

Berg, Hartmut

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Common Market

A Discussion of EEC's Efficiency

by Dr Hartmut Berg, Hamburg *

The economic aims mentioned in Article 2 of the EEC-Treaty may be summarised in the formula: "expansion and stability". The author discusses in the following the effectiveness of the major strategies applied by the EEC within the framework of its integration policy, i.e. integration through competition within a Common Market; integration through a common policy of the member-states and integration through coordination of national economic policies.

For "integration through competition within a Common Market" to function effectively it is essential that the member-states remove all the obstacles that stand in the way of a free movement of goods, production factors and payments across each other's frontiers in order to achieve in this manner "an opening up of markets". Firms domiciled anywhere within the integrated area are to be enabled to enter any markets of the member-countries that have previously been closed to them with the result that a "mutual penetration of markets" takes place. The hope is that, as a consequence of this process, competition will become keener and that this in turn will have favourable effects on allocation and growth which will make it possible to achieve the economic purposes of integration. In the industrial sectors of the EEC-countries most markets have an oligopolistic structure; as a rule they protect themselves by means of "barriers to entry"¹. These barriers continue to exist even after the domestic firms, in the course of the integration process, have lost that (additional) protection against foreign competition they enjoyed before in the form of tariffs and other obstacles to trade.

Aggressive competition with the intent to force an entry to a market hitherto not supplied can therefore be expected only from enterprises

☐ which are large enough to overcome such "barriers to entry";

☐ which in addition are no longer able to expand "satisfactorily" in their traditional markets, and

☐ which regard markets in other member-countries as suitable for achieving the desired further growth.

Developments to date show that these three conditions apply in large measure to the big joint stock companies of the United States.

Direct Investments as a Means of Opening up a Market

The favourite method used by these concerns to gain access to the markets of the Community is to make direct investments in the EEC-area. These direct investments rarely take the form of new companies, the more usual procedure being the taking over of an existing enterprise or the acquisition of a controlling interest in such undertakings.

The frequently superior size and capital strength of the new supplier cause among his competitors a feeling of inadequacy and thus of being threatened. This in turn makes them readier to join forces and to cooperate with one another.

Mergers and the acquisition of controlling interests which give the companies concerned an actual or only a putative competitive advantage moreover trigger off a process of imitation, if the

* Institut für Europäische Wirtschaftspolitik, Universität Hamburg (Institute for European Economic Policy, University of Hamburg).

¹ Cf: J. S. B a i n, *Industrial Organisation*, 2nd edition, New York-London, 1968, page 252 et seqq.

competitors of the "pioneer" seek to "catch up" with him by imitating his strategy of external growth.

What happens if this process continues unchecked is this: those competitive "wide" oligopolies² created, as it were, through the addition of friendly "narrow" oligopolies that existed in the national markets of the member-states before will again turn into "narrow" oligopolies³, but with this difference: the new narrow oligopolies will now extend over the entire Common Market area. And again, as happened before on the national level, the number of suppliers operating on the Common Market level may turn out to be too small to ensure effective competition.

If the Community is denied an effective means of controlling company mergers, there is a danger that there is no political force strong enough to keep in check the economic power of the large concerns operating in the Common Market, and with the process of concentration continuing, the absence of such a controlling influence may lead to at least a partial loss of the greater competitiveness that had been achieved by increasing the size of the market.

The "Community Method"

The establishment of an independent Commission endowed with the expertise of a technocratic administration and possessing "the exclusive right to initiate legislation" (W. Hallstein) is no sufficient guarantee that the policy which emerges from a fruitful dialogue between the Commission and the Council of Ministers will in fact prove more effective than the measures which the individual member-states used to take separately before their territories were integrated.

For if the Ministerial Council proves incapable of coming to a decision, the Commission runs the risk of losing its influence and prestige. For did it not fail to find a compromise acceptable by all? Be that as it may: the task that was to have been accomplished by the "Community Method" remained unfulfilled. If the Council decides against the Commission, for example by an unanimous decision to amend a proposal on whose acceptance the Commission insists, the Commission runs the risk of becoming isolated and of deteriorating into a mere non-political administrative organ.

² The term is explained in E. Kantzenbach, "Die Funktionsfähigkeit des Wettbewerbs" (The Effectiveness of Competition), second edition, Göttingen 1968, page 44 et seqq.

