”

³⁸ Decisions 1-54, 2-54, 3-54 of 7 January 1954, published in the *Journal Officiel* of 13 January 1954, pp. 217-219, and reprinted in English translation in Valentine (1965, Volume II, pp. 10-15).

France and Italy appealed against these decisions to the European Court of Justice, which in its first decisions³⁹ annulled the High Authority actions.

The grounds for the Court's decision were primarily legal: under the terms of the Treaty, price publication was an *obligatory* tool to prevent price discrimination, and the High Authority's attempt to finesse the publication requirement of the Treaty was for that reason invalid.

The Court does make a statement of (Valentine, 1965, p. 27)⁴⁰

[t]he role which the Treaty assigns to the publication of price lists ... compulsory publication is provided for in the Treaty in order to achieve the following three aims:

- 1° to prevent as far as possible prohibited practices;
- 2° to enable buyers to acquaint themselves with the exact prices, and also to participate in the regulation of discriminations;
- 3° to enable enterprises to know the exact prices of their competitors in order to give them the opportunity to align their prices.

Although publicity has been provided for with the above-mentioned aims, the Treaty does not regard this as sufficient to guarantee that these aims are effectively attained—publicity is but one of the means provided for in the Treaty.

The Court's decision did not stop price discrimination. Since steel companies could not legally discriminate in price, they engaged in fraudulent alignment (Schiengold, 1965, pp. 66-67, p. 70).

Price transparency, by reducing the marginal benefit of price cuts, reinforces tacit collusion and facilitates the kind of concerted practice that is prohibited by Article 65.⁴¹

³⁹ ECSC, Cour de Justice, *Recueil de la Jurisprudence de la Cour*, Volume I, pp. 7-121; and reprinted in English translation in Valentine (1965, Volume II, pp. 18-45). For discussion, see Mason (1955, pp. 114-117), Scheingold (1965, pp. 58-70).

⁴⁰ *Recueil*, Volume I, pp. 91-92.

One of the general goals of the Treaty is (Article 3) to “ensure the establishment of the lowest prices ... while allowing ... [a] normal return on invested capital.” Mandatory adherence to published prices acts against reaching this goal. The method which, on the Court’s reading, the Treaty requires as a means of reaching the Treaty goals in fact makes it more difficult to reach those goals.⁴² At a fundamental level, the fault is neither with the High Authority nor with the Court of Justice: the fault is with a Treaty that implements a plan for the integration of imperfectly competitive markets based on a deeply flawed vision of the way such markets work.

Coal

Neither the High Authority⁴³ nor Member State governments seemed to take the idea of market competition in coal seriously (Lister, 1960, p. 260):

That there is need of centralized regulation of production, prices and sales in order to mitigate the effects of the business cycle is a proposition that goes nearly unchallenged in Europe.

The underlying policy goal (Diebold, 1959, p. 274) was to keep all ships afloat:

For instance, most of the Community’s coal is covered by price equalization arrangements and compensation schemes. Though costs differ, all the mines in the scheme sell at the same price. Part of the return to the more efficient mines is distributed to less efficient ones. This makes it possible to keep prices lower than they would be if they had to be remunerative to the high-cost mines, but prevents any coal being sold at the lowest price the most efficient mines could offer.

⁴¹ This was recognized at the time (Meade *et al.*, 1962, p. 258; Philips, 1962, p. 91). See Diebold (1959, p. 268) for general remarks championing publicity as a means of obtaining good market performance (p. 276 for remarks noting that the basing point contributes to transparency of the market without realizing that this has the tendency to worsen market performance). The publicity approach, which was flirted with in the United States in the period between passage of the Sherman Act (1890) and the FTC Act (1914), and was long a mainstay in Europe, is now thoroughly discredited. See Albæk *et al.* (1997), and more generally Martin (1998).

⁴² Lang notes that an agreement by American firms to publish price changes in advance would most likely be found to violate Section 1 of the Sherman Act, and writes (1958, p. 769) “experience under the American law indicates that the publication of price lists followed by a compulsory waiting period before new prices may become effective is incompatible with the principle of competitively set prices...”.

