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# Has the EC Reached the Point of No Return?

by Bodo B. Gemper, Cologne \*

**Even according to a report by the EC-Commission the economic divergencies between the individual EC member countries have shown an increase during the last three years<sup>1</sup>. A protracted disintegration movement would inevitably lead to a weakening and even to the end of the free social and economic systems such as we know them in West Europe today. Has the EC already reached the point of no return?**

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**T**he politico-economic situation report on the current state and problems of West European integration at the turn of the year 1976/77 reveals that a new international system of economic co-operation is emerging parallel to the fundamental change in international economic relations and indeed conditioned by the latter.

The European Community is faced by new strains whose magnitude poses a challenge to the whole movement towards unification. The Community will have to strengthen its fundament for the simple reason that the Treaty of Rome could not have foreseen these vastly augmented dimensions. Needless to say, it is not the first time since the start of efforts towards integration that sharp criticisms have been voiced within the European unification movement or solemn statements of imminent crises issued. This past experience should not be overlooked and in effect it does offer some consolation in the present situation in that the "crises" in the Community are invariably succeeded by a resurgence of the will to bring about unification and thus a strengthening of the fundament on which West European integration rests. Just as the history of mankind may be viewed as the chronicles recording the crises experienced by man through the ages, the story of West European integration is one long series of integration crises.

## **The Ups and Downs**

Analogous to the cyclical trends in trade and industry, the critical phases of an integration cycle are the downward movements until there is a recovery leading to a fresh upswing. The feature central to both phenomena is the need to avert the danger of a genuine crisis or, where there is no possibility of evading a drastic downturn, to gather fresh hopes of recovery. Hitherto, the EC has always managed to cope with grave situations and even derive new inspiration from them.

Since the end of 1974 and beginning of 1975, the West European efforts towards realizing integration have been immersed in the fifth trough in their integration cycle.

The first low point occurred in 1954 when the French Parliament under the Government of Pierre Mendés-France voted against the European Defence Community (EDC). That wrecked the first attempt at an integrated West European military defensive alliance. In view of the grave military threat during the Cold War, this constituted a serious blow to the exertions being made to attain solidarity. The second setback was initiated by a passing shot fired by the French Minister of Information Soustelle during a press conference at the negotiations on the extended free trade zone chaired by the British Minister, Mr Maudling. The United Kingdom and other countries such as Ireland and Denmark were only able to join the Community via the roundabout route of EFTA.

The veto put by the President of the French Republic, General de Gaulle, on the United Kingdom's accession to the EEC plunged the Community into a serious crisis for the third time in 1963. The fourth integration trough was ushered in during July 1965 when France refused to occupy its seat in the Brussels Council of Ministers and did not end until de Gaulle resigned from office. Following the Gaullist sequence of weak periods induced by varying national interests, West European unification suddenly experienced a fifth and moreover problematic low point of development in the late autumn of 1973. Due to the energy shortages the great European hopes awakened by the Paris Summit Conference of 1972 were disappointed. The EC has still not yet recovered from this powerful blow beneath the belt suffered by the international economy including even the state-trading countries in the Communist bloc. The main sufferers, the United Kingdom and Italy, have also contributed towards depressing the general level of future expectations.

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<sup>1</sup> See also the Forum in INTERECONOMICS, 11/1976.

A characteristic feature of this fifth and protracted depression in the move towards European integration have been the severe setbacks which the Community has undergone in regard to unification since the end of 1973. The almost inevitable result will be a delay in the inception of the second phase of the integration process with the declared aim of introducing a common economic and monetary union (EMU). The disruptive elements impinging upon the pace of integration are:

The worldwide changes in the energy and commodity markets. The political impact of these movements in prices and quantities, the new economic and technological awareness of the limits of our economy and of growth as well as the impaired development prospects emerging from the changed situation force us to think again on the extent to which the endeavours to bring about complete unification can endure any further reversals. For, not only the various subordinate agencies of the Community have adopted a different approach and stance towards almost all aspects of the integration drive, but also the responsible central bodies themselves. The Olympic motto propounded by father Henri Didon "citius, altius, fortius" – ever faster, higher and stronger – is meanwhile no longer characteristic of the stimulating parallelism that has hitherto marked the finite capacity for progress to be found in economic growth and integration. Moreover, the move towards economic and political union has now reached its limits of carrying capacity envisaged in the original foundation of the EEC. The initial and the present parallelograms of integration forces are no longer congruent because their political and economic components have meanwhile changed and this in turn has left its mark upon the system.

