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Progress of EEC—Integration

by Per Hækkerup*, Copenhagen

It is beyond any doubt that EEC has been the dominant dynamic force in the Western European economic integration in the last ten years.

In 1957 Europe was still divided into so many national markets isolated from each other by the traditional protectionist paraphernalia of tariffs and quotas. Now there are two preferential trading areas of which nearly all the countries of Western Europe are either full or associate members. The fact that no agreement has yet been reached on the conditions for achieving the economic unity of Western Europe as a whole should not be allowed to hide the degree of unification achieved since then. The question of what EEC has in fact achieved and the question of whether the Community system is capable of bringing about the economic union of Europe as a whole are thus matters which interest public opinion of the whole of Europe and not just of the Six.

However, one is forced to realise that the further integration in Western Europe is running the risk of being brought to a stop. Negotiations on the increased membership of EEC, especially with the UK, are postponed without any time-limit. The development of EFTA has been as successful as that of EEC, but with the abolition of tariffs and import restrictions seems to have reached a point of co-operation, which it is difficult to surpass. And the further integration within EEC, which is to bring that Community from the stage of a customs-union to that of a full economic union, has slowed down and may, by the present crisis inside EEC, be brought to a virtual standstill.

The Two Great Achievements of EEC

The customs union of the Six will be complete by 1st July, 1968. In the industrial sector, the remaining tariffs on intra-Community trade, which will be reduced to 15 per cent of their original level on 1st July of this year, will be eliminated, and the common external tariff brought into effect, modified where necessary to take account of the first Kennedy Round reductions. The abolition of frontier taxes with equivalent effect to customs duties and the harmonisation of customs legislation in the six countries may still be incomplete, but these are essentially clearing-up operations. In the agricultural sector, the single market stage should become operative for all the major groups of products according to the time-table adopted by the EEC Council in May 1966,

with the exception of the cattle, meat and dairy-products sectors, where the time-table has been postponed from April 1 to May 31. The Commission even hopes to set up market organisations by 1st July 1968 for the few remaining products not yet covered.

For the function of a customs union it is in the long run important to include a common commercial policy. No progress has yet been made on the replacement of national import liberalisation lists as regards third countries by a Community list, though the absence of a single list will require the maintenance of customs controls on trade between the Six after 1st July 1968 so as to prevent trade deflection on the mere 10 per cent of the Community's external trade which is affected. It is perfectly true that this 10 per cent inevitably concerns the "sensitive" sectors of member States' economies and thus raises questions of Community industrial policy. But, as President Hallstein pointed out in his farewell speech to the European Parliament, it is absurd that customs duties should be dealt with by the Community as an entity—as during the Kennedy Round—while negotiations on quotas are reserved to the member States. Neither has a start yet been made on the re-negotiation of the numerous bilateral and multi-lateral trade agreements with third countries, to which the member States are party, so as to render possible their transfer to the Community. According to the Treaty of Rome, a common commercial policy becomes obligatory as from the end of the transition period. Not only has there been no attempt to antedate the 1970 deadline to that now fixed for the customs union, but it seems highly unlikely that even the original deadline laid down by the Treaty will be met. There is nothing automatic about the transfer to the Communities of the power to negotiate trade treaties. The realisation of a common trade policy is a matter of political will, and the member states have been reluctant. Until the co-ordination of national foreign policy between the Six has become a reality, it is idle to suppose that a common commercial policy covering relations with all third countries, and in particular with Eastern Europe, will be possible.

Small Steps toward an Economic Union

To develop into an economic union is the decisive problem for EEC. In its 10th annual report on activities, the EEC Commission says: "The intermediate stage in which the Community now finds itself, name-

* The author was Danish Foreign Minister from 1962 to 1966.

ly as a complete customs union but an incomplete economic union, presents a definite danger of imbalance and even rupture". One reason for this, of course, is that while the Treaty of Rome lays down fairly detailed instructions for the elimination of tariffs and quotas in intra-Community trade and for the establishment of the common external tariffs, in other fields it merely lays down a few general guidelines without a precise timetable for the achievement of any particular measure.

