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Intereconomics

Suggested Citation: Commer, Heinz (1967) : Many problems, in spite of progress made, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 10, pp. 267-270, https://doi.org/10.1007/BF02930483

This Version is available at:
https://hdl.handle.net/10419/137811

Many Problems, in spite of Progress Made

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The tenth anniversary of the European Economic Community is a suitable occasion for pointing out that the Common Market has wrought different effects and yielded various benefits to different partner countries. Fundamental to the formation of the EEC was the reconciliation between the Federal Republic of Germany and France. Western Germany took as its point of departure the fact that France has the most important farming community within the Common Market and therefore will profit most from European economic integration in the field of agriculture. France, on the other hand, accepted the fact that West Germany is the most important industrialised area within the Community, and thus would reap great advantages from the large and unified industrial market of the EEC. The actual results of building the Common Market provide ample justification for this basic understanding between Germany and France. Indeed, France has registered big gains for its farmers, whereas the main boon for Germany, but also for others, flowing from the Community is for the country's industries. However, without an additional observation, the picture would be incomplete: all the EEC members have benefited from its formation, as is shown by trade developments inside the Common Market between 1958 and 1966: total growth, since the former year, was 240 per cent for exchanges of goods among the Six, which means that the volume of trade within the EEC has more than trebled.

Different Points of Departure for Each of the Six

Karl Marx has stated that philosophers have always tried to interpret the world differently, and this being pointless, it was important to change the state of the world. Thus, ten years after the birth of the EEC, it would be very much to the point to ask what economic changes have been caused by European economic integration. To find an answer, it will be necessary to indicate the differences in industrial development that had been reached by each of the six signatory states of the Treaty of Rome, when they did sign it.

West Germany's industry had suffered substantial destruction, after which it had been modernised and therefore became highly efficient. The Federal Government, through early liberalisation of imports and unilateral cutting of tariffs, trained German industry for international competition. However, the equipment of German industry with capital funds of its own frequently remained unsatisfactory.

French industry, on the other hand, in many cases excelled through high technological specialisation. It was much protected against foreign competition through the French government's neo-mercantilism. It did not happen before the end of the 'fifties that a sharper wind of competition was permitted to touch the French manufacturers, but even then, French industrial development was largely given planned direction through "planification".

Italian industry registers high performance in individual fields. In some cases, this high-grade achievement was the result of industrialising derelict areas. However, also these industries were often coddled through a high wall of protectionism and special regulations.

On the other hand, the Benelux area's industries are similar to their German counterparts, in their high technological evolution, though they are of smaller scope. These industries have been generally brought up to compete internationally.

It was certainly more difficult for the industries of France and Italy than for those of Germany and the Benelux countries to face competition without being protected by tariffs and quantitative restrictions. However, entering a market that was quickly being divested of all national tariff and quota protection meant certainly jumping into cold water for all concerned, though the southerners and westerners may have felt the coldness of the medium in which they had to swim more acutely than the northerners. An additional burden to be carried by French and Italian industry was the considerable reduction in tariff protection against competition by non-Community countries. For a great number of products, dismantling much of the tariff walls surrounding them previously, down to a common Community tariff, in the long run has meant reducing the former protection by half. But even in the Federal Republic, critics could be heard who pointed to the unsatisfactory way in which some partner states have dealt with their national preference systems, and asserted that only Germany operated the rules and regulations of the Common Market honestly on its territory. Yet, it should have been clear from the outset that the goal of absolute equality in starting, in spite of every effort being made for harmonising the conditions under which to compete, was an unrealistic utopia. The big inertia of administrative systems and rules permits only a very gradual demolition of all existing

trade distortions. The task of the business community, therefore, is to prove itself capable of surviving successfully during the period of transition.

Effects of Economic Integration

After one decade of living in the Common Market, the main question is how successful were the individual nations in acclimatising themselves to integration.

It must be basic to any investigation of this problem that the economic merger planned by the Six radiates energies which can transform only slowly the different structures of national production that have grown in centuries, the different consumption habits, and established trade relations. The conservative weight of social inertia, in Europe with its deep national cleavages and idiosyncrasies, must be assessed as especially ponderous. Nor must it be forgotten that we are still far from the end of ultimately achieving the aims of the EEC Treaty. True, the tariff barriers between the Six are no longer high, and they will disappear completely by Juli 1, 1968, but in many important respects, the conditions have not yet been created for arriving at common economic policy, for instance standardised fiscal, taxation, cyclical, currency, trade, and transport policies. There is no doubt that this acts as a brake upon integration, which grows more and more noticeably, the closer the Common Market comes to its completion.

