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Intereconomics

Suggested Citation: Hasenpflug, Hajo (1977) : Consolidation vs. Enlargement — the issue for the European community, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 3/4, pp. 59-64,
<https://doi.org/10.1007/BF02928694>

This Version is available at:

<https://hdl.handle.net/10419/139451>

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Consolidation vs. Enlargement – the Issue for the European Community

by Hajo Hasenpflug, Hamburg *

The EC Council of Ministers seems to have made up its mind to admit Greece to the Community. If so, the accession of the other South European countries willing to join – Spain, Portugal and Turkey – is merely a question of time. What are the implications of such an enlargement of the EC for the Community of the Nine and for the four new members?

The economic problems experienced of late in and with Great Britain have more than once given rise to the question whether the enlargement of the EC from six to nine member states was really such a sensible arrangement and whether it would not have been better to concentrate in the first place on a consolidation of the EC nucleus of six countries. However, the EC of the Nine is a fact. It can no longer be reversed, and the old EC members have therefore reconciled themselves to the last series of accessions. Now however they have to get over a much more serious trauma in that another four states – Greece, Spain, Portugal and Turkey – are campaigning more or less insistently for full membership either now or later. As far as Greece is concerned, it must be assumed that the Council of Ministers has already accepted the application in principle in spite of misgivings by the EC Commission.

The governments of the states wishing to join are hopeful that political and/or economic advantages will spring from full EC membership. The increase in sales of their products in the prosperous market of the EC, the expectation of substantial financial transfers from the agricultural and regional funds as well as other financial assistance still to be negotiated have engendered a belief in these countries that full EC membership is their only salvation. That is perfectly understandable as their economies have a strong EC orientation. The state of development and economic structure of the potential new members however differ so widely from those in the EC that an enlargement of the Community by their accession would be fraught with problems.

The candidates for accession have all four a lower per-capita GNP than the nine EC countries (cf. Table 1). Turkey's – US\$ 540 – is particularly low: it is only about one-fifth and one-quarter respectively of the per-capita GNP in Italy and Ireland which form the rear of the Community of the Nine in this respect.

Table 1
Per-capita GNP in the EC and the Potential
New Member Countries 1973

(US \$)

FR Germany	5,610
France	4,900
Italy	2,510
Netherlands	4,410 ¹
Belgium	4,650
Luxembourg	5,200
Great Britain	3,100
Ireland	2,130 ¹
Denmark	5,460
Turkey	540
Portugal	1,250
Spain	1,750
Greece	1,790

¹ 1972.

Source: OECD: Economic Survey, August 1976.

The difference between the Nine and the would-be members shows up very clearly in the agricultural sector. The four countries have a much larger proportion of the work-force engaged in agriculture – 35.2 p.c. in Greece, 28.2 p.c. in Portugal, 23.1 p.c. in Spain and 64.1 p.c. in Turkey – than any EC country except Ireland; the EC average is 8.9 p.c. (cf. Table 2). The agricultural contribution to their GNP is likewise far above the rate in any EC country other than Ireland (cf. Table 3).

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Table 2
Number of Persons Employed in Individual Sectors
(in p.c. of the total of employed persons)

Country	Industry		Agriculture		Services	
	1964	1974	1964	1974	1964	1974
FR Germany	48.8	47.6	11.4	7.3	39.8	45.1
Belgium	47.2	41.2	6.9	3.7	45.9	55.1
Denmark	37.4 ¹	32.3	15.0 ¹	9.6	47.4 ¹	58.0
France	39.4	39.2	18.6	11.6	42.0	49.2
Great Britain	33.6	27.5	2.0	1.5	64.4	71.0
Italy	41.3	44.1	25.6	16.6	33.1	39.3
Ireland	27.1	31.1	33.3	24.3	39.7	44.6
Luxembourg	46.9	49.2	13.0	6.4	40.0	44.4
Netherlands	40.8	35.5	9.4	6.6	49.8	57.9
EC Nine: total	44.2	42.6	13.9	8.9	41.9	48.5
Greece	20.6 ²	29.7 ³	50.0 ²	35.2 ³	29.4 ²	35.1 ³
Portugal	30.1	33.7	38.7	28.2	31.2	38.2
Spain	35.1	37.2	35.3	23.1	29.6	39.7
Turkey	10.8	14.8	75.4	64.1	13.8	21.1

¹ 1965; ² 1961; ³ 1971.

