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## Perspectives for the Danish Economy

by Finn O. Gundelach, Brussels\*

When Denmark, with the United Kingdom and Ireland, entered the Common Market, it was after several years of hard political struggle in Denmark. This struggle was centred around the economic and political consequences of accession to the Communities. There was widespread disagreement both on the short-term and on the long-term prospects. Even the gains in the agricultural sector, where calculations could be carried out on the basis of objective criteria, gave rise to a certain degree of animosity.

In my opinion, too much emphasis has been attached, and is still being attached, to the discussion of conditions for Danish agriculture in the EC. Below, I will give a brief summary of the economic consequences for Denmark of the common agricultural policy, but before that, I should like to stress that because Denmark possesses a highly developed industrial structure, the industrial climate and the economic/technological development within the enlarged Communities will in the long term be of utmost importance to Denmark.

### Agricultural Policy

The EC's common agricultural policy caused a gradual decline in the sixties of the Danish part of the supply to the food markets of the former Six. Since exports to the United Kingdom have traditionally been made on the basis

of competitive world market prices, the situation became so unsatisfactory for farming profitability in Denmark that state intervention was considered a necessity. It was not possible to achieve the previous level but agriculture was compensated by high homemarket prices in relation to export prices and by direct cash subsidies. Being a small country, Denmark could not push the EFTA partners to satisfactorily resolve these agricultural problems and the situation would probably not have changed in the future.

Already this year, Denmark has benefited by substantial improvements in terms of foreign trade because of the common agricultural policy. It is worth mentioning that the results of the accession negotiations were advantageous to Denmark in that food exports in 1973 — the first year of the transition period — obtained a major part of the total gain on prices. The whole benefit did not go to the farmers, as almost all direct state subsidies were cancelled. As far as the Danish consumer was concerned, the entry into the Common Market did not have to result in any major price increases, since prices in Denmark were close to those within the former Six, but the Danish government used the occasion to remove some direct price subsidies. This created, quite unjustifiably, a certain animosity from the Danish consumers towards the European agricultural policy. Simultaneously, there were price in-

creases caused not by CAP but by world market conditions.

It is a main principle in the European agricultural policy that the farmer's income shall be held at a satisfactory level through a price policy. This feature results in continuing claims on price increases, as the farmers try to establish a certain degree of parallelism between development in their own income group and that of other social groups. One can imagine the result of this: an explosion of the whole common agricultural policy.

### Revision of High Price Policy

Danish agriculture has for several years had a reasonably good development in productivity. This will continue, provided the increased earnings in the sector give rise to an increase in investments. If the common agricultural policy is directed towards securing incomes of farmers with a smaller increase in productivity than the Danish farmers, then Danish agriculture will also, after the period of transition, derive considerable economic benefit from the EC policy. It should be mentioned here that in a future reform of the common agricultural policy, the high price policy must be revised in order to avoid stockpiling surpluses of certain products.

The Danish food market has until now been protected from foreign competition, and there is in the EC free movement of goods — which also involves agricultural products. This may in the

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short term be disadvantageous for our farmers but in the long term it may well be of benefit in stimulating a needed differentiating of products and improvement in quality.

### **Benefits for the Danish Industry**

As a small country with a relatively high foreign trade, it has, since the last war, been a Danish objective to take part in the endeavours to obtain the widest possible liberalisation of manufactures in international trade. In the thirties, Denmark, along with many other countries, created a network of protection provisions. The protection created a lot of "infant" industries, of which some were able to survive the liberalisation in OEEC and later the down-scaling of duties in EFTA and in GATT. For Danish industry, changes in conditions in the afterwar period were gradual but an important factor is that even if some branches were squeezed during the liberalisation, Danish industry has, as a whole, shown a high degree of adaptability. Without doubt the present circumstances will profitably use that adaptability.

Protection between the industrialised European nations has only been moderate. As Danish exports of industrial products consist mainly of highly developed and differentiated products, it is not the scaling-down of duties which gives the country its main benefits in the industrial sphere, as the only moderate protection plays a minor rôle for products of that kind. For highly developed industrial products it is the non-tariff barriers to trade which are the most important. These non-tariff barriers may be procedural obstacles in the customs offices or they may be inter-country differences in regulations concerning consumer protection, security prescriptions and so on. The EFTA and GATT structures are well-adapted to solve the procedure problems but not the intri-

cacies involved in the last category — technical barriers. In my opinion there is no doubt that Danish industry will benefit from the abolition of technical barriers. It is a protracted and laborious task which the Commission of the European Communities is tackling in this sphere and it will be impossible to measure its economic yield. Of course, Danish industry must prepare itself for the loss of existing elements of protection on the Danish market.

In possession of both a highly developed industry and a highly developed agricultural system, Denmark is able to obtain and will succeed in obtaining a great profit from EC membership. However, nothing is free.

Thus, the Danes must prepare themselves to contributing to the European regional fund without getting much in return; equally, Denmark should not expect to get money from the structural measures in the agricultural policy. However, this is true only as far as the Danish mainland is concerned; the quite particular regional problems of Greenland and the Faroe Islands invite Community support.

### **Monetary Cooperation**

The regional policy and the continued and gradual opening of the internal market form parts of our endeavours to create the economic and monetary union.

The second phase of the union commences next year and it is the Commission's intention to strengthen the monetary cooperation. Denmark will, like the other Members, benefit from the expanded credit facilities and solidarity in relation to the outside world. The Danish external and internal economic balance has, in the sixties as well as in these latter years, been a precarious problem. The country has been running deficits on the current account of the balance of pay-

ments which, of course, has led to a build-up of foreign debt. In the light of this, it is in the Danish interest that, as far as possible, monetary stability is created. Of course, EC monetary cooperation is not able to solve Danish balance-of-payments troubles but even if Denmark, by using appropriate policy instruments, succeeded in obtaining permanent balance-of-payment surpluses, the Danish currency could still need support from outside. Because of the large foreign debt and the relatively large foreign trade, the country is extremely vulnerable in case of a monetary crisis.

Frankly speaking, this is the price to be paid for an excessive growth in private and public consumption during the last fifteen years. And if the country asks for an expanded monetary support it has to consult the other countries about economic policy.

### **Outlook**

Generally speaking, we must push for a more intimate co-operation in economic policy. Inflation has gone too far and no country is able to solve the problems alone.

And in relations with third countries, the Member States must search for a common standpoint, especially with regard to negotiations with the United States, in order to obtain constructive international solutions to the monetary problems. It would be out of place to talk about losing sovereignty in this connection. Denmark, as the other EC countries, will have certain guarantees in the monetary cooperation of the EC and will of course have to repay. Further, it is worthwhile mentioning that the measures to be taken at the national level after consultation in the EC in the economic policy would probably be measures which in all circumstances should have been implemented to solve the basic economic problems.