

Gonschior, Peter

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## Impediments to the coordination of national cyclical policies in the EC

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countries in particular do not regard it as a model to be copied.

### Another Round of Negotiations Ahead

By concluding the agreements with the Maghreb countries — and also the Lomé Convention; a wider sweep is appropriate in this context — the EC has played its trump cards in its Mediterranean policy in the traditional sense. The Community is now about to start on a new round of the game in which the distribution of the cards is different. For one thing, the individual member states are starting from different base positions. They tend to stress their individual, more diverse interests. They are by no means all agreed on the wish of some of them that the circle of associated countries should be drawn very wide. Financial anxieties are intermingled with commercial interests. The Greek application for accession will provoke Turkish reactions which it is very difficult to appraise beforehand. Spain and Portugal also have the wish to join. Even if the Community cannot respond at once by opening negotiations, it will in the medium term have to face the fact that its enlargement calls for a strategy which suits as many parties as

possible and disadvantages as few as possible. The decision-making process will be the more fragmented and gradual the more parties have to be accommodated.<sup>13</sup>

The industrialized countries of Europe will find it difficult to avoid drawing the circle very wide and making room for the Arab countries in what has hitherto been too narrowly defined as "Mediterranean policy". The strains set up between a southward-pointing Community policy and one with a North Atlantic direction are likely to persist, but the cross-currents will be greatly influenced by the future orientation of US policy. In the North-South dialogue the Community is negotiating formally as one entity but the recent Nairobi conference showed that the Federal Republic went its own way on as important an issue as that of the Common Commodity Fund. This instance shows that the Community is not speaking with one voice. It must be admitted that on the other side there is also a chorus of many voices which is not always in full harmony. To conclude from such conjunctures that the Community will collapse would certainly be wrong but one has to acknowledge that the Community has not yet adapted itself to a novel situation, that it still lacks new and binding lines of direction for the whole sphere of development policy. The Mediterranean policy has its place in this larger sphere.

<sup>13</sup> Cf. Ernst B. Haas, *The Uniting of Europe*, 2nd ed., Stanford 1968, p. 11; the same author, *Die Einigung Europas* (The Uniting of Europe), in: Sidjanski, Haas, Lindberg et al., *Erfolge und Krisen der Integration*, Cologne 1970, p. 38 ff.

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## Impediments to the Coordination of National Cyclical Policies in the EC

by Peter Gonschior, Cologne \*

**Compared with the issues of economic and monetary policy the EEC Treaty says little about a common cyclical policy, and no great advances have been made towards such a policy since the Treaty of Rome was drafted. Which impediments are holding up progress in this direction?**

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In the negotiations leading up to the foundation of the European Economic Community interest centred on the planning of the structure and order of a Common Market with domestic market attributes. Compared with general issues of economic and monetary policy, the cyclical policy received little attention. It was only said in Art. 103 of the EEC Treaty that member states shall consider their policy relating to economic trends as a "matter of common interest". The text of the EEC Treaty thus shows clearly that the

unwillingness of the founder members to accept concrete procedural regulations for cyclical policies left a gap which was bound to impede integration. A policy relating to economic trends was introduced into the Treaty text as a task to be kept in sight for later. But as it turned out it was a mistake to believe that one could start with monetary policy and think about coordinating the cyclical policies at some later date.

\* Programm Angewandte Systemanalyse ("Applied System Analysis" programme) of the Arbeitsgemeinschaft der Großforschungseinrichtungen (AGF).

The desire for an integration of the markets of the Community countries led in 1972 to the customs union which resulted in a far-reaching liberalization of economic exchanges and partial opening of the capital markets. As the integration of foreign trade made further progress, it became however apparent that national attempts to control the economic cycle failed to yield the hoped-for stabilizing effects. When the Federal Republic of Germany in 1973 took a stand against the consequences of excessive demand by initiating a policy of stabilization, its efforts were thwarted by external surpluses, internationally intertwined prices and speculative liquidity overruns<sup>1</sup>. The monetary postulate of stable or approximately stable rates of exchange was violated many times in an effort to screen the national cyclical policies from external influences. What followed was a new "market compartmentalization"<sup>2</sup> liable to put the previously achieved advances towards integration in jeopardy.

