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WORKSHOP

ON

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE EEC

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THEME I: THE NEW MEMBERS AND THE EEC

PAPER: Aspectos Economicos de la Adhesion de España a la Comunidad Europea

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Lisbon, June 1980

ASPECTOS ECONOMICOS DE LA ADHESION DE ESPAÑA A LA COMUNIDAD EUROPEA

Lisboa, 26 de Junio de 1980

Daniel de Busturia

Este informe tiene por objeto el estudio de los aspectos económicos de la adhesión de España a la Comunidad Europea, pero es evidente que la problemática económica no puede ser analizada fuera de su contexto político.

En primer lugar, porque el propio proceso de integración europea tiene unas expresas finalidades políticas, aunque la sistemática de integración haya partido de la comunitarización de los intereses económicos.

En segundo lugar, porque la decisión de insertarse en un conjunto de integración económica a base de transferencias progresivas de competencias soberanas nacionales en favor de instituciones comunitarias o supranacionales, exige una amplia voluntad política y la similitud de sistemas económicos y modelo de sociedad.

En última instancia, porque las negociaciones no se pueden encerrar en los reducidos márgenes de un tratamiento comercial o meramente librecambista.

Adherir a la Comunidad Europea consiste, en parte, en asumir los derechos y obligaciones económicas y comerciales que derivan de los Tratados de París y de Roma y del acervo comunitario y consiste, también, en una parte sustancial, en tener la clara voluntad de hacer de Europa algo más que una simple Unión Aduanera.

Sólo con esta óptica podrán sobrepasarse las evidentes dificultades internas y externas que comporta todo proceso de integración en una vasta zona económica, máxime cuando el contexto eco nómico general es de crisis y de búsqueda de un nuevo tejido industrial que tenga en cuenta aquellos factores energéticos, de costos, de tecnología, etc. que han roto los esquemas tradicionales de desarrollo de todas las economías.

No se entrará, en este informe, a estudiar las profundas motivaciones políticas que condujeron al Gobierno español a presentar, el 28 de Julio de 1977, la candidatura de adhesión a las C.E., ni las motivaciones políticas similares que incitaron a la comunidad a dar una respuesta positiva. A pesar de ello y sin que esto equivalga a decir que las razones son exclusivamente o primordialmente políticas, el análisis político debe necesariamente presidir el estudio económico, porque aunque las ventajas políticas recíprocas sean difícilmente cifrables, es, sin embargo, evidente que sólo la voluntad de una solidaridad política para el cumplimiento de objetivos comunes permitirá encontrar las soluciones adecuadas para el refuerzo de la cohesión económica y para la mutua adecuación a una realidad económica y comercial que no por ser distinta es necesariamente peor. La historia de las relaciones hispano-comunitarias es ya larga y sus principales fechas pueden resumirse así:

1.962 - España presentó el 9 de Febrero, una solicitud de Asociación a las Comunidades Europeas.

1.970 - Se firmó, el 19 de Junio, en Luxemburgo, el Acuerdo Comercial Preferencial entre España y la C.E.E.

1.972 - En Enero, Dinamarca, Inglaterra e Irlanda, firmaron el acuerdo de adhesión a las Comunidades Europeas, con efectividad a partir del 1º de Enero de 1973. Esta ampliación de la Comunidad de seis a nueve miembros, hizo necesaria una adaptación del Acuerdo con España que extendiese los efectos del acuerdo de 1970 a los - nueve Estados comunitarios. Desde 1972 a 1975, se desarrolló un intenso periodo de negociación para adaptar el Acuerdo de 1970, sin que alcanzase ningún resultado.

1.975 - El Consejo de Ministros de Asuntos Exteriores de la - C.E.E. acordó, el 13 de Octubre, suspender indefinidamente las conversaciones con España, a raíz de las ejecuciones del 27 de Septiembre.

1.976 - El primer Gobierno de la Monarquía estableció una nueva acción de cara a la Comunidad Europea. El Ministro de Asuntos Exteriores, José María Areilza, visitó varios países comunitarios para el relanzamiento de las relaciones.

1.977 - El 28 de Julio, España pidió oficialmente el ingreso en la Europa Comunitaria. El Ministro de Asuntos Exteriores presentó en Bruselas la solicitud de apertura de - negociaciones para la Adhesión de España a las Comunidades Europeas.

Del 29 de Agosto hasta el 1º de Septiembre, el Presidente del Gobierno español, Adolfo Suárez, realizó una gira por cuatro países de la Comunidad: Holanda, Dinamarca, Francia e Italia. En ella planteó a sus colegas europeos la voluntad de España de integrarse en la Comunidad. El viaje, que se completó más adelante con una -

segunda gira a los restantes países comunitarios, se calificó como visita de cortesía, pero tuvo, sin embargo, un alcance político mucho más importante.

El 20 de Septiembre, los Ministros de Asuntos Exteriores de la CEE acusaron recibo a la demanda de ingreso de España en las Comunidades y encargaron a la Comisión que elaborase el Dictamen preceptivo para la integración de todo nuevo país.

1.978 - El 10 de Febrero, el Consejo de Ministros español decidió el nombramiento de Leopoldo Calvo-Sotelo Bustelo como Ministro para las Relaciones con las Comunidades Europeas. El mismo día de la toma de posesión, el nuevo Ministro se reunió en Madrid con Lorenzo Natali, Vicepresidente de la Comisión encargado de los temas de ampliación de la Comunidad.

Del 7 al 9 de Marzo, el Ministro español realizó su primera visita oficial a Bruselas. Durante la misma, el Vicepresidente Lorenzo Natali le entregó los cuestionarios que habrán de ser completados por las Autoridades españolas, como base informativa para la negociación.

El 19 de Abril, la Comisión Europea aprobó el Documento sobre "Reflexiones relativas a los problemas de Ampliación", también conocido como "Fresco". El 27 y 28 de Abril, el Presidente de la Comisión Roy Jenkins, rea lizó su primera visita oficial a España y ratificó la voluntad de la plena integración española en las Comunidades.

El 29 y 30 de Mayo, una Delegación de la Comisión de la CEE, recibió en Madrid las respuestas a los 22 cuestionarios presentados por la Comunidad sobre la situación económica y social de España.

El 30 de Octubre se reunió por primera vez, en Madrid, la Comisión Mixta Parlamento Español-Parlamento Europeo.

El 29 de Noviembre la Comisión aprobó favorablemente su Dictamen sobre la candidatura española.

Como conclusión de la primera fase de la Adhesión de España, el Consejo de Ministros de la Comunidad recibió el 19 de Diciembre, el Dictamen de la Comisión y acordó que se iniciasen las negociaciones el 5 de Febrero en Bruselas.

1.979 - El 5 de Febrero se iniciaron oficialmente en Bruselas las negociaciones para la adhesión de España a la C.E.

Desde esta fecha se han celebrado 4 conferencias negociadoras a nivel ministerial y 7 conferencias negociado ras a nivel de suplentes. La primera ronda de negociaciones, la "vue d'ensemble" está prácticamente terminada. La fecha de 1º de Enero de 1.983 es considerada como aquélla técnicamente razonable y posible para la adhesión de España a la Comunidad Europea.

1 - España y la Comunidad Europea

1.1. Grandes magnitudes

1) Superficie

La superficie española es de 504.800 $Km.^2$, lo que representa el 33% de la superficie de la Europa de los Nueve.

El emplazamiento geográfico español, además de sus aspectos estratégicos presenta tres pecualiaridades importantes.

. con la adhesión de España a la Comunidad, ésta se completará geográficamente hasta donde termina territorialmente en el Sur:

. la zona sur de Francia dejará de ser región periférica para convertiese en importante región bisagra;

. dejará de existir la discontinuidad territorial con Portugal y el resto de Europa y las zonas fronteri zas hispano-portuguesas serán susceptibles de proyectos conjuntos.

2) Población

España tiene 36,5 millones de habitantes, lo que representa el 13,7% de la población comunitaria actual. Las perspectivas para 1985 son de una población española de 39,1 millones de habitantes, es decir, igual al 14,77% de las previsiones de población en la Comunidad para el mismo año.

La estructura de la población por edades, refleja la existencia de una mayor juventud relativa de la población española, dato que es muy importante tenerlo en cuenta, no sólamente por sus efectos sociológicos sino ante la perspectiva de estancamiento de la población activa en la Comunidad a partir de 1990, la incidencia económica del peso de las clases pasivas y el factor dinámico que supone una población joven tanto para el desarrollo económico como para la reconversión industrial o agrícola.

		CEE	España
Hasta 15 años	hombres	12%	14,3%
	mujeres	11,5%	13,6%
15 a 64 años	hombres	31,4%	30,6%
	mujeres	31,8%	31,8%
más de 65 años	hombres	5,2%	4,0%
	mujeres	8,1%	5,7%

En España, la densidad media de población es de 70 habitantes por Km^2. La media comunitaria es de 169 habitantes por Km^2.

3) Niveles comparativos de desarrollo económico

P.I.B. (a precios de mercado) 1977

	Total en 1.000 Millones $ USA	Per capita en $ USA
Alemania	516,20	8.410
Bélgica	79,21	8.060
Dinamarca	46,02	9.040
ESPAÑA	115,59	3.150

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Francia	380,66	7.170
Irlanda	9,38	2.940
Grecia	26,21	2.830
Italia	196,05	3.470
Luxemburgo	2,75	7.700
Holanda	106,39	7.680
Reino Unido	244,34	4.370

El producto interior bruto per capita en España es aproximadamente inferior en un 40% a la media comunitaria.

4) <u>Indicadores de bienestar</u> (O.C.D.E. 1977)

	Consumo de proteínas animales por habitante/día	Consumo de energía por habitante (tn. equiv. petróleo)	tel. por 1000 hab.	T.V. 1000hab.
Alemania	65	4,25	344	306
Bélgica	62	4,53	300	255
Dinamarca	68	3,91	494	308
ESPAÑA	52	1,85	239	194
Francia	73	3,36	293	268
Grecia	...	1,54	238	126
Irlanda	69	2,38	150	192
Italia	51	2,46	271	213
Luxemburgo	62	10,64	442	257
Holanda	61	4,58	391	259
Reino Unido	55	3,78	394	320

1.2. Estructura del comercio exterior

En los 20 últimos años la balanza comercial española ha sufrido una profunda transformación. De 721,5 millones de dólares de importaciones en 1960, en 1979 España importó por valor de 25.480 millones de dólares, es decir, las importaciones en España se han multiplicado por 35 entre 1960 y 1979.

También han crecido mucho las exportaciones durante este periodo de tiempo pasando de 725,4 millones de dólares exportados en 1960 a 18.187 millones de dólares exportados en 1979, es decir, las exportaciones se han multiplicado por 25 veces.

Dentro de este contexto evolutivo tiene especial importancia el comercio con la C.E.E. En efecto, si en 1960 las importaciones procedentes de la Comunidad no suponían más que 181,8 millones de dólares, es decir, el 25,2% de las importaciones totales españolas, en 1979 las importaciones procedentes de la Comunidad representaron 9.116 millones de dólares, es decir, el 35,9% de las importaciones mundiales. Por lo que se refiere a las exportaciones, en 1960 las exportaciones con destino a la Comunidad Europea suponían 279,5 millones de dólares, es decir, el 38,53% de las exportaciones mundiales. En 1979 las exportaciones fueron de 8.726 millones de dólares, es decir, el 47,9% de las exportaciones mundiales de España.

Tomando como punto de referencia el último ejercicio comercial de España, es decir, la balanza comercial de

1979, se observa el elevado grado de polarización ante la Comunidad Europea del comercio exterior de España.

En materia de importaciones, en 1979 se observa lo siguiente:

- El 35,9% de las importaciones totales proceden de la Comunidad, siendo el primer proveedor Francia, seguido de la R.F.A., Italia, Reino Unido, Holanda, Benelux, Dinamarca e Irlanda;

- El 3,9% de las importaciones procede de Noruega, Suiza, Suecia y Portugal;

- Los países del Este no representan más que el 1,7% de las importaciones totales.

- EE.UU. cubre el 12,4% de las importaciones españolas;

- El conjunto del Continente Iberoamericano ocupa el 8,9% de las importaciones;

- Las importaciones del Oriente próximo, petrolíferas en su mayor parte, suponen el 19,8%.

Una polarización similar hacia la C.E. se observa en materia de exportaciones. Así, en 1979:

- El 47,9% de las exportaciones totales de España fueron a la Comunidad Europea, siendo el primer cliente Francia, seguido de Alemania, Reino Unido, Italia, Países Bajos, Benelux, Dinamarca e Irlanda.

- Noruega, Suiza, Suecia y Portugal fueron destinatarios del 5,2% de las exportaciones.

- La Europa del Este absorbió el 2,6%.

- EE.UU. representó el 7,8%.

- El Continente Iberoamericano supuso el 11,2%.

- El Oriente próximo absorbió el 7,3%.

Estos datos reflejan la fuerte interdependencia comercial que existe entre España y los Estados miembros de la C.E.E.

Evidentemente, esta interdependencia es mucho más acusada por parte de España, puesto que, porcentualmente, el peso específico de España en el comercio exterior de la C.E. es considerablemente inferior, a pesar de que España sea el 5º cliente y 10º proveedor de la Europa comunitaria.

1.3. La producción industrial española

1.3. La producción industrial española

PRODUCTO INDUSTRIAL BRUTO EN 1977, POR RAMAS DE ACTIVIDAD

(En millones de pesetas y % sobre el total)

ACTIVIDAD	PRECIOS DE 1977	% SOBRE EL TOTAL
Industrias extractivas........	85.049	3%
Alimentación..................	205.108	7%
Bebidas.......................	38.065	1,35%
Tabaco........................	12.077	0,42%
Textiles......................	118.889	4,19%
Calzado y confección..........	191.644	6,75%
Madera, corcho y muebles......	82.947	3%
Papel, editoriales e imprentas	97.388	3,43%
Cuero.........................	30.210	1,06%
Caucho........................	35.467	1,25%
Productos Químicos............	183.324	6,46%
Deriv del Petrol. y del carbón	38.451	1,35%
Productos minerales no metalicos.	119.694	4,22%
Metálicas básicas.............	124.157	4,37%
Artículos metálicos...........	116.135	4,09%
Maquinaria no eléctrica.......	54.276	1,91%
Maquinaria y material electrico	100.163	3,53%
Material de transporte........	322.063	11,35%
Fabriles inversas.............	88.250	3,11%
Construcción..................	605.020	21,3 %
Electricidad gas y agua.......	188.458	6,64%
TOTAL.........................	2.835.956	

1.4. La producción agrícola española

Síntesis panorámica de las agriculturas española, francesa, italiana y comunitaria.

1) Superficie 1977

Concepto	Unidades	ESPAÑA	FRANCIA	ITALIA	COMUNIDA
Superficie agrícola utilizada(S.A.U.) (1)	1.000 Ha.	27.576,0	32.217,0	17.481,0	92.782,
Tierras arables	"	15.658,0	17.285,0	9.177,0	46.376,
Praderas y pastos permanentes	"	6.916,0	13.100,0	5.275,0	40.855,
Cultivos permanentes	"	5.002,0	1.565,0	2.971,0	4.881,

En los datos de superficie agrícola utilizada en España, se incluyen 5.002 Has. de barbecho que no se cultivan anualmente y 5.416 Has. de pastos de aprovechamiento coyuntural.

Es preciso también tener en cuenta que el 80% del territorio español tiene un déficit pluviométrico anual medio mayor de 300 mm., que el 58% del territorio supera la cota de los 600 m. de altitud sobre el nivel del mar y que el 25% de los suelos españoles están en situación grave en cuanto a erosión.

La superficie en regadío es de 2.850.000 Has. de ellas 2.078.000 Has. son tierras arables, 573.000 Has. son cultivos permanente y 203.000 Has. son praderas permanentes.

2) Población

	ESPAÑA	FRANCIA	ITALIA	COMUNIDAD
Población activa agrícola	2.640	2.022	3.149	8.363
Porcentaje de la agrícola respecto a la activa total	19,9%	9,7%	15,9%	8,2%
Estructura socioprofesional (Estimación)				
No asalariados (Porcentaje sobre P.a.a.)	68	80	64	71
Asalariados (Porcentaje sobre P.a.a.)	32	20	36	29

3) Producción final agraria (año 1977)

	ESPAÑA	FRANCIA	ITALIA	COMUNIDAD
Producción final (Millones Pts)	1.056,2	2.083,8	1.525,1	7.987,9
Productos ganaderos	57%	45%	58%	40%
Productos agrícolas	43%	55%	42%	60%

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35. TOTAL EXPORTACION AGRARIA. PRODUCTOS MAS SIGNIFICATIVOS

Productos	Cantidades (tm) 1976	Cantidades (tm) 1977	Indice 1976 = 100	Valor (mill. ptas.) 1976	Valor (mill. ptas.) 1977	Indice 1976 = 100
Huevos	14.622	34.600	236,6	542	1.885	347,8
Flores	1.772	2.056	116,0	350	578	165,1
Patatas para consumo	148.005	250.403	169,2	1.815	3.123	172,1
Cebollas	159.104	191.642	120,5	1.166	1.604	137,6
Tomates	226.835	206.527	91,0	4.766	3.857	80,9
Judías verdes	15.665	19.744	126,0	464	638	137,5
Alcachofas	30.523	30.750	100,7	444	554	124,8
Lechugas y escarolas	17.821	15.954	89,5	270	268	99,3
Pepinos	43.307	41.403	95,6	853	905	106,1
Plátanos	3.486	171	4,9	51	3	5,9
Naranjas	984.285	922.541	93,7	10.551	11.944	113,2
Mandarinas	542.174	542.421	100,0	11.146	12.858	115,4
Limones	162.208	157.841	97,3	2.858	3.922	137,2
Uva de mesa	134.091	82.300	61,4	3.308	2.299	69,5
Almendra grano	25.920	26.227	101,2	3.928	4.629	117,8
Avellana grano	3.334	6.012	180,3	384	868	226,0
Manzana	3.557	19.279	542,0	62	625	1.088,1
Pera	24.403	10.948	44,9	296	345	116,6
Albaricoque	14.185	5.460	38,5	196	127	64,8
Melocotones	17.758	9.849	55,5	343	237	69,1
Melones	74.177	54.776	73,8	1.031	1.065	103,3
Pimentón y pimiento seco	15.239	15.210	99,8	957	1.318	137,7
Azafrán	34	25	73,5	660	1.158	175,5
Trigo	7.379	33.217	450,2	140	483	345,0
Cebada	254.328	2.814	1,1	2.236	51	2,3
Arroz	8.615	81.804	949,6	127	1.709	1.345,7
Alfalfa deshidratada	66.214	50.546	76,3	564	545	96,6
Aceite de oliva y orujo	90.387	109.449	121,1	7.862	10.564	134,4
Aceite de soja	124.521	134.112	107,7	3.533	5.698	161,3
Conservas vegetales y jugos	577.000	543.407	94,2	22.807	29.495	129,3
Vinos, mostos y vinos aromatizados	607.754	553.590	91,1	16.968	18.393	108,4
Pulpa de remolacha	212.390	215.783	101,6	1.512	1.788	118,3
Corcho bruto y cortado	21.242	24.772	116,6	736	1.029	139,8
Total productos considerados				102.926	124.565	120,6

FUENTE: Anuarios de Comercio Exterior. Dirección General de Aduanas (Ministerio de Hacienda).

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34. TOTAL IMPORTACION AGRARIA: PRODUCTOS MAS SIGNIFICATIVOS

Productos	Cantidades (tm.) 1976	Cantidades (tm.) 1977	Cantidades (tm.) Indice 1976 = 100	Valor (mill. ptas.) 1976	Valor (mill. ptas.) 1977	Valor (mill. ptas.) Indice 1976 = 100
Vacuno vivo (número de animales)	7.323	4.926	67,3	501	338	67,5
Carne de vacuno	44.212	50.172	113,5	3.637	5.155	141,7
Carne de porcino	52.504	6.915	13,2	4.516	822	18,2
Leche fresca	51.128	3.315	6,4	787	99	12,6
Leche y nata, conservadas, concentradas o azucaradas	102.732	129.882	126,4	2.539	3.229	127,2
Mantequilla	2.093	2.226	106,4	193	208	107,8
Queso y requesón	13.463	15.321	113,8	1.642	2.314	140,9
Garbanzos	31.928	28.538	89,4	1.131	1.750	154,7
Alubias	9.268	9.628	103,9	321	436	135,8
Café sin tostar	97.185	82.269	84,7	14.696	33.541	228,2
Maíz	3.540.182	4.121.644	116,4	30.207	34.098	112,9
Sorgo	416.350	567.622	136,3	3.207	4.229	131,9
Cacahuete	21.573	18.327	85,0	984	1.085	110,3
Habas de soja	1.940.573	1.835.283	94,6	28.527	39.354	138,0
Girasol	4.131	13.259	321,0	172	372	216,3
Otras semillas oleaginosas	30.880	28.589	92,6	617	791	128,2
Aceite de girasol	14.545	27.858	191,5	573	1.351	235,8
Aceite de soja	12.162	6.824	56,1	389	327	84,1
Azúcar	63.965	177.606	277,7	2.015	6.017	298,6
Cacao crudo	33.655	34.522	102,6	3.851	9.484	245,6
Harinas de carne y pescado	30.601	38.924	127,2	437	795	181,9
Torta de oleaginosas	607.741	435.995	71,7	7.688	8.515	110,8
Tabaco en rama	81.658	64.467	78,9	9.195	9.716	105,7
Cuero y pieles en bruto	101.496	110.945	109,3	8.781	12.285	139,9
Maderas en bruto y simplemente trabajadas	1.672.174	1.583.289	94,7	19.846	23.340	117,6
Algodón en bruto	90.570	72.425	80,0	8.272	9.186	111,0
Total productos considerados				154.734	208.837	135,0

FUENTE: Anuarios de Comercio Exterior. Dirección General de Aduanas (Ministerio de Hacienda).

1.5. Situación y perspectivas económicas

Después del intenso y continuado proceso de ajuste efectuado en los años 1977 y 1978, la economía española mantuvo, en la primera parte de 1979 un ritmo de expansión relativamente elevado.

Sin embargo, los acontecimientos que tuvieron lugar en los mercados mundiales del petróleo en el primer semestre de 1979, y que se agravaron considerablemente en el segundo, provocaron un empeoramiento drástico y sustancial del escenario económico internacional previsto inicialmente para dicho año. Inevitablemente, este fenómeno afectó también a la economía española, tanto de forma directa por la carestía del petróleo, como indirectamente, por la menor expansión de la demanda exterior y al igual que los demás países se revisaron las previsiones para 1979: a la baja la de crecimiento y al alza la de aumento de los precios.

La economía española cerró el año 1979 con un crecimiento entre el 1,5 y el 2%. Este ritmo de avance relativamente moderado condujo el nivel del desempleo al 10,1% de la población activa y hay que señalar unos cambios subyacentes importantes que están teniendo lugar simultáneamente en la economía.

Se observa, en primer lugar, un mejor comportamiento de la economía frente a las crecientes tensiones inflacionistas como consecuencia de la crisis energética y que se aprecia en la importante reducción del diferencial de la tasa de inflación de España respecto a la O.C.D.E. que se sitúa a finales de 1979 en 4 puntos porcentuales, frente a los casi 19,5 puntos que se registraban a finales de verano de 1977.

Este mejor comportamiento relativo de los precios frente al exterior, unido a un ligero deslizamiento de la peseta en el segundo semestre, logró mantener las exportaciones a un nivel elevado al terminar el año, a pesar de la atonía del comercio mundial.

Como segundo cambio importante hay que mencionar, además de la mejora de las posibilidades de financiación de las empresas, el hecho de que el sistema financiero en su conjunto se encuentra en una situación más equilibrada gracias a la favorable evolución del sector público en la última parte del año, al reducir considerablemente su déficit global dentro del marco de política presupuestaria prevista en el programa económico del Gobierno. En consecuencia, la expansión del crédito al sector privado se aceleró sensiblemente en el segundo semestre del año y se suavizaron las tensiones en el sistema monetario a pesar de que se moderó el ritmo de aumento de las disponibilidades líquidas.

Los principales factores de la situación económica española pueden sintetizarse así:

1) <u>Demanda y producción</u>

Los efectos depresivos directos e indirectos de la carestía del petróleo han provocado el debilitamiento de la demanda interna y la mayor parte de los indicadores de consumo privado apuntan una caída moderada del ritmo de incremento. Esta evolución corresponde sobre todo al componente no alimenticio del consumo. La inflexión negativa en la tendencia expansiva del consumo se debe, sobre todo, a la repercusión del aumento del precio del petróleo que aceleró en más de dos puntos el ritmo anual del componente no alimenticio.

Por lo que se refiere a la inversión, continúa la tónica deprimida de años anteriores aunque la inversión de bienes de equipo que había caído de forma significativa y continuada en los últimos años, parece haberse estabilizado y estar iniciando una recuperación como lo manifiesta la evolución de las exportaciones de bienes de equipo.

El sector más problemático en materia de inversión es, seguramente, el de la construcción, que en 1978 entró en una fase de recesión que se evidencia en la mayor parte de los indicadores y especialmente en el de consumo de cemento.

Por lo que respecta a la actividad industrial, cabe resaltar la existencia de subsectores con tasas negativas y otros que reflejan tasas medias anuales de crecimiento superiores al 15%.

2) Empleo

A pesar de que las cifras del año 1979 arrojan un dato de desaceleración importante respecto al aumento del ritmo de desempleo en 1978, la tasa de paro global es importante y ofrece una gran dispersión en relación al sexo, edad y sector de actividad, al margen de las discrepancias regionales, también muy importantes. Las mujeres y los jóvenes soportan tasas de paro considerablemente más elevadas, representando ya los parados menores de 24 años, el 58,6% del total (49,5% los varones y 76,9% las mujeres).

3) Precios y costos

A lo largo de 1979 se ha ido frenando, como consecuencia de la crisis energética, la línea de marcada desaceleración inflacionista iniciada en el otoño de 1977. En efecto y por lo que a los costos respecta, durante la primera mitad de 1979, la evolución de los principales factores del coste empresarial fue favorable a dicha desaceleración: una apreciación de la peseta que abarató el precio de las materias primas importadas, una menor progresión de los costes salariales que, unido al aumento de productividad redujo el avance del coste salarial unitario en forma sensible. Así pues, en este periodo cabe pensar en una cierta reconstitución de los márgenes de beneficio en buen número de sectores, incluso sí otros renglones de las cuentas de resultados han evolucionado desfavorablemente, tales como los costes financieros y generales.

En cambio, en la segunda mitad de 1979, el sector exterior jugó un papel inflacionista, tanto por la fuerte elevación de los precios medios de importación en dólares, como por la ligera depreciación de la peseta a lo largo de este periodo.

Esta evolución de los costos internos y externos a lo largo de 1979 determinó, a su vez, el perfil de comportamiento del índice de precios al consumo, sobre todo en su componente no alimenticio. El índice global se situó en un 15,5% por encima del nivel del año anterior, lo que supuso una reducción de la tasa de inflación de medio punto con respecto a la tasa registrada en 1978. Pero para valorar debidamente el comporta--

miento de la inflación interna española o subyacente hay que tener en cuenta, en primer lugar, que unos 2 ó 3 puntos de inflación de 1979 se debieron a los mayores precios del petróleo y en segundo lugar, que en este mismo periodo los países de la O.C.D.E. aceleraron significativamente su tasa de inflación, con lo que el diferencial de nuestros precios respecto a dicho conjunto de países se reducía a 4 puntos porcentuales frente a casi 19,5 puntos de Agosto de 1977.

4) Política económica

Los rasgos más importantes a destacar en la política económica puesta en práctica a lo largo de 1979 por las Autoridades españolas han sido la corrección en el comportamiento del sector público en la segunda mitad del año, la reducción considerable del déficit global, la aceleración de los gastos de inversión y la reducción importante en el ritmo de avance de los corrientes. Se ha producido una distensión en los mercados monetarios y crediticios que ha permitido una fuerte aceleración en la expansión de fondos al sector privado. Hay que señalar también la continuación y en ciertos casos el inicio de medidas de ajuste coyuntural y estructural contenidas en el programa económico del Gobierno aprobado en el mes de Agosto de 1976.

En definitiva, la economía española inició el año 1980 en una situación coyuntural de relativa atonía y ajuste al nuevo impacto energético.

5) Las perspectivas

Las perspectivas de la economía española no son ajenas al contexto internacional dentro del que se mueve.

A pesar de haberse logrado dominar los grandes datos de la economía española desde los pactos de la Moncloa de finales de 1977, la situación depresiva y recesiva de la economía mundial a la que conviene añadir los incrementos de los precios de los crudos y las incertidumbres de su evolución futura, no permiten pensar ni esperar resultados espectaculares a corto plazo.

El problema básico de la economía española es, evidentemente, la elevada tasa de desempleo que no es sino la consecuencia de deficiencias estructurales del aparato productivo español y del impacto social de toda operación de saneamiento y reestructuración.

Puede decirse, en definitiva, que existe una estrecha similitud entre la situación coyuntural de la economía europea y la situación económica de España que tiene, además, el condicionante de un elevado grado de interdependencia comercial y de unas relaciones interindustriales e intraindustriales muy desarrolladas, por lo que no pueden definirse perspectivas excesivamente autónomas sino en función del contexto internacional y fundamentalmente europeo que constituye el entorno de la economía española.

II - Los factores de impacto sobre la economía española

Dentro del contexto aquí descrito, la adhesión de España a la C.E. es contemplada por los medios económicos españoles con una mezcla de interés, beneficio y temor.

Estas reacciones derivan de dos tipos de cuestiones que se refieren tanto a la industria como a la agricultura.

Los dos tipos de cuestiones son, por una parte, los efectos directos de carácter comercial de los derechos y obligaciones que será necesario asumir y, por otra parte, los ajustes internos que será preciso llevar a cabo para adecuar la economía española al contexto de libre comercio y a la unión aduanera.

II.1. Los aspectos industriales

Son múltiples los estudios realizados por entidades públicas y privadas sobre los previsibles impactos industriales de la adhesión de España a la Comunidad Económica Europea.

Los resultados de estos análisis son, en ocasiones, contradictorios, porque no puede decirse que sectores, en su conjunto, vayan a salir perjudicados o beneficiados por el hecho de la adhesión a la Comunidad, sino que hay que traducir estos impactos a la escala de cada una de las empresas, existiendo dentro de cada sector, empresas bien dimensionadas y con productos competitivos y empresas incapaces de sostener la competencia internacional.

Por ello, no es de extrañar los resultados contradictorios de los citados estudios.

En términos generales puede decirse que, de un punto de vista industrial, la adhesión de España a la C.E. requiere una reflexión sobre los siguientes temas:

- Derechos y obligaciones de impacto empresarial.

- Los sectores en crisis.

- Los sectores del futuro.

- Los sectores neutros.

1) <u>Derechos y obligaciones</u>

De las múltiples reuniones con medios empresariales y encuestas realizadas, cabe resaltar que las principales obligaciones que preocupan al empresario industrial español, son aquellas relativas a la libre circulación de mercancías, compromisos comerciales exteriores de la Comunidad, e introducción del I.V.A.

Estos temores son, evidentemente, más fuertes en los sectores poco competitivos o con problemas internos.

En estas reacciones empresariales no hay que olvidar que la industria española se ha visto confrontada, no sólo a un proceso de ajuste derivado de la crisis energética de 1973, sino a un proceso mucho más profundo que ha ido en paralelo con la libertad política y la instauración de la democracia. En efecto, el incremento del costo salarial, los profundos efectos de la reforma fiscal, etc. están teniendo que ser absorbidos en plazos muy breves de tiempo por la empresa española y por ello les preocupa el tener que digerir también las consecuencias adicionales de una desprotección arancelaria y de un incremento de la competencia de productos comunitarios en el mercado español, muchos de los cuales tienen una gran capacidad competitiva, gozan de economías de escala y disponen de importantes avances tecnológicos.

Los temores empresariales españoles no son exclusivos de las pequeñas y medianas empresas sino también de las grandes empresas.

Una parte considerable de las grandes empresas en España es aquella de los sectores en crisis y, por lo que se refiere a la pequeña y mediana empresa son, en parte, dependientes de las demandas que generan los grandes grupos empresariales y tienen unas deficiencias internas tales como obsolescencia de su maquinaria, dificultades de acceso al crédito, falta de personal capacitado, etc. que inciden sobre sus temores.

Entre los principales temores detectados por los empresarios españoles, se encuentra el de las disfunciones que pueden generarse si los calendarios de desarme arancelario son diferenciales por listas de productos y no contemplan en paralelo el desarme de los diversos input que pesan sobre los costos del producto final.

El estudio del índice de sensbilidad arancelaria efectuada por el Ministerio de Comercio español, se refleja gráficamente en una curva de Gauss perfectamente equilibrada que demuestra la necesidad de un calendario único de desarme arancelario para todos los sectores con objeto de establecer una justa evolución de las relaciones intraindustriales.

2) <u>Sensibilidad global ante la integración en las Comunidades Europeas</u>

De acuerdo con los resultados de una primera encuesta efectuada por medios empresariales cerca de los principales subsectores de la industria española, éstos pueden clasificarse en 4 grandes grupos en función de su sensibilidad global, debiéndose advertir, no obstante, que se trata de opiniones expresadas por los propios sectores y que, por consiguiente, pueden tener importantes dosis de subjetividad.

De acuerdo con la opinión empresarial, la clasificación sería la siguiente:

- <u>Subsectores muy sensibles</u>: en todos ellos se preven graves daños y dificultades para su adaptación a la Comunidad Europea. Excluida la construcción estos subsectores representan, aproximadamente, el 20% del valor de la producción industrial española. Se trata de: petroquímica, primeras materias plásticas, fertilizantes y materias primas, electrónica e informática, especialidades farmacéuticas, vehículos industriales, de auxiliar de la automoción, muebles de madera, electrodomésticos, aparellaje eléctrico, seda y fibras sintéticas, carpintería de madera, fibras quí micas, minería del carbón, industria auxiliar naval, maquinaria para la producción de energía no eléctrica, detergentes, fabricación de azúcar y alcohol, tableros contrachapados, puertas planas, máquinas herramientas para el trabajo y la obtención de metales, maquinaria para la manipulación de fluidos, maquinaria textil, plaguicidas, materias primas farmacéuticas, maquinaria para aparellaje eléctrico, máquinas de coser, herramientas manuales, refractarios y gres, equipos eléctricos de control y regulación, metalurgia del plomo, cloro, sosa, gobeletería, piritas, minería del cobre, alfombras y tapices, cubertería, material fotográfico, lino y cáñamo, rodamientos, abrasivos, máquinas herramientas para madera, derivados del cromo, harinas de carne, artículos de deporte, camping y aire libre, óptica, cartuchería, metalurgia del estaño y relaminación.

- Subsectores sensibles: representan, aproximadamente, el 40% del valor de la producción industrial española, excluida la construcción. Se trata de una serie de sectores, que en la actualidad son menos competitivos que los comunitarios, pero que se consideran capaces de adaptarse a través de un periodo de tiempo razonablemente largo. Se trata de los productos siguientes: siderurgia, CECA, refinos de petróleo, vehículos de turismo, pastas, papel y cartón, metalurgia del cobre, géneros de puntos, aluminio, confección, textil lanero, pinturas, derivados del alambre, recuperación de chatarra, almacenistas de hierro, líneas de corte, cartón ondulado, malta y cervezas, muebles metálicos, maquinaria diversa, otros derivados orgánicos, otros derivados inorgánicos, aceros especiales, motores mecánicos, metalurgia del zinc, brandys, bisutería, motocicletas y ciclomotores, vidrio hueco, otras bebidas alcohólicas, vidrio plano, remolques y carrocerías, tubos soldados, aceros forjados, flejes en frío, tubos sin soldadura, juguetes, ascensores y montacargas. tostados y sucedáneos de café, aleaciones, margarinas y grasas concretas, acero moldeado, colorantes y pigmentos, tableros aglomerados, chocolates, sales potásicas, minería del plomo-zinc, minería del hierro, almacenes frigoríficos y productos congelados, loza y porcelana sanitaria, armas deportivas, máquinas de escribir, turrones y mazapanes, decoletage, cerámica de mesa, pastas alimenticias, aguas envasadas, cerámica artística, máquinas recreativas y de juego, harinas de pescado, cargas blancas, fluorita, grifería y valvulería, ovoproductos, electrodos y bañeras y radiadores.

- Subsectores indiferentes: Representan, sin la construcción, el 15% de la producción industrial española y son aquellos que no prevén ni ventajas ni inconvenientes de la adhesión a la C.E. Se trata de los siguientes subsectores: Sector eléctrico, cementos artificiales, maquinaria eléctrica, derivados del cemento, maquinaria agrícola, tierras cocidas, bebidas analcohólicas, material ferroviario, piedra natural, maquinaria de obras públicas y minería, conductores eléctricos, moldes y matrices, fibrocemento, tornillería, galletas, calderería, recubrimiento metálico, carpintería metálica, material aeronáutico, metales preciosos, moldes y matrices, manipulados de papel y como las propias empresas están conduciendo una reflexión que comprende tanto a los sectores en crisis como a los de futuro y los neutros.

Es evidente, en efecto, que los años que quedan de negociación y los años de la transición deben servir para, en ciertos casos, sanear los sectores problemáticos o ayudarles a bien morir y, en otros casos, prevenir las dificultades que puedan surgir o, finalmente, en otros casos, potenciar la capacidad de respuesta de los sectores más dinámicos de la empresa española.

Todo esto requiere, en una economía de libre mercado, la creación de un entorno que permita a las empresas asumir los riesgos dentro de unas perspectivas razonables y contando con un enmarcamiento legal desprovisto de tensiones demagógicas.

La industria española, por su carácter más jóven y su desarrollo en un régimen autárquico, tiene una serie de deficiencias importantes que necesitan de un plazo de tiempo largo para poder jugar en el libre comercio internacional. Por ello, y a pesar de que el mercado industrial presente y el potencial futuro sean unos de los principales temas y ventajas económicas que la Comunidad piensa sacar de la adhesión de España a la C.E.E., la postura negociadora española es la de establecer un calendario de transición largo entre 5 y 10 años para la liberalización total del comercio industrial hispano-comunitario, con objeto de proceder a una adecuación no traumática de las economías industriales.

Por lo que se refiere a los sectores en crisis, la concertación hispanocomunitaria ya se ha iniciado, y puede decirse, que en la práctica se está definiendo un horizonte común para aquellos sectores que, por estar en crisis tanto en España como en la Comunidad Europea, por razones ajenas a ambos, requieren una concertación en los objetivos y soluciones prácticas basadas en las capacidades y necesidades futuras.

Es, también, evidente que para los llamados sectores de futuro, si dentro de unos años el territorio económico español estará integrado dentro del comunitario, no pueden definirse hoy objetivos de desarrollo industrial, sin contar con la realidad de la aportación española, no solamente medida en términos de capacidad de compra, sino también en términos de capacidad de producción.

II.2. Los aspectos agrícolas

Las continuas manifestaciones de ciertas organizaciones agrícolas a nivel comunitario, especialmente francesas, pueden transmitir la idea de que la adhesión de España a la C.E. en el terreno agrícola, no sólo provocará daños irreparables a ciertas agriculturas mediterráneas, sino que también será un beneficio completo para la agricultura española.

Conviene matizar este sentir bastante generalizado ya que los impactos previsibles sobre la agricultura española pueden ser más importantes de lo que aparentemente se cree y que los impactos previsibles sobre la agricultura comunitaria son, seguramente inferiores a las declaraciones de las organizaciones agrícolas.

En efecto, podemos considerar que existen 3 categorías de productos agrícolas en esta negociación:

- Aquellos que, presumiblemente, producirán un impacto negativo sobre la Comunidad Europea.

- Aquellos que, probablemente, ejercerán un impacto negativo sobre la agricultura española.

- Aquellos, teóricamente neutros, pero con una carga financiera importante.

Por lo que se refiere a los primeros, se trata, evidentemente, de los frutos y hortalizas y el vino. En base a estos productos se desarrollan en el Sur de Francia, campañas demagógicas promovidas por organizaciones agrícolas y partidos políticos interesados en alimentar posibles votos en próximos comicios. Es evidente que cada economía tiene sus puntos fuertes. Son aquéllos que precisamente generan la riqueza del país. En este sentido, la producción española de frutos y hortalizas, es un elemento importante en el producto agrícola español y en la balanza comercial. Sin embargo, hay que situar dentro de un contexto de racionalidad los impactos previsibles de la adhesión de España a la C.E. En efecto, los temores se expresan, habitualmente, en términos de potencialidad y no de producción actual y lo que es preciso saber es si esas potencialidades de que se habla son factibles o son meramente resultado de un análisis de laboratorio.

Las potencialidades de que se habla en materia de vino, son altamente improbables por la sencilla razón de que si fuera posible en España regar los viñedos para producir mayor rendimiento por Ha. y por consiguiente, una producción global superior, dichas tierras, por su coste elevado, no se dedicarían a la producción de vino sino a, por ejemplo, pastos de los que carece la ganadería española.

Por otra parte, es preciso considerar que cuando se habla de incremento de los grados de autoaprovisionamiento también existe una gran diferencia entre los índices de consumo de productos agrícolas frescos en los distintos países de la C.E. y que importantes producciones mediterráneas proceden de cultivos de invernadero en el Norte de Europa con elevados costos energéticos.

Con unas economías en crisis que provocan el empobrecimientocolectivo de las poblaciones el abaratar los consumos de ciertos productos no es un impacto negativo, sino positivo para estas economías máxime cuando a través de plazos de transición y de operaciones de reconversión adecuadas no tienen por qué existir problemas a largo plazo. Además, en términos económicos el impacto de la competencia solo se ejerce sobre una parte porcentual mínima del producto interior bruto, ya que las producciones que provocan la ira de los agricultores franceses no vienen a representar más que el 1% del P.I.B. francés.

- Por lo que se refiere a los productos con impacto negativo sobre España, éstos son aquellos productos en los que los rendimientos por Ha. son más bajos en España y los precios más elevados que la media comunitaria. Se trata de la leche y productos lácteos, cereales, remolacha azucarera y carne. También el sector de brandys contempla con cierto temor la competencia del coñac francés . Todos estos sectores son importantes para la economía agrícola española y tienen el agravante de encontrarse concentrados en ciertas regiones de desarrollo económico inferior, como, por ejemplo, Extremadura, Galicia, etc.

- Por lo que se refiere a los productos neutros y con carga financiera, se trata, esencialmente, de la organización del mercado de las materias grasas. España dispone de una importante producción de aceite de oliva y la problemática no concierne a aspectos de competencia entre la producción española, italiana o francesa, sino que concierne a aspectos financieros, ya que, de acuerdo con las actuales reglamentaciones comunitarias existiría un costo financiero adicional el primar la producción española para mantener una relación razonable entre los precios al consumidor del aceite de oliva y de los otros aceites vegetales, sin cuya relación se abandonaría el consumo del aceite de oliva.

  Los cálculos a este respecto han sido contradictorios y la solución que la Comunidad pensaba introducir consistía en percibir una tasa sobre los aceites de grano y vegetal de forma que con dicha tasa se financiase el costo adicional de la organización del mercado de materias grasas.

Puede decirse, en definitiva, que en materia agrícola, los impactos positivos y negativos son muy recíprocos. A España se le abrirán nuevas posibilidades exportadoras y también la Comunidad podrá beneficiar de un nuevo e importante mercado para productos que son excedentarios.

Fuera de este contexto estrictamente hispanocomunitario, existen otros problemas importantes que la negociación deberá resolver y se refieren al impacto sobre terceros países, fundamentalmente mediterráneos, de la extensión a España de la libre circulación de mercancías agrícolas y del principio de la preferencia comunitaria.

CONCLUSIONES

La adhesión de España a la C.E. es, en términos económicos, la resultante de un análisis realista de la confirmación de la interdependencia existente y de los intereses comunes.

Tanto en términos industriales como agrícola, las ventajas son recíprocas y los problemas cuya existencia se comprueba hoy no tienen por qué seguir siendo problemas si entendemos que tanto el periodo de negociación como el periodo de transición debe ser utilizado para efectuar un esfuerzo conjunto y no solamente unilateral de adecuación a las futuras perspectivas.

Es evidente que una Comunidad a Doce es distinta que una Comunidad a Seis y distinta de una Comunidad a Nueve, pero la historia no está hecha de posiciones estáticas, sino que es historia, precisamente, en razón de la evolución dinámica de las situaciones. La ampliación de la Comunidad Europea es un reto para la Comunidad, no por la competencia y los problemas que le acarrea la adhesión de nuevos miembros, sino porque es la ocasión de demostrar su voluntad política de ir más lejos en la integración económica, y de profundizar unas realizaciones comunitarias que sin el factor de sobresalto de la ampliación posiblemente se irían postergando en la espera de tiempos mejores, cuando, al contrario, y siguiendo a Keynes, es en épocas de crisis cuando hay que invertir.

Pero la ampliación de la Comunidad Europea es también un reto para los países candidatos . Reto político, al no haber podido asumir desde el comienzo el proceso de integración en razón de los impedimentos políticos de situaciones dictatoriales existentes en los momentos en los que la Comunidad nació. Es, por consiguiente, un primer reto político de consolidación de un sistema de libertad y democracia. Pero es, también, un reto económico ya que, por lo menos en España, la situación política condujo a un aislamiento económico y régimen de autarquía en los esquemas de desarrollo y el reto económico consiste en la modernización y adaptación al libre comercio internacional de unas estructuras industriales y agrícolas concebidas en términos de economía cerrada y altos niveles de protección. Con o sin la adhesión de España a la C.E. ese reto económico debía ser asumido para no hacer caer en la obsolescencia nuestras estructuras actuales. La adhesión a la C.E. a pesar de los problemas de competencia que generará sobre el mercado español, es un revulsivo y horizonte en función del cual podamos conseguir el necesario saneamiento de nuestras estructuras industriales y agrícolas en función del cual podamos definir ese horizonte económico que con esfuerzo tenemos que lograr para sobrepasar la década de recesión en la que vivimos y que solo podremos alcanzar a través de una solidaridad entre los Estados, puesto que la magnitud de los problemas trasciende las capacidades de solución y financieras de cada uno de los Estados europeos tomados individualmente.

Es evidente que de un punto de vista industrial y agrícola, habrá que hacer frente a aprofundas mutaciones en el sentido de la complementariedad o de la división internacional del trabajo, pero ese planteamiento es, en definitiva, benéfico para ambas partes puesto que permitirá preparar para mañana lazos de interdependencia no problemáticos que refuercen el conjunto.

2

ECONOMIC POLICIES OF THE COMMON MARKET

Edited by

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2 European industrial policies and competition

ALEXIS P. JACQUEMIN

BACKGROUND

It is a well-known fact that the creation of the Common Market and the accompanying removal of the diverse obstacles to competition—whether they were tariffs, import quotas, or the right of establishment—have produced a profound change in European states. These countries have been confronted with a mass of liberalising forces which were unknown since the moves towards free trade of the years 1860–70. For instance, by 1969, intra-EC exports had increased to 48 per cent of the members' total exports, compared to 32 per cent in 1958, while exports by 'the Six' to non-EC nations rose by a multiple of 2.5.

New attitudes have appeared which favour changes in the structures of economic sectors and businesses, the launching of new industrial initiatives and the acceptance of an automatic and continuous process of adjustment to changing national and international market conditions, on the demand side and on the supply side. This acceptance was facilitated both by the economic situation and by the policies of the European Authorities. On the one hand, the high levels of demand and the rates of growth of the European economies reduced the social costs of this process of adjustment. On the other hand, European competition policy, based on Article 85 of the Treaty of Rome, which has effectively attacked cartel agreements (intended to restore the old protective walls of national markets), has consequently sustained the dynamism of an enlarged unified market against private restrictive practices.

Nevertheless, this new climate has shown itself to be delicate, and it has been shaken by the economic crisis and its attendant social consequences.

In the year 1975 there was a reduction of 2.5 per cent in the EEC gross

TABLE 2.1 General indices of industrial production (1970 = 100)

	1968	*1969*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*
Netherlands	82	91	106	111	118	122	116	125
Ireland	89	95	104	108	119	122	115	126
France	85	94	106	112	119	123	114	124
Denmark	87	97	101	107	111	110	106	117
W. Germany	84	94	102	106	114	112	105	113
Italy	91	94	100	104	114	119	108	121
Belgium	88	97	102	109	116	121	109	119
U.K.	96	99	100	102	111	108	103	104
Luxembourg	88	100	99	103	115	119	93	99
EEC 9	87	95	102	107	115	115	108	115
U.S.A.	99	104	100	108	118	117	107	–

Source: Eurostat, *Basic Statistics*.

national product (expressed in real terms). This decrease also appears in the indices of industrial production: Table 2.1 shows that, for the nine EEC countries, the index has declined from 115 in 1974 to 108 in 1975, the level of 1973 being caught up only in 1976. Examination of the average annual rates of growth (1973–6) for individual industries, although revealing wide divergences between sectors, suggests that in almost all countries (except Italy), textile industry and clothing, oil refining, manufacture of leather and leather products, manufacture of paper and paper products, printing, publishing and allied industries, have all sharply declined (Table 2.2).

Such an evolution is linked with various factors whose respective influence is hard to disentangle. A first aspect is expressed by computing the changes in labour cost and productivity for the Member States.[1] Table 2.3 shows that there has been an important increase of labour-productivity for all the countries considered, with a slow-down in 1974–5; the lowest rates are those of Italy (5.2 per cent from 1966 to 1976) and the United Kingdom (3.9 per cent from 1966 to 1976). But on the other hand, the growth of labour cost has been proportionally more important, the highest growth occurring in 1974–5, with Italy recording an increase of 22.9 per cent. It is therefore not surprising that unit labour cost has risen sharply in these countries.

A comparison between the evolution of the 'average' unit labour cost

TABLE 2.2 Average annual rate of growth of manufacturing industries (1973–6)

	Netherlands	Italy	France	Ireland	West Germany	Belgium	U.K.	Luxembourg	EEC 9
Beverages	7.0	−0.8	–	0.4	1.8	1.2	3.1	2.7	–
Tobacco	−0.8	2.2	5.6	–	2.1	0.6	−1.6	(1)	1.2
Textiles	−6.4	2.5	−1.9	1.9	0.1	−2.3	−3.8	–	−0.6
Clothing	−10.3	4.6	–	–	−1.7	0.3	−1.1	−8.4	−0.6
Leather	−10.9	5.2	−1.7	−2.8	0.1	−2.9	−0.8	–	0.8
Wood and wooden furniture	–	4.5	–	–	−0.6	4.7	−5.1	−0.7	–
Paper and paper products	−1.1	−0.2	−0.8	−8.2	−0.3	−0.05	−5.3	–	−1.2
Printing	−0.07	0.3	−1.7	–	−1.4	–	−3.6	−1.5	−1.9
Manufacture of rubber	0.2	1.4	0.7	–	−0.3	7.4	0.2	1.8	0.2
Chemicals	3.8	4.3	1.6	10.6	2.1	0	2.2	1.1	2.2
Oil refining	−2.3	−5.2	−2.7	–	−2.9	−9.8	−4.2	–	−3.3
Non-metallic	0.4	1.3	1.0	–	−2.1	−0.6	−3.8	−1.6	−1.0
Mineral products	–	4.3	0.3	–	−1.9	5.7	−4.3	–	0.7
Non-ferrous metal	–	–	–	–	−1.8	6.2	−3.1	5.8	–
Electrical and electronic machinery	2.7	1.5	6.5	–	0.8	3.0	−4.5	–	1.2
Non-electrical machinery	2.0	3.5	8.6	−3.1	−1.3	4.1	−1.6	–	2.4
Transport equipment	−1.4	−0.03	−0.2	−10.3	1.7	5.0	−3.0	–	−1.1

Source: Eurostat, *Basic Statistics*

TABLE 2.3 Labour cost and productivity changes in the manufacturing sector (*average annual changes, %*)

	Labour cost				*Productivity*			
	1966–76	*1970–3*	*1974–5*	*1976*	*1966–76*	*1970–3*	*1974–5*	*1976*
Belgium	12.8	13.8	21.3	14.5	5.8	6.1	3.6	9.5
West Germany	8.8	11.1	9.9	6.7	5.0	5.0	3.5	7.9
France	11.1	11.3	18.4	14.1	5.4	6.5	−1.1	9.4
Netherlands	13.3	14.5	16.5	10.4	7.1	7.5	3.1	10.4
Italy	13.8	18.6	23.4	22.8	5.2	6.7	0.1	6.3
U.K.	10.7	9.8	21.7	16.7	4.0	4.2	−1.1	3.2
United States	6.4	6.2	8.7	8.0	2.8	4.0	2.3	4.6
Japan	15.1	17.4	20.3	11.3	9.5	10.3	0.6	11.7

Source: I.R.E.S., Université de Louvain, 1977.

for all OECD countries and the evolution of this index for the main European countries also indicates that the 'competitiveness' of the Member States is dying down: unit labour cost in European countries increased much more quickly, the most resistant being West Germany, Belgium and the Netherlands.[2] But as these last countries have experienced an appreciation of their currency, the inverse being true for Italy and the United Kingdom, a comparison taking into account the role of the effective exchange rates shows a convergent movement.

Secondly, the energy crisis and the increased prices of crude oil, at the end of 1973, greatly affected production costs and underlined European dependence on imported energy (around 60 per cent in 1975). More generally, there is the problem of the change in relative prices of primary commodities *vis-à-vis* manufactured goods: the prices of natural resources tend to increase relative to the prices of manufactured goods, creating difficulties for the balance of payments of European countries.

Thirdly, European domestic demand, even for consumer durable goods, has stagnated, while new productive capacity in developing countries is appearing and competition from the United States and Japan[3] is increasing. The existence of a structural demand gap for private goods in the European economies may not be excluded in the future, a partial compensation coming from public expenditure. Hence a high growth rate of demand would be expected, not from the old industrialised countries, but from the Third World countries: in 1976, 36 per cent of European exports were directed towards these countries and this figure is expected to grow by 10 per cent in 1978, as compared with 7 per cent in the case of exports to the other industrialised countries.

Finally, the development of the various European sectors shows a general pattern whose implications are far from being evident for the future of the Community: the employment in industry is steadily decreasing in relative terms.[4] This phenomenon of *de-industrialisation* is also visible in the gross domestic product by sector (see Table 2.4), but to a lesser extent because of productivity growth.

Hence, after the shift from agriculture to industry, there is a shift from industry to the service/government sector. Such evidence could be regarded as showing a long-run structural feature of advanced industrial countries reaching a certain level of 'industrial maturity', and as implying necessary readjustments in the international context as well as in the domestic economies. It would then be necessary to wonder what the growth potential of these economies will be, given the dynamic role of the manufacturing sector compared with the service sector; what the effects will be on the balance of payments of these nations which are becoming less able to sell enough of their products abroad to pay for their import requirements; and what the consequences will be for safeguarding a socially acceptable level of employment.[5]

Today, the reactions of the various economic agents are still uncertain.

At the level of *national governments*, one notes an increasing degree of interference in national productive activity and in international trade which have led to a renaissance of diverse forms of protectionism.

At the level of *national enterprises*, oligopolistic structures become evident through the increase in industrial concentration.[6] These structures gradually become embedded in national and international markets just as the more traditional types of international cartels tend to lose their efficiency. Also, in order to reduce the uncertainty of the market, there is an increase in collusion between these large businesses and the public authorities. This quest for short-term security is evident from the multitude of planning agreements between state and private enterprises, and assistance for sectors and companies in difficulties which cannot be expected to cope with national, Community and international competition.

At the level of *multinational enterprises*, there is the danger of a new generation of European oligopolistic multinationals which are neither responsive to national governments nor to the EEC institutions. In the face of the crisis, these multinationals show themselves to be capable of reducing the instability of their activities—but at the price of destabilising their local environment by transferring risks to the local markets where they are operating.[7]

TABLE 2.4 Gross domestic product by sector

		Denmark	W. Germany	France	Ireland	Italy	Netherlands	Belgium	Luxembourg	U.K.
Agriculture, etc.	1973	7.7	2.8	7.4	16.5	8.5	6.0	3.7	4.0	2.6
	1974	7.9	2.7	5.7	14.0	8.2	4.8	2.8	3.3	2.7
	1975	7.1	2.7	5.1	—	8.5	5.2	2.8	3.5	2.5
Industry (including building)	1973	36.7	52.6	41.9	28.1	41.5	40.4	40.7	52.2	38.2
	1974	33.3	51.5	37.3	29.7	42.7	41.1	41.3	57.8	37.6
	1975	34.8	49.1	37.1	—	41.0	39.0	39.6	48.9	36.6
Services	1973	55.6	44.6	50.7	55.4	50.0	53.6	56.6	43.8	59.2
	1974	55.8	45.8	56.9	56.3	49.1	54.1	55.9	38.9	59.7
	1975	55.1	48.2	57.8	—	0.5	55.8	58.6	47.6	61.0

Source: *Bulletin Mensuel des Statistiques des Nations Unies*, Oct. 1977; and *Etudes Economiques*: OCDE, June 1977.

Thus today there is a shifting balance between contradictory tendencies—especially between deliberate control of European economies on the one hand, and the maintenance of competition as the principle motor of economic activity on the other.

In effect, the two movements may be observed. On the one hand, there is in many circles a desire to maintain the decentralised forces of a competitive economic system which assure a constant adaptation to changes in needs, techniques and general economic conditions and which assure the maintenance of risk-taking and industrial dynamism. On the other hand, there is a growing desire—equally among national governments, private businesses and workers—to avoid the ups-and-downs of economic activity and to reduce uncertainty through direct collaboration between the private and public sectors.

It would seem to be unrealistic to expect a clear choice to be made between these contradictory tendencies during the coming years. A realistic attitude towards European industry should rather move in the following ways. One would be to seek means of limiting the number of sectors in which competition is obstructed; equally, the duration of such obstruction should be reduced. The other way would be to coordinate, at the level of the Community—for those sectors where for economic or social reasons such obstruction is inevitable—national measures of intervention and planning agreements.

Thus it is with the preceding considerations in mind that we shall examine successively the main types of industrial policy and their limits (Section I), the evolution which may be observed in European industrial policy (Section II) and, finally, some perspectives for the future (Section III).

I MARKET AND DIRECTIVE INDUSTRIAL POLICIES

The main characteristics of an industrial policy is that it has to specify and solve the problems of structural change in the economy. Its task is to create optimum conditions for the necessary structural transformations to be carried out. The need for transformation arises from changes occuring in the process of industrial development: technological changes, shifts in demand, maturing and declining industries, and so on. The required adaptations take time, so that industrial policy is essentially long-term. Beyond this background, there are divergent views whether they concern aims or the means used.

Concerning aims, some would see them as the instruments intended to allow competition to function completely efficiently. According to L. Stoleru, industrial policy may be defined as being 'a policy of coordinating the effects of the public authorities in the direction of maximising the virtues of a competitive economy'.[8] Similarly, Toulemon and Flory assume that with regard to industrial policy, the role of the public authorities is to establish 'the framework within which the activities of producers and the choice of consumers are facilitated'.[9]

Others, on the contrary, believe that industrial policy should have a more voluntarist character. It would thus be seen as being a number of means used by the public authorities to channel industrial activity in the framework of a general economic programme towards a number of pre-established objectives.[10]

The distinction which has just been mentioned regarding the aims could be extended to the means as well.

