"Britain and the European Coal and Steel Community"

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For most of the countries represented at this conference the fiftieth anniversary of the European Coal and Steel Community is a cause of celebration. The Treaty of Paris is rightly seen as a first and crucial step towards European integration, a process which has brought immense benefits to the citizens of the six founder-members. For Britain, on the other hand, the event is remembered as a missed opportunity, setting the country on an isolationist course which, though belatedly corrected in the 1970s, had profoundly damaging economic and political consequences.

Britain had two opportunities of joining the ECSC in its formative stage – the first in 1950-51, when the British government was invited by Jean Monnet to join in creating the Community, and the second in 1953-54, when negotiations on an association agreement between Britain and the ECSC might have led – had there been sufficient political will on the British side – to full membership. To understand why these decisions were taken, one needs to examine both the political mood in post-war Britain and the industrial background, including the previous history of the British steel industry.

In contrast to the situation in France and Germany, the outcome of the second world war did not set in train a fundamental reform of national policies and institutions, nor did it precipitate any serious questioning of Britain's place in the world. Britain, after all, had been on the winning side in the war, and its institutions had served the country well. Although Britain's economic position in the aftermath of the war was extremely weak, this was seen as a temporary problem which could be tackled through appropriate domestic policies and short-term support from the US. What was not in doubt was that Britain was and should continue to be a world power, intimately linked to a Commonwealth of nations which had proved its worth during the war.

These sentiments were shared across the political spectrum, and were at the root of British scepticism towards the idea of European integration – an idea which, from 1947 onwards, was promoted strongly by the US. As Ernest Bevin, foreign secretary in the first Labour post-war government, insisted, Britain was not "just another European country", and could not be lumped in with Continental nations which had very different histories and were grappling with very different problems. "In every respect except distance", a Labour party document argued, "we are closer to our kinsmen in Australia and New Zealand on the far side of the world, than we are to Europe. We are closer in language and in origins, in social habits and institutions, in political outlook and in economic interest. The economies of the Commonwealth countries are complementary to that of Britain to a degree which those of Western Europe could never equal".[i]

Given this background, it is not surprising that the immediate reaction to the announcement of the Schuman Plan in May, 1950, was unenthusiastic. But there were other factors, stemming from the fact that a Labour government was in power, which tended to reinforce British hostility. Labour's victory in the 1945 election - a stunning rejection of Winston Churchill, the war-time leader - had come about, in part, because the

Labour party was thought more likely than the Conservatives to prevent a return to the high unemployment and social distress of the inter-war years.

Labour was committed to a high level of spending on social welfare programmes, the centrepiece of which was to be the National Health Service. The party's economic thinkers also believed that, to maintain full employment, the government would have to intervene directly in the economy, not only by managing aggregate demand along the lines recommended by the great British economist, John Maynard Keynes, but also by taking control of what were described as the "commanding heights" of the economy. These were the basic industries which, because of the size of their investment programmes and because they provided essential inputs to other sectors, were too important to be left to the market.

Coal was one of the first of these industries to be taken into public ownership, along with electricity, gas and the railways. Steel was also part of the nationalisation programme, but it was not included in the first wave of takeovers, partly because of the industry's complex structure – it consisted of a large number of firms, some of them closely linked to engineering and other downstream activities – and partly because of fierce opposition from the steelmakers. There were also doubts among some Labour ministers as to whether public ownership was really necessary to achieve the government's objectives in steel.

However, any compromise solution that fell short of full-scale nationalization was anathema to the left wing of the Labour party, and by the time of the Schuman Plan announcement the steel nationalisation bill was working its way through the House of Commons. The new state-owned entity, the Iron and Steel Corporation of Great Britain, was formally established in 1951.

Although Jean Monnet assured the British government that public ownership of coal and steel did not constitute a bar to membership of the ECSC, the British side was unconvinced. Ministers believed that their economic goals would be put at risk if they surrendered control over coal and steel to a supranational authority which was legally obliged to act in the interests of the Community as a whole. A further anxiety was that the governments of several member countries did not share Labour's enthusiasm for economic planning, but rather espoused a free-market philosophy which was totally at odds with Labour's principles. This was particularly true of West Germany, where the victory of the Christian Democrats in the first Federal elections of 1949 had dismayed Labour politicians.