³ This is dealt with in greater detail by H. Jürgensen and H. Berg in "Konzentration und Wettbewerb im Gemeinsamen Markt — Das Beispiel der Automobilindustrie" (Concentration and Competition in the Common Market — the example of the motor-car industry), Göttingen 1968, page 153 et seqq.

In these circumstances, the Commission must feel sorely tempted to go a long way towards meeting the wishes of the governments in its initiatives and proposals for no other reason than to avoid the risk of failure in the Council. This danger is all the greater, the more fearful the Council is of majority decisions, the more uncompromisingly each country insists on having its own way and the weaker the will of the Council-Members to reach agreement.

In this manner the area in which Commission and Council can arrive at common solutions becomes very restricted. This does not necessarily mean that the Council decisions are invariably compromises on the basis of the lowest common denominator. It is however conceivable that the Commission contents itself with a factually unsatisfactory solution merely because that solution would appear to stand a fair chance of being accepted by the Council.

Impediments to a Rational Policy

A Commission seeking to increase its influence and extend its authority has at its disposal two particularly effective means of achieving these objectives: the procedure of the so-called "marathon-rounds" and the institution of the "package deals". Such practices are, however, very harmful inasmuch as they impair the effectiveness of the decision-making process, for package deals are attempts to lump together entirely different problems and their proposed solutions in such a manner that the concessions each country is expected to make are nicely balanced against the benefits it may expect to receive in return. Thus package deals can be only accepted as a whole or rejected in toto. It follows from this that the decisions taken as part of such a deal can hardly ever be amended, if these decisions subsequently turn out to be inadequate.

As for a definite commitment by the Council to come to a decision about a certain problem by a fixed date, there are many occasions on which it is able to honour such an undertaking only by agreeing merely in principle on the steps to be taken and by promising the member-states with a special interest in the question that the required detailed and legally binding regulations will be passed by a certain date.

Thus every "marathon-round" contains the germ of further negotiations of this kind because of the constantly renewed obligation to come to definite decisions by a definite date. The atmosphere of crisis in which marathon-meetings have so far always been held is thereby in a way perpetuated.

One more point: In numerous cases the Council has proved altogether incapable of coming to a decision. For as long as it adheres to its rule whereby even decisions of minor importance require unanimity, every member has the power, by the use of the veto, to prevent the system from functioning. The right of veto makes the "Community Method" extremely susceptible to crises with the result that the process of integration is not a steady, undisturbed one; it is on the contrary jerky and lop-sided in the sense that rapid progress is made in some fields while in other areas stagnation reigns.

System Prone to Crises

Should member-states be prepared to abide in future by majority decisions even if they are taken against them, more decisions will undoubtedly be taken than under the unanimity rule. But there will be a price to pay for this possible increase: the price is the illiberal authoritarian character the "Community Method" will then assume in that for the sake of some ostensibly higher integration aim outvoted members will be obliged to accept solutions that are against their interests and supersede better national ones.

If, on the other hand, the supra-national decision-making body wishes to avoid the appearance of authoritarianism by adhering to its old practice of taking decisions only "by mutual consent", it will have to continue to be content with solutions based on the lowest common denominator. In this event, some decisions will be delayed and others blocked permanently.

Both these alternatives suffer in equal measure from the same disadvantage: they make the system extremely crisis-prone. For it would appear to us that conditions for "genuine" majority decisions can hardly be created without running the risk of new crises of the kind it was hoped to avoid by adopting the majority rule. If, on the other hand, the Council adheres to the principle of mutual consent, it will have to make the choice between two alternatives — one as unattractive as the other: Either the Commission stands firm on its original proposal, even if it does not succeed in obtaining the approval of all the governments represented in the Council, simply because it believes it to be the most effective or at least the only justifiable one. The consequence would be deadlock in the Council, for because of the unanimity rule its members have but rarely managed to amend a proposal put forward by the Commission. Or the Commission tries to achieve

agreement at (almost) any price by amending its original proposal again and again until it fully meets the wishes of all the governments. In that case agreement will be reached in the Council, but decisions arrived at in such a manner may easily add up to a policy of questionable quality.