Source: OECD: Labour Force Statistics.

The applicant countries tend to overlook the fact that the EEC was originally brought into being in order to intensify the economic relations between relatively highly advanced industrial nations and to remove the trade barriers between them by *reciprocal* arrangement. It was not the purpose of the EEC to moderate the economic differentials between industrial states at highly diverse levels of industrialization, which would necessitate constant infringements of the principle of reciprocity by concessions to would-be members in the form of extended adjustments and exemptions on the ground of retarded development.

Special *one-sided* concessionary arrangements for the candidate members are however absolutely essential and demanded by Portugal, Greece and

Table 3
Contribution of Individual Sectors to the GNP
In 1973
(in p.c.)

Country	Agriculture	Industry	Services	Total
FR Germany	2.9	52.1	45.0	100.0
France	6.3	< 93.7	>	100.0
Italy	8.8	41.2	50.0	100.0
Netherlands ²	5.3	44.9	49.8	100.0
Belgium	3.9	40.1	56.1	100.0
Luxembourg ¹	4.4	57.5	38.1	100.0
Great Britain	3.0	42.4	54.6	100.0
Ireland ²	18.0	33.8	48.2	100.0
Denmark	8.2	39.9	51.9	100.0
Turkey	26.1	28.8	45.1	100.0
Portugal	16.3	43.2	40.6	100.0
Spain	12.7	35.5	51.8	100.0
Greece	20.4	32.4	47.2	100.0

¹ 1970; ² 1972.

Source: OECD: Economic Survey, August 1976.

Turkey. Spain alone feels strong enough to join without a transitional period.

Problems of the Opening-up of Markets

In the agricultural sector positive results may be expected to spring from the accession of the potential new members. In the industrial sector the repercussions are more likely to be negative. Admittedly, the agricultural producers in the new member countries will profit when their prices are hoisted to the EC level, their exports are subsidized in the framework of the Community's agricultural policy and structural aid payments reach them from the EC's Agricultural Fund. But there should be no illusions about the need, notwithstanding these benefits, to mobilize considerable local financial resources for a rehabilitation of the agricultures of the "Four" with their tiny homesteads, fragmented land holdings, unsatisfactory crop selection and deficient mechanization. The obverse are high food prices for the consumer. It is open to question whether the possible resentment of consumers on this ground – a reminder of the annoyance of British housewives at price rises attributed to EC membership is not amiss – will make the EC connection more popular and the position of the government parties more secure.

However, even if the new members could draw comfort from some positive "under-the-line" figures in the agricultural sector, there remain the potential problems in the industrial and crafts sector since the industrial tariffs of the EC have already been greatly reduced through association (in the case of Greece, Turkey and Portugal) and a preferential trade agreement (with Spain), so that the new members cannot expect to gain much more trade or significantly better access to EC markets. On the other hand, the applicants on their side have not dismantled their industrial tariffs completely as yet under the current agreements. Accession would therefore render the existing devices for the protection of their own industries less effective and open their markets wider to EC products.

It is to be borne in mind, besides, that all acceding states must undertake to espouse the EC's external relations sooner or later. This means for instance that they would have to conform to the EC's commitments under the system of generalized tariff preferences for imports from developing countries and to the obligations under its various Mediterranean agreements. Possible imports from other Mediterranean states and developing countries elsewhere would however probably subject the young manufacturing and crafts industries of the acceding countries to great competitive pressure.

The Greek artisans for instance expressed concern about the implications of full membership in October 1976 already on the ground of the "many imperfections and, even more, weaknesses characteristic of almost all Greek crafts". Their capitalization, it is argued, is still too small and their technology in many cases inadequate; both these factors, it is claimed by the Greek artisans, restrict their possible sales in the domestic market and, to a much greater extent still, in foreign markets. It was even said that their concern would turn into anxiety if the current negotiations for full membership did not provide for a grace period and concessions necessary to ease the adjustment to the European reality.

Similarly spokesmen for Greek industry are already pointing out that Greek industry is aware that it must modernize, concentrate and specialize or else "simply close down", as the President of the Federation of Greek Industrialists said in Brussels in the autumn of 1976. Greek industrial circles are anticipating difficulties for mechanical engineering, the electrical industry, metal manufacture, the iron and steel industry, and steel construction.