These political considerations might have been less decisive if the steel industry itself, or its customers, had been eager to join the ECSC. However, on this issue, unlike nationalisation, the views of the government and the steelmakers were not far apart. The industry's attitude was shaped in large measure by what had happened in the inter-war years. During the 1920s the British steel market had come under heavy attack from low-priced steel imported from Continental Europe – accounting for nearly half total consumption in some years; at one stage German plates were being sold at 82 shillings per ton fob Antwerp, compared with 151 shillings per ton fob Essen.

The steelmakers pressed hard for some protection against dumping, and warmly welcomed the government's historic decision, taken in 1932, to abandon free trade. The introduction two years later of a 33 1/3 per cent ad valorem tariff effectively insulated the British market from Continental competition. At the same time, the government introduced a new regulatory system, whereby the industry's pricing and investment decisions were monitored and controlled by a public authority – the Import Duties Advisory Committee (IDAC).

These arrangements, combining price control at home with protection against competition from overseas, remained in place after the second world war. The Import Duties Advisory Committee was replaced with an Iron and Steel Board, which worked closely with the industry's central trade body, the British Iron and Steel Federation. Despite the restrictions which this system imposed on their freedom of action, most British steelmakers were content with it. The pricing controls exercised by the Board allowed them to make adequate profits when demand was strong, and – of vital importance - prevented a collapse of prices during a recession.

Another aspect of the regulatory system was the government's involvement in influencing the prices of the industry's raw materials – iron ore, coking coal and scrap. The effect was to keep the price of these inputs, and hence the price of British steel, below Continental levels. Partly for this reason, there was no pressure from the industry's customers to open up the British steel market to Continental competition. In this respect the British situation was very different from that of France, where the big users, notably Renault, saw the proposed Coal and Steel Community as a way of putting pressure on the steel industry to make itself more efficient and to cut prices. In Britain a substantial modernisation programme was under way, including the construction of a third wide strip mill in South Wales. As long as the British car manufacturers and other steel users could get cheap steel in adequate quantities, they had little incentive to disturb the status quo. Indeed, a common market in steel, if it led to British steel prices moving upwards to Continental levels, might eliminate a cost advantage for British exporters.

In view of Britain's relatively low steel prices, one might have expected the steelmakers to welcome the opportunity of gaining freer access, via the Coal and Steel Community, to the Continental market. But the possibility of selling more steel in Europe ranked lower in the industry's priorities than the need to retain their special position in the Commonwealth. The imperial preference system set up in the 1930s gave British steelmakers privileged access to Commonwealth markets; in 1950 those markets took nearly 60 per cent of Britain's steel imports, an even higher proportion than in the 1930s. As one industry analyst observed, "the overwhelming importance of Commonwealth markets to British steel exporters weighs heavily in favour of extreme caution when considering changes in British steel tariffs".[ii] Equally, British steelmakers had no interest in Ruhr coking coal or Lorraine iron ore; most of its raw materials were either home-produced or came from non-ECSC sources.

From the industry's point of view, then, an isolationist or insular stance appeared to make commercial sense, and it reinforced very similar attitudes on the part of the government. A few outside commentators, notably the Economist, criticised this position, pointing out that competing in an open European market would in the long run be good for the industry and its customers. But the promotion of competition, whether internally or through lower import barriers, did not sit easily with Labour ideology, and the Economist's argument won little support.

Labour was defeated in the 1951 election, giving way to a Conservative government which, at least in principle, was committed to reducing state control over the economy and allowing markets greater sway. An early decision was to denationalise the steel industry. The Iron and Steel Corporation was disbanded, and by the mid-1950s most of the companies had been returned to the private sector. However, this did not involve a radical overhaul of the regulatory arrangements under which the industry had been operating since 1945. The Iron and Steel Board (which had disappeared during the brief period of nationalisation) was re-established in 1953, with similar powers over pricing and investment, and the protective tariff was retained.

