What makes a trading organization successful? A comparative analysis on the European Economic Community under the Treaty of Rome, Hanseatic League, and United States under the Articles of Confederation as Trade Confederacies.

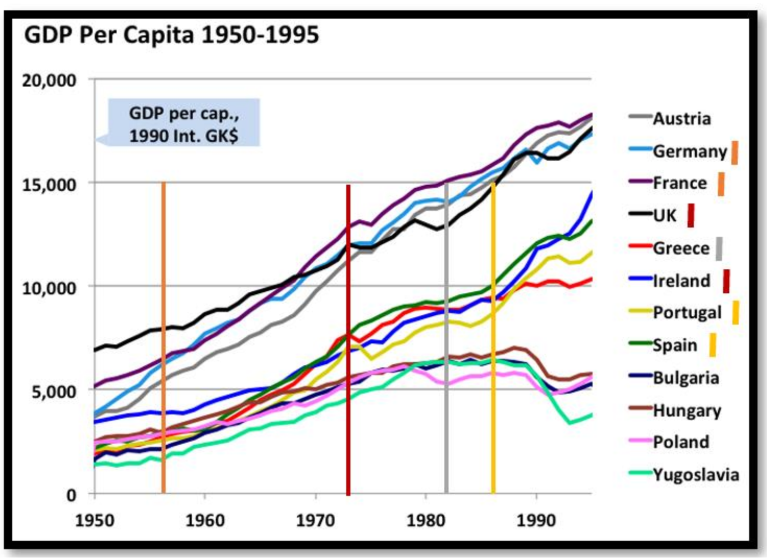
***Introduction***

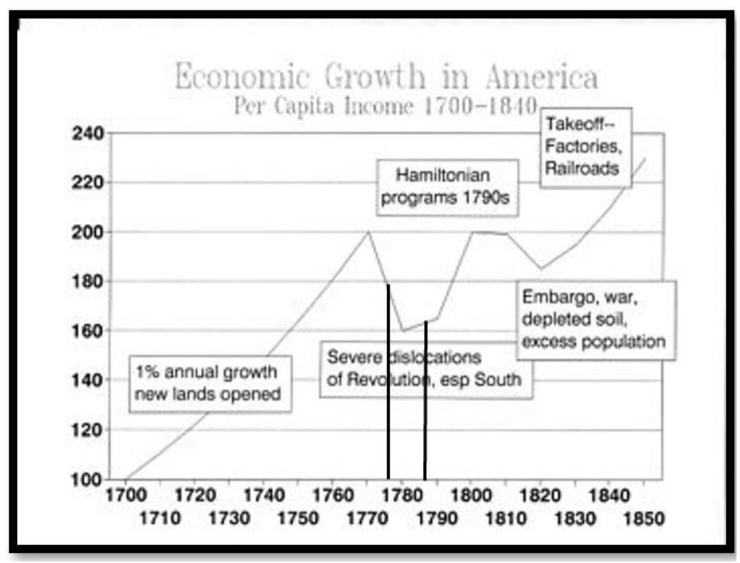
Historically, there have been numerous trade confederacies, blocs, and organizations. These confederacies have ranged in size and fortune; measured either in centuries and continents or in months and meters. Today, many wonder what factors create a successful trade league. However, what is 'successful' for one party may not be so for another. For this essay, trade leagues can be deemed effective or successful if trade increases internally and externally; most states within higher output levels; and, the leagues tend to be politically stable. These factors typically lead to larger blocs that inevitably became well established in their respective regions.

But what conditions and structures enable success; how can they form in a trade league? By analyzing various blocs, both successful and disastrous, commonalities and similarities can be uncovered to answer those questions. The Treaty of Rome European Economic Community (EEC) from 1958 to 1993, Hanseatic League (Hansa), and the Articles of Confederation United States are three of the most famous trading blocs, with the two formers usually described as successful, while the latter is seen as ineffectual and incompetent. These three were chosen primarily for their focus on economic and trading integration rather than political and monetary integration. Hence, the reason for selecting the Treaty of Rome, rather than Maastricht where the union became a political entity, or Paris, where the community only dealt with the trade of certain goods. Comparatively, trading blocs are successful when they have a unified and limited central government, hold a collection of stable currencies, and have a strong political will.