I. 1 COMPETITION-ORIENTATED INDUSTRIAL POLICY

I. 1.1 If we accept the concept whereby industrial policy is intended to free the potentialities of the decentralised economy, its role can be seen as creating an environment that facilitates the use of the best of the forces of competition. Equally, a related automatic and continuous process of industrial adjustment will be facilitated.

Concerning industrial concentration, this competition policy favour industrial regroupings or cooperation between small and average-sized enterprises, in such a way that they grow to the optimum size for being effective partners in the market.

Regarding barriers to entry into a sector, this policy removes artificial obstacles such as differences of technical norms, discriminating fiscal charges, public markets divided into branches, and conditions of unequal financing. Also, concerning the differentiation of products, efforts should be made to improve information and to protect the consumer.

In general, it is important to reinforce the active industrialist who alone can give life to a competitive enterprise if the economic and social climate allows it. Such a system presupposes an infrastructure of quality, a professionally adapted manual labour force, accessibility of capital and credit, and a fiscal system which is not opposed to economic rationality.

This tendency, which is opposed to dirigism, does not on the contrary exclude some state action and the use of strategy on the part of the enterprises. It does not refuse the requirements of the competitive system, even if it is admitted that they must sometimes be moderated. Thus, regarding French industrial policy, H. de L'Estoile[11] speaks of a 'free muscled exchange'. But with certain reservations, industrial policy that we shall call a 'market' one rests soundly on the constraints of the competitive process. Private enterprises, by their investment and production decisions, remain the main protagonists in industrial evolution. In turn, public authorities facilitate efficient decisions and ensure an environment propitious to healthy functioning of the decentralised system.

I. 1.2 The limits of this policy are numerous and it is enough to distinguish between two types, one at the domestic level, the other at the foreign level.

At the domestic level, the market economy is beset with important failures that explain the desire for a more interventionist industrial policy. Let us enumerate the principal failures:

The regional imbalances and differences in development are less and less accepted, but could be accentuated by the free circulation of people, assets and capital. As shown by J. Meade,[12] if different citizens start with different endowments of factors of production, then the forces of competition can lead to greater inequalities in the absence of any governmental intervention to make the gainers compensate the losers.

The social costs, combined with the mobility of resources and especially of employment, are often considered to be intolerable to such a degree that only the mediation of the State is capable of safeguarding a minimum of organised institutionalised mobility.

The responsibility for the degradation of the environment is not spontaneously accepted by industry, but represents an increasing cost for society.

Linked with the preceding phenomenon, the assets and services of the community that concern urban development, green spaces, or security, are not taken into account by the market economy.

The dynamics of the system presuppose a permanent renewal of industrial services, which implies an elastic supply of business talent, when in effect at the moment one has the impression that business initiative is on the decline. Thus, firms die and are not replaced,[13] and this situation could threaten the existence of competitive self-regulation. One of the essential causes of this temporary failure is the particularly high risk of entering a market as a result of the multiple

uncertainties that affect the capital and money markets, and those for raw materials, and labour.

The new technological industries are characterised by a high degree of research; increasing returns of scale and other considerations encourage a regrouping and concentration of means that threaten the competitive system.

All these aspects are reasons why the price system may fail to emit correct signals on economic scarcity and required industrial adaptation, such failures being magnified in an inflationary context.[14] Then, resource allocation processes, to be efficiently carried out, must be based upon non-price signals, alternative market mechanisms, or non-market institutions replacing the market.

Even if correct signals are emitted, economic agents could not react to them hoping to gain security in the short run. This sluggishness of reaction could be worsened by a decrease of the supply elasticity of entrepreneurial talent and of its transferability, as previously mentioned.

At the foreign level, the limits of the international division of labour present a threat. This division is confronted with the advantages of a minimum level of national autonomy below which national security would be threatened. The oil crisis, the tendency of the countries producing raw materials to reduce their supply and to transform the materials at home, the hazy character of the industrial list of initial and anticipated comparative advantages, the necessary structural adjustments and the transformation of entire sectors—all these make less realistic, at least at the socio-political level, a system that would leave to market forces the solution of such problems. Thus the interplay of these forces is henceforth insufficient to achieve the objectives of industrial development in an acceptable period of time or without intolerable social tensions.

More specifically, with regard to the traditional aim of free exchange that consists of specialisation in order to get the most out of trade and comparative advantages, two other goals become obvious: first, a political objective of independence, which aims at avoiding the inconveniences of a loss of autonomy of action as a result of being too dependent on foreign supply and demand; second, a social objective of security, that seeks to avoid the influence of specialisation bringing unemployment, worsening working conditions, and causing employment upheavals through economic changes (implying geographical and sectoral migration).

In the light of these multiple criteria and in a dynamic perspective, the acceptance of the model of free exchange and of the Pareto-optimality character of its implications is much less evident. As long as there exists no mechanism to ensure that world cooperation—leading to a maximisation of the common surplus—is possible and would be stable, in as far as this solution also gives more to certain partners and is not reinforced by systems of international redistribution of profits (side-payments) affecting transfer from the more favoured to the less favoured, it is understandable that States hesitate to adopt strategies of specialisation leading to the maximum degree of international openness. They could be tempted to adopt individual policies of the 'minimax' type—at the risk of these latter leading to results which could be fatal for the collective equilibrium.[15]

I. 2 DIRECTIVE INDUSTRIAL POLICY

I. 2.1 It is clear that there exists a place nowadays for an industrial policy of intervention which does not restrict itself to giving to the market economy its full effectiveness, but which sets a certain number of priority objectives for the industrial activity in the private and public sectors.

The means used to achieve this are many and can be coercive in nature or able to stimulate changes. In the first case, preference is given to systems of quotas, to rationing, or to imposed prices. In the second case, one attempts to make profitable the adoption by the economic agents concerned of the policies desired by the public authorities. Thus one uses subsidies, allowances, or relief from taxation. In particular, if the government is more neutral toward risk than the private investor, it subsidises the projects in order to further the level of investment. Such neutrality could be justified as long as the total cost of risk-bearing of an independent project is made negligible by the spreading of the risk over the entire population of taxpayers. It is here also that the various forms of contracts for restructuring and encouraging business management come in, ensuring that, in exchange for the subsidies transferred by the public authorities, the enterprises agree to contribute to the achievement of the sectoral, technological and regional objectives of the Plan. For example, the enterprise has to realise investments enabling it to increase its production capacity or to maintain the level of employment; and, in exchange, it benefits from budgetary credits; or an organ of the State (Société Nationale d'Investissement in Belgium, National Enterprise Board in Great Britain, Institut de Développement Industriel in France, GEPI, IRI and ENI in Italy. . . .) will take a direct participation in the firm.

This brings us to a second level: the State, whether in collaboration with the private sector or alone, takes on productive activities, through the medium of its public enterprises or mixed enterprises; it can thus influence industrial structures directly. Apart from the sectors where the competition of the private sector is no longer applicable because the increase in production leads to increasing returns and subsequently to the formation of a monopoly, its field of action can extend to the production of strategic goods and services whose importance for the national economy is such that it cannot remain in the hands of the private sector (money, credits, energy). Besides, the sectors normally reserved for private enterprise can equally become a potential field for State participation to assure a better sectoral division of investment. In particular, this concerns investments of which the economic risk is too big for the private sector alone, or, even more, investments that have great technical importance for the whole economy (pace-making sectors).

With this in view, most West European governments have introduced new public enterprises since the late 1960s which are devoted to the management of industry. In general, these second-generation public enterprises contrast with earlier nationalisations in that governments consciously sought participation in viable and competitive rather than in failing concerns.[16]

I. 2.2 But the voluntarist industrial policy presents, in its turn, certain limits which can be summed up by the following dilemma: should one submit to the demands of efficiency generally linked with international conditions of competition and risk losing the means of control linked with the responsibility of public interest; or should one fix public objectives with the danger of misguided actions or the creation of big 'white elephants'?

More precisely, the choices for industrial redevelopment are not self-evident and—apart from some general themes such as the move towards products of great value-added, depending on an advanced technology and incorporating little energy—exact criteria are lacking.

As Malinvaud stated during the Paris colloquium on industrial redevelopment, 'You cannot expect, in any particular case, that economic studies will give incontestable indications as to which branches should be developed.'[17]

Difficulties can also arise at the level of large-scale projects. Thus, at all times, the European public authorities have encouraged large enterprises as a means of responding to the challenge of America or even of Japan. It is only recently that scepticism has appeared on the subject of the link between the size of firms and the quality of their performance.

Indeed, as far as the effects of large European size is concerned, no evidence of increasing profit, faster growth, or more intensive research activities, can be found to support the 'size mystique' that has prevailed in Europe.[18]

Equally, public authorities are too often confined to the role of giving social assistance to enterprises in difficulty. An obvious case is the conflict that arose in 1967 in Belgium between the State on the one side and the National Association of Industrial Credit (SNCI) on the other. This organisation wished, according to its initial responsibility, to give help to new industrial initiatives; instead of which it was forced to support condemned enterprises. Finally the government forced on the SNCI the conclusion of a convention (9 May 1968) allowing the granting of credits to enterprises in difficulty.

Finally, public industrial initiative can become a kind of corporate system, with nomination of employees for political reasons, lacking a sense of responsibility and initiative, and not subject to the discipline of competition and of profitability, (public enterprises which are badly managed do not usually disappear by way of the Bankruptcy Courts).

However, these reservations do not remove the need to elaborate a new industrial policy by which public and private initiatives meet and collaborate, with the aim of making socially acceptable the inevitable industrial changes.

II EVOLUTION OF EUROPEAN INDUSTRIAL POLICY

Most of the general problems which have just been mentioned exist at the European level, and certain aspects, such as those relative to pace-making sectors, are at first sight more obvious in the framework of the Community. The Commission of the EEC stated in its ninth general report: 'as regards industrial policy we must state that the list of decisions taken at Community level during the year 1975 is still as small as before, in spite of the development of an economic situation which would seem logically to call for the reinforcement of European cooperation.'

In this section, we shall briefly describe the origins of the European Industrial Policy and the passage of a 'European Industrial Market Policy' to a 'European Industrial Policy of Intervention'.

II. 1 While the Treaty of Rome explicitly prescribes the situation relative to common policies in the case of agriculture, competition, employment, commerce, transport, and fiscal harmonisation, there is no reference to industrial policy. However, the two sectoral treaties of CECA and Euratom indicate, without expressly stating it, the desire to create an industrial policy. In entrusting to the High Authority powers of supranational management, the Member States have permitted creation of a common strategy in the basic fields which, during the 1950s, meant coal and steel.

Thus, the coal crisis which arose in 1958 was solved by a systematic conversion plan which avoided the principal social tensions that would no doubt have been produced if matters had been left to market forces. Policy for the steel industry had the objective of reducing the economic imbalance between supply and demand, encouraging the reconstruction and modernisation of enterprises, as well as promoting agreements for self-limitation between European, American and Japanese producers. But some observers could also argue that such cooperation has reduced pressures for rationalisation and specialisation of these activities, making the present crisis worse.

The Treaty instituting the European Atomic Energy Community was above all intended to develop research and encourage industrial initiative in the nuclear field. According to Article 4, 'the Commission has the responsibility of promoting and facilitating nuclear research in the Member States and of complementing them by research and training programmes undertaken by the Community'. This second Industrial Treaty has not, however, had the same success as the previous one. It was concerned with the promotion of a common programme, either by direct action such as research undertaken in the 'Common Research Centre' (of which the institutions are in Ispra, Mol, Karlsruhe and Petten), or by indirect action in the form of contracts specially aimed at promoting coordination between research centres and national programmes. In fact, these efforts have not really succeeded. On the one hand, the Member States have, for the greater part, preferred to pursue a national policy and to maintain market divisions, resulting in the multiplication of non-coordinated and even competitive programmes. On the other hand, the common programme itself has not given satisfactory results: most of the research has remained at a pre-industrial stage and the actual needs of industry have had to be supplied by American technology, without even attaining a comparable level of efficiency. Besides, the Community always depends upon foreign sources for its supply of enriched uranium. The Commission in its report of 1968 was forced to conclude: 'The Treaty which created the European Community of Atomic Energy aimed at creating conditions favourable to the development of a powerful nuclear industry. After ten years, we must admit that it has only partially attained this objective.'

In the more general framework of the EEC, the first manifestations of an industrial policy go back to 1964, when the idea of 'a medium-term economic programme' was introduced. Since the publication of a second programme, prepared in 1965, and covering the period 1968–70, the Commission has insisted on the necessity of public intervention to improve the industrial structures of the Community and has set up a Directorate for Industrial Policy which is responsible for the preparation of orientations for the common industrial policy and the coordination of the intervention of the Member States. Besides this, sectoral cooperation with the industrialists, trade unions, and national experts are occasionally organised in various sectors, such as aeronautics, shipbuilding, data-processing, paper, and textiles.

About 1970 the necessity of defining a general industrial policy was clearly and publicly asserted: such is the aim of the Memorandum of the Commission to the Council, entitled *The Industrial Policy of the Community*, EEC Commission, Brussels, 1970. As the authors stated:

> Twelve years after its foundation, whilst the period of transition that led to the liberalisation of the common market of goods has just been completed, the Community approaches a new phase of its construction. The preparation of a common policy for industrial development favouring the constitution of what one could call a European industrial framework becomes indispensable to assure at the same time the irreversible bases for the economic, and soon the political, unity of Western Europe, the pursuance of economic expansion, and a reasonable degree of technological autonomy as regards its main external partners (p. 7).

But straight away the authors came up against the actual definition of this policy. They chose a particularly non-interventionist approach: 'to allow industry to derive the maximum advantages from the existence and size of the 'Common Market' (p. 9). The ways they hoped to establish this industrial policy included the following:

> The achievement of a unified market by the elimination of technical obstacles and the opening-up of the public sectors and the abolition of fiscal frontiers.

> The unification of the judicial, fiscal and financial laws.
>
> The restructuring of enterprises through the elimination of the obstacles to the formation of trans-national European enterprises, using to this end public credits for industrial development in the sectors of advanced technology.
>
> The organisation of changes and adaptation by facilitating changing jobs, industrial exploitation of innovation, improvement in the management of enterprises, and in the recruitment of their managers and directors.
>
> The extension of Community solidarity in economic relations with third parties, in particular, by way of the common commercial policy.

In spite of its qualities, the Memorandum gives an impression of dissatisfaction. There is a clear constrast between the wealth of information that it sheds on the situation of the Community's industry and the lack of clarity about the policies proposed. The absence of a precise political engagement did not change the fact that one had to wait until the Declaration of Paris in October 1972 for the governments to express their support for this industrial and technological policy.

Apart from the desire to coordinate policies at the Community level and to have a precise timetable and finance settled before 1 January 1974, this declaration was once again expressed in rather general terms. One may be surprised that it had taken so long to arrive at this declaration of principle. Diverse factors delayed the Community's progress in this field.[19] These may be defined as follows:

(*a*) The quarrel concerning the enlargement of the Community blocked all new developments not originally foreseen, in the meantime, and the negotiations of adherence received priority.

(*b*) Certain initiatives, especially French ones, have taken intergovernmental scientific and technical cooperation agreements outside the Community sphere (for example, Concorde and the Airbus).

(*c*) The traditional conflict between the States more attached to liberalism, such as Germany, and those which practise a more interventionist policy, such as France or Italy, has been complicated by a conflict in the attitude towards the United States. In this respect, France is in fact more anxious to affirm the European autonomy *vis-à-vis* the United States than are Germany, Italy or the Benelux.

(*d*) The refusal to make a broad approach and the insistence on the principle of the '*juste retour*' restrict progress.

(*e*) Finally, a common industrial policy concerning pace-making industries such as aeronautics, computers or electronics, can only be realised in so far as the European Community takes on the political dimension that it still lacks at the present time.

Despite all these considerations, on the basis of the Declaration of Paris the Commission produced, as from May 1973, the 'programme for industrial and technological policy', also called the Spinelli Report. A list of decisions of the Council and of Member States was proposed, the adoption of which the Commission deemed necessary, with a timetable lasting until 1977.

If all the propositions are not yet realised, numerous aspects have been touched upon:

(1) Regarding the elimination of technical obstacles to trade various proposals or directives aim at the harmonisation of national regulations. This harmonisation is not only designed to remove obstacles to trade inside the Community; it should also allow the achievement of qualitative objectives important in the fields of public health and for the protection of the environment. The chemical and pharmaceutical sectors are already the object of diverse measures to assure the opening-up of the market.

(2) The opening-up of national markets for purchasing by public and semi-public sectors in the Community implies that any 'preference' or 'reservation' for national production, or any exclusion of deliveries of imported products from other Member States, should be permanently forbidden. One of the propositions of the directives aims, in particular, at the cooridination of procedures concerning public tenders. This contains rules governing publicity, going as far as the publication of notification of contracts for tenders in the Official Journal of the Community. The directive concerning public works contracts has already imposed this obligation (26 July 1971).

(3) The encouragement of trans-national European enterprises is desirable and can reinforce competition. 'Concentration in the national sphere leads to competition between firms that are supported in diverse ways by their governments and that do not often come to reach the threshold of profitability. The trans-national groupings offer, on the contrary, the possibility of combining effective competition and economies of scale.' It is in this perspective that the directives concerning the harmonisation of company law should be seen (in particular that of the limited liability company, the SPRL, the cooperative society, the private company groups of companies, and that concerning consolidated balances), and also the directives aiming to create new juridical forms, such as the European company, the European group for cooperation, and the common enterprise, hitherto reserved exclusively for nuclear field. A new directive is likewise awaited concerning the participation of workers in their enterprises. The same applies to the directives relating to industrial property, fiscal law, and capital markets.

(4) Regarding small and medium-sized enterprises, there exist 'Community development contracts designed to support innovations developed through trans-national cooperation, as well as an 'Office for Mergers between Enterprises'. This office furnishes enterprises with information and advice, informs the Community about the obstacles of a general nature that the enterprises meet in their attempts to cooperate or to merge together, and seeks partners for the enteprises of different nationalities wishing to engage in cooperation with a view to improving their competitiveness and facilitating their adaptation to the enlarged market. It can also cover cooperation agreements as well as financial integration (common branch offices, participation, merger or absorption). In its report of 23 December 1975, the Commission showed that, from May 1973 up to October 1975, there had been 2,259 requests for information, 327 requests for merger and 2,490 responses by interested enterprises. The activity of the Office resulted in the proposal of a plausible partner in two cases out of three and the contacts led to an agreement in one case in five. The most active sectors were chemicals, the metal industry, mechanical construction, the food industry and services.

(5) Concerning the sectors confronted with special problems, the Commission proposes to by-pass the distinction dividing sectors of advanced technology and sectors in the process of change or in trouble. The most serious actual problem concerns a group of sectors, namely those of the heavy investment equipment. It aims at allowing the Community to gauge, in time, the risks it runs in the field of long-term supplies of raw materials, energy and key products. The Commission has decided to undertake a systematic study of primary resources that will be necessary to the Community in the future.

(6) Finally, the necessity of coherence of industrial policy with the other objectives of the Community, in the social, regional and commercial fields is stressed, without making any concrete propositions, as such, with the exception of the work of the Social Fund and of the European Regional Fund. Those play only a marginal role, however.

In his programme speech of 8 February 1977, the President of the Commission particularly insisted on the key problem of the different stages of evolution of the economies and on the necessity of more varied and flexible means than those of the present Funds in order to reduce these divergences.[20]

II. 2 On examination of the principal aspects of the European industrial policy, it seems clear that, despite the perspective which has guided those responsible, it concerns essentially what we have called a 'competition-orientated' industrial policy. By contrast with the experiences of the CECA, and of Euratom, the means used consist of those designed to assure an integrated market. Thus one of the most recent achievements, the Office for Mergers of Enterprises, strives above all to enable small and medium-sized enterprises to adapt themselves more easily to the enlarged market.

On the contrary, M. Marjolin aims, as a start, to complete the mechanisms of the market by means of a European medium-term economic programme susceptible of controlling and influencing industrial development. But such an orientation presupposes a solid consensus of European policy, a consensus relying on the rationalisation and the reconversion of sectors in decline, as well as on the common promotion of pace-making sectors.

In reality, it has not really been possible to coordinate aid given by States to sectors in trouble. Within the context of the crisis, the national public authorities have not waited for the recommendations of Brussels to coordinate their aid, running the risk of simply preserving an obsolete industrial structure or transferring difficulties from one Member State to another. It is this which the successive reports of the Commission about the policy of competition make evident. In the 6th Report[21] one can read a long description of various aid given by States to their enterprises and the difficulty the Commission has in controlling them against a background of economic recession. The question is the more delicate since the so-called 'opaque' aids (as compared with 'transparent' ones) tend to multiply. These opaque aids that can not be expressed as a percentage of investment (fiscal aids, help for creation of new employment, and for the better functioning of enterprises) represent nearly 50 per cent of the budget devoted to regional policy by the whole of the Member States

Besides, as we have seen, European initiatives in the sectors of advanced technology have been swept away by national actions, unilateral or bilateral; for example, in the electronics industry (with the disappearance of UNIDATA), or in aeronautics as characterised by the achievements of certain countries. The result is the multiplication of non-coordinated, even competitive, programmes. However, even here, the necessity of a common industrial policy is self-evident in so far as these fundamental sectors imply enormous expenses for research and development before becoming profitable, because they must realise economies of scale which only the integrated market permits them to obtain.

In the General Report of the Commission[22] for the year 1976 may be seen the desire for a move from a competitive-orientated industrial policy to more interventionist initiatives. The Commission affirms there that in the actual economic circumstances the action of the Community regarding industrial development could not limit itself to a pure and simple application of the rules of the Treaty of the EEC. It had also to begin to orientate, coordinate and eventually to complete the measures that Member States judged indispensable at national level (p. 210). Actions have already been undertaken in the fields of the steel and computer industries, aeronautics, electronic components and telecommunications.

The two principal lines followed are:

(1) to try to arrive at a common strategy in the pace-making sectors, for which the intervention of States is often crucial;

(2) to coordinate the policies of the Member States in the sectors in difficulties, to prevent them interfering or cancelling reciprocally.[23]

A supplementary stage was reached in the final text of the proposed Fourth Medium-Term Economic Policy Programme.[24] One can read there that enterprises should have at their disposal more abundant information concerning current developments. This improved 'transparency' of structural changes will encourage a more searching attitude among the managers of enterprises. For that purpose it would be suitable to bring together and to study at Community level the forecasts available at national level concerning the sectoral evolution (p. 62). And at Point 9 of the project, it is added that 'In order to improve the transparency in certain capital-intensive industrial sectors where there exist risks of overcapacity, the Commission at regular intervals requires a notification concerning investment projects' (p. 7). Had this proposition of a preliminary notification of investment projects been accepted, it would have been an important step in the direction of concerted industrial policy. But at the level of the Council of Ministers it ran into strong opposition, emanating mainly from Germany. The case was the more difficult to defend as the steel industry was then in the middle of a crisis. In the decision of the Council of 14 March 1974, laying down the fourth programme, the paragraph in question has been replaced by the following text (point 8): 'The Commission will encourage the establishment, at national level, of sectoral analyses that will be examined together by the Member States at Community level. On this occasion, it will be assessed to what degree these analyses may lead to Community decisions.[25]

Today, the Director of the Directorate for Industrial Policy, E. Davignon, is trying to find a compromise between a 'Directive Industrial Policy' and a 'Competition-orientated Industrial Policy',[26] but in the present European situation such a compromise probably will be very unstable.

III GENERAL PERSPECTIVES

III. 1 Until the post-energy crisis and subsequent economic recession, one can say that the European industrial policy, used in the context of 'neo-liberalism', tried to play the role of a useful complement *vis-à-vis* the policy of competition in favouring the realisation of a Common Market between Member States. The sought-after industrial structure has encouraged a better internal productivity and more effective international competition. In most cases, the action of the Commission has, since then, been 'counter-interventionist', that is to say, it has avoided excessive intervention in the affairs of the Member States.[27]

III. 2 Diverse phenomena, catalysed by the crises and mentioned in the introduction, have brought this perspective into question and have led to the renewal of the call for a more voluntarist industrial policy, as was expressed in the CECA and Euratom Treaties, and as was conceived by certain promoters of European medium-term programming. Equally, the virtues of the competitive system, both inside the Community and in its relations with third parties, have been questioned, and, as a result, the industrial and competitive European policies, clashed more and more frequently, both among themselves, and with the corresponding national policies.

III. 2.1 *Within the Common Market* different elements influence the situation, and these may be listed as follows:

(*a*) There has been noticeable growth of the public sector and of the share of public expenditure as a percentage of national expenditure. Recent estimations of long-run elasticities of public expenditure with respect to private consumption show not only an elasticity higher than one, but also that this elasticity is increasing with time.[28] This acceleration of the collectivisation of the European economies is thus likely to continue in the future and is *a priori* more favourable to political processes of reallocation of resources than to market mechanisms. Besides, the privileged relations and cooperation between large private enterprises and public authorities have increased in such a way that the large firm, either public or private, tends to become an instrument of national economic policy and to benefit from measures of particular support with a view to favouring its leadership at the international level: this could be the origin of a dangerous new corporatism.

(*b*) The aids to enterprises and to sectors in difficulty increase and take on more and more of an 'opaque' character (in contrast with 'transparent' aids) that make any quantitative assessment of their importance more difficult.

(*c*) In the case of national economies, the increasingly divergent conditions of adaptation to international difficulties and expansion make the definition of a common denominator less easy.

III. 2.2 *Concerning third-party countries*, the advantages of liberalisation of international trade and of international division of labour are offset by the adjustment costs that result from such an opening-up of work economy.

(*a*) Concerning trade with other industrialised countries, especially with the United States of America and Japan, the implied consequences of such free trade (the free movement of labour or an unhindered adjustment between profits and salaries) for the EEC are less and less acceptable owing to the social conflicts that they cause.[29] Thus the pressures are increased for the European countries (Benelux, Germany, Scandinavia) that have lost, *vis-à-vis* the American partner, the advantage of low salary costs and may sometimes have to face the decline of entire industrial sectors. Besides, the question of the security of supplies and the will to maintain an integrated production structure assuring national independence have become essential. A growing dependence on external trade (with its associated risks) makes national autonomy an illusion.

(*b*) Concerning developing countries, the positive effects of agreements (the Convention of Lomé, Agreements of Association with the Maghreb countries and similar agreements with the Middle East), as shown by an increase in trade, are also criticised—especially where the increase is in manufactured products. Although the absolute amounts remain small, the exports of manufactured products of these countries have grown more quickly than those of the industrialised countries, and have thus increased their share of the world market. Further, the composition of their exported manufactured goods has been improved, in that they now export products with a strong income elasticity (chemicals, machines, transport material, electronic components, radios, cameras, etc.).

A complete analysis of this evolution is the subject of another study (see especially the chapter below on Trade and Monetary Policy). On the industrial policy level, however,we underline one consequence: certain developing countries exceed the limits of industrialisation orientated towards their own domestic market and compete on the markets of the industrialised countries. In the same manner, the multinationals implant themselves in countries with low salaries from which they export manufactured products competing with the local production of industrialised countries. Even products which are classified as of home (European) manufacture are, more and more, made overseas. 'British-made', 'French-made' or 'Belgian-made' television sets or refrigerators contain tubes or electric motors made outside the Common Market, so that the amount of work performed by European workers on 'European-made' goods becomes less, implying a decreasing value added.

Member States have increasingly manifested the fear that this growth of trade with certain developing countries may lead to painful adaptations in the regions with old industries specialising in products of a weak technological capacity and hence less competitive. This aggravates the difference in the economic evolution within the Community itself and reinforces national protectionist reactions. Nevertheless, there are fewer reservations than in the case of relations with third-party industrialised countries, in that complementarity is more probable. Indeed, the international division of labour with developing countries is still much more vertical (Europe imports raw materials or primary commodities and exports manufactured goods), than horizontal. Furthermore, enlargement of markets for European products in the developing countries is linked with access to investment in the developing countries, which tends to favour European exports, whilst 'joint ventures' between the two types of countries are likely to increase.

III. 3 Faced with this upsurge of nationalism and protectionism, especially evident in the more or less autonomous industrial policies of the Member States, the attitudes that the European Authorities can adopt are threefold: *the application of a common policy* (not a cartel) between European States; *real European achievements in certain specified sectors*—showing the efficiency of a transfer of responsibility from the national level to the Community level: and the obtaining of a *better connection between the various dimensions of the industrial policy* such as the links between internal and external industrial policies and links between industrial policy and the competition policy.

III. 3.1 Since 1975, initiatives aimed at establishing a minimum of concerted action between European governments in international, commercial and industrial negotiations have multiplied. Nevertheless, one does not get the impression of a real desire for common policy but rather of the seeking of a 'cartel' between European countries. Indeed, concern has been expressed in the United States and in Japan that, when the European Community does set about agreeing on a common industrial policy, this will really involve more protection against external interests. Such a concept contains an important weakness. A protectionist cartel of European States runs the risk of having the instability common to cartels of industrial enterprises. At the level of its internal organisation there are the problems of cartel enforcement, since the temptation of Member States to cheat is strong because the returns from cheating are substantial. Also, the common policy is loosely defined and national production possibilities are not homogeneous. At the external level, the outsiders, that is to say to other industrialised States, European or others, cannot be controlled and are often capable of proposing more advantageous alternative conditions, thus causing discord among the countries of the Common Market. Eventually, bilateral agreements between certain of these countries and external countries may be concluded.

However, a common industrial policy is not a consolidation at Community level of old national protectionist habits. It requires clearly defined objectives and methods, resulting from a real policy of consensus. The creation by the European Council (10 December 1974) of the second tripartite European conference in Luxembourg and the bringing together of representatives of governments, employers and workers (24 June 1976) were important steps in this direction. These moves were extended by the consultation of social partners about the fourth medium-term programme that has especially emphasised the need for the medium-term economic policies of the Member States to correspond to the aims accepted at Community level.

III. 3.2 The demands in favour of a real transfer of responsibility in the industrial field from the national level to the Community level will remain vain hopes as long as the efficiency of the industrial policy of the Community has not been proven. Member States will only be prepared to adopt common industrial policies where the advantages to be gained from acting as a Community complement or outweigh the benefits accruing from their individual policies. This situation risks becoming a vicious circle. In order to get out of it, it is important that, besides making grandiose declarations of intent, the Commission should prove its capacity to elaborate European operational plans for the reconversion and expansion of specified sectors. It is in this way that the new officials responsible for the Directorate-General for Industrial Policy are moving: that is, concerning the steel industry, the textile industry (where it has to go well beyond the renewal of the Multifibre Arrangement), aeronautics, the shipping industry and computers. In all cases, 'action-programmes' have been worked out. At this level, however, a delicate problem arises. On the one hand, it seems that industrial redevelopment has to be conceived at a rather delicate disaggregated level of industrial activities. The question is not how to promote or to check the growth of certain major sectors, but how to favour intra-sectoral specialisation as a result of the quality of products. Thus, it is not sufficient to state that European production in such sectors as clothing, footwear, or cereal-based products, will diminish, whilst sectors such as computers, organic chemicals, or machinery, are the object of a persistent demand on the world market. One still has to note that, inside the textile sector, the sub-sector of luxury clothing will probably be little affected by the structural consequences of the economic crisis, whilst the sub-sector weaving has to meet a growing competition from developing countries.

It is indeed well known that an ever-increasing part of trade between European countries as well as with other countries corresponds with the growth of products that belong to the same branches of the industry but which differentiate themselves by their special qualities.[30]

But on the other hand, it seems very dangerous to expect of the European authorities, as well as of national authorities (see p. 33), systematic orientation of specialisation at the intra-industrial level. In

effect, if in some very concentrated sectors where the products are standardised, the statistical information is strongly developed and the habits of dialogue and cooperation (even collusion) firmly rooted (as in the case of the steel industry), it is not the same for numerous other industries. In sectors such as textiles and food, firms are very numerous, the variety of products is extremely wide, and the products themselves strongly differentiated. Besides, the source of difficulties varies from one case to another, ranging from the question of commercial policy to that of financial management, taking in the production structure—*passant*. Finally, microeconomic statistics are, in general, terribly bare and unstandardised. Thus, to expect that European Industrial Policy should simultaneously stimulate, orientate and control the industrial redevelopment in these fields would be foolish. Such a policy, that would in effect tend to duplicate the competitive decentralised process by a badly-informed, badly-equipped 'visible hand' working expensively, would result in an unmanageable situation. It will not be easy for the European Authorities to find a compromise between general plans for reconversion and development, and market studies orientated toward products.

III. 3.3 One of the facts that have become clear during recent years is the danger of defining an industrial policy geared only to private industrial activities inside the Community, whilst neglecting the problems that concern their relations with public industrial activities in Europe and with activities in other countries (both industrialised ones and developing ones). The extreme interdependence of all these aspects demands a better coherence between the internal and external policies of the Community, implying that those Directorates-General in the Commission responsible for policies of direct interest to industry should be more closely grouped. Concerning the public sector, the growing roles of public enterprise on the supply side and of public expenditure on the demand side must be integrated into the orientation of the industrial policy. There should be research for more transparency of public intervention and a new examination of the competitive and complementary relations with the private sector.

Industrial trade with countries such as the United States and Japan influences the directions and the growth of European industrial activities. As we have observed, the situation is not as clear as it was some years ago when one could affirm the unconditional necessity for a liberalisation of trade. Further complications have arisen because of the Common Market's attempt to diversify its sources of supply (as in the case of energy), to rely less on international trade and to opt for complementarity rather than competition and substitution in its trading policies. These changes are likely to modify the future industrial and commercial policies of the Community and to make them more selective than general in character.

Regarding relations with the developing countries, complementarity is more assured, but for certain European regions and certain industries there are harmful reconversions to be made. The supporting role of the common regional and social policies is, in this last case, indispensable for keeping the markets open.

III. 3.4 Inside the Community itself there is, finally, the question of how much cooperation should be allowed to intrude upon the competitive process and to what extent an interventionist industrial policy has to supersede that of competition as the main regulator of economic activity.

It seems important to underline here the necessity of safeguarding the competitive process within the Common Market. At this internal level, where the costs of adjustment to the structural changes could be met in a satisfactory way by common social and regional policies, it must be possible to maintain the efficiency of our decentralised economic system founded on the spirit of enterprise, willingness to take risks, mobility of resources, and creativity. Even in the context of the modifications to the ownership of the means of production which are on their way in various European countries, the competitive system remains indispensable to safeguard the alternatives and freedom of choice, and to avoid the abuses of economic power that come from public as well as private monopolies.[31]

This view implies the continuation and the reinforcement of the European policy of competition—especially *vis-à-vis* concentration, the public sector, and multinationals. As we have frequently suggested, it also presupposes a greater degree of autonomy for the Directorate responsible for competition inside the Commission, as well as increased collaboration with the national authorities of the Member States and Third States. Action conducted within the framework of the OECD is, in our view, very positive.

Inevitably certain conflicts will result from industrial policy. Rather than being camouflaged by deceptive compromises inside the Commission and between the Directorates, these conflicts should be explained and discussed at the level of the European Parliament so as to expose

fully the objectives at stake, the results of alternative policies, and the respective costs and benefits. Rather than an industrial Europe based on technocratic compromises, one must hope for the construction of a really democratic industrial Europe.

NOTES

1. See IRES, *La position compétitive de l'économie belge sur le marché international*, Rapports de J. Houard, C. Ghymers et F. Prades (Louvain la Neuve).
2. See IRES, *op. cit.*
3. The share of the EEC 9 in the total Japanese exports was 8.9 in 1958, 11.9 in 1973 and 10.8 in 1976; the share of the EEC 9 in the total Japanese imports was 8.1 in 1958, 8.3 in 1973 and 5.6 in 1976. (*The Summary Report Trade of Japan*, Japan, Tariff Association).
4. From 1973 to 1975, the employment in industry decreased from 49.5 % to 46 % in West Germany; 39.3 % to 38.6 % in France; 30.7 % to 29.8 % in Ireland; 36.2 % to 34.8 % in the Netherlands; 43.3 % to 39.9 % in Belgium; 42.3 % to 40.9 % in the United Kingdom; 33.8 to 31.5 % in Denmark; 48.6 % to 47.3 % in Luxembourg. Only in Italy has the situation been stable (44 %).
5. For the case of the United Kingdom see R. Bacon and W. Eltis, *Britain's Economic Problem: Too Few Producers* (London: Macmillan, 1976). See also the very stimulating paper of A. Singh, 'U.K. Industry and the World Economy: A case of De-Industrialisation?' in A. Jacquemin and H. de Jong, *Welfare Aspects of Industrial Markets* (Leiden: Nijhoff, 1977), who shows the role of the world market conditions. For a confirmation of Kaldor's hypothesis that there is a close relationship between the rate of growth of a country's GDP and the growth of its manufacturing sector, see T. F. Cripps and R. J. Tarling, *Growth in Advanced Capitalist Economies*, (London: Cambridge University Press, 1974), who have analysed the growth process in advanced industrial countries during 1950–70.
6. See, for example, R. Linda in *Regulating the Behaviour of Monopolies and Dominant Undertakings in Community Law*, Collège d'Europe (Bruges: de Tempel, 1977), p. 62, where it is calculated that in 53 % of the 301 European markets that were analysed the principal company controlled 40 % of its national market.
7. For a general analysis of these different aspects, see A. Jacquemin and H. de Jong, *European Industrial Organisation* (London: Macmillan, 1977).
8. L. Stoleru, *L'Impératif Industriel* (Paris: Seuil, 1969) p. 186.
9. R. Toulemon and J. Flory, *Une Politique Industrielle pour l'Europe*, (Paris: PUF, 1974) p. 17.
10. A. Jacquemin, *Economie Industrielle Européenne* (Paris: Dunod, 1975) p. 324; H. Bauwens in Cepess, *Politique Industrielle* (Bruxelles, 1974) p. 7.
11. H. de l'Estoile, 'Les Objectifs actuels de la politique industrielle en France', in *Politique Industrielle et Stratégies d'Entreprise* (Paris: Institut de l'Entreprise, Masson, 1977) pp. 124–5.

12. J. Meade, *The Just Economy* (London: Allen and Unwin, 1976) chap. VIII.
13. In France, the number of business enterprises engaged mainly in industrial activities dropped from 642,844 in 1961, to 574,784 in 1970 (a fall of 10.58 %). In 130 sectors, the reduction is more than 16 %. See F. Jenny and A. P. Webber, in *Concentration et Politique des Structures Industrielles* (Paris: la Documentation Française, 1974).
14. See, for example, N. Blattner, *Industrial Policy: A Sceptical View* (Newcastle: Fourth European Conference on Industrial Structure, September 1977) who writes: 'the higher and the more uncertain the actual and the expected rate of inflation is, the greater are the individual economic agent's difficulties in judging to what extent a variation of a single price is a real instead of a merely nominal phenomenon. This induces errors in anticipation'.
15. In the Theory of Games, this view is well-established for the case of the 'prisoner's dilemma'. In the well-known two-person nonzero-sum non-cooperative game which is ubiquitous in the economy, it is shown that, contrary to the doctrines of liberal economics, the group interest is not furthered by the independent pursuit of individual interests. The 'Pareto-better' joint maximum position is forcibly repelled by the players because of the dominant character of their individual strategies. The situation is still more complex if the joint maximum position is not 'Pareto-improving' because a player would worsen his position by such a change. Then the bigger utility total must be shared out by a suitable international distribution to make the players better off than they would have been.
16. See: S. Holland, 'Europe's New Public Enterprises' in R. Vernon (ed.), *Big Business and the State, Changing Relations in Western Europe* (London: Macmillan, 1974) p. 41.
17. E. Malinvaud, Les perspectives de la croissance française, in *Colloque sur le redéploiement industriel* (Paris: La Documentation Française, 1975) p. 102.
18. See A. Jacquemin, *op. cit.*, p. 191 *et seq.*
19. See R. Toulemon and J. Flory, *op. cit.*, p. 110–13.
20. EEC Commission, *Programme of the Commission for 1977* (Brussels, February 1977).
21. EEC Commission, *Sixth Report on Competition Policy* (Brussels, April 1977).
22. EEC Commission, *Tenth General Report on the Activities of the Community* (Brussels, 1977).
23. EEC Commission, *Programme of the Commission for the Year 1977* (Brussels, 1977).
24. EEC Commission, *Fourth Medium-term Economic Programme*: concerning the period 1976–1980, COM (76) 530 Final (Brussels, 5 October 1976).
25. Official Journal of the European Communities, no. L 101, 25, April 1977.
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27. See in this sense, the intervention of M. Schaeffer, Director, Directorate-General III, during the course of a European Round Table, organised in Brussels by 'European Management Forum', 18 March 1976.
28. G. d'Alcantara and A. Barten, Long-run relation between public and private expeditures in the EEC Countries, in L. Solari and J. Du Pasquier (ed.), *Private and enlarged consumption* (Amsterdam: North-Holland, 1976).

29. The international mobility of labour (notably regarding recourse to migrant workers) is diminishing whilst the mobility of European capital runs the risk of provoking political reactions.
30. For a recent statistical confirmation, see B. Balassa, Trade Creation and Trade Diversion in the European Market, in H. Glesjer, (ed.), *Quantitative Studies of International Economic Relations* (North-Holland, 1976).
31. See also A. Cairncross *et al.*, *Economic Policy for the European Community* (London: Macmillan, 1974) in which it is stated: 'Our concern for the maintenance of effective competition extends beyond purely economic considerations. Competition is one of the foundations of an open society in which all member countries of the European Community have a substantial stake' (p. 143).

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3

WORKSHOP

ON

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE EEC

THEME II: ENLARGEMENT AND THE FUTURE OF THE EEC IN A CHANGING WORLD ECONOMY

PAPER: An Enlarged Community: Reinforcement or Weakening?

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Lisbon, June 1980

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AN ENLARGED EUROPEAN COMMUNITY: REINFORCEMENT
OR WEAKENING?

by

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for a Conference on

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE
EUROPEAN COMMUNITY

at the

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AN ENLARGED EUROPEAN COMMUNITY: REINFORCEMENT OR WEAKENING?

by

Hugh Corbet

Will the European Community be reinforced or weakened by its enlargement to include Greece, Portugal and Spain? That is the basic question I have been invited to address in this paper. In attempting to answer that question, I am not going to begin by recalling what the "founding fathers" envisaged in the 1950's, let alone present some idealised picture of what the Community should be like at the end of the century. I am going to begin by looking at the Community as it is today .... in today's circumstances.

CURRENT STATE OF AFFAIRS

What does the observer see? According to press reports, the last meeting of the heads of government of the European Community, held in Venice just a fortnight ago, was marked by indecision.[1] For more than a decade "the new Europe", as it used to be called, has been bogged down in a serious malaise. It was not the first time, then, that the only matter the heads of government could agree upon in Venice was somebody else's business, this time the Middle East imbroglio, in which the Community exercises no responsibility and still shows no sign of doing any such thing[2] — in spite of a so-called "initiative".[3]

There is nothing new about this state of affairs. Back in 1976, Gaston Thorn, the Prime Minister of Luxembourg, remarked in public that faith in the European Community was no longer what it used to be.

The Nine, he said, had no shared concept of the kind of Community they wanted to build. The protection of national interest had become the *alpha* and *omega*; and the maintenance of the *status quo*, the ultimate goal.[4] In succeeding Mr Thorn in that same year as President-in-Office of the Council of Ministers, Max van der Stoel, as Foreign Minister of the Netherlands, was just as gloomy. At the end of the 1960's, he recalled, the talk in the Community was of "completion, enlargement and strengthening".[5] But that motto had come to be replaced, Mr van der Stoel said, by "stagnation, decline and escapism".[6]

At the Venice meeting, it was reported that where the working papers of the Commission of the European Community called for urgent action to tackle clearly defined problems, the heads of government approved laboriously devised *promises* of "appropriate measures", which may or may not have been correct responses. Thankfully, little survived of the Commission's plans for a common energy policy, involving the harmonisation of prices and taxes and the control of a huge fund for energy investment. Thankfully, too, the heads of government apparently accepted, at least implicitly, a "heavily nationalistic" diagnosis of inflation, relegating the European Monetary System to passing references.[7] As it happens, when it comes to dealing with inflation, "nationalistic" attitudes are not altogether out of place; on the contrary, because the origins of inflation lie in domestic policies the disease can only be cured by domestic medicines — unpalatable as they may be.

At the previous two "summit" meetings of the European Community, Margaret Thatcher, as Prime Minister of the United Kingdom, made an issue of the Community's budgetary system, objecting strongly to the present and prospective size of the British contribution. (On this issue, it should be noted, Mrs Thatcher enjoyed near unanimous support on both sides of the House of Commons). No sooner had the British Government's dispute been settled last month (if only temporarily) than the heads of the German and French governments began at the Venice summit to take issue as well with the budgetary system. Helmut Schmidt, as Chancellor of the Federal Republic, suggested that both payments and receipts should be limited, greatly alarming the heads of government of the Community's smaller member countries which benefit most from the system. He further suggested that the system of farm support, under the common agricultural policy, should be reformed in some unspecified way, thereby alarming Valery Giscard d'Estaing, as President of the French Republic.

Sooner or later, as critics of the common agricultural policy have warned *ad nauseum*,[8] budgetary constraints were bound to bring the European Community to its knees, so to speak. Thus it was not altogether surprising when Chancellor Schmidt and President Giscard d'Estaing insisted in Venice that the Community's chronic budgetary problems, so dramatically exposed by Mrs Thatcher, should be resolved before the Community is enlarged to include Portugal and Spain. Greece joins the Community next year. Her membership will complicate the budgetary system a little more. But the Community's malaise cannot be attributed in any way to budgetary difficulties which have simply brought fundamental differences to the surface.

The indecision of the European Community was revealed most starkly in Venice by the inability of its leaders to agree on a successor to Roy Jenkins as President of the Commission. The post falls vacant six months hence. The failure to decide who should fill it symbolises the uncertainty and confusion over the Community's sense of purpose and direction. Several "candidates" for the post have been canvassed. Mr Thorn, still Prime Minister of Luxembourg, is not acceptable to France because he is "too European". Leo Tindemanns, a former Prime

Minister of Belgium, protests that he does not want the job while staying out of the Belgian Government to make plain he is available. As a Flemish-speaking Belgian, however, he could not be openly supported by France. As a French-speaking Belgian, Viscount Etienne Davignon might be more acceptable to France, but as Commissioner for Industrial Affairs he has not endeared himself anywhere, least of all in Germany. Similarly, Finn Olaf Gunderlach, another early aspirant for the post, has "fallen down" as Commissioner for Agriculture. The "compromise" might be an Italian, who exactly is almost irrelevant, for if all that is required is a flair for showmanship and how to exploit the media then those are departments where Italians generally excel, as they demonstrated in Venice.

More or better propaganda is not what the European Community needs. Matters can be seen to have gone too far in that direction following the "settlement" for the time being of the British Government's budgetary dispute. The *Communique* issued after the Venice Summit looked forward to the fulfilment of old dreams, "the deepening process of European integration", and eventually "total compliance with the ideals underlying the grand design of European unification".[9] Who did the drafters of that *Communique* think they were fooling? Or are the Community's servants simply victims of their own propaganda?

THREE APPROACHES TO EUROPEAN INTEGRATION

Now I do not want to be misunderstood. I am in favour of European integration. I should add, however, that I am also in favour of motherhood, of liberty and fraternity and of free trade. And I am in favour of peace and prosperity, the rule of law and the British way of life, including cricket and the English breakfast.

In public affairs it is not enough to be in favour of a great idea.

If the idea is meant to be taken seriously at governmental level, is meant to be implementable, it has to be definable in operational terms. What is it that will be reinforced or weakened by the inclusion of Greece, Portugal and Spain in the European Community? Sure, it is the process of European integration, as mentioned in the *communique* I quoted earlier. But what is meant by the phrase "European integration"? At least three interpretations can be identified. Spelling them out may help to distinguish what is attainable from what is possibly desirable.[10]

Customs union theory was formulated some while before either the European Community or the European Free Trade Association (EFTA) was formed.[11] Various economists have since shown that under a free trade scheme the need for policy harmonisation additional to what is required of countries already extensively engaged in international trade is relatively slight.[12] Further harmonisation (beyond the elimination of obstacles to the free movement of goods and services) is more a matter of choosing to augment the benefits of free trade than a matter of having to harmonise as a result of free trade. Little of importance is lost through not harmonising other policies. Such harmonisation issues as do arise can be handled, as EFTA has shown, by the consultative and negotiating procedures with which governments are thoroughly familiar. They do not require elaborate agreements.

An Economist's View

1. From an economic point of view, then, the harmonisation of economic policies, insofar as it is necessary to overcome distortions of competition, requires a coordinating authority. But it is enough that the coordinating authority is effective. It does not have to be supranational in character. In an economist's scenario of events, political

unification is therefore deemed almost incidental, as it were, to the real and primary goal of *economic integration*.

A Politician's View

2. The whole argument has been turned upside down by those who envisage *political unification* as the real and primary goal. They have argued that the determination to integrate economic policies (even if the economic benefits are marginal) will compel the formation of a supra-national economic government which in time will assume responsibility for foreign policy and military security. Economic integration, from a politician's point of view, seems to be just a pretext for political union; it is a means to an end, not an end in itself. It does not matter how small, or how large, are the economic gains from policy harmonisation. What is important is the will to go ahead regardless.

In formulating policies for the development of the European Community, it thus seems vital to draw a distinction between the objectives of economic integration, on the one hand, and the objectives of political unification, on the other, if only to ensure that the appropriate instruments are used for achieving whichever is deemed attainable in the prevailing circumstances. None of this is to deny the inter-relationships between economic and politico-strategic affairs. But in the 1960's, the European Community made a habit of using instruments of economic policy in order, ostensibly, to achieve politico-strategic objectives, the consequences of which were predictable — the common agricultural policy being a case in point, the attempt to promote monetary union being another.

A Bureaucrat's View

3. In the resultant chaos, a *realpolitik* approach has developed, seeking (i) national advantage, (ii) additional powers for member governments and (iii) the further expansion of bureaucracy. The notion is that governments associate to control collectively what escapes the control of any one of them.[13] It amounts to forming a cartel of governments who do not want to compete among themselves but to control individually and jointly. It manifests itself in the approach of many of the European Community's bureaucrats to the problems of industries which are currently having difficulty in coping with international competition.[14] The approach is a bureaucrat's.

Thus I have identified three approaches to European integration which, for the sake of presentation, I have characterised as (i) an economist's approach, (ii) a politician's approach and (iii) a bureaucrat's approach. Now if the European Community is to be revitalised, an effort has to be made to promote an approach that can be shared by all member countries, from one general election to another. It is in such a light that I would like next to consider the three approaches I have spelt out.

The *realpolitik* concept of European integration, what I have characterised as the bureaucrat's approach, pays little regard to the limits, the parameters, of the discretionary authority of governments, by which is meant the limitations on the ability of governments to achieve desired social and economic changes.[15] If governments do, indeed, cherish their discretionary authority, then the *realpolitik* approach to European integration is inherently self-contradictory. Why? Because it presupposes a harmonisation of policies which governments administer in a discretionary fashion on the basis of a blank authority. But the harmonisation of policies in such a way is no longer discretionary. Since, then, it lacks intellectual coherance, the *realpolitik* approach would not appear to be a viable course by which to revitalise the European Community, certainly not if it values its position as a bastion of democracy by representative government.

There is no need to dwell long on the politician's approach to European integration. For that approach to be viable, the prospects for political unification among the nine — soon to be twelve — member countries would have to be promising, but they would appear to be bleak, very bleak indeed.

It would appear that the most realistic approach to European integration is an economist's: the liberalisation of controls on the exchange of goods and services within the European Community. As argued earlier, it is through the static and dynamic effects of trade liberalisation — on consumption, production and exchange — that the benefits of economic integration are largely achieved. Little more is gained by harmonising policies beyond trade liberalisation.

Perhaps I should not conclude too quickly that an economist's approach is the most realistic. After all, the exigencies of the times are hardly conducive, it might be said, to trade liberalisation. Well whose fault is that? In the time left I would like to set out, if only sketchily, how developments in the world economy impinge on European integration, however it is viewed.

CHANGES IN THE WORLD ECONOMY

As mentioned at the outset, over the last decade or so the European Community has been getting bogged down in a malaise, one of its own making. The Community's last enduring achievement was the completion of the customs union in 1968. Since then the edifice founded on the customs union has been shaken by a number of "shocks" — trotting inflation, exchange-rate changes, fluctuating grain prices, shortages of other commodities, creeping protectionism and the energy crisis.[16] The first impact of these shocks has been on member governments. Governments differ in their understanding of the different situations in which they find themselves. They therefore differ in the speed with which they adjust their policies. There is consequently a widening divergence in the economic performance of member countries of the Community and in the capacity of member governments to act. It is this divergence which is shaking the common edifice.

It is in that sense, indeed, that the European Community is in a state of crisis. Fundamental changes have taken place in the world economy since the Community's formation. In short, the Community is being overtaken by events, both internal and external.

What changes, then, have to be taken into account in thinking about the develope mnt of the European Community?

First, Europe is no longer the centre of world power; since World War II the peace of the world has been determined by a global balance of power.

Second, whereas in the 1950's the "new Europe" was one of two centres of industry supplying the world with manufactures, the European Community is entering an era where it will be one of five or six centres of industry and, what is more, it looks as if it will not be among the most efficient.

Third, the increasing integration of the world economy, and the resultant growing interdependence of national economies, now exerts a much more powerful influence on inter-governmental relations than was the case in the 1950's.

Fourth, two significant groups of countries, the agricultural exporting countries and the newly industrialising countries of the Third World, are now expecting more from the international system of trade and payments.

Fifth, being suppliers of primary commodities, the Third World is having a larger "say" in international discussions.

Sixth, with all these developments, there has been a profound change in the American attitude towards the European Community, which has ceased to be viewed with indulgence.

Seventh, in the industrialised countries, never mind anywhere else, there has been a marked increase in state intervention in the market process which has meant that, with the growing interdependence of national economies, governments are finding external obligations increasingly in conflict with internal ones, thereby making it hard, if not impossible, to concert responses to worldwide economic problems.[17]

It is in the light of such changes in the world economy that the heads of government in the European Community have to reconcile the Community's internal objectives with the responsibilities they bear, by virtue of the Community's size and capacity to block decisions, in the maintenance of the international economic order.

Member governments of the European Community have seemed reluctant to face up to what that means. It is as if political thought in the Community has not kept pace with the rapid integration of the world economy. Most of the problem is that the Community's common external tariff, its common commercial policy and its common agricultural policy have come to be regarded as symbols of European unity. But these common policies are based on discrimination against other countries which is tantamount, in an age of growing interdependence, to provoking economic conflict with the rest of the world.

When the European Community was being formed, it was repeatedly said, in reassuring terms, that European integration would be pursued in harmony with the integration of the world economy as a whole. Those were not the words, but that was the gist, of the Preamble and Article 110 of the Treaty of Rome. It is about time the sentiment was taken seriously.

Even from a Eurocentric point of view it is in the European Community's interests to pursue its integration in harmony with the integration of the world economy as a whole because if it is not the Community will be continually disrupted by one shock after another. Because of the economic differences between them, the member countries of the Community are affected differently by "global" problems, which means that their governments are bound to react in different ways.

By the same token, it is not good enough for the European Community to wait for initiatives from others, because that only invites internal dissent. Given the economic differences between them, member countries are bound to react differently to initiatives from outside, which is why before discussions begin at Community level on anything of major importance individual governments are prone to assert national positions. This partly explains why the Community has difficulty in formulating a response to proposals from others and why, in the end, the response is at the level of the lowest common denominator.

The problems facing the world economy are known. They certainly do not need to be spelt out here. Opinions may differ over precisely how they could be overcome. But most would agree that they are not going to be overcome by the industrialised countries, which account for two-thirds of world trade, withdrawing into protectionist or isolationist shells. For structural adjustments to take place it is going to be necessary to rebuild confidence in the business community, to overcome rigidities in labour markets, to promote investment in long-term industrial innovations and to restore the stable institutional environment that rational decision-making requires.

If the enlargement of the European Community to include Greece, Portugal and Spain diverts attention from "grand designs" and forces attention to be paid to the "nuts and bolts" of making the customs union work and of making European economic integration work in harmony with the integration of the world economy as a whole then I would say that the Community has been reinforced.

I would like to close on a note that is often overlooked by economists, politicians and bureaucrats in their models, grand designs and manoeuvres. It was captured in a passage by Harry Johnson, who is one of the great names in economics and, since he is now dead, was a friend of mine and helped me and others to establish the Trade Policy Research Centre. The passage I am thinking of reads as follows:

"It was not the famous outlaws still heralded in American 'westerns' but the countless and nameless unremembered settlers who civilised the Wild West (and for that matter tamed the outlaws themselves). The establishment of economic integration among a group of nation-states is a matter of establishing a civilised economic community, which involves taming the outlaw forces of protectionism and, what becomes a problem as integration proceeds, controlling the confidence men who attempt to sell covert protectionism as overt conformity to the principles of economic integration."[18]

NOTES AND REFERENCES

1. Keith Richardson and Michael Jones, 'Europe's Leaders Dodge the Issues at Venice Summit', *The Sunday Times*, London, 15 June 1980, p.9. The meeting of the Council of the European Community actually took place on 12-13 June in superbly photogenic surroundings.

2. By "responsibility" is meant, in this context, a willingness when it comes to the point to put substantial resources, in human or financial terms, "on the line".

3. The heads of government of the European Community decided to send a fact-finding mission, perhaps at Cabinet level, to investigate *inter alia* "the Palestinian question".

4. *The Times*, London, 1 July 1976. Mr Thorn was talking to reporters on the completion of his six-month term as President-in-Office of the Council of Ministers, which should not be confused with the Council, of the European Community. The Council meets at head-of-government level.

5. The phrase was coined by Georges Pompidou, as President of France, in the course of giving way to British membership of the European Community.

6. Address to the European Parliament, Strasbourg, 7 July 1976.

7. Richardson and Jones, *op. cit.* For an influential British assessment of the European Monetary System, see Samuel Brittan, 'EMS: a Compromise that Could be Worse than Either Extreme', *The World Economy*, London, January 1979.

8. For example, see Brian Davey, T.E. Josling and Alister McFarquhar (eds), *Agriculture and the State: British Policy in a World Context* (London: Macmillan, for the Trade Policy Research Centre, 1976).

9. *Communique* issued after the meeting of the Council of the European Community, Venice, 12-13 June 1980.

10. Much of what follows is an only slightly elaborated version of a commentary by the present writer, 'Comment on a Paper by David Marquand on "Maximalism" or "Minimalism"? Britain's European Options', given at a Conference on Britain in Europe, Royal Institute of International Affairs, London, December 1979. The commentary drew on an article by the present writer on 'European Integration and the Integration of the World Economy', *British Journal of International Studies*, Edinburgh, April 1977, which itself drew on a paper by the present writer, 'Political and Economic Perspectives on Trade between Developed Countries', in *A Foreign Economic Policy for the 1970's*, Hearings before the Joint Economic Committee, Congress of the United States (Washington: US Government Printing Office, 1970), Part 2, pp. 173-90

11. Customs union theory was pioneered in Jacob Viner, *The Customs Union Issue* (New York: Free Press, 1950), in James E. Meade,

The Theory of Customs Unions (Amsterdam: North Holland, 1955) and in Richard G. Lipsey,'The Theory of Customs Unions: Trade Diversion and Welfare", *Economica*, London, Vol. XXIV, 1957.

