

COMMISSION OF THE EUROPEAN COMMUNITIES

Fifteen years of Community policy

Brussels, January 1973

SEC (73) 2330/2
18 juin 1973

COMMISSION OF THE EUROPEAN COMMUNITIES

Fifteen years of Community policy

Brussels, January 1973

Table of Contents

Introduction	5
<i>Chapter 1: A few pointers</i>	9
<i>Chapter 2: Is the Community a unified economic area yet?</i>	12
1. Conditions for the formation of a unified economic area	12
2. Economic behaviour	14
<i>Chapter 3: Development of production structures</i>	17
1. The observed facts	17
2. Genesis of the changes noted	21
3. Results of this action	24
<i>Chapter 4: The Community and the European</i>	31
1. Raising the standard of living	32
2. Incomes and social security	36
3. Employment	39
<i>Chapter 5: Towards harmonious development</i>	44
1. Regional equilibrium	44
2. Conjunctural (i.e. short-term economic) equilibrium	47
<i>Chapter 6: The Community and the rest of the world</i>	55
1. Customs Tariff, commercial policy and external trade	56
2. The balance of payments	59
3. Relations with the developing countries	60
4. Organization of international economic relations	62
Conclusion	65

At the time of the enlargement of the Community the Commission wished to have a study made of the effects of Community policy since 1958 on the economies of Member States and of the Community as a whole.

This task was given to Mr Pierre Maillet, at that time Director in the Directorate-General of Budgets and now Professeur at Lille I University, who was actively helped by the cooperation of certain Commission officials, particularly Messrs G. Hipp, Ph. Grimonpont and G. Malet, Miss M. Lambein, Mrs A. Tiberghien, and also by the services of the Commission.

When this detailed study was completed it became the subject of a comprehensive report which was forwarded to the Commission in January 1973. Without necessarily endorsing all the opinions expressed therein, the Commission nevertheless considers it useful to bring this report to the attention of a wider public by including it among its official publications.

Introduction

The purpose of this report is to analyse the effects of Community policy on the economies of member countries and on the Community as a whole in the period 1958-70.

The work has been deliberately angled on an assessment of the degree to which the Treaty objectives have been fulfilled (despite the general and unquantified terms in which they are formulated); on an analysis of the effects of Community action; and on the Community's capacity to deal with the big problems it has encountered during its fifteen years' existence.

There were two possible approaches to this task. One would consist in a review of the various policies carried out by the Community Institutions. This seemed to us to have two disadvantages. On the one hand it would present a sectionalized picture of Community activities, whereas it often happens that several policies converge to the same end. Moreover, these policies are fully analysed each year in the General Report, and also from time to time in general documents compiled by the responsible Directorates-General.

We considered that there would be greater utility and novelty in giving as succinct as possible a general survey of the past fifteen years. For this reason the procedure finally adopted was to summarize this development under four main heads :

- (i) development of production structures, under the influence both of the dismantling of obstacles to the movement of goods and of other factors of production, and by measures

of a more directional character (competition policy and industrial policy);

- (ii) development of incomes, standards of living and use of the national product. This is a field in which direct Community intervention is more limited; but in the “ accelerated raising of the standard of living ” we are dealing with one of the basic objectives of the formation of the Community;
- (iii) the steadiness of the rate of growth, in terms alike of regularity in business conditions, stability in prices and the maintenance of full employment. This is a field in which the Community’s responsibility is fundamental;
- (iv) the Community’s contribution to the creation of a world economic order. Here, too, the Community’s responsibility is very important, as also are the potential means of action open to it through its international trading status.

These are the four spotlights under which it is proposed to analyse the Common Market’s fifteen years of existence. The four key chapters will be preceded by a short preliminary chapter, indicating the main features of this development, and a second chapter posing a question which may seem naive, or even subversive — is there indeed a common market?

The period under discussion runs from 1958 up to the present time; but, for lack of more recent statistics, the figures will seldom be given beyond 1971, and in some cases 1970. The picture it is aimed to present is a general fresco rather than a chronological record of events; but the reader will quickly appreciate that the 14 or 15 years concerned fall into two periods — 8 or 10 years marked by the creation of a common market, in conformity with precisely predetermined procedures and time-tables; and a second, shorter period in which the Community, faced with new problems, has been progressively obliged to define new objectives and tasks. The exploratory work in this second period has taken a certain

time and during the last two years has called forth a considerable variety of proposals and several important decisions which are, however, too recent for their effects to be seen in the concrete data at our disposal.¹

¹ It is obvious that such a report as the present one is not exhaustive. In particular, we have abstained from touching upon those fields, such as agriculture or monetary questions, concerning which studies exist or are in preparation (for instance, the Mansholt Plan and the Report of the Monetary Committee).

CHAPTER I

A few pointers

Before we attempt a detailed analysis of the various questions, there are a number of indicators by which we can make a preliminary assessment of the degree to which the main objectives of production, consumption, external trade, employment and prices have in fact been reached.

Between 1958 and 1970, the Community's *gross national product* at constant prices rose by 90 %, equivalent to an average annual growth rate of 5.7%. This is somewhat higher than the rate in the years before 1958, especially in Belgium and the Netherlands.

The increase in the active population played only a small part in this growth. Total employment increased only by 0.5%, but the GNP per employed person rose by 5.2%. This was due to a substantial scale of investment (the investment ratio, excluding housing, rose from 16.4 in 1958-59 to 19.2 in 1969-70); use of the results of a rapidly growing research effort; a speed-up in the introduction of new products and processes; and the redistribution of manpower into the most productive industries and firms (the shrinkage in the population engaged in agriculture would more or less account for a growth of 0.5% per annum).

It is impossible to give scientific proof that this rapid and sustained growth is due to the formation of the common market, or that the member countries would not have been able to show an equally rapid expansion if they had taken some other course. The figures show, nevertheless, that since 1958 growth has been at least as fast as it was formerly, and more rapid than in any other industrial country except Japan. Moreover, all the partial (and often qualitative) indications available give the impression that at the decision-making level, be it public or private, the formation of the Community has been a stimulus alike to investment, to technical and economic innovation, and to various juridical reorganizations. There are thus very clear pointers to the presumption of a causal relationship. The

question arises, however, of whether the potentialities inherent in the deep-seated changes embodied in the signing of the Rome Treaties have indeed been exploited to the full. This point will be considered in the next chapter.

The growth in production has been associated with a growth in *per capita incomes and consumption*. Allowing for the 12% increase in Community population, the growth in GNP per inhabitant was 69%, or 4.5% per annum. The figures for the GNP per head, converted into dollars at the current rate of exchange, put the Community countries among the richest countries in the world. The figures for the three leading Community countries are now surpassed only by the United States, Canada, Australia, Sweden and Switzerland.

There has been a certain tendency for the gap between the different Community countries to grow smaller, with the Netherlands coming closer to the general Community level, while France's lead is decreasing. In Italy, however, the average level is still considerably lower, and the approach to the levels of the other countries is extremely slow. At the rate of advance recorded between 1958 and 1970, it will take Italy a century to catch up with the others. But the Italian level is of comparatively small statistical significance, because of the difference between the northern and southern part of the country. In Lombardy, the GNP per head is very close to the Community level, and the combined figures for northern and central Italy, which contain two-thirds of the country's population, is only 20% below the average. In the south, however, the level shown for the 19 million inhabitants is barely 45% of the average, and in the last 12 years this gap has shown practically no tendency to grow narrower.

The fact that investment has increased somewhat more rapidly than the GNP has led to the average consumption per head being rather lower than the growth in the GNP per head. The average annual increase is 4.3%.

These figures tell of a very considerable rise in the standard of living; but the GNP as an indicator is only a first approach, and is not enough in itself. For this reason additional information, angled on the concept of expanding consumption, is given in Chapter 4.

The opening of the Common Market—and even the announcement of its impending formation—led to a rapid increase in *intra-Community trade*. Between 1958 and 1970 trade between the member countries multiplied in volume by 5.7, and external trade by 2.5. The real jump in trade between the member countries began in 1961, that is to say well before the complete dismantling of customs barriers. This broadening of intra-

Community trade did not lead to any falling-off in the growth of trade with the rest of the world. The annual growth of exports to non-member countries averaged 6.7 % in 1951-58 and reached 9.3 % in 1959-70. In the same two periods the corresponding figures for intra-Community trade were 9.1% and 16.4%. The phenomena of specialization associated with this increase in trade are analysed in Chapter 3, and the equilibrium in the balance of payments (with the current transactions accounts with outside countries showing a consistent surplus) is described in Chapter 6.

As regards the target of full *employment*, it is noted that the unemployment rate for the Community as a whole came down quite quickly from 3.4% in 1958 to 2.1% in 1960 and 1.4% in 1964, subsequently oscillating between 1.7% and 2.3%. It has thus been possible to keep within reasonable limits the impact of structural changes and fluctuations in economic conditions on the employment situation.

The same cannot be said, however, about the target of general price stability, at any rate during the last few years. The price index of the gross domestic product showed a rise during the first five years at annual rates of between 1.2% and 4.5%, according to the country concerned (or between 1.2% and 3.5% if France is excluded). Later, during the next 5 years, the rise was kept between 2.5% and 5% (or between 2.5% and 4% if the Netherlands is excluded). In 1969 and the two following years, however, the rates of increase exceeded 5% in all the countries, and have risen still further since; and even though this phenomenon was not peculiar to the Community, it is nevertheless disquieting.

In conclusion, contrary to what one would expect of an economic union, the changes in the *rates of exchange* between member countries have been substantial. *Vis-à-vis* the European Communities' unit of account, between 1958 and 1971 the value of the Deutschmark rose by 20%, the Dutch guilder by 7% and the Belgian franc and the Italian lira by 2.8%, while the French franc depreciated by 11%. These changes, and the sharp difference between them lead, in Chapter 2, to our next question of how far the Community can yet be said to be a unified economic area.

CHAPTER 2

Is the Community a unified economic area yet ?

The Community has been in the course of formation for fifteen years, and it is thus natural to ask how far it has really become a unified economic area. The reply to such a question may be sought, either in an examination of the extent to which it has fulfilled the theoretical conditions for the formation of such an area or in the observation of economic behaviour. The question will be approached successively from these two angles.

1. Conditions for the formation of a unified economic area

By a unified economic area, we mean one within which decisions on the purchase of goods and services, and decisions on the location of production units, are taken without the choice, respectively, of the source of supply or the site of the production unit being influenced by the existence of political frontiers and economic disparities other than those which may have arisen through geographical conditions and the legacy of history, especially as regards the state of infrastructures.

The conditions for the formation of such an area are specified in the Treaty, notably in Part Two and in Title I (Common Rules) of Part Three. The extent to which these conditions have been fulfilled can be summarized as follows.

Tariff obstacles to the movement of goods have been wholly eliminated since 1 July 1968, at the same time as the entry into force of the Common Customs Tariff. There are, however, still a number of non-tariff obstacles; and the tasks of completing the creation of the customs union thus remain to be tackled, for example in eliminating the last of the charges having an effect equivalent to customs duties and the approximation of customs legislation. Moreover, though work is being actively pushed forward on the general programme for eliminating the technical obstacles to trade which result from disparities between the laws, regulations and adminis-

trative provisions of member countries, this work is still far from completion. It seems indeed that, except in special cases, these disparities do not create serious obstacles. Nevertheless, they raise production costs and lead to economic waste which is all the more regrettable because in most cases there is no real reason for their existence.

In regard to public procurement and works contracts, it was laid down in the Treaty that, after the period of transition, any discrimination would be illegal. A recent communication by the Commission to the Council has indicated that the present state of things is far from being in line with the Treaty provisions. Though considerable progress is expected before long in regard to normal supply contracts, it is otherwise with capital goods and for advanced-technology products. Intra-community trade under these heads is, in most cases, small or even insignificant, for example in the case of electric power stations and telecommunications equipment. Admittedly the volume of the trade is a poor indicator, for cross-frontier trade is not an end in itself but only one method among others for improving the efficiency of the economic system. It is only by concrete case-by-case analysis that the usefulness of throwing open public tenders, and the measures which need to be taken to achieve that, can be assessed. There are, however, many indications that the potential gains might be substantial, and should therefore be sought.

It is also clear that the existence of a fiscal cordon at the national frontiers remains as a definite, not merely psychological, obstacle to the free movement of goods. In fact it was not till 1 January 1973 that the VAT system was finally brought into force in all six member countries. The creation of a uniform basis for it still raises a number of problems; and the harmonization of the rates of the tax runs into very great difficulties—some of which are political, for the effect would be to curtail drastically each government's autonomy in determining its tax receipts and therefore its public expenditure. In the case of other taxes the legislations have been brought closer together, but they still show substantial differences.

Transport policy has always been considered an instrument which was capable of considerably influencing the location of production and trade in goods. For this reason a special chapter was devoted to it both in the Treaty of Paris and in the Treaty of Rome. For the ECSC the great achievement was the elimination of 'load-breaking' at the national frontiers, through the fixing of cross-frontier through-rates. This Decision was of fundamental importance in enabling coal and steel products to circulate freely throughout Community territory. For the EEC no decision of similar scope has been taken, because it has not yet been possible to

introduce in the different countries common conceptions of rate-fixing, in which the initial practice was very divergent.

