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Crises in the Community

Both authors discuss the recurrent crises of the Community and agree that they arise mainly because so far Europe's national governments are not yet prepared to abandon basic sovereign rights. The differences, however, of the conclusions and recommendations they arrive at are interesting to note.

The Essentials of Economic Integration

by Dr Victoria Curzon, Geneva *

Disappointment over the progress of European integration is rife and now is clearly the time to ask why and where things began to go wrong. When it is found that a wrong turning has been taken the only way to get back on the right road is to return to where the mistake was made.

The first mistake was really made just after World War II when the European resistance movement, which unanimously supported the idea of European unity, failed to make any substantial impact on domestic policy once political life returned to normal. The impetus for post-war European integration was accordingly channelled into various European "movements" which were weak by comparison with the traditional political parties operating in the interna-

tional context. As a result the impetus was largely ineffective on a political plane.

This gave governments, representing traditional national interests, full liberty to organize European integration in the way which suited them best — that is to say, by extracting the undoubted benefits inherent in intensive intra-European cooperation without endangering national sovereignty.

The furthest the supporters of European federation ever got was the signature, by six European countries, of the treaty establishing a European Defence Community. The objective was to create a European army under supra-national control. But the French National Assembly refused to ratify the treaty. It is often forgotten that the failure of the European Defence Community was also the failure of the idea of European integration at the political level. All

there was to fall back on was integration at the economic level — which might have developed anyway.

Economic integration was therefore made to carry all the hopes and fears of the proponents of political integration. This was too heavy a burden for what was, after all, only an expression of the material self-interests of nation states. Unlike political integration, economic integration proved to be surprisingly straightforward, helped by favourable conditions. From the start, the mood of the industrialized countries, particularly those of Western Europe, favoured trade liberalization as an important element in post-war reconstruction.

Few now remember "the GATT plan" of 1954 which called for a bold across-the-board reduction of tariffs among all developed countries. Initiated by France, the plan was widely supported in Western Europe, but the

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United States did not have Congressional authority to act and, for the sake of Commonwealth preference, the United Kingdom did not want to act¹. The plan was therefore stymied.

Thus, when the proponents of European union turned to the field of trade to further their objectives, they found their governments very receptive to the idea of a customs union and well ahead with preparations. For a short period governments and Europeanists were able to follow the same road. The Treaty of Rome bears witness to the strength of the supra-national idea at that time.

The latter 1950s — as the 1960s were soon to show — were propitious years in which to lay plans for far-reaching trade liberalization. And in due course, without excessive difficulty, the European Community not only achieved its customs union, but EFTA achieved its free trade area and the GATT successfully completed the Kennedy Round negotiations. Yet the very ease with which countries embraced tariff-free trade in industrial goods stands in sharp contrast to the general malaise that began to surround the European Community once the last barriers to trade were eliminated.

Governments vs. Integrationists

It is obvious that the malaise is not the fault of the customs union which works fairly smoothly. Rather it is due to the growing resistance of national governments to pressure from the European integrationists. The latter have been interested in inducing governments to go beyond economic integration and exploit the forces generated

by the customs union in a drive towards European political integration.

Far from furthering the cause of European integration, which most people would fully support or at least understand, this linking of issues is causing considerable harm. Apart from producing the conflicts seen almost every week in Brussels, the tactics of the political integrationists are unnecessarily delaying the next stages of economic integration.

It is positively counter-productive to lay traps for large countries like Britain, France or Germany. They will not allow themselves to be inveigled into political integration by apparent economic logic. What is more, it is misleading to fudge the distinction between economic and political integration, saying "it's all politics anyway". For while political integration implies some pooling — and hence sacrifice — of national sovereignty, economic integration up to a certain point does not entail any such loss².

Monetary Union Unacceptable

In Western Europe, where governments have made it abundantly clear that they are reluctant to sacrifice significant parts of their sovereign autonomy, it has become very necessary to define much more precisely how far economic integration can be pursued without provoking "stonewall" resistance. All the work on European monetary union, for instance, shows that the necessary degree of policy harmonization goes wildly beyond anything that governments could ever accept — as long as they represent nation states.

This has been plain from the outset. Monetary integration im-

plies the abandonment to a central authority of some of the most important instruments of economic policy, notably the capacity to manipulate rates of interest, the money supply and public expenditure, employment and, thus, the national vote. To resolve the dilemma of European integration in present circumstances it is necessary to examine whether there exists any scope between a customs union and full economic union to promote further economic integration without encountering systematic resistance from governments.