The "slimmed-down currency snake" notwithstanding, there are today in all EC states politicians concerned with economic matters who take the view that the exchange rates should be fixed if at all possible. There is thus reason to reopen the discussion about the alternative of a coordinated cyclical policy in the light of the experience gained with European cooperation in the past 20 years.

### Conceptual Delimitation

The concept of "coordination" must first be distinguished from "integration", "cooperation", "harmonization" and "adjustment". All these terms are used side by side, often in no particular order — even in the EEC Treaty. Going contrary to the view that these terms are not fundamentally different<sup>3</sup>, we shall arrange them in a systematic order.

The meaning of integration in its widest sense is: uniting. The term thus describes a process by which parts and members are combined in a comprehensive entity. Of the multitude of possible kinds of integration the *economic* one alone is of interest in the present context. Economic integration is sub-divided into *functional* and *institu-*

*tional* integration<sup>4</sup>. Functional in this sense is the process of economic amalgamation of the national economies themselves and institutional is the amalgamation of their economic policies:

### Economic Integration

functional	institutional
first degree: free trade zone customs union	first degree: commitment to simple consultation
second degree: common market economic union	second degree: coordination by adjustment (harmonization), concerted action, cooperation
third degree: complete integration	third degree: commitment to a single common policy

The diagram shows coordination to be one form of institutional integration. First-degree integration turns into coordination when mutual information exercises an influence on measures for the attainment of *national* objectives which transcends the state frontiers.

The article in the EEC Treaty which deals with cyclical policy (Art. 103) makes no mention of coordination, but Art. 105, which calls for the coordination of the whole economic policy — and thus also of cyclical policy — so that the overall objectives can be achieved, does. Coordination thus serves the purpose of achieving *common* objectives. Among procedures for coordination a distinction can be made between harmonization (adjustment), concerted action (moral suasion) and cooperation (working together).

If we define *harmonization* as the orientation of national measures to a common aim<sup>5</sup>, *concerted action* as collaboration between states, individuals and organizations in the sphere of economic policy and *cooperation* as joint direction and performance of partial functions, cooperation constitutes the highest degree of integration in joint action. The question therefore arises whether co-operative coordination can help to keep fluctuations in the utilization of the overall capacity of

<sup>1</sup> Cf. the annual report for 1973/74 of the Council of Experts on Economic Development, Deutscher Bundestag, 7th legislative period, printed matter 7/1973, Nov. 22, 1973, No. 4, p. 3.

<sup>2</sup> Cf. Ernst J. Meistmäcker and Hans von der Groeben, Ziele und Methoden der europäischen Integration (Aims and Objectives of European Integration), in: Wirtschaftrecht und Wirtschaftspolitik, Vol. 31, Frankfurt 1972, p. 18 f., 82 ff. — Annual report for 1972/73 of the Council of Experts . . . , "Gleicher Rang für den Geldwert" (Equal Rank for the Value of Money), Stuttgart-Mainz 1972, No. 24, p. 6.

<sup>3</sup> Cf. Bernhard Molitor, Kommentar, Vorbemerkungen zu Art. 103 (Commentary, Preliminary Remarks on Art. 103), in: Handbuch für Europäische Wirtschaft IA 53, EEC, p. 10.

<sup>4</sup> Cf. Peter Gonschior, Hemmnisse bei der Koordination nationaler Konjunkturpolitiken in den Europäischen Gemeinschaften (Impediments in the Coordination of National Cyclical Policies in the European Communities), Baden-Baden 1976, p. 46.

<sup>5</sup> Cf. Hans-R. Krämer, Formen und Methoden der internationalen wirtschaftlichen Integration — Versuch einer Systematik (Forms and Methods of International Economic Integration — Attempt at a Systematization), in: Kieler Studien, Forschungsberichte des Instituts für Weltwirtschaft der Universität Kiel, Vol. 95, Tübingen 1969, p. 7.

the economy within as narrow limits as possible and assure a certain level of capacity utilization<sup>6</sup>.