## *GDP and Trade*

The most propitious method of defining the efficacy of a trade union is to determine if trade and GDP increased. For the Hansa and EEC, their GDP and trade increased, both absolutely and relatively (Gareu 1982, 106), while the United States had less trade and lower GDP. The Hansa established a trade monopoly in the North and Baltic Sea on many products that brought much wealth and resources to its cities and *kondore*. The EEC saw increased trade, converged prices, consistent customs, leading to a more integrated and prosperous continent (Garrett 1995, 179). These occurrences established the foundations for the modern EU while enabling those nations to grow at faster rates than the rest of Europe (Cramer 1949, 85-86; *Figure One*). America, on the other hand, saw greater inflation and less trade due to the loss of trade from the British Empire, while simultaneously having each state enforce high and varied tariffs on imports and exports (*Figure Two*).




Figures One and Two: The GDP per capita for the EEC nations and United States respectively. On the left, there are seven EEC members and five nonmembers. Clearly, those who were members were better off than most other European nations and had higher GDPs after they joined. On the right, the lines demark when the Articles of Confederation were in effect. Although there was a slight recovery after the war, it was marginal at best and the average American was worse off. Notice how after the Constitution was ratified, there was twenty years of economic growth (Maddison Project 2011; Rogers 1964).

Where the Hansa and EEC pushed for greater integration amongst their members through political interdependence and trade, American states placed their own independence above all else, leading to a disastrous confederacy.

***Political Structure***

The political structures of trading blocs are of the utmost importance, as they must be strong enough to avoid parochialism and increase diplomatic leverage while being limited enough to allow for local sovereignty. When executed properly, there exists internal cooperation and autarky without undue external influence and intrigue, ensuring stability.

An example of a sound confederation is seen in the Hanseatic League, which lasted from circa 1175 to 1669 (Gaimster 2005, 414). A foremost reason for its long-term success is attributed to its diet and political structure. The Hansa was simply a loose confederation of cities in the Baltic and North Seas. Each town had its own council and laws which were totally independent from the other towns. However, their diet allowed the League to have a central location to deliberate and enabled members to implement League-wide proposals through compromise and majority rule. The diet never became a grounded institution, nevertheless it held vast power over the city-states via commerce regulation. They even had regional diets, Drittels and Quarters, that gave smaller posts the ability to enact localized policy (Harrison 1971, 389).

Uniquely, the Hanseatic League had *kontore*, trade posts in foreign territory that were governed by Hansa *aldermen* and laws (Harrison 1971, 394). *Kontore* were not represented in Lubeck but served as important economic power bases and functional embassies to local foreign rulers.