Allowing for this braking effect, it is highly astonishing how conspicuous are the results of European economic integration in so many areas. The most surprising impression is left by the spectacular rise of trade between the member states of the Community.

Emanations to the Outside World

The EEC's example also proves that economic integration does not necessarily mean that the integrated area will cut itself off more thoroughly from the outside world. Quite the reverse: a community of the type of the Common Market seems to become a centre of economic activity which radiates its enlivening influences also towards countries that have not become members of the Community. This will be suggested, at any rate, by a comparison of the different growth rates of overall world trade with those shown by trade carried on between the EEC and non-EEC countries. Overall growth of international trade did not reach more than 50 per cent between 1958 and 1964, but the volume of exchanges between the European Common Market area and all the outside countries had meanwhile increased by 59 per cent. In this context, it is also interesting to analyse the trade between the EEC and the EFTA, which showed a 100 per cent growth up to the end of 1966. At the risk of entering the field of speculation, it may perhaps be surmised that the rate of growth of trade between the two economic blocs, which is relatively higher than the overall expansion of international trade, is pushed up by the strong forces of integration operating in the two economic areas, where they do not foster increased self-reliance but deflect the expansive energies, though they may be slightly weakened in the outside world, in an outward direction. This does not mean that the frequently voiced fears lest the EEC and the EFTA might gradually move along diverging paths are without any substance. The only fact which we can underline is that, fortunately, these fears have not yet had time to materialise.

Trade and Economic Growth

There is close interdependence between the speed of mutual and outside trade carried on by the EEC countries, on the one hand, and vigorous economic growth that takes place at the same time, on the other hand. Emphasis upon this connection is also placed by a study published by the United Nations on World Economic Developments in 1964. The report states that international trade has recently been one of the most dynamic elements of economic growth. It appears only justified to add to this observation the remark that an expansive foreign trade will not only cause fast economic growth but that, conversely, economic growth also pushes up the level of international trade. Vigorous economic growth in the EEC has also led to a considerable rise in popular spending power for large numbers. Earned income of people in dependent employment, for example, has increased in the period 1958-64 by about 62 per cent. Allowing for rising consumer goods prices, this still means an increase in personal income, in real terms, by 50 per cent. Such high spending power will attract growing and more diversified supplies of products from all the corners of the world. This is not the least important of the causes for a relatively faster growth of EEC imports, as against its exports to the outside world. Up to now, import trade of the EEC has expanded by 190 per cent, against a rise in exports by only 85 per cent.

To give more detail to this general survey, some examples will now be discussed which highlight certain adjustment problems created by advancing integration of certain regions and branches of European production.

European Farming Tends towards Autarky

In all the countries of the world, one of the branches of the economy whose relative weight is diminishing is farming. This downward trend causes particular difficulties for the farmers. Agriculture in the Common Market countries is not exempt from this development. Farmers are working under constant pressure to adjust themselves to a changing economic structure, so that they may keep in step with the development of income in other economic sectors. In the Common Market, moreover, this structural change is combined with, and partially marked by, adjustments required by European economic integration. At first glance, it can naturally be seen that the farmers of

the EEC are profiting in a similar way as other sectors of the economy from the fact of vigorous economic growth, which is leading to a considerable rise in mass incomes. In particular, there is growing demand for processed high-grade foodstuffs, which causes an increasing turnover of farm produce. The relative share which the different national agricultures can claim of this new market is to be determined by the common European agricultural market which, for the first time, will offer equal opportunities and equal access to all the farmers of the Community mainly on the basis of their natural competitive powers and weaknesses.

The determination of French farming to expand, however, affects the interests of traditional exporters of farming produce in overseas countries even more than those of France's competitors in the other EEC countries. France would like to supplant these imports to the Common Market. One of the first signs for tensions set up by these modifications of traditional trade links was the so-called "broiler chicken war" between the United States and the EEC. Sharp protests, which the US voiced at the time, were not so much caused by the trend towards declining American poultry exports, which are relatively unimportant to Washington, but mainly by the apprehension lest France wants to engineer a reduction of grain deliveries from the US to the EEC. The American attitude is easy to understand when we consider that about 75 per cent of all American food exports consist of grain and grain products, and that the Common Market area absorbs almost exactly half of all American farming exports to Europe.

Without going more deeply into the problems of other non-EEC countries, e.g. Denmark, which has to fight keenly for its share in the Common European Market for farm products, it may be stated that establishing a European Farming Community, in contrast to all the other sectors of the EEC, has called forth certain trends towards autarky, which could not be seen from the overall figures about foreign trade quoted above.

