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# A Theory of System-transcending Integration

by Professor Dr Bodo B. Gemper, Cologne \*

**The integration of national economies of a different level of development and an opposite quality of system will have a more profound influence in shaping the world of tomorrow. Therefore a theory of economic integration must be formulated which transcends the existing systems, i.e. a theory of co-integration.**

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**M**ore and more attention is being paid not only by scholars but also by politicians (particularly those concerned with economic affairs) to the problems of drawing comparisons which overlap the existing systems. A considerable incentive in this direction has been given by the discussions on possible reforms in the people's democracies of Eastern Europe. One thing has become clear in the course of these discussions: the social and economic systems in the two hemispheres of the political world are subject on a vast scale to processes of change. These changes are exerting a certain influence on each other both as regards their intensity and their course of development.

If we consider the current position of economic liberalism, not only in West Germany but elsewhere, we note that it has now reached the nadir of its development. This is all the more worrying in that the liberal approach represented the care of all free trade and in that free trade is the "foreign trade system of liberalism"<sup>1</sup>. The "ordo" concept is at present in many respects the product of self-reflection in a mirror, i.e. "Idioliberalism". Absorbed as these liberals are in the idioliberal world of thought, it must become ever more difficult for them in their situation to generate any ideas on an integration which transcends the existing systems.

The changes in the objective relations of a form of economic cooperation which transcends the existing systems are new. What we lack is a concept which will take into consideration this turn in the course of economic events. I am not going to speak up in favour of the convergence theory, but try instead to work out the basic pattern of a theory of economic integration which overlaps between the two systems. The "interdependence between the two systems" is limited by the species barrier integral to the need of totalitarian regimes to maintain the system. The immune reactions in such regimes are directed towards averting a liberal approach to economic affairs. In his exemplary study<sup>2</sup>, Egon Tuchtfeldt has convincingly

pinpointed the weaknesses of the convergence theory and shown that an *ostensible* convergence<sup>3</sup> — derived from parallels in technical and industrial development in all modern economies and "revealed" within the contrasting economic systems — should not be interpreted<sup>4</sup> as a sign that the two systems are converging. By the same token, no national economy can afford to indulge with impunity in transgressive behaviour in its regulative functions nor simply step out of the discipline of its economic order<sup>5</sup>.

It has been shown that the efforts towards co-operative integration are much greater than the ideological defenders of the Holy Grail — whatever their point of reference — would care to admit. Moreover, the cooperation and relationships now established have taken on such concrete forms that the outlines of this de facto co-integration cannot be overlooked. No ideological standpoint may be considered sacrosanct in the light of an ever-developing society and economy. This is especially true of the efforts made to find worldwide solutions to existing problems. Another factor in favour of further positive steps in the interest of human understanding is the "almost boundless optimism of the experts in East Europe in regard to the possibility of future economic relations. This applies both to the intensifying of relations and to their impact on the major political goal of a pan-European system of peace"<sup>6</sup>. If a

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\* Department of Economics, Siegen University. Shortened version of a discussion paper read at the Fourth International Congress of Economists in Budapest, August 21, 1974.

<sup>1</sup> Gottfried Haberler, *Der internationale Handel* (The International Trade), enlarged by The Relevance of the Theory of Comparative Advantage under Modern Conditions, Berlin, Heidelberg, New York 1970, p. 165.

<sup>2</sup> Egon Tuchtfeldt, *Konvergenz der Wirtschaftsordnungen? (Convergence of Economic Systems?)* In: *Wirtschaftspolitische Chronik*, 1969, No. 1, pp. 29-51.

<sup>3</sup> Egon Tuchtfeldt, *ibid.*, p. 49.

<sup>4</sup> Egon Tuchtfeldt, *ibid.*, p. 51.

<sup>5</sup> Bodo B. Gemper, von der "Ökonomisierung der Finanzpolitik" zur "Konzertierten Aktion" (From the "Economisation of Fiscal Policy" to the "Concerted Action"). In: Bodo B. Gemper (ed.): *Marktwirtschaft und soziale Verantwortung* (Market Economy and Social Responsibility), Cologne 1973, p. 423.