⁴³ Spierenburg and Poidevin (1994, p. 91): “In September 1953, Monnet had expressed the view that ‘unlike steel, where the aim is to establish genuine competition, coal needs a certain type of organization’.”

Such a policy prevents an efficient allocation of resources (Meade *et al.*, 1962, p. 218):

keeping the prices charged by each basin closely geared to costs prevents the lower-cost producers from realizing the extra profit without which they are unlikely to expand at the appropriate rate, if at all. It follows that if progress towards the attainment of the common market's basic aim—an improved distribution of resources—is the criterion, then the price-fixing policy of the High Authority and of the member governments is open to question.

By the time initial negotiations and legal skirmishes over the introduction of some form of managed competition for coal had played themselves out, the fact of secular decline in coal had become undeniable (Figure 1). From that point, the task of the High Authority became that of organizing a retreat.

As noted above, when the ECSC came into being, Ruhr coal was marketed by GEORG, itself made up of six joint sales agencies. According to Haas (1958, p. 77):

[GEORG's] *raison d'être* lay in the policy of equalizing prices among high- and low-cost producers, thereby assuring—according to its and generally prevalent German claims—stability of production for high-cost mines, employment stability, and guaranteed access for unpopular grades of coal.

The High Authority initially proposed greater independence for the six agencies. This proposal was stoutly resisted by German industry, labor, and government. In February 1956, the High Authority compromised by agreeing to the establishment of three rather than six Ruhr coal joint-sales agencies. Lister (1960, p. 260) writes

The High Authority accepted the centralization of Ruhr coal sales for three reasons:

- (1) to enable the firms to provide the required volume and grades of solid fuels at the required time and place;
- (2) to enable the firms to equalize production and employment when coal is in surplus;
- (3) to enable the firms to distribute supplies equitably when coal is scarce.

Thus the High Authority affirmed the proposition that sixty-odd mining firms cannot each sell solid fuels and still satisfy the collective interests of the coal mine operators, of the employees and of the consumers.

A policy that enables (or requires) firms to equalize production when the product is in excess supply prevents the exit of less efficient firms, short-circuits the resource-allocation function of the market mechanism, and prevents realization of some of the gains that might otherwise come with market integration. A policy that distributes output “equitably” when it is in short supply similarly distorts the incentives of customers who could switch to competing products at lowest cost.

Thereafter the High Authority regularly dueled with Ruhr coal producers over concerted practices. Spierenburg and Poidevin write (1994, p. 518) that in 1962 “representatives of the Ruhr admitted that the system of three sales agencies ‘had never been applied in practice...’” In 1969, well into the decline of coal, Ruhr coal operations were consolidated under the control of one operation, Ruhrkohle AG.

ATIC controlled French coal imports, with the essential purpose of consolidating French demand-side market power (Lister, p. 270):

The French government has justified ATIC on the ground that France must coordinate its large volume of imports, that the individual buyer is no match for the powerful Ruhr sales agencies, that the Ruhr must be prevented from dumping coal in France during a recession, and that the Ruhr coal producers must be prevented from dominating French coal importers as they did before the war.

The High Authority issued a decision requiring France to end ATIC’s monopoly on the right to sign import contracts. France ignored the deadline, appealed to the European Court of Justice, and temporized into the early 1960s (Spierenberg and Poidevin, 1994, pp. 269-270, pp. 522-523).

Resource allocation distortions were perhaps most serious in the Belgian coal market. Belgian costs were so high that Ruhr suppliers could have undersold Belgian mines in Belgium without absorbing freight (Meade *et al.*, 1962, p. 292; Lister, 1962, p. 296). Belgium had negotiated special terms as conditions of joining the ECSC (Lister, 1962, pp. 117-118):⁴⁴

The Convention for the Transitional Provisions (CTP) granted the Belgian mines a special position for five years, terminating February 1958, in order to give them time to integrate into the common market. ... It provided for two types of subsidies which were to taper off during the five-year transitional period ...