The last two points considered have their influence, both on trade and on decisions for industrial location. There are, however, other factors which prevent firms from basing the choice of their sites entirely on considerations of the best use of the factors of production for the Community as a whole. There are, for example, still obstacles to freedom of establishment in various occupations, especially finance houses and insurance, for which the national markets are still as watertight in their division as they were in 1958. Another factor is the absence of a legal form, a statute, for a 'European' company, and yet another is the existence of various types of regional aid. In this matter the objective of correcting social disequilibria, which dominated the picture at the outset, has gradually been supplemented by a desire to secure the best use of the factors of production in the Community as a whole. Both the verdicts on aid given on a national basis and the general Community orientations are increasingly motivated by the wish to channel the location of business, so as to strengthen the efficiency of the Community's economy. Work is now in hand on an analysis of the factors which determine the choice of location of undertakings, and it is only when this is completed that it will be possible to say how far the actual location trends differ from the social and economic optimum for the whole Community.

In conclusion it is hardly necessary to add that we cannot speak of a real common economic system so long as the rates of exchange between the countries are liable to substantial periodic adjustments such as those mentioned in Chapter 1. Business firms cannot be asked to behave as though they were working in a single unified market so long as they have to prepare for the risk—and cover themselves against it—of changes in the rates of exchange between the member countries. It is this which makes the projects for fixed exchange rates (or a single currency unit) so important; but it also gives cause for fearing that the slow progress—sometimes, indeed, regress—along the path towards monetary union may produce a lasting setback in the process of persuading business executives to see things from the European viewpoint.

2. Economic behaviour

The acid test for a truly unified economic area is the existence throughout it of a 'single price system'. This does not mean that the prices for similar products sold in similar conditions (in the same quantities, on the

same credit terms, with the same after-sales service, etc.) should be identical throughout the territory, but that the differences should arise only from factors independent of the behaviour of buyers and sellers such as transport costs and tax disparities.

A price system on these lines does indeed exist for most classes of agricultural produce, for this has been laid down under Decisions taken in the Community Institutions. It also exists, at least approximately, for the products of the iron and steel industry, in regard to which the Commission is careful in supervising the observance of Article 60 of the ECSC Treaty.

For other goods and services, however, there is no governing article equivalent to ECSC Article 60, and there is no organized publication of price schedules. We are therefore in the thoroughly regrettable position of having no comparable information on producers' prices in the various member countries. At Community level surveys have been carried out on harmonized lines, but they relate only to retail prices.

An analysis of the most recent survey, contained in the first report on competition policy, brings out the fact that the price gaps between the countries differ considerably from product to product, but are seldom less than 10% and may be as much as 80% or more. The effect of tax charges on these gaps again varies from one product to another; but though the differences between the untaxed prices are less wide than those between the tax-inclusive prices, they are nevertheless considerable. It would be extremely interesting to know whether these gaps arise in the distribution systems or whether they are already there when the goods leave the producer; but on this point the information is virtually non-existent. The only product for which information is available is the motor vehicle; and this shows that the producers still fix materially different prices in the different Community countries.

Information of a qualitative character coming from business firms gives a very clear impression that for many products producers regard the Community market as being still a long way from homogeneity. There are various reasons for this—disparities in technical rules, which call for product adjustment and may result in rises in costs; and these, combined with fiscal differences, strengthen the impression of variety, and do not encourage people to regard the Community area as a real common market. The biggest source of heterogeneity, however, is the buyer, whether he is a private consumer or an administration. As regards the latter, the persistent compartmentalizing of public tenders has already been described. As regards the private consumer, the differences of taste and requirements

are still such that a number of firms which, around 1960, had arranged their marketing on the basis of a single department for the whole Community reconstructed them yet again a few years later, with separate departments for individual countries, so as to be able to deal better with the national peculiarities of each market. In this respect the European market differs considerably from the American, even though the latter shows quite appreciable taste differences between the east and the west coast. The diversity may well persist; if it comes to that, it is one of the peculiar characteristics and cultural assets of Europe.

There are thus many factors which prevent this economic area from being, as yet, completely homogeneous. At present their real scope cannot be defined; and since experience has shown that it is difficult to make quick progress on every front, it would be useful to institute a wide-scale consultation in order to assess the degree of hindrance engendered by each of these obstacles and thus to redefine the order of urgency for the lines of action still to be put in hand.

In any case, it should be borne in mind, in reading the rest of this report (and especially Chapters 3 and 4), that the changes noted during the past 15 years took place in a Community in which the dismantling of obstacles and the measures of harmonization laid down in the Treaty had not yet taken place in their entirety, and where there is therefore still a potential for further development which will produce yet more changes in the near, or fairly near, future.

CHAPTER 3

Development of production structures

It was the intention of the fathers of the Common Market that it should lead both to an increase in trade and to a transformation of production structures. Increased specialization was to lead to lower costs of production, and perhaps some degree of combination would make it possible to get full advantage from economies of size.

What do the available statistics tell us about this? How can we explain what has actually taken place? How far have the targets been attained?

1. *The observed facts*

We shall first examine in turn the facts relating to specialization and to combination.

1.1. The phenomena of specialization

The phenomena of specialization may be detected directly in the production statistics and indirectly in the figures for internal trade which are the natural result.

On a very general approach we see a shrinkage in every country in the proportion of GNP coming from agriculture, which fell, for the Community as a whole, by about half over the 15-year period. For industry, however, there has been some divergence in the trend, with an increase in Italy, the least industrialized country, and in Germany, the most industrialized. In the other countries the corresponding changes have been quite small. The proportion contributed by the services sector, increased in every country, but more especially in France, Italy and the Netherlands.

From these partially divergent changes, it emerges that Germany has still further increased her lead in Community industry and Italy has made up some of her leeway, while both France and Belgium have lost a little ground by comparison with the other countries.

A more detailed analysis of eight industrial branches, for which adequate and comparable statistical data are available, does not show the effects of specialization with any clarity. In nearly every case the growth of the Italian and Dutch industries was the most marked, but production in the different branches grew in parallel in all the countries. Both the more dynamic industries (such as the motor vehicle industry) and those with slower growth rates (textiles and food) are found in every case; and everywhere the growth in production of capital goods was more marked than that of consumer goods. It is difficult, therefore, to speak of specialization at the level of the main industrial branches. The phenomenon appears much more clearly, however, if production is compared at the level of specific articles. The comparison discloses, for example, Italian specialization in footwear and certain household electric goods, and German specialization in synthetic fibres and yarns. Unfortunately the production statistics are altogether inadequate for this purpose and we must refer to the statistics for external trade.

An analysis was made of intra-Community trade in some twenty main product groups. The results are the opposite of what might have been expected, for they show a lower degree of concentration of trade by country than in 1958 and in 1955. In other words, two parallel phenomena are seen. In the first place, the predominance of specific countries in particular branches is tending to decrease. This is the case, for example, with Germany in metalworking and in mechanical and electrical engineering. These branches are, by tradition, representative of German industry; but Germany's position in 1970, though still extremely strong, was less so than in 1958. On the other hand, the comparatively low exporting capacity of these industries in the other countries has been showing a tendency to improve. This can be seen, for example, in the case of metal manufactures exported from France, which demonstrates the results of the country's industrialization effort.

This performance by the exporters of the six countries in the Community market may be compared with their performance on the wider market of industrial countries other than Japan (external trade of EEC countries with EFTA countries, the USA and Canada). Here, too, the degree of specialization has diminished, but the approximation in the performances of the Community countries is less marked than it has been inside the Community, though the disparities at the outset were quite definitely more pronounced. In these external markets, therefore, the comparative positions of the Six are more rigid than they are in the intra-Community market, which thus ranks as an area propitious to transformation.

To sum up... during the 15 years covered by this investigation, the concentration of exports by specific major product groups and by country has shown a tendency to diminish, and this diminution is much more apparent on the intra-Community market than in the markets of other industrial countries.

When, however, the analysis is applied to much more homogeneous groups, the results observed are entirely different, and advanced degrees of specialization are seen to have been maintained or to have made their appearance. Using a nomenclature which distinguishes some hundreds of products, we see a very marked predominance of one (or sometimes two) countries in intra-Community trade.

In the light of these first observations, a specific hypothesis can be put forward. The decrease in the gaps between one country and another, observed in relation to the 19 industrial branches in the Community market, may be due to the fact that in 1970 (as opposed to 1955) none of the countries is really unrepresented in any branch—or, inversely, no country really stands by itself in any of them. At the root of this phenomenon lie the industrialization campaigns in France and Italy, and the growing approximation of the macro-economic structures of the EEC countries. On the other hand, the considerable disparities noted in specific products in any particular branch suggest that the countries which were lagging behind in the first instance have succeeded in finding a number of gaps which were either still unfilled, or which were easily approachable through the lack of competitive resistance. The repetition of this phenomenon in each industrial branch might thus explain that there is a reduction in the general disparities for the branch as a whole. It would also explain the fact that the reduction is less marked in the trade with outside countries.

To say that the positions of the different countries are growing increasingly similar does not mean that the structures are identical. Despite the changes described, there are still material differences between the countries :

- (a) the German economy retains its leading position in the mechanical and electrical industries;
- (b) France is still somewhat specialized (as with the Netherlands) in the trade in agricultural and food products, but it has also secured an important position in transport equipment and tyres;
- (c) Italy, with certain exceptions, shows no very marked predominance for major product groups;

- (d) Belgium retains its concentration on exports of metals (ferrous and non-ferrous) and textiles, and shows scarcely any improvement in its comparative position as regards more up-to-date products;
- (e) the Netherlands plays a predominant part in agriculture, the food industries and partly-processed products, such as fats and certain basic chemicals.

From the standpoint of the rate at which the different markets are growing, the position can be summarized by saying that Germany has successfully maintained its orientation towards products for which the markets are growing fastest and Belgium has barely succeeded in breaking away from traditional products for which the market growth is slower. Among the three countries which have been industrializing, the results in external trade show material differences. France, by comparison with its partners, is still highly concentrated on products which, apart from transport equipment and rubber, have only a limited future. The Netherlands is comparatively highly specialized in processed agricultural produce and semi-products, and the position of Italy, like its economic system, shows more of a duality, since there is still a concentration on traditional products (clothing and footwear) but also a concentration on the products of the mechanical and electrical industry, for which the demand is growing rapidly.

The impressions recorded above must, however, be qualified by recalling that a number of firms, notably the biggest, prefer to produce through subsidiaries in foreign countries rather than increase their export trade. This accounts, in particular, for the structure of exports from the Netherlands.

1.2. The phenomena of combination

The first report on competition policy states: 'There is in Europe no systematic and coherent information on the changes which have been due to the creation of new firms, to changes in the size of existing firms, to combinations and to the disappearance of firms. For the time being it is not possible to use official European statistics, or even national statistics compiled by the member countries, in order to carry out an analysis at European level on the state and the development, the causes and the effects of combinations. It was for this reason that in 1970-71 the Commission laid down an extensive programme of studies, the first stages of which are the starting point required for reaching economically valid conclusions about combination in the Common Market'.

This shortage of information prevents our giving a precise picture of the development of combination since the Common Market was formed.

However, various impressions emerge from the fragmentary data available. There was no spate of mergers in the period immediately before or immediately after the formation of the Common Market. The increase in the number which occurred in France in 1959 did no more than re-establish the level virtually reached in 1956-57 after the abnormal decline in 1958.

It is only very lately that the number of mergers has shown a sharp increase—at any rate in Germany and the Netherlands and, to a lesser degree, in France.

A digest of information about mergers, covering the period from 1961 till mid-1969 has been made by Opera Mundi for the Industrial Policy Memorandum. It covers fifteen branches of manufacturing industry, and relates both to mergers and the taking up of control shareholdings. The results show:

- (a) that mergers within a single individual country represent, on the average, some 60% of the case noted;
- (b) that the second most important group consists of combinations in which companies from outside countries are involved. Operations of this type have remained around the same high numerical level as at the beginning of the period, and are thus becoming progressively less important by comparison with the other groups.

It is noted, too, that between 1966 and 1970 there was a definite increase in the number of operations of international inter-penetration and in the tendency towards combination in the EEC. There are various indications that the action taken in this connection by firms in the member countries shows an increase by comparison with firms in outside countries.

2. Genesis of the changes noted

Four groups of organizations have taken part in the reorganization of production structures throughout Community territory. These are:

- (a) Community firms,
- (b) foreign firms,
- (c) national Governments,
- (d) Community Institutions.

The changes we have observed over nearly 15 years result from the combined strategies of these four groups. In some cases the strategies have operated independently, in some cases they have been coordinated, and in some they have been opposed to one another.

The three types of instrument available to *the Commission* are Article 86 of the EEC Treaty (abuse of dominant positions), the control of national aids and subsidies (Article 92), and directive documents. To these could also be added Community financial intervention. These instruments have been brought into use only very recently, or only very sparingly.

For example, the provisions about dominant positions contained in Article 86 did not lead to any action by the Commission until 1971. This Article, therefore, could only influence combination activities over the 15-year period through the idea formed by business firms of the way in which it might be interpreted by the Commission.

As regards aids, it was necessary to begin, in cooperation with the member Governments, the long task of compiling a list of national aids, analysing the reasons for them and arriving at a general assessment of the position in the industries or regions concerned. It was therefore only within the last three or four years that any decisions were reached. These concerned:

- in July 1969: aids to shipbuilding;
- in June 1971: aids for regional-development purposes;
- in July 1971: limits on aid in the textile industry;
- in July 1972: the aircraft-manufacturing industry.

In addition, the Commission has intervened in more specific cases in three or four industries.