<sup>6</sup> Christian Franck, *Europa im Gespräch — Ost-West-Kolloquium in Mainz* (Europe under Discussion — East-West-Colloquy in Mainz). In: *EG*, No. 1/1974, p. 22.

convergence is possible, it may only rest in our individual attitude towards mutual understanding, that is to say *tolerance*.

The essential feature of integration in international economics is the "threefold and reciprocally supporting community"<sup>7</sup> measured in terms of a developed national economy, a "market and price community based on the pre-condition of a payments community and resulting in a localisation of production (... tending towards liberalisation) in accordance with a rational division of labour"<sup>8</sup>.

Economic integration is characterised by a process in the course of which it changes "an economic area into an economic entity with general communication and interdependence as between markets and economic cells (business enterprises and private households)"<sup>9</sup>. The result of this integration ought at least to be maintained if not actually improved.

It is clear from this that by definition economic integration is only possible between national economies with an identical or closely related economic order. Consequently, the integrating links between economies of different quality in their basic system ought to be of a different character. After all, no market, price and payments community – which represents the intrinsic nature of integration – is possible in a system-transcending scheme of things.

There has been a substantial change in the morphology of the world economy. Economic links have been forged between national economies with different economic systems. As a result, we are faced with the need to formulate a *theory of economic integration which transcends the existing systems* as the basis for a transgressive integration policy. The classical definition is that integration is only feasible between national economies with an identical or similar economic system. Thus, the new theory must be about a new integration quality over and beyond the frontiers of economic orders. This transgressive integration is *co-integration*, that is to say coordinated integration. Consequently as represented in a co-integration matrix of overlapping integration links, degrees of co-integration:

*First-degree Co-integration* (complete co-integration): Two (or several) areas of integration between differing economic orders (quality of their systems) co-integrate to make a uniform whole. This complete co-integration is a textbook case in that such fusion would be tantamount to qualified integration. Integration at the next higher stage would then ensue, analogous to the linking of national economies with identical or at least very similar economic systems. In this case, how-

ever, they would be qualified by the regulatory integral. Such a case is inconceivable in practice.

*Second-degree Co-integration* (partial co-integration): Two (or more) integration areas with a differing economic system co-integrate by coordinating their activities in certain sections of the economy. Such partial co-integration is, in practice, the maximum extent to which realistic objectives may be implemented.

*Third-degree Co-integration* (co-association): Where the members of an integration area are allowed to approach another integration area with a contrary economic order, this leads to co-association.

*Fourth-degree Co-integration* (qualified cooperation): If a national economy without any integrative links joins up with one (or more) integration area(s) with a different economic system, this is qualified cooperation.

*Cooperation* is the collaboration between two or more national economies with a different economic system. Over and above this study of transcending or transgressive systems, it is conceivable that economies with related economic systems yet without any integrative links may cooperate with each other.

Unlike co-integration, i.e. coordinated integration, "*cooperative integration*" is a method of integration which "waives institutional links by means of joint organisations"<sup>10</sup> and which does not transcend the existing systems.

The main difference between integration and co-integration is thus as follows: *integration* is the expression of a complete interlocking of international economic relations. It is only possible between national economies with the same or a related quality of system and thus as a rule it is regionally delimited.

