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Is the EC Disintegrating?

According to a report by the EC Commission the economic divergencies between the individual EC member countries have shown a rapid increase during the last three years. Is the Community falling to pieces? In the following the issue is discussed by Wilhelm Haferkamp, Vice President of the Commission of the European Communities, and Professor Brian Bayliss, Director of the Centre for European Studies, Bath, the latter giving special regard to the British point of view.

Lack of Fresh Political Impulses

by Wilhelm Haferkamp, Brussels *

The very fact that the question of this Forum is being asked tells us something about the state of the EC. Five, nay even three, years ago the same question would have been absurd, but not today; today it is being asked by many, though no one has as yet seriously answered it in the affirmative.

What does the reality in the Community look like? There is no getting away from the fact that the EC continues to pursue a common external trade policy because the treaty provides for it once and for all. The Common Market is part and parcel of what has been achieved, something that is no longer discussed because it has become a matter of course. However, it cannot be regarded as complete, for there is still a great deal to be done, particularly with respect to the removal of trade barriers, and we are still kept waiting for that minimum

of tax harmonization without which the withdrawal of frontier controls is impossible.

The common agricultural policy, considered by many to be the Community's strongest bond, can only be maintained by ever more complicated artificial devices. Whether this policy still deserves to be called "common" depends on how one defines the term. In reality, it has ceased to be common. The common research policy has remained a torso and the proposed common transport and industrial policies never really got off the ground.

The strongest challenges the Community has had to face in recent years were in the fields of energy, economic and monetary policies. If the Community had not yet existed when the oil crisis broke upon the world, this would indeed have been

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the moment to start it, for so colossal and interdependent were the problems it entailed that only supra-national efforts had a chance of overcoming them.

Split into Two Groups

The outcome of this challenge is well-known. Instead of making it the occasion for a determined effort to advance further towards integration, the Community stands after this crisis which shook the world economy to its foundations more disunited, more immature, more disintegrated than ever before. Up to the present day there is no such thing as a common energy policy. The vital commonness in this field was initiated from the outside, and the Community at once reacted by splitting into two groups: Eight member states were prepared to cooperate with the United States and other countries in the Interna-

tional Energy Agency, France was not. This split endures until today.

In monetary policy the cleavage runs right through the middle of the Community. Great Britain, Italy and France — three of the four larger member states — no longer belong to the European currency association, known as "the snake". The club of the "snake countries" is confronted by the club of the "free floaters". This separation has found its institutional expression in that meetings of the Council of Economic and Finance Ministers are generally preceded by a separate conference of "snake countries". In other words, essential questions of monetary policy are no longer discussed by the competent bodies of the Community.

But whoever had thought that the "rump of the snake" was a "rocher de bronze" of monetary stability, was soon disillusioned. In the past few weeks what remained of the snake found itself exposed to considerable pressure, though this pressure has not led to the separation of another country from the snake. There are however quite a few people — and particularly in the Federal Republic of Germany — who do not think much of the chances of the snake to survive. Personally, I am of the opinion that to give up the snake would be economically and politically short-sighted.

Striking Economic Divergencies

It would certainly be unjust to put the entire blame for the present monetary miseries on a lack of cooperation and helpfulness shown by the snake countries. Basically the difficulties of the European exchange rate system are simply an illustration of the fact that the economic development of the member states has been diverging

in the past few years to a truly alarming extent.

The cumulative rates of increase in consumer prices over the years 1973, 1974 and 1975 show the following picture:

Community	40 p.c.
Germany	21 p.c.
Netherlands	31 p.c.
Italy	54 p.c.
United Kingdom	57 p.c.

As far as wages costs per unit are concerned, the divergencies between individual member states were even more marked (cumulative development during 1973, 1974 and 1975):

Community	55 p.c.
Germany	25 p.c.
Netherlands	41 p.c.
United Kingdom	75 p.c.
Italy	83 p.c.

To extend the list of diverging economic indicators would be easy, but the above two statistical series should suffice to make it clear that it is economically impossible to coerce the currencies of all the member states for any length of time into an unalterable system of fixed exchange rates. Hidden behind the monetary cleavage there lie striking economic divergencies.

High Degree of Interlocking

Now does all this mean that the disintegration of the Community is inevitable? My answer to this is unequivocal: the Community will not disintegrate because no member state can afford to shoulder the consequences of such a development. These consequences would be difficult to gauge in detail. But that they would be extremely grave for all national economies is beyond doubt.