12. Harry G. Johnson, 'Implications of Free or Freer Trade for the Harmonisation of Other Policies', in Johnson, Paul Wonnacott and Hirofumi Shibata, *Harmonisation of National Policies under Free Trade* (Toronto: University of Toronto Press, 1969). Also see Victoria Curzon, *The Essentials of Economic Integration: Lessons of EFTA Experience* (London: Macmillan, for the Trade Policy Research Centre, 1974), especially Ch. 10.

13. Andrew Shonfield, *Europe: Journey to an Unknown Destination* (London: Pelican, 1974), Ch.1.

14. Jan Tumlir, 'Salvation Through Cartels? On the Revival of a Myth', *The World Economy*, October 1978.

15. The old issue of "rules versus discretion", but under conditions of uncertainty, is discussed in Hugh Corbet, 'What Happens after the Tokyo Round Negotiations?', *Asia- Pacific Community*, Tokyo, Spring 1979, and in Corbet, 'The Political Challenge of Restoring the International Economic Order', an Address given at a seminar on the Problems of the International Economy, Centro de Estudios Commerciales, Madrid, 10-11 April 1980.

16. The ensuing argument is spelt out in Sir Alec Cairncross, Herbert Giersch, Alexandre Lamfalussy, Giuseppe Petrilli and Pierre Uri, *Economic Policy for the European Community: the Way Forward* (London: Macmillan, for the Institut fur Weltwirtschaft an der Universitat Kiel, 1974), for which group of experts the present author acted as rapporteur during the concluding phase of its work.

17. On this point might be recalled the debate of the 1930's over how to reconcile socialism and capitalism and, in particular, the work by Lionel Robbins, *Economic Planning and International Order* (London: Macmillan, 1937), where it was argued that national economic planning and direction by democratically-elected governments would embroil them in cumulative and ultimately explosive international friction.

18. Harry G. Johnson, Introduction to Curzon, *The Essentials of Economic Integration, op. cit.*, p. 3.

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ON

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE EEC

4

THEME III – THE NEED FOR NEW POLICIES

PAPER: Industrial Policy

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Lisbon, June 1980

Wolfgang Hager

INDUSTRIAL POLICY IN AN ENLARGED COMMUNITY

> "An industrial policy should embrace a number of inter-related objectives relating to the sectoral allocation of resources, the structural organisation of industries, the development of technological innovation and the maintenance of regional balance. Among its instruments are government loans and subsidies, public procurement policies, technical standards and specifications, concessionary charges for public services and preferential tax treatment."[1]

This definition by a group of distinguished European economists uses the normative "should" with respect to objectives. William Diebold has this to say: "Strict usage would suggest that the word policy be confined to deliberate, thought-out, systematic, and more or less consistent lines of action. But then one would ignore the largest part of what governments do in the field of industrial policy, where ad hoc, unsystematic, and sometimes inconsistent measures are far more common than their opposite."[2]

It will be argued below that the attitude of the enlarged European Community of the 80s towards industrial policy may well turn out to be a make-or-break issue, certainly for the Community as an institution, and perhaps for the societies and polities composing it. Yet the recent rise into prominence of the issue in an international context initially derives from the comparatively unimportant trans-Atlantic trade-policy context. As part of the debate accompanying the

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[1] Cairncross, Giersch, Lamfalussy et al., "Economic Policy for the European Community - The Way Forward", London 1974, p. 118.

[2] William Diebold, "Industrial Policy as an International Issue", New York 1980, p. 6.

Tokyo-Round, the word became a proxy for trade-distorting subsidies. The term "financial protectionism" quite accurately describes part of the reality of European industrial policy, and it relates to both infant and senile industries.

The OECD, unwilling to poach on GATT territory, defined industrial policy as a matter of international concern in new and original terms: as part of a common strategy for achieving "sustained and better balanced growth".[3] While the term given to this strategy, "Positive Adjustment", has a certain activist ring to it, the spirit is clearly negative. Industrial Policy here is largely synonymous with status-quo-oriented aids to declining industries. On the other end of the scale, aid to promote future industries, or "picking winners", is considered largely unfeasible. Here, as in other discussion of industrial policy, the model in the back of the minds of people who make generalisations on I.P. is Great Britain rather than Japan with its unbroken record of picking winners.

It can be doubted whether the dichotomy declining industry/future industry adequately describes the contemporary European (and American) industrial predicament. The sectors which have been making the headlines in Community policy in the 70s, steel and chemical fibres, cannot be called declining in the sense once applied to the coal industry or now to the textile industry (and even here Spain or Portugal might object). Nor can the automobile industry, surely the next candidate for a major international row. What we usually find in these sectors is a combination of cyclical overcapacity world-wide, caused by a combination of bad luck (unanticipated recessions and the unanticipated energy crisis), inadequate (if surplus) capital stock due to entrepreneurial misjudgement, inadequate profits, social

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[3] OECD, "The Case for Positive Adjustment Policies: A Compendium of OECD Documents 1978/79, Paris, June 1979, p. 8.

impediments to timely change, and internationally inconsistent policies which maintain or increase capacity in Europe, Japan, and the NICs.

Industrial policy is thus neither adequately defined as merely a form of protectionism, nor as just another manifestation of the welfare state with its conservative bias towards employment and income maintenance and the avoidance of social hardships. Indeed, the most vigorous and successful examples of industrial policies in the contemporary world, that of Japan, and more recently the NICs, are certainly heavily protectionist, but certainly not status quo or particularly welfare-oriented. The special dilemma of the new Mediterranean applicants, especially the Iberian ones, is that they are part NIC, part modern welfare state, and interventionist on both counts, entering a Community whose rhetoric is again stressing the old-time religion embodied in the Treaty of Rome. It is instructive to compare the situation of the present with that of two earlier Mediterranean entrants into the Community.

Two of the founding members of the European Community, Italy and France, seemed rather curious candidates for joining an exercise which, in the industrial sphere at least, was a monument to the liberal optimism of the late fifties. Relatively agrarian countries with an industrial structure long characterised by fragmentation, inadequate investment, and a weakness in sophisticated sectors like chemicals and heavy engineering, Italy and France had just begun to reap the fruits of a decade of voluntarist, state-aided development. Now protectionism, already reduced within the OEEC, was to be abandoned within and sharply curtailed outside the Community. While industrialists in both countries predicted ruin, the economic decision-makers could and did enter the free-trade commitment with their fingers firmly crossed behind their backs. The midwife of industrialisation would still be around when the Treaty of Rome entered into effect: the state would continue to provide credit at favourable terms, organise firms into viable units, subsidise essential inputs like fuel and transport and provide protected procurement markets and other forms of NTB protection.

The experiment, for all its logical contradictions, came off. With more than half the population of the original Six the two countries were well protected from serious scrutiny by the European Commission. Moreover, Italy's commercial successes proved to stem largely from its private sector, while the publicly financed sector, in the sixties, came to be a source of economic weakness rather than strength. In France, intervention was tempered by the discovery of Keynesian macro-economic management, with planning retreating towards increasingly broad and indirect levels of operation. Furthermore, if there was distortion of competition, no one complained very much in the high-growth sixties: there was room for everybody (including the Belgians, with a vigorous, not to say aggressive, programme of subsidising direct foreign investment).

Two decades later, the situation looks rather different for the applicant countries. Especially the two Iberian ones are still at the stage where key sectors of the economy are created and maintained by the State. They are asked to give up protectionism, including "unfair" subsidies at a stage of development which relative to their new partners is weaker than that of those two earlier Mediterranean entrants into the Community. Their bargaining power is significantly weaker, not least because they are asking for transfers of resources - which may turn out to be conditional aid - and not just dispensations from the full rigours of the Treaty of Rome. Lastly, they are entering a world of slow growth were every "unfair advantage" these countries might be providing for industry is sharply felt, and equally sharply resented by the established members. Yet industrial policy of the developmental kind has been one of the pervasive features of post-war

European experience. Before turning to the present and future, a brief look at the record seems indicated.

The Past: Industrial Policy as Development Policy

The desire to remove perceived structural inadequacies which prevent accelerated economic development provides one of the oldest and still relevant motivations for states engaging in industrial policy in virtually all countries in the world. As already mentioned the most interesting early examples are Italy and France which after the war perceived themselves as relatively backward and overly agricultural economies. One structural deficiency was the absence of risk-oriented capital markets, with banks preferring secure low-return investment in, say, real estate, to productive investment. (until very recently, Portugal has faced precisely this predicament.)

This weakness was compounded, particularly in France, by the prevalence in the economy of small family firms which failed to perform as Schumpeterian entrepreneurs. A number of accidents - in Italy the need of the state to take over some major banks (and their industrial holdings) when they collapsed in the world depression, and a similar, if ideological, take-over of credit institutions in France before the war, gave the governments of both countries new tools with which to practise venture capitalism.

In France, but hardly at all in Italy, the entrepreneurial role of the state was accompanied by planning. Where IRI[1] helped to establish a modern heavy and light engineering industry in Italy, the French approach relied heavily on

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[1] Instituto per la Ricostruzione Industriale

modernising a few sectors which could either be classed as infrastructure (railways, electricity) or as intermediate inputs for the rest of industry (coal and steel). In order to encourage a balanced consumption pattern, the French encouraged, for instance, the development of extremely simple cars - an idea which is only now catching on in the Third World. (The long delay in the introduction of colour television in Western Europe shows that consumption-oriented development policies remained generally powerful until the early sixties, and a decade longer in Italy.)

There is an ongoing and inconclusive debate on the impact of French planning, underpinned by a 70% state ownership (but often loose control) of sources of credit. Was the impressive post-war growth experience due to the state effort (as many European governments came to believe by the late fifties), or did France succeed in breaking out of the interwar stagnation because of improved external circumstances and better macro-economic policies? The evidence seems easier to judge in the Italian case. After striking success in the fifties when whole new sectors were created to give the country a broad and sophisticated industrial base the state--owned and financed sector increasingly escaped the hands of entrepreneurial technocrats to fall under the domination of party appointees. The creation or maintenance of industrial jobs was frequently decided on electoral grounds. By the end of the sixties the state sector, far from being in the vanguard of modernisation, pre-empted scarce capital from a now vigorous private sector to cover its operating losses.

In Britain (if one excepts the ideologically motivated nationalisation of the steel industry) state capitalism of the Italian and French kind, cautiously attempted in the early sixties through the National Economic Development Committees and the Industrial Reorganisation Corporation and their various successors also had "catching up" and accelerating development as its stated purpose (the British growth rate remaining stubbornly at half the continental rate). However, like IRI at that time, rescue rather than innovation became its primary purpose.

Nevertheless, state venture capitalism remains a powerful tool of industrial development. Since the sixties, one particular variant of such policies has been widely used in Europe: the more or less enforced merger of firms whose size was deemed insufficient to allow them to operate profitably, and keep abreast of the latest technology. Steel, shipyards, metal smelting, heavy engineering, automobiles, electrical engineering, aircraft production, and computers have been some of the industries "rationalised" by direct state intervention. For such purposes, the state has essentially three instruments at its disposal: the provision of credits for modernisation (this applies especially to countries with a strong public banking sector, like France and Italy); the threat of withholding credits to near-bankrupt industries (Great Britain, Sweden, etc.); and use of the near monopoly of governments over certain procurement markets (e.g. the German aircraft industry). In Japan, the conscious fostering of strong firms and the timely "weeding-out" (mugi-fumi) of weak ones through administrative guidance has a similar purpose and effect of accelerating adjustment to advanced technological and production requirements.

The examples of developmentally motivated industrial policy may or may not have involved particular industries, but their purpose was generally to put the economy as a whole on a higher growth path. This is perhaps less generally the case for the modern variant of such policies, i.e. the support of future high (or at least new) technology industries. Support for national aircraft industries, nuclear industries (at least before the energy crisis), computers or ocean technologies, to cite a number of sectors favoured by German industrial policies, have usually been justified, not by developmental, but by neo-mercantilist arguments: the ability to compete in the export markets of the future.

From a slightly different perspective, state support for future-oriented policies is perceived, paradoxically, as defensive rather than, like earlier developmental policies, oriented towards positive goals in itself. The defensive element derives from a definition of the national economy in terms of its international environment. In a somewhat neo-Darwinist perspective widely held in Germany in particular, all nations are moving up a narrowing ladder, whose rungs correspond to the technology content of their manufacturing industries. As the lower rungs cannot or should not be defended against newcomers, one must make certain that there are, in fact, new rungs added to the ladder. Such a high value is put on the certainty of having an upward avenue of escape from adjustment pressures deriving from the global diffusion of modern production know-how that the State steps in to pay considerable insurance premiums in the form of R&D and D&D support.

To present this rationale is not to accept its validity. A look at post-war history shows that the European country with the greatest technological lead and one of the strongest government R&D programmes, i.e. Great Britain, has done much worse, in terms of adjustment, than Germany which until recently only had a second-hand nuclear industry as a high-technology field of the kind promoted by planners. A comparison of the US and Japan adjustment and growth performance leads to similar conclusions. It seems that the <u>average</u> excellence of production processes and the speed of replacement of capital stock are of much greater significance for adjustment.

The Present: Slow Growth and Mounting Adjustment Pressures

The phenomenal success of the South-East Asian countries is in part due to the fact that they constitute the periphery of a dynamic industrial power whose industrial planning extends to them, from whom they receive sophisticated capital and trading services (if little in the way of markets), but which leaves them free to engage in vigorous industrial policies of their own. The Mediterranean countries constitute the periphery of a slow-growing Community with little sense of direction in its industrial affairs, hesitations about creating new competitors and with potentially effective instruments for curtailing industrial adventurism of the voluntarist variety.

One of the main problems is the prospect for slow growth in the Nine and its implications in both economic and policy terms for the new entrants. A closer look at the sources of slow growth suggests, however, that the Community as a whole may be forced to take strategic choices in industrial policy matters within which the new entrants can be accomodated and prosper.

Three challenges interact to create unfavourable conditions for the smooth operation of our industrial economies. First, there are the societal, and derivatively, political constraints on growth. Secondly, energy provides at the same time an economic constraint on growth and a source of considerable adjustment pressure. Third, trade competition, from Japan, South-East Asia and the Third World in general is becoming fundamentally different from the experience of Westeuropean and trans-Atlantic free trade which has shaped attitudes and policy instruments up to now.

The socio-political constraints on growth are perhaps the least amenable to short-term measures. Indeed, one of the fundamental questions of industrial policy is whether such policy should accomodate these constraints, or whether a major effort should be made to re-create the societies of the fifties and sixties (or rather our selective, partially mythological recollection), to fit more closely with the industrial imperative.

What does such a good society look like? It must above all assure three things: it must provide enough profits or finance for industry to rejuvenate capital stock so as to capture the full potential of technological advance, and to re-allocate activity to fit shifting conditions of demand and comparative advantage. It must secondly have a labour market where skills and jobs are priced, at the very least, to take account of relative scarcities within a national economy; and the work force must be mobile. Thirdly, there must be competition, although, as will be argued strongly below, competition in homeopathic doses. To realise the potential of this efficient, industrially dynamic society, the state must fulfill a number of non-market functions, of which providing infrastructure and educating the labour force are the economically most relevant. This is essentially the ideal-type guiding the OECD's approach to industrial policy, summed up in the term "Positive Adjustment". (To be fair, the OECD's approach is too sophisticated to leave us with a non-operational utopia. What it does say, is that even when pursuing objectives other than productive efficiency, there are usually several methods available to pursue them, and which have higher or lower costs in terms of efficiency.[1])

How realistic is this view of industrial policy as a short-term palliative in the contemporary European setting? If we compare European reality with the requirements of the

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1 See for ex. paragraph two and passim in: "Policies for Adjustment: Some General Orientations", approved by the OECD Council on June 15th, 1978.

ideal-type, industrially dynamic society sketched above, we note significant departures. First, the finance available to industry (including, as a determinant element, present and future profits) is circumscribed by alternative claims on GNP, or current income. At the level of the individual enterprise, profits may be said to be limited by three socially and politically determined factors:

- wages,
- taxes, including social security contributions for workers,
- restraints on the freedom to adjust work-force levels to current requirements,
- regulations (environmental, health, etc.) which limit the "externalities", i.e. societal costs imposed by enterprises, or seek to internalise such costs.

If we assume that we are dealing with mature economies with no net inflow of external finance, investment is then determined by profits plus a share from savings generated elsewhere in the economy, e.g. personal savings, pension funds, etc. Industrial investment competes, however, with social infra-structure investment (which may be financed through government borrowing on the capital markets) and investment in non-productive assets. The point of recalling this familiar story is that the bottom line, the proportion of GNP devoted to industrial investment, is the result of complex and long-term processes of social and political choice which is highly specific to any individual country. Yet these industrial investment levels, inter alia, determine the rate at which capital is replaced, and hence the most crucial variable in our present considerations, adjustment capacity (in addition to growth as such).

Essentially the issue boils down to the return to capital considered equitable by the social-political system. Two forces, trade unions and the state itself, may combine to reduce the capacity of industry to remain viable. The skill of trade unions in distinguishing between a strategy which collects the golden eggs, i.e. captures a full share of productivity gains, as opposed to one which kills the goose, i.e. undermines the capacity of enterprises to develop new product lines, maintain or increase productivity, etc. is perhaps the single most important factor explaining different economic performances in Europe. In addition to monetary factors, however, unions may also weaken the firms from which their members make a living by resisting shop-floor mobility and productivity-enhancing measures in general. Frequent strikes not only damage the financial viability of firms but lead to loss of customers or force firms to offer an "unreliability premium" in the form of lower prices.

The state, as executor of distributional bargains in society, may also "miscalculate" the capacity of enterprises. Corporate taxation levels are only the most obvious examples. Legislated social security payments fall essentially under the same heading. Legislative obstacles to periodic or permanent redundancies, or in the case of Austria and France, simple administrative injunctions against lay-offs, also cause considerable losses to enterprises. When British Leyland recently attempted to shut down its operations in Belgium, it found that it would be legally obligated to pay a sum three times as large as the value of its investment to compensate the affected work-force. Under such conditions it becomes cheaper to continue a loss-making operation. Another major if short-term government influence which endangers viability are price controls in periods of rapid inflation.

In its positive role as guarantor of industrial viability the government can offer credit, cash subsidies, etc. in order to correct the imbalances brought about by distributional politics. One can thus imagine a model where society and workers take money from enterprises with one hand - giving the illusion of advances in distributional justice - while the state taxes the putative gainers, provides finance to industry and thus reconstitutes the status-quo ante imposed by the iron laws of economics.

As will be readily obvious this is not the way things operate in the real world. First, not all firms would receive identical amounts of subsidies in relation to the social costs they assume. Rather such amounts would be forthcoming, i.e. politically acceptable, only when a given industry had been weakened to such an extent that employment was threatened. Firms in our model country would first have gone through years of running down reserves, deferring new investment for lack of cash. Subsidies will thus tend to make up for current operating losses (including replacement investment), enough to ensure short-term viability; but rarely they would be sufficient to off-set the previous loss of dynamism. Secondly, of course, not all firms are in fact compensated for social costs or unsustainable wage-bargains: there will be a systematic bias in favour of the weakest firms, i.e. those that pose the larger employment problem; and in favour of large firms, whose problems are more visible, get better political advocacy, and have larger secondary consequences in a region or for their industrial suppliers and customers. Thirdly, because state-support tends to be discretionary rather than rule-based, another decision-making layer is added to management. Unlike private banks who may also take part in managerial decisions as a condition of financial rescue, the bureaucratic and political representatives of the state will typically ask for undertakings responding to their preoccupations, i.e. labour policies or investment in certain locations which may cause future problems of viability.

This presentation may seem abstract but is highly relevant to a particularly European, and self-inflicted adjustment problem. In fact it is worth pointing out that a number of countries are now adopting the politically more difficult path of a general "restitution" to re-establish the viability of the private sector through cuts in corporate taxes, government sharing in social security contributions (e.g. in the Netherlands) and unions consenting to a fall in real wages - a particular heroic case being Great Britain under the Labour government.

These general solutions have the great virtue of rewarding efficiency of management and labour force and of not letting the general tax-payer shoulder the responsibility of thoughtless behaviour of either. Most economists, who are concerned with the general welfare, will applaud such measures. But there is an assumption that wages and social costs must, in the end, be compatible with some international standard of efficiency which determines whether a company will sink or swim.

The crises of trade

The problematical nature of this view becomes apparent if we compare all of Western Europe with e.g. Japan. We know that the rapid introduction of new technology in steel-making or ship-building is made possible through a relatively high proportion of national wealth devoted to industrial investment over social and private consumption. This is a legitimate social choice made by Japan. It is less obvious, to this author at least, to argue that Europe should adjust to this standard, either by getting out of the sectors involved or by changing their own standards.

In theory, a country, say Great Britain, which cannot replace its capital stock at the same rate as the strongest competitor, say Japan or Germany, and hence lower its costs at the same rate, can respond by devaluation. This will of course not improve its growth performance but could shelter it from competition. In theory, therefore, it is possible for societies to chose the status quo or to "grow old gracefully". In practice, there is no exchange rate low enough to off-set productivity differentials which may differ by an order of ten, once the process of low investment has gone on long enough.

Nor can an industry, and indeed a whole industrial society which has been underinvesting for a long time respond to, say, low labour costs elsewhere by capital deepening (coupled with rationalisation). For this it must attract outside finance, i.e. be "rescued" by benevolent banks, or more likely by the state (and the restrictions of labour utilisation, which may have been a cost-push factor of the profit/investment squeeze, would have to be lifted). In other words, keeping up with the industrially dynamic Joneses of this world means a change in the distributional bargains and social norms elaborated by society. The mood in Europe swings from the doubt, expressed in actions rather than words, whether the additional welfare gain is worth the candle, to ~~and~~ the defiant re-assertion of industrial dynamism.

A key question for industrial policy is precisely the outlook for international trade and how one imagines its future organisation. A seemingly persuasive logic draws a direct connection between a market and adjustment-oriented industrial policy (e.g. of the OECD-type) and a deepening of the international division of labour. A number of countries, e.g. Germany and Sweden (until recently) seem to conform to this model. The connection may, however, be the opposite. Here we can distinguish two cases, that of the successful and that of the unsuccessful trader (nation). Most successful ones, including Japan and the NICs, have <u>not</u> relied on market forces by themselves, but on private entrepreneurs motivated to benefit from an exceptionally favourable environment created by the state (including very high levels of protection).

For the uncussessful trader, free trade has meant an increase in industrial policy. In the latter case, trade protectionism and industrial policy are substitutes, while in the former case they were complementary, but in either case, trade meant intervention.

To illustrate the point: is it reasonable to expect the Community as a whole to become like Germany (the Germany as perceived at home and abroad, i.e. forgetting sectoral rationalisation policies carried out by the Banks and the State, the provision of credit and subsidies at the Land level, etc.); or is it more likely to be like Japan or the US, the one characterised by protection and strategic concentration of industrial effort, the other by protection and the subsidies inherent in the large and sophisticated procurement markets?

If the answer is: a bit of all three, protectionism would have to become part of total economic strategy, not, as at present, a panicky and belated reaction to sudden bursts of imports. Such protectionism would, of course, not consist of generally high tariff walls, with an implied reduction of international trade, but use the sophisticated techniques pioneered by the United States, especially in its relations with Japan: understandings on the rate of increase, and on the composition of imports, and price discipline which does not unduly undermine the oligopoly markets essential for modern, complex and capital-intensive industry.

In certain industries, the combination of industrial and trade policies is already taking shape: in steel, shipbuilding, fibres, textiles, and, to some extent, aerospace. These large sectors, with relatively few firms and often heavy state involvement, are moving towards what one might call "negotiated international division of labour", yet without provoking the "protectionist spiral", with declining trade, so often predicted by the advocates of free trade. By the time the proceedings of this conference are published, a similar framework will exist in the automobile sector.

It is, however, easier to introduce Comecon-like practices in portions of West-West trade than in North-South trade. The clumsy and complicated, unjust and partially ineffective Multifibre Agreement (which regulates trade in textiles, not fibres) shows the difficulties of dealing with a heterogenous group of suppliers, widely diverse types of goods, and a multitude of firms.

This is not the place to discuss how a balance between minimum market stability and the maintenance of high levels of trade can be achieved. But the linkage between industrial policy and trade policy is intimate enough to warrant further arguments in favour of deliberate if moderate protectionism at Community level. At its most superficial, the argument runs as follows: in the eighties slow growth and the introduction of labour-saving technology will lead to significant increases of unemployment. Any sudden increase in the import share of consumption (coming on top of the less visible loss of third markets for the same products) is bound to be resisted by hasty protectionist measures which damage not least the suppliers. Sri Lanka, with a quota of 16.7 million units in OECD textile markets, has built up a capacity of 670 million. South Korean colour TV industry, built up entirely for the US export market, was running at 20% in 1979 after the imposition of quotas. This kind of waste is bound to multiply.

On the other hand, given present policies, protectionism, while inevitable, will often come too late at the Community level to undo the damage suffered by firms through inadequate profit levels, a result of price competition, falling market shares, and the inevitable and costly lags in the shedding of labour.

On the policy level, the Common Market and the greater European free trade area are put at risk. For countries deprived of timely protection at the Community level will resort to three practices. First, they will practice financial protectionism which distorts competition within the European free trade area, leads to overcapacity and the accelerated substitution of labour by capital.[1] Secondly, some countries will try to breach the common commercial policy by asking for national exceptions from Brussels, and failing this, introduce illegal unilateral measures. Thirdly, they will be under pressure to use the limited means of protectionism still available within the EEC, which are, in addition to the financial protectionism already mentioned, non-tariff barriers of all kinds. All these developments can in fact be observed to day.

On a less empirical level, the argument for facing up to the inevitability of protectionism (and hence devising least costly means of practicing it) would require a lengthy paper in itself.[2] The starting hypothesis is that labour in Europe and the US is priced at an artificially high level, and that the expectation that exchanges between the unionised world and the free labour market in the rest of the world will automatically result in anything like a reasonable balance is based on hope rather than analysis.

In this view, the labour force in the democratic, unionised part of the world (which the new applicant countries have now joined) has been protected by a temporary monopoly, so to speak, of the ability to carry out complex production processes. This monopoly is rapidly eroding due to the rapid transfer of technology, real capital, organisational skills, market access skills, in particular by multinational production, banking, and trading companies.

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1 A similar problem does, however, also arise with tariff or quota protectionism, as the most efficient firms within the protected market use the extra margin (rent) for investment which drives their domestic competitors our of business. This is the experience of the US textile industry.

2 For a more extensive discussion, see W. Hager, "Common Policy Responses and the International System", in: Duchene/Saunders (eds.), "Old and New Industrialising Countries", London, MacMillan 1980 (forthcoming).

The medium and long-term outlook for relative wage levels in the free (i.e. capitalist autocratic) and administered (i.e. unionised democratic) parts of the world is for the gap to remain very large. At present, the total industrial labour force of the West numbers 74 million, producing some 700 billion in value added.[1] The industrial labour force of the market LDCs is larger, over 90 million, still only producing 87 billion dollars worth of value added, not to mention China with perhaps 70 million. While the number of workers is falling continuously in the West, numbers are increasing rapidly in the Third World, and productivity in increasing very rapidly in many countries. Moreover, 250 million people in the Third World will enter the labour force in the next two decades, much of it industrial.

Given the tremendous needs of the Third World, there should be no shortage of markets. However, given the very nature of the development policies of dynamic Third World countries, i.e. capital accumulation through keeping domestic consumption below the increase in productive output, with export earnings providing savings/investments, the following situation emerges: the developed market economies make up, at the same time, deficiencies of demand in the poorer countries <u>and</u> deficiencies of capital formation, directly and indirectly. This is not an equilibrium path of world economic development.

The problem would remain tolerable in the short terms, if the development of NIC industries were spread over a large number of sectors and purely market-determined. In fact, all NICs (including the past and future NIC, Japan) pursue policies which concentrate development on a limited number of

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1 These figures are taken from calculations made by Christopher Saunders on the basis of the UN Yearbook of International Trade Statistics ; I have rounded the figures off substantially, as the argument is about orders of magnitude.

sectors which are subsidised at every level: infra-structure, capital, and the export products themselves, plus protection of the home market. This subsidy is compounded by the export credits advanced by the rich countries, desperate for sales of capital goods.

As the examples of Taiwan (machine tools), Korea (ships, motor cars), and Brazil (aircraft etc.) show, there are now few sectors of Western industrial production inherently safe from competition. Hence the notion of "adjustment to comparative advantage" is doubly doubtful. First because workers in the West must manufacture routine products, not just space-age products, if they are to make a living. Secondly, because the kind of voluntarist, capital-intensive development now within the scope of the new Japans contains enough man-made advantages to suggest that the adjustment is now to the economic and industrial priorities of others, not to some stable pattern of factor endowments familiar from economic textbooks.

To sum up, the Community must formulate a view of the industrial structure it wants, of the speed of adjustment it considers socially and economically feasible and desirable, back this view with resources within its borders and communicate this view towards the outside. As repeatedly stated, the most urgent sector is the car industry. Although the problem here is Japan, the pattern may well be a harbinger of NIC-problems five years hence.

In deciding how much of its capital European industry is to devote to remain competitive, another, much more vital adjustment problem must be kept in mind: that towards an economy which consumes less energy. While the gains from trade (to the extent that they are not cancelled out by rising unemployment) are desirable, the loss of welfare associated with a prolonged state of energy scarcity is of a much larger magnitude: on optimistic assumptions several percentage points of growth foregone over a decade.

[illegible]

The question of energy may seem to be well removed from a discussion of European industrial policy, but it is the most crucial parameter of all. The starting point of this assertion is the virtual certainty that present OPEC members will reduce output in the eighties.[1] Given the lead-times and constraints on alternative supplies, including oil from other sources, the short-term answer must be sought almost exclusively on the demand side.

The implications of severely restricted energy availability for industrial policy can be described, either in terms of problems (caused by high prices and balance-of-payments effects), where governments simply deal with the side effects, or in terms of positive tasks undertaken by governments to accelerate adjustment to an alternative, low-energy consumption economy.

The problems are formidable enough. Slow growth, already generated by the socio-political forces described earlier, becomes a certainty, and occurs, not as a steady state, but as a series of sharp downturns whenever world energy demand approaches the supply ceiling. For individual firms, risks are increased. The outlook for both domestic and international markets becomes uncertain, either because the composition of demand shifts in response to relative price changes (automobiles, etc.) or because balance-of-payments difficulties dry up exports markets.

More generally, industry will have to invest in energy-saving equipment (added-on, or wholly new production facilities) and in the costly re-design of products which consume energy

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[1] This prediction, widely shared by experts in industry and international organisations, is based on nothing but economic logic: the moderate surplus producers are engaging in an unsustainable act of international charity by producing well beyond their needs. Politics comes in insofar as the forces of internationalism which are behind present policies, must necessarily give way to national policies, with or without regime changes.

(cars, appliances, etc.). This additional investment will not, as other forms of investment, increase output, but at best re-establish the status-quo with respect to costs and market-shares. The implications of this for profits ~~are~~ can be gauged by the "unproductive" investment costs imposed, especially in the US, on polluting industries in the seventies (up to 40% of all investment in some industries). While such investments contribute to remove long-term constraints on growth, as will energy-saving investment, company books show loss of profitability and low growth.

In may cases, such as automobiles, metal smelting and other energy-intensive forms of production and consumption, a net reduction of activity will be inevitable. This means a net loss, in terms of GNP statistics, of capital stock, infra-structure investment, and of skill investment in the labour force. With the usual lags, not least owing to technological complexity, other industries will expand, assuming that sufficient risk capital is available. The conclusion seems inescapable: at a time of serious economic loss (on top of the sheer financial transfer to the oil producers), the economy needs unusually large investment resources, i.e. a reduction of comsumption normally associated with earlier phases of economic development.

It is at this point, at the latest, that the general macro-economic setting for industrial policy must be mentioned. It is hard to see how a rapid shift of the allocation of GNP of the kind that is required can be achieved without an incomes policy. If present policies are maintained (the Friedmanite fashion in Western economic thinking comes at a very unfortunate moment), rising costs (the net loss due to adjustment, plus energy costs as such) will lead to accelerating inflation, which is then fought with a recession which leaves industry working at perhaps 70% of capacity, unable to generate the cash for its regeneration. Or, if effective competition keeps prices down (e.g. via international trade), firms will simply go bankrupt.

From the previous discussion it will have become obvious that industrial policy, in a period of exceptional difficulties, requires first and foremost a general view and a number of broad strategic decisions before it makes sense to think in terms of the mezzo- and micro-level sectoral policies implied in the definition presented at the beginning of this paper.

The general view would comprise such things as the rate of profitability considered necessary for industry to carry out adjustments; the share of GNP to be devoted to industrial investment; the speed at which the energy co-efficient of growth should be altered; the amount of competition, both external and internal, which is considered healthy in terms of the above objectives, etc. In addition, the approach favoured by a minority of the members of the British CBI, i.e. the designation of a minimal size of a few but crucial "core industries" should be examined, with protectionism as an honestly announced policy of last resort. As previously argued, this would merely make explicit and foreseeable an otherwise destructive and chaotic scramble.

In addition, the Community must make up its mind on a number of techniques of industrial policy, notably those used by Japan. These techniques, in Europe, are often discussed in terms of theology rather than pragmatism. One of these techniques is the recession cartell, a device routinely used in Japan for decades and recently formalised into law. A corollary to the implied rationing of production is the scrapping of old plants. But this is done in such a way as to leave the financial viability of enterprises intact, i.e. the owners of outdated plants are bought off.

This technique is now becoming especially relevant for a quick transition to a low-energy economy. Often micro-economic calculations suggest that an energy-wasting but fully amortised plant be kept operating, while medium-term macro-economic considerations suggest the opposite. This is a classic case of a public good being undersupplied unless the cost is born by all who profit, i.e. the nation as a whole.

A number of other techniques successfully used by Japan are occasionally practiced in single European countries but need to be applied to the Community as a whole. Thus certain forms of high-technology require, at an early stage, a concentration of effort; achieved both by agreeing on one or two standard techniques and on choosing the most promising firms with a chance of capturing a significant world market share. The former is being attempted by Brussels in the field of telecommunications where the aim is to agree to two competing systems in the early eighties. The reduction of firms competing in a single market is partially taking place through intra-European and international mergers, take-overs, participation or joint subsidiaries. But because the issue arises case by case, resistance of governments to losing national champions is great, leading to a (heavily subsidised) dispersion of effort. An industrial strategy for the eighties, on the Community level, must be comprehensive enough to allow package deals. This is the method pioneered, more or less unsuccessfully, by regional groupings such as Andean Pact and ASEAN. But the logic which inspired these attempts is the same: competition among units of insufficient size means non-viability for all, and heavy subsidies. Of course this only applies to few industries.

(A more detailed discussion of these points, together with a presentation of Commission proposals already on the table, as well as the sources of resistance will be incorporated in the later version of this paper.)

What are the implications of all this for the applicant countries? The basic point to make is that the broad thrust of policy matters much more than any detailed arrangements, including financial transfers, which might be negotiated with the Nine. A stagnating Community with falling industrial production and employment and stagnating incomes (tourism) is the worst possible environment for the applicant countries. The safety valve of employment for migrant workers, heavily concentrated in industrial employment, would be reduced in spite of a formally more liberal access. There would be increased pressure put on the large state-run and subsidised sectors of the applicants' economies by the old members using the free competition rules of the Rome Treaty. At the same time, free trade policies towards the Third World would cut into both home and export markets, e.g. for Portuguese textiles.

If, on the other hand, the Community as a whole conceives itself to be in what amounts to a developmental phase of industrial restructuring, the applicant countries would find themselves in a more kindred company. To the extent that external protectionism reduces financial protectionism within the Community, market chances for the applicant countries would increase. To the extent that profits and credit access of European industry are improved, new investment would find its way to Greece and the Iberian peninsula.

A particular opportunity for a positive industrial policy exists in the field of energy. The entry of the new applicants will lower the self-sufficiency level of the Community significantly. Yet these countries are ideally placed to profit from solar energy of all kinds. Present Community regional policy contains provisions for promoting renewable sources in the Mezzogiorno. This is a beginning, but a much larger effort makes sense in the context of enlargement. This is especially true if one thinks in terms of labour-intensive, medium-technology applications, i.e. solar collectors, and more importantly, biomass. Most studies show that one of the consequences of enlargement will be a rise in both industrial <u>and</u> agricultural employment in the applicant countries. On the other hand, Community policies will lead to increased and costly surplusses and subsidies of all kinds. It would be much more sensible to spend some of this money on future industries connected with solar conversion. For while these techniques are already competitive, extra money is needed to overcome the inertia which always slows the spread of a new technology. Unfortunately, given the bias of technocrats, most of the limited money spent on solar energy is allocated to Community projects which test solar thermal power stations, with negligible employment opportunities and unproven technologies which cannot make an impact before the nineties.

Solar energy is only one example which shows the need for non-market actors to look at fundamental industrial options. Planning is a bogey word apt to lead to sterile ideological debates. Japan, the most industrially-minded country on earth and well above suspicion of socialist tendencies, has no qualms about assessing fundamental industrial objectives every few years, and back its vision of the future with resources. A European Community entering an externally imposed and socially re-inforced mid-life crisis, and which has to regain some of the youthful vigour so characteristic of its early post-war phase of voluntarist development, must be willing to do likewise.

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ON

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE EEC

O

THEME IV: INSTITUTIONAL AND POLITICAL ASPECTS

PAPER: Decision-Making in an Enlarged Community

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Decision-making in an enlarged Community

Paper presented to the international workshop on "Southern Europe and the Enlargement of the European Community" organized by ECONOMIA in Lisboa from June 26 to June 28, 198o. (Please don't quote without the author's permission!)

Even if one disagrees with Dahrendorf's pessimistic judgement that in the European Communities "... we have locked ourselves into procedures and institutions which at times do more damage than good"[1], one has to admit that the decision-making process of the EC leaves much to be desired. The obvious deficiencies in the present functioning of the Communities and the concern that they may prove to be completely inadequate to meet the demands of an enlarged Community have induced the European Council as well as the Commission of the EC to call upon some "eminent persons" with special knowledge in European affairs "... to consider the adjustments to the machinery and procedures of the Institutions which are required for the proper operation of the Communities ..."[2] Whereas the European Council asked the "Committee of Three" [3] to review the whole set-up of Community institutions, the task of the Spierenburg-Group[4] was limited to the organization and staff recruitment of the Commission.

The experts have been unanimous in their judgement that the inadequacies in Community performance may not be remedied simply by procedural reforms, that the Community's inability to master the problems of the 7o's had more to do with political circumstances than with its institutional set-up. One major cause was the drastic transformation of its environment: the Community countries perceived a swift change from a period of sustained growth and relative political stability in international relations and in particular in the international economic system to an era in which the problems of internal conjunctural and structural disequilibria are aggrevated by the international struggle about a world-wide redistribution of income and wealth. But problems were, not only created by external developments. It were the decisions taken by the EC-countries themselves which further diminished their ability for common action. Their ambition to extend the sphere of co-operation beyond the establishment of a customs union and to admit new member countries inevitably increased the range of diverging interests and consequently the areas of possible disagreement widened.

These changes one could witness throughout the 7o's were accompanied by an evolution of the institutional system which itself - and this the Marjolin-Report ascertains quite appropriately - created additional problems of adaptation. What the Report fails to point out is the fact that this evolution proved to be unfit for reconciling the institutional structure with the political needs of the Communities. The EC-Treaties had established a well balanced structure: the Commission, considered to be the embodiment of European interest was given the right of initiative and the Council as personification of the divergent national interests retained the right to take the ultimate decision; a right wisely channelled in a way that only by unanimous vote the Council could override the Commission's proposal whereas it does not take but the majority of votes - with specific exceptions laid down in the Treaties - to have the Commission's policies accepted. These procedural provisions were supposed to strengthen the Commission's position vis à vis the Council. Majority voting, however, never became effective, because as early as the beginning of 1966 the member states agreed to disagree on this point: on the basis of the famous Luxembourg Compromise each member state may keep the others from taking decisions on any matter it consideres vital to its national interest. This deviation from Treaty rules certainly brought about a major change in the relationship between Council and Commission and deeply affected the Commission's perception of its own role in the decision-making process and what is even worse, its actual performance. A return to majority voting - still today considered by many as the best remedy to overcome the stagnation and inefficiency of Community policy-making - is not feasible under present circumstances and apart from that it would not restore the Commission's original function as motor of European integration.

In time of crisis member governments are even less inclined to give up political control. Especially not if the ground for common action is shrinking. The economic crisis of the 70's affected the Community members to quite a different extent and widened the gap between economic weak and strong countries. As divergencies were growing, member countries sought to overcome their difficulties by taking special measures on a national rather than European level. In such a situation the Community's attempt to go on from the once established customs union to the construction of a European economic and monetary union was bound to fail. The member countries only managed to agree on setting-up an institutional framework of intergovernmental co-operation - the European Council - which would enable them to reach common decisions on an ad-hoc basis whenever it seemed feasible, but they were unable to commit themselves to a fixed policy programme to be achieved within a decade. Such a long-term contract, however, would have been necessary to preserve the authority of the Commission.

The EC-Commission owns its influence to the Community-Treaties, which bestowed it with specific rights in the decision-making process and more than that provided it with the necessary legitimacy to devise European policies and to induce member governments to implement them. It was its duty to put into effect the political objectives of the Treaties and by doing so it could always claim to operate on the basis of a given consensus of the member states. At the same time it could only operate within the clearly defined framework of the Treaties. An international bureaucratic body like the Commission with no political legitimacy of its own could only be entrusted with such a predominant role in the decision-making of the Communities as long as the direction in which it would exercise its powers were clearly marked out by Treaty provisions. At the end of the 60's with the establishment of the customs union, the political guidance of the EEC-Treaty was more or less exhausted, consequently the Commission lost its original source of strength. Its endeavours to go beyond Treaty provisions and advance European integration by moving into new areas of co-operation was bound to produce opposition or at best meet with indifference. To quote Dahrendorf: "In the absence of clear and overriding political purpose, the Commission has been floundering, at worst serving as a secretariat to the Council, at best inventing essentially arbitrary projects of progress which rarely went very far." 5)

The Commission nevertheless has retained its role as "guardian" of the Treaties, which implies the power to act on infringements of EC provisions. The Commission's growing inclination to appeal to the European Court of Justice has increased the political importance of this Community organ. Because of its pro-European rulings the Court has in the last few years been considered by many as the real motor of integration. The affected governments on their part rather tend to warn of such tendencies as they are afraid that a too liberal interpretation of Community law and competences might discredit the Court's standing and ultimately induce member states to refuse to obey Court decisions.

There is a third task the Commission was asigned to in the Treaties, that of ensuring the proper functioning of the Common Market, not only by carrying out Council decisions but also by taking measures on her own to administer the day-to-day operation of the Community. As the Community nowadays constitute the largest single trading bloc in the world, this task is of particular importance. The Commission's performance has direct repercussions, the malfunctioning of the EEC is endangering European co-operation even beyond the realm of the Treaties.

In the present state of development the institutional structure as laid down in the Treaties of the EC may still be pertinent to the management of the status quo, it is, however, not apt to provide new initiatives to the kind of European co-operation the present internal and international crises demand. This state of affair is reflected in the setting-up of new institutions, institutions apart but at the same time very close to the decision-making system of the Communities: European Political Co-operation, which includes regular meetings of ministers for foreign affairs and political directors as well as a set-up of loosely organized multilateral diplomacy on lower echelons, and the European Council, which grew out of the irregular summit meetings of heads of state or government and which at the Paris summit of 1974 was turned into a special body, meeting at least thrice a year.

The three main tasks of the European Council - as they were defined in a letter by the French President of State, Giscard d'Estaign to his colleagues in Janurary 1977 - are:

- to provide a forum for a free and secret discussion on any question of European or international interest which is not designed to lead to any formal decision or even public statement,
- to enable the Nine to agree upon and to articulate a common political position, especially in matters of Political Co-

operation,

- to issue general guidelines and directions on matters of Community competence whenever the EC institutions consider it to be appropriate either because they touch on fundamental questions or because conflicting positions cannot be resolved at lower levels.

The European Council is in so far superior to Community institutions as it is the sole organ to deliberate matters of common concern irrespective of the fact that they may fall under the competence of the EC-Treaties, concern EPC regulations or fall outside any common obligations at all. Owing to its composition the European Council is most apt to handle questions of "high politics" and generate new initiatives to enhance European co-operation.

This dual institutional structure: the EC institutions which are bound to follow the procedures laid down in the Treaties and which are responsible for the implementation of the Treaty objectives on the one hand and on the other hand the European Council together with the decision-making system set up in the framework of EPC and EMS which have been established outside the legal provisions of the Communities and function as bodies of intergovernmental agreement, might look like an ideal solution to the present needs of European decision-making. Unfortunately it is not. The Nine have been unable to make sure that common decisions of highest political priority - like the one on the enlargement of the Community - are not distorted in the process of implementation, nor were they successful in redressing once established common policies which run counter to political objectives of the Treaties and are in striking contrast to the interest of the majority of European citizens - as is the case with the Common Agricultural Policy. In both instances it is not so much the underlying divergence of national interests which impede any reform but the dynamic produced by the decision-making structure the Nine have created.

The institutional evolution of the 7o's which shifted the balance from Community decision-making to European intergovernmental co-operation had been a necessary response to the nation-states' desire for a stricter control on European policies. The ability to control decisions does, however, not imply that decisions are taken at all. The lack of momentum in European integration has much to do with the fact that each member government may block the common decision-making and that the institutional structure as it is now does not give a sufficiently strong impetus to work together.

Recommendations how to save the European construction from the shortcomings of its present institutions have been numerous. Those most worthwhile to deliber are those of the Committee of the Three (Marjolin-Report), the Spierenburg-Group and Prof. Dahrendorf, former member of the EC-Commission, in the recent Jean Monnet Lecture. They all call for a reappraisal of the priorities of European co-operation. Whereas the Committee of the Three only indicates which organ it consideres best suited to set up such a "priority plan" and which procedures should be followed to attain them, Dahrendorf suggests specific areas of common interest: foreign policy, development, energy and resources in general, the government of the monetary system, trade, the operations of transnational companies and other aspects of international economic relations - preferably on a world-wide scale, and in the absence of the former on a regional level. Besides, in many of these fields the Community should be ready to accept a"Europe à la carte". The Marjolin-Report entrusts the European Council with the responsibility to elaborate such a consensus on the main lines of Europe's policy development and attaches a specific role to the Presidency. Dahrendorf on his part thinks that the fundamental idea of the Treaties of Rome, namely the "institutionalized dialectic of European and national interest" is still valid and should be re-established. The Commission in order to become a valid representative of the European interest should be given a genuine base of legitimacy which means that it should be elected by the European Parliament. He in particular is afraid that if one does not embark on a fundamental reappraisal of Community structures, many more European policies will - like the agricultural policy - be governed by minority groups with strong vested interests, run by a bureaucracy absorbed by its

complicated technalities and a Council of resort ministers too specialized to consider the overall implications of the decisions they take.
But even if one knew what to do and with what kind of institutions to do it, the problem how to bring about such a fundamental change is not solved. No procedural reforms will induce the European Council to bring about a reform it was not able to put through in the past, and a Commission backed up by Parliament will have no greater impact than the European Parliament itself can generate. Up to now the European Parliament, though directly elected, has not emerged as a transmission belt of European interests: too far removed from the citizens of Europe, entrenched in party structures which might look European but are still national in caracter, and too heterogeneous to agree on mayor common programms of action. A strong impulse to reform may rather result from acute crisis originating from a deep rooted conflict like the one on agriculture and the budget contribution of Great Britain. With this in mind, the imminent bankruptcy of the Common Agricultural Fund may be even welcomed. Another impetus for reform should derive from the enlargement of the Community. Though the new members are asked to accept "all rights and duties"of the Treaties and Community law as it stands, enlargement will inevitably come to an impasse if the rules of the past keep the new Community of Twelve to agree on an adaptation of the European construction to their common interest.

Though one might hope for deep going changes in the near future one should be prepared to face the problems which the accession of three new countries will create for the present Community structure. Enlarging the Community certainly does not bring about any qualitative change but it will make life even more difficult. In the first place, the Community will be subject to a protracted process of adaptation: even after the intervention of the French President of State it is hardly conceivable that the accession of Spain and Portugal will be delayed up to the end of the transition period for Greece. In any case there will be a lenthy interim period and in addition it is most probable that the transition periods of the three countries will overlap. The Community will be burdened with a particularly heavy work load and an increased administrative and technical complexity, and at present it may be questioned that it can rise to the challenge. But even in the long run decision-making will become more cumbersome. The sheer increase in numbers creates problems in itself. Some are of a temporary nature like the reorganization of the services and the recruitment of staff, some are of a more permanent nature like the language problem and the adequate channeling of an increasing flow of information and communication.

The numerical composition of the different Community organs and the change in votes attributed to each member country create no problem. Only with regard to the Commission it has been suggested not to further extend its membership for fear it might loose what has been left of its internal coherence and efficiency. Its restriction to twelve members, one for each country, is supposed to strengthen its collegiate character, to facilitate the even distribution of portfolios and ensure a better co-ordination of work. The arguments against sound little convincing as has been pointed out by the Spierenburg-Report. The comparision with national cabinets which at times embrace even more members is not valid either because their internal coherence is assured by political allegiances and organizational procedures laid down in the Constitution or standing provisions.

The necessary enlargement of the administrative substructures of Community bodies is more problematic. The demand for better personnel management including a more rational planning of staff requirements can hardly be met at a time when three additional nationalities in "appropriate numbers" have to be incorporated. As the administrative staff of the Commission and all other secretariats staffed with European civil servants cannot expand in proportion to the national quorums attributed to the new member countries, the present bottlenecks in career development will be felt even more and morale will inevitably suffer. All in all, enlargement makes the organizational reforms recommended by the Spierenburg-Group more urgent, but it dimi-

nishes the chances that they may be applied.
The language problem affects the effiency of the Community even more. At first sight the technical and financial burdens implied are predominant. The administrative difficulties will increase considerably when the present six languages will rise to nine. The Marjolin-Report already ascertained that it is not so much the translation of documents but the simultaneous interpretation from nine into nine languages which will become nearly unmanageable. Though the number of languages will only increase by a third, the personnel and running costs will double. The amount of time and money spend on translation and interpretation in relation to the actual work to be done will increase even further; already today more than half of the personnel employed in the Community are engaged in linguistics.
A restriction of the official languages of the Community is, however, not feasible. In a Community which is governed by the rule of law every citizen must have the right to insist that any Community regulation affecting him is spelled out in his own language. A comparison with other international organizations like the United Nations - which operates with only five official languages - does not apply because the General Assembly can only vote on resolutions and recommendations whereas the decisions of the EC-Council have legal force.
The reduction of working languages is not without problems neither.

In the day to day operation of the Community there certainly are many opportunities to limit the number of languages used. As long as this is done in a pragmatic and flexible manner responding to the needs of those who have to work together, this should create no problems and indeed, already today, it is common practice. Any rigid system, however, which would reduce the languages used in the Communities to e.g. English and French would encounter the unyielding opposition of the nations speaking other languages. Apart from considerations of status and prestige and apart from the fact that the exclusion of a language implies a disregard of the cultural heritage of the nations affected, the compulsory use of a limited number of languages is not acceptable because it would create unequal rights. When it comes to negotiating decisions which interfere directly in the social and economic life of member countries, it must be assured that throughout the various stages of discussion texts are available in each language and that the representative of any country may express himself in his native tongue.

The multiplicity of Community languages is less relevant to the Commission and the secretariats of Community organs which are staffed with European civil servants and continuously deal with European affairs. It entails more problems whenever national representatives are sitting on a committee who have been delegated by their respective national administration or any other national institution. They were selected on ground of their knowledge of the subject matter or their particular function and not on account of their language abilities. The use of so many languages unevitably hampers and distorts transnational communication. Even with simultaneous interpretation communication will suffer because interpreters not possessing all the necessary combinations of languages will have to work at second or third hand through their colleagues. Above all the direct communication between representatives from different member states will become more or less excluded; even small working groups of the European Parliament, the Economic and Social Council or any European Committee will require a tremendous amount of preparatory work, organization and staff just to provide it with the necessary linguistic facilities.

As a consequence European co-operation is getting even more cumbersome, lacking spontaneity and the easy connexion of personal relations so important for the development of a closer co-operation between parties, trade unions and other interest groups in Europe. Already today it can be noticed that the mutual knowledge of languages favour intensive informal communication and even the formation of transnational opinion groups whereas groups with common interests and political out-look may find it difficult to come to an understanding. Communication after all is not a problem to be solved by technical means alone; beyond the mere command of a foreign language it requires the knowledge of the cultural and social background of those who speak it in order to be able to grasp what they are taking about. There may be an educated few to meet such demands, but they certainly are not representative of the average European citizen. To leave the formation of European integration to a political elite may in the short run prove to be rather effective, under the premises of democratic participation and control and with respect to the long term objective of a European society as the necessary foundation of a lasting European political co-operation it is not desirable.

Mastering the problems of communication is a prerequisite to establishing good working relations among different nation states as well as among any social or political group dealing in transnational affairs. Language barriers are one problem, the adequate procurement of information is another one. Only when participants are certain that their situation and their demands are properly assessed they will consider compromising on an issue. In a Community of Twelve it will take more time and efforts to obtain all the information needed and in delibering a common policy to take into account all the different aspects involved. The enlargment of the Community does not only call for a reduction of administrative complexity but a reduction or rather concentration of Community activities in general. Already today the Community is hardly able to ensure a minimum of political coherence in its different fields of activities, not talking about its inability to find agreements which suit the divergent needs of all of the member countries at a time. The proliferation of Community tasks in recent years was anything but the deliberate development of European co-operation in fields of common interest. All too often new engagements were undertaken on points of minor importance to compensate for failures in established policies. As the range of commitments broadened, the working methods varied as well. The strict procedural rules of the Treaties certainly could not be applied to many of the new activities. Member states agreed upon new procedures, but as they were hesitant to accept binding rules or any new legal obligations at all, Community policy-making became more and more haphazard. What the Marjolin-Report qualified as "careless proliferation of new procedures and types of engagement" burdened the administrative machinery and increased the complexity of relations between member states. The resulting insecurity about future developments of European policy has contributed to the Community's stagnation. The Marjolin-Report deplores that the clear view of the range of common activities was lost, that links between various fields may hardly be spotted and that the harmonization of Community activities is missing. They recommend to define a role for non-Treaty methods that "acknowledges their occasional usefulness while avoiding the perils of proliferation"[6]. These recommendations are certainly worthwhile considering; to hope that they may become common practice, however, is not very realistic. To take clear and conscious decisions on working methods whenever a new subject is approached would be more appropriate for an academic exercise than the political behaviour of a large Community of states confronted with complex issues and divergent interests. In such a situation it is more likely that the present policy of muddling-through will prevail.

In this perspective it is even more important that member states - and this applies as well to the applicant countries - contribute whatever they can to entangle the maze of European policy-making.

The contribution of national administrations to the functioning of the Community is of highest importance. Indeed, the so-called Brussels bureaucracy consists mainly of national experts meeting more or less frequently in the Belgian capital to negotiate on Community matters. The main decision-making organ of the EC - the Council and its substructure - as well as the EPC-system is made up of national delegations. The efficiency of European policy-making therefore depends to a large degree on the nature of instructions formulated by the national authorities. To the authors of the Marjolin-Report the "co-ordination of policy positions and procedures in capitals is, in the last analysis, almost more important than co-ordination at the Community level. Even a perfectly integrated set of institutions in Brussels will fail to function if the instructions coming to different parts of the machinery from a single State conflict with each other." 7) That the report lays such stress upon a better preparation of instructions is in itself an indication that the domestic administration and especially co-ordination of European policies is still wanting.

The new member states will have to adapt their administration to meet the challenge of Community decision-making. The capacities for planning and implementing European policies will have to be developed. This does not only affect the respective ministeries but also governmental or non-governmental research institutions, agencies for regional development etc. Furthermore, the necessary organizational structures and procedures have to be established in order to ensure the domestic co-ordination of European policies. Co-ordination will have to take place between different branches of government but also between the Executive and Parliament and between the government and private interest groups. In the present Community member states have set up quite different arrangements for handling Community affairs, and the new member states will have to find arrangements of their own matching their individual

needs and capabilities. It is important, however, that this will be done with great care and circumspection.
Especially when a country is in charge of the Presidency, the effeciency of its domestic co-ordinating system deeply affects the operation of the Community. It is not so much for the sake of the Community but rather for that of the new member states that one should advice them to focus their attention on adapting their national administration to the tasks to be performed in Community policy-making; their administrative efficiency will be decisive for their ability to realize their own national interests on Community level. In addition to that, safeguarding its own interests requires the active participation of non-governmental organizations in European co-operation. As interest groups take an active part in the decision-making process of the Community, the individual organizations of agriculture, trade and industry as well as trade unions and political parties will have to see that they gain influence in the respective European federations. On the one hand it is important that in the formulation of a common strategy their special points of interest are taken into account, on the other hand it is not so much the impact on the policy of the European federation which counts but the influence which can be exerted within such a federation on the opinion and political position of relevant interest groups in other

member states. Governments may help interest organizations to enhance their European activities. As a matter of policy they may give special incentives and support to those groups which encounter greater difficulties in getting organized on a European level or they may leave it to the interests groups themselves which would imply that the already now well organized producer interests are gaining in strength.

Though European integration is mainly a matter of multilateral co-operation, bilateral relations play a decisive part. Important initiatives like the establishment of the EMS initiated from bilateral agreements. "Treaties of friendship" between individual countries proved to be a framework well suited to deliberate and prepare European policy. Such treaties which in general arrange regular bi-annual consultations have been contracted between France and the Federal Republic of Germany, Great Britain and Italy; the British Government itself established similar contacts with Bonn and Rome, regular consultations take also place between Rom and Bonn. Though these meetings are supposed to be reserved for discussions on bilateral relations, it cannot be excluded that Community problems which are of mutual interest are included. In recent years there has been a growing tendency to first find an agreement on touchy political issues in bilateral talks among the big member states -

in particular France, the Federal Republic and Great Britain, but also including Italy - before dealing with the problem on the Community level. The smaller member states more than often felt left out and they are afraid that this kind of bilateral concertation may further erode the substance of the Community structure. The way the conflict with Great Britain was handled looked more like the traditional policy of a "European concert" than Community dealings. Important decisions on international relations had also been many times at first the exclusive business of the big member states. Only after the massive intervention of the smaller states the "big three" agreed that the President of the EC-Commission be invited to take part in the economic summit to represent the Community. On the other hand there are initiatives of European co-operation like the EMS which include the smaller states but not all of the bigger ones. Already today there is not only one but there are several two-tier-systems within the Community. This fact of life certainly runs counter to any attempt to stream-line decision-making processes for the sake of greater efficiency and transparency - a prerequisite to any effective democratic control. In addi~~di~~tion, the existence of inner-Community alliances call for forming further coalitions in order to make e~~n~~sure that a satisfactory balance of interest may be preserved. Especially in France the idea has been cherished that the second enlargement may shift the internal balance in the Community more to the South, that it would enable the Mediterranean countries to close ranks and get a better share in the advantages of European co-operation. Recent statements of the French President of State indicate that such ideas are little more than phantasies as long as the respective countries do not find a common ground of interest and ways to co-ordinate and articulate them.