The Conservative government was also as committed as its Labour predecessor to maintaining the Commonwealth connection. As Winston Churchill put it in a memorandum to the Cabinet in 1951, “our attitude towards further economic developments on Schuman lines resembles that which we adopt about the European army. We help, we dedicate, we play a part, but we are not merged and do not forfeit our insular or Commonwealth character. I should resist any American pressure to treat Britain on the same footing as the European states”.[iii]

From Jean Monnet’s point of view, however, the arguments for associating Britain with the ECSC, and with European integration in general, were just as strong as they had been in 1950. Hence he was eager to reach an agreement with the new government which would both enlarge the Community and demonstrate Britain’s commitment to Europe. This was a view not wholly shared by member governments. The French, for example, were concerned about competition from cheap British steel. Others pointed to Britain’s advantages in low raw material costs, partly stemming from government subsidies, and argued that these costs should be equalised before any agreement with Britain came into effect.

Negotiations on an association agreement got under way in 1953, at a time when the future course of European integration was unclear. Monnet was losing influence in France, and the rejection by the French national assembly of the proposed European Defence Community in the summer of 1954 came as a serious blow to his hopes. On the British side, although Churchill and his foreign minister, Anthony Eden, were anxious to maintain friendly relations – Churchill described the ECSC an important counterweight to the Soviet threat – the politicians were uneasy about the federal character of the High Authority, and about the loss of sovereignty which would be involved in membership.

The steelmakers, once again, were hostile. Their particular anxiety, as before, concerned pricing, and they were not impressed by the failure of the High Authority to check the decline in Continental steel prices that had begun in late 1953. For the British steelmakers, this highlighted what they saw as a fatal weakness in the basing-point pricing system that had been introduced within the Community; by allowing producers to align prices downwards to meet competition, they were opening, as one steelmaker remarked, a trapdoor to hell. There was, according to an industry insider, a fundamental clash of concepts, between the Continental view that steel prices were best left to the market and a British attitude that had been largely conditioned by the excess competition and dumping of the inter-war years. “The view has been taken that in the steel industry uncontrolled competition is likely to be mutually destructive”.[iv]

Hence in their advice to the government over the negotiations with the ECSC the steelmakers restated their view that the distinctive arrangements which governed the British steel market should be maintained, that investment and pricing decisions should continue to be taken at the national level, and that any common institution which might be might set up between Britain and the ECSC should be purely consultative in nature.

They were supported in this position by the engineering employers, who “did not accept the argument that a common market for steel would give better prospects of getting cheap steel” and thought they would be better served by “a UK steel industry protected against influences likely to cause fluctuations in prices”.[v]

In the light of this opposition, acceptance of a common market in steel, along the lines proposed by Monnet, would have needed a British government strongly committed both to competition and to European integration. As it was, there was no disposition on the government's part to overrule the industry. Despite their rhetorical commitment to competition, Conservative ministers appeared to have no clear understanding of the advantages to the steel industry, and to British manufacturing industry more generally, of competing in a large, open market. There was still an attachment to the idea of complementarity – that because the Continental countries (unlike the Commonwealth) made the same things as Britain, there would be no value in a customs union. As Duncan Burn, the leading historian of the British steel industry, wrote later, “this dismissed…one main argument for the large market, namely, that it derived value from the scope it gave for larger units without unavoidable monopoly, and for the replacing of less efficient by more efficient methods and locations. The emphasis on the smallness of exports to the Community was a producers’ argument, and in character insular”.[vi]

The outcome of the negotiations, at the end of 1954, was an association agreement which was little more than expression of good neighbourly relations. It did nothing to reduce the isolation of the British market; at the end of the 1950s steel trade between the UK and Continental Europe had fallen to its lowest ever level. But by that time British attitudes to Europe had changed, and in 1961 Harold Macmillan made the historic decision to apply for membership of what had become the European Economic Community. De Gaulle’s veto in January, 1963, put an end to this first overture, and it was to be another ten years before British membership was finally accepted.