Similar references to analogous competitive problems expected to ensue from accession to the EC can be reported for Spain, Portugal and Turkey. The possibility of a deterioration of the balance of payments is causing anxious concern in this connection, the more so as the bilateral balance of trade with the EC is already heavily in deficit in all four countries (cf. Table 4). Optimists in Greece, Spain and Portugal hope that tourism will make up for this, and in Turkey it is demanded that Western Europe should admit more guest workers who would remit foreign currencies in considerable amounts to their home country.

Table 4
Bilateral Balance of Trade of the EC with
the Potential New Member Countries
(in 1,000 European Units of Accounts)

EC-Members	Turkey	Portugal	Spain	Greece
EC Nine: Total	1,247,494	348,756	1,030,295	943,852
FR Germany	514,779	144,506	495,383	307,821
France	159,961	145,804	93,556	141,849
Italy	277,925	76,119	325,711	211,153
Netherlands	64,138	46,427	47,094	63,914
Belgium/Luxemb.	56,972	21,856	46,625	98,979
Great Britain	181,078	- 59,100	33,962	96,218
Ireland	- 3,369	- 8,391	200	1,522
Denmark	- 3,990	- 18,465	- 12,236	22,396

Source: Statistical Bureau of the European Communities: EUROSTAT, Monthly Bulletin of Foreign Trade Statistics, No. 5/1976.

The repercussions of an enlargement of the EC of the Nine on the trade in manufactures are unlikely to create major competitive problems even in the sensitive textile area because the applicants, and Greece in particular, are already supplying substantial quantities to the EC. These consist in the main of cotton fabrics of which the EC requires considerable imports. Partial adjustment problems may arise in the nine EC states in the long term if one or other of the acceding countries succeeds in speeding up its economic development by a strong expansion of its industrial structure. The bulk of these products would inevitably be pressed upon the EC market.

Economic Effects on the EC

On the other hand, considerable problems will naturally emerge in the agricultural sector, especially for peaches, tomato concentrate, olive oil, fresh fruit and vegetables, and possibly for tobacco. That difficulties must be expected in this field — mainly in Italy and France — is indicated by the fact that Athens is even now protesting against import obstructions hampering these products in the EC market. Greece is considering an appeal to the European Court of Justice for adjudication on the compatibility of these measures with the association agreement between the EC and Greece. Problems may also arise in the case of citrus fruit, certain vegetables and wine. As far as wine is concerned, it is to be feared that the accession will exacerbate the controversy between Italy and France in the so-called wine war.

In this connection it must not be overlooked that the new members will cause each other difficulties because they have rather similar products to offer. Viniculture is playing a central role, except in Turkey. Greece and Turkey are competitors in the raisin and currant trade, and all four states are producing citrus fruit on a fairly large scale.

Financial Burdens

The financial and budgetary burdens arising as a result chiefly of the predominantly agricultural basis of the economic structure of the four acceding countries will have a much stronger effect on the debit side of the EC. The EC Commission has computed the additional expenditure in the event of Greek accession at 453 mn units of account (incl. 280 mn for agricultural policy, 40 mn for social policy and 100 mn for regional policy) whereas the additional income from duties, price adjustment levies and value-added tax is put at no more than 151 mn units of account. This means that the accession of Greece alone would involve the EC in an expenditure of DM 1.1 bn, i.e. 4.03 p.c. of the current EC budget.

Bearing in mind that Turkey's population is five times as large and its agriculture relatively far more important (cf. Tables 2, 3 and 5), it must be asked whether the European tax-payer can be asked rightfully to provide the requisite financial resources. There is reason to fear that many people in the Federal Republic in particular will grow weary of Europe, and this can easily happen since Bonn's contribution to the EC budget is in any case to rise from about DM 7 bn (in 1976) to over DM 12 bn in 1980. The financial burdens of the EC enlargement will not fall on the German tax-payer alone. The additional resource requirements will be met in part through a redistribution of the transfers currently effected within the Community, at the expense of Great Britain, Italy and Ireland as far as the Regional Fund is concerned and to the detriment of France from the Agricultural Fund. Moreover, the EC budget would have to be augmented by substantial additional funds to be raised not only by placing greater burdens on the German tax-payer but probably also by making France for the first time a net contributor to Community funds.