By contrast, *co-integration* reflects the coordinated integration of international economic relations over and beyond the frontiers of the economic system. In the main, co-integration is adapted, approximated and as far as possible uniformly aligned collaboration of varying degrees of intensity in the economic and technical sectors be-

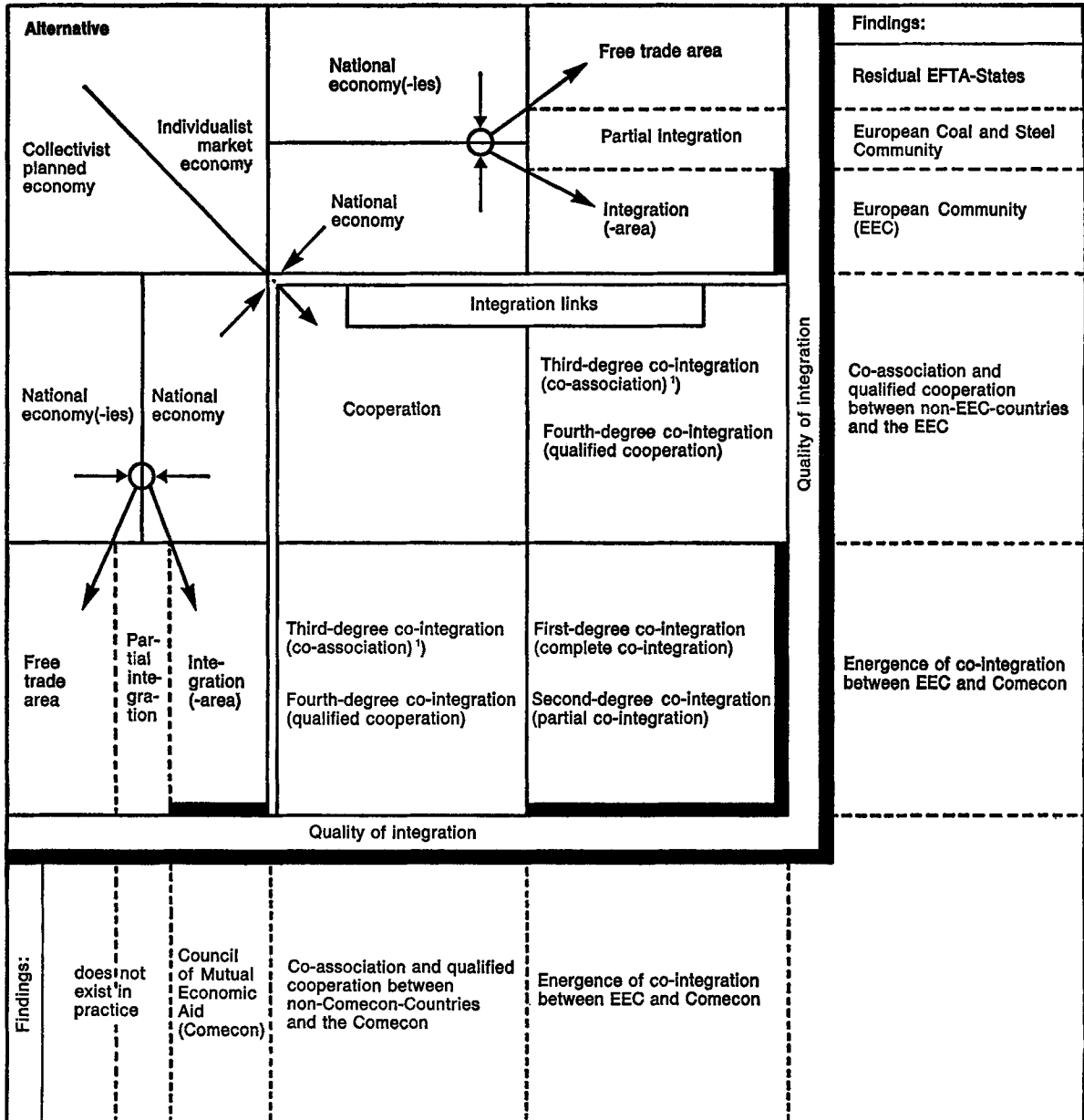
<sup>7</sup> Wilhelm Röpke, *Integration und Desintegration der internationalen Wirtschaft* (Integration and Disintegration of the International Economy). In: E. v. Beckerath, I. W. Meyer, A. Müller-Armack (eds.): *Wirtschaftsfragen der Freien Welt* (Economic Questions of the Free World), Frankfurt-on-the-Main 1957, pp. 494-495; and Wilhelm Röpke, *Civitas Humana. Grundfragen der Gesellschafts- und Wirtschaftsreform* (Basic Issues of Social and Economic Reform), 3rd ed., Erlenbach-Zürich 1949, p. 392.