With the benefit of hindsight, the decisions taken in 1950 and 1954 to reject membership of the Coal and Steel Community were mistaken both in political and economic terms. Because of history, because of the attachment to Empire and because of an erroneous view of how trade in Europe would develop, Britain threw away an opportunity to play a leading part in the development of post-war Europe. As one historian has written, “Great Britain was invited in, but the British were too puffed up to pass through the door jamb. The United Kingdom might have entered Europe at a time when it could have led it, shaped it and adapted to it”.[vii] This writer goes on to criticize the British for refusing to accept the war’s verdict, and to accept that the world they had once dominated was no longer theirs. “Nobody worth counting in either of the main political parties, in any of the economic or administrative elites, or in the public at large, was prepared to pay the high price of adjustment to a world of economic competition. It would take another twenty years of failure to begin to change this”.

From an industrial point of view, the most serious consequence of Britain’s decision not to participate in the Coal and Steel Community and then in the European Economic Community was that British manufacturers did not participate to anything like the same degree as their Continental counterparts in the spectacular expansion of intra-European trade which took place in the 1950s and 1960s. Although other factors were also at work during this period, including errors in the conduct of macro- and micro-economic policy, the focus on non-European markets almost certainly contributed to the relatively sluggish growth of productivity in British industry, and to a fall in its share of world exports. An extreme case was the motor industry, which, from a position of apparent dominance in Europe in the early 1950s, declined to a point where, by the mid-1970s, it was barely half the size of the German and French industries.

As far as the steel industry itself is concerned, the direct impact of non-Europe is less easy to assess. It is probably true that the creation of the Coal and Steel Community acted as a stimulus to change among the industries of the six member countries, encouraging some rationalization and new investment which might not otherwise have occurred. On the other hand, the common market in steel did not evolve in the way that Jean Monnet had envisaged. When the ECSC came into operation at the end of 1952, it appeared to be, as Ruggero Ranieri has written, "a combination of centralised regulation, traditional business practices and elements of genuine liberalisation".[viii] What became clear over the next few years was that national governments continued to regard steel as a strategic industry, even to the extent of flouting the High Authority when essential national interests were at stake.

This was particularly true of France, where the government supplied much of the industry's financing needs, intervened in its pricing decisions (mainly with a view to keeping prices low) and influenced the timing and location of new investment; there was no question of allowing the fate of the industry to be decided by the market. Partly because of its dependence on government funds, the French steelmakers were poorly placed to withstand the collapse of the world steel market which occurred in the mid-1970s. The subsequent collapse of the two principal companies – and their de facto nationalization at the end of the decade - has been described as one of the great failures of post-war French industrial policy.[ix]

Nevertheless, the creation of the ECSC did force French steelmakers to think in European terms, and to plan for a large, open market. Flawed though it was in operation, the Treaty of Paris represented an important check to the autarkic trend which had dominated European steel, and European economic development in general, since the first world war. Not being part of this emerging free-trade area allowed British steelmakers – and their supervising authorities – to persist in their parochial, backward-looking attitudes. One of the best-known cases of such parochialism was the so-called judgement of Solomon, by the Prime Minister, Harold Macmillan, in 1959. The issue which Macmillan had to decide was the location of Britain's fourth wide strip mill, and he was faced with powerful lobbying from business and trade union interests in Scotland and South Wales, pressing for the new plant to be located in their region. Macmillan's response was to split the works into two, thus saddling the British steel industry and its customers with two sub-optimal facilities. As Duncan Burn wrote, "the greatest economic disadvantage would be sacrificed deliberately in the interests of immediate social comfort and convenience".[x]

Would that decision have been different if Britain had been a member of the European Coal and Steel Community? Duncan Burn thought so, arguing that the approach taken by the Macmillan government in 1959 was very different from that of the ECSC, whose starting point was that ultimate cost reduction should not be sacrificed, and that the action of the Community should be designed to help the transition towards a distribution of industry which would be consistent with this. "The British government's policy would have the effect of lessening the increase of productivity, the ECSC was designed to maximize it".[xi]

This comment may understate the extent to which social, employment-saving considerations affected decision-making in steel within the Community, but the 1959 strip mill decision certainly underlines the insularity of the British approach, and this might have been alleviated if Britain had joined the Community in the early 1950s.