So far as concerns texts laying down guidelines for industrial structures, certain very general ones have indeed been adopted (second medium-term economic policy programme (1968); memorandum on industrial policy (March 1970)); but, apart from the ECSC General Objectives—which for ten years past have related only to steel—and the Euratom Illustrative Programmes, it was not until 1971 that the first industrial-sector documents made their appearance. It is therefore true to say that, until 1969, intervention by Community Institutions specifically aimed at reorganization of production structures was only on a very modest scale, except in the case of iron and steel and the collieries, and that it is only during the past two years that any appreciable intervention has begun to take place.

Governments. Entry into the Common Market in 1958 was very much a leap in the dark, and several of the Governments of member countries sought to put the firms in their own countries in as good a position as possible to withstand the foreign competition. They did this by having recourse to methods which were not forbidden by the Treaty of Rome, (such as fiscal attitudes to promote self-financing; the extension of regional

aids; infrastructure development; education and training; and, in some countries, influence on undertakings in the public sector).

Among *Community firms*, four main lines of behaviour may be noted:

- (a) no change in previous lines of behaviour. This does not signify absence of development or innovation among these firms, but rather that the opening of the frontiers did not have any noteworthy effect on their current management or their investment decisions. This position was to be seen among a considerable number of firms catering for local markets which, before 1958, were scarcely affected by competition over the whole of their national territory (especially in the bigger countries) and which were therefore moved by no alarm about foreign competition and had no particular desire to conquer foreign markets. The building industry is a good example of this type of behaviour;
- (b) defensive reaction. The essential objective in such cases is to keep approximately the same share of the market (usually the national market) as before. Two tactical approaches were noted. On the one hand the firm might seek to cope with foreign competition by reducing its production costs, either by investment for modernization or by some degree of specialization. The other defensive approach consisted in operating through cartels and similar agreements. It is difficult to say how great a use was made of this, but there can be no doubt that it was indeed used;
- (c) offensive action inside the Community. In these cases the firm concerned sought to use the opening of frontiers to conquer the new external markets. This behaviour is of special interest in those industries in which economies of scale could play an important part. In such cases the conquest of external markets not only makes it possible to enlarge the firm's commercial outlets but also tends to reduce unit costs and so enable it to preserve or extend its share of the internal market;
- (d) offensive action at world level. In this case the firm sought to take advantage of the economies of scale in a wider market and find itself a place in the world market. It tended to regard the Community market as unduly narrow, and its strategy developed at once, either at European level, at least, or at world level. A strategy on these lines may be operated by the firm on its own initiative, or with the help of its government. The former was the case with various multi-national firms which, even before 1958, were accustomed to thinking

internationally and were just as interested in development in non-member countries as in Community territory, which they deemed to be unduly small. This goes some way towards explaining the fact that it was only to a moderate extent that such firms sought establishment in the markets of the other member countries, whether by merger or by buying up smaller undertakings.

The second case applies to firms of some size but which work in fields in which the risk is great or in which aid from public sources is considered a necessity before new operations can be undertaken. The clearest instance is that of the aircraft industry, in which a number of big European firms agreed among themselves to launch cooperative projects, such as Concorde and the Airbus, with financial assistance on a massive scale from the public authorities.

Foreign firms. Foreign firms in this context means American firms and European firms from countries outside the Common Market (especially British and Swedish firms and, more recently, also Japanese firms). They, too, might react defensively or offensively. Their defensive attitude was aimed at neutralizing possible adverse effects on their business from the elimination of barriers in the Community. Their offensive attitude, on the other hand, was aimed at deliberately profiting from the big unified market which was being set up.

There were three basic approaches, all of which were applied both offensively and defensively:

- (i) expansion of existing subsidiaries. Outstanding examples of this were in the motor-manufacturing industry and the data-processing industries;
- (ii) formation of new subsidiaries where none previously existed. This case was the most frequent;
- (iii) the takeover of existing firms in order to make use of existing production facilities (e.g. the Chrysler takeover of Simca) or of high-quality research groups (takeover of Bull by General Electric), or—and this occurred most often—in order to secure quick command of a marketing organization which was thoroughly familiar with the peculiarities of each of the European national markets.

3. Results of this action

Taken together, the various forms of strategy and intervention described above resulted in changes which varied greatly between one industry and

another but which, if various minor differences are ignored, can be classified in a few main categories: ¹

3.1. *Industries producing semi-finished goods and consumer goods* in which economies of scale play an important part. Notable examples in this category are various mechanical and electrical industries, chemicals and steel. For all these products the growth in intra-Community trade has been very considerable. Producers have clearly been seeking to secure an important place in the markets of the Community countries. This phenomenon, incidentally, came to the surface quite quickly after the signature of the Treaty of Paris for the steel industry and the Treaty of Rome for the other industries. This means that the leaders of the industries concerned did not wait till all customs barriers had been removed but went ahead of this and lost no time in setting up their marketing facilities. There are a number of indications that the same thing is going to happen between the Six and the three new members.

In some cases this expansion in trading was accompanied by genuine specialization. In some cases, on the other hand, consumers benefited by being offered an extended range of products. One instance is the case of household electrical goods. These are consumer durables for which the number of buyers is great, and these buyers are not motivated by national preference. The customs duties were formerly often very high and their elimination, and that of the quota restrictions which existed in some cases, were factors making for important changes, both in the production structures and in the location of producers. These changes were probably helped still further by the existence of a market which was growing very vigorously and in which economies of scale could be utilized more easily. The extreme case in that of refrigerators, in which a few Italian producers, starting from small beginnings, were able within a few years to build up a crushingly dominant position, providing 70% of Community production in 1970 against only 20% in 1958. At the same time they supply practically the whole of the Italian market.

In the motor industry developments have been quite different. The number of buyers is again very big; but there is still a strong tendency towards a nationally oriented consumer preference, and a tendency towards

¹ Agriculture is not examined here, since it has already been the subject of many studies (especially the annexes to the Mansholt Plan and the annual report on the state of agriculture in the EEC). Moreover, an analysis of the changes which have taken place in the past five years is in preparation.

regional preference has even been noted. Moreover the growth-rate in the market was less vigorous. The structural changes which have taken place consisted mainly of longer production runs, and there was little specialization (in some cases, indeed, the trend was in the opposite direction); furthermore, there were very few changes in the formal or legal organization in the industry. After 1958, the producers in Community countries secured very big increases in their share of one another's markets. Taking the Community as a whole, the proportion of cars sold in a country other than that where they were manufactured rose from 7% in 1958 to 31% in 1970. In the same period the share of cars from non-member countries in the total new registrations increased only from 0.8% to 2.1%. However, these tendencies were in operation in practically all the Community countries, so that there was no revolutionary change in the comparative share of each producer in the total deliveries in Community territory. There were, of course, changes on a moderate scale, with an increase in the share of firms such as Renault, Fiat, Peugeot and Mercedes and a comparative decrease for Volkswagen.

In the iron and steel industry, intra-Community trade increased very sharply. In 1954 it represented 11% of Community production; the proportion has been increasing consistently and is now around 20%. The trend towards combination in this industry has been intensive during the past decade; and this can be seen in the fact that 70% of Community production now comes from eight groups of firms, compared with 15 groups in 1958. It is to be noted, nevertheless, that the mergers have taken place entirely between companies in the same country, save only in the one case of Hoesch-Hoogovens. There is, incidentally, no reason for thinking that reorganization of the iron and steel industry, involving many more cross-frontier mergers, would have resulted in a more efficient reorganization of the production machine. The pooling of the iron and steel industries of the Six countries was, in 1951, essentially a political act, at a time when steel production was considered both as a motive force for the whole economy and as one of the sinews of war. Under both these heads, the comparative importance of the industry has greatly diminished.

As a first approximation it is estimated that the industries which have passed through the type of development illustrated in these three examples account for nearly half the Community's industrial activity.

3.2. Quite a number of industries have been much less affected by the common market. These comprise in the first instance certain industries in which the individual firms cope with markets which are comparatively localized or which cannot easily enter into external trade. The clearest

instance is the construction industry, in which the technological development of the past 15 years has certainly been far from negligible but has not been materially influenced by the opening of the frontiers. Admittedly, the vigorous expansion in the building trade owes much to the increase of purchasing power and thus indirectly to the existence of the Common Market; but even in the pooling of experiences and research to resolve problems which arise in similar terms in every country, the progress made has been extremely modest, and neither the national nor the Community authorities have yet made any tangible effort to improve matters.

The construction industry, and the other industrial branches which come in the same category, represent about a third of industry in the Community.

Other industries which come under the present heading include those which have sought, by some degree of concerted practice, to keep their share of the market in approximately the same balance as before, and thus to bypass the effects of increased competition. One of the most recent examples of this was provided by the chief Community sugar producers, who sought to guarantee the strength of one another's position in their respective national markets and preserve for themselves in those markets the control of the marketing of sugar for human consumption. It seems indeed that the proportion of Community industry which has behaved in this way is quite small; but the real significance of these cases is all the greater because such pockets of illegality are capable of being examples of the most vexatious kind.

3.3. *The energy sector* is a case apart because both the Governments and the Community Institutions have always declared it to be a matter of special interest, and the idea of a common energy policy, though it does not figure in the Rome Treaties, was officially recognized as long ago as 1967 in a special inter-Governmental protocol. Nevertheless, despite declarations which have been several times renewed, it has not yet proved possible to make any substantial progress towards the implementation of a real common energy policy. The fundamental reason lies in the lack of agreement between the member countries as to the order of priority between the objectives of such a policy, especially as between cheap energy supplies, the strengthening of the security aspect and the progressive character of transformation. For a long time it seemed that these divergencies were due to the great diversity of energy-supply structures in the different countries; but even now, with imported crude oil accounting for the greater part of the supply in all Community countries, it has not yet been possible to reconcile the different standpoints effectively because most countries regard oil policy as an important aspect of their foreign policy.

3.4. *Group of industries which benefits by a particular interest from the Government.* National governments take a special interest in these industries, either because they are buyers of a large part of the product, or because the industries are considered strategically important from the standpoint of long-term economic development. For the most part they are industries in which the initial research and development expenditure must be particularly great, and in which extensive financial backing is therefore a particularly important asset. They are also industries in which big multinational firms play an especially important part.

The mere opening of the internal frontiers of the Common Market is not enough to produce appreciable changes for these industries. On the one hand, the customs barriers can be in large measure bypassed by setting up subsidiaries in those countries where the firms concerned are seeking to secure a market; and on the other, they are industries for which public orders are an appreciable part of the market and in which national preferences form an obstacle to its conquest, which is far more formidable than customs duties.

It is thus easy to understand why the simple elimination of trade barriers has not given rise to great structural changes. What has been lacking is agreement at Community level, firstly on the thorough liberalization of public-contract awards, secondly on a joint R & D and innovation effort in specific branches of industry, and thirdly on a common attitude about the structural reorganizations which are desirable and the part foreign companies should be encouraged to play. As a result, the only important action taken has consisted in inter-Governmental agreements on aircraft manufacture—but even then without cross-frontier mergers—or has been the work of multinational firms in the data-processing sector. In the latter case tentative approaches aimed at mergers to produce genuine European undertakings have aroused little enthusiasm either in the firms or in most of the governments.

Admittedly, the industries in question represent only a modest 10% or so of all industrial activity; a few years ago the part they could play in the economy was somewhat overestimated, and we are now reverting to a more balanced idea of the mechanisms of industrial growth. They could, nevertheless, be very valuable as pacemakers for the whole economy by promoting rapid innovation, and it is this which makes them important. Moreover, most of them are of the type in which substantial economies of scale can be achieved through specialization in individual firms and longer production runs. They are thus sectors in which the Common Market could have been especially beneficial.

What was it in the last analysis that we expected from the Common Market? We hoped to see an increase in trade, specialized production and the opportunity for developing production on a scale which was only feasible against the background of a big home market. And what have we so far secured?

So far as trade is concerned the increase has been spectacular, for intra-Community trade has grown twice as fast as that with the rest of the world, though without any slackening of the increase in the latter by comparison with the years which preceded the formation of the Common Market.

On the question of specialization, the answer must be more qualified. Part of the increase in trade is indisputably due to the expansion of certain very specialized producers in some of the countries and the advance of some of them to leading positions as suppliers to the whole Community. This, for example, has been the case with the Italian refrigerators. In other cases, however, the increase in trade has not been linked to any appreciable extent with specialized production. Producers from several countries are bringing much the same types of goods to market but the increase in trade has brought benefit to consumers in so far as they have a wider range of products from which to choose.

On the third point the reply is still rather negative. The fields concerned are aircraft manufacture, data-processing, the building of nuclear power stations, space work, major apparatus for basic research, and mass production of various types of equipment for public services such as urban transport. Of all these fields, aircraft production is the only one in which there has been any real effort, which has borne fruit in the Concorde and Airbus programmes and an important re-grouping of the firms concerned. The Commission takes the view that the effort is still insufficient (see the memorandum on aircraft manufacturing policy); but nevertheless it has been made, and it has gone beyond the limits of the Community of the Six. In all the other fields, no appreciable progress has yet been achieved.

As things have turned out, the best results have been obtained in the traditional industries, for which the opening of the frontiers was a powerful stimulus to trade and to a certain degree of structural reorganization. In the newer industries, however, materially dependent as they are on public orders or on public aid for mitigating some of the special risks, progress recorded has been extremely small, for lack of any real common policy covering the fields concerned. It was not, in fact, till 1971 or 1972 that the first sectoral proposals made their appearance. The national attitudes vary from country to country, but they are all united in evading

the main issues. Some countries put the accent on competition policy and the market economy as the instrument by which growth can be fastest and best directed. Others deem it necessary to strengthen their big firms at national level before setting out on industrial reorganization at Community level. Others reject the idea of public intervention in industrial questions and would leave the big firms to be masters of their own destiny. And others, again, are most concerned with regional imbalances and think more of expanding the traditional industries than of encouraging those which have their eyes turned to the future. These different attitudes have all played their part in delaying the possibility of concrete discussion on policies for individual industries apart from those which are having adaptation difficulties.