<sup>8</sup> Wilhelm Röpke, *Integration und Desintegration der internationalen Wirtschaft*, loc. cit., p. 392.

<sup>9</sup> Ibid.

<sup>10</sup> Hans-R. Krämer, *Formen und Methoden der internationalen wirtschaftlichen Integration. Versuch einer Systematik* (Forms and Methods of International Economic Integration. An Attempt to Systematize). Kieler Studien 95, ed. by Erich Schneider, Tübingen 1969, p. 28.

Co-Integration-Matrix: Relations Between Economics of a Different Nature and Quality



<sup>1</sup> or other looser links.

Source: Bodo B. Gempfer: Co-Integration, Discussion paper Fourth International Congress of the Economists, Budapest, 1974.

tween national economies with differing economic systems.

The regaining of *one* worldwide integration in accordance with the classical definition of the term by returning to a market economy – national as well as international – such as Wilhelm Röpke has had in mind<sup>11</sup> is now unattainable. This is, however, not the case with Röpke's hopes of overcoming the social crisis in a "civitas humana and an international order"<sup>12</sup>. His optimism is justifiable in this respect.

At present, the focal point of our considerations is the worldwide and complete *reorganisation* of the framework of foreign trade and payments in

the light of market and planned-economy conditions. This entails the emergence of interdependencies between systems of basically different regulative quality which grant preferential treatment in trade and currency matters.

Contrary to *classical integration*, resting as it does on a fundament of a joint economic system or at least on a regulative, interlinked system of related economic orders, co-integrative relationships completely lack the basis of a joint eco-

<sup>11</sup> Wilhelm Röpke, *Integration und Desintegration der internationalen Wirtschaft*, loc. cit., p. 498.

<sup>12</sup> Wilhelm Röpke, *Internationale Ordnung – Heute (International Order – Today)*, 2nd ed., Erlenbach-Zürich, Stuttgart 1954, p. 348.

conomic order. As a result, only the co-integrative *attitude* of the participants is in a position to establish and maintain the system-transcending nexus. This attitude of international goodwill in pragmatic internationalism is precisely the same enzyme which guarantees the functioning of human relationships on a worldwide scale. We characterise this in general as peaceful co-existence and as the free exchange of people, opinions and information. A minimum standard of basic moral convictions and legal principles in our dealings with other peoples, recognised as it is above all in international trade and transport, confers on this *co-integrative stance* an internationally valid basis of values. This achieves a degree of moral obligation, which ought to suffice to avert attitudes in the national sector stemming from conflicting interests – attitudes which might be contrary to this ethical code of co-integration. This is even the case when some principle or other is not always respected at national level.

The maintenance of international relations within the meaning of the convention of human rights means that everyone can invoke supranational individual and moral immunity or must be enabled to invoke it. In other words, it is the supranationality of man vis-à-vis ideological, political and national considerations which may lead to a limiting of freedom of movement in deference to certain interests.

Are the efforts towards co-integration an international variant on the attempt to square the circle? At first sight, they may appear to be. When we look more closely, however, we see that this is not so. What we have to do is to “replace Eucken’s alternative of market and centrally controlled economy and its irreconcilable antithesis”<sup>13</sup> with a regulative approach to co-integration efforts which lie somewhere “in between”. In other words, we must draw connecting lines between decentralized and centralized national economies within the radius of action of international trade with a view to a proper arrangement of affairs “without filling up the gap between the market and the central plan”<sup>14</sup>. This is neither desirable nor feasible.

Hence, the scope of co-integration links is greater than that of integration.