Labour Market Problems

Conflicts will also appear in the labour market. The accession of Greece alone is unlikely to cause significant labour market problems when free movement of workers becomes a reality. The accession of Spain with its 35 mn inhabitants would already be more problematic; and if Turkey joins – which cannot easily be avoided once

Greece has been admitted – the Community will have to face considerable labour market problems. As many as 600,000 Turks are already working in the Community, 500,000 of them in the Federal Republic where another 25,000 Turks are drawing unemployment benefit. What problems may ensue from the freedom of movement can be easily imagined bearing in mind that by the year 2000 Turkey would have the largest population of any EC country: at least 74 mn against 39 mn in 1974 (cf. Table 5)¹. It is to be feared that this population trend will not be matched by the creation of a commensurate number of new jobs in Turkey's industrial sector and that more of the unemployed will betake themselves to Europe, fomenting social strife through the enhanced convergence of guest workers on ghettos in the large cities of Western Europe, as well as creating unemployment problems.

Institutional Implications

Mention must, finally, be made of aspects outside the economic sphere which have negative implications for the progress of European unification and the achievement of a European Union. The pace of integration, which is even now thought to be too dilatory, will inevitably slow down further if new member states take their troubles with them into the EC. Further harmonization in the various divisions will probably be out of the question. At first the efforts will have to be concentrated on bringing the new members up to the harmonization level reached between the Nine. The adoption of the existing harmonization regulations and the multitude of legal enactments in this context will thrust a large work-load on new member states – especially those in want of a well functioning administration – to make good their large arrears. It may take a long time to clear away the enormous administrative burden imposed upon them. No prophetic gifts are required to see that the accession of new members is bound to act as a brake on the harmonization efforts in the most diverse fields.

In refutation of pessimistic predictions that progress towards a European Union would be slowed down by the southward enlargement of the EC it is argued by some advocates of the accession of the South and South-east European states that all the new member states will wish to work for stronger European institutions in order to give proof of their commitment to the European cause. As against this it must be pointed out that the ultimate aim of a European Union can easily be lost sight of in negotiations on practical everyday problems. It would be an illusion to believe that

Table 5
Population Trend in the EC States and Potential New Member Countries
(in 1000)

Year	1964	1974	Average Growth Rate 1964/1974	2000
Country				
FR Germany	57,971	62,054	0.7	66,040
Belgium	9,378	9,773	— ²	11,025
Denmark	4,722	5,045	0.7	6,048 ¹
France	48,310	52,492	0.8	62,650
Great Britain	54,156	56,068	0.3	62,794
Italy	50,439	54,541	0.8	61,441
Ireland	2,863	3,086	0.8	3,796 ¹
Luxembourg	328	355	0.8	436 ¹
Netherlands	12,127	13,545	1.1	15,932
EC Nine: Total	241,323	257,780		
Greece	8,510	8,962	0.5	9,398
Portugal	9,115	9,014	— ²	9,418
Spain	31,578	34,956	1.0	45,110
Turkey	30,394	39,349	2.6	74,660

¹ Own calculation taking the 1964/1974 growth rate into account.

² No data available.

Sources: For 1964 and 1974: OECD: Labour Force Statistics, Paris 1976; for forecast for 2000: UN: Concise Report on the World Population, Situation in 1970-1975 and its Long-Range Implications, New York 1976, p. 68.

¹ According to its programme the Islamic Salvation Party is looking forward to a population size of 100 mn in 2000.

the potential new members with their pack of economic problems will turn out to be model Europeans.

Another important aspect is that of the official languages. It must be a *conditio sine qua non* in the EC negotiations with the applicants that to begin with none of the languages of the new members becomes an official language. There can be no compromise about this. Adoption of yet another official language would have disastrous consequences. As many as 35 p.c. of all the officials and employees of the Commission are already engaged in translating and interpreting. Another official language — let alone four — would make it virtually impossible to unravel the red tape and escalate the language problems in the European Parliament where the unfamiliarity of some deputies with other languages and the multiplicity of languages is already causing communication problems.

Political Considerations

A purely economic view of the costs and benefits of EC accession by the four South European states thus shows that it offers little advantage to either side. Market disruptions, in part severe, may hit the new member countries, especially their industries and crafts. On the EC side a disruption of the market need, by and large, be expected

only in the agricultural sector. The financial burdens and possible effects on the labour market however will play a cardinal role.