The "Community Method" is thus constantly exposed to the danger of "output failure" because it cannot take decisions at all or only decisions that are factually unsatisfactory and difficult to correct later on. In the prevailing circumstances, steady and trouble-free progress towards integration would seem to be permanently jeopardised as long as the present "Community Method" is adhered to in its present form.

Integration as a Learning Process

If on the one hand resistance to harmonisation prevents the EEC-countries from agreeing on a common economic and monetary policy, if on the other hand it is essential to avoid disturbances in the free movement of goods and capital within the integrated area, a system of consultation, coordination and support must be devised whose rules gradually become stricter and more binding. Such a system must not only be elastic to be able to accommodate the various national economic and monetary policies which for some time still will continue to exist side by side, but it must also be sufficiently strong to be able to prevent as far as possible any situation arising that calls for the invocation of some emergency clause.

A policy of gradualness as far as coordination is concerned, seems to us preferable to more ambitious schemes as long as the relevant scales of values in the various member countries and their social and economic structures have not been sufficiently assimilated. For only when these differences have been ironed out, will it be possible to reach common accord on the aims of their economic policy and the order in which they are to be pursued.

As coordination becomes closer, it will be possible to introduce into the Common Market a variant of what K. Stegemann⁴ calls "growth competition among states". "This concept roughly corresponds to the competition between firms in Schumpeter's 'creative competition process'. Individual governments (the 'pioneers') try to gain a lead for their national growth industries; others (the 'imitators'), in order not to be left behind, promote the same industries or they endeavour, by promoting still better methods and better products, to overtake the pioneers or they switch to different branches of industry which promise to

⁴ K. Stegemann, "Wettbewerb und Harmonisierung im Gemeinsamen Markt" (Competition and Harmonisation in the Common Market), Cologne-Berlin-Bonn-Munich 1966, page 105.

give them at least a temporary lead in some new field of international trade."

In the area of economic and monetary policy, too, it is worth keeping in mind that those who make the decisions are involved in a constant learning process; at every stage of that process they learn from previously acquired experience how to get still closer to their objectives.

Controlled Competition between States

Premature coordination of the various national economic policies would presumably lessen the need for constantly "learning by doing", and it would probably also narrow the choice of effective alternatives. There would thus be a danger that the "Community Method", because of its inherent weakness in this area, might produce results of a similarly questionable quality as those that have been achieved in the field of agricultural policy and to a great extent also in the field of transport and communications policy.

It may of course also be true to say that the willingness of those responsible for national economic decisions is somewhat limited and that they must be pushed very hard before they make up their minds to try any new solutions. But it is precisely the existence side by side of different national economic policies within the Community that makes it possible to increase the number of "pushes". It must not be forgotten that, under the system of free interchange of goods and capital such as exist within the Community, upwards of 40 p.c. of the members-states' external trade is with each other. The oligopolistic interdependence which is thereby created cannot but aggravate the prejudicial consequences for any government pursuing for any length of time a less successful policy than the policies adopted by the other member-states. This acts as a stimulus on member-governments that are lagging behind to search for new and better solutions or to imitate the procedures followed by their more successful partners.

This process may in due course lead to a convergence of aims and methods; when this has happened then is the time to "institutionalise" that state of affairs by transferring responsibility for these policies to new or already existing supra-national institutions. As long as this state of affairs has not yet been achieved, it is in our opinion better to leave the decision-making to the national governments and their central banks, while gradually introducing a body of rules designed to prevent the smooth functioning of the Common Market being upset by the coexistence of different and possibly conflicting national economic and monetary policies.

With its decisions of February 9, 1971, concerning the creation of an economic and monetary union, the Council has in our opinion drawn the right conclusions from the existing state of affairs. For these decisions constitute the first step towards creating a set of rules which meet three requirements:

- ☐ they are intended to facilitate the use of new conceptions and strategies which may develop as a result of national economic policies competing with each other within the integrated area;
- ☐ they are meant to make possible a learning process which by way of an interchange of ideas and experiences leads to a gradual alignment of aims and methods;
- ☐ they are designed as a means of preventing the disintegrating effect of any disturbances in the free flow of goods and capital within the Community — disturbances that may result from the continuing pluralism of diverging economic policies on the national level on the one hand, and the high degree of interdependence of the partner-countries on the other.

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