A much more costly decision – and one that was due almost entirely to political or ideological considerations - was the re-nationalisation of steel in 1967. Ever since Labour had been defeated in 1951, Labour had included in its election manifestos a promise to take steel back into public ownership, and, when it regained office in 1964, it was finally able to put this pledge into effect. The effect of nationalization was to make the industry even more vulnerable to political interference and to weaken the commercial pressures for greater efficiency. The first big mistake was to launch the British Steel Corporation on a massive programme of expansion in the early 1970s, just before the collapse in world steel markets. The Corporation was then under extreme pressure from the government and the trade unions to delay plant closures, with the result that, by the end of the 1970s, it had far too much capacity and was incurring very large losses. At that time the productivity gap between Britain and Germany was wider in steel than in any other major industry.

Would these mistakes have been avoided if the UK had been part of the European Coal and Steel Community? Probably not. The source of the problem was the existence of a major political party, Labour, which was committed to nationalization and unsympathetic to markets. Similarly, the revival of the British steel industry during the 1980s cannot be linked directly to the fact that by then Britain was a member of the EEC. The most important factor behind the revival was the set of reforms that came to be known as Thatcherism.

The Thatcher government which took office in 1979 was determined to end British Steel's losses and to convert it into a normal company; it was successfully privatized in 1987. This was achieved through a drastic programme of cost reduction and productivity improvement, including a radically different relationship with employees and trade unions. Nevertheless, the changes that took place in the British steel industry during those years also involved what might be called delayed Europeanisation. In striking contrast to the attitudes of the 1950s, the management of British Steel now saw Continental Europe as vital to its future, and considerable efforts were made during the 1980s and 1990s to enlarge its share of the European market. The final break with the British steel industry's insular past came in 1999, when British Steel merged with the Dutch company, Hoogovens, to form Corus.

Thus the history of the British steel industry between the 1950s and the 1990s illustrates one of the central themes in Britain's post-war economic performance – a hesitant shift from a backward-looking, Empire-orientated approach towards full involvement with Europe. It would be absurd to claim that the performance of the British economy – or the performance of the steel industry in particular – would have been transformed if Britain had joined the Coal and Steel Community in 1952, or the European Economic Community in 1957. There were many other reasons which Britain did not grow as fast as Germany, France and Italy during the 1950s and 1960s, and some of them were outside the control of the British government. Nevertheless, the decision to stand aside from European integration in the 1950s was a mistake, and the country paid a heavy price for it.

[i] Labour Party document, "European Unity", quoted in Edmund Dell, The Schuman Plan and the British abdication of leadership in Europe, Oxford, 1995, p199

[ii] James Driscoll, Association with Schumania, Journal of Industrial Economics, Vol 3, No 2, April 1955

[iii] Quoted in Alan Bullock, Ernest Bevin, Foreign Secretary, 1945-1951, Oxford, 1983, p787

[iv] Driscoll, Association with Schumania, op cit

[v] Driscoll, Association with Schumania, op cit

[vi] Duncan Burn, The steel industry, 1939-1959, Cambridge, 1961, p468

[vii] John Gillingham, Coal, steel and the rebirth of Europe, 1945-1955, Cambridge 1991

[viii] Ruggero Ranieri, Inside or outside the magic circle: the Italian and British steel industries face to face with the Schuman Plan, in A.S.Milward et al, The Frontier of National Sovereignty, Routledge, 1993

[ix] Jack Hayward, The nemesis of industrial patriotism: the French response to the steel crisis, in Yves Meny and Vincent Wright (eds), The politics of steel,: Western Europe and the steel industry in the crisis years, 1974-1984, De Gruyter, Berlin 1987

[x] Duncan Burn, The steel industry 1939-1959, p656

[xi] Duncan Burn, The steel industry, 1939-1959, p656