The decline in the world's monetary system, i.e. the collapse of the international monetary order devised at Bretton Woods and the consequent fundamental disequilibria in West European monetary systems. This trend has arisen as a matter of course from an inherent flaw in the system, i.e. the running of the world's economy with currency reserves dependent upon permanent deficits of the American balance of payments since the US Dollar constituted the principal reserve medium.

The worldwide acceleration of the inflationary process set in motion by the weakness of the dollar and the political pricing policies adopted for the fossil fuels together with the growing disequilibria of the balance of payments.

The synchronisation of the world's business cycles in general and those of the USA and Western Europe in particular – caused by the rapid weakening of the monetary system and the in-

stability on the energy and commodity markets coupled with the simultaneous and still existing threat of a grave international collapse in the case of inadequate and/or tardy remedial measures.

The emerging sporadic refuge sought in national protective measures on a solo basis (*saute qui peut!*) which have in turn worsened the divergences in economic growth within the EC.

The persistent dislocation of the European agricultural market.

The resistance hitherto offered towards a co-ordinated European Regional Policy because of policies more favourable to less developed regions.

A turning point in this situation was however brought about by the decision taken at the Conference of Heads of State and Government of the EC Countries to introduce a European Fund for Regional Development with effect from January 1, 1975.

The consequences of a debilitated democratic state system in the West European countries resulting from the weakening of the economic fundament of the existing liberal structures.

The reduced role now played by the Community institutions, particularly that of the EC Commission.

This shortcoming ought to be overcome by more intensive political cooperation. It was decided in Paris with this in mind that the Heads of State and Government together with their Foreign Ministers should meet three times a year at a summit conference to be known as the European Council. A resolution was also adopted that the role of the permanent representatives should be strengthened and the strict principle of unanimity in council decisions abandoned.

The accession of the UK to the EC and the subsequently voiced reservations.

The scepticism and occasional perplexity experienced by the EC Commission itself as a result of the acute economic and also political weakness in a number of member states such as Italy and the United Kingdom.

#### Causes of the Vulnerability

Any effective reply to the challenges facing the Community either now or in the future must be preceded by a systematic analysis of the way in which this unification functions and in particular of the causes of fundamental disturbances in addition to objective and constructive criticism so that the expectations placed by West Europe and the USA in the movement towards integration can really be fulfilled. The following factors may help

to explain the powerful strains to which the integration process has been subjected and which have exercised such a lasting influence:

- the as yet incomplete backbone of the Community;
- the lack of politically active personalities of proven quality with the necessary will to bring about integration;
- the decline in the inevitable requirement to concentrate one's forces in periods of acute political or military danger in order to safeguard one's very existence (the Cold War type of situation);
- the lack of a minimal programme for a coordinated Community policy guaranteeing a minimum of international and external security;
- the excessively diverging economic objectives in the member states and in particular the differences of opinion on the relative significance to be attached to these goals. One important reason for the difficulties attendant upon achieving agreement on a minimal programme and finding a common denominator of stability consists in the absence of a systematic scale of preferences in respect of policies simultaneously oriented towards stability and growth;
- the shortcomings of the coordinating machinery for agreed and thus more efficient policies at home (supra-national overall economic direction) and abroad (concentrated diplomacy);
- the delay in the inception of West European monetary integration; the Community relied too long on the functioning of an intact world monetary system so that an incipient movement by the EC towards a monetary policy was swept aside by the recent unstabilising events taking place on an international scale;
- the varying approach within the EC – eroding the basic substance of the Community – to the need for an expeditious and lasting solution to the critical reverses set in motion by inflation. These trends must be seen against the background of a mounting political and economic threat to the equilibrium of international politics. This applies primarily to the answer to the challenges to the Community in the field of energy, currency and stability policies;
- the unsolved political and economic problems of Atlantic cooperation on a partnership basis (West Europe – USA);
- exceeding of the "optimum size" of the EC-Integration Area. What are the implications of an enlargement of the EC for the Community?<sup>2</sup>

A decisive reason for an advance without alternative in the case of the EC can be found first of all in the fundamental changes which have taken

place in the world economy during the last two decades. International economic relations have changed so radically that individual national economies can no longer cope on their own with the world economic forces affecting them. Only the economic policy of a robust economic community specifically geared to efficiency is capable of coping with these changes.