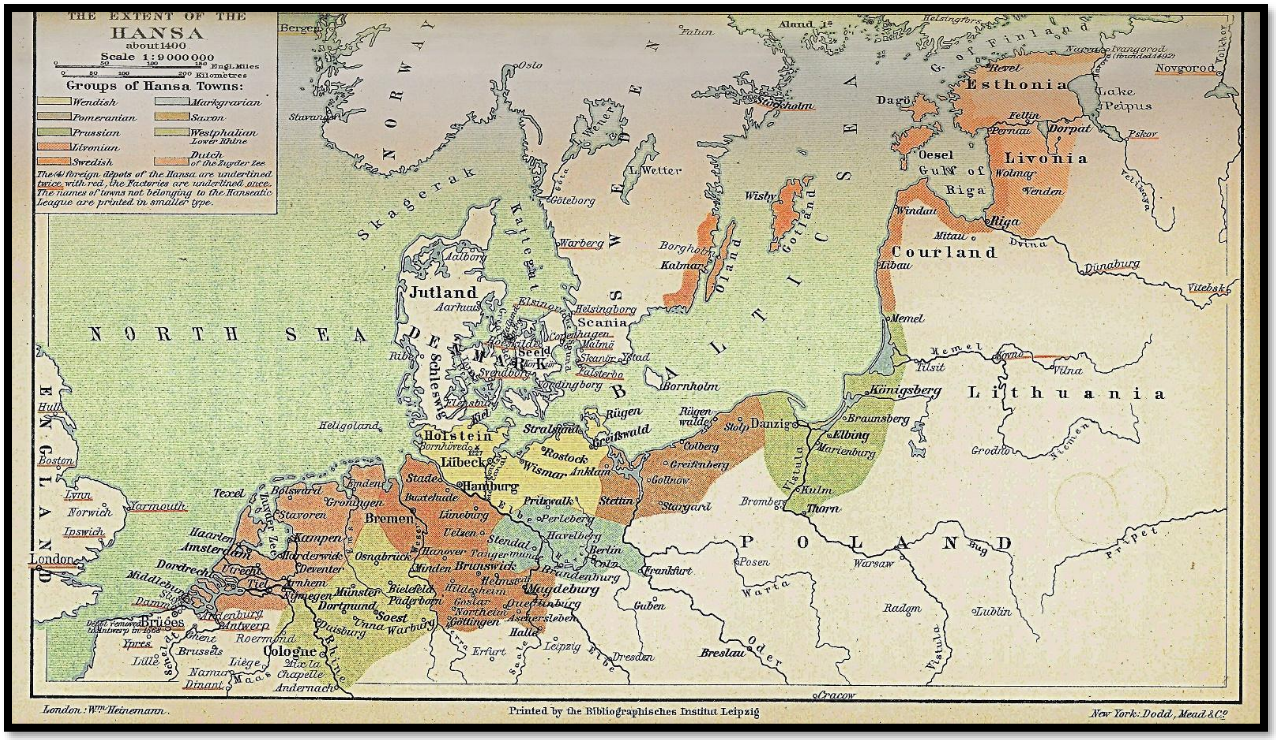



Figure Three: Map of the Hanseatic League around 1400, compromised of each of the shaded areas with the *kontore* cities underlined. The capital, Lubeck, is in the yellow region below the Jutland (Helmolt 1902, 28).

Although created much later, the 1957 Treaty of Rome EEC had a similar structure to the Hansa. Its executive and legislative branches were the European Commission and Council, made of members from each nation (Hodges 1979, 235). There, representatives would meet and debate various policies as well as ensuring that nations were still committed to the EEC. Policies were enacted through a majority or unanimous vote, depending on their nature. The Commission was charged with representing the community, deciding customs duties, and drafting intranational legislation and policy (Piquet 1958, 12). Furthermore, each nation was allowed to veto any decision for any reason. When disagreements arose amongst the nations, it would be settled in the judicial branch, the European Court of Justice (Garrett 1995, 175). Even though nations were pushing for greater interdependence, the EEC still allowed states to keep a large degree of autonomy, as each nation controlled their own military, foreign policy, and legislation. The three branches and their checks and balances ensured a functional and popular medium between European independence and interdependence.