The relative importance assigned to the various problems has shown many changes over the past 15 or 20 years. The viewpoint of the Treaty of Rome was inspired by the dominant worry which prevailed at the time of its drafting. This was the compartmentalization of the European economy—a division into partitions which was very advanced for the trade in goods and total for the movements of capital. The most urgent task was therefore seen to be the opening of the frontiers; but once these frontiers were open, both between member countries and with non-member countries, the problem that then became dominant was to secure a place for the European economy in a world of rapid technological change which was strongly influenced by the mighty multinational firms and by the large countries. It has been the work of the past few years to secure full recognition of these problems. The first concrete proposals are the work of the past few months, and results cannot be expected until several years have passed.

CHAPTER 4

The Community and the European

For the citizen of Europe the expected effect of the Common Market was to be 'an accelerated raising of the standard of living' and 'improved working conditions and an improved standard of living for workers, so as to make possible their harmonization while the improvement is being maintained'.

At the same time, however, many fears were expressed:

- (a) was there not a danger that the Common Market might be an obstacle to bold social policies in countries desiring to undertake them, especially when it came to equalization of incomes and increasing the importance of the machinery for redistribution of incomes?
- (b) would not the use of the national product be increasingly channelled into productive investment, at the expense of public investment? In other words, would not the keener competition between the different countries of the Community lead to excessive importance being assigned to the growth rate, to the detriment of improvement in the forms of economic growth?
- (c) was there not a risk that the changes in production structures arising through the opening of the frontiers would have a bad effect on employment, both in general and for individual firms and regions?

A full statement of present and future problems, and a definition of social objectives, were recently put forward in the 'Preliminary guidelines for a Community social-policy programme'. Three themes have been selected for discussion below. These are:

- (i) raising of the standard of living and improvement in living conditions;
- (ii) redistribution and levels of incomes;
- (iii) employment problems.

1. *Raising the standard of living*

A first indication of the improvement in the standard of living is to be found in the increase in the 'real' national product per head. In the Community as a whole, it rose by about 70% between 1958 and 1970, so that the average annual increase was 4.5%. If the figures are converted at the exchange rates then prevailing, the average income in the Community in 1970 was materially higher than that in the United Kingdom and about half that in the United States; and the difference in the latter case had grown materially smaller over the 15-year period. On the other hand, the gap between the Community and Japan is also growing smaller. The Japanese level is now nearing three quarters of the average Community income, and is thus nearly the same as the level in Italy, whereas it was only half as much 15 years ago.¹

As between the member countries, the disparities show a considerable difference according to whether we think in terms of GNP per inhabitant (i.e. national supply availabilities per inhabitant) or of the GNP per member of the active population (i.e. national production per worker). In particular, the gap between the Netherlands and the other countries grows deeper when the comparison is on a per inhabitant basis, because the proportion of the working population is smaller than in the other countries, owing to the comparatively low female employment rate.

It is, of course, impossible to state categorically that this improvement in standards of living is the direct and exclusive consequence of the formation of the Common Market. There is, nevertheless, a strong presumption to this effect, because of what has been said above about the increase in production. Furthermore, the increase in trade has put a much larger range of goods at the disposal of the consumer. (It is still an open question whether the buyer is as yet sufficiently informed of the comparative quality of the various products and therefore able to derive full benefit from the wider choice. This is a matter which the Commission is currently considering).

On the question of improvement in the quality of life, the Treaty says

¹ The income comparisons between the different countries were made on the basis of the prevailing rate of exchange, which is not a very satisfactory instrument for comparing the purchasing power of currency units. A more valid comparison would require a calculation based on 'shopping baskets' comparable between the different countries. A calculation on these lines was made on one occasion by the Statistical Office of the European Communities for ECSC workers in 1958. Unfortunately it has never been possible for this to be repeated, largely because of the non-comparability of retail prices in the different countries.

very little. This was perhaps because the priority problem in 1957 was 'an accelerated raising of the standards of living'; attention was concentrated on producing more, before considering how to share it. In connection with these problems, and the priorities between them, ideas have changed a good deal over the past 15 years, as also have the concepts applied in assessing changes in living conditions. Before, we talked almost exclusively about 'standards of living', but now it is the kind of life, or the quality of life, which is discussed. The former measure used, or perhaps abused, was quantitative; now, qualitative considerations are becoming the order of the day but they still require statement and definition if they are to be used as guides to action.

No Community steps have been taken for the specific purpose of rechanneling in any special direction the resources which are available in increased quantities owing to the growth in production. The Treaty, in fact, demonstrated great confidence in the working of the Common Market itself as a means of promoting an improved standard of living and its harmonization while the improvement was being maintained.

Actually, average consumption expenditure per head almost doubled between 1958 and 1970; and the growth was a little more marked in the two countries where the initial level was lowest and a little less marked in the two countries where it was highest. There has thus been an appreciable movement towards approximation in the different countries.

This big increase in resources has brought about a substantial change in their distribution over the different expenditure headings. The proportion of spending going on food has fallen by between 5% and 10%, according to the country concerned, and the proportions spent on health, transport and to some extent rents have shown a material increase. There has been a certain tendency for the budget proportions in the different countries to come closer together, except in the case of Italy, which is following the same trend as the other countries but with a time lag of 8 to 10 years. This general trend towards approximation is, however, subject to a number of exceptions. The outstanding ones are the particularly low figure for transport and telecommunications in the Netherlands, the particularly high one for health in France, and the figure for housing investment in Italy, which is still much lower than that reached in the other countries as long ago as 1958.

Though private consumption expenditure in real terms gives us a first idea of changes in standards of living, it is increasingly recognized to be an inadequate indicator, because the increase in incomes leads individuals to

devote an increasing proportion to payment for services which are generally not obtained in the market but supplied by public authorities. In some fields, such as health and education, public authorities play a predominant part (more than two-thirds of the total expenditure); in other fields, such as housing, recreation, transport and telecommunications, the proportion is also large (between 15% and 30%). We are thus led to bring in the *notion of enlarged consumption*, which includes both private consumption expenditure and public expenditure. It is noted that the consumption headings showing the most rapid growth are in fact those in which the contribution of public authorities is the most marked.

On several occasions in the last few years, too, public authorities have put forward the idea that the proportions of the GNP spent on public consumption and public amenities should increase faster than private consumption. This attitude is to be found both in national documents and in such Community documents as the first medium-term economic policy programme. The latter document, however, takes no more than a general view; but some of the national documents, such as the French Plan, have given details and figures regarding the sectors to be given priority.

And what has, in fact, been the real trend?

Between 1960 and 1970 the proportion of public consumption has shown an appreciable increase in Germany, Belgium and the Netherlands, which, however, contrasts with a decline in France. There has also been an increase in the public proportion in total investment. This was very vigorous in France and Belgium and vigorous, also, in Germany and the Netherlands.

The changes in the decade in question were therefore in the direction regarded as desirable, but closer examination reveals that this happened more particularly in the earlier part of the period. Between 1965 and 1970, on the other hand, with a Community GNP rising at the rate of 5.2% per annum, public consumption increased by 3.2% and public investment by 4.9% compared with expectations of 4% and 8.5%.

With the single exception of Belgium, it is as though, at the very moment when it was officially stated that the proportion of the GNP going into public investment should increase, it abruptly ceased to increase.

An explanation must therefore be sought for the fact that what is apparently considered to be a priority requirement, at any rate by a large part of the population, has not secured a more substantial increase in the public expenditure applied to satisfying that requirement. We must think

in this connection of the lamentations in several Community countries over the deterioration in urban living conditions, the state of the roads and the level of university equipment. We must also seek an explanation of the fact that the share of the national product going into public investment is appreciably higher in the Netherlands and Germany (and also in the United Kingdom) than it is in France, Belgium and Italy. To be more precise... is this phenomenon connected with the formation of the Common Market?

An explanation which seems attractive at first sight lies in the simultaneous character of the public infrastructure investment to meet the needs of consumers and the productive investment to raise the production capacity and efficiency of private firms. It might well be that the keener competition attributable to the Common Market could have led to the accent being put on investment in the latter class. In fact, however, public investment increased proportionately more than the investments of private firms. Following the same line of thought, it could also be suggested that Germany, which was the more highly industrialized country at the outset, was able to devote more resources to public investment than Italy, which had arrears to make up. This explanation, however, is not general; for in the Netherlands industrialization was also lagging behind to a certain extent, but that country has nevertheless remained in the lead in its allocations for public infrastructure investment.

A second explanation is sometimes sought in economic policy. In this connection the increasingly open attitude towards the outside world and delays in the fashioning and application of Community instruments, have diminished the effectiveness of control through monetary instruments, and this, it is suggested, may have led public authorities to fall back on budgetary methods of control, in which the expenditure limitations have fallen essentially on public investment. The explanation is logical, but its confirmation by the figures is only partial. The increase in investment by public administrations has indeed been halted, and there have even been cutbacks in Germany and Italy, but it has proceeded very regularly in France and fairly regularly in the Benelux countries. In the United Kingdom, too, there has been concurrently a very marked stop-go policy and a high level of public investment.

The greatest significance seems to attach to explanations based on national, fiscal and budgetary practice. The countries in which the rate of public investment is comparatively low are also those in which direct taxation is least heavy, fiscal discipline least strict, the autonomy of local authorities least marked; and the scale of the public investment necessary is largely determined by accelerated urban development.

Moreover, the increase in the requirements for public infrastructure has not been followed at the same rate by the development of ideas on the division of tasks between the public and the private sectors. Where the size of the fiscal burdens in Community countries has reached a level which it would be difficult to exceed, both for sociological and for political reasons—at any rate at the present time—there has been some degree of inertia in breaking away from earlier habits, and the result has been an insufficiency of budget provisions for dealing with new tasks. Admittedly there has, for some years, been some proliferation of ideas about the financing of public services, with discussion of public finance and tolls, private financing, etc.; and there has been an intensive development of study based on ‘rationalization of budget choices’ which provides a clearer idea of the comparison between the cost of these public services and their real utility to the public and the various elements which constitute the public.

It is only quite lately that these studies and discussions began, and so far the results have been comparatively modest. It is reasonable to suppose, however, that they will have a powerful influence in fixing the priorities for the use of the national product and the best methods of procedure, and they will thus help in giving detailed application to the general desire for an improvement in living conditions through the development of consumption and infrastructure investment. The Commission is endeavouring, in connection with its own responsibilities, to contribute to this campaign for introducing a more rational and coherent element into the economic and budgetary choices.

The two first explanations suggested above, and linked with the formation of the Common Market, are thus seen to be not wholly wrong, but they do not go fully to the root of the matter. If the process of growth stemming from the Common Market and linked with the opening of the frontiers seems to have created a number of problems in the way the national product should be used, this is largely because the necessary changes in the administration of public finance and budgetary choice have been following some way behind.

2. Incomes and social security

2.1. Distribution of the national income

An important question to be asked is who has in fact had the benefit of this increase in productivity, production and income. Has the remarkable economic growth of the past 15 years been accompanied by a reduction in the inequalities of income, and has it been successful in mitigating, if not

in actually eliminating, the pockets of poverty inside the Community? Unfortunately it must be said at the outset that, in the present state of available information, it is not possible to give a straight answer to this question. For various reasons the countries of Western Europe—like most other countries in the world except, up to a certain point, the United States—have always refused to ascertain the exact situation of their populations as regards incomes. Statistics of income distribution are either not collected at all or not published in any regular and systematic fashion; and, oddly enough, scarcely any university research has been made for the purpose of obtaining an objective view from the many elements of partial information which are nevertheless available. Everything suggests that citizens and political bodies alike prefer not to have that precise knowledge of the facts which might, indeed, call in question many of their preconceived ideas.

From this collection of national ignorances it is obviously difficult to give a description of the situation in the Community, and the best we can do, therefore, is to offer a few fragmentary indications. In the three main sectors—agriculture, industry and services—there have been extreme differences in the increase in added value per head, which has been much higher for agriculture than for industry and still more so than for the services. Admittedly, the remuneration of the active population does not change in exactly the same way as the added value; but the gaps between the sectors are wide enough to make it possible to state with certainty that the average income in agriculture has tended to approximate more closely to the average income in the economy as a whole. This is in conformity with the objectives of the Treaty (Article 39).

In all the countries the distribution between wage and salary incomes and other incomes has shown a tendency for the proportion represented by wage and salary remunerations to increase. At the same time, too, the proportion of the active population working as wage-earners has also increased, largely because of the decrease in the numbers working in agriculture. Conversely there has been a material decline in the share of the national income of individual entrepreneurs, and in the proportion of non-wage-earners to the total active population. If these various trends are compared over the period 1960-70, we do not find any substantial deformation of the share of the national income per head as between wage-earners and others.

2.2. Social security

The concept of harmonization of social systems, which figures in Article 117 of the Rome Treaty, is not self-explanatory. It is important, in the first

place, to agree on the meaning of the word 'harmonization', which is named as one of the effects expected from the operation of the Common Market.

In 1958, overall similarities manifested themselves between the countries side by side with dissimilarities of detail. The total amount of redistribution expenditure represented sums varying between 10.6% and 14.1% of the GNP. In overall terms, therefore, there were no considerable gaps which might in themselves have hindered the establishment of an economic balance in the Community.