### **The Main Objectives**

The coordinates for a commonly agreed policy are:

- new and still expanding large-scale markets;
- increased mobility of production factors and manufactured products;
- the exchange (now taken for granted) of production factors and products, both beyond the borders of an economic community and even between national economies belonging to different social and economic systems;
- the resiting of suitable locations for production centres in accordance with modified regional conditions;
- the shift in trading flows which this involves, and
- the increasing role of the transfer of services within international transaction flows.

Conventional trade policy is essentially no longer equal to this system of coordinates in world trade. Only a modern foreign trade policy can cope with dimensions of world trade which have been enlarged and differentiated to such an extent. The "oil crisis" has clearly demonstrated this universal economic and political interdependence. The retarded development of political integration vis-à-vis economic integration was made manifest in an inherent deficiency in coordination and co-operation. The political dimension must be formed analogous to the economic dimension since no alliance, whether economic (EC) or military (NATO) can exist without parallel economic and political organisations. Moreover the maintenance of liberty and freedom of movement can for the time being only be guaranteed in military terms. Military strength, on the other hand, rests on economic stability. The economic stability and efficiency of an alliance depends on its degree of political strength and vice versa. The parallel to the formation and consolidation of the "Deutsche Reich" illustrates analogous to the efforts to attain European unification the significance of the integrating function of the political will to achieve unity. In the age of Friedrich List, individual well-being was very closely linked to the political

<sup>2</sup> Hajo Hasenpflug, Consolidation vs. Enlargement -- the Issue for the European Community, in: INTERECONOMICS, 3/4, 1977, pp. 59-64.

power of the nation; in the Europe of the Nine, it rests on the integrating force of the EC's political self-awareness.

The most important objectives to be pursued with a view to integration which have, however, shown themselves to be deficient in terms of practical application are as follows:

- maintaining freedom and liberalism;
- maintaining democratic-parliamentary decision-making;
- equal status for the various members of the Community in both national as well as civic terms;
- stable security both at home and abroad;
- a balancing of interests, probity and tolerance;
- harmonization: the observance of the systematic (methodical), proportional (balanced), economic, social and political development of the area of integration in line with the principle of nationalism;
- rationality and the precedence of community over national interests; consideration for the priority of the interests of the largest area;
- guaranteeing technical and economic progress;
- social, economic and monetary stability;
- if possible irrevocable political détente and constructive peace.

It should be emphasised that these objectives, far from all being achieved, have in part not yet even been accorded official recognition, and that consequently the unalterable "*raison d'intégration*" in the Community still leaves much to be desired. It was, and will for the time being continue to remain, more a mood of "buoyancy and hope" than a strong policy of integration which will go on inspiring the work of European integration for as long as is necessary before the existing confusion about aims has been removed; this leads to that lamentable blindness to integration policy in Brussels, i.e. to a disorientation caused by diffused objectives and gives rise to a "dis-integration by confusion of goals".

#### Relationship between Economics and Politics

Effective and continual European cooperation in the economic and political spheres can only be achieved under certain conditions. First of all, an improved institutional and organizational structure must be guaranteed in order that:

- the meetings of those responsible take place regularly and, in particular, be geared to decision-making (principle of regularity; duty to decide; principle of majority decision-making);

- talks and negotiations within the Community are easily translated into *decisions* (majority decisions) through an unbureaucratic transmission machinery. The power of Heads of State and Heads of Government to issue directives must provide the incentive in this case inasmuch as the European Ministers and other departmental ministers are authorized and obliged to make decisions so that the EC can emerge from a period of hesitant diplomacy of compromise, which is so damaging to progress, and enter one of energetic integration policy where the emphasis is on progress;
- joint decisions are consistently enforced with the aid of implementing directives which are uniform and binding within the EC in order to support the process of convergence of economic policy;
- the realization of these decisions by supervisory authorities is examined with regard to their scale and effectiveness obliging the supervisory authorities to make proposals to improve operational efficiency to ensure that recognizably erroneous trends are eliminated during their early stages;
- the Community pursues a flexible policy on foreign trade and unanimously promotes it in a vigorous manner.