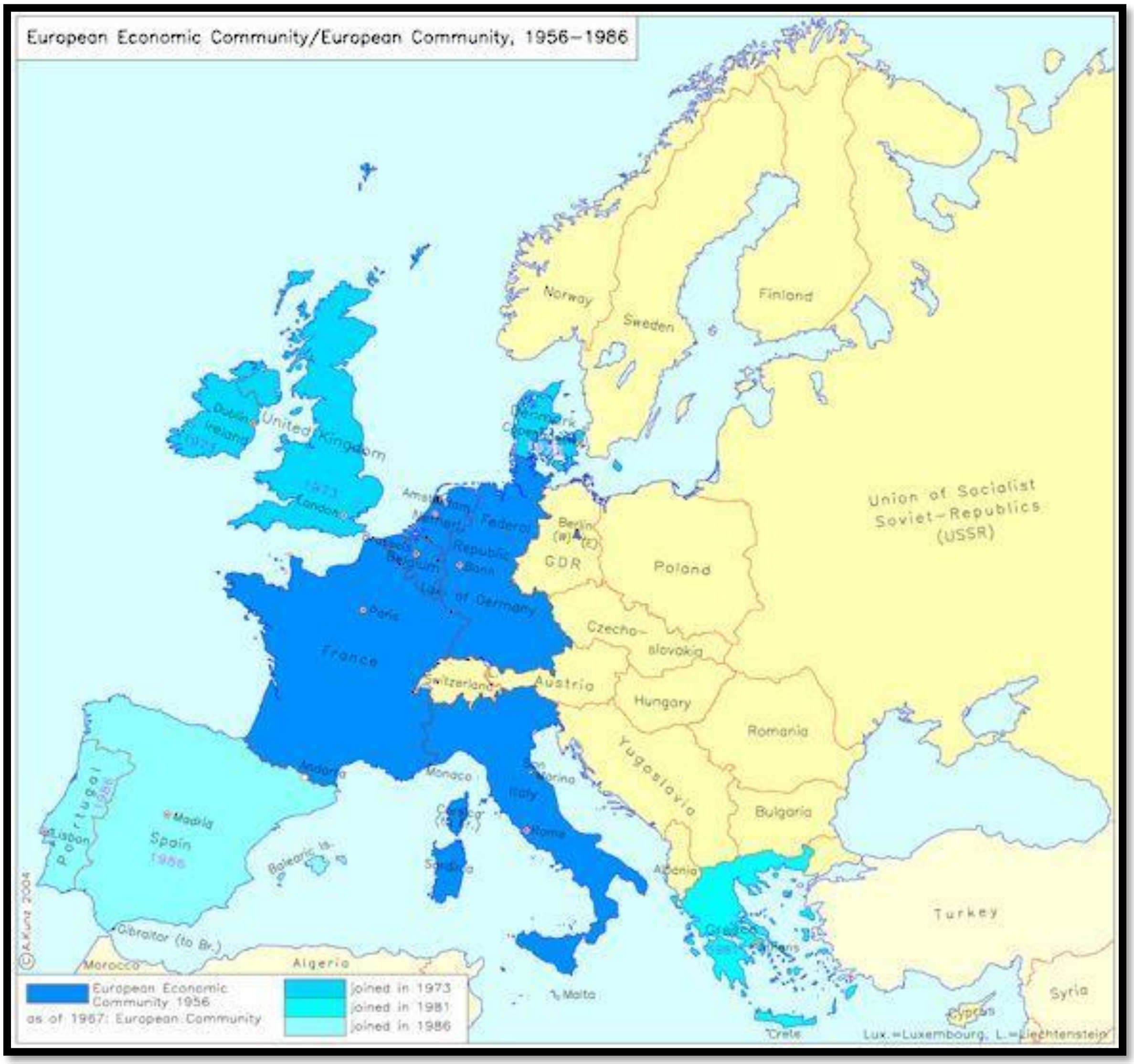



Figure Four: Map of the EEC from 1956 to 1986. The Original Six, those that joined in 1956/1956, are in dark blue. The nations in the lighter shades of blue, such as the United Kingdom, Greece, and Spain; joined later in 1973, 1981, and 1986 respectively (Kunz 2004).