The funds for the subsidies were raised by a tax on the coal produced in the Ruhr and the Netherlands; the low-cost producers thus came to the aid of the high-cost firms...

Article 58 of the Treaty empowered the High Authority, with the approval of the Council of Ministers, to declare a state of manifest crisis and impose production quotas:

In the event of a decline in demand, if the Commission considers that the Community is confronted with a period of manifest crisis and that the means of action provided for in Article 57 are not sufficient to deal with this, it shall, after consulting the Consultative Committee and with the assent of the Council, establish a system of production quotas...

The High Authority sought to use this provision and declare a state of manifest crisis in the coal sector in 1958. The Council declined to agree with this request.

Based on output levels alone (Figure 1)⁴⁵ one might take the view that there was no manifest crisis in the ECSC as a whole in 1958. There was a crisis in the Belgian coal industry, and the Belgian government asked the High Authority to take advantage of

⁴⁴ For discussion of these negotiations, see Milward (1992, pp. 68-74). In what may have been the beginning of an enduring EC tradition, and by no means on the part of Belgium alone, (Lister, 1962, pp. 119-120): "The Belgian mine owners had already received more than half the subsidy before it was ruled that they must use the subsidy for capital expenditures. Part of it had been used to cover business losses or had been appropriated for purposes other than capital expenditures." See also Spierenburg and Poidevin (1994, p. 502).

⁴⁵ Figure 1 shows indexes of hard coal production for Belgium and for the original 6 members of the ECSC with 1953 as 100. The levels of output in 1953 were 30.1 million tons for Belgium, 242.3 million tons for the ECSC6.

Article 37 of the Treaty. Article 37 gave the High Authority the right to take appropriate measures, on request from a Member State (and with the advice, but not requiring the consent of, the Council) if an action of the High Authority or a failure to act of the High Authority had caused “fundamental and persistent disturbances” in the Member State’s economy. Acting on the theory that the failure to declare a state of manifest emergency under Article 58 permitted invoking Article 38,⁴⁶ the High Authority limited imports from other ECSC countries and granted aid to unemployed mineworkers in return for Belgian closure of uncompetitive mines (EC Commission, 1977, p. 83; Spierenburg and Poidevin, 1994, pp. 493-498). The Belgian government later implemented a market-sharing agreement with the Ruhr, and in 1961 established a public directory to control coal prices, output, and sales.⁴⁷

Indexes of integration

Market integration may affect the location of production and the flows of goods. It may show up in movements of labor. It may show up in changes in business conduct. There is some evidence of all these types that market integration in ECSC sectors increased under the ECSC.

Trade flows

Physical measures of the movement of goods are some indication of one dimension of market integration.⁴⁸ Table 5 shows increases in the levels of incoming and outgoing intra-ECSC trade flows in steel, by Member State, in the first three years of the

⁴⁶ One might also have taken the view that the fundamental and persistent disturbances in the Belgian economy stemmed from the Belgian government’s insistence on misinterpreting the structural problems of its coal sector as cyclical in nature (Milward, 1992, p. 93).

⁴⁷ Spierenburg and Poidevin (1994, p. 498) regard the directory as “clearly incompatible with the ECSC Treaty.”

⁴⁸ For a survey of early studies of the effect of market integration under the EC on trade flows, see Mayes (1978).

Community. Germany, in the throes of reconstruction, was a substantial net importer, with Belgium and Luxembourg, and to a slightly lesser extent France, were net exporters.

	Increases in exports	Increases in imports
Germany	530	1,777
France & Saar	1,462	754
Netherlands	276	570
Belgium & Luxembourg	1,230	295
Italy	59	160

Table 5 : Changes in intra-Community steel trade, 1952-1955 (thousands of tons) Source: Diebold (1959, p. 580).