If, however, this total is broken down by social expenditure headings, there are seen to have been great differences between the countries in the functional distribution of social expenditure. In 1962, for example, Germany was giving very much less in family benefits than was France, but materially more in old-age, death and survivor benefits. The same was true of the Netherlands and Luxembourg.

There were thus important divergencies reflecting national preferences and conceptions relating to the priority of the risks or situations requiring to be covered by an insurance system organized on the national scale.

Over the 15-year period the position has changed considerably, and the disparities are now decidedly smaller.

In all the countries social expenditure has increased much faster than the GNP. There are, of course, still gaps between the highest and the lowest proportion of the GNP which goes on social expenditure, but the gap of around 3.5% is applicable to rising proportions of the total, the average of which was 12% in 1958, 15% in 1962 and 19% in 1970.

At the same time the proportion of the population covered against sickness and invalidity risks has shown a considerable increase.

In addition, the distribution of this expenditure between the main headings has also shown substantial changes, resulting in a spectacular decrease in the differences between the countries. For health insurance, the gap between the highest and lowest proportion of the total was 13-26 and is now 22-31; for old-age benefits, the corresponding figures are 32-47 and 37-45; and even for family allowances, largely owing to the considerable reduction in the proportion in France and Italy, the change is from 7-30 to 8-21.

Over the whole field it is indisputable that there has been a certain harmonization. This does not result directly from Community action, for the decisions are still in national hands and no Community directive has been issued. Between the Community partners, however, a permanent docu-

mentation system has been organized, and there have been many exchanges of ideas.

Both the national administrations and the two sides of industry have thus been better informed of the methods applied in neighbouring countries and the reasons for them; and in that way a certain spirit of emulation has been created which has helped to bring the different national situations closer together. There can thus be no denying that the Community has been a contributory influence.

However the question of whether such a trend towards equality is indeed a factor of progress can only be answered from a political standpoint. An increase beyond the existing levels in the ratio of social expenditure to the GNP cannot be regarded automatically as a good thing in itself. Only by taking as a basis a certain conception of society is it possible to decide the desirable degree of transfer between different social categories (for example between the active and the retired, between the healthy and the sick and between bachelor, small-family and large-family units), the priority to be given to each type of transfer and the extent of the cover for specific assured risks. The definition of a social policy at Community level presupposes agreement on these priorities, and this goes very deep into conceptions of the quality of life among the populations involved.

3. Employment

The increase in the active population has been materially smaller than the increase in the total population. Causal factors include the ageing of the population, for half the total increase in the population is due to the growth in the number in the senior age-groups, and the extension of the school-leaving age, for between 1958 and 1970 the number receiving full-time education rose from 25 to 33 million. The result is that the active population increased only from 74.2 to 75.6 million people, an increase of 2%, and covering a fall of more than 2 million in Italy and a rise of 3.5 million in the other countries.

Though the total remained comparatively steady, there were important structural changes. These included:

- (a) a decrease of 6 million in the number of self-employed workers and family helpers. This mainly affected the agricultural sector and the commercial and artisan trades, and there was an increase in the number of self-employed in the rest of the tertiary (services) sector. On the other hand, the number of wage- and salary-earning workers increased by 9 million; and thus, against a growth of the active

population of only 2%, paid employment rose by 17% (in the Netherlands by as much as 24%). In 1970 wage- and salary-earners accounted for 78 % of total employment, as against 68 % in 1958. The Community is thus approaching the rates of 92 % in the United Kingdom and 90 % in the United States. A change of this kind is not without importance for implementation of an incomes policy.

- (b) the changes between the main branches were very substantial, with a fall of 42% in agriculture and a rise of 12% in industry, 28% in public administration and 20% in the other services. In individual industries, some of the changes were even bigger, including, for example, a diminution of 600 000 (60%) in the number of jobs in the collieries. The statistics, unfortunately, do not permit of our going into further detail. A particular lack is any figure for the number of workers who changed jobs each year.

It might have been feared that these changes would have had an unfortunate effect on the level of unemployment. In actual fact the development was somewhat moderated. During the early years the level of unemployment showed a considerable fall in all the countries, more especially in Italy. The rate reached its lowest point in 1964; and since then its tendency has been to fluctuate around a somewhat higher figure which is, nevertheless, lower than it was at the outset. The figures suggest that, in the early stages, the sudden fillip made it possible to absorb a considerable number of unemployed. The outstanding cases were Italy, where 800 000 unemployed were absorbed in six years, and France, where the numbers seeking work showed no increase in 1962-63, despite the repatriation from Algeria of 800 000 people of whom 400 000 were economically active. Since this time there have been the beginnings of large-scale reconstruction in industry, resulting in a considerable increase in the number of industrial dismissals as a result of mergers, specialization and conversion. It seems that from this time onwards there has been a more noteworthy gap between the manpower requirements and the qualifications of the manpower offered, one sign of which is the considerable growth in the demand for foreign manpower and in the number of vacancies unfilled.

Further light is thrown on the nature of unemployment in the Community by the analysis of the problems raised by the shortage of manpower. The movements of workers between one Community country and another, which were already appreciable before 1958, rose very sharply from 1960 onwards, even before all the obstacles to the free movement of labour had been removed. Between 1960 and 1965, the annual average was around 210 000 permanent workers. After this the movement slackened some-

what, despite the facilities offered. In 1970 the number of workers of Community origin in jobs in Community countries other than their own was about 950 000. The largest contingent of these workers are Italians, who account for 80% or 90% of manpower migrations inside the Community.

Conversely, the supply of manpower from non-member countries showed an almost continuous increase. Since 1962, they have exceeded the immigration of workers from Community countries, and in 1969 they numbered nearly 700 000 workers, or more than 80% of total immigration. Thus, though the *intra-Community movements of manpower* have contributed to the Community's economic expansion, they did not make it possible to absorb the pockets of unemployment or to satisfy the whole of the manpower requirements. This indicates that the free circulation of workers, which is the indispensable foundation of economic integration, cannot play its appointed rôle as a catalyst in solving labour-market problems unless it is integrated into an active employment policy. Jobs in the Community offered to foreign workers are proving in fact more attractive to workers from non-member countries than to workers without jobs in the other countries of the Community. This seems to indicate that there is no important general problem of underemployment—except in Italy—but rather a need for adapting personnel to the labour requirements of the market and a need for measures to promote the mobility of the available Community manpower.

The action taken by the Community has been of various types :

On the one hand, the economic-policy measures (see Chapter 5) have certainly not been without influence in keeping the rate of unemployment at a comparatively low level. The standing Committee on Employment, set up in December 1970, has indeed begun work on the coordination of employment policy in the member countries by harmonizing these policies with the Community objectives.

As regards the measures to promote reconversion or readaptation, a distinction must be drawn between the ECSC industries and the others. In the ECSC industries the total number employed fell, over a 20-year period (1952-71), from 1.6 million to 1 million people; and this very considerable reduction has necessitated substantial intervention of a social character, both at national and at Community level. The latter has included reconversion loans (250 million u.a.) which have helped to create 100 000 jobs, and also readaptation aids (156 million u.a.) affecting 440 000 ECSC workers.

Community action has thus been of primary importance in mitigating the adverse effects of the rapid decline in an important industry which, in some cases, was the basic activity of a whole region.

For the rest of the economy, the European Social Fund was set up to promote employment facilities inside the Community and the mobility of workers, both geographically and between different types of job.

Until 1 May 1972 the Fund's action was limited to covering 50% of the expenditure incurred by member countries or public bodies in providing productive re-employment for unemployed workers by vocational retraining schemes and resettlement aid. Over the period from 1 January 1958 to 31 December 1971 the Fund gave assistance in this field to a total of 210 million u.a., in the form of payments made after the expenditure had been incurred, for the benefit of 1.5 million unemployed workers. In this initial phase, the Fund operated as an inter-state clearing fund for the benefit of unemployed workers, according to no overall plan and without leaving scope for the least initiative by the Community itself.

Since 1. May 1972, the Social Fund has been basically reformed, for which indeed the EEC Treaty made express provision. It is now an active instrument of employment policy, and has increased resources with which it should contribute to the best possible utilization of all the active population under a scheme of priorities laid down at Community level.

It is in vocational training that, despite the many efforts put in hand at various levels, results have so far been the most slender. The general guidelines laid down by the Council in July 1971 should lead to better progress in the future.

We thus come to the conclusion, as in the previous chapter, that though matters have not turned out quite as well as was hoped, they have at any rate proved much better than was feared. The employment repercussions have not in general been so grave as some people expected; and when they have been, as in the collieries, the machinery provided has been able to mitigate them. Admittedly, the problems raised by changes of job affecting many workers have been serious, but these are inherent in the process of economic growth itself. A rapid rise in income is inseparable from profound changes in the conditions of production; and if the Common Market contributed to the former, it could not do so without giving rise to the latter. On the other hand, the experience of the ECSC is extremely instructive, for it

proves that the change, and even the contraction, of an extremely important branch of activity can be organized if the financial resources are available and a clear view is held of the development which is desirable in the branch concerned. There is in this an example which might well be followed by the Social Fund in its new form, provided it is given the necessary resources and a concrete definition of the changes expected in the different fields of activity.

In regard to living conditions, the results are more debatable. Despite the considerable increase in average incomes of which the countries of Western Europe have had the benefit, they are now experiencing feelings of dissatisfaction. Undoubtedly some part is played in this by inequalities of income, the inadequacy of public infrastructure, and growing fears about changes which cannot be foreseen. The uneasiness, however, is deeper, reflecting present-day Europe's complete uncertainty about the type of society to which it aspires. This lack of objective explains both the national difficulties in adapting the use of the national product, and the very narrowly defined character of Community achievements relating to living conditions. It is only by intensive consultation in the various quarters concerned (including those which have no organized spokesmen) that it will be possible to ascertain the basic aspirations of the people, which are not always the same as they were 10 or 15 years ago. The Youth Conference and the Industry and Society Conference are the first milestones on this road.

CHAPTER 5

Towards harmonious development

The tasks assigned to the Community by Article 2 of the Treaty, are harmonious development, balanced expansion and an increase in stability. They can be pursued in various directions. It may be a question of orienting production to satisfy to the best advantage the private and public requirements of the Community. It may also be a question of development which promotes that distribution of incomes which is regarded as the most desirable. Both these points were discussed in the previous chapter. It may also be a question of securing a certain harmony, both in time and in space, in the pace of the development. These are the two points to be considered in this chapter, in which we are concerned with regional equilibrium and with controlling the business cycle.

1. Regional equilibrium

The concept of regional equilibrium does not figure in the Treaty, either as an aspect of economic policy or as social policy. The idea that it may be necessary to deal with the development of specific regions is mentioned only in negative terms, as a ground for exceptions to the general incompatibility with the Common Market of aid granted by individual governments.

Concern with regional equilibrium can in fact be tackled either from the economic or from the social standpoint. In the former case it becomes a question of securing the most effective employment of the factors of production—manpower and capital. At present, apart from the mines, certain agricultural products, some of the heavy industries and various services requiring very highly trained personnel, the sponsors of new establishments are virtually free to choose their own sites. The objective factors of specialization and success are to be found much more in the energy and efficiency of the firm's executive team. This, however, does not mean that new investors do not have a certain tendency to go into the

areas which are already the most developed, in which they have many advantages for which they do not pay directly and some of which are indeed a charge on the community. The very fact that the costs arising from congestion are estimated at very high figures in some regions means that greater production efficiency could be obtained by spreading industrial activity more evenly over the whole area.

From the social standpoint, the substantial differences in income levels between different regions are regarded as unacceptable. Nor is it considered that the transfer of whole populations from the poorer regions to those which are at present the richer would be a satisfactory way of restoring the balance.

The Community countries, mainly for social reasons but partly also for economic reasons, have for the past 20 years been operating either a regional policy or at least regional development schemes depending chiefly on the granting of aid.¹

In this, as in other cases, Community action might take the form of (a) information, (b) harmonization and coordination of national operations, and (c) financial support. Action under (a) has been taken on quite a number of occasions; it has consisted of thorough studies on the problems and prospects in the various regions and comparison of the national solutions. Under (b) the chief concern has been to avoid costly and inefficient overbidding against similar aid given in neighbouring regions but lying in different countries: in 1971 an Agreement was reached on a common ceiling for the rates of grants which might be made at national level in the central regions of the EEC. As regards (c) mention should be made of the reconversion aids, especially those using the funds of the ECSC (250 million u.a. in 1952-71 and loans from the European Investment Bank amounting to 1 950 million u.a. in 1959-71). The results are by no means negligible: indeed, the ECSC funds created over 100 000 jobs; but the total amount of money thus redistributed remains quite small. In fact, a Community policy of redistribution for the benefit of the backward areas has hardly been applied.²

¹ It is estimated that the total amount of national aid in 1970 was about 500 million u.a. in Italy, 250 million u.a. in Germany, 200 million u.a. in Belgium, 100 million u.a. in France and under 100 million u.a. in the Netherlands. In the United Kingdom in 1973-74 it will be 1 000 million u.a.

² It may be added that the agricultural policy has helped in raising incomes in the poorest regions, for it is in these that the proportion of the active population engaged in agriculture is at its highest. It should be noted, however, that the aids which are linked with price guarantees (and these have recently absorbed about 90% of the EAGGF) solve a current social problem but scarcely contribute at all to securing a better employment structure in these regions.