According to Ben Franklin, the Articles of Confederation was a calamity, or "…a snake with many heads trying to eat itself" (Lutz 1990, 57). The Articles, which lasted from 1778 to 1789, created a league of friendship and alliance amongst the states. Congress, the legislative and only branch under the Articles, was made up of representatives from each state and was charged with enacting foreign policy, interstate legislation, and resolve intrastate disputes; only if the states gave consent (Loughran 1990, 234). Each was unconditionally sovereign, controlling every socio-economic aspect; dedicating its own tariffs, laws, and militia. This structural setup, that had some similarities with the Hansa and EEC, differs considerably when it addresses funding. Whereas the former two were obliged to pay a set amount each year to be a member through taxes and duties, each state was asked to fund Congress. Unsurprisingly, Congress always had little funding from and influence over the states, basically reducing the body to an advisory board for the states.


Figure Five: Map of the United States in 1784, after the War of Independence ended. The lighter shades are the Thirteen Colonies, each having many rights under the Articles of Confederation. The dark shade is the Northwest Territory, which was given to Congress by the so-called ‘Landed States’ in order to ratify the Articles of Confederation (Wikicommons 2018).

***Money and Central Banks***

The Hansa had a singular monetary union which regulated and issued a common currency, the Wendish Union. Also based in Lubeck, the Union first issued the *mark* and later the *florin* as coin currency, made of silver and gold respectively (Volckart and Wolf 2006, 124). All member towns and *kontore* were required to only use these coins as a medium of exchange, ensuring its relevance and spread. The Union proved to be highly incorruptible, as it never debased the currency, ensuring confidence and price stability in Hanseatic trade for all partners.

Contrasting the present, Europe had many different currencies and no central bank or equivalent institution. Moreover, for most of the EEC's existence, those currencies had semi-fixed or fixed exchange rates. From the beginning until 1971, the EEC coincided with the Bretton Woods system, where each currency was 'pegged' to the U.S. dollar and gold. When Bretton Woods collapsed, the currencies were free floating until the European Monetary System (EMS) was introduced (Hodges 1979, 235). The EMS linked each members' currencies to the European Currency Unit, an unit of account, to prevent major fluctuations (Eichengreen 1993, 1336). Each currency was set to the ECU using the 'snake in the tunnel method', where a currency's value could relatively move within a certain range (snake) of the ECU (Widner 1979, 8). This semi-free-floating system enabled nations to keep some monetary autonomy while simultaneously ensuring stable exchange rates.

The United States did not have a central bank or singular currency, as each state controlled the production and value of its respective pounds. They were pegged to the Spanish silver dollar, with a rate of one pound to four or five shillings (Greene 1982, 23). However, the states were faced with financial hardship and debt, so many (including Connecticut and Delaware) created new currencies, altering the conversion rate, and decreasing their value (Dougherty and Cain 1997, 211). Congress then introduced the Dollar in 1785 as legal tenor, setting one USD to 1000 Continental Pounds (Shaw 1958, 79). Simultaneously, states could print their own money, leading many to resist the dollar or to print more pounds to receive more dollars (Shaw 1958, 80). The lack of a stable currency and source of money creation led to massive inflation and government debt. This issue was so rampant, that Congress' unilateral ability to create money is now enshrined in the Constitution. Clearly a lack of monetary oversight greatly damaged the Confederation.

### ***Political Will and Unity***

The Hanseatic League was kept together by invoking fear and love, as Machiavelli stated. The main attraction was the trade rights, privileges, and protections offered. Foremost of those rights was the guarantee that import and export duties were free at other Hansa towns for members. The alliance also lessened the likelihood of foreign rulers interfering in Hansa trade, as doing so would mean facing the economic wrath of the entire League. Finally, in the later years, the Hansa had a *de facto* monopoly in the Baltic Sea, ensuring that no trade would occur by any non-member groups (Daenell 1909, 48). Their fear tactics, on the other hand, were harsh. If a town proved to be too difficult, it was summarily expelled. Once expelled, the town would forfeit its ability to trade at any Hansa post, drastically weakening its economy. The League usually offered re-entry, but their offer was harsh, demanding higher payments and levies, with basically no trading privileges for at least five years (Cramer 1949, 87). These threats, promises, and privileges kept the Hansa united and strong for many centuries.