When entering the Community one should not only focus one's attention on the well-established legal procedures of EC and EPC-decision-making but also take a closer look on the modalities of interest formation in the given political environment.

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Portugal and the EEC: The Application for Membership

J. Silva Lopes

1. Introduction

The reasons why Portugal is deeply interested in becoming a full member of the European Community are not exclusively of an economic nature. As in the cases of Spain and Greece, political reasons play also a prominent role. They include, in particular, the aim of strengthening the democratic regime and the wish to participate in the movement toward a strong European unity.

The problems raised by membership of the Community cannot be confined also exclusively in the economic sphere. Many other aspects are relevant. It is well-known that political, legal, administrative, and social consequences will also be highly important. In spite of that, the present paper deals only with economic issues.

Economic theory does not provide satisfactory guidance to assess the probable impact which membership of the EEC may have on the Portuguese economy and on its development prospects. The theory of economic integration is concentrated mainly in static aspects, which, according to the attempts at measurement made, have been of scarce relevance in actual integration schemes. The dynamic aspects are considered by far more important, but they do not lend themselves to precise analysis in concrete situations. The split of views of 504 of the most distinguished British economists in 1971 on the question of the advantages or disadvantages for the United Kingdom from joining the Common Market, taking both short-term and long-term considerations into account, is a clear illustration of the shortcomings of the theory of economic integration as far as policy decision making in that field is concerned. A questionaire asking each economist's judgment about those advantages or disadvantages, sent to all full-time teachers of economics in British universities by Harry Johnson and Nicholas Kaldor, produced 199 answers in favor of entry on economic grounds, 208 against, and 97 without a pro or anti-position (Day, 1971).

In spite of the lack of precision that inevitably affects all opinions in this area, the present paper takes the view that, if Portugal joins the Common Market, it is to be expected that the prospects for the development of its economy will improve considerably. It is argued that the participation of Portugal in EFTA and the free trade agreement concluded with the EEC in 1972 have, on balance, produced significant positive economic results until now (Sections 2, 3, and 4). It is explained that, in principle, membership of the European Community will not bring significant changes to the possibilities of protecting Portuguese industries against the competition of imports from the EEC and may contribute substantially to improve the prospects of increasing Portuguese exports of manufactured goods to that area (Section 5). It is recognized (Section 6) that it would be unrealistic to expect that the considerable gap in the levels of economic development between Portugal and the richer regions of the Community could be entirely closed within a comparative short period of, for instance, two decades. But it is asserted that such a gap would certainly tend to be larger and would persist for a longer period if Portugal remained outside the Community.

These views need, however, to be qualified. They are based on some important assumptions: First, that membership will contribute to the quick elimination of the obstacles that the Community has maintained against some textiles and agricultural products with great relevance for Portuguese exports.

Second, that the Portuguese participation in the Common Agricultural Policy will not lead to a net transfer of resources from Portugal to the rest of the Community, as it has been happening with the United Kingdom, and that, on the contrary, there will be a substantial financial assistance from the Community to the development of the Portuguese economy. Third, that the quality of economic policy making in Portugal and the basic political and social conditions will be favorable to the investments and the structural transformations, both in agriculture and in the industry, which may be stimulated by membership of the Common Market. Fourth, that Portugal will not be called in the medium run to participate in a monetary union with the other EEC member countries, and will, therefore, be able to keep, during a sufficiently long period, an independent exchange rate policy. Finally, it is also implicitly assumed that freedom of labor movements between Portugal and the other Community countries will be established after an adequate transitional period, but that emigration flows will not reach levels which may create significant difficulties either to the receiving countries or to the Portuguese economy.

Many particular areas where the effects of the Community policies will be strongly felt (fisheries, transportation, financial sector, taxation, regional policy, social security, etc.) are not considered at all, both because of constraints concerning the size of the present paper and of the need to avoid dispersion into issues of detail.

2. The system of trade relations between Portugal and the EEC and EFTA countries

Portugal has been closely involved in the movement for European economic integration since its beginning in the post-war period. During the early 1950s quantitative restrictions on imports were eliminated under the EEC program of trade liberalization. In 1959, Portugal became one of the founder members of the European Free Trade Association. In 1972, when the United Kingdom and Denmark left EFTA to become members of the European Economic Community, Portugal concluded a free trade agreement with the EEC, similar to those of its remaining EFTA partners. That agreement was afterwards revised in 1976 and 1979.

As a consequence, barriers to trade on nonagricultural goods between Portugal and both the EEC and the EFTA countries have already been dismantled to a large extent.

Quantitative restrictions to imports from the EEC and EFTA into Portugal and to exports from Portugal to the EEC and EFTA have been almost completely eliminated since the beginning of the 1960s. There are, however, important exceptions. On the one hand, Portugal has maintained quotas for the imports of motor cars and has applied restrictive regulations to the imports of refined oil products. On the other hand, Portuguese exports of textiles and clothing to the EEC and to several EFTA countries have been subject to quotas in recent years.

Tariffs on nonagricultural trade between Portugal and the countries of EFTA and the EEC have also been already almost entirely abolished.

In 1967 about 35 per cent of imports of nonagricultural products from EFTA were already benefiting from duty-free access to the Portuguese market. In about 15 per cent of the some imports, only fiscal duties (without protective effects) were levied. Moreover, in the remaining 50 per cent of those imports, customs duties had been reduced by the 1st January 1970 to half their base level in 1960.

Dismantling of tariff barriers on nonagricultural imports from the six original members of the EEC and Ireland began on April 1, 1973. July 1977 those barriers had already been eliminated in about 35 per cent of such imports and they had been reduced by 60 to 80 per cent in the remaining imports.

Since January 1, 1980 about 80 per cent of imports of non-agricultural products from the Community have been enjoying duty-free entry into Portugal. The proportion of tariff exemptions of imports from EFTA is roughly similar.

The ad valorem incidence of the duties which still remain has been reduced to less than 5 per cent in a great proportion of the cases. Apart from agricultural products, it is only in about 5 per cent of the Portuguese imports from the Community that the level of protection is still significant. Even thus, such protection does not, as a rule, exceed 20 per cent. Moreover, according to the provisions of the existing free trade agreement, the duties which still remain will be abolished until 1985.

Some of the duties which still have a significant incidence, have been introduced to protect Portuguese infant industries or industries facing serious difficulties. In fact, both the free trade agreement with the EEC and the EFTA rules recognize to Portugal the possibility of introducing until the end of 1982 new tariff duties, up to the limit of 20 per cent ad valorem to protect infant industries Those duties must, however, be gradually dismantled until 1985.

For motor cars, a transitional scheme of protection to the Portuguese domestic production which is due to start soon, has been agreed with the Community and EFTA.

Finally, Portugal has applied since 1975, for balance of payments reasons, a surcharge on imports which affects about 40 per cent of the imports from the EEC and from EFTA. The rate of that surcharge has been of 30 per cent in most cases until 1978, but in that year it was reduced in two steps to 10 per cent. Since the surcharge is justified mainly by difficulties in the balance of payments, rather by protectionist measures, it is reasonable to assume that it will be phased out before long, independently of the negotiations of Portugal with the Community.

As regards tariffs on the exports of nonagricultural products from Portugal to EFTA and to the EEC, they have already been completely eliminated for quite some time. Those exports have been enjoying dutyfree access into the EFTA markets (including the United Kingdom and Denmark) since January, 1967. Similarly, the EEC (the six original members and Ireland) has not been levying any duties on the same products since July 1, 1977. Apart from a special timetable applied to some paper products (until January 1, 1984), the only exception, maintained until January 1, 1980, was the one which recognized the right to the Community of reintroducing customs duties on imports of some textiles and other so-called sensitive products, whenever they would exceed the annual ceilings specified in the free trade agreement of 1972. Nevertheless, this limitation was never effective, mainly because Portugal was forced to accept quota restrictions on its exports of most items of textiles and clothing to the Community.

The effects of the quotas imposed on the exports of textiles and clothing have, however, been extremely important. Such quotas affect about one third of the total Portuguese non-agricultural exports to the Community. Their negative impact on the growth rate of overall exports is undoubtedly very strong, since textiles and clothing have been, in the last 20 years, the most dynamic component of Portuguese exports, and the one where Portugal has more pronounced comparative advantages in relation to the Community member countries.

Although the present paper does not deal with problems of agriculture, mention should also be made of the significant obstacles applied by the Community against the imports of some Portuguese agricultural products, the most important of which are wines, canned fish, and tomato puree. The free trade agreement of 1972, renegotiated in 1976 and 1979, provides for some tariff concessions in favor of such exports. In spite of that, the barriers against their penetration in the Common Market remain high. In tomato puree they have even been considerably reinforced by changes in the rules of the Common Agricultural Policy applied to that product.

3. The effects of the reduction of obstacles to imports from EFTA and the EEC into Portugal (1959-78)

Table 2 presents the growth rates and the elasticities with regard to GDP of Portuguese imports from the EEC, from EFTA, and from all the world. Three periods are considered: 1954-59, the period after the Korean war, up to the creation of the EEC and EFTA; 1959-72, the period covering the implementation of most of the provisions concerning the elimination of trade barriers of both the EFTA Convention and the Treaty of Rome, extended up to the year when the United Kingdom and Denmark left EFTA to join the EEC, and when Portugal, like other EFTA members, concluded a free trade agreement with the Community; and 1972-78, the period of implementation of the free trade agreement of 1972 with the EEC, up to the last year for which the relevant statistics are easily available. In that table the United Kingdom and Denmark are included in the same group as the EFTA countries. This is because, as as explained above, most of the obstacles on their trade with Portugal have been dismantled in accordance with the time tables set up in the EFTA Convention, rather than those of the 1972 preferential trade agreement between Portugal and the Community.

According to what should be expected, the figures presented in Table 2 show very clearly that the imports of Portugal were affected to a significant extent both by Portuguese membership of EFTA and by the free trade agreement with the EEC.

As it is well-known, there is no entirely satisfactory way of evaluating accurately the magnitude of the effects of trade creation and of trade diversion resulting from economic integration.

A rough attempt at quantification may, however, be made on the basis of the method proposed by B. Balassa (Balassa, 1967, 1975). That method is based on the assumption that, in the absence of integration, the income elasticities of imports of the period 1954-59 would have been maintained in 1959-72. With such an assumption, an increase from the first to the second period of the income elasticity of imports from the whole world would reflect net trade creation due to the participation of Portugal in EFTA. In turn, the increase of the income elasticity of imports from EFTA would be due not only to that trade creation effect but also to trade diversion. Finally, the decline of the income elasticity of imports from the EEC would indicate trade diversion against those imports and in favor of those from EFTA.

Table 1. Growth of Portuguese Imports 1/ 2/

Imports from	Total imports			Manufactured goods		
	1954-59	1959-72	1972-78	1954-59	1959-72	1972-78
	(Annual rates in percentages, volume)					
World	6.4	11.8	-3.0	7.4	12.2	-2.9
EEC (Six)	9.3	9.7	+0.1	9.7	9.6	+0.1
EFTA (with UK and Denmark)	5.3	13.1	-5.8	5.2	12.9	-5.1
	(Income elasticities, with regard to GDP)					
World	1.6	1.8	-0.8	1.9	1.9	-0.8
EEC (Six)	2.4	1.5	--	2.5	1.5	--
EFTA (with UK and Denmark)	1.4	2.0	-1.6	1.3	2.0	-1.4

Source: OEEC and OECD trade statistics.

1/ The same unit value index of imports has been used as deflator for the current value of total imports and imports of manufactured goods from the three areas considered. The effect of increased oil prices in the period 1972-78 has been excluded on the basis of a rough calculation. Consequently, the figures of Table 2, particularly for the period 1972-78, are very appropriate.

2/ Without oil and diamonds.

The assumption on which this method is based is open to criticism. For one thing, it disregards changes in the competitive power of different import suppliers (due to differences in rates of productivity increases, to exchange rate adjustments, to differences in the rates of inflation, to marketing efforts, etc.). For another, it does not take into account modifications in the structure of demand in the importing country, that may imply changes in income import elasticities. In these circumstances, the results provided by the method can only be taken in estimates of the relative order of magnitude of the effects analyzed.

According to the income elasticities of Table 1, in 1959-72 there was apparently no net trade creation as a result of the participation of Portugal in EFTA. And in the period 1972-78 there was actually trade reduction, instead of trade creation, in spite of the progressive reduction of the tariff duties levied on most Portuguese imports coming from the EEC.

These results are in clear contradiction with those that, in principle, would be expected. It is, however, possible to point out some important reasons which explain the contradiction. On the one hand, the income elasticities of the period 1954-59, used as a benchmark for comparisons, are quite high, because this was a period of rapid reduction of quantitative import restrictions in Portugal, and also a period when the Federal Republic of Germany, which has been the main supplier of Portuguese imports of manufactured goods, was increasing its competitiveness very quickly. The assumption that, in the absence of EFTA effects, those elasticities would remain the same during the years 1959-72 tends, therefore, to underestimate trade creation. On the other hand, the trade reduction in the period 1972-78 is clearly explained by changes in the structure of Portuguese demand (with the reduction of the share of imported capital goods and of other expenditures with a high import content), by the surcharge introduced in 1975, and by the sharp depreciation of the escudo, in real terms, during the years 1976-78.

The trade divertion effects are much more clear. If the income elasticity of imports from EFTA had remained in 1959-72 the same as in 1954-59, those imports would have amounted in 1972 to approximately only two thirds of the value which was actually reached. Since the trade creation effect has probably been quite small, the difference, amounting to about US$180 million at 1972 prices or 2 per cent of GDP, was due mainly to divertion of imports from other suppliers to EFTA countries.

The comparison of elasticities for imports from the EEC in 1954-59 and in 1959-72 does not produce reliable results since, as mentioned above, the elasticity of the first of these two periods is unduly influenced by the rapid recovery of exports from the Federal Republic of Germany to Portugal. However, it is apparent that in 1959-72 imports from the EEC were affected negatively to a significant extent by trade divertion in favor of EFTA. Without the preferences which were benefiting imports from EFTA, it would have been expected that, contrary to what happened, the income elasticity of those imports would have been exceeded in 1959-72 by that of imports from the EEC. In fact during that period EEC exports to the rest of the world were showing greater dynamism than those of EFTA.

In 1972-78, import divertion effects in favor of the original members of the EEC were also very noticeable. This is the result which should be expected, given the fact that products from the Community were gaining preferential advantages similar to those previously which were benefiting imports from EFTA. Imports of manufactured goods from the EEC (Six) in 1978 were almost 40 per cent higher than they would have been if the change in their value since 1972 had been the same which was recorded for comparable imports from the rest of the world (including EFTA). However, that difference overstates trade divertion for two reasons: first, because without trade divertion the volume of manufactured imports from the rest of the world (including imports from EFTA) would not have declined so much; second, because there was also probably some trade creation, which means that, without the preferential trade agreement with the EEC, the volume of total imports of manufactures into Protugal would have been decreased even more than it did between 1972 and 1978.

The lack of accuracy of the trade creation and of trade diversion mentioned above does not allow a precise conclusion about the effects on the Portuguese economy of the dismantling of protective barriers, first against imports from EFTA and afterward against imports from the EEC.

The fact that trade creation has certainly been exceeded by trade diversion is to be interpreted according to the static theory of customs unions as an unfavorable result. But even assuming that there was no trade creation at all, the welfare losses from trade diversion would be extremely small. Trade divertion in favor of EFTA up to 1978 has amounted, in that year, to at most 2 per cent of GDP as mentioned above. The usual method of estimating the welfare effects resulting from trade diversion is to multiply the volume of trade diverted by half of the tariff. The average incidence of the Portuguese m.f.n. tariff on imports of manufactured goods was in 1972 certainly much lower than 20 per cent. Thus, an upper limit to the welfare losses in 1972 caused by the diversion of Portuguese imports in favor of those coming from EFTA would be 0.1 per cent of GDP. This loss was by far more than compensated by the gains from increased exports which are analyzed in Section 4.

It should be added, that the trade diversion which occurred in the period 1972-79 in favor of imports the EEC (Six), had almost certainly a positive effect on welfare. To a large extent such diversion corresponded merely to a reversal of the changes in favor of EFTA imports that had occurred in 1959-72. As a consequence, the impact of total diversion of Portuguese imports was undoubtedly much smaller in 1978 than in 1972. This corresponds to the common sense conclusion that if Portugal grants preferential treatment to imports of manufactured goods from the EEC and EFTA and applies only moderate tariffs on those goods against the rest of the world, trade deviation cannot be very important, since a great proportion of those imports would come from the EEC and EFTA even without integration effects.

It may be questioned if an analysis based on the static theory of customs union, like the preceding one, has relevance for a country like Portugal, which may have good reasons to protect its industries against the competition of imports from more industrialized countries (because of external economies associated with industrial production, including those subsumed under the argument for protection of infant industries, or because of other causes of divergency between market prices and social opportunity costs). This issue will be considered in Section 5. It can, however, be pointed out here that the fact that trade creation was probably very small provides an indication that so far Portuguese industries were not put in great difficulties by the eliminiation of protectionist barriers against the competition from EFTA and the EEC. From a dynamic point of view this may be considered as a favorable result. As far as the period 1972-79 is concerned, this may be due in part to the protection afforded by the surcharge and the exchange rate policy. But an important explanation may also be found in the fact that Portuguese industrial production has been largely concentrated in those branches where Portugal has a comparative advantage in international trade or where there is a natural protection against imports (because of transportation costs, of other advantages of being near to the market, etc.).

5. The effects of EFTA and the EEC on Portuguese exports, from 1959-78

The membership of Portugal in EFTA and the free trade agreement with the EEC brought very substantial benefits to Portuguese exports. Table 2 shows that during the period 1959-72, when the preferences in the EFTA markets started to produce their effects, the average growth rates of exports from Portugal to those markets were significantly higher than the rates of growth of exports both to the EEC (Six) and to the rest of the world. A similar situation in favor of the exports to the original six members of the Community is found in 1972-78, as a consequence of the tariff dismantling provisions of the free trade agreement of 1972.

But more rigorous conclusions can be reached by looking at the changes of the shares of imports from Portugal in the imports from the whole world into EFTA, EEC, and a "control" group formed by the United States, Canada, Japan, and Spain. The relevant data are presented in Table 3.

The methods for measuring the effects of integration on trade by analyzing changes in market shares such as those presented in Table 3 are usually based on one of two alternative assumptions. The first is that, in the absence of economic integration, the trend shown by market shares during the pre-integration years would be prolonged during the post-integration period. The second is that, in the absence of integration, the trend in market shares in the post-integration period in each of the integrated areas would be the same as the trend in market shares actually recorded in a representative control group of countries outside any integration scheme.

Tables 2 and 3 show that, in the case of Portuguese exports, the first of these two assumptions would be completely unrealistic and would not lead to any meaningful results. In fact, it appears from the data of these tables that the dynamism of Portuguese exports increased noticeably from 1954-59 to 1959-72 and fell sharply afterward during the period 1972-78. This was due to reasons which, to a large extent, have nothing to do with the European integration movements. In the first of these periods there was a rapid development of the supply capacity of export industries (textiles, clothing, electronic products, wood pulp, tomato paste, etc.). This development is probably explained in large part by the membership of EFTA, but its effects spilled over into exports to other areas as well. In turn the volume of exports declined sharply in 1972-78 because there was some reduction capacity in the export sector (mainly in the sector of electronic products) and because the competitive.power of Portuguese exports was badly affected by the political and social troubles of 1974-75, by increases in costs, and by delays in adjusting the exchange rate.

The second of the assumptions mentioned above provides a much more fruitful basis for analysis. However, even that assumption suffers from some shortcomings. The market share of Portugal in total imports of the group formed by the United States, Canada, Japan, and Spain was in 1979 probably above what would be normal, as a consequence of particularly high exports in that year of raw materials to the U.S.A. and of foodstuffs to Spain. On the other hand, the same market share was depressed in 1978 by the fact that, in that year, the difficulties of supply, demand, and competitiveness affecting Portuguese exports were particularly strong in some foodstuffs and some raw materials with great weight in the sales to those four countries. For these reasons, the trend in market shares of manufactured goods are probably more representative for control purposes.

In spite of these reservations, it does not seem unreasonable to assume, on the basis of the data of Table 3, that, in the absence of integration, the market shares of Portugal in the imports of both EFTA and the EEC would have remained roughtly stable in total imports and would have increased about one third on manufactured goods in the course of the years 1959-72. Similarly, an approximation to what could have happened in 1972-78 in the absence of integration effects, can be given by the assumption that, without such effects, the market shares of Portugal in EFTA and the EEC would have declined during that period by one third, both as regards total imports and the imports of manufactured goods.

These assumptions lead to the following results:

a. Because of the participation in EFTA, the exports of Portugal to that area reached in 1972 a value which was more than the double of the one which would otherwise have been reached. That difference, which shows the effects of both trade creation and trade diversion in favor of Portugal, corresponded to about US$280 million at prices of 1972, or approximately 3 per cent of the GDP of that year. About two thirds of the difference are due to favorable effects on the exports of manufactured goods. It must be added, however, that actual benefit to the exports of Portugal from the participation in EFTA was certainly even higher than indicated by the figures just mentioned. In fact, if Portugal had remained outside EFTA, it would have suffered negative effects of deviation in favor of intra-area trade, and its exports to EFTA would have been lower in 1972 than in the hypothesis of no integration effects, taken as the basis for the calculations of the figures above.

b. The negative diversion effects arising out of the fact that Portugal remained outside the EEC (Six) corresponded in 1972 to approximately US$80 million, or 30 per cent of the exports of that year to the Community. About 60 per cent of that loss was borne by manufactured goods.

c. Because of the 1972 free trade agreement with the EEC, exports to the original six members of the Community were in 1978 almost the double of what otherwise they would have been. This reflects the effects of trade creation and of the elimination of the negative trade diversion of the preceding period. Those positive effects represent an increase of about US$450 million (at 1978 prices), or 2.5 per cent of GDP, in total exports and of US$350 million in exports of manufctured goods.

d. During 1972-78 there was apparently no further additional benefits in exports resulting from the participation of Portugal in EFTA. This suggests that all the trade creation and positive trade divertion effects of that participation took place during the previous period 1959-72. The positive effects on Portuguese exports from trade deviation in 1959-72 may even have been partially cancelled in 1972-79 as a consequence of the extension, during this last period, of preferences in the EFTA countries in favor of imports from the EEC (because of the free trade agreements of 1972) and from developing countries (because of the generalized system of preferences). The quotas to the exports of Portuguese Textiles were also an important factor.

Table 2. Growth of Portuguese Exports 1/

(Average annual growth rates, volume)

Exports to	World	EEC (Six)	EFTA	Rest of the world
Total exports				
1954-59	3.5	6.9	-0.1	3.5
1959-72	9.7	8.8	16.3	6.6
1972-78	-3.2	4.1	-5.8	-7.3
Agricultural products 2/				
1954-59	4.6	9.2	-1.3	1.3
1959-72	5.9	3.2	16.8	7.1
1972-78	-7.1	-2.0	-10.5	-8.7
Raw materials 3/				
1954-59	-3.5	-0.7	-4.0	-4.8
1959-72	7.0	9.2	8.5	4.2
1972-78	-6.1	-5.8	-5.7	-5.2
Manufactured goods 4/				
1954-59	6.2	11.0	3.7	5.9
1959-72	12.0	13.9	21.9	6.9
1972-78	-1.7	12.6	-5.2	-6.9

Source: OEEC and OECD trade statistics.

1/ Without oil products and diamonds.
2/ SITC sections 0-1.
3/ SITC sections 2 and 4.
4/ SITC sections 5-9.

Table 3. Shares of Imports from Portugal in Imports from the Whole World

(In percentages)

Imports into	1954	1959	1972	1978
		(Total imports)		
EEC (Six)	0.36	0.34	0.26	0.32
EFTA (with United Kingdom and Denmark)	0.42	0.37	0.87	0.56
United States, Canada, Japan, and Spain	0.24	0.16	0.24	0.13
		(Imports of manufactured products)		
EEC (Six)	0.20	0.20	0.20	0.31
EFTA (with United Kingdom and Denmark)	0.31	0.32	0.92	0.57
United States, Canada, Japan, and Spain	0.14	0.14	0.19	0.12

Source: OEEC and OECD trade statistics.

5. Prospective additional effects on Portuguese imports and exports from membership in the EEC

It has been explained in Section 3 that most tariff and nontariff obstacles to trade in nonagricultural goods between Portugal and the Community have already been dismantled. From this point of view, Portugal is much closer to free trade with the Community than either Spain or Greece. Furthermore, the barriers which still remain will in principle have to be dismantled in the course of the next five years. It can be said, therefore, that membership in the EEC will not bring about big changes in the conditions for the protection of the Portuguese industries against import competition both from that Community or from EFTA.

The main changes that are expected are those that may result from the adoption of the common tariff of the Community, from free trade with Spain, and from the application of the Community system of generalized preferences in favor of developing countries. In addition, there are the problems associated with the trade of agricultural products under the rules of the Common Agricultural Policy.

The adoption of the common external tariff of the EEC will not bring any significant difficulties. The incidence of the Portuguese tariff against non-EFTA and non-EEC countries is very irregular but on the average it is already very low. This is due to the fact that most of the rates of the Portuguese tariff duties are specific and have been sharply eroded by world inflation and by the devaluation of the escudo, in spite of the doubling of most of such rates in 1976.

The adoption of the Community system of generalized preferences is not also a cause of serious concern. The safeguards of such a system are sufficient to prevent any disruptive effects. The competition of imports from certain countries with which the Community has concluded preferential trade agreements may create some difficulties. But is expected that, if they appear, they will be confined to the specific cases of some particular products.

The problem of free access of imports from Spain into the Portuguese market is, however, extremely important. Due to its geographical proximity and to the fact that its comparative advantages are more similar to those of Portugal, Spain may create in many sectors much bigger competitive difficulties for the Portuguese industry than any of the present members of the EEC. This may be considered a positive result for those who consider that trade creation is always a benefit. But, apart from that, there are a few points that have to be taken into consideration. First, Portugal is already comitted under the agreement of Spain with EFTA, to start dismantling its protective barriers, against imports from Spain. That commitment covers, however, only the initial stages of tariff reductions. The schedule of reductions for later stages is not yet fixed. Second, the opening of the Portuguese market to imports from Spain, after both countries join the EEC, will be accompanied by the introduction of TVA in Spain and consequently by the elimination of the subsidy element which, according to complaints often heard, is contained in the border tax adjustments applied to Spanish imports and exports. Finally, Portugal will have as a compensation the opening of the Spanish market in several products where its competitive power is higher and which, until now, seem to have faced strong protectionist barriers (duties, licensing difficulties, and border taxes in excess of those levied on domestic production).

The effects of membership in the trade of agricultural products should also be mentioned, because of their importance, although it is not the purpose of the present paper to deal with such products.

In agricultural imports, the effects of trade creation will probably be moderate, since in recent years the producer prices of the most important agricultural products have tended to be lower in Portugal than in the Community (Lobão, 1979, and Balassa, 1979). There will be, however, a pronounced deviation of imports from third countries which are low-cost producers of cereals, meat and sugar, to higher priced supplies from the Common Market. This deviation of imports will have large costs to the Portuguese balance of payments. Their higher prices, together with the levies on imports from third countries which will have to be assigned to the Community budget, will bring a heavy burden. It has been estimated (Lopes, 1979) that if the rules of the Common Agricultural Policy (as regards prices and levies) had been applied, the cost to Portugal of its imports of agricultural products in 1978/79 would have increased by approximately US$350 million, in the absence of Monetary Compensatory Accounts. This result, in spite of its lack of precision, points to one of the most serious problems in the negotiations for the membership of Portugal in the EEC. Since Portugal imports about 50 per cent of its foodstuffs, it could find itself in the position of net contributor to finance the budget of the Community and the farmers of some of the richest countries in Europe, if adequate safeguards were not adopted. In the following section some further comments will be presented about this position.

If Portugal joins the Common Market it is probable that the consequences on its exports will be very pronounced. It is true, that apart from the case of agricultural goods, there are no further Community tariff duties on those exports to be removed. But, as mentioned before, the restrictions applied at present to the imports of textiles and clothing are extremely important. Indeed, one of the main economic reasons why the present free-trade agreement with the Community is not considered satisfactory and why Portugal is interested in full membership is that of avoiding restrictions of that type in the future. With the current trend toward protectionism, directed particularly against the so-called "new industrializing countries," among which Portugal is usually classified, there is the risk that such restrictions may be extended to other manufactured goods. The risk is especially high in the case of products with a high content of medium-skilled labor, which are exactly those which offer better prospects for the expansion of Portuguese exports.

Membership of the Community may in principle contribute enormously to reduce that risk. It will provide much better assurances against the introduction of new trade barriers than the existing free trade agreement (in spite of the fact that the reintroduction of trade barriers is also forbidden by that agreement). Membership may thus contribute strongly to attract investments both national and foreign, to the Portuguese export sector.

Unfortunately, there are signs which indicate that probably full membership of the Community will not preclude entirely protectionist measures against Portugal in certain products considered as sensitive. Some of the present member countries have given indication, in the negotiations which are at present under way, that they will press for the continuation, during the transitional period, of the current system of restrictions against Portuguese textiles and clothing. It is to be expected that the negotiations will lead to an agreement in which no restrictions are allowed at all. But if this is to be completely impossible, the minimum that must be achieved is the progressive and quick reduction of such restrictions over a short transitional period. If this was not going to happen, the basic principles of the customs union, in which the European Community is founded, would be put in jeopardy. And period. If this was not going to happen, the basic principles of the customs union, on which the European Community is founded, would be put in jeopardy. And this would occur exactly in the case of the relations with one of the poorest countries in western Europe, which, even in those products where its competitive advantage is better, will never be in a position to have a big share in the Community total demand, because of the small size of its economy.

6. Membership and the long term development of the Portuguese economy

The analysis presented in sections 3 and 4 suggests that so far economic integration with the industrialized countries of Western Europe has been clearly favourable to Portugal.

It may however be argued that such analysis is not sufficiently conclusive. On the one hand, the period of free trade may be considered too short for the long term effects to become apparent. On the other hand, although the process of tariff dismantling began in 1960, that process was spread over many years and is not yet totally completed. On the other hand, the Portuguese industrial sector continues to show a strong structural weakness. The only exports which grew substantially as a consequence of the agreements with EFTA and the EEC were those which are based in the availability of raw materials (wood-pulp and tomato purée) or on cheap labor (textiles, clothing, electronic products), as has been typical of the manufactured exports of developing countries. According to some opinions, integration with more developed economies may have created serious obstacles to a more diversified industrial structure, with a higher density of vertical and horizontal inter-sectoral input-output linkages.

Differences of views of this kind are very common in the discussions about the effects of international trade on economic development.

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It is interesting to remark that one of the first cases of reduction of trade barriers which attracted vigorous debates of well-known economists, is related to Portugal. This was the Methuen Treaty of 1793 (reproduced in Adam Smith, 1776, Book IV, Chap. VI). Under that agreement, Portugal committed itself to eliminate the prohibition that it had maintained before against the import of woollen clothes and the rest of woollen manufactures from the British. In turn, Great Britain obliged itself to admit Portuguese wines with a preferential tariff duty corresponding to two thirds of that applied to the wines from France. This agreement was criticised by Adam Smith (loc. cit.) as being unfavourable to Great Britain because it created preferences only in favour of Portugal and because those preferences produced trade diversion effects. In the famous example of trade of wine and cloth, used as the basis for his theory of comparative advantages, D. Ricardo implies that the Treaty of Methuen brough economic benefits both to Portugal and the United Kingdom. Friederich List (1885, Book I, Chapter 5) held a completely different opinion. He criticized Adam Smith and argued that the Treaty of Methuen pushed the Portuguese textile industry into ruin and produced an enormous deficit for Portugal which had deflationary effects in its economy, while providing Britain with precious metals which improved its money supply and helped to settle its trade deficits with other countries. The Treaty has also been analysed by several Portuguese economists (see the authors mentioned in Magalhães, 1967, Appendix VI, and in Macedo, 1968), who, in many cases, find in it an explanation for the failure of Portugal to participate in the industrilization movement of the 19th century. Finally, in a modern and detailed analysis of the impact of the same Treaty, S. Sideri (1970) concludes that the division of labour produced by it had important negative effects for Portugal, which include: difficulties for industrialization and for the diversification of the produtive sector; chronic trade deficits and foreign indebtedness; deterioration in the terms of trade arising out of the specialization in a primary product; dependence from Great Britain; and consequences on the sociological and political stuctures which hindered economic development.

Apart from this example taken from the history of Portugal, many others are often presented in support of the view that the economic development of backward areas may be negatively affected by their integration with more developed ones. A classic case is that of the consequences of the economic and political union of Italy in the 19th century on the aggravation of the underdevelopment of the Mezzogiorno. It is also argued that since the EEC was formed more than twenty years ago, the disparities between the richest and poorest regions have not been reduced significantly, in spite of active regional policies implemented by national authorities. Although it can also be said that, in relative terms, the regional disparities within the Community have not been widened, it seems that this result reflects mainly the consequences in per capita income of outward emigration from the poor and depressed areas to the more prosperous centers (Cairncross et al., 1974, Chap.3; Buck and Harper, 1978).

There is also plenty of theoretical arguments emphasizing that the economic integration of areas with different levels of economic development may be dangerous for the more depressed or backward of those areas: the principle of circular and cumulative causation of Myrdal, further developed by Kaldor ; the theories of polarization of growth by Perroux and Hirschman; and the radical views about the effects of international trade on the economic development of poor countries (S. Amin, A. Emmanuel, A. Gunder Franck, C. Furtado, etc).

The only solid conclusion which can be presented about the long run effects of integration in that they are extremely diffuse and depend in an enormous variety of factors which it is almost impossible to predict (including transformations of political and social structures, the developments of the world economy, etc). It is for that reason that widely divergent opinions can be held with equal vigour about such effects. It is therefore only natural that some economists (for instance S. Holland 1979, and M. Silva, 1980) assert that the membership of Portugal in the Community will imply an even greater dependency of the Portuguese economy from the core of Western Europe and the forced adoption of a model of development which is not the most suitable to the interest of the Portuguese people.

The position taken in the present paper that the membership in the EEC will be favourable to the long term development of the Portuguese economy is based to a large extent on the arguments presented in the preceding sections. According to such arguments, free trade with Western Europe has brought until now much more advantages than losses. Besides, it has been explained that the protectionist measures which still remain to be removed are already of comparatively small importance. This is a point which seems to be over looked by some authors (Esser, 1978; Deubner, 1980) who express strong fears that a large proportion of Portuguese manufacturing industries will not be able to withstand the competion of other Community countries if Portugal joins the Common Market.

Another argument, already presented in section 5, is that Portugal will have much better prospects for expanding its export sector if it becomes a member of the Community than if remains outside. The importance of this argument is emphasized by the fact that in a country with the economic dimensions of Portugal there is no realistic alternative to a development strategy based on the growth of exports. The shortcomings of the strategics based on import substitution are now widely recognized, even for countries with comparatively large domestic markets (Krueger, 1979). In Portugal, the impossibility of basing industrialization on such strategics is dictated by the smallness of the domestic market, which for many manufactured goods, corresponds to only one third to one fifth of that of a country as small as Denmark, and to 2 to 3 per cent of those of France or the Federal Republic of Germany (Lopes, 1965). Although some efforts aimed import substitution may provide useful results (particularly in agriculture and energy) there are few doubts that the rate of economic growth in Portugal will be strictly determined by the rate of growth of exports.

In fact, during the last few years the growth of the Portuguese economy has been tightly constrained by the balance of payments. The large traditional disequilibrium in the trade balance has recently been aggravated in considerable proportion by the deterioration of the terms of trade resulting from the price increases of imported oil . Since emigration has dwindled down to much lower levels than those of the late 60's and early 70's, workers remittances will not cover in the future so large a proportion of the trade deficit as in the recent past. Consequently, the rate of growth of imports and of GDP is dependent to a large extent on the rate of expansion of exports. As an illustration of such dependence, let is assume that the income elasticity of imports of goods and services is 1.2 in the medium run, and that within 10 years imports of goods and services should not exceed exports by more than 20 per cent (due to the inevitable decline in the real value of emigrant's remittances and the difficulties of servicing a fast growing external debt). In those conditions, the growth rate of exports required to achieve an average annual increase of GDP of the order of 5 per cent would have to be of at least 7 per cent in volume, in the absence of the further deteriorations of the terms of trade. In view of the not very encouraging outlook for the world economy, such a target for export growth will be almost impossible to achieve if Portugal remains outside the Commun Market. The experience of the recent past has shown very clearly that the existing free trade agreement does not provide sufficient guarantees against the introduction of protectionist measures which will be required by the investors who might contribute to the enlargement of the capacity of the Portuguese export sector.

In spite of the preceding arguments, the negative views about the effects of integration on economic development can not be disregarded. It must also be specified that the opinion presented in the present paper should not be interpreted as suggesting that the integration in the EEC will give the possibility to Portugal of attaining quickly the average levels of living of the rest of the Community. What is meant is that the gap in the economic development of Portugal as compared with the Western European averages would probably be wider without membership than with it.

It should be added that the argument about the similarity between the economic integration of countries with unequal levels of development and the problem of regional disparities within countries is not a very valid one. There are important differences. Thus until the stage of full monetary union is reached, each of the member countries of the EEC will be able to manage its exchange rate, an instrument of economic policy which is not available to the different regions of a given country. The possibility of adjusting exchange rates may compensate differences in productivity and in the changes of domestic costs and prices. In such a situation, the trends toward uniform wages among the countries of the same trade bloc are certainly much weaker than those which operate among the different regions of the same country. Consequently it will be possible for wages to reflect much more closely the international differences in productivity than the regional ones. Thus it is to be expected that the less developed members of the EEC may be able to keep an adequate competitiveness for attracting new investments, even if they receive less financial assistance than that which is provided to the backward areas of some countries in the framework of the regional policies of their governments. It is true that exchange rate flexibility will be totally lost in a full monetary union. But the EEC is very far from such a stage. The European Monetary System in a very poor first step that, in spite of some success up to now, contributes, very little to ensure long - run exchange rate stability or the convergence of the trends in productivily and inflation. Furthermore, if monetary union was to be established in the EEC within the foreseable future, it would have to include not only complete freedom of labour but also massive transfer of financial resources to the poorest regions of the Community, on at least the same scale as those that are currently taking place at national level within some countries.

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Even without monetary union, the role of financial transfers will be of the utmost importance to ease the adaptation of the Portuguese economy to the conditions created by membership in the Community.

It is true that the absence of protection to Portuguese industries against imports is not only feasible as it is argued above, but may even be advantageous. Without such protection, there is a much greater probability of avoiding costly economic mistakes like those which are often found in countries with ambitious programs of import substitution. Among the benefits which Portugal reaped from the elimination of tariff duties and other barriers against imports from the EEC and EFTA, a special mention should be about the reduction of the bias against exports and about the improvement of the allocation of investments.

But this does not mean that the mechanism of free international competition will always produce the most desirable results from the point of view of long term economic development. The appropriate management of the exchange rate may play a large part of the role which has traditionally been ascribed to tariffs, quantitative restrictions and export subsidies. But there may be good economic justification for providing some industries either in the import substitution or in the export sectors, with differential protection in relation to others. Such justification includes the traditional argument for the protection of infant industries (which may be even stronger for new export industries) and the need to compensate other differences between social and private costs.

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If tariff duties and quantitative restrictions are not available as instruments to provide the required protection, financial subsidies must be envisaged. They may be more efficient then the traditional protective devices (Little et al, 1970). Most countries in the Community have a large recourse to such subsidies in the framework of their assistance to the poorer regions, to depressed industries or to new industries on the frontier of technological progress. Portugal will need of course similar policies to stimulate the growth and the structural improvement of its economy. Every effort has to be made to avoid transforming Portugal into a "pyjama republic". This is why the problem of financial assistance to the Portuguese economy constitutes certainly one of the most important chapters in the negociations for the entry of Portugal into the Community.

This has often been recognized in official statements of Community leaders. The problem of financial assistance was dully emphasized in the basic document prepared by the Commission of the EEC about the negociation for the membership of Portugal (Commission of the EEC, 1978). It has also been clearly stressed in several studies by foreign economists concerning the same negociations. Some of them (C. Heimpel, 1978; K. Esser 1978) have presented detailed suggestions about the forms which such assistance might take, which are worth of careful consideration.

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But in spite of all that, there are reasons to fear that it will not be easy to reach a level of transfers appropriate to the needs of the Portuguese economy. First, the Common Agricultural Policy, if it is not radically transformed, may impose, as mentioned in section 5, a big burden on Portuguese consumers and on the Portuguese balance of payments, which will probably offsett a significant proportion of the transfers which are needed in the opposite direction. Second, the Community budgetary problems are becoming more serious every day, and it will not be easy to find the resources to be allocated to the economic assistance to Portugal and the other candidates for membership, as well as to the poorest areas and the weakest sectors of the existing Community. Thirdly, it is to be feared that Portugal will show an insufficient absorptive capacity in the use of Community funds, due to the shortcomings of the efficiency of its administration for the preparation and implementation of projects which might receive financial contributions from the Community Funds (EAGGF, European Regional Fund, Social Fund). Finally, some of the rules for the distribution of Community financial contributions may be too rigid or badly adapted to the needs of an economy like that of Portugal (a point which is explained in Lopes, 1979).

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WORKSHOP

ON

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE EEC

THEME III: THE NEED FOR NEW POLICIES

PAPER: Agricultural Policy

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Lisbon, June 1980

Southern Europe and the Enlargement of the EEC

III.1 The Need for New Policies: Agricultural Policy

1. The theme of this paper is that the Common Agricultural Policy needs renewal. The cherished arrangements worked out during the 1960's no longer meet adequately the needs of the Nine. The enlargement of the Community to the South creates both a reason and opportunity for new thought.

The paper has two main sections, first why reform is needed and second, what options need now to be considered. Inevitably much of the comment must be critical so it is important at the outset to recognise the important positive achievements of existing policies. These have allowed farming to be included in the Community, they have ensured a substantial growth in intra-Community trade, they have provided a measure of stability for farmers and consumers and they have allowed a substantial net income transfer to agriculture.

In securing these goals the CAP has inevitably conferred particular benefits on some groups within the Community. Products such as cereals, milk and sugar have received higher levels of protection than fruit, vegetables, eggs or poultry. Net agricultural exporting member countries have had a substantial bonus in terms of receipts for trade far above those available in the world market. Countries whose currency has appreciated have received subsidies on their exports, depreciating member countries a subsidy on their imports. Such benefits and the corresponding costs which they involve represent part of a complex set of trade offs within the Community. They are resistant to change and make the path of the reformer difficult. At the same time, where they are accepted as part of an equitably balanced Community they provide a powerful reason for its continuation. Reform must therefore take into account attributes which are wider and more significant than the fortunes of agriculture alone.

2. Why the CAP needs renewal.

(a) <u>The Purposes of the policy</u>

A common agricultural policy was prescribed by the Treaty of Rome. Its remit was specified in rather general terms, Articles 38 and 39. These included:- (paraphrases of text in English).

(i) Article 38 - the extension of the Common Market to agriculture.

(ii) Article 39(a)

- improved productivity, the rational development of agriculture and the optimum use of factors of production, particularly labour,
- <u>thereby</u> to ensure a fair living standard and increased earnings for those in agriculture
- stable markets
- regular supplies
- reasonable prices to consumers.

(iii) Article 39(b) proper attention to

- the social structure of agriculture, natural disparities between regions
- the need for gradual adjustment
- the place of agriculture within the economy as a whole.

Such a remit left the important issues of implementation to the deliberations of the Community. It was, however, sufficiently broad to accommodate changing circumstances and sanction a flexible approach to their solution. There is thus no need to rewrite the Treaty to renew the policy.

The accumulated experience of the Community, in putting these general objectives into effect conditions current attitudes. To challenge it is regarded as non-Communitaire. It is therefore vital to outline what is at stake.

First, the instruments embody the notion of a preferential market within the EC for Community farmers. This is secured by tariffs and variable levies on imports, by export restitutions and for key products by arrangements for intervention purchase. In practice the internal price level of the Community has been well above import prices and generally higher than prices paid to farmers in agricultural exporting countries.(Tables 1 & 2).

Second, the policy enshrines the notion of financial solidarity. Expenditure on price support and part of the cost of structural (or guidance) policies is met from the European Guarantee and Guidance Fund (EAGF). Since this fund accounts for most expenditure from the EC budget it represents one important, visible way in which intra-Community resource transfers occur.

Third, the policy has sought to ensure a single price system throughout the Community. The administered, official prices determined by the Council of Ministers (initially in units of account) in European Currency Units are transferred into national currencies at agreed agricultural reference rates of exchange. In principle this should mean that farmers, although paid in their own national currencies receive the same value for their output. In practice the rates of exchange used for agricultural purposes have been allowed to deviate from market rates of exchange. As a result, to prevent unwanted price movements within member countries, trade has been accompanied by an elaborate system of ~~taxes~~ border taxes and subsidies known as 'monetary compensation'. At times these compensatory amounts have been so large that official prices

Table 1 EC entry price of certain agricultural products as percentage of Third Country offer price.

Product	1968/9	1973/4	1974/5	1975/6	1976/7	1977/8	1978/9
Common wheat	195	79	107	124	204	216	193
Durum wheat	214	116	120	145	236	218	216
Husked rice	138	60	81	137	166	128	157
Barley	197	96	107	117	147	206	225
Maize	178	98	106	128	163	203	201
White sugar	355	66	41	109	176	255	276
Beef and veal (live animals)	169	110	162	158	192	196	199
Pigmeat	134	131	109	113	125	137	155
Eggs	137	159	111	164	:	:	:
Butter	504	320	316	320	401	388	403
Skimmed-milk powder (spray)	365	156	139	266	571	494	458
Olive oil	173	96	113	217	192	211	205
Oilseeds	203	77	80	127	121	153	161

Source: Agricultural Situation in the Community 1979.

Table 2 Farm prices for selected agricultural products* 1977/78.

	B/L	D	F	WG	Ir	It	N	UK	G	P	Sp	$ US
Wheat	20.76	19.01	16.25	23.33	17.28	21.24	19.61	15.88	-	15.18	14.77	10.47
Barley	18.00	17.29	14.41	22.26	16.80	18.24	18.40	14.86	-	-	11.72	9.32
Sugar beet	16.00	16.80	16.00	15.70	14.24	13.45	15.76	17.13	-	-	-	-
Cattle	156.95	133.28	138.33	168.88	120.48	145.60	157.46	105.24	(199.60)	151.75	113.01	75.84
Pigs	141.62	157.16	154.71	152.11	117.84	122.20	132.89	100.14	(183.55)	137.20	94.98	86.86
Poultry	95.17	91.39	91.39	90.74	93.66	100.87	86.84	82.40	130.20	100.82	73.50	52.03
Milk	21.83	25.39	-	28.55	-	26.96	24.20	18.72	-	19.42	19.97	-

*Weighted average prices (unit values) received by farmers per 100 kg for all types of sales (livestock prices per 100 kg liveweight).

( ) = carcass weight.

Source: U.N. Economic Commission for Europe, FAO, Prices of Agricultural Products and Selected Inputs in Europe and North America.

measured at 'market' rates of exchange have deviated by as much as 40%.

Consensus about these objectives, a single market, common financial responsibility and Community preference is sometimes assumed to imply that the specific instruments employed cannot be questioned. In practice such a view is unrealistic. From the outset the Community has been forced to adopt its instruments to meet changing circumstances even when, as with monetary compensation, the adaptation seems to imperil a central principle of the policy.

In this paper both the Rome Treaty and the experience of operating the CAP will be accepted as defining currently accepted criteria for the policy. It is in the light of these assumptions that it will be criticised and its reform discussed.

(b) <u>A new Community needs a New CAP</u>

The fundamentals of the CAP were established when the Community had only Six members. Success has led to growth as first Denmark, Ireland and the UK, and then Greece, Portugal and Spain sought to join. Accession required negotiations to allow new members to adapt to Community rules and policies. Throughout the concept was of an existing institution extending its writ but not changing its character.

In fact, although such a concept may be correct in legal form, represent the intention of those who joined and seem to preseve what has been painfully agreed, it is unworkable. A larger Community becomes a different Community. The interests it embraces must seek a new balance. The policies which were equitable and effective for the founders may become oppressive for those joining later. To face this reality is neither to deny the achievements of the Community as it stands, nor to give undue weight to the problems of new members it is rather to prepare the ground for discussion of today's needs.

Tables 3, 4 and 5 indicate some of the ways in which the Agriculture of the Community will be changed by enlargement. Several important features merit special mention.

The agricultural population of the Community will be increased by half. Most of the new agricultural workers will be poor, with limited resources of land or capital. Within the Community the contrast between the modern industrial agriculture, rich in capital and with a much lower labour input, and that of traditional small scale farming will be intensified. Inevitably the tension between policies designed to meet social priorities and those relating to the volume of output will grow. Higher prices to secure social goals would lead to sharp problems of surplus and budgetary provision.

The agriculture of the new members forms a more important part of their economic and social fabric than in most existing members. Properly this must be reflected in the significance attached to the political weight of farming in the Community. It can in no way strengthen the Community to create conditions which undermine the political stability of its members.

The new members add substantially to the agricultural output of the Community. In total the new members will add about a quarter to EC agricultural output but this proportion understates their significance for certain products, fresh vegetables, citrus fruit, other fruit, wine/tobacco and olive oil. These products, with the exception of olive oil receive modest levels of protection within the existing EC. Olive Oil is generously protected at substantial cost to the budget. It seems inevitable that a higher priority will have to be given

Table 3 Land Use, 1977.

'000 ha

	EC 9	Greece	Portugal	Spain	New Members
Total land area	150350	13080	9164	49954	72198
Arable, permanent crops and permanent pasture	93406	9265 F	4105*	31354 F	44724
% of total land area	62.1	70.8	44.7	62.7	61.9

Population, 1978

'000

	EC 9	Greece	Portugal	Spain	New Members
Total population	259785	9370	8878	36312	54560
Agricultural population	18456	3637	2452	6644	12733
% engaged in agriculture	7.1	38.8	27.6	18.3	23.3
Total economically active population	111283	3946	3445	12753	20144
Agricultural	7594	1532	951	2412	4895
% engaged in agriculture	6.8	38.8	27.6	18.9	24.3

Source: FAO Production Yearbook, 1978

* unofficial figure

F FAO estimate

Table 4 Production of Selected Agricultural Products, 1978.

'000 tonnes

	EC 9	Greece	Portugal	Spain	New Members
Cereals:total	116397	4355	1036	16180	21571
wheat	47134	2660*	252	4795	7707
barley	39476	956*	39	7953	8948
maize	16172	537	433	1933	2913
rice	995	92	131	411	634
Beef & veal	6411	104*	81*	391	576
Mutton & lamb[1]	509*	76*	23*	130	229
Pigmeat[1]	8749	123*	144*	803	1070
Milk (cow)	105135	705*	735F	5763	7203
cheese	3205350	165100F	27000F	140000F	332100
butter	1920990	7000*	4200F	22000*	33200
Sugar beets	76856	3000*	95F	8227	11322
Potatoes	37811	944	1160	5316	7420
Vegetables	29534	3481F	1743	7867	13091
Tomatoes	5078	1751	679	2153	4583
Fruit	37368	3054	1308	10179	14541
Grapes	20866	1375F	845	4560	6780
Olive oil	497	262	33*	510	805
Wine	13219	435	557	2903	3895
Tobacco leaves	169	113	13F	32	158

Source: FAO Production Yearbook, 1978.

* unofficial figure

F FAO estimate

1 relates to total number of animals slaughtered within national boundaries.

Table 5 Trade in Selected Agricultural Products, 1978, EEC, Greece, Spain and Portugal

1000$

	Existing EEC Members			Greece			Portugal			Spain			Additional EEC Members		
Product	Total Imports	Total Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance	Total Imports	Total Exports	Balance
Bovine Cattle	1549440	1455326	-94114	6100F	-	-6100	7000F	85F	-6915	7050	1229	-5821	20150	1314	-21464
Sheep & Goats	157974	97361	-60613	-	-	-	56	-	-56	235	3396	3161	291	3396	3105
Pigs	504781	476733	-28048	-	-	-	1200F	-	-1200	527	113	-414	1727	113	-1614
Meat (total)	7039525	5866615	-117291	270029	-	-270029	25531	77	-25454	165244	20448	-144796	460804	20525	-440279
Bovine Meat (fresh)	3232322	6283113	3050791	218000F	-	218000	22552	-	-22552	95758	874	-94884	336310	874	-335436
Fresh Sheepmeat	6671254	255566	-6415688	22000	-	-22000	540F	-	-540	1558	4762	3204	24098	4762	-19336
Poultry	538313	65281	473032	-	-	-	380F	77F	-303	12718	2550	-10168	13098	2627	-10471
Bacon & Ham	730793	693166	-37627	-	-	-	40F	51F	9	163	920	757	203	971	768
Butter	1665908	1859296	193388	4500	-	-4500	2500F	30F	-2470	3591	56	-3535	10591	86	-10505
Cheese & Curds	2093305	2289442	196137	10500*	4800F	-5700	2420F	3079F	659	40617	1887	-38730	53537	9766	-43771
Cereals	668539	533189	-135350	17552	7550	-10002	35257	2	-35225	60371	4879	-55492	113180	12431	-100749
Wheat & Flour	2217114	2285971	68857	520	73000	72480	95536	-	-95536	35290	28157	-7133	131346	101157	-30189
Rice	581776	407330	-174446	-	2500	2500	16301	-	-16301	122	17520	17398	16423	20020	3597
Barley	1136860	1365528	228668	31000F	-	-31000	4400F	-	-4400	346	960	614	35746	960	-34786
Maize	2489053	1081764	-1407289	144000F	-	-144000	196540	19F	-196521	495437	1193	-494244	835977	1212	-834765
Sugar	1123763	1273194	149431	39	4100*	4061	41963	1749	-40214	31740	32	-31708	73742	5881	-67861
Oilseed Cake (meal)	2670151	696652	-1973499	11000F	8300F	-2700	44841	1041	-43800	109389	488	-108901	165230	9829	-155401
Wine	1939857	2371826	431969	406F	24250F	23844	128F	147863	147735	2750	258109	255359	3284	430222	426938
Tobacco	1916807	313878	-1602929	6800F	215557	208757	16293	-	-16293	157508	1382	-156126	180601	216939	36338
Oranges	989707	107425	-882282	-	75720F	75720	270	-	-270	29	414963	414934	299	490683	490384
Olive Oil	159196	53541	-105655	-	82500F	82500	7035	5257	-1778	-	112455	112455	7035	200212	193177

Source: FAO, Trade Yearbook, 1978.

* = Unofficial figure
F = FAO estimate
minus = net import requirement

to these sensitive products in an enlarged EC than among the Nine.

In some ways the trade pattern of the new members may seem helpful to the existing Community. As net importers of cereals and animal products, including milk, they would afford some relief to the pressure of surpluses. In practice, however, the dimensions of such imports are small in comparison with the surpluses and the upward trend in output among the Nine would rapidly offset such extra sales. Enlargement will not solve the surplus problem. Still more the diversion of trade to the new members from existing sources around the Mediterranean and elsewhere may exacerbate the Community's trading problems with third countries. Since some of these have few alternatives to agricultural exports the effect on their welfare and political stance cannot be ignored.

None of these characteristics of the agriculture of the new members should delay membership. However, unless the problems are recognised and some changes made in the CAP the stresses they imply for new and old members alike could lead to frustration and disillusionment on both sides.

(c) The CAP and the use of Community resources

The authors of the Treaty boldly set as one aim for the CAP, the optimum use of the factors of production. The operators of the policy seem to have by-passed this imperative in formulating their plans. It is, however, fundamental. Good resource use enriches the Community, permits it to reap the economic fruit of internal competition and potentially creates more income earning opportunities for all EC citizens. So far as the manufacturing aspects of the EC economy is concerned such a policy has been pursued with resolution. In agriculture the picture is quite different.

The principle instrument of the CAP is price support. Ministers have consistently sought to maintain prices which would prevent their own farmers being forced out of business. Such an approach is understandable on political and social grounds. It is damaging in economic terms. Resources are retained in uses for which the market is unwilling to pay. Only by artificial restrictions on supply, import levies, export subsidies and intervention purchases can such prices be sustained. The income transfers so arranged do not enable the recipients to adapt to a pattern of economic activity which is valued at more than its factor cost by the public as a whole, instead they help to freeze resources in current uses.

This is not the whole of the damage involved. For individual farmers in a growing economy only increased output can enable incomes to keep pace with other sectors. Thus more resources tend to be drawn into farming, more capital, more machines, more fertilisers etc, all of which have values in other uses. The consequent growth in production reaches absurdity when despite the virtual exclusion of third country imports, it cannot be sold within the Community. As a result EC resources are given away to third countries in the form of export subsidies.

Rising levels of unemployment have been cited as reason for keeping people on the land. In the circumstances of the 1980's such an argument must be taken seriously. It is for several reasons fundamentally unacceptable. First, it sees a solution to unemployment in terms of protecting one sector. Such a philosophy applied to the economy as a whole would lead to growing inefficiency, increasing vulnerability to third country competition in export markets and deliberate retaliations against EC exports. The ultimate consequence would be more not less unemployment. Second, since agriculture is already heavily protected and increasingly self-sufficient, growth in farm production due to technical advance would require ever increasing income transfers to subsidise dumping in world markets. The Community cannot finance this open ended commitment. Third, maintaining agricultural employment involves using other scarce resources both on the farm and in an infrastructure of agriculturally related facilities and industries. These resources might well create more employment within an urban environment. Fourth, the defensive approach to employment misses the opportunities which current technology provides. For the first time many men can be rich without needing to work all the time.. The challenge is to evolve a way of life which accepts this, and which conserves rather than exhausts non-renewable resources particularly by avoiding production for which no true demand exists.

Since 1968, with the publication of the Mansholt Plan the Community has been aware of the unsatisfactory nature of its agricultural price policy. Through structural policy it has sought to foster the modernisation of farms, the early retirement of elderly farmers and the retraining of some farm workers. More recently it has emphasised the need for additional aid in certain 'less favoured' areas. The sums spent have been small in relation both to the cost of the price policy and to the need. In practice, partly because of the small sum involved and partly because of the short period during which such schemes have actually been in operation it is hard to discern much effect either on farm numbers or on farm incomes. The overwhelming effect of exogenous variables, the rate of economic growth, the demographic pattern of the agricultural population and the regional distribution of industry makes it difficult to detect specific results of the structural programme.

Proposals made in 1979, by the Commission, in effect reverse the philosophy of the Mansholt Plan. There the emphasis was on promoting a more efficient distribution of resources within the Community. Now the main thrust is to promote agricultural activity in the areas of the Community which are least competitive. Thus it is suggested that more money should be spent producing beef in upland Italy, investment in Western Ireland and Greenland, and 'integrated development programmes' for the Western Isles of Scotland, Lozère and S.E. Belgium. Integrated development programmes would involve investments in non-agricultural activities but would also add to farm output in areas where costs are high.