Table 6 shows a generally upward trend in intra-ECSC trade in steel, along with respectable levels of exports outside the ECSC, as well as modest levels of imports from outside the ECSC. Figure 2 shows a generally flat level of intra-ECSC trade in the coal sector, afterward trending upward.

	Intra-ECSC exports	Exports to third countries	Imports from third countries
1952	5.2	14.3	1.1
1953	6.8	15.4	1.8
1954	8.2	13.9	1.5
1955	9.2	13.7	1.7
1956	7.8	15.3	1.7
1957	8.5	15.1	1.8

Table 6: ECSC trade in steel (per cent of ECSC production). Source: Diebold (1959, p. 584).

Correlation is not causality. The level of tariffs applying to trade among ECSC Member States had been low before the ECSC came into force (Haas, 1958, p. 60; Meade *et al.*, 1962, p. 200), and the first 20 years of the ECSC were a golden age of growth. Overall growth would have come with or without the ECSC. Trade flows, intra- and extra-ECSC, would have grown with or without the ECSC. This being said, the impact of the ECSC on trade flows was no doubt positive (Diebold, 1959, p. 589):

one should consider the substantial increase in interpenetration of Community markets in steel and certain parts of the coal trade. There can be little doubt

that ...the opening of the common market, contributed to this expansion. The contraction of 1956 is, however, a warning about the limits within which measures directed primarily at trade barriers can have an effect, owing in part to the somewhat marginal character of much intra-Community trade.

As is to be expected with products for which transportation cost is an important part of the complete cost of supplying the product to the customer, the immediate effects of market integration in coal and steel had a pronounced regional character (EC Commission, 1977, p. 54):

The direct results of integration have been most evident in those areas where it has been possible to take advantage of the low transport costs of the frontier coalfields. For example, in 1952 the Aachen coalfield only exported 32% of its total output of coal, coke and briquettes; by 1956 this figure had already risen to 52% and has remained consistently above 50% in recent years. In the Dutch Limburg coalfield, which has since ceased production, there was initially a trend towards increased exports: in 1961 17% of total sales went to the neighboring countries, Belgium and Germany, which had not been supplied in 1952.

Infrastructure investment, which generally has a strong regional aspect, can be as important as the removal of barriers in promoting market integration. Here, as in other areas, timing is everything (Warren, 1975, p. 158):⁴⁹

When the [Moselle] canal was opened in 1964, it was believed that reduction in the price of German coal and in steel shipping costs might effectively reduce Lorraine steel prices by 5 per cent within a few years and give it still more competitive power in the south German markets which in the 1950s it had already partly wrested from the north-based German industry. Within 1½ years of the opening of the canal the waterborne traffic handled by the Lorraine steel firm of De Wendel had increased from 0.44 to almost 2.0 million tons. In fact the Moselle canal was built 50 years too late and its existence seems likely merely to slow the relative decline of Lorraine.

One of the sources of gains from market integration is the concentration of supply in the hands of most efficient producers. Some such specialization occurred in coal,

⁴⁹ Lister (1960, pp. 39-40) notes that in the 1920s French and German firms undertook investments that had the effect of separating the two regions economically, and that while the opening of the Moselle canal acted to undo the effect of these earlier (sunk) investments, it was not sufficient "to change the basic relationships between the two areas."

although this must be seen in the perspective of the overall decline in coal shown in Figure 1 (EC Commission, 1977, p. 54):

It must be stressed that as regards types of coal intra-Community trade has increasingly concentrated on German coking coal and coke. These products accounted for some 40% of trade in 1954, rising to two-thirds in 1973. ...

Adler (1970) examines intra-ECSC trade flows in steel and concludes that what developed was the sort of intraindustry trade that would be predicted by so-called “new” theories of international trade, those based on the realization of economics of scale in markets for differentiated product varieties rather than on the classical theory of trade flows based on comparative advantage. He finds a clear movement toward intraindustry trade during the early years of the ECSC (Adler, 1970, p. 180):

First, there was no interindustry specialization in European steel. Steel production as a whole did not concentrate in a single country. Second, the process of intraindustry specialization remained incomplete. No countries could be discovered to (have had time to) have specialized completely in one or two steel products. Nor did production of any single goods (have time to) concentrate in one country. Some tendency to specialize in some products, however, seemed to be present in each of the EEC members.