The EEC chose a more amicable approach to keep member states in line. First, upon induction, nations would enter a customs union with lower tariffs and duties. The members were also represented in all assemblies and governmental bodies, ensuring that each would have a strong interest and concern in the EEC's success. No country was ever expelled from the body, but if one was, it would just be forced to leave the EEC and negotiate its own deals and customs as did any other nation (Similar to a minor Brexit). The only grounds for expulsion would be the rejection of a reduction in customs and global imports or a drastic political change, such as siding with the Soviet Union (Garrett 1995, 177). The EEC had little need for coercion, as the members had a genuine will to see the community thrive.

There existed little to no unity in the United States under the Articles States purposefully weakened Congress to ensure that the individual members had more power and control over their own affairs. The states also had a deep mistrust towards each other, mainly derived from competition over westward lands. The mistrust was so palpable at times that some states and territories, notably New York and Vermont, nearly declared war (Loughran 2001, 238). However, no state dared to leave, in fear of a British reprisal. If one did, Congress could do nothing, as that was legally allowed in the Articles (Lutz 1990, 64). Although similarity structured to the EEC, the Articles of Confederation mainly failed due to a lack of political and financial support from the states.

## ***Conclusion***

Three of the most notable trade confederacies were the Hansa, EEC, and Articles of Confederation United States. The Hansa and EEC were quite successful, seeing raises in GDP and trade, while America was not, struggling with inflation and a shrinking economy. The reasons for the outcomes are numerous but are mainly due to their determination and political-economic structure. The successful unions had limited governments that allowed for autonomy but had the ability to hold wayward members accountable and enact common policy. They had stable currencies and the central government had oversight over their production and value. Finally, the members wanted to be a part of the confederacy and see it succeed. Conversely, the unsuccessful union, America, did not have these factors. Its central government was too weak to control the states and could not enforce nor encourage unity. Their currencies were not stable and had no proper oversight, leading to rampant inflation. Finally, the states themselves wanted to remain separate and independent, leaving no political desire to see the confederacy prosper. If nations want to make a successful trade confederation in the future, they should avoid those that led to the downfall of the Articles of Confederation and follow the elements that made the Hansa and EEC successful: a limited yet robust government, stable currency regulator, and resolute political unity.

| | Political Structures | Capacity and Diplomacy | Money and Currency | Political Will and Unity |
|---|---|---|---|---|
| Hansa | Informal<br><br>Representation for each city, but not *kontore*<br><br>Much economic power and influence | Responsible for foreign treaties, policy, and diplomacy<br><br>Many means for enforcement<br><br>Had three branches of government | One Currency for all Members<br><br>Pegged to the silver and then gold standard<br><br>Much oversight from Hansa and Wendish Monetary Union | Much, mainly due to economic and trading reasons. |
| EEC | Formal<br><br>Representation for each nation<br><br>Much economic power, little to medium political power | Responsible for foreign economic treaties, not foreign policy and diplomacy<br><br>Some means for enforcement<br><br>Had branches of government | Each member had their own currency<br><br>Pegged to the USD, then to EMU<br><br>Much oversight from the EEC | Much, mainly for political and economic reasons. |
| USA | Formal<br><br>Representation for each state<br><br>Little power and control over the states | Responsible for foreign treaties, policy, and diplomacy<br><br>Little means for enforcement.<br><br>Only had a legislative branch | Each member had its own currency, but later created an unilateral medium of exchange<br><br>Pegged to Spanish dollar, then to the USD<br><br>Little oversight from Congress | Little to none, valued state-independence above all. Stayed together in fear of a British invasion. |

Table 1: Comparing the characteristics of the USA (Articles), Hansa, and EEC by their political structures, capacity and diplomacy, money and currency, and policy will.

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