What then has happened during the past 12 or 15 years? In more precise terms, what has become of the fear expressed when the Rome Treaties were signed that the process of forming the Common Market might benefit, essentially, that famous industrial 'triangle' which comprises the central regions of the Community, and that the peripheral regions might expect to see yet more deterioration in their position, which was far from good in any case?

A first and rather general reply to these questions may be given by comparing the developments in five territorial groupings:

- (a) the industrial 'triangle' Lille-Amsterdam-Düsseldorf, which is the home of one out of five of the Community's inhabitants;
- (b) a ring round this triangle in Germany and the Benelux countries (10% of the population);
- (c) the Paris Basin and north-western Italy (12%). These first three areas comprise the 'European crescent', containing 43% of the population;
- (d) the peripheral regions—western and south-western France, the eastern and southern regions of the Federal Republic of Germany, and southern Italy (20% of the population);
- (e) the rest of the Community, which is the home of a good third of the population and comprises regions of various characters, with the common characteristic that their population density and degree of industrialization is below the average.

So far as population is concerned, the relative changes have been small. The most that can be noted is a slight reduction in the peripheral regions and a rise in regions (b) and (c). On the other hand, the contribution which each region makes to the Community's gross domestic product has undergone substantial changes. These may be summarized as follows :

- (i) the share of the industrial 'triangle' seems to be slightly declining. In particular the share of North Rhine-Westphalia has fallen appreciably;
- (ii) the share of the peripheral regions is practically unchanged;
- (iii) the share of the ring around the industrial 'triangle' is increasing very substantially, having risen from 11% to 16% of the total;
- (iv) neither the Paris Basin nor north-western Italy show any change in their comparative positions;
- (v) the comparative share of the 'rest' is suffering a decrease.

In production per head, the industrial 'triangle' is losing part of its lead, but the relative backwardness of the peripheral regions remains as it was.

The general impression is that during the past 12 years there has been little change in the comparative position of the old industrial regions and the peripheral regions. The old regions did not monopolize the benefits of the Common Market's formation, probably because their industries are those of slow growth, or even in decline, and the new industries went and established themselves on the fringe of this triangle, which was already very populous, choosing those areas that offer the most flexibility in making the arrangements. In the peripheral regions, regional policy has successfully prevented backwardness from growing worse, but it has not reversed the situation.

Now that there is so much insistence on the need for a Community regional policy, it is worth enquiring seriously why success has been so slight. In particular, it might even be asked whether the instruments chosen for the purpose were in fact the best available. It is striking that, particularly in the early stages, much more stress was laid on financial aid designed as an inducement for the setting up of new establishments than on providing an attractive economic and social infrastructure or on securing payment for the real cost of creating a new job in areas which were already fully occupied or even congested. Such a strategy, which is politically the easier, probably leads to quicker results but does not get to the root of the problem. Moreover, it uses resources which cannot be kept in play indefinitely, because the resulting charges on the budget would be very heavy.

It is probable that in each individual country it seemed imprudent to lay undue burdens on firms in the congested areas, for these firms were in many cases bearing the brunt of competition with the other Common Market partners. On the other hand, action on these lines but fully concerted at Community level does not present the same drawbacks. Where regional re-balancing is stimulated by differences in the costs of installation and operation between regions, recourse to the two-fold policy of taxing some regions and aiding others would probably produce more substantial results without laying too heavy a burden on the Community Budget, which is also under pressure for measures to raise the quality of life.

2. Conjunctural (i.e. short-term economic) equilibrium

Reference in the Treaty to balanced expansion and increased stability have been interpreted in all the countries as implying the maintenance of full employment and stable prices in a general expansion movement. The

equilibrium of the balance of payments, which is stipulated by Article 104, is a necessary condition for this, but far from sufficient in itself. The performance during the last 15 years can therefore be measured against three main criteria—regularity of growth, maintenance of a low unemployment rate, and approximate stability in prices, taking into account the changes in the balance of payments.

Two major questions deserve examination. These are:

- (a) in theory, the union of two economies, in which the fluctuations are not in phase with one another, may have the effect of regularizing the business cycle in both countries, since the booming market in the one would cause additional demand to arise in the sluggish economy of the other, thus helping to stabilize prices in the first and to increase employment in the second. There are also serious reasons for thinking that this development of trade would tend to promote approximation of economic trends in the countries linked in this way, leading to the development of a common trend. To what extent have the facts borne out this analysis? Has the formation of the European Community, by opening frontiers to the movement of goods, people and capital, helped or complicated the solution of short-term economic problems?
- (b) the member countries are required by the Treaty to 'regard their conjunctural policies as a matter of common concern' and to consult one another and the Commission on the measures to be taken to deal with particular circumstances. During the past 15 years Community action has included the development of an appropriate institutional framework, the compiling of an inventory, the comparison and development of the instruments of short-term economic policy, and concrete action by recommendations for the measures to be taken in the different member countries. What have been the most important of these measures, and what has been their probable influence on the economic situation?

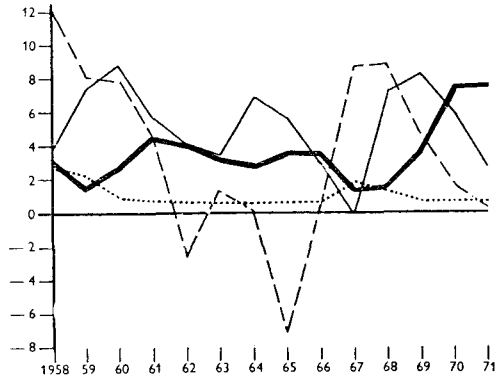
Though the phenomenon is not very clearly marked, it can be estimated that fluctuations have been somewhat less wide during the period beginning in 1958 than they were in the previous years. This comparative mastery of the business cycle is also to be found in non-member countries, so that it cannot be regarded as peculiar to the Community.

The most pronounced fluctuations were in Germany and Italy, including, more especially, two periods of very sluggish economic trend, in Italy in 1964 and in Germany in 1967. In both these countries the fluctuations

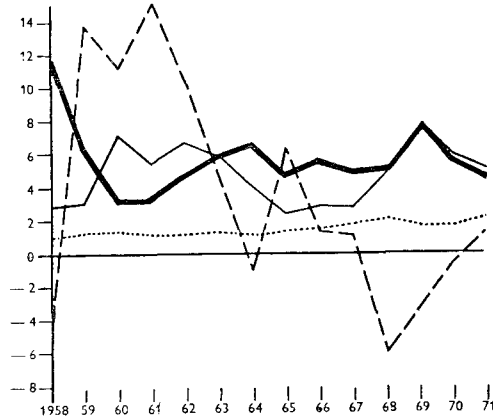
Economic indicators 1958-1971

- Unemployment rate
- GNP growth rate at constant prices
- Rate of price increase (GNP deflator)
- - - Balance on current account (as % of total receipts)

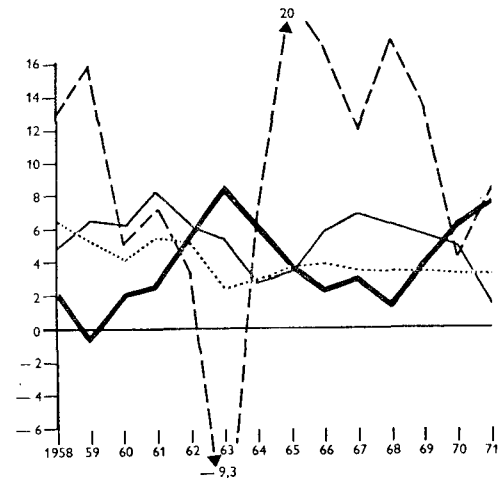
GERMANY (FR)



FRANCE



ITALY



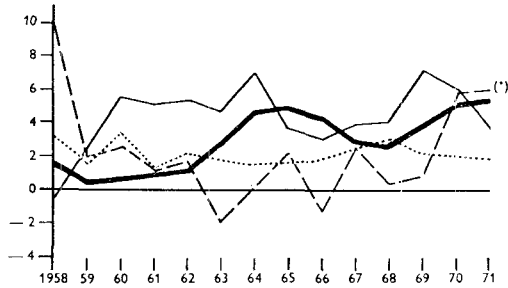
Economic indicators 1958-1971

- Unemployment rate
- GNP growth rate at constant prices
- Rate of price increase (GNP deflator)
- - - Balance on current account (as % of total receipts)

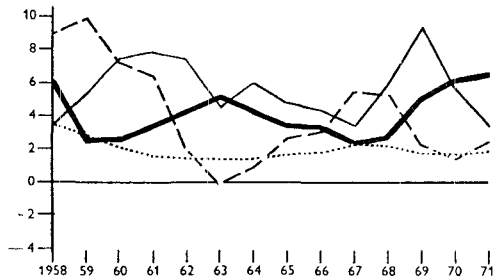
NETHERLANDS



BELGIUM (*) BLEU



EUROPEAN COMMUNITY



were particularly sharp as regards the rate of investment, whose growth rate (at constant prices), was much more irregular than in the other countries. France, on the other hand, has been making very regular progress not only in GNP but also in the main categories of final demand (private consumption, public consumption and investment). Belgium and the Netherlands are in an intermediate position, with a regular growth in private consumption and investment fluctuations of a more disordered kind.

There is a tendency towards approximation of the business curves, especially between France, Germany and Belgium. They are still quite similar between France and Belgium and also between Belgium and the Netherlands. Italy, on the other hand, continues to show a greater degree of independence in its short-term economic development. At times the approximation observed goes materially further than would have been expected from the increase in trade, so that various factors (including transactors' expectations) must have contributed to it. In any case the correlation between internal demand and imports from other Community countries has become closer in Germany, France and Italy, which results in the internal fluctuations being the more forcibly transmitted to the other member countries and thus enhances the responsibility of the larger countries towards the other partners in the Community.

The course events have taken suggests that, in the first years, the association of the different countries helped each of them in ironing out its fluctuations, but that since about 1967 or 1968 the fluctuations have been in phase and the former effect of spontaneous stabilization has less impact.

The *unemployment rate*, as indicated in the previous chapter, has shown a tendency to decrease, and since 1964 the fluctuations have not been very marked.

Prices, however, have shown an average rise of about 4% per annum for the Community as a whole, covering a 3.2% rate for Belgium and about 4.7% for the Netherlands. There were two breakaway periods, the first of which was in 1963-64, especially in Italy and the Netherlands. This however, petered out quite quickly as a result of energetic measures taken in the two countries. The second has continued since 1969 and is still in progress. The moderate rise in the earlier years has often been explained by the existence of available reserves of manpower, which facilitated rapid production growth in a number of industries without employers bidding against one another for labour. It may be added that the transactors did not have the idea that their expenditure could increase by 4% or 5% in

real terms each year, and therefore that their demand expectations would remain compatible with the physical possibilities of the growth in supply. Moreover, the opening of the frontiers had increased the real or potential competition to which firms were subject and thus gave them an incentive to prudence in raising their prices. In 1963-64 several member countries, especially Italy, the Netherlands and Belgium, went through a period in which the price rise was gathering momentum; and in Italy this tendency was accompanied by a more-than-normal deterioration in the balance of payments.

The Commission had already indicated in 1963 the danger inherent in the nascent inflation and proposed measures to deal with it. The anti-inflation measures in several of the member countries before the beginning of 1964 were not successful in getting rid of the imbalances; and in April 1964 the Council accordingly adopted a Recommendation proposed by the Commission inviting the member countries to operate a strict stabilization policy. This short-term economic policy Recommendation was remarkable for two reasons. For the first time in the Community a Joint Decision laid down *priorities* between the economic policy objectives and general *quantitative* standards. The measures taken by the different countries, especially Italy, on the lines of this Recommendation were effective enough to avoid having to carry through the procedure which had been initiated under Article 108 of the Treaty, and it did not become necessary to call for mutual assistance from the other member countries.

The inflationary tendency in 1963-64 slowed down in 1965, but came more vigorously to life in 1968 in France and around 1969 in the other Community countries.

In France, the May-June social crisis in 1968 caused a speed-up in the rise in prices and—largely as a result of the flight of capital—produced a serious worsening in the balance of payments. The Commission accordingly made Recommendations proposing to give France the benefit of *mutual assistance* under Article 108 of the Treaty. The Council approved this proposal. The practical steps taken under the Directive include the recovery measures decided on by the Italian Government during the second half of 1968, the issue on the German market of various loans expressed in Deutschmarks and issued by French public organizations, and a policy which lasted at least until December 1968 of comparatively low interest rates in all member countries except France. The combined effect was to steady the position.

Since 1969, however, the Recommendations made to combat the general acceleration in the rise in prices have, unlike their predecessors, had practi-

cally no effect. The inflation of the past four years had in fact taken place in a context which makes action much more difficult. Technological changes over last 10 years have been so far-reaching that the unemployed manpower often proved ill-adapted to the jobs which became available. There is thus a certain degree of unemployment and there are at the same time vacancies which are not filled (stagflation). Competition inside the Community does not seem to be having the same moderating effect as before. This does not mean that there has been any special violation of the Treaty competition-rules, but there has been a spontaneous growth of general inflationary behaviour. Transactors are now convinced that there will probably be a rise of about 4% or 5% a year in real terms and this leads everybody to ask for more 'so as to catch up'. Moreover, the effectiveness of monetary measures is greatly diminished by the existence of an immense and completely uncontrolled international capital market, the balances of which can very quickly become mobile.