### **Legitimacy of a Common Cyclical Policy**

As for the legitimacy of a coordination of European cyclical policies, the EEC Treaty starts from the premise that the member states shall in principle retain their sovereignty in the sphere of economic policy — and thus of cyclical policy — but this sovereignty is to be restricted by certain regulations. The EEC Treaty, as has been mentioned earlier, devotes to the cyclical policy a single article which declares it to be a matter of common interest. It cannot be assumed that common interest has the same meaning as common policy. Coordination does not rule out diverging national controls. Art. 103 must be read in the context of Art. 105, para 1 and Art. 145 which instruct the Council that it shall — in addition to its duty to facilitate the attainment of the objectives stated in Art. 104 — “coordinate” the economic policies. The Council of Ministers has thus been given the sole power of decision. This paragraph is the basis on which rests the competence of the Community to deal with the cyclical policy<sup>7</sup>.

The Treaty provisions are couched in very general terms but bestow on the Community organs in Art. 103, paras 2 and 3 the formal power to issue obligatory orders, by “decisions” and by enjoining “requisite directives”. In this context it is of special political importance that a “unanimous vote” is required. Apart from the general principle that the policy relating to economic trends is to be treated as a matter of common interest, Art. 103 contains only provisions in regard to procedures: it does not give concrete directives on the conduct of member countries in cyclical emergencies.

### **Impediments in the Community Institutions**

Although Art. 103 leaves the power of decision on cyclical control in the competence of the member states, the Community institutions are to facilitate the functional integration. There are however considerable impediments to be overcome, especially in the sphere of the Community institutions which come into direct contact with matters of cyclical policy. Coordinating Committees, the Council of Ministers and the Commission are foremost amongst these.

Of the greatest importance among the committees concerned with the coordination of cyclical policies is the Committee for the Policy Relating to

Economic Trends which was set up in 1960. Like the committees for the Coordination of Credit, Monetary and Budget Policies<sup>8</sup> it has no power of decision. Its main task is to provide information and perform preparatory functions for the organs which have the power of decision. In March 1972 it was complemented by the formation of the Coordinating Group for Short-term Economic and Financial Policy which at regular intervals draws up plans and orientations for the individual states. It also examines the instruments among which a choice is to be made for purposes of cyclical policy and strives for their mutual adjustment. The member states were supposed to consult this Coordinating Group but in fact its work has not advanced beyond formulating general recommendations nor has it been possible to ensure a regular exchange of views by means of consultations.

The Community institutions are facing a special problem in that they have to combine two decision-making levels — the Community level and the national one<sup>9</sup>. This rivalry between national and supranational interests engenders obstructive tendencies which hamper, and in part even prevent, coordination. The example of the Council of Ministers shows this especially clearly.

The Council of Ministers has sole power of decision to influence measures in relation to economic trends by the member states. Art. 145 sets the Council the task of bringing about the coordination. It is entitled to make law by promulgating orders, directives and decisions. The Council however faces here a dilemma: as a supranational decision-making authority it is composed of politicians who are responsible to their national parliaments alone. A solution for this problem cannot be found in the present system of European cooperation but only in a political organization of a kind which admits of supranational parliamentary control.

As for the third Community institution of relevance in this context, the EC Commission, it seems to be impelled towards playing the role of “secretariat” of an international organization.

### **Different Economic Orders**

The instruments of cyclical policy are deployed in the ambit of certain economic orders, and these may have their own specific features in each of the Community countries. The rules governing the control of the economic cycle relate

<sup>6</sup> Cf. Hans-J. Schmahl, *Globalsteuerung der Wirtschaft* (Overall Direction of the Economy), Hamburg 1970, p. 14.

<sup>7</sup> Cf. Ernst-J. Mestmäcker and Hans von der Groeben, *Ziele und Methoden . . .*, *Ibid.*, p. 82.

<sup>8</sup> The mentioned committees were later combined in a single Economic Policy Committee.