The following test cases for the capacity of the EC to cope with all the challenges from within and without will show how the Community will be able to adopt a joint attitude:

- at the Economic Summit in May in London as well as
- at the inter-governmental review conference in Belgrade in June, 1977, reviewing compliance with the Helsinki declaration of 1975.

In 1978, the EC will have to prove the solidarity and unanimous approach of the member states:

- at the inter-parliamentary conference, a follow-up to the intergovernmental review conference at Belgrade,
- during the period leading up to the direct elections of the European Parliament, in particular by a uniform standpoint on a fair agreement in respect of the election campaign,
- in the fisheries sector, where the Community has had to frame a policy suited to the new division of the world's seas.

Other questions whose answer will be decisive for the further philosophy of the EC and which will have to be found in the near future include:

- a revision of the common agricultural policy and

- the establishment of a common energy policy as well as
- the building up of a common fiscal policy which in addition to the goal of providing adequate and sound financial sovereignty and in addition to promoting the harmonization of the law on duties will have to be suitable for devising a more diversified and flexible means of responding to the urgent needs of various parts of the Community's economy and last but not least
- the establishment of a common industrial policy,
- finally, the implementation of a strategic unity within the framework of the NATO.

### The Economization of Political Representation

At the Paris Summit in December 1974, the political representatives of the EC (in view of the dangers threatening the existence of the Community as well as of their previous experience) adopted a *pragmatic attitude*. This new approach to certain questions relating to the alliance is completely contrary to the ambitious aims expressed hitherto of "grand designs", which as a rule proved in practice to be on much too small a scale, not to mention the supranational illusions of European beginnings which regularly proved to be a hindrance rather than a stimulus towards further political cooperation. In view of this economization of the political representation of the Community, which is favourable to integration, there has been a tendency to be satisfied with smaller steps towards such progress as are effectively realizable politically instead of aiming at the realisation of visionary stage-by-stage aims. This constitutes a contraction in favour of more modest aims leading directly to success. This process is not so much a reflex reaction to the insight that the business of integration has become a great deal more difficult since the founding of the EEC; it is rather the expression of a consistent attitude with the emphasis on progress on the part of a number of members such as West Germany, who wish to see national contributions to the Community made dependent on the assurance of joint and dedicated efforts for the benefit of further progress within the alliance.

"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

<sup>3</sup> Wilhelm Haferkamp (Vice President of the Commission of the European Communities), Lack of Fresh Political Impulses, in: INTERECONOMICS, 11/1976, p. 298.

<sup>4</sup> Bodo B. Gempfer, "Bangkok Agreement" — Scope for Increasing Trade, in: INTERECONOMICS, 10/1975, pp. 304-305.

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."<sup>3</sup>

Initial conclusions on the interdependence between economics and politics in terms of integration policy, which would hardly allow of further success in the course of integration if not taken into account, have already been drawn and made evident in the European Community in a two-dimensional process:

- by means of the economization of the policy of integration which is now beginning, whereby political decision-making in the Community becomes directly successful, and
- by means of the politicizing of economic efforts to translate economic strength into genuine and effective incentives for integration.

### The Political Challenge

The process of European unification has indeed suffered a setback and is even stagnating in a certain sense; the EC has certainly reached a critical stage of development — a quandary from which it can and must extricate itself. The formation of the political components in the EC is now the actual and decisive target for the evaluation of common European future prospects because the potential for economic integration in the process of unification can only be protected from erosion by a political superstructure. Only a parallel politico-economic device can create the solid basis of authority and thus provide a guarantee for upholding freedom and the requisite politico-economic identity which will only emerge when the EC's policy of integration is no longer marked by that mixture of success and failure in its own sphere. Western Europe must face up to the economic and political challenges which have confronted the whole Western world and whose implications at the present time still by far exceed the military threat. The individual national economies are, moreover, already fundamentally integrated to such an extent into the movement towards Western European unification that a withdrawal from the level of what has already been achieved would represent a considerable risk for several members of the Community.