The third medium-term economic policy programme called attention to some of these points and emphasized especially the need for 'seeking, in concert with both sides of industry, the means which will ensure a growth in incomes and prices better adapted to the requirements of the balanced development of the economy'. The Werner Report had also emphasized that the instruments for national action had lost some of their effectiveness without their tasks having been taken over by sufficiently powerful Community instruments.

Various measures have already been taken. For instance, the reform of the Social Fund and the creation of the Employment Committee should help in the adaptation of manpower to the jobs available; the Decisions aimed at strengthening the collaboration between the authorities responsible for the economic and monetary policies will improve the coherence of national actions. But these measures remain quite inadequate; the coordination of economic policies is still in the initial stages, especially because it implies an agreement about priorities in the 'magic triangle' which is far from materializing. The last three years have shown that the Governments are slow in deciding to take essential measures. Over and over again the insufficiency of the Decisions adopted has had to be demonstrated by bitter experience before a step forward was made. It was necessary to establish the fact that the floating of the DM was not enough of a bar to speculation before the principle of fixed, but adjustable, parities, supplemented by measures of mutual assistance, could be accepted. It was also necessary to note that this, too, was not sufficient, and to recognize that the crises did not derive from the structural imbalance of the rates of exchange but

were essentially of a speculative nature, in order, pending the reform of the international monetary system, to envisage adoption of the two measures likely to maintain a minimum of stability in the Community, that is to say, a concerted floating of currencies *vis-à-vis* the outside countries and a start with control of the movements of floating capital.

How many more crises will be required before Europe gives itself a genuine monetary autonomy?

CHAPTER 6

The Community and the rest of the world

At the beginning of a chapter on relations between the Community and the rest of the world it must first be put on record that the Treaty objectives are presented here in very general terms. The field covered is one which is closely linked with foreign policy and in which it is therefore prudent to avoid entanglement in advance in unduly precise statements. The relevant texts are chiefly concerned with the progressive elimination of restrictions on international trade and with solidarity between the Community and the Overseas Countries and Territories. The main instruments specifically mentioned are the setting up of a Common Customs Tariff, a common commercial policy in dealings with non-member countries, procedures to mitigate disequilibria in the balance of payments, and association with the Overseas Countries and Territories with a view to increasing trade and pursuing of a joint campaign of economic and social development.

In practice, the Community has been confronted during its existence, in common with other countries, with four great international economic problems. These are:

- (a) the liberalization of world trade;
- (b) contribution to the development of the developing countries;
- (c) the re-establishment of a world monetary order;
- (d) the choice of the attitude to be taken in respect of foreign investments and in respect of the part to be played by multinational companies.

The first three of these problems have been raised and debated in international organizations, the fourth has only been touched upon. Only the first, however, has yet received a fairly substantial answer. Since all four of these problems are extremely important, it would be as well to identify the reasons for the absence of response to three of them, and to see how far the Community has suffered from this.

The following examination will, therefore, be centred on four essential questions:

- (i) how were the Common Customs Tariff and the common commercial policy brought into existence and what were the effects on the Community's external trade?
- (ii) how was the balance of payments achieved between the Community and the rest of the world?
- (iii) what action has the Community taken to help the developing countries?
- (iv) what contribution has the Community made to the organization and administration of international economic relationship?

1. Customs Tariff, commercial policy and external trade

The essential Community Decisions in these matters have been of three kinds. To begin with, as specified in the Treaty, a Common Custom Tariff was brought into operation to replace the national tariffs. This was done two years ahead of the initial dateline. Secondly, the Community played a decisive part in the international discussions aimed at reducing the obstacles to trade and, more particularly, tariff barriers. In this connection the fact that the Community spoke institutionally and with a single voice certainly played an important part in its success in a field which is rather closely connected with foreign policy. Finally, especially during the last two or three years, a series of trade agreements have been made with a considerable number of non-member countries.

Two questions arise in connection with these Decisions. One, which concerns the outside world, is whether the attitude adopted reflects a turning-in upon itself by the Community or an opening-up towards the outside world. The other, which concerns the Community, is whether a real commercial policy can be said to exist.

On the first question the Community has repeatedly stated that, in conformity with the Treaty, and in direct contradiction to various allegations made in outside countries, its commercial policy is one of a widely open character. This claim is in fact confirmed by a number of statistical indicators.

In the first place, examination by a GATT working party of the tariff situation as it will appear when all the Kennedy Round Decisions have been implemented has shown that the Community tariff is the lowest among the world's great trading powers.

Average level of customs duties after the Kennedy Round
(per cent)

	Raw materials	Semi-manufactures	Finished goods	Average
EEC	0.6	6.2	8.7	6.0
United States	3.8	8.3	8.1	7.1
Japan	5.5	9.3	12.0	9.7
United Kingdom	1.2	8.3	10.4	7.6

Source : 'Analysis of tariffs' GATT 1971.

The average position does not, of course, exclude the possibility that the Community duties may, in the case of some individual products, be higher than those of other countries; but this case only means that the level in the other instances is all the lower.

It is also to be noted that the formation of the European Community has been accompanied by an intensification of relations with non-member countries. Its share in world trade (average of exports and imports) rose from 17.5% in 1958 to 19% in 1970. This proportion is similar to that of the United States, double those of the United Kingdom and Japan and four times that of the USSR. The Community has thus become the world's greatest trading group.

What products have been specially concerned in this increase in trade? The Community, like many industrial countries, is an importer of many raw materials and of energy, and is an exporter, essentially, of processed goods. It will be found, however, that the imports of energy and raw materials have increased less rapidly than total imports, for their share of the total has fallen from 47% to 37%. On the other hand, the share represented by manufactured goods has increased from 28% to 45%, while capital goods have risen from 9% to 14%. Not only is the Community not a closed shop, but it has played an increased part in the trade in finished industrial products which, in principle, reflects a certain international specialization.

This development is the more noteworthy for the fact that an economic area the size of the Community would be capable of making practically all the industrial goods it requires. The only exceptions of any importance seem to be long-distance sub-sonic aircraft and certain types of highly specialized

machinery and apparatus. The imports which are strictly necessary therefore comprise:

- (a) various agricultural and food products, especially those of tropical origin;
- (b) most raw materials;
- (c) a large part of its energy;
- (d) the various manufactured articles mentioned above.

This 'strict necessity' list covered 60% of the total imports in 1969 as compared with 75% in 1958. The rest, which reflects world specialization in certain lines of production and a desire for variety among European consumers, thus rose from 25% to 40% of the total.

It should also be noted that the ratio of imports from outside countries to the Community GNP is 12%. This compares with only 5.5% for the United States and 10% for Japan.

The accusation sometimes made against the Community of practising a certain protectionism is therefore wholly unfounded, especially if its attitude is compared with that of other leading partners in world trade.

If we are thinking in terms of an attitude deliberately open to the outside world—and therefore *a priori* favourable to non-member countries—is it possible to speak of a real common commercial policy? This is the second question, and the answer is less definite and less positive, for commercial policy reflects both a foreign policy—and therefore seeks special development of links with particular countries—and an industrial policy, through which it seeks to promote the development of specific lines of production, or to organize a decrease in others. The several dozen trade agreements concluded with non-member countries do not yet reflect any real foreign policy, and the granting of generalized preferences was not closely geared to an industrial policy which had been defined as regards its sectoral aspects.

In actual fact the absence of foreign policy discussions at Community level has led to the signing of trade agreements as the opportunity arose, and primarily under the influence of the general desire to take an open attitude towards the outside world. This is a state of things which the European Parliament has often regretted.

It was not till September 1972 that an overall conception was worked out. Even so, it covered only one region of the world—the Mediterranean area—but this does at least reflect priorities in the establishment of relations with non-member countries.

Moreover, the absence of any definition of industrial policy, in its sectoral aspects, has also prevented there being any reference framework for the purpose of trade negotiations; and the risk is, that the compromises arrived at may be dictated more by short-term problems than by developments which would be desirable in the medium term. One of the lessons of experience in the first years of the EEC, however, was that most of the fears expressed in the different sectors proved exaggerated, and that in general the adjustments have been easier than was expected.

2. The balance of payments

The Community's balance of transactions in goods and services with the rest of the world has been consistently in credit throughout the 1958-70 period. It has amounted in all to about \$ 45 000 million. What use has been made of this balance?

The first heading is private and, more especially, public unilateral transfers. The accumulated total of these is \$ 18 000 million. It consists primarily of public aid to developing countries.

The second heading consists of non-monetary movements of capital. Against a total foreign investment in the Community of \$ 26 000 million, the Community investments in the rest of the world amount to \$ 42 000 million.

During the past five years the principal countries to which these investments were directed were the developing countries and the United States; and the latter is also the principal source of the foreign investment made in the Community.

Finally, the balances in gold and foreign currencies are seen to have increased by about \$ 19 000 million over the 1958-70 period. The sum of these outgoings exceeds the resources by about \$ 8 000 million, which is the total shown in the Community balance of payments under 'errors and omissions'.

The last item shows the impact on the Community's assets of the functioning of the international monetary system. The gold exchange standard with a single dominant currency resulted, over the past 12 years, in an impoverishment for the Community to an extent of the same order of magnitude as the increase in the Community product in one recent year, or the whole of the GNP of Belgium, or the entire public aid paid over the 12 years by the Community countries to the developing countries.

Though comparisons of this type are open to discussion, they are nevertheless an indication of the orders of magnitude involved and the need for considerable modifications in the rules of the game (see below).

3. Relations with the developing countries

This aspect has recently been dealt with in the Commission memorandum on a Community policy for development cooperation.

A large part of the action was taken by the member countries themselves, in the form of financial and technical cooperation. In 1969¹ all the countries reached the target of transferring to the developing countries at least 1% of their GNP, including public and private aid. The same cannot be said of the target of 0.7% in the form of public aid. On this point there are quite considerable differences between the member countries. There are also rather considerable differences in the division of the bilateral public aid between grants and loans and in the terms on which the public loans are granted. The volume of the aid, too, has shown quite considerable variations from year to year.

These divergencies are a reflection, firstly, of allowance made by the member countries for internal pressures of a historical, economic and political kind which are often different, and secondly, of the absence of any sufficient coordination between the bilateral policies.

The action at Community level is of three kinds:

- (i) association with the African States and Madagascar. This has gradually assumed a character going far beyond the simple implementation of technical and financial aid and measures of trade preference. It thus expresses a real political option of developing special relations between Europe and Africa south of the Sahara. The most apparent financial aspect is to be found in the successive appropriations for the European Development Fund. The first EDF, decided on by the Rome Treaty, had resources of 580 million u.a. The second EDF was created under the first Yaoundé Convention in 1963, and its resources were 730 million u.a. plus a further 70 million u.a. made available by the European Investment Bank. The third EDF was set up under the second Yaoundé Convention in 1970, and its resources are 900 million u.a. plus a further 100 million u.a. from the EIB. In the past few years the annual expenditure has been at the rate of about 140

¹ The first provisional information available for 1970 shows a decline in the financial contribution of some of the member countries by comparison with 1969.

million u.a., as compared with the national product of the countries aided which is around 8 000 million u.a.

- (ii) the formation of special links with most of the countries on the Mediterranean seaboard.
- (iii) gradual extension of trade preferences to all the developing countries.

All these measures reflect the same desire to strengthen the Community's cooperation in the development of the poorer countries. Nevertheless, they cannot yet be described as a real development-aid policy. There are in fact three sources of incoherence or difficulty:

- (i) there is no overall deliberation at Community level on the choice of the best instruments for aiding the developing countries, nor is there any systematic comparison of the commitments or action contemplated, either at national level (especially as regards technical and financial cooperation) or at Community level (especially through the commercial policy). This prevents the aid given from having its maximum effect, and it also prevents the views of the Community in international conferences from having the full weight which might attach to them as being the views of the biggest trading partner of the developing countries and the provider of more than a third of the total aid given by industrial countries. The lack of predetermined Community attitudes, put forward and defended by a single spokesman, has been a manifest impediment for the Community countries in playing any appreciable part in the successive UNCTAD negotiations; and it may well have prevented the emergence of various conclusions which might have mitigated the immense disappointment felt by the participating countries from the Third World. Though the Community has not suffered any direct economic damage through this, it has certainly affected its political image. This is the more regrettable because the value and effectiveness of single representation for the Community as such has already been proved by the Kennedy Round experience.
- (ii) the maintenance of special relations with the AASM is difficult to reconcile with the generalized trade preferences. The choice lies between a progressive loosening of the privileged character of the relations with the AASM or their maintenance by giving the AASM more technical and financial aid. A decision on this point cannot be evaded much longer.
- (iii) where the development of the developing countries is to take place through the diversification of their economies and the increase in their exports of goods which will compete with some Community products, the situation calls for an adaptation of the Community

economic structures. This means that the development-aid policy need to be closely coordinated with industrial policy and the channelling of the activity of the Social Fund. The need for such coordination is recognized in principle, but it is still far from having been satisfactorily implemented in practice.

4. *Organization of international economic relations*

Now that we have discussed the question of aid to developing countries, it remains for us to mention the international monetary order, foreign investments and multinational firms.

4.1. The world monetary system

The first cracks in the 30-year-old Bretton Woods edifice were seen by specialists a decade or more ago.

The basic faults in the dominant currency standard were summarized with great clarity by Professor Triffin:

- (a) so long as the dominant currency is still convertible in fact into gold, the balance of payments discipline can operate, but with convertibility crises which will shake the economic foundations of all countries;
- (b) if this dominant currency should become inconvertible, either *de jure* or *de facto* it will become an uncontrollable instrument of world inflation, for it will oblige the other countries to provide unlimited finance for the external deficit of the dominant currency country. The system amounts to a positive subsidization by the other countries (over \$ 20 000 million from the Six since 1958).