Price effects

Market integration may show up without the physical movement of goods. The behavior of Italian steel prices is instructive. Exceptionally, Italy had negotiated the gradual reduction of steel tariffs over the first five years of the Community (Diebold, 1959, pp. 148-151; Ranieri, 1988, p. 353). Tariffs were finally abolished in February, 1958. From January 1957, Italian prices began to fall, as Italian producers anticipated the lower prices that firms based elsewhere in the Community would be able to offer on the Italian market (Lister, 1960, pp. 244-246). That Italian firms would expect firms outside

Italy to seek to supply the Italian market, and act preemptively on the basis of that expectation, is evidence of market integration.

Steel firms located outside Italy were able to offer low prices in Italy without lowering their entire price schedule by aligning on French prices, which were low following currency devaluations in 1957 and 1958 (Meade et al., 1962, p. 66; Spierenburg and Poidevin, 1994, p. 433). Thus steel-market integration not only impacted firm conduct but also confronted Member State governments with the fact of the microeconomic consequences of their macroeconomic policy decisions.

Further evidence of steel market integration is provided by the reaction to a January 1959 average price increase of 9 per cent for French steel. German steel producers (Spierenburg and Poidevin, 1994, p. 434) “expressed grave concern at the new French price lists, which, if they were not revised, would force German producers to ‘reduce their own prices to the same level’.”

From 1963 onward, Community steel firms were able to offer lower prices by aligning on the prices of foreign suppliers (ECSC, 1965, pp. 46-47, emphasis in original):

It was found in 1963 that, even where production was not sold at prices directly aligned on quotations from third countries, the Community *price level* was largely determined by the schedules of a number of small firms which had slashed their prices under pressure of imports. If the market were to ease once more, there would doubtless be a widespread recrudescence of alignment on third-country offers. The problem has thus to be faced of the influence of the marginal world price on the level of internal Common Market prices.

It is noteworthy that in 1965 the High Authority continued to regard price competition as a problem.

Labor

There was no general migration of labor in ECSC sectors of the economy. There was substantial employment of Italian workers in Belgian mines in the early years of the ECSC. This seems to have been independent of the formation of the ECSC (Diebold, 1959, pp. 441-442). Many of these workers returned to Italy in the late 1950s, with the collapse of the Belgian coal sector (Milward, 1992, p. 114).

Long Day's Journeys Into Night

Coal

When the ECSC came into being, it had the twin tasks of integrating a set of war-torn national coal industries into a single market while at the same time managing their return to a state of normal economic activity. Those who designed the structure of ECSC institutions never anticipated the sharp decline in demand for European coal depicted in Figure 1 (EC Commission, 1977, p. 129):

the prediction made in the General Objectives in 1956 that coal would still satisfy over half of the Community's energy requirements in 1975, proved incorrect; its share in satisfying primary energy consumption had dropped to one-fifth by 1975.

Faced with this decline, integration assumed secondary importance, and the institutional structure was adapted accordingly.

Early on, the decline in demand for ECSC coal was driven by the availability of low-cost foreign supplies, first from the United States and then from Poland and elsewhere. Steel mills were an important source of demand for coking coal. Mills built during the postwar period tended to be placed in coastal regions, to facilitate access to foreign coke (Warren, 1975, pp. 156-165), and the governments of steel-producing (that is, coke-consuming) Member States resisted the proposals by governments of coal-

producing Member States to prop up the price of coal. State aid proliferated (EC Commission, 1977, pp. 87-90).