A Comparison with EFTA

In this connection, it is illuminating to look at how far economic integration proceeded in EFTA, which on purpose kept the level of cooperation well below the critical point at which national sovereignty might be threatened. Obviously, a free trade association involves, in the first place, a lesser degree of cooperation than a customs union. But this is not the point at issue. The existence of the European Community is proof enough that a customs union is not in itself a threat to national sovereignty.

What is interesting to discover is whether EFTA has encountered any "second" or "third generation" integration problems in the twelve years of its existence. If so it would imply that the European Community could progress beyond a customs union by simply lowering its sights.

Without wishing to read more into EFTA experience than is really there, it is worth noting that EFTA was (and still is) concerned with such policy problems as government assistance to depressed regions, rights of establishment for firms and personnel, public procurement policies, restrictive business practices, technical specifications

¹ For the reports of the Working Party on the "Technical Study of the French Proposal for the Reduction of Tariff Levels" see Basic Instruments and Selected Documents, First Supplement, Geneva, GATT Secretariat, 1953, pp. 67-92, and the Second Supplement (1954), pp. 67-85.

² This, incidentally, is why economic integration has not proved to be the locomotive force for political integration that the European federalists and functionalists envisaged.

and patents³. These are areas of policy coordination into which governments have to go, however reluctantly, if they wish to share — equitably — the benefits of wider markets, whether regionally or globally.

On the other hand, EFTA has shown that it is not necessary, for the purpose of preserving the benefits of internal free trade, to devise common attitudes to a policy with respect to these extra-tariff matters. All that was strictly necessary to preserve the wider market was to iron out the inconsistencies and the contradictions. And this could be done by inter-governmental means.

On "Negative" and "Positive" Integration

European integrationists might say this is not good enough. The European Community needs to engage in much more than "negative" integration. It must develop "positive" integration — that is, common policies to promote European unity.

Here it might be observed, in passing, that the distinction between "negative" and "positive" integration is deceptive. For it implies that "negative" integration (the removal of tariffs, quotas and other restrictions on the free movement of goods) is less of an achievement than "positive" integration (the develop-

³ For a detailed analysis of these problems as they arose in EFTA, and for a discussion of the European Community, see Victoria Curzon: *The Essentials of Economic Integration: Lessons of EFTA Experience*, London, Macmillan, for the Trade Policy Research Centre, 1974, Chapter 4.

ment of common agricultural, regional, social and other policies). But in fact it is the other way around. The main gains from economic integration stem from the static and dynamic effects on trade, production and consumption of trade liberalization. And some of the more glaring costs arise from so-called "positive" integration,

The upshot of the European idea, then, has been the constant pressure of the Brussels Commission on the Council of Ministers of the European Community to act in every conceivable domain, from equal pay for women to energy policy. But the trouble is that member governments are just not prepared to be steam-rollered into "positive" integration in this way.

Would it not be wiser for pragmatic Europeans to let the impetus for further integration (whether "positive" or "negative") arise naturally from the functional problems encountered in running the customs union? In this regard there are quite enough difficulties to be jointly overcome without imposing "progress" from above.

A Pragmatic Approach Recommended

Such a pragmatic approach took the EFTA governments much further down the road to effective integration than they originally intended. This is because tariff-free trade in a non-*laissez-faire* world, bristling with public and private interferences in the market, requires constant supervision and common action.

Could the EFTA method of dealing with problems as they arise not be applied to the European Community? It might put an end to the demoralizing succession of crises that have plagued the Common Market in recent months and years. To those who would insist that without the Commission acting as a gadfly, the Council of Ministers would relapse into thankful torpor, it can only be replied that operating a free trade association or a customs union creates its own dynamic. The advantages for each member country in preserving the commercial advantages are such that their governments are obliged, by easy stages, to accept an increasing degree of policy co-ordination.

This approach would not rule out the development of common agricultural, regional, industrial and other policies. It would serve though to keep those policies within the realm of the politically feasible and economically justifiable — in terms of creating a single European market. To elevate any of these fields of common action to some mystical role in promoting European unity is almost a sure recipe for failure. It is, indeed, a contradiction in terms to say that European unity can emerge from common policies devised by nation states. In present times, the best one can hope for is concentration on the essentials of economic integration — a task sufficient to tax to the full the capacity of governments to cooperate.

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