Even a state of standstill would mean a setback at this stage of integration since the necessary forces to keep it operating would be missing from the integration machinery now operating in a dynamic fashion similar to a flying machine. The EC has long since become a model worthy of imitation<sup>4</sup>. On this account, the EC can no longer face the future without a perspective. It finds itself

on a route from which there is no turning back and, aware of the dangers threatening the existence of the liberal way of life in Western Europe should this integration fail, the Community has repeatedly stood the stresses and strains and has thus indeed long since reached, contrary to all criticism, the "point of no return". Exactly four years prior to the signing of treaties of Rome, which founded the EEC, Professor Ludwig Erhard made a statement in Zurich on February 23, 1953, which indicated how much he recognized the fatefulness of the decision for close cooperation

between the states of Western Europe for their freedom and well-being: "Economic cooperation in Europe only represents one aspect of the European approach and the European problems. Whatever our standpoint may be, and whatever policy an individual country may pursue, the danger threatening us from the part of the world which does not live in freedom is so great that we shall in any case have to join together in safeguarding human freedom"<sup>5</sup>.

<sup>5</sup> Ludwig Erhard, *Die wirtschaftlichen Aspekte (Economic Aspects)*, in: *Die Integration des europäischen Westens (The Integration of the European West)*, Zurich and St. Gall 1954, p. 124.

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## EFTA and Its Relations with the EC

by Bettina S. Hass-Hürni, Washington \*

**With its association with the EC in July 1977, EFTA will have achieved its immediate goal of bridging the economic division of Western Europe. Moreover, the influence of this small but efficient international organization — which due to its pragmatism and liberal principles fits quite well into the world trade order — has spread to the countries behind the iron curtain as well as to the international cooperation inside OECD and might go still further into an even more international economic order emerging from the North-South dialogue.**

In post-war Europe, the Organisation for European Economic Cooperation (OEEC), originally entrusted with the implementation of the Marshall-Plan, was quite successfully achieving its aims of trade and payments liberalization. However, after 1955 already, a split became apparent between the 17 Western European members of the OEEC (after 1960 OECD): There were those pressing for an „inward-looking“ European Integration with *“political finality“*, on the one hand, and those, more liberally minded, which preferred an *“outward-looking“*, enlarged, purely *economic* integration embracing the total of the 17 OEEC members. The split separated the traditionally protectionist, less export-oriented countries (mainly France and Italy) from the economically more liberal, largely export-oriented ones, led by the UK in the *“low tariff Club“*. The first group favored a customs union of only six members, all willing to accept the *“political finality“* of economic integration, the second group opted for a free trade area for *all* European countries, including those which, for reasons of political neutrality, could not agree to any supranational institutions or political integration.

According to Art. XXIV of the General Agreement on Tariffs and Trade (GATT), these two forms of economic integration, customs union and free trade area, are the only exceptions permitted from the most-favored nation clause, stipulating

absolute non-discrimination, i.e. equal treatment in trade. Both methods of economic integration, the customs union and the free trade area, aim at creating a market without customs duties among their partners, with the fundamental difference of the customs union having a common external tariff, whereas in a free trade area, each partner maintains its national external tariff towards third countries. Hence a customs union is theoretically a more deeply integrated form of economic partnership, with a greater sacrifice of national sovereignty than a free trade area. Yet the practical experiences of the EC since 1958 show that its members were much less willing to give up a part of their national sovereignty or to implement political integration as foreseen in the treaties of Rome.

From 1956–1958 the plan of a large European free trade area was discussed during the *“Maudling-negotiations“*<sup>1</sup> inside OEEC. Mainly due to French resistance, this plan failed. And after the Six (Benelux countries, France, FR Germany and Italy) had formed their own, *“closed“* customs union, the European Economic Community, entering into force in January 1959, the seven promoters of the free trade area (Austria, Denmark,

\* World Bank.

<sup>1</sup> See Bettina S. Hürni, *Die Europäische Freihandelszone (The European Free Trade Area)*, Postgraduate Institute of International Studies, Geneva, 1968, published by the Swiss Ministry of Economics, Bern, pp. 150.