Economic union implies in the first place the harmonisation of national laws and regulations governing the production, distribution and exchange of goods, employment, the right of establishment for individuals and companies, and capital investment.

The free circulation of goods is limited in the first place by the continued existence of "tax frontiers" between the member States, the most important of which arises from the general practice of giving export rebates and charging import taxes to offset business turnover tax. A big step towards dealing with this problem was taken last February with the adoption by the EEC Council of two directives giving the member States time till 1st January 1970 to replace their various national systems by a common system of turnover taxation based on the added value principle. This decision represents a considerable improvement from the point of view of tax distortion, but while the adoption of the added value system as such was a victory for economic logic, it did not require immediate sacrifices by any of the member States. The real test will come later with the harmonisation of rates which is the pre-condition of the abolition of tax frontiers.

So far only little has been done in this field. The reason why the progress has been so small in this field lies certainly in the fact that tax structures within the Community vary considerably and as the share of indirect taxation—which includes turnover and sales taxes and excise duties—amounts on average to about one half of total tax with a wide spread from one country to another, it is not certain whether member States will be either able or willing to envisage their harmonisation except as part of the overall harmonisation of tax systems which is a rather distant prospect. Invisible obstacles to trade can be just as effective as customs duties in hampering trade and thereby prevent industry from profiting by the opportunities in a market of nearly 200 million people.

Whatever the delay in establishing a single market for the products of industry, there is still the hope that the free movement of labour will be a legal reality by July 1968. Two draft regulations recently submitted to the Council by the Commission will put workers from all member States on an equal footing by abolishing work permits and by depriving Governments of the right to give priority to their own nationals—even in regions where there is unemployment, as present Community legislation allows them to do. A regulation dating back to 1959

and now due to be revised, guarantees emigrant workers and their families against any loss of social security benefits, which could otherwise make nonsense of a theoretical freedom of movement. Logically, the next step is the harmonisation of national social security systems, which will involve such delicate questions as the degree of redistribution of income desired. At present, the Community has got no further than studying how social security systems are financed and their economic implications.

If realised by the 1st of July the free movement of workers within the Community is not matched as yet by the right of establishment and the freedom to provide services. The programme of liberalisation has fallen seriously behind schedule, though the Commission still hopes to be able to achieve the aims of the Treaty in this field by the end of the transition period. The elimination of overt discrimination is one thing; the harmonisation of national laws and practices governing the access to and exercise of the various professions, without which the right of establishment is virtually meaningless in many sectors, is another. A vast programme of work still confronts the Community institutions here.

Another aspect of economic union is the free movement of capital. The first Community measures in this field date back to 1960 and 1962. However, as the EEC Commission has pointed out, the removal of the remaining restrictions will not by itself create an integrated capital market. This will require the harmonisation of the fiscal and legal framework, not merely because divergences between the tax treatment of investment are an obstacle to the free flow of capital but because it is unlikely that member States will agree to remove controls until this has been done. A considerable amount of preparatory work has been done within the Community on the harmonisation of the institutional framework of national capital markets. However, these are all to a greater or lesser degree in need of structural reform and the member States are not all prepared to wait for the Community to take action.

Harmonisation of Company Law

Concerning this question progress has been slow and difficult. It is becoming increasingly clear that the provisions of the Treaty of Rome do not go far enough. The creation of EEC let loose a wave of business concentration in the Six, but this has taken place almost exclusively on a national basis. The most obvious reason for the failure of genuine European mergers to take place lies in the divergent fiscal and legal provisions applicable in the member States to the management and merger of companies. But it lies also in political considerations, maybe more than in legal and economic ones. The wave of mergers in each member State following the establishment of the Common Market was frequently the result of a complex of national self-defence. Governments have sympathised with, if they did not actively encourage, this movement: hardly a day

still goes by in some member States without an appeal for the concentration of national firms in this or that sector to meet the challenge of the Common Market and of international competition. This is probably also the reason why the progress of accepting the status of a European company—in spite of much preparatory work—has been slow. One may be inclined to say that the Common Market may have created an economic space embracing six nations but it has not destroyed national centres of economic power, and it is idle to suppose that the creation of a European company will automatically change this situation.