In addition to this, but not independent of it, is the progressive development of an international money market (and, on a more modest scale, a finance market) which, by comparison with the national money markets, has the peculiarity of not being under the control of any public authority (50 000 million Euro-dollars in 1971).

The Community has suffered from these upsets and anomalies in several different **ways**.

In the first place the 'seigniorial rights' have cost in 15 years more than \$ 20 000 million, which could have been applied otherwise to much better effect.

Much more important, however, are the obstacles this monetary system puts in the way of policies of short-term economic control. Transmission

through the intermediary of the Euro-dollar market results in a certain subjection of the European central bank rates to the Euro-dollar rate, which is itself influenced by the Federal Reserve rate. It is quite generally appreciated that the Euro-dollar is an inflationary factor tending to prejudice the stability of European economies; and the ill effects from which these economies suffer are essentially attributable to the disparity of scale between the American economy and the separate economies of Europe. The way out, of course, lies in the formation of a true monetary union, the broad lines of which were sketched in the Werner Plan and put into concrete form in Commission drafts which led to the Agreement of 9 February 1971. The events of May 1971, however, deferred implementation of certain points in this Agreement (the narrowing of the margins of fluctuation); and the Agreement is therefore still in the very early stages of its application, while the problems are growing more and more acute.

4.2. Foreign investments and multinational firms

The rate at which cross-frontier investments are increasing is materially faster than the growth in the GNP and in the investments carried out in the territory of an individual country. This means that there is a growing tendency towards the internationalization of producers. It is estimated that the proportion of industrial capital held by foreigners exceeds 15% in Italy and is as high as 20% in Germany. According to some estimates, in 1975 more than a third of the industrial production of the western world, excluding the United States, will come from subsidiaries of American firms. Even though other forecasts point to a substantial growth in European investment in Europe, this development cannot fail to raise problems. They are summed up by George Ball: 'How can a national government work out an economic plan with any certainty if a board of directors meeting some 5 000 miles away is in a position, by changing its purchasing and production policy, to influence decisively the country's economic life?' The same question can be asked substituting 'Community' for 'national government'.

The development of multinational firms, and more particularly the interest they have increasingly shown, for 10 years or more, in the countries of Europe, have substantially modified the basic data of some of the Community's economic problems and the scope of some of its measures. So what is the use of minor adjustments to customs tariffs, which may raise or reduce import prices by 2% or 3%, when the foreign subsidiaries of American companies have a turnover which is six times the total exports from the United States and the same will shortly apply to Japanese firms?

What is the point of liberalizing public contracts for the benefit of big European firms which sell half or two-thirds of their products outside the Community either by exporting them or by manufacturing them through subsidiaries in non-member countries? What is the value of aid to a branch of industry doing a total business of 20 or 30 million u.a., or regional aid to a total of a few hundred million u.a., in the face of firms with an annual turnover of 1 000 million u.a. or more, and a gross annual profit of around 100 million u.a. a year? What can be the effect of a monetary policy aimed at making a change by 10%, that is to say, by 15 000 million u.a., in the Community's monetary stock, when the world has a stock of around 50 000 million u.a., a large part of which can be set in motion at very short notice, largely by the decisions of finance departments in the multinational companies?

Examination of the problems posed by the appearance of these companies on the European scene, with decision-making centres of such importance located outside the confines of Europe, has remained taboo. It was not until July 1972, when the 'Rey Report' was tabled in the OECD, that the question was raised in all its magnitude in any official body. This is a field in which the delay between the appearance of the problem and the decision to tackle it has been particularly great.

It is the very success of the Common Market, in terms of efficiency in production, which has given so much importance to the international problems with which it is faced. By the fact that it has become the world's foremost trading power, its responsibilities have increased, not only in world trade, but also *vis-à-vis* the developing countries. It is also an area of prosperity, and thus has attracted into its midst the subsidiaries of foreign companies. The Treaty, which was primarily drawn up to organize the functioning of the Common Market, provided no explicit answer to these questions, except in the setting up of the Common Customs Tariff and the principle that, after the initial transition period, there should be a common commercial policy. The fact that most of these external economic problems are closely linked with foreign policy explains why progress in dealing with them has been much slower, and hence more modest in scope, than the progress made in effecting the internal changes in the Community itself. The fact remains that the continued fashioning of Europe will very quickly be blocked if these new problems are not tackled and resolved with a degree of care commensurate with their scale and importance.

Conclusion

Fifteen years ago, when the Treaty of Rome was signed, the economic and social future of the Community countries were matters both of hope and of anxiety.

The hopes were expressed with particular vigour by most economists, many politicians and a number of business leaders and trade unionists. Two points were specially emphasized. On the one hand, people looked for a profound change in production structures which would enable the improvements in efficiency arising through greater specialization and economies of scale to be exploited to the full. Secondly, they expected that a real European economic entity could be very quickly constituted and that inside it ideas would crystallize about the European society of tomorrow and the rôle Europe should play in the world; at the same time, a minimum degree of political union would make it possible to work actively for the achievement of such a society and to face outside countries with a common attitude on the part of the countries of Europe concerning all major problems.

The anxieties were felt more especially by various people in direct everyday contact with realities. Many business leaders feared that the opening of the frontiers to the passage of goods, the free movement of capital and freedom of establishment, might result in unduly abrupt changes in the supply of particular types of goods and thus bring about the need for a thorough structural reorganization of firms. Trade unions feared that the same factors might lead to large areas of unemployment and necessitate the retraining and resettlement of large numbers of workers in conditions which would be all the more difficult because preparations would not have been made far enough in advance. And the administrations feared that the reduction of national powers might lead to difficulties in managing economic trends and in working towards greater harmony between different regions.

Experience has shown that both the good and the bad expectations were excessive. The formation of the Common Market has not caused the

upheavals which some people feared; and though there have been appreciable shifts in many trade flows, no real disturbances have occurred, except in a few instances where ill effects were, in any case, mitigated by the application of safeguard measures. It has been possible to continue controlling economic trends at least as effectively as in previous years, and there has been no increase in the regional imbalances. At the same time, economic growth continued at a rapid pace, making possible a greater improvement in standards of living than in any of the other western countries, and the opening of the frontiers has put a much greater variety of supplies at the disposal of the consumer. Industrial reorganization across the frontiers, however, is still on a small scale, and for a number of industrial goods it is not possible to regard the market as having been unified at all. Preparation for the future, through a joint research policy and harmonized regional concepts, is still in its early stages; the monetary union is advancing only slowly, and now and then goes into reverse. The common attitudes to the major international problems—whether they concern the creation of a new world monetary system or the contribution to the development of the underdeveloped countries—are still in the drafting stage.

Chronologically, the first years of the Common Market were marked by many achievements, both in the fields of legislation and regulation and in those of transformation of production structures and the broadening of intra-Community trade. After this came a period in which the adoption of decisions of immediate application, which had characterized the earlier years, was largely superseded by declarations of intent. These were capable *a priori* of producing profound changes in the economic and social development of the Community, but they could not have any such effect until they were followed by concrete decisions, which were often a long time in coming. It is only during the last two years or so that we have seen a resumption of the forward movement.

Why, then, has there been this temporary slackening in the Community's activity? In the first years the main concern was to clear away the obstacles which had been created artificially by the individual countries to hamper trade between the nations, whether in movements of merchandise, of capital or of people, and to moderate some of the major differences between the national provisions. Only one common policy has really been brought into operation; but it is in fact the only one explicitly provided for in the Treaty, and its formulation was made easier because, on the European continent, all the countries already operated intervention practices in agriculture to a greater or lesser extent, and these had an

indisputable family likeness. For the most part, the precise instructions contained in the Treaty have been carried out. Though implementation of some of them, such as the creation of a common capital market, has lagged somewhat behind, others were put through in advance of the timetable, so that the end of the initial transition period could be officially recorded as 1 July 1968.

In the following years, the task became much more difficult. The barriers had indeed been thrown down, but it was now a question of working out the common policies. A large economic area had been created as a first step, and the Community's assignment was to find a joint definition of the objectives of the new action to be taken.

The Treaty had provided means for this action, especially through Article 235. In practice these instruments have been used relatively little; but this is not because no such action was contemplated, or through any lack of concrete proposals, but more frequently because of the difficulty of securing agreement on what was to be done. This difficulty crops up in various fields. It is found in the sectoral policies, such as energy policy, research policy and structural policy in industry. It occurs again in the more 'horizontal' policies, such as those aimed at income redistribution over the whole Community territory (social policy and regional policy); and again in defining the place the Community should occupy in the world at large (policy regarding developing countries and international monetary policy). It would be unduly simplifying matters and incorrect to speak of obstruction or reservations by any specific partner on a specific subject. Admittedly, there has been a tendency for the differences of opinion between the partners to assume bigger proportions as new problems came to be tackled; but rather than deplore this fact, a more useful course is to look for the cause.

The Treaty of Rome was based on a clearly expressed vision of how the economy would function 10 years ahead. The final condition subsisting at the end of the transition period was to be characterized by the free circulation of goods, capital and people, with economic activity continuing in an institutional framework of which the main lines were laid down in the Treaty. This concept was influenced by the priority given to the problems which were being faced 15 years ago, and by certain definite economic concepts. At that time the most urgent economic problem was the opening of the frontiers, a task on which GATT and the OEEC were also working at a general level, hence the accent was put on free circulation. At this time, too, the principal decision-making centres were national,

hence the common rules set out in Title I in Part Three of the Treaty—rules on competition, tax provisions and approximation of laws.

The years which followed saw profound changes in economic situations, and therefore in the comparative urgency of problems. The initial success of the Common Market and the raising of the standard of living led to more discussion about the ultimate aims of the growth than about the ways of obtaining it. The opening-up of the Community to the outside world made the Community both more sensitive to decisions, public or private, taken outside and more responsible regarding the world's economic development. The expansion of great multinational corporations, with their large financial dimensions, and their international strategies in commerce and finance, drastically reduces the relative scope of decisions at national level.

Thus, though the economic concepts worked out in 1957 were clear and coherent enough to provide, for some years, sufficient guidance for action whenever there was any uncertainty, there was subsequently a lack of any similar Grand Design to cover the next 10 or 15 years. The Community did not know towards what type of society it wanted to work; it had no overall long-term framework into which it could fit each of the actions it contemplated and it could not see clearly what benefit could be drawn from marching hand-in-hand into a future which nobody had yet defined. In such circumstances, it could not avoid a certain Balkanization and a dispersal of its action, as a result of which there was insufficient coherence, both between national and Community activities, and between the various activities undertaken by the Community itself. Admittedly there have been many proposals, but to some extent they have been the more numerous because the absence of any clear vision of a long-term objective prevented the day-to-day action priorities from being strictly defined.

Not that this phenomenon is peculiar to the Community; all countries exhibit an absence of long-term strategy. A striking illustration is to be found in the vicissitudes of medium-term programming, both in countries which have been practising it for a quarter of a century and those which are only now seeking to introduce it. This lack of clear vision on long-term development is not confined to political institutions, but can also be seen in varying degrees in other institutions inherently less subject to contingencies, such as the universities and the churches. Paradoxical as it may seem, it is in the multinational companies that the tendency to formulate and operate a long-term strategy appears to be most marked. It is paradoxical, because the difficulties of arguing about a distant horizon might seem all the greater if the field of action is more diverse; but the

paradox is only apparent, for this diversity of situations in different fields and different countries in which the companies operate opens the way to offset and compensation and introduces flexibility into the operation of the strategy.

The Community institutions, too, have to carry out activities in a great variety of fields and in different countries. If they are to be able to work out such a strategy, they will have to develop joint study of the great problems of Europe 10 or 15 years ahead, and arrive at practical conclusions for both national and Community action. It will then be possible to concentrate more on the problems of tomorrow than on those of today, on oil policy rather than coal policy, on industrial policy rather than agricultural policy, on the creation of something new rather than the harmonization of what already exists.

Technically speaking, the working out and implementation of such a strategy presupposes recourse to three instruments—thinking ahead, medium-term programming and the procedures of rationalization of budgetary choices (RBC). Forward thinking provides the medium-term programme with the support which can enable it to define the priorities correctly and steer the economy in the right direction at the right time. The medium-term programme provides the general framework for the RBC which will make it possible to choose those programmes that are best adapted for working towards the targets to which priority is given. Conversely, if continued sterility is to be avoided, forward thinking must lead to a genuine programme of medium-term action; and there would be the risk that this would itself remain academic if it were not given its natural extension in the form of precise decisions and, where appropriate, their reflection in the Budget. The three instruments must therefore be applied simultaneously.

But the starting point remains the preparation of a sufficiently general consensus on the type of European society which it is proposed ultimately to create, i.e. its political, economic, social and cultural aspects. To determine such a society, contributions must come from the most widely differing quarters: from political circles—particularly the European Parliament, trade unions—notably international confederations, employers, universities, and youth movements. Some contributions have already been provided; it could be one of the aims of the Community Institutions to elicit further and more precise contributions, and to draw practical conclusions from them for concrete action, thus giving a second wind of creative energy to the task of building Europe.

8438

FB 50,— Dkr 7,80 DM 3,40 £ 0.55 FF 6,20 Lit. 850,— Fl. 3,50

OFFICE FOR OFFICIAL PUBLICATIONS OF THE EUROPEAN COMMUNITIES

Boite postale 1003 — Luxembourg

6854