There is thus a conflict between the implications for resource use of both the price policy and the structural policy and one fundamental goal of the Treaty. This conflict is inevitable so long as the CAP is charged with both economic and social/political imperatives. It becomes irksome because the solution of social problems is made more difficult by the waste of economic resources whilst the concentration on agricultural social problems makes for an unacceptable budget cost, imbalance between sectors and friction between member countries. The CAP needs to be freed to concentrate on the problems of how the Community uses its agricultural resources, whilst the Community needs, too, a more comprehensive, more effective and more balanced social and regional policy.

(d) The CAP and farm incomes

A common defence of agricultural policy is that it is needed to maintain farm incomes. The facts are difficult to handle. Measured in conventional terms farming net profits are less stable and often lower than wages in other industries. Some farmers are very rich, enjoying annual incomes well above those of most people. Most are poor in terms of income flows but possess more capital, in land, stock and buildings than the majority of other citizens. Cash incomes do not measure the full benefits of farm life; the attractions of rural life, of independence and the status of a 'farmer' are all positive for many who work in the industry. Equally, the disadvantages of remoteness, higher transport and food costs may ~~make~~ make the same cash income worth less in the countryside than in the town.

The CAP was intended to raise farm incomes by improving the productivity of labour. This is difficult in an industry faced by an inelastic demand for most of its products. Higher incomes can only be enjoyed if more people leave the industry or if substantial income transfers are made from other sectors. The CAP has relied almost wholly on price support to secure higher incomes by income transfers. This is unfortunate, costly and only partially effective.

Higher prices add most to the receipts of those who sell most. The farmers who are poor have little to sell. High prices encourage new resources into the sector, appear to justify higher prices for land and new investment to expand farm business. The result is that structural reform becomes more costly and more protracted. The high prices of the CAP directly raise the cost of some agricultural inputs, notably feedingstuffs. As a result smaller farmers find it more difficult to expand and escape from poverty. High prices encourage production. For the Community this intensifies the tending to surpluses and budget problems.

Table 6 and Diagram 1 show that although gross value added per person employed in agriculture rose during the seventies, in most countries the rise has not been uninterrupted nor has the gap between agriculture and other sectors appreciably narrowed. The data on agricultural income spread in some member states, Table 7, suggests no substantial narrowing of income differences between regions within different member states.

Today many farm incomes are low. Prices cannot be raised because of the budgetary consequences of surplus. Inflation implies increased costs so real incomes are likely to become even lower. In this situation both traditional and modern types of farm are threatened but their response is likely to be rather different. The small scale peasant producer may survive by supple-

Table 6 Gross Valued Added per person employed in Agriculture, Forestry and Fishing as a percent of Gross Domestic Product per person employed.

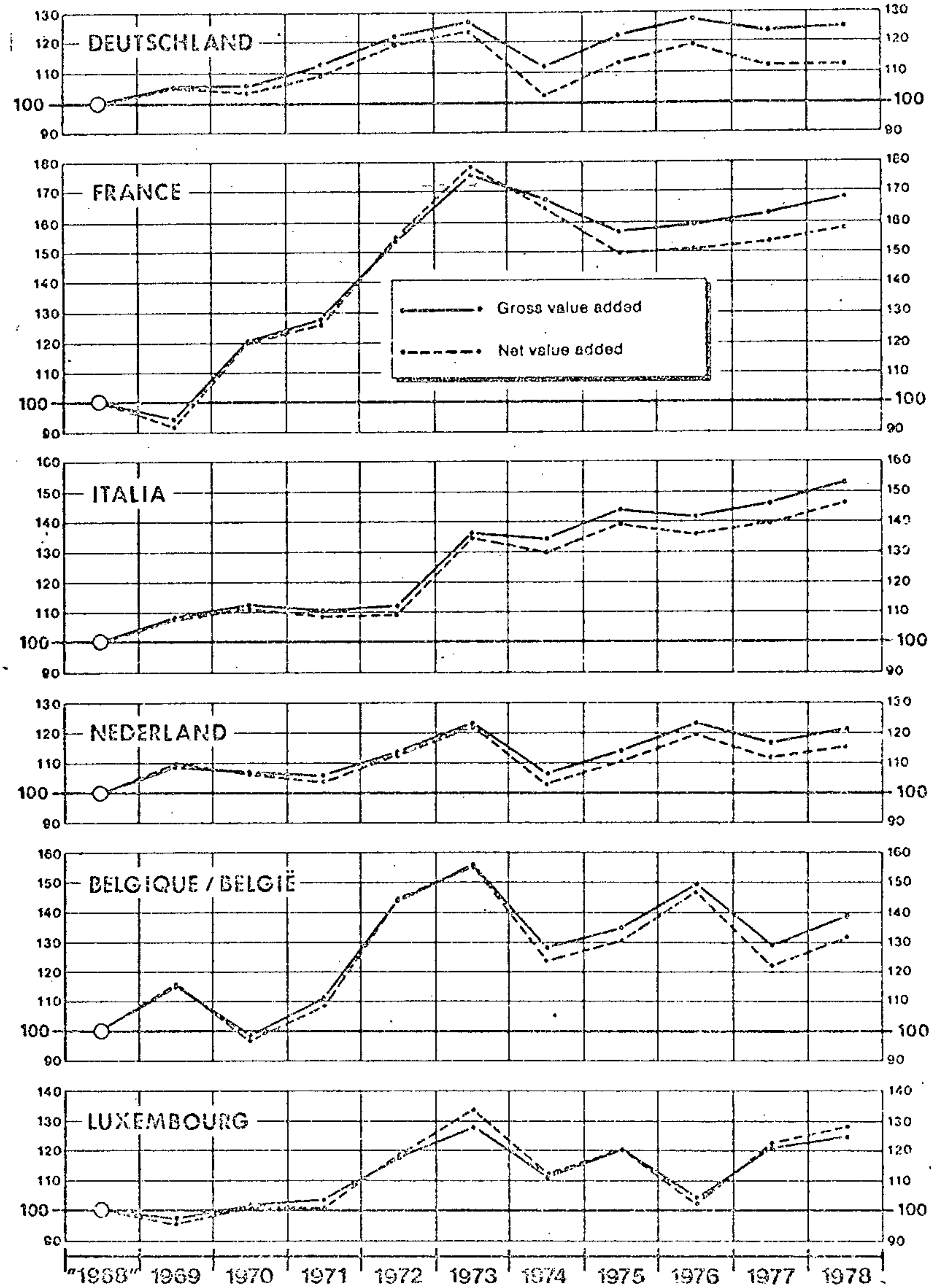
(percentage)

	W.Germany	France	Italy	Netherlands	Belgium	Lux.	UK	Ireland	Denmark
1970	44	51	52	85	91	41	98	62	68
1971	45	51	51	79	95	42	96	62	68
1972	46	54	51	81	103	47	95	70	75
1973	46	na	56	87	106	62	101	na	95
1974	40	na	52	72	90	52	104	na	95
1975	45	na	57	77	95	63	100	na	84
1976	45	na	54	77	92	na	104	na	86

Source: MAFF. EEC Agricultural and Food Statistics 1974, 1977, 1978.

Diagram 1

44 Gross and net value added (¹) per person employed (²) in agriculture (³)



Source: Eurostat – Sector income index.

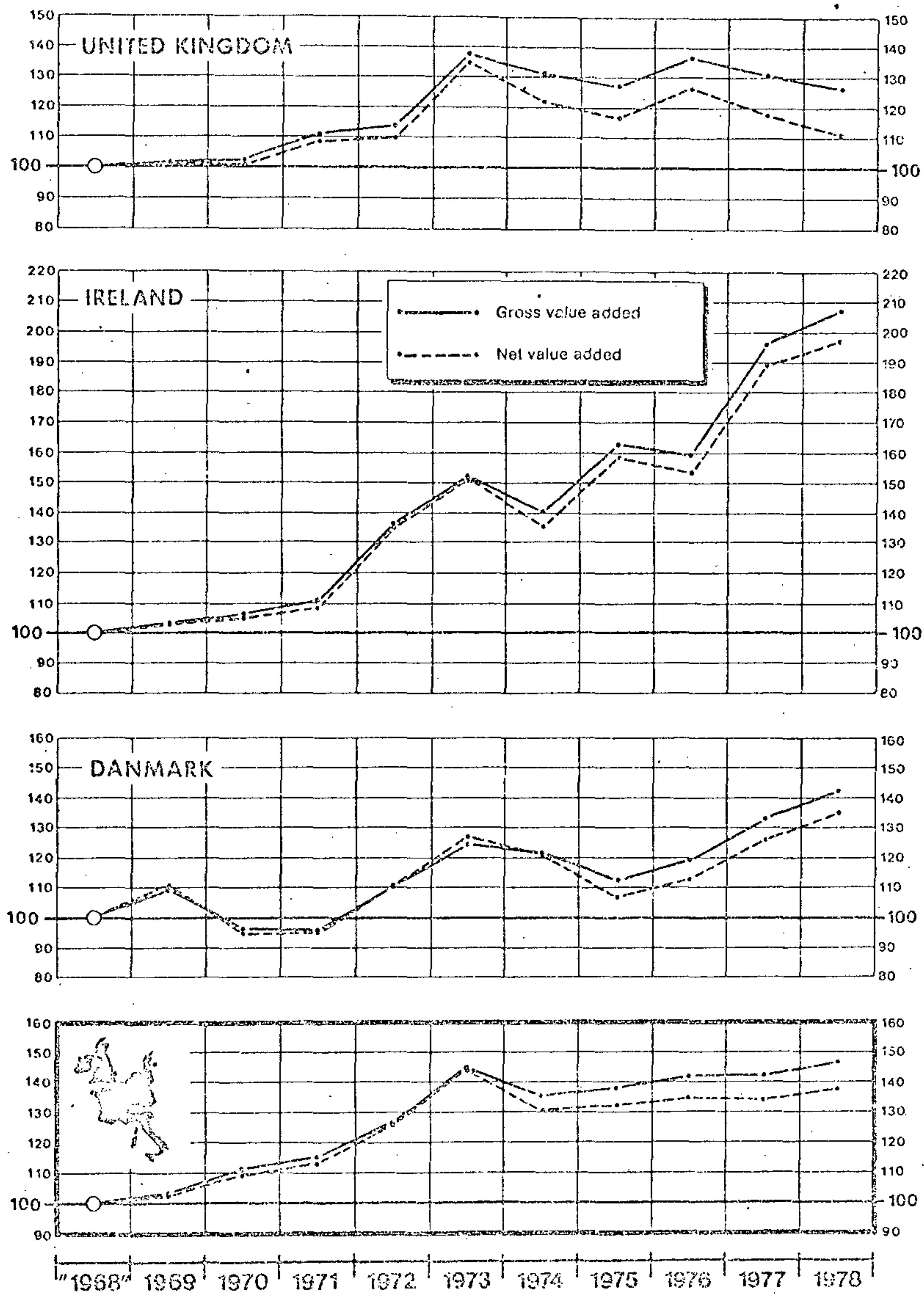
(¹) At factor cost in real terms (deflated by GDP implicit price index).

(²) In labour units.

(³) Each series has been obtained by linking together two series, on based on the inclusive-of-VAT-system and one of the exclusive-of-VAT system (except Italie).

Diagram 1(contd..)

44 Gross and net value added (1) per person employed (2) in agriculture (3)



Source: Eurostat – Sector income index.
(1) At factor cost in real terms (deflated by GDP implicit price index).
(2) In labour units.
(3) Each series has been obtained by linking together two series, one based on the inclusive-of-VAT-system and one of the exclusive-of-VAT system (except Italia).

Table 7 Agricultural income spread in four Member States of the EEC.

(a) Germany
(income of farmer and his family per family labour unit)

Region	1972/73	1976/77	1977/78
Schleswig-Holstein	134	107	113
Niedersachsen	107	114	111
Nordrhein-Westfalen	101	116	108
Hessen	82	86	84
Rheinland-Pfatz Saarland	90	94	100
Baden-Wuntemberg	94	87	89
Bayern	96	87	90
Total	100	100	100

(b) France
(gross farm income per family worker)

Region	1970	1977	1978
Ile-de-France	388	298	341
Champagne-Ardenne	247	278	234
Picardie	247	267	211
Haute-Normandie	148	118	110
Centre	135	96	128
Basse-Normandie	85	65	64
Bourgogne	103	122	150
Nord	146	147	126
Lorraine	94	93	91
Alsace	69	105	111
Franche-Comte	87	73	76
Pays de la Loire	84	75	82
Bretagne	84	85	84
Poitou-Charentes	99	84	85
Aquitaine	65	76	82
Midi-Pyrenees	63	70	65
Limousin	50	68	59
Rhone-Alpes	77	76	78
Auvergne	62	73	65
Languedoc	98	150	134
Provence-Alpes-Rousillon-Cote d'Azur	156	124	136
Corse	114	236	101
Total	100	100	100

Table 7 (contd.)

(c) Italy
(gross value-added per agricultural worker)

Region	1971	1977	1978
Piemonte	93	96	90
Valle d'Aosta	65	69	67
Liguria	165	113	106
Lombardia	157	183	171
Trentino-Alto Adige	71	100	110
Veneto	143	156	136
Friuli-Venezia Giulia	109	139	125
Emilia-Romagna	129	159	157
Marche	67	76	90
Toscana	106	103	116
Umbria	82	94	102
Lazio	128	106	113
Campania	89	78	75
Abruzzi	91	98	82
Molise	54	42	55
Puglia	75	71	77
Basilicata	60	52	72
Calabria	63	78	63
Sicilia	95	75	84
Sardegna	124	98	87
Total	100	100	100

(d) United Kingdom
(net farm income per farm, excluding horticulture)

Region	1970/71	1976/77	1977/78
England North Region	108	126	112
England East Region		111	116
England West Region		77	102
Wales	74	71	83
Scotland	110	127	95
Northern Ireland	71	80	78
Whole country	100	100	100

Source: EC Commission: The Agricultural Situation in the Community 1979 Report.

menting farm income by part-time work or by sending his wife or family out to work. Since his variable costs are low he may also be able to contribute to his survival by 'tightening his belt'. The large scale modern producer is more price sensitive. If he has borrowed to expand he is likely to find cash flow problems which could force him to leave the industry. Thus this type of squeeze on margins might leave the chronically poor in the industry and drive out those who in a more balanced market could make a satisfactory living. If a crisis is to be avoided some changes are needed in the CAP.

(e) Intra-member transfers

The problem of inequitable transfers between member countries is of almost obsessive concern in the UK. Other countries who contribute less or are in receipt of continuing benefits are less concerned. So severe is the problem, however, that it threatens to destroy the Community of Nine before it can become a Community of Twelve. The exit of the UK would not solve the problem. Within a short time some of the new members might find themselves as disillusioned as the UK by the discovery that measured in static terms they, although poor, have to pay to belong to a Community, which is rich.

The origin of the problem is the interaction of the Budget mechanisms and the CAP. The Community's own resources stem from charges on imports (duties plus import levies) and up to one per cent VAT. Those countries who import most from outside pay most into the EC's funds, those who spend a relatively large fraction of GDP on consumption contribute proportionately more than those who save a higher fraction of income. This mechanism tends to tilt the balance against countries with a traditional free trade policy and against poorer countries, who save less. The expenditure from the Community's funds is very heavily on agricultural support - at current levels still in excess of 70%. Such expenditure is heavily concentrated on a few products, primarily of importance to Northern Europe. As Table 8 shows 78% was expected to be spent in 1980 on Cereals, Milk, Sugar, Beef & Veal whilst only 16% was allocated to such important southern products as Oils & Fats, Fruit & Vegetables, Wine and Tobacco.

Transfers through the budget are only part of the problem. Because the internal price of the EC is maintained at levels well above those of competing imported products, member states who import within the Community make an income transfer to other member states. Thus net importers lose and net exporters gain. The dimension of gains and losses are not easily measured. Disputes exist about what would be the level of world prices in the absence of the CAP; and about the value of the security of supplies which the CAP supposedly provides. However attempts to measure such transfers suggests that they are substantial (See Table 9).

The distribution of expenditure under the CAP, the relatively higher level of protection accorded to most 'northern' as against most 'mediterranean' type products and the fact that the new members are together net importers of cattle and meat, dairy products and cereals suggests that the CAP will have to be changed if unacceptable patterns of income transfer are to be avoided.

(f) The control of the budget

Table 10 demonstrates the dominance of CAP expenditure in the total of Community spending. The cause of this is the open ended commitment to price support and the chronic tendency of EC farmers to increase output. Once the quantity produced exceeds that which can be sold at the EC's administered price expenditure arises for intervention or export restitution. Currently the most pressing problems are the dairy sector. However, some type of cereals and sugar both involve substantial costs and these are likely to grow.

Table 8 EAGGF, Guarantee Section, expenditure by sector[1]

(Mio EUA)

	1976	1977	1978	1979	1980
Cereals	655.9	629.9	1112.5	1574.2	1727.6
Rice	18.4	13.5	17.9	41.4	47.3
Milk products	2277.7	2924.1	4014.0	4420.0	4709.6
Oil and fats	247.1	268.5	324.8	592.9	672.0
Sugar	229.3	598.4	878.0	1004.6	1116.1
Beef and veal	615.9	467.7	638.7	688.3	759.3
Pigmeat	29.0	37.3	45.0	84.9	77.1
Fruit and vegetables	185.1	178.2	100.7	416.5	524.4
Wine	133.8	89.9	63.7	94.4	203.3
Tobacco	185.4	205.2	216.1	212.0	280.0
Others	87.2	65.4	.4	112.5	126.0

Source: EC Commission, Directorate-General for Agriculture.

(1) The items of expenditure are taken from the statements submitted by the Member States under the system of advances and are charged to a given financial year.

Table 9 National net transfer payments due to the common organisation of agricultural markets

1971-75 Million UA*
1977/78 Million EUA

	1971	1972	1973	1974	1975	1977	1978
W. Germany	-246.742	-181.842	-181.842	173.744	-29.987	-1200	-750
France	356.979	516.856	484.288	-454.521	-410.784	+800	+850
Italy	-265.062	35.080	-212.075	69.387	-202.740	-700	-1250
Netherlands	-152.089	104.773	1.647	126.740	119.311	+1100	+1100
United Kingdom	-	-	-895.589	-55.135	188.442	-950	-1200

Source 1971-75: Koester, 'Effects of the Common Agricultural Financial System' in European Review of Agricultural Economics Vol.4. No.4. p.327.

Source 1977/78: Rollo & Warwick, Balance of Payment Effect - Central Estimate, The CAP and Resource Flows among EEC Member States. MAFF. 1979.

* Sum of selected agricultural products (wheat, barley, sugar, beef and veal, butter and skim milk powder).

NOTE: The figures for 1971-75 are calculated in a different way than those for 1977 and 1978. Although not strictly comparable they illustrate the dimension and direction of intra-member flows.

Table 10 EAGF Expenditure as percentage of Budget (actual and appropriations)

1974-7 Million UA
1978 Million EUA

	1974	1975	1976	1977	1978 (appropriations)
Total EAGF	3406.3	5005.7	5583.2	6463.5	9118.8
of which					
Guarantee	3277.9	4821.4	5365.0	6166.8	8695.3
Guidance	128.4	184.3	218.2	296.7	423.5
EAGF as % Total Budget	75.0	78.1	76.6	74.3	73.8

Source: EEC Agricultural and Food Statistics 1974-77. MAFF.1978.

This growth in spending is more than proportional to the increased production. Once the home market is saturated virtually the whole of any additional output has to be supported by EAGF funds. This expenditure bridges the difference between world market prices and those in the Community. In an overloaded world market, additional EC sales may further depress very low prices. Thus the cost per unit of export subsidies can be increased as the quantity placed on the market rises.

The enlargement of the EC may seem to offer some relief. In 1978, for example, the existing EC had exports of butter valued at 193 million \$, the new members were net importers to the tune of 10 million \$. The Nine exported 69 million \$ of wheat and wheat flour, the new members imported 30 million \$. Such numbers make it clear that enlargement will only marginally ease the problem (at cost to the acceding countries). The underlying trend is still for consumption to grow less rapidly than production and for surpluses to grow.

As things stand the Community's commitments to expenditure are likely to outstrip its resources. Thus, unless a new budget resource is created the policy will have to be changed. Those members who are currently most disadvantaged by the CAP are unlikely to agree to provide more finance. Thus at some date, not too distant, the policy is likely to be financially insolvent.

3. Options for reform.

This section of the paper deals with the way in which certain types of policy may be manipulated to improve the working of the CAP. The underlying hypothesis is that no one policy change can solve the policy's present problems. In an enlarged Community it becomes even more important to see agricultural policy as only one aspect of the Community's response to the economic and social needs of its members. Given the uncertain economic, strategic and political outlook for the world in the 1980's, this broader perspective is vital if Community members are to make the needed compromises.

(a) The use of price policy

The CAP relies principally upon administered prices to give effect to the Treaty. In a situation of surplus, high levels of protection and advances in farming technology the logic of such an approach is a cut in price. Lower price supports would discourage production. Pursued far enough and for long enough cuts in price would lead to reduced output. More immediately lower price supports would cut the unit cost of intervention and export restitution so that a given level of surplus would cost the budget less. Lower price supports would encourage consumption, although since the demand for many surplus products is inelastic, the total revenue of the industry would fall. Lower price supports would reduce the element of 'dumping' in EC export restitutions and provide a basis for sound export trade. Lower price supports would promote the movement of resources into more efficient uses.

Against such a catalogue of virtues it may seem perverse that prices are sustained and even increased at successive annual price fixings. The reasons for this are partly technical and partly political.

A first technical point is to note that in real terms agricultural prices have fallen during the seventies, and especially since 1973 in most member countries. Table 11 shows that only in Ireland and Italy did product prices keep pace with the general movement of consumer prices. In France, the Netherlands, Belgium and Denmark they fell well behind. The reasons for this are complex but help to explain why the Council of Ministers did not cut nominal prices.

Table 11 Comparison of movements in the General Consumer Price Indices and producer prices for agricultural products (a) 1968-1978 and (b) 1973-78 (annual average rates of charge).

	(a) 1968-78		(b) 1973-78	
	Consumer Prices	Prices of Ag.Products	Consumer Prices	Prices of Ag.Products
Germany	4.7	3.0	4.8	4.1
France	8.4	7.9	10.7	7.7
Italy	11.1	-	16.7	16.7
Holland	7.5	3.6	7.0	2.4
Belgium	7.0	-	9.2	3.6
Luxembourg	6.2	4.6	7.9	3.8
United Kingdom	11.7	11.6	16.1	13.5
Ireland	12.1	14.4	15.3	16.9
Denmark	8.6	9.0	11.0	6.7
Nine	-	8.7	11.5	10.0

Source: Ag. Situation in the Community 1979.

Second, the process of price cutting is not likely to lead to precise results. Some have argued, despite a lack of evidence, that farmers would produce more at lower prices. This seems improbable except in the sense that more competitive conditions may persuade some farmers to modernise more quickly. Even then, if prices are cut sufficiently the effect must be to make some farmers insolvent and to discourage new investment in farming. More substantially some have claimed that price cuts might lead to too large a fall in output, shortages in the market and sharply rising prices. Such an argument presupposes that farmers are uninfluenced by the market and make their decisions only on what governments guarantee. This is unrealistic. In sectors free from detailed government intervention eg. pigs and poultry, farmers seem quick to respond to the possibility of higher market prices. The market may become destabilised in such conditions but it would be possible to cut EC support prices for many products without destroying the 'floor' price's ability to limit excessive downward price fluctuations. It is unduly alarmist to assume that there is no path between shortage and surplus which a market is capable of identifying and serving. It is a characteristic of a competititive market that prices and supplies vary from year to year. The purpose of policy should be to eliminate excessive fluctuations not to damp out all price movements.

The political difficulties of cutting prices are more obdurate. Reduced prices mean an immediate cut in revenue for producers. In the longer run some costs may also fall but in the short run the impact is a sharp cut in income. Farmers organisations will inevitably and properly oppose this. In some countries public opinion, too, may be unsympathetic towards measures which cut the incomes of farmers- especially of those who are poorest. Politicians, in the Community govern by consent and if they lose public approval also lose power. There is thus a very strong constraint against price cuts, especially in nominal terms.

It should be mentioned that for one government there is almost equal political difficulty in not cutting prices. The UK has traditionally separated the price of food from the prices paid to farmers by the use of deficiency payments To maintain high food prices, when goods are in surplus and the cost of support falls disproportionately on the UK, destroys the credibility of the Community in the eyes of the British public. No UK government can expect to retain office if it does not, as a minimum, resist increases in price and plan for their ultimate reduction in real terms.

The political problems of cutting prices are not simply internal to member states; they affect, too, relationships between members. Countries such as France and Ireland recognise that lower prices will reduce their national receipts from farm exports. Countries such as Germany with a strong and appreciating currency, fear that lower prices will be especially damaging to their own farmers who currently rely on positive mca's. Lower farm prices are attractive to net importers, especially if their currency is weak. Not only do they contribute to reduced resource costs as a result of the CAP but they also assist in limiting inflationary pressures within the domestic economy.

Such direct conflicts of interest inevitably lead to an impasse in terms of agricultural policy. They can ultimately be resolved only by instruments which go beyond price policy. It remains true, however, that in any reformed CAP price policy will have to play an important, but different role. To be useful price policy must be adjusted in response to long run market pressures. In current circumstances that must mean freedom to reduce the real prices of many products. No policy which is incapable of such manipulation can succeed.

(b) <u>The use of structural policy</u>

Structural policy embraces a wide range of different activities. These have in common an intention to shift the distribution and volume of resources used in agriculture in some preferred direction. Within the Community it became fashionable to describe its surplus problems as structural, indicating that a solution would require not just some adjustment in output by existing firms but the disappearance of some firms from the industry. Structural policy sought to ease and accelerate this by aids to retrain workers, to promote early retirement and to assist those farms that remained to increase their efficiency so they could produce at lower cost. The changed economic circumstances since 1974 have discouraged this approach and the current emphasis of 'structural' policy is on maintaining activity in the more remote and difficult farming areas.

The inadequacies of structural policy are well demonstrated by this experience. Conceptually it implies a view about the optimum distribution of resources between farming and other occupations. In practice the ability of planners to forsee what opportunities exist in other industries is limited and well beyond the remit of agricultural policy. Again, although Community theory suggests that the EC is one economy, the reality is very limited mobility between member states and very strong national social, regional and economic policies. Resource use cannot in such circumstances be effectively planned at an EC level.

The financial consequences of structural policies are complex but costly. Their execution involves substantial sums per person affected if they are to have any appreciable influence on his conduct. The schemes to aid retirement have largely failed because too little has been offered by way of pension. When put into effect, modernisation schemes commit capital which has to be serviced from future earnings. These are dependent upon price assumptions. Should existing 'real prices' be used in planning the enterprise may well fail if price increases do not keep pace with inflation. Modernised farms add to EC output. Thus they tend to intensify the problems of surplus, add to the costs falling on the Budget and require a larger cut in EC prices than would otherwise be needed.

The contribution which structural policy can make within a reformed CAP is limited. In so far as its current activities are concerned with social and regional policies these might be more adequately dealt with by Community policies specifically directed to these ends and not confined to agriculture. The contribution of structural policy to the redirection of agricultural resources is likely to remain modest. The overwhelming weight of national economic policies and performance in terms of the creation of employment means that both what is appropriate and the pace of movement cannot be determined by the CAP alone. In such a situation it seems possible that aids to mobility may make a positive contribution. In contrast, within an over-supplied market it seems perverse to provide especially generous terms for investment on farms, even in 'less favoured' areas.

(c) The use of quota's

The Community already uses quota's as part of the policy for sugar. These have not been particularly successful in controlling production or limiting budget cost. Despite this some reformers advocate the extension of quota's to other commodities. A very large number of alternative quota schemes can be conceived having in common an attempt to limit the quantity produced or sold. They share some general problems only some of which are examined here.

First, quantitative restrictions may freeze the pattern of production. This is incompatible with competition within the EC. It damages those farmers and countries where production might grow as a result of Community membership. This is likely to be particularly unattractive to new members. For the Community as a whole a static production pattern is costly at a time of changing technology, changing factor prices or economic growth. Its implicit resource cost is difficult to measure but is likely to increase over time.

Second, quantitative restrictions require administrative intervention. The precise needs hinge on the scheme selected but some system of allocating quotas and policing their operation is essential. There must, too, to a method of penalising those who produce more than their quota. The complications involved in negotiating and enforcing such an administration at an EC level could be substantial. The costs of administration would also need to be monitored. They represent a further, unproductive use of EC resources.

Third, whilst quota's might bring some immediate alleviation to pressures on the budget they do not solve the other difficulties of the CAP. Poor farmers would remain poor. Net importers would still carry an undue share of the costs of the CAP. The Community would be no nearer promoting the movement of resources in agriculture in a direction compatible with the interests of the Community as a whole.

One approach to quotas is to limit the level of support to a certain volume of output. In principle the Commission's proposed 'super-levy' on milk would/made have the costs of disposing of extra milk fall on farmers whose production had grown since 1979. This type of approach has great budgetary convenience, especially since milk support amounts to almost 44% of all price support costs. However, it is damaging to the efficient and especially to countries who have lately joined the Community and whose industry is organised in large scale units.

An alternative would be to make the intervention price and level of export restitution conditional upon aggregate output not exceeding a stated quantity. Administratively this would involve dividing official support payments into an initial and final amount. The farmer or trader who sold into intervention or claimed an export restitution would receive at first only a part of the payment. At the end of the season a second payment to bring his total receipts up to the intervention level would be made. If the total quantity requiring official support exceeded the volume guaranteed no additional budget funds would be made available; the second payment being reduced in proportion. Such a scheme is administratively more cumbersome than present arrangements but it has some attractions. It would force farmers to consider aggregate supply and demand conditions in planning their production. It would tend to allow market prices to fall if excess production were offered, thus ensuring that more was used within the Community. It would facilitate a rational debate about how much budgetary support the Community would give to specific products. It would involve no complicated 'policing' problems, since the needful data would, by definition, be in the hands of the EC authorities.

(d) The rôle of Direct Income Payments

Most farmers have an in-built distaste for direct income payments. They see them as a visible transfer, likely to be vulnerable to attack from ministers of finance and other political groups. In contrast most economists seem to find them an essential component of any rational CAP reform.

The arguments in favour of direct income payments are compelling. The removal of surpluses, the limitation of budget expenditure, the attainment of an equitable balance between member states all imply a reduction in farmers revenues. Such a cut would lead to a more than proportional loss of income for both 'modern' and 'traditional' farmers. Politically such a cut is unacceptable to most governments. Its implication for the cohesion of the Community make it unacceptable to those who have responsibility for the EC itself.

Direct income payments make it possible to avoid such a conflict. By offsetting the effects on farm incomes of lower prices or quota restrictions, the main grounds for dispute can be removed. Income compensation need not cover the whole loss in revenue, but only that element representing income after farmers have had an opportunity to redeploy resources. Its costs therefore fall over time and because prices are able to fall, such compensation can positively contribute to the direction of resources into more efficient uses. Income payments can also discriminate between the different needs of farmers in different regions and of different sizes. Their flexibility means that for a given transfer between farming and other sectors more benefit would accrue to those most in need from income payments than from price policy.

The attractions of direct income payments have not yet, in the minds of those who administer the CAP, offset their difficulties. These are substantial. Apart from the opposition of farmers organisations, there is likely to be criticism from other industries who may query the necessity of exceptional aid to farmers incomes. Unless nominal prices are adequately reduced direct income payments may be treated as a form of disguised price increase - and lead to higher output. Administrative problems, the identification of recipients, the calculation of entitlement and the distribution of payments are complex and costly. Within the EC national social security agencies operate in different ways, there exist very different levels of income in the various member countries and there is an unequal distribution of products 'in surplus' between members. Some differences between member countries income schemes would be inevitable and this raises the possibility of distortions of competition. The impact on the budget is considerable. Instead of paying that part of the cost of surplus production which exceeds its value in world markets, funds would be needed to cover, for all production, the income effect of a lower price. In time this would diminish but its immediate cost would depend upon the degree of price reduction and the volume of output. Where considerable surpluses exist this would be substantial, but where EC cost of production exceed the world price, the net effect on the budget would be helpful.

Such complexities are a deterrent but it seems inevitable that some form of direct income payment must be included if there is to be any satisfactory CAP reform.

(e) National Aids to supplement the CAP

The continuing importance of national aids to agriculture conflicts with one of the basic assumptions of the Common Agricultural Policy. This by replacing the separate policies of members was intended to remove distortions in the agricultural market. The durability of national aids is partly a result of the fact that the CAP alone has not met the minimum political needs of member governments and partly a reflection of the lack of real economic unit in the Community.

In terms of economic growth, inflation and employment the constituent economies of the Nine have continued to operate independently and at times to diverge. The CAP by treating one sector, agriculture, as if it were part of a single European economy creates stresses between that sector and others within member states. These have been coped with by such devices as mca's, credit facilities for farmers, tax reliefs and the provision of some services at less than their full cost. The result is not compatible with the concept of a common policy for agriculture but it has enabled members to co-exist within the framework of the CAP.

The Community could in principle move towards a more closely integrated economy. This would imply transferring more powers to the EC, eg: control of money supply, taxation, social and regional policies. It would also require the Community to accept responsibilities for making income transfers to its poorer regions. In the absence of such a scheme the less prosperous parts of the Community would find themselves in continuing conflict with its richer regions. At this stage, however, it seems that there is insufficient confidence between member states to allow such an advance to take place.

In its absence the continued co-existence of members with the CAP may require some degree of open devolution of parts of its responsibilities. To admit this is not anti-communitaire but realistic. In its absence the CAP and the Community might well collapse.

Various possibilities exist. One extreme would be to permit within the overall rules of the Treaty national aids to take care of any problem not solved by a Community price policy designed to afford free internal trade in farm products and preference vis-a-vis third countries. Such a policy although applied to other sectors seems to some too likely to lead to distortion of competition, to the disadvantage of farmers in poorer countries. At the other extreme the Community might seek greater control of national aids by permissive legislation, sharing the cost of national schemes between central and national funds. Such an approach already applies to structural policy; its extension into income support seems attractive. Again, however, there is a risk that richer countries would be better able to contribute to such a fund and thus secure an undue share of EC spending.

(f) Intra member compensation

A major obstacle to reform is the fact that as things stand the agricultural exporting countries benefit from the high price level enforced by the CAP. Understandably they are unwilling to lose any of this benefit and unsympathetic to those who call for reform and lower prices.

The serious nature of this conflict of interest between members suggests that only a major crisis, in which those who gain felt that their whole situation in the Community was in peril could permit reform to take place. Unfortunately, such a crisis seems inescapable. The underlying trends of production and consumption are incompatible with the stability of the CAP as it stands. For those who currently benefit the option is not whether there will be reform but when and in what way can they preserve most benefit.

One possible route is to use EC resources to compensate net exporting member states for the lost income implicit in lower EC prices. Such compensation would initially have to cover a high proportion of the reduced prices but as time allowed farming and industrial patterns to change, the income lost would be reduced and the appropriate payment fall. Such payments could in any case not exceed the value of the net exports of the member country at current EC prices minus their world price. In so far as internal prices remain above world prices the need for income compensation would be reduced. The Community budget would have to spend less on export restitution and intervention because both the quantity needing support and the cost per unit of support would fall. Additional payments would occur only in respect of intra Community trade. On third country trade the cost would shift from export restitution to inter governmental transfers. This could be covered by a degressive tax liability on net importers, which could not exceed the effect of lower prices on their national income and would eventually decline and disappear.

Compensation on this basis would leave the initial distribution of advantage unchanged in the short run. It would, however, provide real aid for the gradual re-alignment of agriculture in the net exporting countries. The funds available would for example be sufficient to meet the income needs of farmers faced by lower prices, apart from that element which was simply a redistribution of income within each of member countries.

The operation of such compensation would be an important contribution to a more acceptable pattern of intra-EEC income transfers. As such it would help to bring the needs of members more into line with those of the EC as a whole. Clearly such possibilities must be considered in any programme of reform.

4. Conclusions

This paper has explored some of the reasons why reform is needed and discussed some of the instruments which might be used. No single 'reform' is likely to be sufficient and acceptable. In practice some combination of changes in present policies will be needed. The range of possible combinations of policies which would work is very substantial. Dogmatism about particular recipes is not justified. In practice reform may require a consensus about wider issues relating to economic management of the Community.

Against this background, however, it is possible to identify some characteristics to look for in a reformed CAP. It must be better balanced between products and members. It needs to be capable of using price policy both to increase and decrease the incentives to production. It should separate the issue of production from that of farm incomes and, possibly with EC Social, Regional and National policies, meet these income needs directly. Its activities should contribute to the adjustment of agriculture in a socially responsible way so that all may benefit from a better pattern of resource use in the EC. It must offer an acceptable path of change to those members who might lose from reform.

For new members who have so large an interest in agriculture this prospect may seem daunting. However, it is better to recognise the hazards from the outset than be come disillusioned once membership has been attained.

John S Marsh
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WORKSHOP

ON

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE EEC

THEME I: THE NEW MEMBERS AND THE EEC

PAPER: The Effets of EEC Membership on the Industrialization Process in Greece

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Lisbon, June 1980

1. Introduction

By joining the Community as a full member, Greece enters an industrial free trade area covering almost the whole of western Europe, i.e., EEC and EFTA countries. Moreover, it will face almost unrestricted competition from manufactured exports of 13 Mediterranean and 53 African, Caribbean and Pacific countries (ACP) as well as a limited competition from manufactured exports of the less developed countries covered by the Community's Generalized System of Preferences (GSP) without getting comparable advantages in the markets of those countries. Thus, EEC membership will change considerably the market environment of the manufacturing sector. In view of the fact that the competitiveness of most Greek industry is still very low and that it lags far behind the community levels, the question arises as to whether or not the "free trade" solution inherent in the treaty of accession will speed up or retard the industrialization process of Greece. In the search for an answer we shall first examine the present performance of the Greek manufacturing industry and its structure as it developed during the past 15 years, and shall attempt to relate the structural weaknesses to its lack of competitiveness. Then we shall examine the changes in the industrial environment which Greek industry will face under the EEC membership. With these factors in mind we shall attempt to assess the magnitude of the adaptation problem the industry will have to surmount.

2. The performance of Greek manufacturing, 1963-78

A crucial characteristic of the Greek economy has always been the low share of the manufacturing sector in GDP. Despite its increasing importance in 1977 the sector's output accounted for only about 21.6% of GDP which is lower than the corresponding shares in Spain, Portugal or even Turkey. At present the sector employs around 20% of Greece's labour force and fixed investment amounts to roughly 17% of the available investment funds. These limitations are considered to be a severe weakness of the Greek economy, and it is the declared aim of the Government to intensify the industrialization process with the objective of securing self-sustained growth and reducing the economic gap between Greece and the developed countries.

Despite its small size the manufacturing sector was one of the star performers in the Greek economy prior to the oil crisis of 1973 and the 1974-75 recession. Between 1963 and 1973 its output increased at an average annual rate of 12.3% with investment and employment rising by 12.7% and 2.3% annually. In the period 1974-77, however, investment remained stagnant and the annual rate of growth dropped to 5.8%. Over the period 1963-73, for which data on capital stock and employment are available, productivity growth was high by any international standards. The contribution of the "residual" to output growth was 61% which leaves only 39% to be explained by increases in the quantities of capital and labor. This high increase was primarily due to the marked increase in capital intensity and to the resulting technological change empbodied in the invested machinery and associated production methods.

Direct foreign investment in manufacturing started being of some importance at the beginning of the 1960's steadily increasing until 1973. It declined sharpely from 1974 onwards and has not yet shown any signs of recovery. Total foreign capital invested in manufacturing during the period 1954-78 amounted to about 7.5% of the total capital invested in the sector. Almost half of these funds went into basic metals and oil refinning, and another 30% into chemicals, shipbuilding and electrical machinery. About one third of foreign capital came from EEC countries, primarily from France. Although the significance of foreign capital as a source of industrial finance has been limited, its contribution was very high in the introduction of new products and production methods of higher productivity, as well as in the development of new exports and in import substitution of final products[1].

The export performance of the manufacturing sector as a whole was particularly high up to the oil crisis of 1973. Between 1963 and 1973 it increased at an average annual rate of 30.4% jumping from $ 53 million in 1963 to $ 756 million in 1973. As a result its share in total exports rose from 11% to 69%.

The share of imports in the domestic consumption over the period 1963 77 varied very little remaining around 23%. Composition of imports also show very little change over this period. At present the Greek market continues to be relatively well supplied by domestic production of food, beverages, clothing, shoes, textiles, wood, furniture and non-metallic mineral products, hile the dependency on imports for all other products remains relatively high. Looking at the ratio of import to home supply we conclude that over the period under consideration, import substitution has been neutral. This togethe with the high export performance indicates that since the Association Agreement in 1962 Greek manufacturing industry has gained in international competitivenes However, an econometric analysis based on the input-output table of the year 1960, has shown that over the last 10 years as industrialization proceeded the growing demand for intermediate products was increasingly covered by imports instead of by domestic production. . The result was an increase of the import content per unit of output. As a Greek bank officer put it characteristically, "this means that when we take measures to stimulate

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1. Over the period 1970-74, the foreign firms accounted for almost half of Greek manufacturing exports and the greater part of import substitution of final products.

our economy, it is the factories of our trading partners which benefit". It is clear that further growth along these lines will be conditioned by the availability of foreign exchange to finance the increased imports.

However, up to now the foreign exchange situation did not restrict growth. An econometric analysis shows that in the last 15 years growth was demand rather than resource constrained. It was also shown that changes in exports were the main determinant of manufacturing investment and hence the main vehicle of growth, while changes in home demand appeared to have played a lesser role. Invisible receipts and autonomous inflow of private capital were adequate to cover the heavy trade balance deficit.

In view of the high degree of import penetration into the home market and the fact that Greece's exports account for only a small share in international markets in general and in the EEC markets in particular, the possibilities of expanding both home and foreign markets depend primarily on the structure of Greek industry and its competitiveness as well as on the qualities and quantities of the products produced. Therefore, we conclude that it is the sector's structural weaknesses and not the demand which condition future prospects However, the magnitude of the adaptation problem, which industry will have to surmount will depend not only on the structural pattern of the sector but also on the extent to which the industrial environment will change due to EEC membership. In the following section, we shall discuss how Greek industrial policy will have to be altered in order to conform to the EEC principles and policies.

3. Greek industrial policy under the regime of EEC membership

The provisions of the Accession Agreement imply the following changes in current industrial policy:

(i) Liberalization of trade within a 5-year transition period: Concerning EEC and EFTA countries liberalization of trade implies complete elimination of tariff and non-tariff protection by both parties. As to the third countries this implies alignment of the Greek rates to the CCT, and Greek adoption of all trade agreements concluded between the Community and third countries i.e., all preferential agreements and the Generalized System of Preferences (GSP). Application of the preferential agreements means that Greece has a) to grant free access to its market to Tunisia, Marocco, Algeria, Egypt, Jordan, Syria and Lebannon as well as to 53 African, Caribbean and Pacific countries (ACP) and to obtain most-favored-nation treatment in return and b) to grant preferential access to Malta, Cyprus and Spain and most-favored-nation treatment to Yugoslavia obtaining the same treatment in return. Application of the GSP which now covers 114 countries and 27 territories of the less developed world will oblige Greece a) to grant free entry to manufactured goods from these countries up to ceilings periodically reviewed within the GSP framework and b) to apply the quantitative restrictions imposed by the EEC on the import of certain products from these countries, as in the case of the Multifibre Arrangement.

(ii) Free movement of capital: As from 1981 onwards capital inflow from EEC countries to Greece will be subject only to legal controls. Its repatriation as well as current transfers will be liberalized gradually during the transition period. Movement of Greek capital to EEC countries will also be liberalized gradually during the transition period. Capital inflow from third countries will continue to be governed by the Royal Decree 2687/53 which allows for selective treatment according to the national priorities. The present control system will also continue to govern the outflow of capital to third countries.

(iii) Free movement of labour: Movement of labour will be fully liberalized within the seven years transition period. There will be no obligation to adjust current levels of remmuneration or to change current conditions of work (hours of workweak, annual leave of absence etc.). The Commission makes only recommendations in this respect. The EEC Social Fund will become available to Greece to help to eliminate imbalances in the labour market under certain conditions.

(iv) Coordination of policies on competition and regional policy: From 1981 onwards, Greek policies will have to be in harmony with the EEC principles. The Commission will have the right to examine Greek measures concerning industrial promotion, regional policy, control of competition etc., in order to insure complience with the EEC principles. Greece will have to report to the Commission all new measures. However, up to now, the guidelines concerning industrial promotion issued by the Commission remain rather loose and the individual member states continue to promote their industries according to their own national considerations. Directives issued so far concerned mainly matters affecting regional development, the development of small and medium sized industries and the development of certain industrial sectors, in particular the problematic industries such as steel, textiles and shipbuilding and the new dynamic industries such as data processing and nuclear power.

The real implications of the above policy changes, for the Greek industrial environment can be assessed by reference to its present state. According to the timetable envisaged by the Association Agreement, by

November 1st 1979 tariffs on manufactured goods will be 40% of their 1962 levels. It is estimated that on average the effective protection will be then about 20% against goods of EEC origin and some 25%-30% against imports from non EEC countries[2]. The non-tariff protection is given by import quotas imposed on some products, the import deposit scheme and the preferential purchasing practices of the government. Although the effect of the non-tariff-protection is very difficult to assess, it is certain that it is important for some products especially those of the engineering sector. The present system of incentives include tax exceptions on reinvested profits, increased depreciation allowances, reduction of the turnover tax, reductions of the social security contributions, interest rate subsidies and free loans from the State. On accession some of the incentives such as those designed to encourage exports (e.g. the decision of the Monetary Commission No 1574/70, reduction of turnover tax etc.) will have to be abolished and other which remain compatible with the EEC principles will have to be handled on a regional basis. The encouragement of new industries by protective tariffs will disappear.

As for Greek exports full membership will not change their access to the EEC market since all Greek products enjoy duty free entry since 1974.

The policy changes implied by EEC membership with respect to capital movements between Greece and EEC countries will drastically affect capital

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2. Estimates made by the Center of Planning and Economic Research.

outflow which under the present system is subject to strict control. The substantive controls to which capital movement between Greece and third countries are subject at present apart from the conventional exchange control, will not be affected.

To summarize, it is to be noted that seventeen years after the Association Agreement was concluded, Greek industrial production remains greatly protected. Almost half of the tariffs are still in force, the whole system of non-tariff protection remains intact and numerous subsidies are available to industry. The capital outflow is restricted. The idea of this slow elimination of protection provided by the Association Agreement was to allow for a smooth adaptation process from a highly protected to a more open economy. It should be admitted, however, that only very little progress has been made so far in eliminating the inherent weaknesses of the sector and in improving its competitiveness. In the following section we shall examine these weaknesses in some detail and shall speculate on how the EEC membership is likely to affect the main categories of the industry and the process of industrialization on the whole.

4. The effects of EEC membership on the industrialization process

4.1. Structural deficiencies

Behind the problems which the Greek manufacturing sector will confront as a result of EEC membership lie structural factors. In what follows, we shall attempt to identify these factors and to assess their significance. But before proceeding further, it is important to realize that, as it can be seen from Table 1, when we deal with the Greek manufacturing sector we deal with very small numbers when compared to EEC standards. Of course if production is highly specialized the small size of the sector as such is not necessarily a weakness. However for Greece smallness only aggravates the structural problems of the sector.

Greek manufacturing production consists mainly of a plethora of traditional consumer goods. Due to high protection against foreign competition and the small size of the domestic market, production in these branches is highly differentiated and the produced goods are mostly of low quality. In addition the demand for these goods is characterized by low income elasticity and high price elasticity. Production of modern consumer goods - mainly electrical applicances and some chemical products - has been built up relatively recently, mainly by mutlinational firms. However the work is limited almost entirely to the assembly of products from imported components, depriving the sector of real engineering experience. In 1977, both traditional and modern consumer goods accounted for about 70% of the total value added in the manufacturing sector.

The construction boom experienced in Greece after the second world war provided a vital stimulus to the development of some sub-branches of the steel industry, metal products, non-metallic minerals and wood, all of low technology content. The growth of these branches, which accounted for about 15% of 1977 value added in manufacturing, led to marked dependency of the manufacturing sector on the level of construction activity.

The development of engineering and tool making (5% of 1977 manufacturing value added) is still in its infancy, and the processing of minerals (around 10% of manufacturing value added) is still very limited despite the notable progress in aluminium and ferronickel processing. Besides, processing remains limited mostly to the primary stages of production.

The adverse effect of the present composition of output on the overall competitiveness of industry is further aggravated by the small size, weak management and lack of specialization of the production units. As it can be seen from Table 2 manufacturing output comes primarily from artisan workshops rather than from units of an industrial size. Worse still, econometric studies show that the larger units are no more efficient than the small ones[3].

Manufacturing equipment used by Greek industry is relatively modern[4]. However, it is on the whole not sufficiently utilized. This is due primarily to the inadequancy of management, the small size of firms and the shortage of skilled personnel. Excess capacity, although diminishing in recent years, is still quite large and leads to high production costs. Competitiveness of the manufacturing units is further unfavorably affected by the absence of engineering design knowledge and the consequent absence of the development of original products. Concepts of shop floor organisation are in their infancy, particularly in the small units[5]. Of course there are outstanding exceptions in management and in technology but they are rare.

The level of specialization at firm level is unduly low. Most firms prefer to undertake all operations in production of a product, rather than

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3. A possible explanation of this might be the existence of constant returns to scale, at least in the case of the leading industrial branches. It seems, however, to be primarily due to the failure of many large enterprises operating under strongly oligopolistic market conditions - to apply modern management concepts which would involve a loss of personal control by the owners of all aspects of the business [Nikolaou, 1978].

4. In 1973 the average age of manufacturing equipment was around 10 years [Nikolaou]

5. Machinery is often selected without sufficient information concerning its suitability for the purpose and it is installed and utilized without co-ordination. Quality control is insufficiently developed. Management of finance serves the tax needs of the firm rather than contributing to the development of the business.

to specialize in a particular step, which would allow economies of scale to be obtained even by the smaller firms.

All this makes it clear that in the short run the competitiveness of Greek industry can be improved by even marginal improvements in the organisation of the firms and by better utilization of the installed productive capacity. In the medium and long term, however, what is needed is the development of a product matrix which will favour forward and backward linkages in the production process, and will allow the reallocation of resources according to the country's comparative advantages within the EEC environment.

For the identification of the specific problems that might arise from EEC membership, two additional factors ought to be considered, namely labour costs and profit margins. With regard to labour costs, it was calculated that in 1969 wages in the sector were on average 50% lower than the marginal productivity of labour. This differential varied within the sector, being 15% in the small units, 40% in medium size units and 85% in the large enterprises. The magnitude of the comparative advantage enjoyed by Greece as a low wage country cannot be meaningfully quantified for reasons of statistical non-comparability. However, in assessing its significance it should be taken into account that the exceptionally high share of self-employment in the Greek manufacturing sector (around 30% in 1973) biases unit labour costs downwards. The labour cost advantage, whatever its magnitude, up to the end of the 1960's was reinforced by the very low average annual rate of increase in Greek labour costs compared to Western European unit costs. In recent years, however, there has been a reverse development. Over the period 1969-73, the annual rate of change of the ratio of wages to value added was 1.9% in Greece as against 0.2% in Italy, 0.5% in Netherlands, and -2.3% in England. A decline was also observed in some low-wage countries, i.e., in Korea -2.4% and Spain -1%. What is more, the situation must have deteriorated even more after 1973 since during the period 1976-78 that unit labour cost in Greece rose by 20% as compared with 10% in the EEC countries.

As to the profit margins, it is estimated that the average markup over marginal cost in 1969 was 25% for the industry as a whole, but it vaired considerably with the size of the firms. Thus it was -6% for the small, 30% for the medium and 104% for the large industry . These findings are supported by the high rate of return on capital which was estimated for the same year to be 30% for the whole industry and 50% for large industry. These levels must have been erroded to some extent by the increased unit labour cost but they are thought to have remained high.

4.2. The adaptation problem and the prospects for development

Before we attempt to assess the effects of EEC membership on the manufacturing sector, it must be said that it is not practical to quantify the effects because of the complexity of the task and the lack of data. The adaptation problems, however, can be idendified as well as the essential changes which have to be made to overcome the present structural weaknesses. The first question which arises is how Greek industrialists will perform when confronted by increased competition both at home and abroad. First we must consider how they will perform in the short run when the present composition of output cannot be changed.

For the leading category, traditional consumer goods, demand is highly price sensitive. Therefore, consumer goods will be subject mainly to pressure of price competition. Elimination of tariff protection could make it possible for prices of imported goods in the domestic market to fall by 20-30%. Elimination of non-tariff protection will encourage imports further and permit additional price falls. If foreign suppliers and local importers do in fact make price reductions, then national output will decline drastically unless domestic producers reduce their prices in line. It is not certain that they will be able to do this. However, as already pointed out, even marginal improvements in the organization of firms, and better utilization of existing production capacity could quickly increase their competitiveness. Acceptance of reduced profits should also not be beyond the capacity of the businessmen to absorb. Therefore, it would appear that in the short term many firms will be able to accept the change and maintain their competitive position in the tougher environment. Exactly how many will be able to remain the big unknown.

To the extent that increases in productivity will be forced by increased competition in the domestic market, EEC membership will have a positive effect on the exports of traditional consumer goods. However, at present there are relatively high profit margins obtainable on the home market, which compensate for low margins obtained in the export markets, while export subsidies make a vital contribution to the overall profitability of the product. The removal of these export subsidies and the likely reduction of the home profit margins with EEC membership will worsen Greece's international competitive position. Additional hazards to Greek export prospects with EEC membership are the recent agreements of the EEC with third countries, such as the Mediterranean countries and the ACP countries, which enjoy better labour-cost advantage than Greece and have similar industrial structure. The damaging effect of these agreements will be offset in as far as the EEC maintains its scheme of quantitative restrictions on imports from third countries or imposes new restrictions.

The second category, production of modern consumer goods such as electrical appliances and chemical products, is to a large extent controlled by the operations of multinational companies, most of which have been attracted by the highly protected domestic market. The elimination of protection may induce some of these companies to stop production in Greece, unless the geographical and the low-wage advantages prove to be more important. The Greek manufacturers in this category are expected to seek foreign collaboration for survival, a pattern experienced in Italy some years ago.

The future of the third category, the infant industries - mainly a few engineering and toolmaking firms - is very questionable since their market has been fully protected so far.

The case of construction materials (cement, non-metallic minerals etc.) which make up the fourth category, is different since they enjoy an important location advantage. However, there are some sub-branches such as ceramic tiles which will face severe competition.

The export performance of the industries in the last three categories is not significant with the exception of cement, pharmaceuticals and some chemicals. Their markets are almost entirely in the Middle East and North Africa. The preferential and the most-favored-nation treatment which will be given to Greece by these countries under the EEC preferential agreements and the GSP, might result in an increase of these exports in the immediate future.

It is expected that the immediate effects of EEC membership will be modernization and rationalization of the existing production units. Because of the present product mix, however, the change may lead to a drastic shrinking of the sector and a perpetuation of its present state, unless the opportunities for specialization which the EEC membership will offer are fully exploited. Therefore, in the long run the question is on how Greek industry will be able to change the product mix. Re-orientation towards resource-based industries and skilled labour-intensive industries will be necessary to compensate for the less encouraging prospects for expansion of the branches which dominate Greek production today.

The development of resource-based industries is conditioned by the availability of energy and its price, as well as by the oligopolistic structure of the international market. Nonetheless, the existing reserves of lignite, the prospects of oil extraction and the economically exploitable reserves of various minerals provide an adequate basis to further development in this direction. To make the best use of these resources, the new industries will have to be developed on a vertically integrated basis. There is no doubt of good opportunities for such industries within the Community, where demand for the products of the basic metal industries exceeds the supply, while all of Greek production will amount to no more than a tiny proportion of EEC demand. Because of the magnitude of the investment needed to develop the new products in this branch, involvement of foreign interests is expected and with it the danger that the foreign investors will integrate the primary stages of the new industries in Greece into sectors which are already well developed in the EEC. This would deprive Greece of the beneficial effects which could be had if all vertical components of these new industries were established in the country.

To take advantage of the available human resources and the existing social structure, the industrial development in Greece in the future should also be towards industries which are skilled - labour intensive and can be operated efficiently at small scale. In the traditional branches there are significant possiblities mainly for horizontal specialization by reducing product variety and by dividing the production in individual processes. Vertical specialization in branches such as chemicals, rubber, and plastics, basic metals and metal products could make industrial structure less patchy and create an endogenous mechanism of increasing returns. International subcontracting within the EEC might also contribute to product innovations and to the improvements of the product mix of the industry on the whole. Although the experience gained after the Association Agreement was signed does not hold a great deal of hope for a quick effect in this direction, it is hoped that as the quality of management of the Greek industry improves, the use of subcontracting will become established as a tool of industrial efficiency.

Specialization in these branches implies the development of new product lines with a relatively long-build-up phase. Infant industry protection in past years promoted specialization and development of modern product lines only to a very limited extent. Its absence in the future will make this process even more difficult.

The free-trade solution inherent in the Accession Agreement makes foreign investment of vital importance for Greek industrial development. Without the technical and organizational experience of multinational enterprises, and their integration into the international circuit of production and trade, it will be very difficult to confront the severe adaptation problem posed by EEC membership. However, past experience has shown that the significance of foreign capital as a source of industrial finance has been very limited. Moreover, foreign capital went into specific mainly resource-based branches with limited forward and backward linkages with the rest of the economy. To what extent, the position of Greece as a desirable investment area will be affected by full membership remains to be seen. Political stability underwritten by EEC membership, liberalization of capital outflow as well as free entry into traditional branches which were up to now to a high extent closed to foreign investors will encourage capital inflow from EEC countries. In addition, investors from third countries who wish to establish production in the Community in order to enjoy duty free entry into its market will be attracted by Greece since labor costs are relatively lower than in any other EEC country. On the other hand, the increasing loss of the low-wage advantage, the increasing pressures on the profit margins and the future environmental costs under full membership are factors working in the opposite direction. Also the question whether the foreign investments are likely to lead to growth in a desired direction will arise. The priorities particularly of the multinational corporations rarely coincide with the priorities of the national economies of the countries where their investments take place.

5. Summary

The shield of protection of Greek manufacturing production is still quite significant and it will have to be removed in a relatively short period. The resulting pressure will start make itself increasingly felt in the next few years. On the other hand, for various reasons, Greek industrialists have to a large extent failed to make the necessary adjustments which would protect them from the chilly winds of unrestricted competition and would allow them to achieve the long-term industrial goals. Most of the production units are still inferior to foreign suppliers in terms of business management, production technology, product quality and sales organization. In addition, the production structure still leans heavily on products which have only limited expansion prospects. These shortcomings describe the magnitude of the adaptation problem which industry will have to surmount, in a very short period of time. EEC membership will certainly force rationalization of existing production. The sector, however, will experience a drastic shrinking unless the specialization opportunities of EEC membership are fully exploited.