In order to form a true economic union, the Community must aim at the creation of a common European transport policy and network. An agreement on the basic principles that should govern the formation and publication of rates in a free market was reached in June 1965, but the Council has so far been unable to agree on the Commission's implementing proposals. Faithful to the tradition established in connection with the common agricultural policy, the Commission is preparing an overall package deal covering not only liberalisation and price levels (a system of maximum rates is proposed), but also tax harmonisation, the application of the rules of competition and the control of capacity.

Also the absence of a common energy market and a common energy policy is bound to give rise to considerable distortions after 1st of July 1968. The reason for this failure is partly institutional. In 1962 the member States adopted a protocol putting off the adoption of a common energy policy until the merger of the three Communities. This merger of the executive bodies, Council and Communities, took place the 1st of July 1967, while the merger of the three secretariats is not yet completed and the merger of the treaties is being prepared by a working group and by the Commission.

The EEC Commission has of course made a considerable effort to lay the basis for a common energy policy, particularly with regard to oil, which by 1970 will cover nearly 60 per cent of the Community's energy needs. The new combined Commission will therefore not be starting from scratch. However, the mere fact that responsibility for all energy questions has been brought together with the merger of the Executives will not automatically ensure the achievement of the EEC Commission's target of a common energy market by 1970.

Economic Union and Economic Policy

It is evident that the requirement of full economic union is nothing less than the merger of member States' economic policy. This must be the final aim, but it is not the question at this stage. At this moment and in the foreseeable future progress must be based on co-ordination and co-operation.

The chosen framework for the overall co-ordination of member States economic policies is the Medium-

Term Economic Policy Committee. This Committee, which is composed of very senior officials of the member States and representatives of the Commission, was set up in 1964 with the job of drawing up a medium-term programme for the period 1966-70. The Programme was adopted by the Commission in April 1966 and by the Council a year later. Its significance lies in the fact that by adopting this Programme, both the Community as a whole and the member Governments taken separately express their intention of respecting the orientations contained in the Programme. This is implicit in the title of the Programme, which makes it clear that it is the member States' economic policy which is the subject.

The Programme concentrates, as might be expected, on those aspects of economics and social policy which under the Treaty remain essentially within the competence of the member States. Thus the first Programme puts the accent particularly on the co-ordination of financial (public investment, etc.), labour (employment and vocational training) and regional policy. A draft second Programme was sent from the Commission to the Council at the end of March this year. It is not trying to bring the first Programme up to date, but is a supplement dealing with problems of structure—both of firms and of sectors—, agricultural policy, scientific and technical research, increased saving and financing of investments and income-policy.

Maybe most important, there is the problem of the co-ordination of member States' short-term economic management policies. As the Common Market economy comes to acquire the characteristics of a national economy—which is still far from being the case—the co-ordination of national machinery for dealing with cyclical movements will become essential, if it is not already.

The Political Co-operation

In order to understand the difficulties in realising the full economic union, it is not enough to look at the economic problems. As soon as the Communities are developing beyond the free circulation of goods, labour and capital, the Treaty of Rome has no operative clauses, and the merger of the member States' economic policy-making-machinery is therefore depending upon their political will to realise such a merger. But the will to do this is undoubtedly influenced by the failure so far to realise or to start realising the ultimate aim of the Rome-Treaty, the political union of the member States.

An effort to start the development towards political union was made with the Bonn declaration on political co-operation. The following negotiations about the machinery for such a political co-operation broke down. The French idea about "l'Europe de patries" was not accepted by the other five. It has not been possible since then to re-open negotiations about political co-operation, and the whole political climate between the member States does not make it probable

that a change is foreseeable in the next future. But this, of course, has its adverse effects on the willingness of member States to accept binding economic-political decisions of a more far-reaching nature.