<sup>9</sup> Cf. Ulrich Scheuner, *Verfassungsprobleme der Wirtschafts- und Währungsunion* (Constitutional Problems of the Economic and Monetary Union), in: *Integration* 3/4, 1971, p. 157.

to economic life but are not all of an economic nature. Norms of economic conduct reflect the general awareness of relative values. The policy relating to the economic order sets legal-organizational norms, the long-term framework conditions for political decisions on the economic cycle. The economic orders in the Community countries have emerged in the course of a historic process. In some respects they differ greatly.

How do the different economic orders existing side by side affect the opportunities for coordination? The answer to this question depends in the main on another question: to what extent is co-ordination advanced or impeded by differences in the distribution of functions and powers between the authorities which make decisions on cyclical policy in the EC countries?

The number of such decision-making authorities grows as the national institutions involved — e.g. ministerial departments, central banks, national authorities — gain greater independence from the central government. The distribution of functions in the individual countries may however become more and more diverse as the number of different authorities involved in the work increases, with the result that the adjustment of the responsibilities on the EC level is liable to cause substantive and constitutional difficulties. For while growing independence of the various partners in the relevant negotiations may well give them more latitude, it will also tend to narrow down the area in which they are competent to take substantive decisions. To give an example: In the Federal Republic of Germany the president of the central bank decides about the issue of banknotes: in France, Italy and Great Britain this decision rests with the Finance Minister, President and Chancellor of the Exchequer respectively. As the separation of functional tasks progresses, the choice of national representatives to take part in adjustments on the European level — e.g. in regard to the use of monetary and credit instruments — must meet quite a number of substantive and constitutional requirements.

On the other side it is a fact that with increasing state responsibility and intervention on a national scale — the growing centralization in the French presidential democracy is an example — fewer authorities are involved in the decision-making process while the substantive areas about which

the negotiating parties can take decisions become larger. However, depending on the extent of centralization reached, the enlargement of the functional areas does not necessarily give the authorities involved greater powers of decision if these powers are ultimately the prerogative of a President or similar central authority.

The different economic orders in the EC make it difficult but not impossible to give effect to Community ideas. A coordinated policy *cannot* aim at *uniform* measures because they may in a certain system in certain circumstances be regarded as positive, adequate or non-disruptive while other partners take a diametrically opposed view of them. Against a background of different economic orders coordination presupposes that possible cyclical measures are examined by the partner states not only with regard to their *substantive* effect but for their *relevance to the economic order*.

### Heterogenous Aims and Instruments

Divergencies in regard to objectives and guiding ideas are another obstacle in the way of a co-ordinated cyclical policy which is also impeded if the same objectives are pursued but given different priority ratings. Norms are set in the light of higher-ranking long-term economic policy objectives, and these are the yardstick by which short-term cyclical movements must be measured. A comparison of the policy variants pursued in the EC countries in regard to economic objectives and their realization<sup>10</sup> showed that during the period under review it was impossible to bring the objectives in any of the Community organizations into closer proximity.

The large number of measures applied in the Community to control the economic cycle shows how greatly the views on the cyclical situation differ. Even more varied than the monetary and credit instruments employed in the individual countries are the conditions under which they are employed. It must be expected that the coordination of the instruments employed in the individual countries will be impeded in particular by:

- ☐ use of different directive mechanisms for the conduct of cyclical policy;
- ☐ national and international conflicts on aims and means and between various means;
- ☐ application of similar instruments in dissimilar phases of the economic cycle;
- ☐ differences in the effect of analogous instruments;
- ☐ diversified repercussions of national measures on neighbouring states.

<sup>10</sup> Cf. Fritz Franzmeyer and Bernhard Seidel, *Wirtschaftspolitische Prioritätsunterschiede in der EG als Hemmnisse für die Errichtung der Wirtschafts- und Währungsunion und Instrumente zu ihrer Überwindung* (Differences between Economic Policy Priorities in the EC as Impediments to the Establishment of the Economic and Monetary Union and Instruments to Overcome Them), Deutsches Institut für Wirtschaftsforschung, Gutachten im Auftrag der EG-Kommission, Berlin 1973, p. 14.