From the late 1950s onward, the substitution of less-expensive oil for more-expensive coal in a generalized market for primary sources of energy was behind the decline in demand for coal. The rational response of intermediate-good producers in a wide range of energy-using industries dictated a shift from coal to oil. Continued reliance on coal would have made ECSC manufactured products less competitive on world markets, encouraged calls for protection against foreign manufacturers, and raised the cost of living for ECSC consumers.

The oil crises of 1973 and 1979 did not fundamentally alter the situation. The real price of crude oil rose relative to that of coal, tending to make coal more attractive as an energy source. But the 1974 collapse of the steel market (Figure 3) reduced the demand for coking coal, and an increased emphasis on the efficient use of energy acted to hold down overall demand for energy, whether from coal or oil.

In this situation, the administrative perspective emphasized physical supplies (EC Commission, 1977, p. 133):

The focal point of any really long-term energy policy is resource availability. In a market economy ... energy policy must ensure that short-term advantages do not endanger the long-term security of energy supply. Community reserves of coal ... dwarf those of other primary energy sources, and hence coal is the only energy carrier which is readily available on a secure, long-term basis.

Such a viewpoint is seriously incomplete, in that it ignores the cost at which successive quantities of coal may be taken out of the ground – heuristically, the upward slope of the supply curve. There are vast coal reserves in Europe (as, indeed, there are in many other parts of the world). Most of that coal is of such low quality or in such out-of-

the-way places that it will never be economic to extract it. It seems likely that while policies supporting the coal sector (Gordon, 1970, p. 318)

are generally defended because they contribute to security of supply ... much of the pressure for protection comes from within the coal industry. The security argument may simply be a rationalization of the desires to avoid adjustment; the real cause of protection thus is fear of unemployment and readjustment.

Steel

As noted above and illustrated in Figure 3, the bottom fell out of the ECSC steel market in 1974. The structural nature of the resulting overcapacity was not at first recognized: in 1974, the European Commission predicted that although capacity utilization would fall to 65% in 1975, demand would recover by 1980, at which time the existing capacity would be inadequate (Heusdens and de Horn, 1980, p. 33).

The emergence of structural overcapacity cannot be attributed entirely to the oil shocks of 1973 and 1979. Capacity that would have been sufficient to meet economy-wide growth continuing at the extraordinary rates of the recovery years of the 1950s and early 1960s would in any case have been excessive when growth returned to lower, more typical, rates. Nor could it be anticipated that European (and North American) steel makers would maintain sales levels on export markets as developing countries brought their own steel industries on line (Carlsson, 1981, pp. 129-131).

In response to the steel crisis, the European Commission (now acting in its incarnation as the ECSC High Authority) implemented successively more elaborate measures, passing from voluntary limits on output to mandatory minimum prices.⁵⁰ Minimum prices reduced the competitive advantage of low-cost suppliers, particularly

⁵⁰ For descriptions of the steel crisis measures, see Heusdens and de Horn (1980), Tsoukalis and Strauss (1985, 1987), and Bain (1992).

Italian minimills, early adopters of what proved to be an innovative technology, and aid granted by Member States to old-style integrated producers enabled them to delay making inevitable reductions in capacity (Moore, 1998).⁵¹ The combination of Community and Member State policies had the effect of protecting inefficient firms and worsening market performance.

Conclusion

The ECSC was a stalking horse of European integration, leading the way for the EEC and Euratom, which followed the ECSC by just five and one-half years.⁵² In leading the way, it showed not only the heights that could be attained by successful market integration but also the obstacles to be overcome.

The ECSC Treaty established a supranational infrastructure to manage the integration of European coal, steel, and related sectors. It is widely held to have prevented price discrimination and to have promoted competition.

The ECSC did not prevent price discrimination; in the steel sector, it compelled it. If it had succeeded in stopping price discrimination, it would have worsened market performance and delivered a form of market integration that benefited producers and workers at the expense of consumers.

The ECSC High Authority expended great effort on the supervision of joint-buying and joint-selling agencies, which were often referred to as cartels. There were a lot of them, and it is interesting to speculate how market integration and market

⁵¹ For a discussion of the state aid tangle, see Martin and Valbonesi (2000).