It is generally admitted that the growing gap between the customs and the economic union is a potential source of tension within the Common Market, particularly as long as so little progress has been made in the transport and energy sectors and in the co-ordination of regional policies. Whether the dialogue between the Commission and the Council will prove sufficient to overcome the inevitable inertia, not to say resistance of member States, is a question to which the first ten years of the Community do not provide a conclusive answer one way or the other, but where the lack of intimate political co-operation may become decisive. The political climate between the member States is primarily influenced by the question of the enlargement of the Communities, and the solution of this problem will therefore have a direct influence on the further economic integration in the Communities.

The Enlargement of the Communities

Even before the Treaty of Rome came into effect, the creation of EEC was enough to have an impact on the question of the economic unity of Western Europe as a whole. Several efforts were made to avoid the economic division of Western Europe. First the negotiations within OEEC for the establishment of a European free trade area, which broke down in 1958. After the creation of EFTA, which as one of its main aims has the merger between EEC and EFTA, negotiations were opened between EEC and Britain and Denmark, Norway and Ireland about membership in the Communities, just as Austria, Sweden and Switzerland requested association. These negotiations broke down in January 1963 when the French Government vetoed further talks with Britain. In 1967 the four states renewed their applications for membership, and this is the background for the present situation.

Before going into an attempt to analyse this situation, a word on the break-down in January 1963 is necessary. In the course of 1961 and 1962 the negotiations on British membership had reached a stage, where most people expected they could be brought to a successful end during the spring of 1963 and a political decision would be taken. It is true, there were still important economic problems to be solved, but they did not seem to be unsurmountable. The break-down was not a result of economic hindrances. It was a clear political act. France did not want Britain as a member, at least not at that time. The reason was the general international political situation, the fear that Britain was not "European" enough, the question of Europe's role in the world and especially and most decisive the atomic defence policy, where the British government had preferred a US-British co-operation to that of a French-British one.

It is against this background that the present situation should be estimated. Is there another situation today? Have important changes taken place in the attitude of the various countries? It seems clear that there is a firmer political will in Britain backing the application for membership than was the case in 1962-63. On the other hand, the profound difficulties for the British economy have come more to the foreground than was the case five years ago. But the important question is, what will be the attitude of the Six.

The Commission has given its advice to the Council on the applications. It is positive in advocating the opening of negotiations, but critical in various evaluations of the British economy and especially in the question of the £ sterling as an international reserve currency.

The advice of the Commission was discussed at the Council meeting in October. The main problems were, whether the admission of the new members would change the fundamental aims, the characteristics and the working methods of the Communities; next the demand that all new members should accept the general obligations as stated in the Treaty including the political aims and accept the decisions taken by the Communities up to the date of admission; and thirdly the special problems, where solutions must be found, problems such as the economic difficulties of UK, the agricultural policy and problems in relation to the Commonwealth.

This phase of the dealing with the applications was brought to an end with de Gaulle's press-conference on November 27. In a way de Gaulle did not say very much new. He re-stated the well-known attitude of the French government. He made it clear that the French attitude to British membership is unchanged, motivated in political considerations concerning the framing of the future Europe and its position in world politics, and his opinion about the British attitude to those fundamental questions. The result was a new crisis in the Common Market, which broke out, when the French de facto veto was officially made at the Council meeting on 18-19th of December. The French representative did not say a definite "no" to British membership, but a "wait and see". The meeting ended with a declaration, in which the five governments accepted the proposal of the Commission to start negotiations immediately with the applying countries, while the French member State wanted the British economy recovered before negotiations could start.

In order to overcome the deadlock, which the French attitude provoked, various plans and suggestions were made in the following months. The first was the Benelux-plan. It proposes a procedure of consultation between the Six and the countries applying for membership, etc., concerning problems within the Treaty of Rome on further development of the Community and realisation of common projects between interested European countries in fields, which are

not dealt with in the Treaty of Rome. The idea is to promote co-operation among the European States and to escape a widening of the gap between the Six and the applicants. The Italian government produced some suggestions of a more procedural character and very close in content to the Benelux-plan. Finally did the German government work out proposals for commercial arrangements between the Six and the other countries. The proposals were presented after a German-French consultation, which ended in a joint communiqué, but the following debate has shown different interpretations in the two countries on the type of arrangements, which could come into question.