Concerning foreign capital, membership does not change the position of the foreign investors, at least not so much as to cause a significant increase in the capital inflow. On the other hand, the anticipated reduction of profit margins in the domestic market and the increasing loss of the low wage and low environmental cost advantages are expected to discourage foreign capital inflow. Whatever its volume, the view that foreign investment is not always in the best long term interest of the development of a national economy seem to be valid in our case. Therefore, the onus of exploiting the benefits of EEC membership falls on the shoulders of Greek industrialists who by themselves and together with the Government will ultimately be responsible for Greece's success in meeting this new challenge.

Table 1

Basic macroeconomic magnitudes of the Greek manufacturing sector as compared to selected EEC countries, 1976

U.S. $ million

Country	Population[1]	Index Gr = 100	Value added	Index Gr=100	Exports	Imports	Exports as percentage of imports
Greece	9,167	100.0	3,889	100.0	1,355	3,887	34.9
Denmark	5,073	55.3	9,855	253.4	5,085	8,383	60.7
Netherlands	13,770	150.2	20,976	539.4	22,316	23,123	96.5

1. In thousands

Source: OECD, Labour Statistics 1977.
OECD, National Accounts 1977.

Table 2

Size distribution of Greek manufacturing
1973

Size class (No. of persons occupied)	3-9	%	10-49	%	50 and over	%	Total
Establishment	113,479	93.5	6,627	5.5	1,249	1.0	121,357
Employment	255,016	42.2	127,674	21.1	221,351	36.7	604,041

Source: National Statistical Service of Greece, Census of Industrial Production 1973.

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WORKSHOP

ON

SOUTHERN EUROPE AND THE ENLARGEMENT OF THE EEC

THEME III: THE NEED FOR NEW POLICIES

PAPER: Development Policies and Factor Movements

AUTHOR: Suzanne Paine (University of Cambridge, UK)

Lisbon, June 1980

This draft is a preliminary attempt to capture some of the ideas arising from research in progress. Only some sections of the work could be incorporated at this stage: in particular, three key components are excluded - first, the detailed empirical evidence which underlies the analyses of world economic growth and of labour and investment movements; second, the rigorous theoretical exposition of certain of the ideas advanced; and third, the detailed statement of the policy implications for Southern European economies. Working tables have been inserted to try to fill some of these gaps in order to facilitate discussion. Comments, criticisms and suggestions on the sections included are most welcome, but given the incomplete character of the draft as it stands, readers are requested not to cite it, either as a whole, or in part.

International investment, migration and finance: issues and policies

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Draft for presentation at the Economia Workshop on 'Southern Europe and the enlargement of the European Economic Community, Lisbon Portugal, June 26-28, 1980.

1. Introduction

The basic aim of this paper is to stimulate discussion first about alternative policy strategies for the 1980s towards international migration, direct foreign investment, and finance, and second about the changes in the world economic system which have generated the need for careful policy reappraisal. These issues are not approached in the conventional 'marginalist' and'isolationist' fashion, whereby each one is considered separately, and policies are then proposed to deal with certain of the problems which it has raised. An attempt is also made to avoid illegitimate projections which are based on past experience and which ignores even the non-linear dynamic evolutionary character of the specific phenomena under analysis, let alone that of the world economy of which they are a part. This necessarily involves treading on uncharted ground with a much lesser degree of rigour than would in principle be desirable, and raising major theoretical issues concerning the evolution of the capitalist system. This in turn is an immense subject in itself - yet is crucial for the derivation of policy conclusions. Indeed, if the thrust of the general analysis of the world economy suggested here is correct, then it does have interesting and important implications for the kinds of strategy which might be adopted towards international migration and foreign capital movements.

The focus of the sections included in this draft is on the forces which determine the evolution of the world economy in general and of advanced capitalist economies in particular. Section 2 begins by discussing these at a general level, (the section analyzing empirically how these worked in the postwar economy being omitted), and then comments in more detail on the role of migratory movements during this phase of world economic development, The two other sections of the research on which detailed material is incorporated here are first, a critique of 'new international division of labour' theories, and second, a discussion of the prospects for the world economy during the 1980s. Empirical material from working tables is appended in places, but the detailed empirical discussion thereof could not be incorporated at this stage. Readers are asked to excuse what may in consequence appear to be the fragmentary character of the draft; it would have been much easier to adopt an approach which concentrated only on short-term policy issues for individual countries than to try to identify medium-term strategies which are capable of encouraging sustained economic growth.

2. The Dynamic of Growth in Late 20th Century Capitalism

2.1 Theoretical Issues

The volume, character and geographical pattern of both international labour and investment movements are determined fundamentally by the character and pace of world economic development. This in turn is the product primarily of the interaction between the dynamic of technological development and conditions of demand. In the long term, technological change can in principle overcome resource constraints, and, as both Schumpeter and Marx argued, the capitalist system tends to evolve in such a way that such technological change does materialize. But the process takes time and tends to involve painful structural change, both between and within individual countries. In the meantime, resource constraints themselves can be regarded as structural in character and generate important changes which affect the long-term evolution of the world system. Thus in the short-term, from the standpoint of any individual nation, its growth possibilities depend fundamentally on its access both to technology and to the material and manpower resources required to realize its productive potential and on the access of its producing units to markets where they can realize what they regard at that time as a sufficient surplus from expanding production through new investment, technological innovation and other induced or exogenous increases in labour productivity.

All these variables are of course closely inter-related. First, ceteris paribus, higher productivity makes a commodity more competitive internationally, (whether in terms of price or of quality), so tending to stimulate export demand; this creates the possibility of experiencing a 'virtuous circle' of export-led growth if demand conditions are sufficiently favourable to set off an actual increase in exports. Then higher exports → higher industrial production → more investment, static and dynamic economies of scale, and technological progress[a] (including new product development) → future productivity increases, and so on. If accompanied by buoyant expectations and higher profits, this 'virtuous circle' may be strengthened by further investment and productivity increases, whether through greater scale economies on account of capital widening, or directly through capital deepening. Whether or not implementation of more mechanized techniques leads to an increase in the capital-labour ratio depends on the extent of relative cheapening in the prices of capital goods. Where such relative cheapening of machinery is sufficient to sustain the stimulus to further adoption of more mechanized techniques

[a] The analytical distinction between dynamic economies of scale and technological progress is retained in this paper despite the empirical difficulty of separating the two. Dynamic economies of scale do not while technological progress as defined here does require a change in the kind of machines used in the production process.

higher industrial productivity and so cheapening of industrial goods as a whole relative to services may in turn stimulate further demand for the former because of substitution between the two. And, as argued in previous papers (Paine 1977, 1979), all these 'virtuous circle' effects tend to be intensified under conditions where there is access to reserve supplies of labour.

It should be noted that the set of 'virtuous circle' mechanisms described above represent a complex set of favourable interactions between supply and demand factors. An exogenously determined improvement in either the supply or the demand side alone is not sufficient to set the whole process in motion. The central importance of favourable demand conditions is easy to appreciate (at least by academics, if not politicians) and is the one on which Kaldor has focused attention in a number of distinguished papers (e.g., Kaldor 1966, 1975, 1976 1977). For if demand conditions are depressed, none of the potentially favourable supply side effects or their favourable feedback influence on demand may occur. And even if demand expansion is sluggish, so that for instance, markets for new products expand only slowly and competition for existing ones is so keen as to drive out all but the most efficient producers, the cumulative feedback effects of the supply side on domestic demand could be adverse, and could then induce unfavourable supply-side consequences. On the other hand, an increase in demand may not raise productivity or induce the favourable supply-side mechanisms described above. Thus if domestic producers are less competitive (either in terms of quality or price) than foreign ones, an increase in domestic demand may merely raise foreign output, with negligible feedback effects on foreign demand for domestic goods. But even if domestic output increases, this may not be accompanied by the same pace of technological innovation as is induced by an equivalent demand expansion in a foreign competitor, so that in the medium-term, the international competitiveness of domestic producers is weakened, unless it can be sustained on account of other factors (e.g. low effective unit labour costs for products where price competitiveness dominates). However, in advanced industrial economies where factors such as quality and new product design and development tend to be more important determinants of competitiveness, and so of growth in export markets, the nature and pace of technological change assumes particular significance, since this determines the potential to move to 'higher' product cycles[a/]. Yet new investment in response to demand expansion for 'improved' goods for which export demand is a significant component of total demand may not be of the type best able to sustain and improve medium-long term international competitiveness. This situation is most likely to arise when the investment occurs in response to a domestic demand increase in an economy which is in a disequilibrium situation or one in which domestic consumers' tastes move in a different direction from those in export markets[b/]. In either case, where domestic demand is the major component of total demand, the benefits to producers from implementing the technology which in the

Footnotes overpage

a/ I.e. it is a necessary but not a sufficient condition. There is an important and interesting literature on the evolution of product cycles and their key determinants: recent contributions building on the early work of Posner (1961) and Vernon (1966) include Vernon (1979), Ozawa (1979), Lall (1980), and Dunning (1979, 1977). All are concerned with interrelating the determinants of dynamic comparative advantage, the changing character and the growth of TNEs, and industrial market structure, concentration, and location. It has on the whole been most successful at the empirical level, particularly in explaining the institutional development, changing behavioural characteristics, growth dynamics, and impact of the US TNE during the postwar period up until the mid-1970s. Only recently, however, has it widely been realized that theorizing based on these results, dependent as they are on observations of a particular subset of TNEs during a particularly buoyant phase of world economic development (during most of which they held unchallenged primacy), is probably of rather limited general validity. This recognition led not only to much more wideranging empirical work, but also to refreshing attempts to begin a reappraisal at the theoretical level. Yet at the general level, major theoretical advances (over the early work cited above) concerned to analyze the character and role in international industrial development of the product cycle have been very rare (in contrast to the general theoretical advances in the analysis of the dynamics of the TNE per se made by authors like Hymer and Vaitsos). The basic causal chain underlying this paper is that international competitive forces drive enterprises to seek to move to higher product cycles (and so, for the most advanced enterprises, to strive for technological leadership). The international distribution within branches of the enterprise of R and D and of productive activity are treated as contingent factors which may vary, for instance, over time and between industries, as also is the extent and nature of other strategies which the enterprise may pursue in search of shorter-term profitability. Enterprises producing 'lower level' products can advance through imitation and adaption, but are more constrained in the choice of their operational variables. Even so, however, it is not assumed that a domestic monopolistic advantage of some kind is a prerequisite for location of plant abroad, nor that an improved product initially is produced domestically.

b/ An instance of the first kind would be, say, an economy with high inflation where uncertainty about the medium-long term leads producers to focus on short-term profitability via capital widening. It could also arise if the disequilibrium causes income elasticities of demand to diverge significantly from patterns in important export markets. Instances of the second kind are easy to supply: a contemporary example would be the way in which U.S. consumers reverted to a preference for large cars once the immediate aftermath of the 1973 oil crisis seemed to have subsided, while those elsewhere continued to increase their preferences for smaller, more fuel-efficient vehicles.

near future generates the highest profits in domestic markets may exceed those from implementing the one most likely to improve export competitiveness.

A different kind of situation arises when for domestic producers, the internationally competitive technology is not an effective option. This will arise when such producers have limited access to the appropriate kinds of inventions, or cannot implement 'best-practice ones because of limited technical knowledge, or because of restrictions imposed by technological decisions in backward-linkage industries (e.g. domestic non-traded intermediate goods[a/], or lack the market size or government financial support

a/ In principle, this problem would not arise if investment decisions in such non-traded goods took place in accordance with social, not private profitability considerations, so taking such interdependencies fully into account. However, for precisely the reasons that producers of traded-goods cannot know with certainty the future demand curve for their product, such interdependencies cannot be known with certainty, irrespective of the existence or not of social institutions designed to take them into account. Since government fiscal policy must be used for such social profitability

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which may make the innovations profitable for their foreign competitors. Domestic sales can still increase on account of factors such as limited supply elasticities for competitive imports, advantages in marketing or after-sales service, etc. Furthermore export sales in principle may not be affected too severely in the short-term if markets can be switched successfully away from other advanced industrial economies to new markets where demand for the most advanced version of the product is still weak. However, in the medium-term this tends to amount to a switch from competition via product development and rapid technological development to competition via price, with the consequent threat of comparative advantage shifting towards newly industrializing countries. For whereas in any advanced industrial economy there always are some 'old' or 'technologically mature' product groups for which such a shift away from 'technologically intensive' competition is appropriate, this being a normal feature of rapid structural transformation of industry as a whole, the pace of structural transformation itself is affected adversely when 'technologically intensive' competition is abandoned prematurely.

A move away from 'technologically intensive' competition could lead to a less sanguine outcome if the product cycle is less rigid. A potentially important case (discussed in Section 2.3 below) is one where greater international homogeneity of demand permits an enterprise capable of perfecting a 'standardized' commodity to combine technical adaptation abilities with unit cost competitiveness to capture mass markets, thereby achieving substantial scale economies and so both benefitting from and contributing to many of the 'virtuous circle' mechanisms, described above, despite the absence of technological 'leadership'. However, this possibility does not affect the basic inferences of the above analysis, which are first, that the potential of favourable supply conditions cannot be realized and their existence itself may be affected adversely if they are not accompanied by favourable demand conditions; and second, that even with both initial excess capacity in a country's enterprises and a stable price level, a demand increase may not set in motion the 'virtuous circle' mechanisms which (at least during the 1960's) constituted the essence of successful growth in advanced industrial economies.

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considerations - however imperfectly measured - to be taken into account, the outcome tend in practice to depend more on political ideology and short-term budgetary calculations than on sophisticated cost-benefit exercises.

In other words, for an advanced industrial economy highly integrated into the international economic system to benefit smoothly over time from 'virtuous circle' mechanisms, the following conditions must be satisfied:

(a) demand conditions must be favourable in the senses of

(i) stimulating structural transformation in the composition of output such that 'technologically intensive' investment in key exportables is profitable[a/]

(ii) not generating or intensifying supply-side constraints on the feasibility of 'technologically intensive' investment

(iii) stimulating invention and innovation activity.

(b) Supply conditions must be favourable in the senses of

(i) ensuring access to knowledge about new inventions and/or marketable innovations

(ii) possessing an institutional framework which transforms inventions into marketable innovations and/or permits the smooth introduction of the latter.

(iii) providing access to raw material and manpower resources at prices which do not disrupt the incentives for investment and innovation.

This last condition is particularly strong, not only empirically (in the sense that it appears to touch on certain key contemporary issues), but also theoretically (because it raises fundamental questions about the relative prices of primary commodities as compared with manufactures, the determinants and pace of world inflation, the role of reserve supplies of labour in sustaining capitalist accumulation and profitability, etc.) Although only the last of these issues - the role of reserve supplies of labour - is discussed below, the statement of the condition as a whole is useful for a policy-oriented discussion, as indeed is that of all those preceding it, since explicit attention is drawn to the fact that long-term growth in general, and 'virtuous circle mechanisms' in particular cannot be achieved and sustained by policies directed at only a subset of variables. This obvious and trivial point all too often is ignored as soon as a move is made from the realm of theoretical analysis to policy decision-making - as also is another equally trivial one: that it is no use focussing exclusively on the supply or on the demand side of the situation since statements or inferences about either involve implicit assumptions about the other.

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a/ Inter alia, this has very important implications not discussed here for the distribution of income and movements therein.

The converse of 'virtuous circles' where supply and demand factors interact in a mutually reinforcing way which generates growth and structural transformation in the capitalist economy are 'vicious circles' where supply and demand factors still act in a mutually reinforcing way, but one which generates stagnation and depression. This in turn raises the questions of 'long waves' and Kondratiev cycles in capitalist evolution. Whereas these cannot be explored here, on can point more generally to the theoretical possibility of phases in world economic development where'supply' or structural factors necessitate fundamental adjustment processes which (by assumption) cannot take place quickly, so that in the short-term, policies directed primarily to 'demand' factors can at best mitigate the adverse character of conditions during the adjustment period, and may result in a prolongation of the length of the adjustment period itself. This could occur at both the national and the international levels. In the latter case, the outcome would depend on a number of complex factors related to the international distribution of the new effective demand and the multiplier effects thereof. Equally, however, such a demand increase may be a necessary condition if the adjustment process itself is to gain any momentum.

Thus far, the discussion has abstracted from cyclical fluctuations of any kind. Whereas there is a core of theoretical literature which can be drawn upon to analyze national cyclical growth (although whether this core can be adapted so as to capture certain key features at the national level of later 20th century capitalist development might be questioned), there is very little to draw upon when the analysis is to be centred at the international level, or at the national level in an integrated world economy in which labour export systems and foreign investment play a key role. From the national standpoint, the character of the cycle will be affected considerably if it is accompanied by substantial fluctuations in the size of the labour force as migrants are imported /sent home in response to changing demand conditions. For reasons discussed elsewhere (Paine 1974, 1977) this can be of considerable advantage labour importing countries. But it implies that the migrants' home countries face sharp changes in their job-seeking population which are determined primarily by factors external to the domestic development situation. When international investment is introduced into the picture, employers have another potential adjustment variable which may make it easier for them to sustain profitability in the face of cyclical movements, but which may have profound effects on the domestic economy if substantial production transfers occur. From the international standpoint, it is very difficult to say a priori whether the internationalization of capital and labour movements are likely on balance to offset or increase the impact of international integration per se on synchronizing the business cycle in different countries, and no attempt to sketch possible alternative outcomes is made at this point in the text.

The amplitude and duration of cyclical movements at both the national and international levels is affected further by the way in which the character of the international financial system influences the forces discussed above. The Bretton Woods system was based on fixed exchange rates and the U.S. dollar's role as a reserve currency. The latter generated an expansionary bias for the world economic system, i.e. a higher trend growth rate of world demand than otherwise would have occurred. In a nationally fragmented world economy, this means that the troughs of investment cycles need be less steep and of shorter duration[a/]; investment can recover because of rising export demand for at least some foreign countries, rather than occurring exclusively through a redistribution in factor income shares and/or stable budgetary spending. In an integrated world economy, the scope for this is reduced (unless the cycle is brought about by some exogenous shock which generates a rise in the purchasing power and effective export demand of some country group whose weight is sufficient to set in motion an investment recovery). The expansionary bias which occurs in an international financial system where the country of the dominant reserve asset runs large current account deficits with the rest of the world can more than offset the deflationary bias in a fixed exchange rate adjustment mechanism, whereby other deficit countries have to devalue and deflate, while surplus countries can choose the extent to which they adjust. At the micro-economic level, the fixed exchange rate system tends to make it easier for an enterprise to assess the prospective short-run international competitiveness (measured in terms of a common unit of account) of possible production and investment plans: exchange rate changes are few and tend to be delayed, so that the probability of their occurrence in the short-term is easier to predict. A move to a flexible exchange rate system changes all this, with effects on international cyclical and structural disequilibria which as yet have not been fully worked out.

When account is taken of all the other factors referred to previously and of the specific impact of a substantial increase in the short-term at least of the relative price of a key primary product (oil), it immediately becomes apparent that the theoretical apparatus which is available for analyzing the prospective evolution of late twentieth century capitalism is extremely weak - which may perhaps help to explain the shift in popularity to simplistic doctrines like international monetarism.

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a/ Here it is assumed that the less the degree of international integration, the less the degree of synchronization in investment cycles. For any degree of integration, differences in election timings in liberal democracies affect both the speed of any given degree of diffusion of an investment cycle and its actual severity.

2.2 The world economy between 1950 and the oil crisis : general factors

The material for this section is not inluded. The basic arguments are:

1. Demand and supply factors worked in such a way as to generate rapid expansion in the world economy.

2. Europe and Japan in part used the same, and in part developed different strategies towards catching up with the U.S. (this part of the argument is discussed in detail in the next section on migration

3. Technological progress was a very important part of the story, not just in the already industrialized countries, but also in those developing economies which were able to advance to middle-income and then to NIC status.

4. Other 'contingent' factors played an important facilitating role, e.g. US deficit expenditure. (This offset for the time being the potential consequences of the failure of Bretton Woods to adopt Keynes' proposals for the international financial system; on the other hand, precisely because it facilitated the 'catching up' of other industrial economies with the U.S., it ultimately led to its own demise).

5. Growth was largely synonymous with industrial growth, with service sector productivity growth being constrained by the avilable state of technological knowledge (Thus as a rising share of the population moved into the service sector, this began to constrain whole economy productivity growth: the more 'mature' a country's employment structure, the more a productivity breakthrough in services became a prerequisite for growth in per capita national income.

6. In advanced economies, the pace of growth was sufficient to moderate potential class conflict over factor shares.

7. Growth in the west had a favourable impact overall on growth in the 'Thirld World', though the distribution of that impact was very unequal, both between countries, and within individual countries (the latter being due largely to the particular policies pursued by the governments concerned).

Selected empirical evidence

Table 1 Selected Growth Rates in Industrial Countries
Percent per annum

Country	Growth rates 1950–73	1960–73	1973–76	1973–77	1973–78
Real gross domestic product per employed civilian					
United States	2.1	2.1	−0.1	0.3	n.a.
Canada	2.6	2.4	0.4	0.5	n.a.
Japan	7.8	8.8	2.3	2.7	n.a.
France	4.6	4.6	2.7	2.9	n.a.
West Germany	5.0	4.4	3.3	3.3	n.a.
Italy	5.3	5.8	0.8	−0.2	n.a.
United Kingdom	2.5	2.6	0.4	0.4	n.a.
Output per hour in manufacturing					
United States	2.7	3.2	1.2	1.5	1.7
Canada	4.2	4.6	1.3	2.1	2.5
Japan	9.7	10.0	1.4	2.4	3.5
Belgium	n.a.	7.0	6.7	6.6	n.a.
Denmark	5.2	7.0	6.2	5.2	4.7
France	5.3	5.7	4.7	4.8	4.8
West Germany	5.8	5.5	6.0	5.5	5.1
Italy	6.6	7.2	3.0	2.4	2.6
Netherlands	6.2	7.4	5.4	4.9	n.a.
Sweden	5.3	6.7	0.9	0.5	1.5
United Kingdom	3.1	3.9	0.1	−0.2	0.2

Sources: U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology, "Comparative Real Gross Domestic Product, Real GDP per Capita, and Real GDP per Employed Civilian, Seven Countries, 1950–77" (June 1978); "Output per Hour, Hourly Compensation, and Unit Labor Costs in Manufacturing, Eleven Countries, 1950–1978" (July 10, 1979).
n.a. Not available.

Table 2

Employment and output per person employed for the total economy and for manufacturing; and total unemployment

(Annual percentage changes)

Country	Total economy: Employment	Total economy: Output per person employed	Manufacturing: Employment	Manufacturing: Output per person employed	Unemployment level, end of year[a] (per cent)
	(1)	(2)	(3)	(4)	(5)
Austria					
1974	1.6	2.5	−0.5	4.8[b]	2.2
1975	−0.2	−1.8	−5.0	−2.0[b]	3.1
1976	1.1	3.5	−1.5	8.2[b]	2.5
Belgium					
1974	1.5	1.6	0.9	2.6	5.3
1975	−1.2	−1.3	−5.7	−1.7	8.7
1976	..	..	..	..	9.8
Denmark					
1974	−0.7	3.3	−3.0	5.7	5.7
1975	−2.5	1.8	−10.7	6.2	7.7
1976	1.0	4.5	−1.0	9.0	8.1
Finland					
1974	2.1[c]	2.1	3.6[c]	1.4	1.7
1975	−1.1[c]	0.6	−0.6[c]	−4.1	3.2
1976	−2.0[c]	2.5	−1.3[c]	3.3	4.1
France					
1974	0.8	3.0	0.5	3.1	3.3
1975	−1.6	0.4	−2.7	−2.9	4.6
1976	0.0	5.0	−1.0	10.0	5.2
Germany, Federal Republic of					
1974	−1.9	2.6	−2.7	3.2	4.2
1975	−3.3	0.0	−5.7	−0.4	5.3
1976	−1.0	6.7	−2.0	9.5	4.8
Ireland[d]					
1974	0.8	0.9	1.0	1.6	7.9
1975	−1.8	0.8	−6.9	0.1	10.3
1976	−1.2	5.0	−1.0	7.5	10.2
Italy					
1974	2.2	1.2	2.3	3.8	3.1[e]
1975	0.5	−4.2	0.0	−9.7	3.5[e]
1976	−1.1	6.7	0.5	11.5	3.9[e]
Netherlands[d]					
1974	−0.1[c]	2.5	−0.8	2.5	4.4
1975	−0.9[c]	−0.2	−3.2	−4.0	5.6
1976	−0.6[c]	4.1	−3.5	9.5	5.3
Norway					
1974	1.5[c]	3.7	2.1[c]	1.5	1.0
1975	0.4[c]	3.1	−0.5[c]	−1.5	2.3
1976	0.9[c]	4.8	−0.3[c]	2.0	1.5
Sweden					
1974	1.7	2.3	2.1	2.3	1.5
1975	1.9	−1.1	0.7	−1.8	1.6
1976	0.5	0.2	−2.6	1.5	1.5
Switzerland[d]					
1974	−0.6	2.1	−0.7	2.0	—
1975	−6.0	−1.5	−7.6	−5.4	0.9
1976	−4.0 to −5.0	3.5 to 4.5	−6.0 *	6.0 *	0.6
United Kingdom					
1974	0.4[f]	−1.2	0.2	−2.5	2.8
1975	−0.6[f]	−1.5	−4.3	−1.8	5.1
1976	−0.9[f]	2.0	−2.5	4.2	5.8
Canada					
1974	4.4	−1.1	3.0	0.0	5.9
1975	1.9	−1.4	−5.6	0.7	6.9
1976	2.2	2.5	1.5	3.5	7.4
United States					
1974	1.8	−3.4	−0.1	−5.1	6.7
1975	−1.3	−0.4	−8.5	−0.5	7.8
1976	3.2	2.8	3.3	8.0	7.4

Employment and output per person employed for the total economy and for manufacturing; and total unemployment

(Annual percentage changes)

Sources: For output: United Nations, *Yearbook of National Accounts Statistics*, New York; OECD, *National Accounts of OECD countries*, Paris; and national statistics. For employment and unemployment: national statistics.

Note: The preliminary data for manufacturing output in 1976 used for calculating output per person employed data refer to indexes of manufacturing production. For some countries at least, movements in these indexes differ considerably from those for value added at constant prices.

Concerning unemployment levels, it should be borne in mind that the definition of unemployed persons varies between countries and that this makes inter-country comparisons difficult. In this table the basic data for Finland, Italy, Canada and the United States refer to the number of unemployed obtained from labour force sample surveys. For the other countries the data refer to registered unemployed or applicants for work obtained from the national employment offices (for Belgium, wholly unemployed persons receiving insurance benefits).

[a] Unemployment as percentage of total labour force.

[b] Mining and manufacturing.

[c] Refers to man-years.

[d] Manufacturing output based on production indexes for all years.

[e] October of each year.

[f] June of each year.

TABLE 3 CALCULATED TREND GROWTH RATES 1959-73 1/ a/

	$\dot{Y}$ Δ Output	$\dot{E}$ Δ Employment	$\dot{Y}-\dot{E}$ Δ Productivity	$\dot{K}$ Δ Gross Capital stock	$\dot{K}-\dot{Y}$ ΔICOR	ICOR 2/ b/ 1950-59	ICOR 2/ b/ 1960-69
ustria	5.5	0.0	5.5	5.3	-0.2		3.5 c/
elgium						3.8	3.3
Denmark						2.0	1.8
inland	6.7	2.1	4.6	7.5	0.8	3.6	3.4
rance	6.6	0.8	5.8	6.3	-0.3	3.6 d/	3.7 d/
ermany, FR.	5.7	0.2	5.5	7.3	1.6	1.8 d/	3.0 d/
reland	6.2	1.8	4.4	8.9	2.7		3.0 e/
taly	7.0	1.3	5.7	5.6	-1.4	2.8	2.3
Neths.						3.3	3.2
Norway	5.3	1.0	4.3	5.3	0.2	5.0	3.5
Sweden	4.9	0.2	4.7	4.9	-0.6	4.4	2.5
U.K.	3.9	0.4	3.5	3.9	0.8	3.9	3.8
Greece						2.6	2.5
Portugal						1.4	2.0
Spain							
Turkey							2.7 d/
ugoslavia							2.6
U.S.	3.0	1.5	1.5	3.0	-1.8		2.2 f/
Canada	5.2	2.2	3.0	5.2	-0.9		
Japan	14.2	3.3	10.9	14.2	1.2		

OURCES

1/ UN ECE

2/ UN ECE

OTES

a/

b/ Gross fixed capital formation 1950-9 and 1960-9 divided by growth of output 1950/2 - 1958/60 and 1958/60 - 1967/9 respectively; all values at 1963 constant prices

c/ Output includes mining; investment includes mining and construction

d/ Investment includes construction

e/ Output and investment both include construction

f/ Investment ratios calculated on basis of output and investment ratios at current prices

2.2.2 <u>International migration</u>: its role in postwar growth in advanced capitalist economies

As the UN (1979: 1) observes, 'in the last quarter of a century new and complex patterns of international migration have been emerging, often with startling rapidity'. Analytically, these entailed new kinds of flows and new geographical patterns of destinations. Traditional migratory patterns had included potentially long-term flows from Europe and the Mediterranean basin to the New World (particularly North and South America, and Oceania), many of whom remained permanently, and various kinds of more temporary patterns which sometimes led to permanent change of domicile. Examples of the latter include movements related the administration and development of less developed areas which had been colonized by Western European countries or Japan, seasonal or short-term migration across frontiers, and the like. However, after World War II, many important changes began to occur. The end of the colonial system brought with it substantial migratory movements into some of the former colonial powers. Rapid reconstruction of and growth in the European economy slowed down the traditional outflow to New World destinations, and stimulated spontaneous flows from the less prosperous Southern European countries to the more prosperous Western European ones, which also received quasi-refugee flows from Eastern Europe (see further below). During the 1960s, as W. European labour demand intensified, the foundations of organized national labour import were laid in certain countries. The system introduced had two key features: workers (to be selected mainly while still in their countries of origin) were to be employed on a temporarily recruited basis with little prospect of becoming settlers; and the state, through the establishment of recruitment offices in countries of origin, was to act on behalf of prospective employers. Some governments (e.g. France) had a more flexible approach, especially to the question of family migration and settlement, and 'nationalized' less of the immigration flows. Others (particularly W. Germany) more or less tried to enforce the rigid variant of the system, and so brought about the outflow of some 39 % of its migrant worker stock during the first major recession after the more organized approach to labour import had been introduced.

The subsequent transformations in and eventual demise of the system, plus the implications of this for Mediterranean countries are taken up later on this section. The point of significance here is the creation of this kind of organized system designed to transfer mass labour flows in a manner which maximized the potential gains to both the host country government and host country employers[a/]. In this phase of its development, W. European capitalism required both access to and utilization of reserve supplies of labour, and designed a system to bring this about. Supply-side factors made labour import a natural solution to the labour demand problem. Technological development in transport reduced effective distances and reduced its cost relative

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<u>a/</u> For a detailed analysis, see Paine (1977: 201-217).

TABLE 4 ESTIMATES OF NET MIGRATION AND NET MIGRATION RATES IN SELECTED COUNTRIES OF EUROPE, 1950–1974

Region and country	Estimated net migration, mid-year to mid-year (thousands)			Average annual net migration per 1,000 population, mid-year to mid-year		
	1950–1960	1960–1970	1970–1974	1950–1960	1960–1970	1970–1974
Total	−3 011	− 66	+ 911	− 0.7	—	+ 0.5
Eastern Europe	−2 741	−1 031	− 158	− 3.0	− 1.0	− 0.4
Bulgaria	− 163	− 15	− 32	− 2.2	− 0.2	− 0.9
Czechoslovakia	—	− 174	− 9	—	− 1.2	− 0.2
German Democratic Republic	−2 056	− 433	− 21	−11.6	− 2.5	− 0.3
Hungary	− 164	+ 9	—	− 1.7	+ 0.1	—
Poland	− 220	− 306	− 57	− 0.8	− 1.0	− 0.4
Romania	− 138	− 112	− 39	− 0.8	− 0.6	− 0.2
Northern Europe	− 500	− 278	− 83	− 0.7	− 0.4	− 0.3
Denmark	− 52	+ 20	+ 22	− 1.2	+ 0.4	+ 1.1
Finland	− 73	− 164	+ 13	− 1.7	− 3.6	+ 0.7
Ireland	− 397	− 161	− 12	−13.7	− 5.6	− 1.0
Norway	− 14	+ 4	+ 12	− 0.4	+ 0.1	+ 0.8
Sweden	+ 93	+ 204	+ 7	+ 1.3	+ 2.6	+ 0.2
United Kingdom	− 57	− 181	− 125[a]	− 0.2	− 0.3	− 0.6
Southern Europe	−3 475	−3 676	−1 083	− 3.1	− 3.1	− 2.1
Greece	− 196	− 364	− 91	− 2.5	− 4.3	− 2.6
Italy	−1 166	− 792	− 44[b]	− 2.4	− 1.5	—
Malta	− 43	− 35	− 9	−13.4	−10.8	− 7.0
Portugal	− 662	−1 234[c]	− 273	− 7.7	−14.0[c]	− 7.8
Spain	− 826	− 551	− 316	− 2.8	− 1.7	− 2.3
Yugoslavia	− 582	− 700[d]	− 350[d]	− 3.3	− 3.6	− 4.3
Western Europe	+3 705	+4 919	+2 235	+ 2.9	+ 3.5	+ 3.7
Austria	− 141	+ 38	+ 67	− 2.0	+ 0.5	+ 2.2
Belgium	+ 59	+ 152	+ 67	+ 0.7	+ 1.6	+ 1.7
France	+1 080	+2 177[a]	+ 505	+ 2.5	+ 4.5	+ 2.4
Germany, Federal Republic of	+2 546	+2 047	+1 439	+ 4.8	+ 3.5	+ 5.9
Luxembourg	+ 7	+ 15	+ 16	+ 2.3	+ 4.6	+11.5
Netherlands	− 142	+ 92	+ 104	− 1.3	+ 0.8	+ 2.0
Switzerland	+ 296	+ 398	+ 37	+ 5.9	+ 6.8	+ 1.5

SOURCE: National statistical publications. Except as noted, net migration was calculated by subtracting natural increase from total population change during the period.

[a] Official estimates.

[b] Based on official migration statistics of Italy.

[c] New official data received as the present study was sent to press indicate that the amount of net emigration shown for the 1960–1970 decade is considerably overstated, owing to an under-enumeration in the 1970 census of approximately 350,000 persons.

[d] Based on statistics of countries receiving Yugoslav migrants.

TABLE 5 IMMIGRANTS FROM SOUTHERN EUROPE AND FROM OTHER REGIONS OF EUROPE TO CANADA AND THE UNITED STATES OF AMERICA, 1950–1974
(*Thousands*)

Country of immigration and period	Region of last residence			Southern Europe as percentage of total
	Total Europe	Southern Europe	Other Europe	
Canada				
1950–1954	671.0	125.7	545.3	18.7
1955–1959	680.0	171.8	508.2	25.3
1960–1964	340.0	139.0	201.0	40.9
1965–1969	623.4	225.4	398.0	36.2
1970–1974	338.4	137.5	200.9	40.6
United States of America[a]				
1950–1954	716.3	84.1	632.2	11.7
1955–1959	688.6	178.7	509.9	26.0
1960–1964	547.2	140.3	406.9	25.6
1965–1969	586.1	265.1	321.0	45.2
1970–1974	459.2	269.3	189.9	58.6

SOURCE: National statistical publications and files of the United Nations Statistical Office.

[a] Years running from July to June.

Table 6 : Western European region: economically active migrants, 1975 (in thousands)

Out-migration country / In-migration country	Algeria	Finland	France	Greece	Italy	Morocco	Portugal	Spain	Tunisia	Turkey	Yugoslavia	Other	Row total	Row total as % of act. pop.	GNP per capita (US$)
Austria[1]	-	-	-	(0.5)	(1.4)	-	-	(0.2)	-	(26.6)	(138.6)	28.5	195.8	6	4,870
Belgium[2]	3.5	-	42.0	10.0	96.0	28.0	6.0	30.0	2.0	16.0	3.0	80.3	316.8	8	6,270
France[3]	331.1	-	n.a.	-	199.2	152.3	360.7	204.0	73.0	31.2	42.2	190.6	1,584.3	7	5,950
Fed. Republ. of Germany[1]	1.4	3.0	47.4	219.9	322.9	17.1	72.5	136.0	-	593.1	442.3	349.1	2,204.7	8	6,670
Netherlands[1,4]	-	-	-	2.0	10.0	31.0	5.0	18.0	1.0	41.0	10.0	69.0	187.0	4	5,750
Sweden	0.2	103.0	-	8.0	2.5	0.5	1.0	2.0	0.2	4.0	23.0	59.6	204.0	5	8,150
Switzerland	-	-	(51.5)	-	(168.6)	-	-	(75.5)		(13.4)	(36.4)	408.2[5]	753.7	29	8,410
United Kingdom[6]	0.6	-	-	50.0	56.5	2.0	10.0	37.0	0.2	3.0	4.0	700.0[7]	863.3	3	3,780
Column total	336.8	160.0	(140.9)	(290.4)	(857.1)	230.9	455.2	(502.7)	76.4	(728.3)	(699.5)	1,885.1	6,309.6	n.a.	n.a.
Column total as % of act. pop.	11	5	(1)	(8)	(4)	6	14	(4)	4	(4)	(8)	n.a.	n.a.	n.a.	n.a.
GNP per capita (US$)	870	5,420	5,950	2,340	2,810	470	1,570	2,750	730	900	1,550	n.a.	n.a.	n.a.	n.a.

n.a. = not applicable.

\- = no migrants of this nationality recorded or estimated, or magnitude less than 50.

( ) = where figures for individual nationalities appear in brackets, this signifies minimum numbers. Several countries grant permanent residence or work permits to foreigners after a number of years of employment, in which case the nationality breakdown for this group is not usually available. Similarly, unemployment figures by nationality are rare and lumped together with the "Other" figures.

1 = wage and salary earners only.

2 = best available figures, giving 1976 estimate. Source: Prof. W.A. Dumon, "Système d'Observation Permanente des Migrations, Belgique 1977" (Leuven, Katholieke Universiteit [mimeographed], n.d. [1977]).

3 = census.

4 = the approximately 40,000 Dutch passport holders from the Antilles and Surinam are not included in these figures

5 = includes 328,500 established foreigners whose nationality could not be determined. Italian, French, German, Spanish and Yugoslav nationals may be expected to figure most prominently among them, possibly in proportions similar to those of the bracketed figures (annual permit holders plus seasonal plus frontier workers).

6 = these figures are based on estimates made by the EEC's European Office for Co-ordination and the OECD's Directorate for Social Affairs, Manpower and Education. People from Commonwealth countries holding UK passport, the bulk of whom have a right of permanent residence in the UK, are not included here. The 1971 census showed that 3 per cent of the resident active population were born in the Commonwealth.

7 = this includes nearly half a million persons born in Ireland, just under half of whom are of Irish nationality.

Sources National sources, unless otherwise indicated; World Bank Atlas 1977; and own estimates to the host country real wage. This increased substantially the potential geographical locations of reserve labour supplies, as well as making it much easier for aspirant migrants to try their luck abroad as 'tourists' when they were unsuccessful in the organized recruitment queue. Technological improvements in communications spread information about employment abroad more rapidly, so increasing the proportion of emigration country labour forces who wished to become temporarily recruited migrants. In other words, technological change created a moving geographical frontier within which host country employers could draw on reserve labour supplies without running into rising costs for recruitment per se. More fundamentally, supply and demand conditions interacted in such a way that growth was taking place by a combination of capital deepening and capital widening and where there was rapid expansion in the demand for public sector services where the prospects for rapid increases in the degree of mechanization and in labour productivity were poor. W. European industry was 'catching up' largely by implementing and adapting the U.S. stock of inventions, and in the absence of labour, energy, materials or serious environmental constraints, could do so rapidly given the buoyancy of international demand conditions and the stable international monetary system. /The characteristics of the W. European 'solution' to the means of 'catching up' can best be seen when contrasted with Japan, which also was growing rapidly by drawing on American inventions. In contrast to Europe, however, Japan was much less well endowed with resources, and for environmental reasons, did not want to supplement natural growth in its population by immigration - an attitude reinforced by cultural and socio-political factors[a]. It therefore developed foreign investment as an instrument to deal with the resource problem, and international subcontracting plus foreign investment to deal with the labour constraint after this began to emerge in the 1960s. Japanese foreign/direct investment remained fairly low and indeed was controlled strictly until the late 1960s, but what took place was predominantly resource or labour oriented (Tables 7). Resource investment commenced first, promoted by the government in the late-1950s, and until the early 1970s, grew more rapidly than direct investment in manufacturing (which itself had a high annual rate of increase - Table 8). In fact, direct investment was not a prerequisite for access to reserve supplies of foreign labour since, for a combination of geographical and historical reasons, Japan was initially able to achieve this by 'internationalizing' its existing industrial subcontracting system[b]. Labour oriented direct investment grew up in part alongside, and in part instead of international subcontracting in East Asia, and was motivated partly by the need to improve subcontractors' productivity

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a/ Although the population density calculated over Japan's total land area is lower than that of certain European advanced industrial economies (e.g. Belgium and the Netherlands), its effective density is very much higher when adjustment is made for the high proportion of land which is 'unusable'.

b/ See further Paine (1971a, 1971b).

Table 7 Distribution of Cumulative Direct Foreign Investment by Selected Industrial Sector, 1960-70 (end of fiscal year) (Approvals outstanding: US $ million) (JAPAN)

Total Direct Investment	1960	1965	1970	1971	1972	1973	1974	1975	1975/70
Agriculture and Forestry	283	949	3,577	4,435	6,773	10,270	12,666	15,943	
		(27.4)	(30.4)	(24.0)	(52.7)	(51.6)	(23.3)	(25.9)	(34.8)
Fishery	3	15	56	67	83	153	180	215	
	4	8	26	38	49	77	102	130	
Mining	86	308	1,134	1,355	2,273	2,784	3,527	4,131	
		(29.8)	(29.8)	(519.5)	(67.7)	(22.5)	(26.7)	(17.1)	(29.5)
Subtotal of the above 3 sectors	93	331	1,216	1,460	2,405	3,014	3,809	4,476	
		(28.9)	(29.7)	(20.1)	(64.7)	(25.3)	(26.4)	(17.5)	(29.8)
Manufacturing	127	337	927	1,217	1,743	3,242	4,121	5,164	
		(21.6)	(22.4)	(31.3)	(43.2)	(86.0)	(27.1)	(25.3)	(41.0)
Others	62	281	1,434	1,758	2,625	4,014	4,736	6,302	
		(35.3)	(38.5)	(22.6)	(49.3)	(52.9)	(18.0)	(33.1)	(34.5)

Note: Figures in parentheses are annual rates of increase.

Sources: Japan Economic Research Center, *Statistical Materials for Long-term Projections, No. 4,* July 1974, and unpublished data of the Bank of Japan. Available in Japanese only.

FROM SEKIGUCHI (1979: 24)

Table 8 Japan's Foreign Direct Investment in Manufacturing Industries: Cumulative Approvals, End of March 1975
(a) Number of Projects, (b) Value US $ Million

Industries	North America (a)	North America (b)	Latin America (a)	Latin America (b)	Asia (a)	Asia (b)	Middle East (a)	Middle East (b)	Western Europe (a)	Western Europe (b)	Africa (a)	Africa (b)	Oceania (a)	Oceania (b)	Total (a)	Total (b)	Total (%)[a]
Food	70	44	42	61	120	68	1	0	14	25	28	8	23	25	298	231	1.8
Textiles	41	47	94	219	419	601	3	2	15	14	41	31	7	4	620	918	7.3
Timber, Pulp	22	221	25	36	153	93	---	---	---	---	1	0	17	73	218	423	3.3
Chemicals	30	29	52	364	271	110	7	54	24	49	2	2	13	26	399	634	5.0
Iron, and non-ferrous	21	162	53	223	230	137	3	10	9	32	12	6	9	65	337	635	5.0
Industrial machinery	74	56	71	128	218	67	3	2	36	51	---	---	6	3	408	307	2.4
Electrical machinery	49	86	58	91	460	214	4	4	21	20	4	2	7	9	603	426	3.4
Transport equipment	10	21	25	132	68	96	3	1	4	4	1	0	4	9	115	263	2.1
Others	60	26	60	37	582	182	12	33	28	19	4	2	9	1	755	300	2.4
Total	377	692	480	1,291	2,521	1,568	36	106	151	214	93	51	95	215	3,753	4,137	32.7

a Percent share of total direct investment.

Source: Bank of Japan.

Table 9 Capital-Labor Ratios in Japan's Manufacturing Industries, 1975

	Gross Capital Stock All Enterprises (March 1975, billion yen)	Number of Workers (1975, '0,000)	Capital-Labor Ratio (million yen/person: index)
All manufacturing	59,502	1,345	4.42 (100.0)
Food	4,101	135	3.04 (68.8)
Textiles	3,350	125	2.68 (60.6)
Paper and pulp	2,660	35	7.60 (171.9)
Chemicals	7,934	60	13.22 (299.1)
Metals	11,168	90	12.41 (280.8)
Metal products	3,030	100	3.03 (68.6)
Industrial machinery	4,728	135	3.50 (79.2)
Electrical machinery	3,547	155	2.29 (51.8)
Transport equipment	5,912	110	5.37 (121.5)
Other manufacturing	13,673	400	3.42 (77.4)

Source: Economic Planning Agency, mimeographed material, 1976, for the capital stock and the Japan Economic Research Center, *The Japanese Economy in 1985—The Economic Environment Surrounding Japanese Enterprises,* Tokyo, March 1976. Available in Japanese only.

and partly by the profitable opportunities for this which arose as countries such as South Korea and Taiwan established free trade zones[a/]. Since the labour shortage was felt particularly acutely by smaller-scale enterprises unable to offer the wages, benefits, and job security of the nenkō joretsu employment system operated by larger enterprises, it is hardly surprising that in contrast to the experience of the U.S. and Europe during the same period, small and medium scale firms played a significant role in Japan's direct foreign investment in manufacturing (Table 10). The available evidence suggests that such labour-oriented investment initially was not particularly geared to exporting to third countries as opposed to Japan[b/]. More importantly, however, until the early 1970s at least, 'cheap labour processing' appears to have been less important than securing and expanding existing markets as the main motive for Japan's manufacturing investment in Asia. However, since these markets were in cheap labour economies, it is difficult to test reported motives by independent checks on actual flows; indeed, for Japan, there was a much greater coincidence between export markets and potential cheap labour utilization than was the case for western industrialized economies.

There seems to be a reasonable case for arguing that the 'Japanese solution' to the labour shortage problem entailed one further difference from what might be termed the 'German' one: more rapid technological innovation. Since technology import by means of licences was the main means through which the latter occurred, the fact that the government (which controlled the nature and composition of licence imports very strictly as a means to achieving structural transformation in the economy) introduced preferences for more technology intensive, science, and skill based industrial branches in the later 1960s when labour shortage problems became prevalent suggests that there may have been some causal interrelationship between the two. Certainly technological innovation was used as an important part of the strategy for sustaining 'mature' industries, whose share in the main category of licence allocations declined only very slightly from 5.5% on average during the 1950s to 4.3% in the 1960s (Ozawa). The hypothesis that Japan experienced relatively more capital deepening than Germany is consistent with the available data on the trend growth rates of output and of the gross capital stock at constant prices between 1959 and 1973 (Table 3). Whereas in Japan, the trend output growth rate of 13.0% was almost as high as that for the capital stock (14.2%), in Germany, the corresponding figures were 5.7% and 7.3%, respectively. Problems of statistical interpretation

a/ In the Masan FTZ in the Republic of Korea (S. Korea), for instance, over two-thirds of the investment in 1972 was Japanese.

b/ The relevant evidence is summarized in Nayyar (1978: 69-71)

Table 10 Size Distribution of Japanese Parent Companies by Industry, End-March, 1975 (number of companies)

	Large Firms	Small and Medium Firms	Total
Food processing	26	14	40
Textiles	62	45	107
Lumber and pulp	21	10	31
Chemicals	78	16	94
Iron and steel	28	11	39
Non-ferrous metal	16	8	24
Industrial machinery	52	43	95
Electrical machinery	73	51	124
Transport equipment	38	13	51
Precision machinery	19	16	35
Other manufacturing	91	101	192
Total manufacturing	504	328	832
Agriculture, forestry, and fishery	15	12	27
Mining	22	4	26
Commerce	235	123	358
Others	13	15	28
Total	789	482	1,271

Note: Large firms are defined as those with paid-up capital of more than 100 million yen except for the wholesale industry where 30 million yen is the border and for the retail and services industries with a 10 million yen border-line.

Source: MITI, *Overseas Activities of Japanese Enterprises,* 1976. Available in Japanese only.

Table 11. Patterns of Ownership of US and Japanese Foreign Subsidiaries (number of firms and percentage share)

	Total Sample	95~100% Owned	50~94% Owned	5~49% Owned	Unknown	Remainder
All US foreign	11,152	6,894	1,895	829	949	585
subsidiaries (1968)	(100.0%)	(61.8)	(17.0)	(7.4)	(8.5)	(5.2)
in the developed	3,522	2,006	652	338	326	200
world	(100.0%)	(57.0)	(18.5)	(9.6)	(9.3)	(5.7)
All Japanese Foreign	3,214	1,264	875	1,075	---	---
subsidiaries March 1975	(100.0%)	(39.3)	(27.2)	(33.4)	(---)	(---)
in Asia	1,482	296	505	681	---	---
	(100.0%)	(20.0)	(34.1)	(45.9)	(---)	(---)
in Latin America	438	203	100	135	---	---
	(100.0%)	(46.3)	(22.8)	(30.8)	(---)	(---)
in manufacturing	1,761	335	616	810	---	---
	(100.0%)	(19.0)	(35.0)	(46.0)	(---)	(---)

Source: James W. Vaupel and Jean P. Curhan, *The Making of Multinational Enterprises,* Harvard University, Boston, 1969, for US data and MITI, *Survey on Overseas Activities of Japanese Business Firms,* Tokyo, 1976. Available in Japanese only.

make the interpretation of such data very difficult,[a/] but the basic hypothesis also is supported by certain theoretical considerations. From the standpoint of manufacturing producers, there was a constraint on the capital widening which could be located in Japan, so that although Japanese manufacturing appears to have enjoyed higher productivity gains attributable to dynamic scale economies for a given rate of output growth[b/] (for instance, on account of government induced mergers to improve industrial organization,[c/] stronger learning effects because of the system of industrial employment and because of the fact that improvements in the skill structure of the labour force were not offset partially by the import of less skilled workers, and the feedback effects of higher productivity growth in the economy as a whole), there was a limit to the range of output growth rates over which such favourable scale economies could be realized. The difficulties of testing a hypothesis of this kind are too familiar to require comment here, and all studies which have attempted to estimate the role of the 'residual' and of its components in economic growth raise serious methodological objections. In the final analysis one can do little more than note that there is a reasonable consensus that technological change played an extraordinarily important role in postwar Japanese economic development, whereas scale economies plus their dynamic feedback effects (which might or might not be defined so as to include rapid introduction of more capital intensive techniques) have been emphasized for the European case[d/].

Despite the impossibility of reaching robust conclusions, the Japanese case has been elaborated here because it is extremely important to understand the conditions under which utilization of reserve supplies of labour in general (and of immigrants in particular) plays an important contributory role in the generation of 'virtuous circles' of capitalist development. During the course of the 1960s, Japan essentially opted for limited utilization at production sites outside the national frontiers, and to replace remaining internal excess demand for labour by technological progress and structural change towards less labour-intensive industries. This shifted enormous weight towards the ability to sustain rapid technological progress, and (incidentally) may have contributed to Japan's maintenance of high rates of invention and innovation when much of the US backlog was 'used up', by inducing the government to strengthen further its policies designed to promote indigenous technological capacity. On the

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a/ Notably the assumptions which have to be made concerning depreciation - an issue which also raises certain interesting analytical issues (Harrod 197o, Bhaduri 1972).

b/ I.e. if productivity growth is regressed on output growth, Japan had a higher intercept than other industrial economies, and possibly although not necessarily had a steeper slope for the output growth range actually experienced in the west.

c/ These obviously permitted static scale economies but may well have stimulated dynamic ones.

d/ On Japan, see particularly Ozawa (1968, 1974); on Europe, there is of course disagreement over the relative weights to be accorded to a Kaldorian type of structural explanation with dynamic scale economies and emphasis on the employment side, the static scale economies of Verdoorn, and pure technological change, but most authors other hand, this precluded the benefits which a reserve army of labour generate during cyclical fluctuations. To some extent, Japan was able to compensate for this during the 1960s by the way in which subcontractors were used as a flexible buffer for larger firms who themselves segmented their labour forces, but this became much more difficult as the decade proceeded (Paine 1971b). The wage explosion which occurred there in 1968-9 was probably caused in large part by low short-term flexibility in the labour force, in contrast to Western Europe, where increased trade-union militancy because of lowering of the social wage seems to have been the main factor: reserve supplies of labour in continental western Europe may have constrained the rate of wage increase, but could not suppress the impact of conflict over take-home pay in countries where unions were strong and active. Of course, with the onset of structural adjustment process triggered by the energy crisis, the excess labour demand problem in Japan - as elsewhere was eliminated.

In any event, for reasons discussed fully elsewhere (Paine 1977, 1979), European economies terminated expansion in their use of the labour migration system before the onset of the structural adjustment period induced by the oil crisis. The latter turned what could have been a temporary moratorium into a permanent one, and at the same time generated a 'new' mass labour export system from Asia and non-oil North Africa and the Middle East to the oil producing countries of the latter. This 'new' system, and the way in which it contrasts with the old, is discussed in detail in an earlier paper (Paine 1979b). Although it is of considerable interest from the standpoint of world economic development, it is of limited relevnce here, except for one particularly interesting point. This is the way in which some Asian labour exporting countries (e.g. S. Korea, Philippines, India), have created a system which combines labour export with technology (in the sense of capital goods or service contract) exports. Often drawing on the expertise of nationals who had worked abroad in 'higher-level' jobs, though by no means necessarily doing so, entrepreneurs from these countries have successfully won construction and engineering contracts in the oil economies, supplying their own labour via 'block contract' manual labour export arrangements, and earning substantial amounts of foreign currency on service and or commodity export accounts, not simply permitting the inflow of private transfers via worker remittances. The impact of these developments on the countries concerned is complex (and, as in the case of Mediterranean country labour export to W. Europe, is influenced fundamentally by policies pursued by the governments in the countries of origin), and no attempt is made here draw up a cost-benefit balance sheet of the effects on major developmental variables. To be sure, the consequences of the manual labour migratory flows are following patterns similar to those observed in the European case, if anything in a somewhat

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cont. from p./ would agree that they all must be taken into account, and differ rather over the mechanisms through which they are seen to interact.

intensified form (because of the much greater wage differentials between home and host countries); on the other hand, the home countries are generating important new sources of export earnings on commodity and service accounts of their balance of payments, and stimulating important sources of structural development.

This experience is of interest to the S. European countries who supplied labour in substantial quantities to W. Europe for 3 reasons. First, W. European labour demand for new migrants is likely to remain depressed in the medium term. All factors point to this prospect. Demographic factors have tended to increase the numbers of nationals entering the labour force. The immigrant labour stock has 'matured', so requiring considerable 'catching-up' in social infrastructural investment , and so making labour import 'expensive' from the standpoint of W. European states, who now are concerned more with integrating the children of first-generation immigrants. World cyclical depression compounded by deflationary government policy will keep unemployment rates high in the short-term, and capital deepening made possible by the micro-chip technology will tend to keep it quite high for structural reasons while adjustment occurs during the post-recession recovery period. And for reasons discussed in Paine (1979a), where industries are in a position which forces them to concentrate primarily on minimizing unit labour cost, this is more likely to be sought through production relocation, e.g. in Asia (though such a strategy is not likely to be all that widespread for the reasons given in the paper cited). Second, the development of engineering-plus labour contract exports can help to deal with the balance of payments problems which some labour-exporting countries are experiencing as a result of the form of their structural dependence on labour export. The analysis underlying this proposition is summarized in the appendix to this section. And third, this strategy would be of a kind which generates positive effects with respect to S. European countries' structural economic transformation.

Finally, one factor frequently ignored but which is of importance when appraising advanced industrial economies' prospective demand for immigrants is the rising refugee or quasi-refugee inflows which have arisen during recent years. Contemporary political developments in many areas of the world suggest that this trend may well increase. Since the inflow of migrants tends to have a political as well as an economic elasticity, with any given country tending to have a ceiling on what it considers its absorptive capacity in any given year, this 'refugee' issue could well affect the magnitude of 'economically' determined flows.

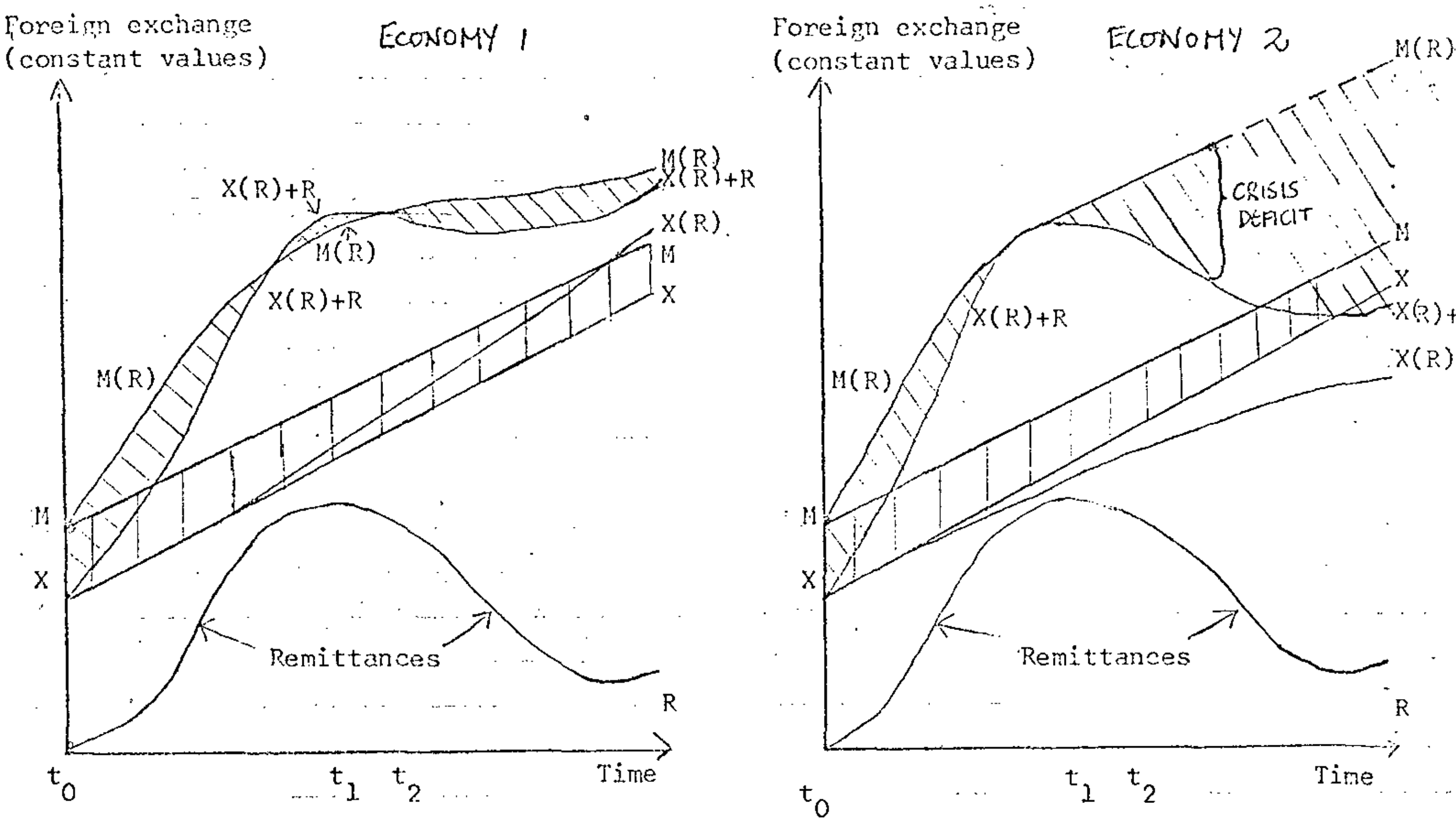
APPENDIX I (§ 2.2.2)

A highly simplified example may help to illustrate how, over time, remittance recipt may be accompanied by drastically different outcomes on the current account (excluding government transfers and factor services). The two diagrams below represent two economies, A and B, which pursue different policies with respect to remittance utilization and their replacement with other sources of foreign exchange. Economy A uses most of the foreign exchange from its remittance receipts for development imports designed to strengthen its economic structure, and anticipates the risk of remittance decline by introducing policies to ensure that its more diversified economic structure is accompanied by a more diversified export structure, with export earnings from goods and non-factor services rising somewhat more rapidly than would have been the case in the absence of remittance receipt. Remittance repatriation through official channels is made an attractive option by the introduction of attractive savings and investment schemes (including long-term deposits in foreign currency accounts), and permitting the families of returned migrants a moderate free foreign exchange allowance with long-term validity for carefully selected usages. Otherwise spillage into luxury imports is kept in check by means of controls. Economy B, however, neither takes measures to control growth in non-developmental imports nor introduces policies to mobilize new sources of foreign exchange earnings from goods and non-factor services. It has few, if any controls on luxury imports, or is unable to enforce the ones which it has, so that imports rise on account of such expenditures both by the families of returned migrants and by other better-off sections of the population. It fails to introduce the complementary measures required to ensure that such savings and investment schemes as it introduces become effective incentives for postponing immediate consumption. And the investment and intermediate goods which it imports tend to be channelled into activities which yield quick profits and fail to deepen the economy's industrial structure and to permit it to move to more moderate import dependence in the medium-long-term.