Some idea of the possible effects of a dissolution of the Community may be gained from

statistics showing the extent to which trade of the member states has become interlocked. In the past year more than 50 p.c. of the exports of member states went to other member states. For the Federal Republic of Germany the percentage of exports being shipped to the rest of the Community amounted to approximately 45 p.c. The smaller a member country the bigger is this percentage share. Belgium and the Netherlands for example sold more than 70 p.c. of their exports inside the EC. To be sure, this high degree of interlocking was not the work of the Common Market alone. Of course France and Germany would continue to exchange goods even after the European Community had disintegrated. But no one should be under the illusion that trade and thus employment and prosperity would remain unaffected by such an event. I am certain that especially in Germany everybody in a responsible position is quite clear on this point.

The question: is the EC disintegrating? is in fact so hypothetical that it is really a waste of time to discuss any consequences that might ensue. To raise this question makes sense only in as much as such considerations once again will bring into the field of vision the advantages which the Community has brought.

Economic Common Sense on Trial

The most explosive charge menacing the Community is to be found in my opinion in the great economic structural differences between member countries and in the fact that these differences are still widening. Everything possible must be done to stem this tendency of member countries to develop in different directions and gradually, step by step, to bring their structures closer together.

We have learned from the past that the optimum degree of growth and stability cannot be achieved merely by the traditional means of overall control. For years too high demands were made. Only too frequently, and in some countries notoriously, the struggle for a bigger share of the national product has gone far beyond the bounds of what the national economy could bear. This experience illustrates the vital need for co-operation between employers' representatives and trade unions and between them on the one hand and the governments on the other.

In the Federal Republic of Germany such co-operation has become almost a matter of course; not so however in other member states, as becomes plainly visible to anyone who follows the public discussions on the stabilization programmes governments have decided upon or are still preparing. This is the background against which must be seen our endeavours to get the employers' representatives, trade unions and governments of member states to sit down around a table for a discussion of these matters also on the European level. In my view the primary significance of the results of the Conference of the Three at the end of June in Luxembourg was not the fact that the participants reached agreement on quantitative objectives for their stabilization and growth policies as well as on the required measures. This was also important and necessary, but for me the most important result of that conference was that it initiated a learning process on European cooperation.

In some countries, the past weeks and months have indeed brought a few gratifying advances in that direction. In Great Britain for example people have come to realize

that merciless distribution struggles can drive a country to the brink of ruin. This is not to say that Great Britain is economically speaking already out of the wood, far from it. What is certain however, is that the country's present difficulties would already have lost a great deal of their acuteness if social groups and government had set out on the road of cooperation earlier. In France and in Italy the economic common sense has still to be given the trial. In any event the social groups will have to be made to face their responsibilities vis-à-vis the national economy.

Integration — a Political Challenge

Economic and monetary advances alone will of course not be able to drag the Community out of its present state of stagnation. European integration has been, and will remain, primarily a political problem and a political challenge. Now everybody knows that the present signs for politico-institutional progress are not favourable. All that is needed is to draw attention to the fact that the Tindemans-Report on European union has by now been lying on the table of the Council of Ministers for more than nine months. This certainly not sky-aspiring document has so far produced no reply from the governments.

The decision to hold direct elections for the European Parliament is an important step on the road to the necessary democratization of the Community. But it does not constitute a decisive break-through inasmuch as it is not intended in the near future to widen the scope of the Parliament to any significant extent. In my view advances in some relatively limited fields may be conceivable without starting big fundamental debates on institutions. One might

for instance confer on the European Parliament the power to legislate on so important a subject as the completion of the internal market. If the European Parliament were given powers to legislate in the fields of freedom to settle and work, legal harmonization, dismantlement of trade barriers and the establishment of equal competitive conditions, and if one were no longer dependent on the protracted and fatiguing bargaining of the national bureaucracies, much would have undoubtedly be gained.

It is further necessary and also feasible to improve the working methods of the Council of Ministers, or rather, of the various ministerial councils. There should be fewer adjournments and more decision-making. The ministers should be more frequently and more quickly advised by the numerous groups of experts and should arrive at political decisions on problems the committees are unwilling or unable to solve. Above all, the European Council, recipient in advance of so many laurels, should not allow itself to be degraded to a scapegoat for the sluggish decision-making behaviour of the councils of departmental ministers.

There is no doubt: without fresh political impulses the present state of stagnation cannot be overcome, and the question: is the EC disintegrating? remains acute. These impulses cannot be expected to come from bureaucrats, they can only come from European governments, from European statesmen. The politicians of Europe know that the Community is more than something that only costs money and also more than a cash box to whose contents one helps oneself, if the national interest seems to require it. The citizens of Europe expect of them that they act accordingly.