The situation today seems to be characterised by the following. First, all member States seem to realise the necessity of achieving a compromise on the problem of enlargement in order to bring the interior development out of its present deadlock. There is, secondly, no possibility of uniting the five and UK against France. It seems to be a political doctrine in Germany to put the French-German understanding before any European solution, in the hope that it will be possible gradually to smoothen the French attitude. The third problem is the aim of a temporary arrangement (of whatever sort it may be). The French-

German attitude is to accept trade arrangements that may reduce the gap in Europe and by that assist in solving the British economic problems, but under the clear condition that there will be no procedure or political obligation towards a later membership. The four other member States advocate a system of procedure for co-operation and consultation with the clear purpose to put a continued political pressure on France in order to obtain a changed French attitude to the enlargement of the Community.

It is difficult to escape the impression that a distrust of the French-German policy is growing in the various countries and a fear that its realisation may postpone the enlargement of the Community for 5-10 years.

It is difficult to see a solution to the present difficulties, which will not mean that both Western Europe and the Communities will lose a great part of the dynamic economic and thereby political force they have had in the last 10-15 years. This may not become evident immediately, but in the longer run. This would raise the problem, whether it will not be necessary to find a new dynamic factor in a wider European, and not merely Western European co-operation.

UNCTAD GAP STUDY

Capital Requirements of Developing Countries

by Dr Edgar Krölller, Paris

The concept of capital "requirements" of less-developed countries has emerged side by side with the conscious effort of the international community to accelerate the economic growth of these countries. This approach has led to various calculations of their prospective capital needs ("gap" studies). The best known of these projections is the one put forward by Dr Prebisch at the First UNCTAD which estimated a \$ 20 billion balance of payments gap in 1970 for the developing countries as a group.

Major gap studies include those by Arthur Lewis¹, Paul G. Hoffman², P. N. Rosenstein-Rodan³, Bela Balassa⁴, GATT⁵, Alfred Maizels⁶, M. F. Millikan and W. W. Rostow⁷, H. B. Chenery and A. M. Strout⁸, as well as by the United Nations and UNCTAD. The

latter have come out with three different studies: (1) by R. Prebisch for the First UNCTAD⁹; (2) by the UN Economic and Social Department¹⁰; (3) by the UNCTAD Secretariat for the Second UNCTAD.¹¹

This article does not intend to review these different studies but to discuss briefly some of the general aspects of gap methodology and to critically assess the latest UNCTAD projections of capital requirements which are included in one of the major documents for consideration at the Second UNCTAD at New Delhi.

The Gap Approach

It is a feature of gap estimates that they stress the importance of capital inflow in determining how fast the developing countries can develop. It should be borne in mind, however, that capital inflow is only one of the elements determining the pace of growth. Improved performance in mobilising and making efficient use of domestic resources will reduce the amount of external assistance required to attain given development objectives. Gap computations therefore

¹ United Nations, Measures for the Economic Development of Underdeveloped Countries, May 1951.

² One Hundred Countries, One and One-Quarter Billion People — How to Speed their Economic Growth and Ours in the 1960s, Washington, 1960.

³ International Aid for Underdeveloped Countries, Review of Economics and Statistics, May 1961.

⁴ Trade Prospects of Developing Countries, Yale University, 1964.

⁵ Foreign Trade and Long-Term Economic Growth of the Developing Countries, 1961.

⁶ Industrial Growth and World Trade, Cambridge, 1963.

⁷ A Proposal, Key to an Effective Policy, New York, 1957.

⁸ Foreign Assistance and Economic Development, The American Economic Review, September 1966.

⁹ Reprinted in United Nations, World Economic Survey, 1963.

¹⁰ A Methodological Note on Some Gap Projections For Developing Countries, E/AC.54/L.21, 6th April, 1967.

¹¹ Trade Prospects and Capital Needs of Developing Countries, TD/34, 27th October, 1967.