The emergence of a *doctrine of co-integration* and its policy will be confronted mutatis mutandis with the same coordination problems as in economic policy at national level<sup>15</sup>. In keeping with the attitude towards solidary internationalism as well as economic co-integration – both of which supplement each other – we should not overlook the fundamental changes which are taking place or giving signs of approach in the relations be-

tween industrial and developing countries. The relationships between national economies of a different level of industrial or technical development is visibly based on equal footing in line with the extent to which societies in developing countries are undergoing changes. The task of systematically promoting this requisite social change comes under the heading of development policy. The most favourable alterations in “development policy as ad hoc social change”<sup>16</sup> are to be found in a group of nations where the developing countries feel they are firmly integrated in the community of all industrial nations – irrespective of their economic systems – that is to say in a solidary association in which “the institutions, sets of values and behavior patterns of the traditional pre-industrial forms of society may be held in check and opportunities for a rational organisation of the given circumstances created”<sup>17</sup>.

Solidarity in partnership obliges industrial countries to make great efforts to accommodate the interests of developing states. This may be induced by a feeling of responsibility for past deeds – a modest atonement for “colonial sins” – or in the light of the sufferings of starving people in the developing countries. They have to be enabled to attain minimum living standards as quickly as possible.

As the standard of living in these developing countries rises and national pride is backed by technical and industrial progress, their economies will expand over and beyond their own radius of foreign trade with their original partners. After all, the industrialisation of developing countries leads to increased affluence and this in turn to a rise in their foreign trade ratio<sup>18</sup>. The result is an expansion of their scope for foreign trade; they activate their foreign trade relations and enter into new engagements both of an integrative and co-integrative character.

In addition to the most important growth factors – increase in population, augmentation of non-monetary capital and expansion in productivity – considerable importance attaches to sustained *economic momentum* as a growth-promoting factor. This is brought about by integrative and co-

<sup>13</sup> Goetz Briefs, Preface to Philipp Herder-Dorneich, *Der Markt und seine Alternative in der freien Gesellschaft. Ökonomische Theorie des Pluralismus (The Market and its Alternative in the Free Society. Economic Theory of Pluralism)*, Hanover, Vienna, Freiburg 1968, p. 9.

<sup>14</sup> Ibid, p. 9.

<sup>15</sup> Egon Tuchtfeldt, *Koordinierungsprobleme in der Wirtschaftspolitik (Coordination Problems in Economic Policy)*. In: *Wirtschaftspolitische Chronik*, No. 3/1972, p. 37.

<sup>16</sup> Egon Tuchtfeldt, *Entwicklungspolitik als gezielter Sozialwandel (Development Policy as Purposive Social Change)*. In: *Schweizer Monatshefte*, No. 4/1974, pp. 247-256.

<sup>17</sup> Ibid, p. 247.

<sup>18</sup> Alfred Kruse, *Außenwirtschaft. Die internationalen Wirtschaftsbeziehungen (Foreign Trade and Payments. The International External Economic Relations)*, 2nd ed., Berlin 1965, p. 720.

integrative processes as soon as a national economy establishes foreign trade relations over and above the absolutely necessary minimum and it links up with other economies.

A good example of this was the successful conclusion of the first phase of the agreement recently concluded between the 44 states in Africa — including the previous signatories to the Yaounde and Arusha agreements — as well as in the Pacific and Caribbean areas with the European community. This dynamic effect of international trade and to a greater extent of the integration/co-integration factor reflects the tremendous stimulus given to efficiency and growth by „market convertibility“.

These market forces have been seen to be so dynamic that they cannot be seriously impaired by the major and continued infirmities of an overstrained world monetary system, resulting as it does in an impairment of international trade.

A glance at the co-integration matrix reveals the existence (in various degrees of intensity) of co-integration relations. They exist despite the considerable number of factors which aggravate foreign trade relations between states with a different economic system. Reduced to its simplest form, the real issue is the question posed by Professor Haberler in 1934 as to whether a trading system between economically and largely liberal countries on the one hand and states with interventionist policies on the other is feasible<sup>19</sup>.

