



MARY EVANS

History matters:

lessons from the marketplace

The European trade market is entering a new era. Or is it? **Stephan Epstein** is researching the integration of European markets between the 13th and 18th centuries and finding some fascinating parallels with current trade and political issues in the EU.

European integration and globalisation are some of the most controversial and hotly debated topics within political and economic circles and among the public at large.

Four questions loom large. Are they a new phenomenon, and if so, how different are they from earlier periods of market integration? Do they benefit everyone equally, and how are any potential losers to be compensated? Do differences in political and constitutional structure matter for a country's economic performance, and are some kinds of state more 'efficient' than others? Or does globalisation undermine political and legal institutions and spell the end of the modern state?

A study of market and political integration in pre-industrial Europe highlights many similarities and some important differences between past experience and the present. The main parallels between historical and current processes of market integration are as follows.

The origins of European market integration can be traced back to the 13th century. Until the 19th century, the driving force of integration was the rise of centralised, sovereign states which enforced the rules of co-operation that underpinned trade and markets. The main factor holding back integration was the huge variety of legal and fiscal jurisdictions that made market co-ordination and co-operation very costly.

Although the political and economic landscapes are very different, the purpose of much EU legislation on the internal market remains to overcome political and legal constraints on mobility and trade between national members. Although current views of globalisation emphasise the impact of technological change and the 'electronic revolution', political issues still seem to loom larger.

Pre-modern European market integration was not linear. Strong gains in the 13th, 16th and 19th centuries were followed by sharp although never complete reversals. Market disintegration was always brought about by war, which caused economic and political co-operation to collapse.

From the very beginning, the architects of European integration were aware of the link between war and economic disintegration, and saw it as a major objective to end war on European soil for ever. The same goal inspires the current drive to integrate the East.

Poorly organised markets held back investment and innovation in pre-modern agriculture, which therefore rarely operated at its full potential. Low agricultural productivity was not caused by inadequate technology, but by a lack of market incentives to use the best available techniques.

In the same way, the EU's stated aim to become the world's most competitive economy by 2010 is based mainly on using existing skills and resources more effectively, rather than acquiring new ones.

What can historical analysis tell us about current political issues raised by integration in the EU and elsewhere?

Those who stand to lose most from institutional change will put up strong opposition. In pre-modern Europe the speed of social and economic change depended on the balance of power between potential losers and the state; weaker states had to spend more effort and resources in gaining the losers' support. So differences in political structure mattered for a country's economic performance, because they determined the costs of integration. For example, the leaders of Italian city-states opposed integration into larger states, because they stood to lose lucrative tax rights and monopolies in the countryside; and because of the piecemeal way they came into being, early modern 'absolutist' states like France and Spain found it very costly to overcome resistance to centralisation, so integration was slow. Indeed, in Continental Europe, full jurisdictional integration was only achieved after the French Revolution. By contrast, England, which had a highly centralised state since the Middle Ages, achieved full integration earlier and at far less cost.

The EU is currently rather like a pre-modern European state, an unwieldy hotch-potch of competing political structures, claims and objectives built up over time. In the past, important political reform has always come about after war or revolution; now, the Convention on the Future of Europe presided over by Valéry Giscard d'Estaing aims to forge a new political consensus from the crucible of peace.

Far from undermining the state, processes of economic and technological integration in the past were always based on strong state action. Economic growth created pressures for more efficient market organisation, which required both a stronger centre to simplify and co-ordinate existing market institutions, and new peripheral authorities to enforce the new 'rules of the game'.

History tells us that integration does not spell the end of the state, but its transformation. Current debates in the EU over the correct balance between centralisation and subsidiarity, and the widespread perception that centralisation to Brussels has devolved power away from national governments to the regions, reflect such ongoing shifts in political organisation.

European integration has always combined political and economic change. Every step on the path of integration has had its winners (the

majority) and losers (a vocal and often powerful minority). Although the winners and losers in the political stakes have never fully overlapped with the winners and losers in the economic stakes, those resisting integration have often deliberately confused the two issues.

A similar confusion between the economic and political consequences of integration appears in current anti-integrationist movements in Europe, which include political conservatives and libertarians, unskilled workers and small businesses, and ecological fundamentalists and radical free traders.

If losers are not compensated, the conflict of interest will delay integration. Since political losses from integration are harder to measure than economic losses, it is harder to devise compensation. In the past, conflicting political rights and poor systems of compensation could delay integration for centuries, and cause major economic damage.

Delegates to the Convention on the Future of Europe face similar problems in compromising between a great variety of long-established political traditions and institutions. However, modern individual rights and state claims are more clearly defined than in pre-modern Europe, making it easier to achieve compromise and compensation.

So what can we conclude about the future of globalisation?

Global market integration has few of the historical supports on which modern European integration is built. It faces two major stumbling blocks that the EU is meant to overcome: individual nations must give up some sovereignty by submitting to rules and penalties which they do not fully control, and they must be willing to compensate those who stand to lose from integration. Although the World Trade Organisation (WTO) currently supplies the rules, there are no formal arrangements to compensate those who stand to lose from them. This gives rise to protectionism in the more powerful countries, and resentment among the poorer. Globalisation will remain vulnerable to major setbacks as long as the more powerful nations are unwilling to bear the costs, as well as the benefits, of international integration. ■



Stephan R Epstein

is Professor of Economic History at LSE. His book *Freedom and Growth: the rise of states and markets in Europe 1300-1750* was awarded the Gyorgi Rank Biennial Prize by the American Economic History Association for the Outstanding Book on the Economic History of Europe published in 1999-2000. © Stephan R Epstein, 2002

Economic History

With a history of illustrious academics including Lillian Knowles, Eileen Power and RH Tawney, the School's Economic History Department continues to flourish. Some highlights of recent activity include:

■ Professor Paul Johnson's work on the history of the East End of London, available as an online seminar on the Fathom knowledge website at www.fathom.com. As featured in *The Guardian* this year, the seminar builds up a rich picture of the East End using video, recordings of oral history, maps and pictures as well as original documents that people are encouraged to analyse for themselves – including police reports on the Jack the Ripper case. The seminar costs £31 for six hours' worth of material, which people can work through at their own speed.



■ The publication in April of *British Rail 1974-1997: from integration to privatisation* (OUP, 2002), a new book by Dr Terry Gourvish, director of the Business

History Unit, a self-financing research programme within the Department.

www.lse.ac.uk/Depts/economic-history