The Need for Bigger Industrial Enterprises

Before European economic integration started, even large concerns of European industry in various countries of the EEC, with a few exceptions, were just as big as was possible within the framework of their national markets. As trade barriers between the six nations are dismantled, it appears with increasing clarity that these concerns are too small. It takes considerable time till such groups are growing into the framework of the Common Market, measured by their turnover, capital funds, and labour forces. As things are, they are still inferior in competitive power to their American rivals. The extent of the gap existing here comes out with glaring impressiveness in a comparison between companies with the largest annual turnover. Taking the thirty companies with the largest turnover figures in the entire western

world, we find only four of them located in the EEC area, but 23 in the United States. The picture is not much different when all firms with an annual turnover of more than $ 1,000 million are listed. Turning over at least $ 1,000 million are no fewer then 55 companies in the United States, but only 13 companies domiciled in the EEC. The biggest German company is only 27th on the list, and the largest French enterprise comes 68th. In view of the vast difference in size, it is not surprising that American companies have been able to occupy a strong position inside the European Common Market.

Most of the important US groups do not confine their European activities to supplying clients in the Common Market but more and more of them open up production plants in one or the other of the EEC countries, or they acquire an interest in existing European companies. The Americans have invested in all the EEC countries.

A study compiled by the German Federal Bank gives an impression of the order which the totals of these American engagements in the EEC have already reached.[1] According to these estimates, 15.9 per cent of the capital vested in all the German business corporations was foreign-owned by the end of 1964. Of this foreign slice, 34 per cent were US-owned. This means that American shareholders own 5.4 per cent of the equity of German joint-stock companies and private limited companies (the German terms are: AG's and GmbH's). Especially in France, where American investments had reached about the same level in 1964 as in the Federal Republic, people have begun to worry about "alienation" of the French economy. This seems to make little sense in view of the modest overall volume of American investments in the Old World, but it must not be overlooked that capital outflow from the United States has been concentrating on a few growth industries as its targets. These are the oil industry, automotive construction, engineering, instrument making, scientific optical equipment, iron, sheet metal and metal manufactures, rubber, chemicals, electrical engineering, papermaking, food processing, soft drinks, and tobacco products.

The Desired Economic Union

Our brief survey of national economies and individual businesses acclimatising themselves to the European Economic Community makes it abundantly clear that the distance travelled has been marked by many successes. I believe the surest sign of the EEC being successful and having become attractive is the fact that many important European, North African, and Middle Eastern countries have made up their minds only a short time ago to seek association with, or entry to, the Community. It is not only the UK, but also Austria, Denmark, Norway, Sweden and Eire, who would like to join, and Switzerland, Spain, the states of the African Maghreb, and Israel, who intend to forge institutional links with the Common Market. However, the big economic successes of the EEC must not blind our eyes to the fact that, in spite of strenuous efforts made by the EEC Commission, very many problems have not been solved. Most of them come under the heading of the desired economic union. Apart from the object of building a common European trade and transport policy, there have remained multitudinous unsolved problems, a few of which can be named here as particularly important:

☐ the unification, or harmonisation, of revenue and tariff legislation and fiscal administration; clearing away all the remaining obstacles hindering free intra-community trade, of which these are of particular importance: differing technical regulations, and the abolition of frontier controls.

☐ the elimination of national boundaries affecting turnover taxes and fiscal consumption taxes; the harmonisation of the systems, and later of the rates of turnover taxation. The first few months of 1967 have seen significant progress being made in harmonising the different taxation systems. A number of consumption taxes will be absorbed by the general tax on the value added, others will have to be harmonised, and the balance is only of limited importance and may therefore continue to operate without being harmonised.

☐ liberalisation of the movement of capital, as prescribed by the Treaty, is lagging behind progress achieved by the Community in other fields. Some years ago, the EEC Commission passed a draft for issuing the Third Guideline on liberalising capital movement, but the EEC Council has done nothing so far about adopting it.

Political Integration

Even optimists will not deny that political progress of the EEC is lacking, the Community remaining far below the expectations harboured by the fathers of its Treaty. As will be remembered, the authors of the Treaty of Rome saw the EEC as the forerunner and trailblazer of political unity within the three European communities. Almost nothing of this has been achieved. On the contrary: some of the partners harbour diametrically opposed notions, especially about their relations with the United States, and have always done so before, and after, integration. How little political power is wielded by the EEC became abundantly clear during the recent crisis in the Middle East.

Europe has virtually ceased to play a part in international politics. Responsible statesmen and politicians might be prompted by this loss of influence to make haste in filling the power vacuum. Only after this has been achieved, we may admit that integration has become the most successful European experiment after the second world war not only economically but also politically.

[1] cf. also: "Should American Investment in the Common Market be Condemned or Encouraged?" by Bernd Muldau; No. 7, Vol. I, 1966, p. 11, of Intereconomics.