A remarkable example is furnished by the intensive trading links between West Germany and East Germany. After the signing of the Basic Treaty between the two countries, they continued to be designated as trade within Germany and they were also recognized by the European Community as „part of inner-German trade“<sup>20</sup>. The problems arising from such trade have already been discussed in detail by Dr Morawitz from the Federal Ministry of Economic Affairs<sup>21</sup>.

Another example worthy of study is the cooperation between West Germany and the People's Republic of Hungary. The many advantages — which are also recognized by entrepreneurs on both sides — stem from the opportunities for cooperation in the following fields: Science and technology; Granting of licences; Commission processing (for foreign account); Specialisation; Joint projects; Sales.

The foreign trade policy of the states of the Council for Mutual Economic Aid (Comecon) is characterised by the strengthening of foreign trade relations with Western countries. The policy pur-

sued by the Soviet Union and its Comecon partners is based on direct cooperation between enterprises in the EEC and Comecon.

Since January 1, 1973, the central emphasis in its member states' trading policy has been placed on trade with the European Community. With a view to obviating the difficulties which this presents, the interest of the East European countries has been directed towards cooperation with individual firms in Western Europe and to „bilateral forms of contractual relationships which have only emerged during recent years“, to their improvement and sophistication with the aim of „bilaterally undermining the advancement of the EEC's system“<sup>22</sup> i.e. exploiting the situation to the advantage of the East bloc states.

These co-integrative links are being backed by the leader of these efforts towards co-integration in the East, the Soviet Union. Some people even speak of a „foreign-trade offensive on the part of the USSR“<sup>23</sup> in its attempts „to solve — or at least to solve more quickly — a number of grave internal economic problems by strengthening foreign trade relations“<sup>24</sup>, i.e. by harnessing the huge, highly specialized economic potential of industrialized countries in the West to help build socialism in the economic sector.

The question as to which economic order will, in the long run, prove to be more successful — the individual, market-economy system or the collectivist planned-economy system — is not being answered for a number of reasons. Competition between the systems ignores any rules of fair play. Hence, the issue is not: who will beat whom, but rather *how* will the two systems — each of them more or less politically and militarily secure — manage to achieve such a level of sophistication that they can cooperate to their mutual advantage in a spirit of joint co-integration awareness and co-existence and in the light of the inevitable reciprocal influence they exert on each other. The right to freely choose one's own economic system has been extinguished like a torch put out by the stiff breeze blowing between the two opposite sides rubbing against each other.

<sup>20</sup> Cf. Protokoll über den innerdeutschen Handel und die damit zusammenhängenden Fragen (Protocol relating to German Internal Trade and Connected Problems). In: Verträge zur Gründung der Europäischen Gemeinschaften, Verträge zur Änderung dieser Verträge, dazugehörige Dokumente, Brussels 1971, p. 427.

<sup>21</sup> Rudolf Morawitz, Der innerdeutsche Handel und die EWG nach dem Grundvertrag (German Internal Trade and EEC after the Basic Treaty). In: Europa-Archiv, series 10/1973, pp. 353-362.

<sup>22</sup> Hans Bräker, Osteuropa, die Europäische Gemeinschaft und das GATT. Zur gegenwärtigen Außenwirtschaftspolitik der Länder des RGW (East Europe, the European Community, and GATT). On the Present Foreign Trade Policy of the Comecon States). In: Europa-Archiv, series 19/1973, p. 685.

<sup>23</sup> Sowjetunion 1973, Innenpolitik, Wirtschaft, Außenpolitik (Soviet Union 1973, Domestic Policy, Economy, Foreign Policy). Ed. by Bundesinstitut für ostwirtschaftliche Studien, Cologne, Munich 1974, p. 73

<sup>24</sup> Ibid, p. 87.

<sup>19</sup> Gottfried Haberler, Liberale und planwirtschaftliche Handelspolitik (Liberal and Directed Trade Policy), (with the assistance of S. Verosta), Berlin 1934, pp. 100-109.