As noted earlier, each diagram below is constructed on certain highly simplified assumptions. First, it is concerned only with the balance on goods and non-factor services plus remittances. Second, it abstracts completely from any fluctuations or other factors in the international economy which may affect exports and imports of goods and non-factor services: in the absence of remittances from mass labour export, each is projected at a constant growth rate. In the diagram, they are drawn so that the rate for exports exceeds very slightly that for imports, so that the deficit on goods and non-factor services narrows a little in real terms (presumably increasing somewhat in terms of current prices after world inflation has been taken into account). This assumption was made in the light of the difficulties which recently poorer LDCs have experienced in financing deficits which are constant in real terms; however, it is in no way essential to the argument, just as the assumption of linear functional forms also can easily be dispensed with. Third, the remittance function is assumed to be identical for each economy over time. This is somewhat unrealistic, since the lack of sufficiently attractive savings schemes in economy B would be likely to encourage migrants to deposit some of their savings in accounts abroad. The functional form in the diagram is a hypothetical extreme case: It would arise, for instance, in conditions such as the following: the migrant stock includes a substantial number of unskilled workers, whose proportion in the total declines over time; its growth rate accelerates soon after the labour export system proper has been opened up but, after this initial expansionary phase, levels off and soon begins to decline, so that the absolute size of the stock grows only slowly; some migrants manage to settle abroad with their families so that the growth rate of the associated remittance inflow falls off slightly more sharply, though less so than would occur with a constant skill structure since the upgrading of the mean skill level raises the mean potential remittance per migrant; then an exogenous economic or political shock occurs which leads to an absolute reduction of the stock abroad of a magnitude which means that the depressant effect on remittances brought about by the fall in the number of remitters is not offset by the on-going process of recycling some of the stock with more skilled replacements; the social and political forces underlying migrant repatriation/unemployment lead host governments to implement a policy of settling a certain proportion of the migrant stock and sending back the rest in a phased manner over time, so that remittances now decline further on two counts; those who still remain after the repatriation is completed become more skilled and earn higher real wages, so that the remittance flow starts to rise again somewhat, but at a level and rate substantially lower than that experienced in the initial expansionary period.

Only the latter part of this story is hypothetical. The former corresponds closely with the Mediterranean recruitment country experience before 1973. If t_1 is taken as 1973/4, and t_2 as 1977, the t_1t_2 segment of the remittance curve would correspond to the Turkish experience - a clear case, since remittances fell in terms of current collar values. The outcome for other countries depends very much on the deflator selected, some experiecing only a temporary downturn, while others seem almost to have managed to keep real values more or less intact (not only through the skill-upgrading effect mentioned above, but also through the development of home country contracting in the host country).

Returning, however, to the hypothetical extreme case vis-a-vis the prospective development of the curve after t_2, it is easy to see how remittance receipt can be accompanied by widely varying outcomes. Economy 1's import function rises as rapidly as economy 2's on account of remittance inflows until t_1, when it starts to move slowly to a somewhat lower rate since its more self-sufficient economic structure has a moderately depressant effect on the real import coefficient. In the diagram, this function is drawn so as to incorporate some additional enforced import comprression on account of the balance of payments difficulties which the reduction in remittance



X exports in the absence of remittance receipts (goods and non-factor services)

M imports in the absence of remittance receipts "

R remittance receipts

X(R) Exports when economy receives remittance receipts "

M(R) Imports when economy receives remittance receipts "

X(R)+R Exports of G + NFS plus remittance receipts

receipts inevitably entails. But at the same time, the economy's more diversified economic structure has been accompanied already by an increase in the export growth rate above that which would have been sustained in the absence of remittances. This, together with the movement of the import curve, yields a deficit of moderate magnitude on goods and non-factor services to which the economy can adjust steadily over time. In contrast, economy 2's import coefficient remains almost constant after t_1 since the development strategy which it has been pursuing makes it extremely difficult (whether for political or economic reasons) to achieve any reduction. At the same time, export growth has been neglected (so that X(R) has fallen below X), and the country's economic structure has not been changed in a way which makes diversification into new export lines more feasible. The outcome is the emergence of a payments deficit of crisis proportions on goods and non-factor services.

Obviously a whole taxonomy of outcomes can be developed using a variety of remittance functions and differing assumptions about import and export growth. The key variables are the shape of the import curve, and the trade off between exports and remittances - both in turn being determined by the country's overall development strategy. <u>Note also that it is NOT necessary for the remittance function to decline as sharply as drawn in the above diagrams for serious payments problems to emerge.</u> If the slope of X(R) and (R) are both still rising, but in a way that X(R)+(R) is lower than that of M(R), a payments crisis inevitably will emerge in time.

APPENDIX 2 §2.2.2 : SELECTED DATA ON EUROPEAN AND MIDDLE EAST LABOUR EXPORT SYSTEMS

Table A.1 Stocks of foreign workers in the Middle East by host and labour exporting country

		Iran	Iraq	Saudi-Arabia	Libya	Kuwait	Oman	U.A.E.	Bahrain	Qatar	Estimate for all Middle East countries 1977[a]
TOTAL:	1975	(182.0)	8.4	770.0	295.0	211.4	67.2	(245.8)	29.4	61.8	
	1977 l.a.[1]	...	...	(1300.0)[b]	...	...	...	...	...	...	
Western Countries	1975	(35.0)[a]	0.7[a]	...	28.0[a]	2.0[a]	3.6[a]	(9.1)	4.4[a]	9.2	
	1977	...	...	(71.0)[c]	...	...	...	...	...	...	
Middle Eastern Countries	1977										1500 - 1800[e]
Arab Countries	1976										
	1977										1250 - 1550[e]
Asian Countries (S, E. and S.E.)	1975										
	1977										1135[e]
	l.a.										
South Asian Countries	1977										784
E. & S.E. Asian Countries	1975	(5.0)[a]	-	...	-	1.1[a]		(0.4)[a]	1.0[a/2]	0.5[a]	350[f]
	1977										
Afghanistan	1975	(120.0)[a]	...	...	...	...	...	...	...	...	200
	1977										
Egypt	1975	-	2.3[a]	...	175.0[a]	37.6[a]	5.3[a]	(12.7)	1.2[a]	2.7[a]	350
	1977	...	...	(180000)[c]	...	...	...	...	...	...	
	l.a.	...	...	(110000)	...	...	...	...	...	...	
Jordan	1975	-	3.1[a]	...	7.0[a]	47.7[a]	2.6[a]	(6.4)	0.8[a]	1.7[a]	150
	1977										
Morocco	1975	-	-	...	1.8[a]	-	-	-	-[a]	-	
	1977										
Oman	1975	...	...	...	...	...	...	...	1.4[a]	...	
	1977										
Sudan	1975	...	...	...	...	0.9[a]	...	1.8[a]	...	...	50
	1977										
Syrian Arab	1975	-	0.2[a]	...	15.0[a]	16.5[a]	1.5[a]	(3.4)	0.1[a]	0.4[a]	
	1977										
Tunisia	1975	-	-	...	29.0[a]	-	-	-	-	-	
	1977										
Turkey	1975	(1.2)[a]	-	...	8.0[a]	-	-	-	-	-	
	1977										
2 Yemens Combined	1975	-	-	...	-	11.4[a]	1.0[a]	(3.5)[a]	1.3[a]	2.6[a]	
Yemen Arab Republic	1977	...	...	(500.0)[b]	...	...	...	...	...	...	500
	l.a.	...	...	(700.0)[b]	...	...	...	...	...	...	
PDR Yemen	1977										300
	l.a.	...	...	(300.0)[b]	...	...	...	...	...	...	
Bangladesh	1975	...	...	...	...	...	...	2.5[a]	...	...	
	1977										50
India	1975	(4.4)[a]	0.3[a]	...	2.0[a]	21.5[a]	24.8[a]	(73.0)	9.0[a]	19.8[a]	
	1977	...	...	(75.0)[c]	...	...	...	...	...	...	214
	l.a.	...	...	(30.0)[b]	...	...	...	...	...	...	
Pakistan	1975	(2.5)[a]	0.9[a]	...	5.0[a]	11.0[a]	20.2[a]	(94.0)	6.7[a]	14.5[a]	
	1977	...	...	(35.0)[c]	...	...	...	...	...	...	500
	l.a.	...	...	(50.0)[b]	...	...	...	...	...	...	
Sri Lanka	1977										20
Repub. of Korea	1977	...	...	(16.0)[c]	...	...	...	...	...	...	60
	l.a.	...	...	(30.0-40.0)[d]	...	...	...	...	...	...	

Sources:
a/ World Bank data, from Ecevit and Zachariah 1978
b/ *Financial Times*, 25.7.1978
c/ *Financial Times*, 28.3.1977
d/ *Financial Times*, 23.4.1977
e/ Own estimate
f/ Republic of Korea, Philippines and Thailand.

Notes:
1 Latest available data
2 Other Asia excluding India and Pakistan

... Data not available.

Table 12: Percentage distribution of foreign labour force and shares in total sectoral employment in selected oil countries

	OIL COUNTRIES: KUWAIT 1975		LIBYAN ARAB YAMAHIRIYA 1973		QATAR 1970		SAUDI ARABIA 1975	W. EUROPE: AUSTRIA 1975	FRANCE 1975	F.R.GERMANY 1975
	Sectoral composition of non Kuwaiti employment (%)	% non-Kuwaitis in each sector	Sectoral composition of foreign labour force	% foreigners in each sector	Sectoral composition of foreign labour force	% foreigners in each sector	Sectoral composition of foreign labour force	Sectoral composition of foreign labour force (%)		
Agriculture & fishing	1.7	46.9	10.2	10.5	4.9	95.8	14.6	2.2	5.3	1.0
Crude petroleum & gas	1.5	63.4	2.1	26.5	2.4	43.0	a/	a/	a/	a/
Other mining & quarrying			1.7	43.1	8.5	65.2				
Manufacturing	10.5	90.6	7.1	35.9			5.9	52.6	24.6	59.8
Electricity, gas and water	2.5	72.0	12.0	15.7			a/	a/	a/	a/
Construction	14.4	94.5	44.0	64.6	18.8	97.3	32.3	15.0	14.2	11.2
Trade, restaurants and hotels	15.7	84.0	2.9	9.7	17.4	88.8				
Transport, storage & communication	5.3	70.8	1.5	4.4	6.4	79.7	19.2b/	6.3b/	23.9b/	5.6b/
Finance, insurance & business studies			1.0	20.0	0.7	96.6				
Educational services			5.3	3.9						
Health services	48.5	61.4	3.7	15.3	29.0	86.2	17.6	23.9	13.8	13.4
Other services			6.9	20.9						
Public administration & defence			1.9	20.9	11.9	77.4				
Other			-	-	-	-	10.4a/	-	18.2a/	9.0a/
TOTAL:	211444	(70.8)	118,382	(22.0)	40,222	(83.1)	770,000(39.0)	185,200(6.1)	1900000(9.9)	2191000(8.5)

Sources: Calculated from Birks and Sinclair 1977; Ecevit and Zachariah 1978, from OECD data.
Notes: a/ Petroleum, mining, and utilities included under other.
b/ Commerce only.

Table 13 : Selected Economic Indicators for 'new' oil and 'old' European Host Countries

New host countries	Population (1,000) Total 1960 1/	Total 1975 1/	Total 1977 1/	Year of population breakdown 3/	National 3/	Non-national 3/	Non-national as % of total	Area 4/ 1000 sq.km	GNP per capita 1/ ($US 1974) 1960	GNP per capita 1975	Year of labour force breakdown 3/	Labour force (1000) National	Non-national	Non-national as % total 3/	Non-national as % total 5/	Composition of GDP at current factor cost (%) 7/ Agriculture 1960	Agriculture 1976	Industry 1960	Industry 1976	Services 1960	Services 1976	Manufacturing 1973
Iran	21434	33925	34270*	..	..	..	..	1648	516	1321	1975 5/	9100	182	..	2.0	29	9	33	59	38	32	12
Iraq	6870	11120	11910*	..	..	..	..	435	567	986	1975 5/	8400	8	..	1.0	17	8	52	66	31	26	10
Saudi Arabia	6206	8296	(9520)	1975	4100	1500	26.7	2150	831	2867	1975	752	748	49.9	39.0	..	1	..	86	..	13	7
Libya	1349	2442	2440* a/	1973	2088	203	8.9	1760	1068	3930	1973	422	118	21.9	33.0	14	3	9	68	77	29	3
Kuwait	278	980	1130*	1975	472	523	52.6	18	9302	8598	1975	92	213	79.9	71.0	..	0 h/	..	73 h/	..	26 h/	3
U.A.E.	90	340 c/	656*	1975	157	499	76.1	84	..	10480 j/	1975	46	343	88.2	89.0							
Bahrain	150	260	(270)	1971	178	38	17.6	0.6	..	2040	1971	38	22	37.1	38.0							
Qatar	65	190 e/	(10)	1975	53	117	69.0	1	4141	6581 c/	1975	10	71	88.2	77.0							
Oman	490	773	(820) c/	1975 4/	..	..	..	213	287	1903	1975 5/	105	67	..	64.0	74 i/	10 h/	8 i/	72 h/	18 i/	18 h/	0
Old host countries																						
F.R. Germany	55423	60165	61400					249	3876	6056	1975 6/	25776	2191 f/		8.5 6/	6	3	54	52	40	45	41
France	45684	49910	53080					547	2910	5306	1975	19192	1900 f/		9.9	9	6	48	43	43	51	34
Netherlands	11480	12725	13650					41	3173	5122	1975	45958	216		4.7	8	7	45	44	47	49	30
Belgium	9153	9799	9830					31	3114	5526	1975	3808	278		7.3	7	3	41	42	52	55	33
Sweden	7980	7913	8260					450	4553	7083	1975	4000	204		5.1	7	4	39	38	55	58	25
Austria	7048	7560	7520					34	2450	4346	1975	3033	185		6.1	11	9	49	50	40	41	35
Switzerland	5362	6070	6330					41	5389	7654	1975	2779	553 g/		19.9	..	..	..	..	..	..	..

Sources:
1/ World Bank: note differences between these and UN population estimates, and consequent effects on per capita GNP series.
2/ UN Monthly Bulletin of Statistics Feb.1979.
3/ Birks and Sinclair 1977.
4/ UN World Statistics in brief 1977.
5/ Ecevit and Zachariah 1978, using World Bank data.
6/ OECD.
7/ World Bank data: World Development Report 1978 used, except for manufacturing (1973) and Kuwait and Oman, for which World Tables 1976 used.

Notes:
.. Data unavailable. * Considered of questionable reliability by the U.N.
() UN estimate
a/ 1975
b/ UN estimate (presumably excluding most immigrants) only 240. 1975 census reported to have produced figure of 656 including 100,000 UAE citizens, 80,000 Bedouin, and around 270,000 from the Indian subcontinent. It was considered to exclude about 200,000 illegal immigrants.
c/ An alternative source gives a figure of 1500, including 5.6% immigrants, for 1976.
d/ Alternative sources frequently give much higher values for the oil countries.
e/ 1974 .
f/ Excluding seasonal workers.
g/ Excluding seasonal and border workers.
h/ 1973.
i/ 1961.
j/ On basis of 656,000 population.

Table 4 : Selected economic indicators for 'early' and 'late-starting' labour exporting countries

Early Labour Exporting Countries	Population[1/] 1960	Population[1/] 1975	Population growth rate 1970-75[2/]	Area[2/] (1000 sq.km)	Economically active population[3/] 1970 (mn)	Economically active population[3/] % in agri-culture	Economically active population[3/] % in industry	GNP p.c. ($US 1974) - 1969[1/]	GNP p.c. ($US 1974) - 1975[1/]	Growth rate 1960-75	Agriculture 1960	Agriculture 1976	Industry 1960	Industry 1976	Services 1960	Services 1976	Manu-facturing 1973	Workers abroad 1975: Total in Europe (1000s)[5/]	Workers abroad 1975: % employment in labour export country[5/]
Algeria	10080	15747	3.2	2382	2.6	50	13	773	715	-0.5	21	7	24	57	55	36	12	426	23
Finland	4430	47	0.4	337	2.1	20	34	2496	4645	4.0	20	10	40	44	40	46	31	103	5
Greece	8327	9101	0.7	132	3.3	40	26	889	2173	5.6	23	18	26	31	51	51	21	238	7
Italy	50168	52990	0.8	301	19.6[2/]	16	42	1577	2688	3.4	15	8	38	41	47	51	29	976	5
Portugal	9026	9357	0.2	92	3.0	31	30	540	1479	6.5	25	18	38	43	37	39	36	530	18
Spain	30303	35358	1.0	505	12.7	29	38	1056	2487	5.5	21	9	39	39	40	52	27	521	4
Tunisia	4049	5588	2.4	164	1.5	53	19	393[a/]	695	3.9	24	21	18	30	58	49	11	106	7
Turkey	27755	40098	2.4	781	14.5	67	12	446	793	3.7	41	29	21	28	38	43	24	713	5
Yugoslavia	18402	21330	0.9	256	8.9	45	27	660	1364	4.6	24	15	45	43	31	42	30	696	16
'Later Starters'																		estimated total in Middle East 1977 (1000s)[6/]	
Afghanistan	12535	17092	2.4	648	4.6	67	8	102	116	0.8	..	55	..	14	..	31	11[b/]	200	
Egypt	25832	37096	2.2	1002	8.3	53	16	222	286	1.6	30	29	24	30	46	41	22	359	
Jordan	1695	2709	3.3	98	3.6	29	..	335	423	1.5	16	14	14	28	70	58	12	150	
Morocco	11626	16680	3.0	447	4.0	50	15	329	435	1.8	29	21	24	31	47	48	13	2[e/]	
Oman	490	773	3.1	213	0.2	73	..	297	1903	30.0	74[a/]	10[c/]	8[a/]	72[c/]	18[a/]	18[c/]	0	..	
Sudan	11202	15550	2.5	2506	5.1	80	6	154	267	3.5	58	41	15	16	27	43	8	50	
Syrian Arab Republic	4564	7409	3.3	185	1.5	54	20	277	604	5.0	25	17	21	36	54	47	19	37[e/]	
Yemen Arab Republic	4592	6471	2.9	195	1.9	..	..	51[2/]	129[d/2/]	6.4	..	..	..	..	..	..	..	500	
PDR Yemen	1050	1677	2.7	333	0.4	62	..	..	223	..	..	23	..	16	..	61	..	300	
Bangladesh	53900	78600	2.4	144	22.3	71	6	105	-0.1		61	59	8	8	31	33	8	50	
India	429016.	609582	2.1	3288	221.0	71	12	119	139	1.0	50	47	20	23	30	30	14[1/]	214	
Pakistan	44965	69225	3.0	804	18.0	58	16	86	131	2.7	46	32	16	24	38	44	16	500	
Sri Lanka	9890	13600	2.2	66	3.6	52	11	103	134	1.7	38	37	16	21	46	42	14	20	
Republic of Korea	24954	34018	1.6[1/]	97[1/]	10.0	50	20	189	504	6.3	40	27	19	34	41	39	24	60	
Philippines	27372	42500	2.9	300	13.2	56	16	230	340	2.5	26	29	28	34	46	37	21	..	

Sources:
1/ World Bank
2/ United Nations, World statistics in brief, 1977, New York
3/ World Bank, World Tables, 1976
4/ World Bank, World Development Report, 1978 used, except for manufacturing, where World Tables 1976 used unles otherwise stated.
5/ OECD SOPEMI, 1976

Notes
a/ 1961
b/ 1969; % GDP
c/ 1973
d/ GDP p.c. 1973
e/ IMF estimate
.. Not available

Table A5 : Estimates of the migrant return flow from W. Europe to selected recruitment countries 1975-7[a/] (1000s)

	1975	1976	1977
Finland	8.5	11.0	10.0
Greece	4.3	5.1	5.3
Italy	50.9	53.3	62.1
Portugal	6.3	5.6	4.0
Spain	10.0	4.9	5.9
Turkey	15.6	16.6	19.9
Yugoslavia	17.6	15.0	18.7

Source: OECD

Notes: a/ Seasonal workers excluded.

Table A6 : Percentage changes in the foreign worker stock by selected Western European host countries 1974-78

	% share of the foreign labour force in the total economically active population (1977)	% change 1974-1977	1974-8
Austria	6 %	- 13 %	-18.9 %
Belgium	8.4 %	+ 10.5 %	n.a.
France	7.3 %	- 16 %	n.a.
Fed. Republic of Germany	9.5 %	- 19 %	-17.8%
Luxembourg	32 %	+ 5 %	n.a.
Netherlands	3.7 %	- 29 %	20.2%
Sweden	5.4 %	+ 12 %	12.3%
Switzerland	16.4 %	- 17 %	-17.5%

Source: OECD

Table A7 : Departures from selected Western European countries of immigration 1973-78

	1973	1974	1975	1976	1977	1978
F.R. Germany (total foreigners)	526.8	580.4	600.1	515.4	452.2	405.8
Belgium (total foreigners)	-	-	40.7	42.1	39.7	42.4
Sweden (total foreigners)	30.2	20.1	21.4	18.7	14.9	15.6
Switzerland (total foreigners)	73.0	81.0	121.0	110.3	84.3	63.8

Table A9

Foreign Workers in Western Europe by Countries of Origin and Employment in 1977

Country of origin / Country of employment	Austria	Belgium	France	FR Germany	Luxembourg	Netherlands	Sweden	Switzerland	Gr. Britain & N. Ireland[1]
Algeria	–	2,400	331,100	–	–	–	200	..	500
Austria	–	3,700	..	75,000	–	–	2,400	24,100	3,000
Finland	–	–	–	2,900	–	..	103,000	..	24,000
Italy	2,100	105,400	199,200	281,200	10,800	10,000	2,800	253,100	10,500
Morocco	–	22.200	152,300	15,200	..	29,200	600	–	55,500
Greece	–	9,600	–	162,500	–	1,900	9,200	4,800	1,000
Portugal	–	3,900	360.700	60,200	12,900	5,200	1,000	4,800	500
Spain	–	27,300	204,000	100,300	2,200	17,500	1,900	62,700	3,500
Turkey	27,000	17,000	31,200	517,500	–	42,400	4,200	14,900	4,500
Yugoslavia	131,000	–	42,200	377,200	600	8,000	25,800	25,400	8,500
Tunisia	–	1,900	73,000	–	–	1,100	400	..	..
Others	28,800	111,900	190,600	296,600	22,600	21,000	73,800	103,000	753,500[a]
Total	183,900	306 300	1,584,300	1,988,600	49,100	136,300	225,300	492,800	855,000

[1] 1976. [a] Including 293,500 from the Republic of Ireland.
Sources: OECD: SOPEMI Report 1978, page 3.

Table A10: Migrant remittances to selected Mediterranean recruitment countries 1975-78 ($ US mn)

	1975	1976	1977	1978
Greece	734	803	924	984
Italy	979	1,370	1,412	
Portugal	1,097	1,014	1,226	1695
Spain	968	853	813	946
Turkey	1,300	983	982	
Yugoslavia	1,696	1,878	2,097	2899

Source: OECD.

TABLE A11 ESTIMATED NUMBERS OF IMMIGRANTS FROM LESS DEVELOPED REGIONS IN SELECTED INDUSTRIALIZED COUNTRIES, BY REGION OF ORIGIN, 1960 AND 1974

(*Thousands*)

Region of origin	Total		In Northern America and Oceania[a]		In Northern and Western Europe[b]	
	1960	1974	1960	1974	1960	1974
Total	3 250	9 475	2 150	5 300	1 100	4 175
Africa	525	1 900	50	200	475	1 700
Asia	925	3 725	525	1 700	400	2 025
Latin America	1 775	3 800	1 550[c]	3 350[c]	225	450
Oceania[d]	25	50	25	50	—	—

SOURCE: United Nations estimates based on census data and annual migration statistics.
[a] Australia, Canada, New Zealand and the United States of America.
[b] Austria, Belgium, France, the Federal Republic of Germany, Luxembourg, the Netherlands, Sweden, Switzerland and the United Kingdom.
[c] Including Puerto Ricans in the United States.
[d] Other than Australia and New Zealand.

Table A12: Remittances to Selected Mediterranean recruitment countries
1960, 1965, 1970, 1974
(current $ millions)

Country	Year	Exports of goods and services (1)	Emigrant workers earnings and remittances (2)	(2) as percentage of (1)
Finland	1960	1173	..	..
	1965	1740	..	..
	1970	2831	34	1.2
	1974	6647	..	..
Ireland	1960	703	..	..
	1965	1077	..	..
	1970	1657	57 2)	3.4
	1974	3610	86	2.4
Italy	1960	5742	172	3.0
	1965	11041	326	3.0
	1970	19574	1017	5.2
	1974	41977	1352	3.2
Greece	1960	535	90	16.9
	1965	892	129	14.5
	1970	1445	333	23.0
	1974	3797	624	16.4
Spain	1960	1276	..	..
	1965	2788	61	2.2
	1970	5574	491	8.4
	1974	14347	912	6.4
Turkey	1960	540	..	..
	1965	707	..	..
	1970	1115	273	24.5
	1974	3648	1447	39.7
Yugoslavia	1960	806	..	..
	1965	1608	..	..
	1970	2992	498	16.6
	1974	7854	1715	21.8
Algeria	1970	1415	234	16.5
	1974	5314	389	7.3
Morocco	1960	562	..	..
	1965	623	..	..
	1970	837	63	7.5
	1974	2562	359	14.0
Tunisia	1960	257	..	..
	1965	226	..	..
	1970	484	29	7.2
	1974	1302	118	9.1

Source: IMF, Balance of Payments Yearbook, various volumes, collated by All entries are gross.

Footnotes: Column (1) includes receipts from exports of goods, services and other invisibles.
1) Escudo area. 2) Legacies and migrants' remittances.

Table A3: Migrants in and Remittances from Middle East Oil Countries

Country of Out-Migration	Estimated migrant stock abroad 1977	1979	Economically active population 1975 (1000)	Remittance Inflows ($mn) 1973	1974	1975	1976	1977	1978(est.)	1979(proj.)
Afghanistan	200,000	n.a.	6586	..	..	..	..	200 a	n.a.	n.a.
								64.2 b		
Bangladesh	50,000	100,000	25341	..	18	43	53	75 a	n.a.	170.0 d/
					1.8	3.7	6.8	7.1 b		
Egypt	350,000	n.a.	10517	87	189	340	615	1025 a	n.a.	n.a.
				6.1	6.5	8.6	16.0	23.8 b		
India	214,000	300,000	240285	235	297	535	713	1000 a	600.0	n.a.
				7.6	7.0	10.8	17.0	21.0 b		
Jordan	150,000	n.a.	652	45	75	167	411	425 a	n.a.	n.a.
				15.3	17.4	25.7	45.3	36.0 b		
Republic of Korea	60,000	80,000	12686	154	154	158	195	172 a	2000.0 c/	n.a.
				4.0	2.4	2.4	2.3	1.6 b		
Pakistan	500,000	500,000	19650	151	230	353	590	1110 a	1000.0	n.a.
				14.5	12.1	16.0	26.6	48.0 b		
Sri Lanka	20,000	n.a.	4741	..	..	3	7	12 a	n.a.	n.a.
						0.4	1.2	n.a. b		
Sudan	50,000	n.a.	5758	..	..	..	12	40 a	n.a.	n.a.
							1.9	6.2 b		
Yemen Arab Repub.	500,000	n.a.	1888	129	156	307	796	1000 a	n.a.	n.a.
				n.a.	80.8	124.8	167.6	n.a. b		
Yemen People's Dem. Repub.	300,000	n.a.	441	33	41	56	115	179 a	n.a.	n.a.
				19.0	11.3	19.0	n.a.	n.a. b		
Philippines	n.a.	80,000	15699	..	104	128	112	130 a	200.0	n.a.
					3.3	3.7	3.1	3.3 b		
Thailand	n.a.	30,000	13945	n.a.	n.a.	n.a.	n.a.	n.a. a	200.0	n.a.

Sources: IMF estimates, ILO Yearbook; 1978 figures from a variety of sources all quoted in the *Far Eastern Economic Review*, 11.5.79.

Notes: .. insignificant
a/ US$million
b/ as % import bill
c/ including inflows from companies
d/ including a minor proportion from outside the Middle East

2.2.3 The changing character and role of direct foreign investment

Since this is a particularly familiar and well-researched area, it is not discussed separately in this draft of the paper, since much of the relevant material is referred to in other sections. Summary data for reference are presented in the tables below and in those following the discussion of 'new international division of labour' theories. It is this latter aspect of the literature which is discussed explicitly in some detail, on account of the widespread acceptance these seem to be receiving. Preliminary material relating to their empirical evaluation was presented in a previous paper (Paine 1979a), and the subsequent evidence now available makes the basic proposition of that paper empirically much more robust, i.e. that foreign investment patterns are normally determined by factors other than labour cost (whether absolute, or unit labour cost is referred to). The evidence is particular striking for the case of Japanese direct investment. Compahies which in the 197)s were users of cheaper Asian labour in foreign plants are tending either to rationalize and focus more on more capital intensive higher technology production in Japan, ar move towards more skill intensive subsidiaries in Asia. The 'explosion' which is occurring in Japan's direct foreign investment arises from quite different factors related to markets, resources, and the high valuation of the yen.

The NIDL theories are discussed here at the theoretical not the empirical level, since it is here that a critique is most lacking. Some of the relevant empirical material is presented in supplementary tables, though the comprehensive treatment desirable is not supplied.

TABLE 12

Stock of Direct Foreign Investment by Origin

	Billions of dollars					*Percentage distribution*				
Country of Origin	*1967*	*1971*	*1973*	*1975*	*1976*	*1967*	*1971*	*1973*	*1975*	*1976*
United States	56.6	82.8	101.3	124.2	137.2	53.8	52.3	51.0	47.8	47.6
Great Britain	17.5	23.7	26.9	30.8	32.1	16.6	15.0	13.5	11.9	11.2
West Germany	3.0	7.3	11.9	16.0	19.9	2.8	4.6	6.0	6.2	6.9
Japan	1.5	4.4	10.3	15.9	19.4	1.4	2.8	5.2	6.1	6.7
Switzerland	5.0	9.5	11.1	16.9	18.6	4.8	6.0	5.6	6.5	6.5
France	6.0	7.3	8.8	11.1	11.9	5.7	4.6	4.4	4.3	4.1
Canada	3.7	6.5	7.8	10.5	11.1	3.5	4.1	3.9	4.1	3.9
Netherlands	2.2	4.0	5.5	8.3	9.8	2.1	2.5	2.8	3.2	3.4
Sweden	1.7	2.4	3.0	4.4	5.0	1.6	1.5	1.5	1.7	1.7
Belgium-Luxembourg	2.0	2.4	2.7	3.2	3.6	1.9	1.5	1.4	1.2	1.2
Italy	2.1	3.0	3.2	3.3	2.9	2.0	1.9	1.6	1.3	1.0
All Others	4.0	5.1	6.3	15.3	16.8	3.8	3.2	3.1	5.7	5.8
Total	105.3	158.4	198.8	258.9	287.2	100.0	100.0	100.0	100.0	100.0

Source: UN 1978

Table 13 Stock of direct investment abroad of developed market economies, by host country, 1967-1975

Host country and country group	1967	1971	1975
Total value of stock (billions of dollars)..	105	158	259
Distribution of stock (percentage)			
Developed market economies...............	69	72	74
of which:			
Canada............................	18	17	15
United States......................	9	9	11
United Kingdom.....................	8	9	9
Germany, Federal Republic of.........	3	5	6
Other................................	30	32	33
Developing countries....................	31	28	26
of which:			
OPEC countries[a/].....................	9	7	6
Tax havens[b/]........................	2	3	3
Other...............................	20	17	17
Total..................................	100	100	100

Sources: United Nations Centre on Transnational Corporations, based on Organisation for Economic Co-operation and Development, Development Co-operation, 1972 and 1976 (Paris) and Stock of Private Direct Investments by DAC Countries in Developing Countries, end-1967 (Paris); and national sources.

a/ Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

b/ Bahamas, Barbados, Bermuda, Cayman Islands, Netherland Antilles and Panama.

TABLE 14

Outward Direct Investment Stake of Five Industrialized Countries by Main Manufacturing Sectors 1975

	US		*Japan*		*UK*		*Sweden*		*West Germany*	
	\$ m	%	\$ m	%	\$ m	%	\$ m	%	\$ m	%
More Technology Intensive Sectors	37,620	67.1	1,630	39.4	6,437	43.8	4,054	69.0	8,206	68.8
Chemicals and Allied Products	11,172	19.9	634	15.3	3,108	21.2	522	8.0	3,818	32.0
Mechanical and Instrument Engineering	11,646	20.8	307	7.4	1,210	8.2	2,089	32.0	1,377	11.5
Electrical Engineering	6,384	11.4	426	10.3	1,630	11.1	1,436	22.0	1,797	15.1
Transportation Equipment	8,418	15.0	263	6.4	489	3.3	457	7.0	1,214	10.2
Less Technology Intensive Sectors	18,417	32.9	2,507	60.6	8,253	56.2	2,023	31.0	3,742	31.2
Food, Drink and Tobacco	4,716	8.4	231	5.6	3,947	26.9	65	1.0	716	6.0
Textiles, Leather, Clothing and Footwear	1,099	2.0	918	22.2	1,038	7.1	65	1.0	469	3.9
Paper, Printing and Publishing	3,774	6.7	423	10.2	1,073	7.3	653	10.0	567	4.8
Primary and Fabricated Metals	3,649	6.5	635	15.4	602	4.1	848	13.0	1,737	14.5
Other Manufacturing industries	5,179	9.3	300	7.3	1,593	10.9	392	6.0	253	2.1
All Manufacturing	56,037	100.0	4,137	100.0	14,690	100.0	6,527	100.0	11,948	100.0

Source: Data compiled by Jeremy Clegg at University of Reading from a variety of Government publications and from information supplied to him from various Ministries and/or Government Departments. Although definitions of the investment stake vary slightly between countries it basically represents the book value of the fixed assets (net of depreciation) plus current assets (net of amounts owing by the investing company less current liabilities) (net of amounts owing to investing companies) less long-term liabilities (other than to the investing company of overseas subsidiaries and branches). from Dunning (1979)

Table 15 Direct investment flows a/ from and into developed market economies, 1967-1976

(Millions of dollars)

Country and country group	Outflow of domestic capital: Annual average 1967-1969	1970-1972	1973-1975	1976	Inflow of foreign capital: Annual average 1967-1969	1970-1972	1973-1975	1976
United States	-5 173	-7 651	-11 498	12 321	923	926	3 795	4 968
Canada	-222	-316	-703	-561	617	807	652	404
Western Europe b/	-3 427	-6 151	-11 903	...	3 144	5 694	8 862	...
Austria	-10	-25	-29	-58	39	84	126	109
Belgium-Luxembourg	-39	-161	-235	-299	252	386	901	805
Denmark	-8	-76	-100	...	70	131	160	...
Finland	-17	-53	-24	-30	14	27	41	57
France	-297	-454	-905	-1 223	277	611	1 352	831
Germany, Fed. Rep. of	-512	-1 160	-1 856	-2 451	634	1 219	1 952	1 524
Italy	-259	-242	-270	-156	337	976	617	96
Netherlands	-382	-543	-1 225	-912	331	576	927	268
Norway	-3	-21	-129	-188	63	93	257	373
Spain	-9	-41	-84	-54	179	233	355	219
Sweden	-131	-218	-384	-598	120	86	77	-5
Switzerland c/	-733	-1 557	-3 243	...	197	307	517	...
United Kingdom	-1 027	-1 600	-3 428	-3 379	631	965	1 580	1 353
Japan	-183	-479	-1 847	-1 989	64	157	130	113
Southern hemisphere d/ of which:	-96	-140	-305	-156	786	1 318	1 025	1 157
Australia	-74	-115	-209	-124	599	1 027	615	1 040
Grand total b/	-9 101	-14 744	-26 256	...	5 534	8 902	14 464	...

Source: United Nations Centre on Transnational Corporations, based on International Monetary Fund, Balance of Payments Yearbook (Washington, D.C., various years), and national sources.

Note: Minus sign (-) indicates increase of debit in the balance of payments; no sign indicates increase of credit. Flows in each direction are net of capital repatriation and write-offs.

a/ Including reinvested earnings.

b/ Including countries not separately listed.

c/ Derived from the year-to-year changes of the estimated stock of direct investment assets and liabilities, respectively (estimates of the Union Bank of Switzerland).

d/ Includes Australia, New Zealand and South Africa.

Table 16a
Foreign direct investment[1] in the United States by source country[2] (numbers of transactions and acquisitions and mergers)

Source country	1976			1977			1978			Pending transactions[3] 1978		
	(1) No. of trans-actions	(2) Acquisi-tions & mergers	(2) as per cent of (1)	(1) No. of trans-actions	(2) Acquisi-tions & mergers	(2) as per cent of (1)	(1) No. of trans-actions	(2) Acquisi-tions & mergers	(2) as per cent of (1)	(1) No. of trans-actions	(2) Acquisi-tions & mergers	(2) as per cent of (1)
Canada	19	15	79.0	92	33	35.9	122	40	32.8	56	11	19.6
France	9	4	44.4	34	7	20.6	43	13	30.2	18	5	27.8
Japan	28	5	17.9	55	6	10.9	58	9	15.5	30	5	16.7
Netherlands	9	7	77.8	21	8	38.1	32	11	34.4	6	1	16.7
Switzerland	11	7	63.6	16	6	37.5	42	15	35.7	8	4	50.0
United Kingdom	36	21	58.3	51	24	47.1	107	55	51.4	62	27	43.6
West Germany	26	6	23.1	53	24	42.3	104	35	33.7	62	18	29.0
Other source countries	60	28	46.7	106	21	19.8	169	53	31.4	51	11	21.6
Total all countries	198	93	47.0	428	129	30.1	677	225	33.2	293	82	28.0

Notes:
1. Foreign direct investment is defined as the direct or indirect ownership of 10 per cent or more of the voting securities of an incorporated business enterprise, or an equivalent interest in an unincorporated business enterprise.
2. Investments by Unilever and Royal Dutch Shell are categorized under the Netherlands.
3. Transactions in the stage of announcement of investment plans, negotiations, letters of intent, tender offers in progress, etc.

Source: US Department of Commerce, *Foreign Direct Investment in the United States,* Washington, DC: US Government Printing Office, December 1977; US Department of Commerce, *News,* 23 August 1979 and listings of investment transactions for 1977 and 1978.

Table 16b
Value of investment transactions in the United States (transactions for which value is known)

Source country	1976			1977			1978			Pending transactions[3] 1978		
	Number of cases value known	Value ($ m.)	Average value per known case ($ m.)	Number of cases value known	Value ($ m.)	Average value per known case ($ m.)	Number of cases value known	Value ($ m.)	Average value per known case ($ m.)	Number of cases value known	Value ($ m.)	Average value per known case ($ m.)
Canada	11	187.1	17.0	58	1,198.6	20.7	71	1,269.4	17.9	25	607.9	24.3
France	4	95.3	23.8	13	117.0	9.0	15	228.1	15.2	9	128.4	14.3
Japan	16	76.2	4.8	16	140.1	8.8	23	398.0	17.0	15	312.3	20.8
Netherlands	8	140.8	17.6	9	235.0	26.1	18	656.4	36.5	4	138.2	34.6
Switzerland	7	290.7	41.5	5	42.7	8.5	19	490.1	25.8	2	105.0	52.5
United Kingdom	21	229.3	10.9	21	436.1	20.8	51	1,470.2	28.8	34	1,420.9	41.8
West Germany	9	254.6	28.3	28	850.3	30.4	56	976.1	17.4	32	1,209.2	37.8
Other source countries	38	813.8	21.4	37	231.0	6.2	81	578.9	7.2	24	819.7	34.2
Total all countries	114	2,087.8	18.3	187	3,250.8	17.4	334	6,059.2	18.1	145	4,741.6	32.7

Sources: As Table II.

Table 17a German Direct Investment Abroad and Foreigners' Direct Investment in the FRG 1962 – 1977

Year	German Investment[a] Abroad: annual change	German Investment[a] Abroad: cumulated amounts since 1952	Foreigners' Investment[a] in the FRG: annual change	Foreigners' Investment[a] in the FRG: cumulated amounts since 1961
	in DM million			
1962	1,113	4,956	1,391	1,687
1963	1,115	6,071	1,503	3,190
1964	1,134	7,205	2,005	5,195
1965	1,112	8,317	2,548	7,743
1966	1,678	9,995	2,885	10,628
1967	2,062	12,057	3,889	14,517
1968	2,292	14,349	2,249	16,766
1969	3,269	17,618	2,104	18,870
1970	3,495	21,113	2,729	21,599
1971	2,668	23,781	3,986	25,585
1972	2,816	26,597	3,729	29,314
1973	5,638	32,235	6,128	35,442
1974	4,530	36,765	4,484	39,926
1975	5,227	41,992	2,528	42,454
1976	5,056	47,048	3,064	45,518
1977	5,094	52,142	3,735	49,253

a) Excl. reinvested profits.

Source: Bundesanzeiger, various years;
"Vermögensanlagen Gebietsansässiger in fremden Wirtschaftsgebieten" und "Vermögensanlagen Gebietsfremder im Wirtschaftsgebiet" ("Investment by residents in foreign countries" and "Investment by non-residents in the Federal Republic of Germany and West Berlin".

Table 17b Investment Activity[a] of the West German Economy at Home and Abroad in DM million

Year	Overall Economy[b]: at home[c]	Overall Economy[b]: abroad	Overall Economy[b]: abroad as % of at home	Industry: at home	Industry: abroad	Industry: abroad as % of at home
1962	52,480	1,113	2.1	21,190	.	.
1963	53,160	1,115	2.1	19,830	.	.
1964	58,900	1,134	1.9	21,240	.	.
1965	64,530	1,112	1.7	23,995	930[d]	3.9
1966	66,070	1,678	2.5	23,975	1,403[d]	5.9
1967	59,060	2,062	3.5	21,135	1,601[d]	7.6
1968	62,040	2,292	3.7	20,895	1,792	8.6
1969	77,040	3,269	4.2	28,595	2,796	9.8
1970	98,170	3,495	3.6	36,300	3,655	10.1
1971	111,200	2,668	2.4	38,225	1,966	5.1
1972	113,650	2,816	2.5	35,400	1,360	3.8
1973	117,680	5,638	4.8	35,380	3,688	10.4
1974	111,370	4,530	4.1	34,865	3,079	8.8
1975	115,130	5,227	4.5	34,465	4,188	12.2
1976	127,880	5,056	4.0	36,220	3,906	10.8
1977	138,390	5,094	3.7	37,245	3,775	10.1

a) Investment in fixed assets. –
b) Excluding the Government. –
c) Excluding the Government and residential building. –
d) Determined as the sum from statements for individual sectors.

Source: Statistisches Bundesamt (Federal Office of Statistics), Bundesanzeiger and IFO calculations.

Table 18a Japan's Foreign Investment in Manufacturing (Stock Basis), 1965–74 (end of fiscal year) (US $ million)

	1965 (value)	1965 (%)	1970 (value)	1970 (%)	1974 (value)	1974 (%)
Total	684	(100.0)	963	(100.0)	4,137	(100.0)
North America	87	(12.7)	239	(24.8)	692	(16.7)
Latin America	195	(28.5)	274	(28.5)	1,291	(31.2)
Southeast Asia	178	(26.0)	334	(34.7)	1,568	(37.9)
Western Europe	10	(1.5)	37	(3.8)	214	(5.2)
Middle East	198	(28.9)	4	(0.4)	106	(2.6)
Africa	11	(1.6)	25	(2.6)	51	(1.2)
Oceania	6	(0.9)	50	(5.2)	215	(5.2)

Source: Bank of Japan.

Table 18b Japan's Trade in Industrial Technology by Region, Fiscal Year 1974

	Royalty Revenue from (million yen)	(%)	Royalty Payment to (million yen)	(%)	Net Revenue (million yen)
North America	6,511	12.0	103,016	66.9	-96,505
Western Europe	16,802	31.1	50,346	32.7	-33,544
Asia except West Asia	19,260	35.6			
West Asia	3,182	5.9	521	0.3	30,231
Latin America	4,776	8.8			
Other areas	3,534	6.5			
Total	54,069	100.0	153,884	100.0	99,815
	(billion yen)		(billion yen)		(billion yen)
UK	8	1.5	93	6.0	-85
West Germany	6	1.1	171	11.1	-165
France	7	1.3	52	3.4	-45
Italy	45	8.3	25	1.6	20
Netherlands	6	1.1	13	0.8	-7

[a] Discrepancy of 4 million yen between the sum of figures by region and the total is due to errors in the original data.

Source: Agency for Science & Technology, *White Paper on Science and Technology*, 1976. Available in Japanese only.

Table 18c Industrial Distribution of Employment Generated by Japanese Direct Foreign Investment, 1971–85 (fiscal year) (numbers)

Industry	Subsidiaries under Japanese Capital Ownership: Actual 1971	Actual 1974	Projected 1985	Total Capital Mobilized by Subsidiaries: Actual 1971	Actual 1974	Projected 1985
Agriculture, forestry, and fishery	5,605	11,276	55,275	7,928	19,047	100,500
Mining	5,126	10,096	84,308	7,685	18,357	168,616
Paper and pulp	1,622	3,035	27,951	2,663	5,400	50,820
Textiles	36,785	88,175	181,457	66,882	173,231	427,965
Chemicals	2,155	8,798	124,067	4,381	16,415	248,133
Metals	8,559	55,528	394,450	17,604	112,177	805,000
Industrial machinery	3,693	10,876	46,797	6,378	18,719	85,086
Electrical machinery	33,664	70,879	317,880	54,916	111,270	529,800
Transport equipment	9,125	17,886	93,409	14,017	30,061	161,050
Precision machinery	1,343	3,334	219,180	1,972	4,954	394,436
Other manufacturing	17,308	55,182		27,837	81,023	
All manufacturing	114,254	313,693	1,405,191	196,650	553,250	2,702,290
Commerce	25,566	45,811	234,706	26,502	53,084	276,125
Subtotal	175,518	436,454	1,779,486	240,765	643,738	3,247,531
Others	8,421	...	...	11,318	...	...
Total	184,021	...	...	252,083	...	...

Source: As for Table 3-3.

Source: Sekiguchi 1979

Table 18d. Industrial Distribution of Japanese Direct Foreign Investment and Capital-Labor Ratio in Japanese Foreign Subsidiaries, 1971–85 (fiscal year)

Industry	Outstanding Direct Foreign Investment (US $ million): Actual 1971	Actual 1974	Projected 1985	Capital-Labor Ratio (US $ '000 per person): Actual 1971	Actual 1974	Projected 1985
Agriculture, forestry, and fishery	105	280	1,658	18.8	24.8	30.0
Mining	1,572	3,527	21,257	306.7	349.3	250.0
Paper and pulp	261	423	2,795	161.1	139.4	100.0
Textiles	254	918	3,497	6.9	10.4	19.3
Chemicals	76	634	7,444	35.2	72.1	60.0
Metals	183	635	7,100	21.8	11.4	18.0
Industrial machinery	91	307	1,633	24.6	28.2	35.0
Electrical machinery	103	426	3,179	3.1	6.0	10.0
Transport equipment	101	263	1,868	11.1	14.7	20.0
Other manufacturing	156	531	2,199	7.4	7.8	7.5
All manufacturing	1,229	4,137	29,720	10.8	13.2	21.2
Commerce	568	1,549	9,388	21.8	33.8	40.0
Subtotal	3,464	9,493	62,023	19.7	21.6	32.8
Others	971	3,173	11,874	115.3	...	...
Total	4,435	12,666	73,897	24.1	...	...

Source: As for Table 3-3.

TABLE 19a

Networks of Foreign Manufacturing Subsidiaries of 315 Multinational Companies 1950 and 1970s

Number of enterprises with networks including	180 US-based MNCs 1950	1975	135 MNCs based in UK and Europe 1950	1970
Fewer than 6 countries	138	9	116	31
6 to 20 countries	43	128	16	75
More than 20 countries	0	44	3	29

Source: Harvard Multinational Enterprise Project.

Vernon 1979

TABLE 19b

Spread of Production of 954 New Products by 57 US-Based MNCs to their Foreign Manufacturing Subsidiaries, Classified by Period when initially introduced in the United States

Period when introduced in US	Number of products	Percentage transferred abroad, by number of years between US introduction and initial transfer: within 1 year after %	within 2–3 years after %
1945	56	10.7	8.9
1946–1950	149	8.1	10.1
1951–1955	147	7.5	10.2
1956–1960	180	13.3	17.8
1961–1965	165	22.4	17.0
1966–1970	158	29.7	15.8
1971–1975	99	35.4	16.2
Total	954	18.0	14.0

Source: Vernon and Davidson, cited in text.

Vernon 1979

TABLE 20a

Revealed Comparative Advantage Index for Outward Direct Investment Stake (RCA(A)) of Five Industrialized Countries 1970 and 1975

	US 1970	US 1975	Japan 1970	Japan 1975	UK 1970	UK 1975	Sweden 1970	Sweden 1975	West Germany 1970	West Germany 1975
More Technology Intensive Sectors	1.060	1.073	0.500	0.636	0.687	0.701	1.111	1.100	1.222	1.125
Chemicals and Allied Products	1.051	0.967	0.257	0.743	0.845	1.026	0.341	0.388	1.570	1.549
Mechanical and Instrument Engineering	1.051	1.166	0.441	0.416	0.457	0.462	2.695	1.796	0.648	0.647
Electrical Engineering	0.808	0.911	0.704	0.823	1.307	0.887	1.476	1.759	1.504	1.203
Transportation Equipment	1.298	1.293	0.833	0.547	0.182	0.287	0.273	0.603	1.024	0.875
Less Technology Intensive Sectors	0.895	0.878	1.900	1.630	1.531	1.503	0.825	0.829	0.622	0.836
Food, Drink and Tobacco	0.633	0.812	0.667	0.539	2.906	2.592	0.093	0.096	0.575	0.578
Textiles, Leather, Clothing and Footwear	0.590	0.510	5.751	5.770	2.173	1.837	0.148	0.260	1.154	1.021
Paper, Printing and Publishing	1.1018	0.968	3.236	1.470	0.956	1.051	1.364	1.438	0.201	0.683
Primary and Fabricated Metals	1.032	0.814	1.745	1.918	0.433	0.512	1.704	1.624	1.233	1.816
Other Manufacturing Industries	1.074	1.118	0.721	0.877	1.278	1.312	0.618	0.826	0.253	0.256

Source: As for Table 3 and comparable 1970 data.

Dunning 1979

TABLE 20b

Revealed Comparative Advantage Index for Exports (RCA(X)) of Five Industrialized Countries 1970 and 1975

	US 1970	US 1975	Japan 1970	Japan 1975	UK 1970	UK 1975	Sweden 1970	Sweden 1975	West Germany 1970	West Germany 1975
More Technology Intensive Sectors										
Chemicals and Allied Products	1.148	1.076	0.675	0.693	0.996	1.110	0.473	0.529	1.145	1.158
Mechanical and Instrument Engineering	1.166	1.184	0.575	0.629	1.1015	1.063	0.820	0.833	1.108	1.073
Electrical Engineering	0.917	0.965	1.480	1.222	0.807	0.878	0.793	0.985	0.949	0.947
Transportation Equipment	1.121	1.114	1.038	1.337	0.836	0.700	0.923	0.919	0.958	0.827
Less Technology Intensive Sectors										
Food, Drink and Tobacco	1.352	1.198	0.608	0.379	1.823	1.961	0.268	0.319	0.552	0.900
Textiles, Leather, Clothing and Footwear	0.425	0.577	1.888	1.292	1.235	1.259	0.530	0.638	1.031	1.151
Paper, Printing and Publishing	1.201	1.153	0.326	0.302	0.677	0.720	5.255	5.552	0.537	0.591
Primary and Fabricated Metals	0.665	0.539	1.485	1.691	0.962	0.774	1.197	0.801	1.043	1.120
Other Manufacturing Industries	0.951	0.988	0.936	0.530	1.362	1.759	1.316	1.655	0.825	0.842

Source: Data collected by Jeremy Clegg at University of Reading.

Dunning 1979

TABLE 20c

Export/Foreign Direct Investment Stake Ratio and Revealed Comparative Indices (RCA X/A) of Five Industrialized Countries 1975

	US X/A	US RCA (X/A)	Japan X/A	Japan RCA (X/A)	UK XA	UK RCA (X/A)	Sweden X/A	Sweden RCA (X/A)	West Germany X/A	West Germany RCA (X/A)
More Technology Intensive Sectors										
Chemicals and Allied Products	0.86	0.622	7.72	0.590	1.80	0.684	2.05	0.863	3.28	0.477
Mechanical and Instrument Engineering	2.67	1.499	28.46	2.172	8.71	3.308	1.58	0.667	16.44	2.387
Electrical Engineering	1.22	0.880	16.26	1.241	2.18	0.827	1.11	0.468	4.53	0.658
Transportation Equipment	2.048	1.480	55.27	4.219	11.10	4.217	6.25	2.633	11.25	1.632
Less Technology Intensive Sectors										
Food, Drink and Tobacco	0.55	0.395	2.48	0.189	0.54	0.204	2.11	0.890	2.89	0.419
Textiles, Leather, Clothing and Footwear	2.05	1.484	4.25	0.324	2.61	0.992	8.42	3.549	11.24	1.632
Paper, Printing and Publishing	0.90	0.653	1.29	0.099	0.87	0.330	4.41	1.861	2.87	0.417
Primary and Fabricated Metals	1.55	1.124	19.78	1.504	6.78	2.577	2.00	0.841	14.98	2.174
Other Manufacturing Industries	0.92	0.666	5.24	0.400	2.34	0.887	3.58	1.510	7.24	1.051
All Manufacturing	1.38	1.000	13.10	1.000	2.63	1.000	2.37	1.000	6.89	1.000

Source: As for Tables 3 and 5

Dunning 1979

New International Division of Labour Theories

The argument presented above rejects the recently fashionably hypothesis that a new pattern of international investment is evolving on account of the potential for exploiting reserve supplies of labour on a world-scale, so as to construct a completely new international division of labour. The most substantive (and extremely stimulating) study by advocates of this view was carried out during the mid-1970's by Folker Fröbel and others at the Max Planck Institute, Steinberg [a] but similar, more heuristic work has been done by the American-Pacific organisation (AMPO) in Japan, the Transnational Corporations Research Project in Sydney, and individual researchers, with support being discernable even in publications by the OECD[b]. All are concerned with the international relocation of industry, Fröbel et al. working on the German case, while AMPO and the Sydney group focussed more on the outcome in East and South-East Asia.

The basic components of the argument are stated most systematically by the German group, and can be summarized as follows:

> (a) A new capitalist world economy has emerged, characterized by world markets for labour and for production sites, and by a world-wide industrial reserve army of labour. The existence of this international reserve army has arisen because of such factors as the breakdown of traditional socio-economic structures in LDCs (e.g. because of the Green Revolution); the potential utilization of it through international industrial relocation has arisen because of technological developments (i) enabling increased fragmentation of production processes (so parts can be split off and carried out by cheap unskilled labour) and (ii) providing adequate international transport and communications facilities (so that these do not constrain world wide choice of site location for partial or entire production processes); the actual utilization of it has taken place through the provision (by LDC governments encouraged by international agencies) of industrial infrastructure, services and utilities at those sites in underdeveloped countries where cheap labour is available, and through the granting of trade, currency and fiscal concessions which allow the unimpeded flow of goods and capital (p. 365, parentheses mine) - such provision increasingly being implemented in the form of the Free Trade Zone (FTZ).
>
> (b) The emergence of this new international division of labour based on international production relocation is a long run structural development in the evolution of world capitalism; it is 'an institutional' innovation of capital itself, necessitated by changed conditions, and not the result of development strategies by individual countries or options freely decided upon by so-called multinational companies (p. 46). It, rather than some world-wide cyclical recession is the fundamental cause of the phenomena of crisis in the west, and will probably lead to a shift in the world centres of gravity for capital accumulation. Indeed, it implies both long-term structural unemployment in industrialized capitalist economies and an intensification of 'the tendency towards uneven and dependent development in the underdeveloped countries' (p. 463) - and so continuing unemployment on a massive scale in the latter (p. 405). This is because 'even if large sections of industrial manufacturing were located ... to the underdeveloped countries, only a relatively small proportion of the potentially economically active labour

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a/ The complete study originally was published in German in 1977, with a somewhat abbreviated English version being made available in 1980 (Fröbel et al. 1980). References here are to this latter version.

b/ See for instance AMPO (1977); the Research Monograph Series of the Transnational Corporations Research Project, University of Sydney; Cypher (1980); and OECD (1979).

force would be drawn into this process ... at wages which do not even cover these workers' reproduction costs' (p. 404); indeed the process 'also perpetuates most structures which generate dependency and uneven development and the marginalisation of a large part of the population without creating even the most rudimentary preconditions for alternative development' (p. 304).