⁵² In a legal sense, the ECSC maintained a separate profile until the expiry of the Treaty of Paris on 23 July 2002. In substantial ways, however, the path of the ECSC converged with that of its sister Communities from 1965 and decision, embodied in the Treaty of Brussels, to merge the three Communities. That decision, which took effect from 1 July 1967, provided that the European Commission would assume the mantle of the High Authority of the ECSC.

performance might have gone forward if they had been allowed to operate, so long as they found it profitable to do so, but with their legal grants of exclusivity revoked. Be that as it may, the price transparency mandated by the Treaty was more effective in reining in competition than overt or tacit private collusion could possibly have been.

The High Authority's task, prescribed by the Treaty, was to negotiate a path between "not enough" competition and "too much" competition (EC Commission, 1977, p. 62):

the provisions of the ECSC Treaty designed to combat practices which would restrict competition are not intended to permit unlimited competition between the various undertakings. The main aim is to ensure that minimum margin of competitiveness necessary for the achievement of the aims of the Treaty, which include in particular ensuring that the most rational distribution of production at the highest possible level of productivity is not jeopardized by agreements which form obstacles to production

In both coal and steel, the Treaty proved to be a straitjacket that prevented the realization of a rational distribution of production. Judging by their actions, Member States were willing to accept some increase in price competition as a consequence of market integration. They were not willing to accept the efficient reallocation of production that increased price competition would bring. The result of this rejection of the market mechanism was repeated failure by Member States to adhere to the terms of the Treaty, failures that lasted either until a judgment by the Court of Justice compelled compliance or until an accommodation had been worked out with the High Authority.

"Supranational," by dictionary definition, means "transcending national boundaries, authority, or interests." Delors (1994, p. xviii) has given a favorable assessment of this aspect of ECSC performance in his foreword to Spierenburg and Poidevin's history of the High Authority (1994):

Readers of this book will discover what strengths the High Authority drew from its collegiate system and from the independence of its members in discharging its supranational responsibility. The collegiate system was the touchstone of equality between the Member States, but it could have ended in deadlock if the members of the High Authority had remained under their influence.

Against this must be set the more somber conclusion of Milward (1994, p. 117):

The High Authority, as the decisions at the end of April 1955 made clear, was not the triumph of functionalism, but a powerful international committee within which separate national representatives argued for separate national policies. Common decisions and policies were only possible where there were wide areas of agreement between nations.

The history of the ECSC in the run-up to the 1967 merging of the three Communities suggests that Community institutions can negotiate and cajole but not compel adherence to Treaty commitments. Like tacit collusion, the building of a common market is a noncooperative enterprise, with Member States agreeing to the high road as a matter of principle and taking the low road of defection on the details when that suits their individual self-interest.⁵³

The goals of the ECSC were not economic but political. The economic difficulties that the ECSC faced do not, therefore, indicate that it was a failure.⁵⁴ But the ECSC passed on to the EC the approach of pursuing political goals by means of market integration, with scant attention to or understanding of the functioning of the (all too often) imperfectly competitive markets targeted by the integration process. The lesson of the ECSC is that markets work, and that if economic integration is to yield sensible

⁵³ De Gaulle's remark "Les traités sont comme les roses et les jeunes filles, ils ne durent qu'un matin" comes to mind, as does Adenauer's reply "Rosen und junge Mädchen, natürlich haben sie ihre Zeit, aber die Rose – und davon verstehe ich nun wirklich etwas ... – ist die ausdauerndste Pflanze, die wir überhaupt haben – sie hält jeden Winter durch." As far as European integration is concerned, de Gaulle's view may have been more correct in the short run, Adenauer's in the long run.

⁵⁴ Although Milward (1994, p. 111) concludes, discussing the Belgian coal crisis, that at the time of the signing of the Treaties of Rome, the ECSC had "virtually collapsed."

results over the long run, it must be carried out in a manner that is consistent with the way markets work.

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