The political aspects of the accession are thus left alone as possible positive "under-the-line" items but even in regard to these it may be doubted whether, for instance, an accession possibly attended by negative economic repercussions would really promote democracy in these countries. For if agricultural prices in the applicant states rise as a result of the adoption of the Common Agricultural Policy, the inflation will obviously be fuelled and interest in the European idea dulled: the final result would be the reverse of what was intended. Equally, interest in the EC will fade if the new member countries experience employment problems in the economic sectors which lose their protected status.

These negative aspects notwithstanding, it is argued that for political and military-strategic reasons the Community cannot turn a deaf ear to a membership application by Turkey in particular. Turkey forms the South-eastern flank of Nato, and it would be dangerous to drive the country into the arms of another political grouping. The extent of the rapprochement between Ankara and Moscow, which has been in progress for some time, must not however be exaggerated. One has to

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distinguish between genuine interest on the Turkish side and tactics. Great historic problems exist between Turkey and the USSR, to say nothing of the fact that a state founded on Islam will inescapably always be at loggerheads with an atheistic regime as that in the USSR.

The possibility of Turkey turning towards the Middle East deserves to be taken more seriously but need not be frowned upon since it would be more in line with the existent cultural and regional conditions than accession to the EC. It is a comforting thought in the circumstances that the advances to Europe are arousing criticism also inside Turkey and that the Islamic Salvation Party amongst others has stimulated the discussion about setting a course towards the Middle East states.

Priority for Consolidation

None of this means that the EC should freeze its relations with Turkey at zero point. But it should pursue a strategy which clearly reflects the wish to strengthen the existing EC so that the aim of a European Union can be approached and the disintegration of the EC is prevented. Such a consolidation between the present nine member states can certainly go hand in hand with closer trade relations with the countries of Southern and South-eastern Europe. But it has to be borne in mind that political unification is not feasible without a functioning economic integration. Public opinion cannot be expected to endorse political unification while there is constant talk of financial and economic burdens falling on the population in connection with the EC integration. Such burdens would certainly have to be borne for a long time if the EC is joined by three or even four countries with more or less enfeebled economies.

It needs pointing out once more in this context that Greek accession to the EC prejudices the issue of Turkish accession. Once Greece and Turkey have become members, the question will arise what justification there is for denying membership to the Greek and Turkish ethnic groups in Cyprus, and Premier Mintof will certainly want to know why Malta cannot also become a member.

Possible Interim Solutions

An enlargement of the EC will not make much sense, economically speaking, for any of the interested parties in the foreseeable future. The political aspects are unmistakable at a first glance; so are in particular the military-strategic considerations applying to Turkey. But it is not equally manifest that full EC membership is absolutely essential in order to safeguard Nato's South-eastern flank or to buttress the young democracies

in Greece, Spain and Portugal. If applied strictly — i.e. with full reciprocal rights and duties — such full membership is bound to have negative repercussions on the economies of the acceding countries.

It seems to be a case of crying over spilt milk however, for all public pronouncements state that full membership has in principle been as good as conceded to Greece already. A precedent seems to have been set thereby, and the accession of Spain and Portugal is likely to follow in the medium term and that of Turkey later. If that is the situation, provisions for adjustments extending over a very long time should be contemplated now. Earnest consideration should, besides, be given to the concept of a two-tier Community which was first introduced into the discussion by Willy Brandt and taken up again in the Tindemans report a year ago.

If the EC countries or some of them are willing to accept such a two-tier concept which would let a nuclear group consisting of a few states press onward with the development of common monetary, economic and industrial policies without having to consider weaker partners, it may be possible to contain the damage to the European Community from another round of enlargement negotiations, for if such a discussion on a two-tier EC gets under way among the nine present members, it will be politically easier to persuade the new applicants to forgo full membership in the medium term.

If the political aspect of support for the young democracies rates so high, it justifies the grant of greater trade advantages to these states without prejudice to full membership. Unjustifiable however are promises by some politicians — in all nine EC countries — of support for the new democracies in Southern and South-eastern Europe which the Ministers in charge of economic, financial and agricultural affairs are in no position to honour, especially when the EC is at the same time pursuing a policy of widely dispersed commitments on the international plane. In this context one need only point to the substantial financial burdens and impediments to trade policy which the EC as a whole and the member states individually must expect in the medium term from the North-South dialogue, in addition to those imposed upon them by the various Mediterranean agreements and the Lomé Convention.

In view of these prospects springing from an enlargement of the EC certain politicians may be reminded of the remarks of a British politologist that a larger Community is not necessarily a stronger Community.