(c) International production relocation in order to benefit from cheap labour and fragmented production processes is not confined to particular industries or sizes of firm (though for some industries such as chemicals, it has only recently started to take on wider dimensions), and involves both export-orientated and import-substitute commodities: indeed the possibility of supplying the world market now also determines the choice of site for those factories which initially produce for the local market (p. 277).

Although it is easiest to criticize this new international divison of labour (NIDL) thesis at the empirical level (see below), its theoretical and methodological foundations raise more basic problems.

First, even assuming that the trends ascribed to the period from the early 1960s to mid-1970s are characterized accurately by proponents of the NIDL hypothesis, the projection of such trends into the long-term future is methodogically illegitimate unless there are strong theoretical reasons to believe that the underlying mechanism will persist. Thus, it is necessary to enquire, for instance, into both the conditions under which such a mechanism is sustainable and the limits which may constrain diffusion, as well as into its role in the dynamic of capitalist evolution.

Second, the mechanism suggested is hardly convincing. Essentially it reduces to three empirical statements (i-iii below) plus one analytical proposition (iv) viz:

(i) technological developments now permit a wider international choice of industrial location.
(ii) technological developments now permit greater fragmentation of production processes and 'deskilling' of labour.
(iii) cheap surplus labour with productivity at levels considered adequate or even comparable to those in industrial economies is available in developing countries.
(iv) the approach which late twentieth century capitalism necessarily has to adopt so as to improve the valorization and accumulation of capital, is world-wide migration of capital via development of a NIDL.

In practice, as presented in the German group's study, the key link in the chain (the analytical proposition (iv)) amounts to little more than an assertion. Essentially, it is based on the view that on account of the need to maximize the profit rate (or minimize any decline in it), firms necessarily must minimize labour cost per unit output; this in turn has to be achieved by maximizing Y/wE with the available production fragmentation possibilities (where Y = output value, W = the average wage paid to all employees of an enterprize, and E = the number of workers employed) through one particular means - geographical decentralization of the production process so as to relocate as much of it as possible at sites in developing countries where the wage rate for any given skill category is lower. This combination of relocation plus process fragmentation enables the enterprize to reduce the average paid to employees over all countries - by simultaneously appropriating the gains from paying its developing country work-force a lower average wage rate for any skill composition of employment, and from reducing the skill composition itself by using relatively more unskilled labour in the now fragmented production sub-processes.[a] Thus even if Y/E is lower in plants in developing countries (and it may not be because, for instance, of lack of worker organization abroad on account of restrictions on or direct suppression of trade union activities), Y/wE is higher in these plants, so reducing Y/wE for the enterprise as a whole.

Most of the objections to this kind of view are common knowledge, and so are not reiterated in detail here.

1. Minimization of unit labour cost does not necessarily entail minimization of unit total cost: this may best be achieved by raising Y/E through the introduction of completely new productive or managerial technologies, or through policies (e.g. increasing market size) to achieve greater scale economies without any production relocation.

2. Minimization of unit labour cost without any change in technique does not necessarily imply production relocation: from the standpoint of the enterprise, utilization of cheaper imported labour or indigenous non-organized labour could be superior permitting the realization of gains from process fragmentation and from increasing returns to scale, in addition to further benefits to all home country employers which are internalized within the home country as a whole.[b]

3. Even where minimization of unit labour cost for the same technique does imply relocation, this is not necessarily to countries where Y/wE is lowest. The relevant variable is Y/(w+c)E, where c = additional labour costs which have to be paid by the employer (e.g. social security contribution, payments for time off, negotiated benefits in kind, etc.). Although both c and c/1 tend to be higher in advanced industrial economies (where 1 - w + c), c is <u>not</u> correlated systematically with w.[c] Thus when there is a substantial difference in Y/E between industrial and developing economies, Y/1E <u>may</u> best be minimized by relocation to another industrial economy, so increasing w but reducing 1.

4. Cost factors - whether for an existing or a new technology may be of only subsidiary importance in maximizing profitability. Firstly, if demand is constrained, non-price factors such as product quality, delivery dates, etc. may be dominant, especially in maintaining and/or improving international competitiveness in export

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a) In other words, when all production takes place on an unfragmented basis in the home country, w can be written as equal to $\alpha w_s + (1-\alpha)w_v$ where w_s and w_v are the skilled and unskilled wage rates, respectively, and α is the skilled worker coefficient per unit output. As compared with the home economy, international decentralization plus process fragmentation of the process reduces not only w_s and w_u, but also α, so generating additional wage rate savings since w_s is assumed to exceed w_v at any location.

b) See further Paine (1977: 72 - 74).

c) For a more detailed discussion and supporting data, see Paine (1979: 72-4). Within an economy, movements in 1 may differ significantly from those in w (see for instance recent U.S. data cited in <u>Business Week</u>, 1980) markets.[a] And such non-price competitiveness may not necessarily entail production relocation at all, let alone relocation to lower cost sites.[b] Even if in the short run, an enterprise faces more or less unconstrained demand for a product at a ruling sales price which yields a relatively high profit rate, (e.g. because it is the monopoly producer of a new product which has a very high income elasticity of demand), and if short-term profitability can be enhanced by production relocation, it does not follow that taking advantage of this is optimal in the medium-term, if, for instance, production is expected to become highly intensive in scarce skills. Secondly, the relative importance of comparative unit labour cost considerations can be expected to vary not only with the type of commodity being produced, but also with the scale of firm and the kind of market structure within which it is operating. A large transnational enterprise which has the greatest opportunities for production relocation to take advantage of unit labour cost considerations probably has the least need: owing to its ability to divorce prices from quantities, to manipulate royalty and patent changes, and so on,[c] it can often treat as variables what for smaller producers are parameters. Thirdly, for any enterprise, factors such as an expected increase in protective barriers may completely dominate comparative calculations of unit labour costs in production relocation decisions.

5. The issues referred to in (4) bring out the crucial weaknesses in the NIDL theory.

(a) It is essentially static in character. Firms optimize their combination of known techniques[d] by substituting ones with a lower unit labour cost wherever possible.

(b) Technicalogical change has taken place in a way which has expanded the book of blueprints so that new techniques are available based on fragmented production plus deskilling of labour. No explanation is given for how this book of blueprints may be expanded further, except for an occasional implicit hint that this will be the product of a search for more fragmentation and deskilling (a goal on occasion assumed to be the origin of the technological change which expanded the book of blueprints in the first place though at times, such expansion is treated as being exogenously given). In other words, the

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a) See, for instance ( ), and the argument of 2.1. above.

b) Fröbel et al. do note that the competitive response may entail relocation plus a lower profit rate, but consider only a proximate cause of this (national protective measures) rather than attempting to analyze more fundamental factors (p. 47, ft. 1), and virtually ignore cases where the competitive response does not involve industrial relocation (excluding a reference to research in progress (p. 47, ft. 2)).

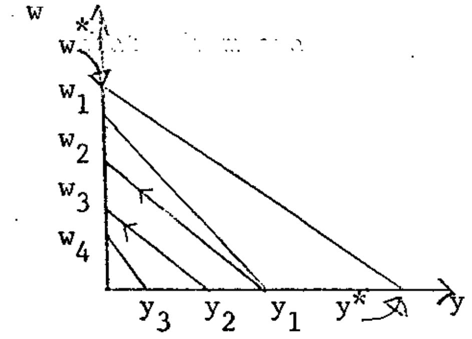
c) See particularly Vaitsos' theoretical work on TNES (e.g. Vaitsos 19)).

d) Geometrically, the mechanism involved can be illustrated very simply as follows. The horizontal axis depicts output per person employed and the vertical axis the wage rate. The existing technique in the home country is shown by w_1y_1. However, some or all subprocesses can be carried out at locations with a more favourable ratio of w to y, indicated by a less steep slope. Thus location B (indicated by w_2y_1) permits no decline in productivity but a significant cut in the wage rate paid. Location C (shown by w_3y_2) entails a decline in productivity which is offset more than proportionately by the decline in w. However,

Footnote cont. over

NIDL theory not only lacks any systematic discussion of technological invention and innovation and their evolution under capitalism, but when these issues are recognized at all, the approach suggested implies a uniform and monocausal explanation thereof, based on a particular hypothesis about the capitalistic labour process.[a]

(c) The theory provides no adequate treatment of the role of demand. The level of demand at any time is more or less treated as exogenously given, with firms competing for market shares within some fixed total. However, one form which competition takes, may well not be independent of demand. Thus, as argued in S1, cost competitiveness (broadly defined) may be most significant for commodities which have lower income elasticities of demand, with factors such as quality and new product development being dominant for goods with high income elasticities.[b] At the macroeconomic level, cost factors tend to be more important when demand is stagnant or declining, but less so when it is rising rapidly (because supply constraints in the most 'efficient' producers permit less efficient ones to remain in business). Furthermore, the NIDL approach ignores interrelationships between production relocation and demand.



footnote d) cont. from over

use of $w_4\ y_3$ at location D would not be selected despite the fact it has the lowest w, because the fall in w is more than offset by a decline in y. However, w^*y^* at location A, the technique which has the most favourable slope is not known, and no mechanism is suggested as to how it could be.

a) Consider, for instance certain of the important problems which the German group's study raises (this being by far the most substantial attempt to offer a supportive analytical structure). Such problems arise at a range of levels: first, concerning the characterization of capitalist development (the authors adopt a monocausal type of approach focussed on the need to intensify the division of labour - for a critique of such a single key factor methodology, see Mandel 1975); second, concerning the analysis of the labour process (where although the authors take note of the important contributions of Braverman (1974), they ignore substantive critical issues raised for instance by the Brighton Labour Process Group (1977), Mandel (1975), Rowthorn (1976); and so side-step questions related to the development of skills, or job enrichment schemes, and neglect the possibility that increased control of the labour force via deskilling may not maximize growth in labour productivity; third, they implicitly confuse invention with innovation (and, at times, technological progress and choice of technique) - an error which leads them to neglect such key factors as the role of government and the role of institutional factors both in inventions and in the diffusion of new knowledge; and fifthly, they treat capitalism as synonymous with industrial capitalism, thus neglecting all the problems related to service sector productivity and technological change. In fairness to their contribution, however, it should be noted that the above criticisms apply to much of the work of left-wing scholars, and that adequate theories of invention and innovation in contemporary capitalism have yet to be constructed.

b) Of course, thorny questions about the definition of a 'commodity' are relevant here. Thus cost factors are very important, for instance, in the case of 'cheap' digital watches at the lower end of the market, with quality and design much more significant at the higher end.

For production relocation generates a complex series of multiplier processes both at home and abroad. The net impact of these cannot be predicted a priori as the number of determinants is so large, but what is certain is that the net impact on the capital stock and on employment in home and host country alike after multiplier effects have been taken into account will differ from the magnitude of the initial impact of production relocation.

For the reasons stated above, NIDL theories are both methodologically and analytically unsound. They are equally weak at the empirical level, first with respect to their analysis of the motivation underlying contemporary foreign investment trends (and indeed the nature of the trends themselves), second, with respect to their analysis of the growth process in NICs, and in particular, the contribution of supposedly labour-oriented export processing investment thereto, and third, with respect to their analysis of prospective changes in advanced industrial capitalism. Preliminary empirical material related to the first point is given in Paine (1979a), and some additional material added in the following tables. The second issue is not discussed here, since it involves an analysis of the development of the economies in question which lies outside the scope of the general issues of this paper as a whole. The material related to the third has been presented as appropriate elsewhere in the text.

Table 21a Wage Rates, Labor Productivity, and Unit Labor Cost in Selected Countries, 1965–70

	(i) Wage Rates in Manufacturing (US dollars per hour) [a]			(ii) Labor Productivity Real GDP/Manhours Worked			(iii) Index of Unit Labor Cost: 1970 = 1.00 (i/ii)		
	1965	1970	1975[e]	1965	1970	1975[e]	1965	1970	1975[e]
Japan	0.52	1.06	3.65	1.04	1.72	2.86	0.50	0.62	1.28
USA	2.61	3.36	4.76	4.32	4.79	4.91	0.60	0.70	0.97
West Germany	1.03	1.63	3.93	1.79	2.52	4.28	0.78	0.65	0.92
UK	1.23	1.54	3.13	2.08	2.09	2.13	0.59	0.74	1.47
France	0.61[b]	0.84[b]	2.20[b]	2.60	2.98	4.80	0.23[b]	0.28[b]	0.46[b]
Belgium	0.89	1.33	4.11	2.66	3.39	5.96	0.33	0.39	0.69
Sweden	1.69	2.61	4.70	3.51	4.32	6.51	0.48	0.60	0.72
Italy	0.62	0.97	2.35	1.63	2.22	2.36	0.38	0.44	1.00
Mexico	0.54		1.38						
Republic of Korea	0.07		0.34						

e: estimates a Converted into US dollars; using year-end exchange rates for 1965 and 1970, and annual average rate for 1975.

b The wage rates and unit labor cost for France, as calculated, are unrealistically low. This seems to be due to the fact that the wage rate reported in the ILO statistics for the country is smaller in coverage than for other countries. According to *Social Indicators for the European Community 1960-1975*, Brussels, French unit labor cost was 79% of that of West Germany in 1975. We are grateful to Professor Christian Sautter of the Institut National de la Statistique et des Etudes Economiques, for his helpful comments on the above indicators.

Sources: ILO, *Yearbook of Labor Statistics;* IMF, *International Financial Statistics;* UN, *Yearbook of National Account Statistics*, various issues.

Table 21b

Labour productivity * in selected countries

Annual percentage change

Period	Germany 1	United States	France 1	United Kingdom	Japan	Belgium	Netherlands
1961 to 1964 2	+ 4.3	+ 3.0	+ 5.0	+ 2.4	+10.6	+ 4.2	+ 3.1
1965 to 1969 2	+ 4.7	+ 1.9	+ 4.5	+ 2.5	+ 9.3	+ 3.9	+ 4.3
1970 to 1973 2	+ 4.1	+ 1.4	+ 4.9	+ 3.6	+ 7.9	+ 5.2	+ 4.8
1974 to 1979 2 pe	+ 3.1	+ 0.1	+ 3.2	+ 0.8	+ 3.4	+ 2.5	+ 2.4
1974	+ 2.4	— 3.1	+ 3.3	— 1.8	— 0.1	+ 3.1	+ 3.6
1975	+ 1.6	+ 0.1	+ 2.1	— 1.3	+ 1.7	— 0.4	— 1.4
1976	+ 6.1	+ 2.6	+ 4.6	+ 4.6	+ 5.5	+ 6.3	+ 5.8
1977	+ 2.9	+ 1.7	+ 2.6	+ 0.1	+ 4.0	+ 1.1	+ 2.7
1978	+ 2.5	+ 0.1	+ 4.0	+ 3.1	+ 4.3	+ 2.4	+ 1.5
1979 pe	+ 3.1	— 1.0	+ 2.5	+ 0.2	+ 4.7	+ 2.7	+ 2.4

* Real gross national product per employed person; calculated by the Bundesbank on the basis of national figures. — 1 Real gross domestic product per employed person. — 2 Annual averages. — pe Partly estimated.

Table 22 The Changing International Distribution of W. German and Japanese Direct Foreign Investment in Manufacturing Between the Mid-1960's and Mid 1970's

	F.R. Germany[a] (DM mn and %)				Japan (US $ mn and %) Manufacturing (Stock basis)			Japan (US $ mn and %) Resource & Resource-Related Manufacturing (Cumulative Approvals)		
	1967	1973	1976	1977	1965	1970	1974	1951-64	1965-69	1970-4
World Total (amt. of which (%)	12,057	32,235	47,048	52,142	684	963	4137	285	678	3095
Industrial Countries	71	70	70	70	15	34	27	5	33	17
Europe	51	52	49[a]	48[a]	2[d]	4[d]	5[d]	0	0	1
N. America	17	16	18	20	13	25	17	3	18	7
of Which U.S.	8	8	11	13				–		
Other	3	2	2	2	1[E]	5[E]	5[E]	1[E]	15[E]	9[E]
Developing Countries	29	30	30	30	85	66	73	95	67	83
Europe	5	11	8[b]	8[b]	[d]	[d]	[d]			
Africa	5	2	2	3	2	3	1	0	8	5
Middle East	–	2[c]	2[c]	3[c]	29	0	3	64	18	35
Asia	3	3	3	3	26	35	38	26	28	21
Latin America	16	13	14	14	29	29	31	5	13	15
Direct Foreign Investment in Fixed Assets as % Total Foreign Investment										
Direct Industrial Investment in Fixed Assets as % Total Direct Foreign Investment.										
German Direct Investment Abroad as % of Foreign Direct Investment in FRG										

Sources: W. Germany: IFO Digest III, 1, Munich September 1978, Tables 2 & 3.
Japan: Sekiguchi (1979: 54), from Bank of Japan data.

Notes: a] Excluding Portugal; b] Including Portugal; c] African Arab countries plus Asian Arab and other oil countries.
d] The category 'Western Europe' has been allocated entirely to the 'industrial countries' group; e] Oceania;
f] Excluding those countries

Table 23a

German Investment Abroad by Sectors

Economic Sectors or Branches	Amounts[a) 1967	1973	1976	1977	1967	1973	1976	1977	Changes in Amounts: 1973/67		1977/73	
	DM mill.				in %				DM mill.	in %	DM mill	in %
Industry, total	9,723	24,979	36,153	39,928	80.6	77.5	76.8	76.6	15,256	75.6	14,949	75.1
thereof:												
Food, beverages and tobacco	229	878	1,212	1,247	1.9	2.7	2.6	2.4	649	3.2	369	1.8
Mineral oil, natural gas production	372	824	2,288	2,633	3.1	2.6	4.9	5.0	452	2.2	1,809	9.1
Ironworking	982	2,776	3,760	4,061	8.1	8.6	8.0	7.8	1,794	8.9	1,285	6.5
Mineral oil processing	266	612	713	783	2.2	1.9	1.5	1.5	346	1.7	- 171	0.9
Chemical industry	1,962	6,203	8,801	9,389	16.3	19.2	18.7	18.0	4,241	21.0	3,136	15.0
Mechanical engineering	784	2,354	3,769	4,042	6.5	7.3	8.0	7.8	1,570	7.8	1,688	8.5
Road vehicle industry	1,321	2,303	2,912	3,351	11.0	7.1	6.2	6.4	982	4.9	1,048	5.3
Electrical engineering/ electronics	1,319	3,498	4,948	5,618	10.9	10.9	10.5	10.8	2,179	10.8	2,120	10.6
Precision tooling/optics	258	217	312	392	2.1	0.7	0.7	0.8	41	– 0.2	175	0.9
Iron, sheet and metal goods	113	324	393	429	0.9	1.0	0.8	0.8	211	1.0	105	0.5
Fine ceramics, glass	106	269	327	390	0.9	0.8	0.7	0.7	163	0.8	121	0.6
Leather	82	170	224	246	0.7	0.5	0.5	0.5	88	0.4	76	0.4
Shoes	62	119	133	139	0.5	0.4	0.3	0.3	57	0.3	20	0.1
Textiles	105	417	658	688	0.9	1.3	1.4	1.3	312	1.5	271	1.4
Garments	124	171	226	233	1.0	0.5	0.5	0.4	47	0.2	62	0.3
Services	1,173	6,529	9,829	11,061	9.7	20.3	20.9	21.2	5,355	26.5	4,532	22.8
thereof:												
Trade	162	495	624	657	1.3	1.5	1.3	1.3	333	1.7	162	0.8
Transport	147	580	873	987	1.2	1.8	1.9	1.9	433	2.1	407	2.0
Banks and insurances	640	2,651	4,585	5,424	5.3	8.2	9.7	10.4	2,011	10.0	2,773	13.9
Others	1,161	727	1,066	1,153	9.6	2.3	2.3	2.2	– 434	– 2.1	426	2.1
Total	12,057	32,235	47,048	52,142	100.0	100.0	100.0	100.0	20,178	100.0	19,907	100.0

a) Cumulated amount since 1952

Source: Bundesanzeiger, various years; (investment by residents in foreign countries).

IFO Digest 3/1978

Table 23b

German Direct Investment Abroad and Receipts from Foreign Licensees of German Companies, 1970, 1975 and 1978 (Millions of DM)

Sector	Year	Developed countries: Direct investment	Developed countries: Receipts from licensees	Developing countries: Direct investment	Developing countries: Receipts from licensees	Brazil: Direct investment	Brazil: Receipts from licensees
All sectors	1970	14,900.7	316.3	6,212.3	118.1	1,470.8	55.0
	1975	29,710.0	555.3	12,281.5	202.0	2,874.9	68.7
	1978[a]	41,210.6	635.8	16,982.0	141.9	4,039.2	12.6
Chemical industry and oil processing	1970	4,451.0	142.0	1,046.9	32.0	248.8	1.3
	1975	6,831.2	244.3	1,590.2	61.2	452.6	1.7
	1978[a]	8,942.5	239.4	2,245.9	62.3	639.6	0.4
Metal industries[b]	1970	4,643.4	71.4	1,639.4	71.1	778.8	51.8
	1975	8,138.3	118.8	2,601.9	101.1	1,339.4	63.3
	1978[a]	11,119.7	142.9	3,676.1	36.9	1,941.7	8.7
Electrical engineering	1970	1,981.7	74.4	593.3	11.8	201.7	1.8
	1975	3,147.4	123.3	1,050.3	23.8	408.6	3.1
	1978[a]	4,531.4	155.8	1,866.7	19.5	847.0	0.3
Precision mechanics, optics	1970	343.2	1.6	70.5	0.3	12.2	–
	1975	589.4	0.5	184.7	0.2	22.2	–
	1978[a]	776.7	0.9	220.4	0.4	40.4	–
Food products	1970	544.6	4.7	240.3	0.1	43.7	–
	1975	858.8	3.6	360.3	0.5	152.0	–
	1978[a]	1,094.3	2.7	389.9	0.6	152.7	–
Other sectors	1970	2,936.8	22.2	2,621.9	2.8	185.6	0.1
	1975	10,144.9	74.8	6,493.1	15.2	500.1	0.6
	1978[a]	14,746.0	94.1	8,583.0	22.2	417.8	3.2

[a]Figures for licence fees refer to 1977. [b]Includes iron and steel, non-ferrous metals, mechanical engineering, transportation equipment and metal goods.

Sources: Bundesanzeiger, var. issues; Monatsberichte der Deutschen Bundesbank, Vol. 24, No. 5, May 1972 and Vol. 28, No. 4, April 1976; Supplement to Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank, Series 3, Balance-of-payments statistics, No. 8, August 1978; unpublished data from Deutsche Bundesbank.

INTERECONOMICS, September/October 1979

TABLE 24a

Reasons for direct foreign investment by West German Enterprises, 1974-mid-1978 (% share of company responses weighted by employment size)

	Total (weighted)	Enterprises by employment size 50-199	200-499	500-999	1000 and over
Safeguarding sales through closer market proximity	74	52	48	69	81
Wage and accessory costs	58	81	65	70	52
By-passing import restrictions	40	19	31	39	42
Transport cost advantages	33	16	23	25	38
Investment promotion through host countries	27	33	19	22	29
Uncertain development of exchange rates	24	15	18	36	22
Lower taxation	11	28	29	16	5
Need to produce near raw materials	5	4	4	4	6
Real estate and development costs	5	29	16	5	2
Less stringent environmental regulations	2	6	8	2	–

Source: IFO Survey, IFO Digest II, 2, Munich, June 1979, p. 23

Table 24b

Medium Term Plans for Production Plants Abroad[a)]

Growth Compared to Home Market	Real Sales 1971	1972	1973	1974	1975	1976	1977	Gross Fixed Capital Formation 1971	1972	1973	1974	1975	1976	1977
Higher	54	54	77	72	71	74	67	53	56	79	71	61	65	48
About the same	42	39	22	26	28	25	32	44	34	20	28	36	33	46
Lower	4	7	1	2	1	1	1	3	10	1	1	3	2	6
Balance[b)]	+ 50	+ 47	+ 76	+ 70	+ 70	+ 74	+ 66	+ 50	+ 46	+ 78	+ 70	+ 58	+ 63	+ 42

a) % share of enterprises polled; weighted in terms of sales. – b) Difference between responses "higher" and "lower", resp.

Source: Prognose 100; IFO calculations

Industrie erwartet Belebung im Inlandsgeschäft
Shalom Apeloig (Ifo-Schnelldienst Nr. 11/1978)

Table 24c

Targets of Capital Expenditure

... % of companies stated as main target of capital expenditure

Sector	Capacity Expansion 1975	1976	1977	1978 (planned)	Rationalization 1975	1976	1977	1978 (planned)	Replacement 1975	1976	1977	1978 (planned)
Manufacturing industry	24	24	26	25	50	45	39	39	26	31	35	36
of which:												
Basic and producer goods	25	26	22	22	51	45	42	41	24	29	36	37
Capital goods	21	19	29	28	51	49	36	38	28	32	35	34
Consumer goods	22	25	28	24	55	50	46	47	23	25	26	29
Food, drink, and tobacco	38	28	29	24	30	27	29	30	32	45	42	46

a) Weighted with company sales.

Source: IFO Investment Test.

1978: Die Investitionen werden real wieder zunehmen
F. Neumann (Ifo-Schnelldienst Nr. 17/1978)

Table 25a Trade Flows of Japanese Foreign Subsidiaries (fiscal year 1974) (% of total)

	Regional Distribution of the Sales of Japanese Foreign Subsidiaries			Regional Distribution of Purchases by Japanese Foreign Subsidiaries		
		Host Region			Host Region	
	Destination	Latin America	Asia	Origin	Latin America	Asia
Manufacturing	1. host country	82.7	53.0	1.	60.3	40.2
	2. other countries	9.9	20.5	2.	9.5	8.8
	3. Japan	7.3	26.3	3.	30.0	50.8
Textiles	1.	72.7	45.0	1.	64.1	40.1
	2.	21.0	26.5	2.	20.6	14.9
	3.	6.2	28.4	3.	15.2	44.8
Wood, paper, and pulp	1.	57.1	29.0	1.	83.3	68.7
	2.	---	23.1	2.	---	18.2
	3.	42.8	47.8	3.	16.6	13.0
Iron and steel	1.	97.2	78.0	1.	56.8	31.2
	2.	2.7	11.5	2.	5.8	6.0
	3.	---	10.4	3.	37.2	62.7
Electrical machinery	1.	92.0	45.5	1.	40.0	32.7
	2.	7.9	25.2	2.	3.6	3.7
	3.	---	29.1	3.	56.3	63.4
Transport equipment	1.	97.4	73.9	1.	63.5	31.8
	2.	2.2	12.7	2.	1.8	2.9
	3.	0.3	13.2	3.	34.6	65.1
Sundry goods and misc.	1.	88.7	46.1	1.	54.9	40.6
	2.	11.2	24.2	2.	9.0	9.7
	3.	---	29.6	3.	36.0	49.6

Source: MITI, *Overseas Activities of Japanese Business Firms*, 1975. Available in Japanese only.

Sekiguchi 1979

Table 25b Capital Ownership and Capital-Labor Ratios in Japanese Direct Foreign Investment, 1971-85 (fiscal year)

	Capital Ownership Ratio			Total Capital Mobilized (US $ million)			Capital-Labor R (US $ '000 per person)		
	Actual		Projected	Actual		Projected	Actual		Projecte
	1971	1974	1985	1971	1974	1985	1971	1974	1985
North America	90.1	82.9	83.0	1,267	3,633	16,596	61.8	30.0	50.0
Latin America	83.6	72.5	60.0	846	3,462	21,000	26.4	34.2	40.0
Asia	58.9	57.9	50.0	1,677	5,392	38,528	10.4	15.7	25.0
Middle East	70.2	48.7	45.0	527	1,604	11,351	339.3	309.0	295.0
Western Europe	88.3	84.1	80.0	820	2,598	8,858	94.7	138.2	120.0
Oceania	80.0	69.0	65.0	489	1,084	13,757	78.4	63.5	80.0
Africa	46.1	44.3	42.0	247	698	16,957	11.3	18.9	30.0
Total	73.0	67.8	58.2	6,075	18,681	127,047	24.1	29.0	39.1
Capital-labor ratio within Japan							4.3[a]	8.6[b]	17.3

a 1970
b 1975

Source: The Japan Economic Research Center, *Future of Labor Problems*, February 1977. Available in Japanese only.

Sekiguchi 1979

Table 25c Motives for Japan's Direct Investment in Production in Western Europe (number of answers)

Motives[a]	West Germany	UK	Ireland	France	Italy	Belgium	Netherlands	Spain	Greece	Portugal	Total
Better access to materials	1	1	1	---	---	---	1	1	---	1	6
Easy transplantation of processing	4	1	1	1	---	---	---	---	---	---	7
Lowering labor costs	3	1	3	---	---	3	1	2	1	2	16
Profitable production	1	4	2	---	1	1	1	3	1	1	15
Enlarging sales	9	7	6	5	4	7	1	5	3	3	50
Information collection	2	1	---	---	---	1	---	---	---	---	4
Export to Japan	1	1	1	---	---	---	---	---	---	---	3
Market defense	7	3	1	2	5	2	---	7	1	4	32
Exports to a third country	5	---	5	---	4	3	---	2	2	2	23
Others	2	---	---	---	---	---	---	---	---	---	2
Total	35	19	20	8	14	17	4	20	8	13	158

[a]Based only on the data explicitly given by the firms which filled in the questionnaire. More than one answer was permitted.

Source: *Oriental Economist, op. cit.*

Sekiguchi 1979

Table 25d Number of Employees in Japanese Foreign Subsidiaries, 1971–85 (fiscal year)

	Subsidiaries under Japanese capital ownership					Total capital mobilized by subsidiaries		
	Actual		Projected	Annual Rate of Increase		Actual		Projected
	1971	1974	1985	1974/71	1985/74	1971	1974	1985
North America	18,477	100,442	275,494	75.8	9.6	20,507	121,160	331,920
Latin America	26,827	73,369	315,000	39.8	14.2	32,090	101,198	525,000
Asia	94,961	198,791	770,560	27.9	13.1	161,224	343,335	1,541,120
Middle East	1,090	2,528	17,315	32.4	19.1	1,553	5,191	38,478
Western Europe	7,649	15,807	59,054	27.4	12.7	8,663	18,795	73,817
Oceania	4,991	11,777	111,776	33.1	22.7	6,239	17,068	171,963
Africa	10,053	16,387	237,398	17.7	27.5	21,807	36,991	565,233
Total	184,021	436,454	1,786,597	33.4	13.7	252,083	643,738	3,247,531
(Ratio of the total to Japanese domestic employment percent)	0.4	0.9	3.1					

Source: As for Table 3-11.

from Sekiguchi 1979

TABLE 26
Comparative Data on Direct Foreign Investment

Country	Population at mid-1976 in millions	GNP in 1976 in billion US dollars	Net[a] Direct Foreign Investment: Value in million US dollars 1967–71	1972–76	As per cent of net[b] foreign capital inflow 1967–71	1972–76	Profit repatriations from direct foreign investment, 1972–76, as per cent of: GNP	Exports
Korea	35.9	25.3	120.1	460.2	3.7	7.9	0.13	0.4
Brazil	110.1	143.0	1483.5	6158.3	33.8	22.9	0.53	6.5
Colombia	24.3	15.7	232.1	148.3	21.4	10.2	0.67	3.9
Mexico	62.0	65.4	1283.9	2617.5	36.6	16.0	1.15	12.5
Taiwan	16.3	17.1	222.1	274.9	32.3	12.9	0.50	1.1
Thailand	43.0	16.3	236.1	499.0	26.1	28.0	0.19	0.9
Turkey	40.9	41.3	161.1	390.3	9.6	6.6	2.1	2.0

[a] Net of capital repatriations but not of profit (plus dividends) repatriations.
[b] Net of principal repayments but not of interest payments.
Source: Population, GNP: 1978 World Bank Atlas.
Other: Economic Analysis and Projections Department, World Bank, *Consolidated Balance of Payments*, May 19, 1978.
Economic Analysis and Projections Department, World Bank, *Country Report by Bloc and Country*, May 14, 1979.

REPUBLIC OF KOREA

TABLE 27b
Sources of Technology for exports
(in per cent)

	Traditional Exports	*Non-traditional Exports*	*All Exports*
Domestic sources			
Licensing and technical assistance	3.6	2.4	3.0
Experience acquired by personnel through previous domestic employment	12.3	8.7	10.5
Suppliers of equipment or materials	6.2	3.2	4.8
Buyers of output	3.1	5.0	4.0
Sub-total	25.2	19.3	22.3
Government supported institutes	8.7	9.2	9.0
'Local know-how'	21.8	15.7	18.9
Total	55.7	44.2	50.2
Foreign sources			
Licensing and technical assistance	11.8	20.7	16.0
Experience acquired by personnel through previous overseas employment	9.0	18.0	13.2
Suppliers of equipment or materials	12.3	8.9	10.7
Buyers of output	11.0	6.7	9.0
Total	44.1	54.3	48.9
Unidentifiable	0.2	1.5	0.9
TOTAL	100.0	100.0	100.0

Note: See the text for the individual export product groups included under the categories 'traditional' and 'non-traditional'.
Source: Tabulated from a survey of 112 exporting firms conducted in 1976 by G. Pursell and Y. Rhee.

REPUBLIC OF KOREA TABLE 27a
Total Value of Technical Assistance and Royalty Payments
(millions of dollars at current prices)

Period	*Value of Technical Assistance Received*[a]	*Royalty Payments Abroad*
1962–66	98.9	0.8
1967–71	75.9	19.7
1972–76	69.0	93.0
1977 & 78	n.a.	143.1
Total	243.8	256.6

[a] Includes only that financed from bilateral government and multilateral international sources.
Note: Totals may not reconcile due to rounding error.
Source: Data provided by Economic Planning Board, Republic of Korea.

Westphal et al (1979).

2.3. Prospects for the World Economy in the 1980's

1. Technological and Resource Adjustment

Advanced industrial economies will have to adjust (at a pace determined primarily by government policy decisions and the extent of international financial reform) both to a rising backlog of more mechanized technological inventions and to the need to constrain utilization of traditional sources of energy (together with the direct and indirect consequences of the latter for the geographical distribution of both potential sources of economic dynamism and international economic and political power.)

2. Less Propitious National and International Institutional Environments

This adjustment has to occur under institutional conditions less conducive to rapid world economic expansion than those of the 1950's and 1960's. In particular it has to occur under international financial conditions which (a) lack the expansionary bias of the Bretton Woods System as managed de facto by the U.S. in its assumed guise as world banker, (b) have much larger balance of payments disequilibrium problems to accommodate, on account of the impact on these of world inflation,[a] and (c) are less stable, on account of the impact of the greater uncertainties which exist, to which the adoption of a flexible exchange rate system plays a contributory role. Second, the shift in emphasis in advanced industrial economies to control of world inflation has been accompanied by the abandonment of Keynesian full-employment orient policies, with the result that the amplitude of troughs during recessions can be expected to be larger. Third, the positive relaxation of trade and investment controls in expansionary demand conditions brought much greater structural international economic interdependence. This was strengthened by the further developments which occurred in the character and role of the multinational corporation, and which brought with them fundamental changes in certain types of international trade (particularly in certain manufactures where there was a rapid increase in intra-industry trade in which prices and quantities were determined almost independently). In addition, the extent of international interdependence has risen on account of increasing participation by centrally planned economies in

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a/ Note that inflation increases absolute deficits in monetary terms even if there is no change in relative prices, and that if the prices of traded goods and services rise relative to the prices of non-traded ones, this raises the share of the deficit on this account in GNP. Of course, the 'pure' inlfation effect has been only one factor underlying the large payments deficits of recent years, and inflation itself sets in motion changes which affect the size of monetary or real deficits.

the international economic system (mainly in order to acquire more advanced technologies), and by the rise of the 'newly industrializing' group of developing economies, all of which have pursued at least moderately 'outward-looking' policies towards the expansion of exports of manufactures, with some pursuing this kind of strategy so vigorously as to induce critics (erroneously) to write them off as no more than 'export platform' economies.[a/] However, although greater international interdependence brought with it substantial gains from the standpoint of world economic growth (e.g. through the realization of dynamic economies of scale and dynamic externalities which spilled over into the technological sphere,[b/] it also brought with it greater risks (e.g. intensified, more widely diffused and more rapid transmission of the effects of major adverse economic disturbances), a greater need to maintain international competitiveness, and greater unease about the distribution of both gains and costs between those economies best able to capture the former and minimize the latter, and those economies less able (or less prepared to introduce the necessary policies) to do so.

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a/ There is still enormous resistance amongst certain left-wing economists to acknowledging the structural dynamism of these economies (see for instance strict adherents of the dependencia and of the core-periphery schools, and most proponents of new international division of labour theories). The evidence on this structural dynamism to date is now so well documented as to necessitate no discussion here (see, for instance the summaries in OECD (1979) and World Bank (1979). This should not, however, be taken to imply that any LDC can guarantee success by trying to imitate their East Asian precursors (whose policies in any case differed from others which successfully attained 'NIC' status), or that NICs may not have to make important modifications to their policies in the near future, or that structural transformation necessarily brought with it the broader components of 'development'.

b/ Conventional economic analysis would of course point first to the gains made possible from more efficient world-wide resource allocation as fewer barriers to trade permit the price mechanism to work more effectively. The weight to be attached to these as compared with the dynamic factors mentioned in the text is of course a highly debateable matter, not least because there is no uncontroversial methodology which can be used to measure each in practice. However, given the magnitude of the empirically verifiable institutional 'distinctions' in the world economy which not only remain, greater international integration notwithstanding, but also have in certain respects intensified (e.g., on account of the intra-corporation policies of TNES), and, given the well-attested importance of non-price factors in determining the international distribution of growth in international trade, especially in certain high income elasticity manufacturing products (so that potential allocational efficiencies of the conventional kind may not be realized), this author finds it difficult to accept the view that reallocational gains have outweighed the albeit less tangible dynamic ones. Furthermore, casual empiricism would seem to justify attributing more emphasis to the latter; whether the analysis is for individual countries or for TNES.

3. Internationalized Cyclical Movements

Furthermore, the greater degree of international economic integration not only tended to induce international synchronization of the timing of cyclical movements, but also to reduce the prospects for any single national government to be able to move an economy out of recession. Increased trade interdependence meant that it has become relatively more important for a country to raise exports either by capturing exogenously determined 'new' markets or by raising its share in existing ones - both options requiring a high degree of international competitiveness. Furthermore, the increased internationalization of production via direct foreign investment meant that the entrepreneurs' response to better business prospects was more likely than previously to be the establishment of new productive capacity abroad, rather than within the domestic economy. And it can be argued that this effect has been strengthened by the adoption of a flexible exchange rate system, since production abroad helps entrepreneurs to spread the potential risk to their international competitiveness which arises from that possibility of increases in the home country's relative effective exchange rate.[a] Ignoring this potential exchange rate variant, however, the international relocation of production during the upswing of a cycle could well arise on account of any of the other reasons which stimulate direct investment abroad in preference to investment at home, such as defence of existing markets, superior access to the main expanding markets, closer proximity to key raw materials, etc., these two specific problems could turn out of paricular importance for a number of countries in the near future. First the perceived threat of increased international protection may, ceteris paribus, encourage countries to locate new plant behind actual or expected protective barriers. Second, if structural, geographical, or institutional factors render the domestic climate unconducive to the kinds of investment required for the kinds of technological or resource adjustment referred to above, new plant may be established abroad instead. There are various plausible circumstances in which this might occur:[b] countries which raise domestic energy charges

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a/ There are obviously important variations between industries both industries and countries here. Where production location is shiftable in this way and where price is a particularly important attribute of overall competitivemess, producers of such commodities in countries which are most subject to exchange fluctuations brought about by factors exogenous to competitiveness in manufacturing trade will obviously be the ones most likely to respond in this way (a possible current example would be U.K. producers of lower income elasticity manufactures).

b/ See also the discussion of demand homogeneity below.

sharply without simultaneously developing new supply sources which can be expected to be stable and cheaper in the medium term may face relocation of energy intensive production processes not favoured by access to easily available energy-saving inventions; countries which face strong social constraints on the pace of labour-saving technological change may lose producers to those where such factors are less important (because they are growing rapidly enough to be able to keep down the amount and duration of structural unemployment), or less recognized (because workers' organizations and/or the means of popular democratic expression are weak - or even virtually non-existent, as under authoritarian regimes); countries whose entrepreneurs are faced by sustained stagnant or sluggish demand conditions, so that the climate for actually implementing desired innovations is not sufficiently propitious (for instance, because of sustained deflationary policies)[a/], investments in new processes whose profitability is highly dependent on the rapid attainment of increasing returns to scale through sales may again be located abroad.

4. Increased International Homogeneity in Demand Patterns

Increased integration of the international economy (including the huge growth in international travel) has brought with it the capacity for creating 'international tastes' (see e.g., Vaitsos 1979). Through their promotional activities, TNES have been able to generate international demand for particular standardized products, even where national per capita income differentials might suggest an a priori expectation of greater heterogeneity. Essentially, high income earners in middle (and even lower) income countries have been turned into international consumers with demand patterns similar to those prevalent in advanced industrial economies. At the same time, income differentials between advanced industrial economies have narrowed as Europe and Japan 'caught up' with the U.S., thus creating particularly fertile ground for using the capacity for rapid international diffusion of product information to produce an 'international consumer.' The extent this occurred varied between products (for instance, in the latter 1970's high gasoline prices in Europe as compared with the U.S. tastes in automobiles), but can be expected to strengthen in the medium - long term, and probably to outweigh the impact of the emergence of new geographical sources of industrial growth in creating new nationally differentiated markets. This

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a/ The point here is that even if sustained deflation leads to rationalization of existing technologies, so increasing their relative international competitiveness and the ability to profit from capital-widening investment when demand rises, it may simultaneously preclude new investment in more advanced technologies.

has important implications for the international competitive process. First, it may become more difficult to compensate for the lack of international leadership in new product development by modifying existing innovations to cater for particular nationally differentiated markets. Second, a viable alternative strategy for 'moderate growth' rather than 'dynamic leadership' may be to focus on perfecting the quality and price characteristics of recently developed products facing fairly homogeneous global demand, in the sense that the product characteristics required by consumers at a particular income level does not vary substantially with the country of their residence. This in turn implies that the case for production in a few locations only (so as to ensure that all plants realize high and increasing returns to scale) could assume greater weight in enterprises' production location decisions . The net effect of this as compared with other factors in a protectionist international environment cannot be predicted a priori, although certain possible causes can be identified. For successful enterprises in products where scale economies are particularly important small market size might outweigh a disire to get behing protective barriers, and leave these countries 'free' for production by less efficient enterprises. For some products, large markets plus protection plus high economies of scale could well dominate all other factors in international locational decisions, with the important implication that if an advanced countries' enterprises have lost the technological capacity to compete in the home country, so that they have to focus on 'lower-level' products, their enlist production activities may be transferred to foreign locations. In other words for an advanced industrial economy, the technological capability or its enterprises is likely to assume even greater significance, even if a'technological leadership' strategy is not being pursued. Furthermore, the more it is forced to compete in 'lower level' products, the more difficult it will be for it to do so in the face of competition from newly industrializing countries (NICs) which are successfully adding substantial technological profits (including independent innovation) to their unit labour cost advantage.

5. Changing Patterns of R & D Location

A particularly important characteristic of the growth process during recent decades has been the geographical diffusion of R & D activities.[a/] This was permitted by improvements in international communications, the growth and geographical spread of TNES and of direct foreign investment by smaller enterprises, the increasing availability of highly skilled personnel to enterprises' subsidiaries abroad (possibly at lower cost than at home) and the increased integration of the international

a/ For empirical evidence, see particularly Lall (19), Creave. (1976), Vernon (1980).

economy itself (which meant, for instance, that R & D which requires linkages to production could occur abroad). In some cases it was positively stimulated by the need for production to be located in a nationally differentiated market: where R & D linkages to production were high or the subsidiary already could provide significant R & D capacity, this would encourage transfer of R & D resources from the home country, or expansion in the existing local capacity - a process which might well be encouraged by host government subsidies. Furthermore, the reduced length of typical product cycles (Vernon 1980) plus TNE's perfection of systems of corporate integration (Vaitsos 1979) meant that for some products, it became less important for a TNE to exploit a product differentiation monopoly in the home country.

Will such factors make R & D internationally mobile, in the same way as their production? On the whole, there appear to be good theoretical reasons to suppose that in practice this may not happen for basic 'invention' activity, nor become a generalized phenomenon for technological research geared to the development of key new products and production methods. Probably the most important is that the minimum cost and complexity of major R & D activities has tended to rise, and so make very substantial government support a precondition for the establishment of a comprehensive programme. The obvious contemporary example is microelectronic R & D to create very large scale integrated circuits in a microscopic space. In both Japan and the U.S., the two countries which have already created a substantial lead, government support makes a key contribution to overall activity [a/] and has already led to a situation where, even if other governments were prepared to adopt an equally active strategy of research promotion, the cost might be virtually prohibitive, particularly given the low probability of their 'catching up'. This factor is reinforced by others which, even for less ambitious R & D activities, may stimulate the centralization rather than geographical diffusion of research activity. Location in the advanced industrial home country provides a highly sophisticated research environmental infrastructure, the probability of superior access to scarce high-level scientific and technical manpower, static and dynamic economies of scale, linkages with other enterprise activities, and (perhaps) less risk of industrial espionage by foreign competitors. Some of these factors merely favour centralization in an advanced industrial location which may not necessarily be the home country (e.g. there may be national differences in

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a/ In the U.S., the Defence Department launched its own programme as it felt that notwithstanding the huge potential financial benefits to private corporations the enormous costs involved would lead them to underinvest in such R & D activities. In Japan, government strategy was more a natural continuation of its longstanding recognition of the need for active government promotion of R & D to attain international technological leadership.

environmental climates which depend on the particularly industry concerned); others (e.g., scale economies which can be internalized if an enterprise's R & D is linked with other home country activities) actually encourage a home country location. On the other hand, the substantial improvement which has occurred in the technological capability and research environment of certain NIC s undoubtedly make it feasible for industrial enterprises located there to undertake 'product improvement', and even certain kinds of specialized small 'invention' activities, in addition to 'catching up' in the implementation of the external stock of inventions. Indeed they probably are advantaged by the fact that they are still in the medium-range of the technological scale, since they have not as yet constructed many of the long gestation period investments elsewhere made prematurely obsolete by energy constraints.

In other words, centralization of R & D in 'successful' advanced industrial home countries will probably intensify when the R & D is part of the <u>generation</u> of a new technological wave, or concerned with major new product or technical development within it. However, when R & D is concerned more with product improvement (including the 'standardized' product for the global consumer and the nationally differentiated market cases discussed under demand homogeneity), the geographical diffusion of R & D can be expected to continue (subject to constraints imposed by product type), with NIC - located enterprised emerging as strong competitors to those pursuing similar R & D strategies in advanced industrial economies.

Whereas the pace of actual technical change will depend crucially on the growth rate of world demand[a/], slow growth in the latter will probably have only a minor effect per se on these general R & D trends. However, insofar as slow growth brings with it major shifts in the international distribution of demand, then the relative weights of R & D decentralization versus diffusion and advanced country versus NIC locations, as well as the distribution between NIC s themselves, will be affected.

The above discussion is concerned primarily with industrial R & D. The location of R & D related to natural resources, particularly minerals and energy, obviously is constrained (to varying degrees) by the location of the resources themselves. Given the probability in the medium-term of a relative improvement in the prices of such resources to those of manufactured goods, the share of resource-related R & D in total R & D can be expected to rise, and so that of resource-rich countries in the international distribution of R & D.

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a/ Though this does <u>not</u> necessarily apply to the rate of 'discoveries': quite apart from the exegenous element therein, different governmental priorities and so their expenditure on R & D (including not only military considerations but also the intensity of any economic determination to 'capture' any demand growth which may occur) have substantial effect on the relationship between demand and discovery.

6. More limited opportunities for national policy remedies

Even in the absence of any production relocation responses, the scope for using national government policy (whether in the form of conventional Keynesian remedies or of new monetarist orthodoxies) to promote recovery from the current international recession or to cure prospective medium-term disequilibria is, for most advanced industrial economies, considerably limited. The most fundamental reason for this is the enhanced importance of international competitiveness in securing smooth and sustainable national growth and structural transformation, plus the non-price nature of much of the competitive process, even during recessionary phases when cost or price factors tend to be relatively more important . By the early 1970s, it was clear that a country's high and sustained economic strength was coterminous with its ability to increase its export share in the main expansionary markets for manufactured goods - an ability which for advanced industrial economies in turn required a number of economic qualities: (a) a high degree of price competitiveness subject to a high minimum quality constraint for goods already in production for which demand elasticities were such as to permit their rapid diffusion, through geographically expanding mass markets (i.e. 'current' goods); (b) the ability to invent in advance of actual demand new goods of very high quality and with potentially high income elasticities, and to create rapidly rising effective demand for these by being able to put them into mass production[a] with competitive technologies which maintained very high quality standards at a reasonable degree of cost competitiveness and being able to identify and enter their most promising markets; and (c) the ability to transform the structure of production away from 'old' goods no longer subject to rapid market expansion towards 'new' ones, even if price competitiveness could have been sustained for much longer in 'old' ones at the cost of a lower pace of structural transformation. In terms of academic economic theories, these qualities could perhaps be summarized as the ability to generate and implement a high growth rate of complete product cycles.[b]

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a) Where used here, the term 'mass" is relative to the commodity under production, obviously differing considerably in scope between consumer and producer goods.

b) See further Posner (1961) and Vernon (1966) for the initial exposition of the theory, and Vernon (1979) for a discussion of recent developments, and Tables 19a and 19b above.

The actual situation facing advanced industrial economies at the beginning of the 1980s is that Japan already has created a dominant dynamic comparative advantage and the ability to sustain it in the future in this key determinant of economic growth. Consequently demand expansion in advanced industrial economies will probably generate a distributional problem between them, in the sense that their imports to Japan will expand more than proportionately than their export to it. In balance of payments terms, this may not create the acute surplus problem emphasized by Cripps (1978, 1979), since it will probably be offset in part at least by inflows of Japanese capital. However, from the standpoint of structural transformation and future growth, it is clear that a potentially serious problem has to be overcome, and that for the kinds of reasons discussed in section 2.1, neither Keynesian nor monetarist strategies may be suited to the task.

At the international level, this also applies. Transfering resources to developing economies as a group will not necessarily lead to the kinds of favourable effects argued in the Brandt Report, even though the world economy is suffering from a cyclical demand constraint (which has structural origins). How such transfers are effected, and to whom, are key determinants of the outcome.

7. Structural employment problems

However long cyclical recovery takes (as determined by the kinds of policy changes introduced at the international level), it is very unlikely to eliminate the employment problems of advanced economies. This is on account of the prospective technological changes which are awaiting implementation. A point of particular importance is that these will not just have a significant impact on manufacturing industry, but also on services (where it can already be seen (Table 28). There is now enormous potential for raising service sector productivity by new investment in a way unknown in the past, with considerable economic and social implications.

Table 28 Capital Expenditure[a] by Sectors of the Economy in the EEC[b]

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979[c]	1980[c]
	Percentage										
Farming and forestry	3.9	3.7	3.8	4.0	4.1	4.2	4.3	4.4	4.5	4.4	4.2
Mining and energy	6.7	6.8	6.6	6.3	7.2	8.2	8.2	7.7	7.9	8.2	8.5
Manufacturing	19.3	18.6	16.8	16.3	16.3	15.4	15.3	15.7	15.6	15.7	16.0
Building	4.3	4.1	3.8	3.9	4.0	3.7	3.7	3.6	3.6	3.6	3.5
Services	23.3	24.7	25.9	26.4	25.2	24.8	24.9	27.1	27.5	28.0	28.3
Residential building	28.1	28.2	29.7	30.0	29.7	29.2	29.1	28.6	28.0	27.1	26.7
Government	14.4	13.9	13.4	13.1	13.5	14.5	14.5	12.9	12.9	13.0	12.8
Total	100	100	100	100	100	100	100	100	100	100	100

a) Fixed capital formation at 1970 prices and exchange rates.
b) Excluding Belgium and the Netherlands.
c) Estimated.

Source: EURO-INVEST, IFO calculations

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Summary and issues

In order to compile an agenda of possible policies for a country's development, the first prerequisite is some understanding of the kinds of environment in which such policies may be applied. The future necessarily entails uncertainty, so that in the final analysis, policy choice reduces to a matter of judgement. However, even though investigations designed not only to explain the past, but also to identify likely trends in the future can never produce 'answers' and may be falsified completely by unexpected shocks such as natural disasters, wars, and revolutions, without such enquiries policy-makers can be depriving themselves of important information which at least might help to reduce the incidence of errors, even if it is not robust enough for firm inferences about desirable/appropriate strategies. That this view is widely accepted is demonstrated clearly by the enormous quantity of policy- related statistics and analytical literature generated by international and national organizations, academic institutions, banks, and the like. But here the implicit consensus often ends. In particular, there is a wide divergence of view - sometimes implicit, sometimes explicit - about certain central analytical and methodological issues. These include first, the causes of successful or unsuccessful developmental performance in the past, and the contribution of policy to the observed outcomes; second, the desirability of projecting past trends into the future, and how - if at all - this can be done; and third, the extent to which policy can be decomposed, with decisions related one area proposed relatively independently of those in others, and reconciled not so much on account of their expected interrelationships, but rather in terms of their public expenditure and foreign exchange implications.[a/] These issues still persist even when there is complete consensus over what constitutes 'development' and how it should be measured, what social priorities and specific targets should be, whether (if at all) the state should try to guide development, etc.

The discussion here was directed primarily to the international aspects of economic policy, and thus focussed more on the determinants and evolution of the international economic environment, following this with a consideration of policy responses thereto for a particular subgroup of countries. The issues referred to above were treated as follows:

1. Appreciation of the causes of post World War II world economic growth and its prospective medium-term evolution requires an analysis of the dynamics of the later 2oth century capitalist system which incorporates certain important and rapid changes which have taken place in its structural characteristics

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a/ It could be argued that this last issue should not arise in a fully planned economy. But although such an economy should be much better able to construct a decision-making process which takes static and dynamic interdependencies more fully into account, the internal political pressures on plan formulation and the problems which arise during and as a result of the various systems of plan implementation utilized may well constrain both the nature and extent of the coordination attempted and of that which actually occurs.

2. Neither demand-side nor supply side explanations are adequate, either to explain past performance or future prospects.

The causation pointed to in this paper is as follows: major changes in the character of the capitalist development process and in the international economic system will affect Europe's position therein, and therefore the kinds of relationships which will develop between the southern and western European economies. If this fact is ignored, and intra-European developmental issues are treated from a regional rather than a global standpoint, then the kinds of policy implications derived may well turn out to be misguided. Irrespective of the relationships which S. European countries develop with the EEC, it is also equally important for them to look outside the European region.

The second policy implication of the paper is that S. European governments should adopt a very active role towards technological and skill development, both as means to transforming their own economies and as a means to earning foreign exchange. This in turn has implications for policy towards foreign investment, which should be designed wherever possible to 'capture' technological transfer. But it also implies the development of indigenous technological capacity to an extent which is unlikely to occur without direct government action.

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Regional disequilibria, financial flows and budgetary policy in the European Community

(Community Budget and Economic Convergence)

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I. Community Budget and Economic Convergence

1. The subject you have asked me to talk about is clearly related to one of the main issues which has been discussed among the European Community in these latest months: how to create and develop a better economic "convergence" amongst the Member States.

Let me first point out that 'economic convergence in the Community should be seen not only from a budgetary aspect, because the Community budget represents at present only a small proportion of the GNP of the Community'.

2. I will nevertheless concentrate my attention on two main but limited aspects of this broad issue:

- an analysis of the expenditure and receipts of the Community budget, which includes observations on the nature of own resources,
- some considerations on the economic, financial and social aspects of participation in the European Community.

3. In introducing this paper, I wish to draw the attention of the Conference to a number of fundamental aspects of the Community against which the application of the budgetary system on each Member State needs to be seen.

4. First, the Community in itself comprises a number of policies which cannot readily be quantified in financial terms. The advantages of belonging to a single market, the benefits conferred by the Common Commerial Policy, and the political strength which flows from membership of an organization moving steadily towards greater integration are among the more important elements in this respect. Moreover, economic convergence in the Community should be seen not only from a budgetary aspect, if only because the Community budget represents at present only a small proportion of the GNP of the Community. It is also necessary to take into account, for example, the advantages offered by the flow of private capital across the Community which is in itself

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assisted by an improvement in economic structures. Factors of this kind have indeed led an increasing number of European countries to seek to join the Community since its original creation with six Member States. Moreover countries joining the Community have had to recognize, as did the original founding members, that not all policies are of equal benefit to all Member States and that the advantages or disadvantages of Community membership must necessarily be seen as a whole.

5. Second, the interdependence of the Community's achievements should be borne in mind. The creation of the internal customs union and the contribution which the Community has made to liberal trading policies would not have been possible without the establishment of a vigorous Community agricultural policy. In the same way the Community's social and regional policies have been introduced to correct the effects of the concentration of developments in certain areas which exist despite the economic expansion to which the Community has greatly contributed, thus asserting a solidarity among Member States which is required to diminish the regional and social inequities which can be identified at a Community level. I believe strongly in the value of these policies.

6. Third, in considering the Community budget, the figures cannot in themselves be seen as reflecting the true economic cost and advantage of membership of the Community to a Member State. The Community budget is the financial expression of common policies which comprise expenditure, Community competences in certain sectors, and decisions taken regularly in respect of them by Member States. In this context the budget should not be judged in the light of the position of each Member State, but mainly of the effectiveness with which it ensures the conduct of common policies to the benefit of the entire Community. The Commission emphasised this point in all discussions on convergence which was discussed by the European institutions this year. The Community instruments which are financed within the budget or through loans have been set up to serve specific policies.

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7. May I further emphasise that even if at present the Community budget has a weak redistributive effect it should, as it increases, progressively promote convergence between the economies of the Member States.

8. The considerations above apply with particular force to the Common Agricultural Policy. In fact, the main interventions of the Guarantee Section are subordinated to the general objective of maintaining prices for agricultural products on the Community's internal market at a stable level in accordance with Article 39 of the EEC Treaty. The economic consequences of such expenditure are not limited to the country in which it occurs. For example, if a quantity of agricultural produce is removed from the market in a Member State by intervention for public storage, or by export with the benefit of Community refunds, such action supports the market price both in that Member State and throughout the Community. It follows that the budgetary incidences of the agricultural price and market policy are less significant than its wider economic consequences. The latter are necessarily difficult to quantify. However, it may be said that, insofar as the interventions of the agricultural policy succeed in supporting prices at the level necessary to maintain a fair standard of living for the agricultural community, they result in a transfer of income to the agricultural sector from other sectors of the Community economy, and therefore in favour of Member States in which agricultural production is relatively important. The agricultural policy, through its maintenance of the agricultural labour force, is also playing an important role in a period of high unemployment. On the other hand, insofar as the policy assures the stability of markets and the availability of food supplies to consumers at reasonable prices, it represents an economic benefit and a degree of security for those Member States whose degree of agricultural self-sufficiency is relatively low. This benefit, though difficult to measure, is no less real, as was demonstrated in the period of shortages on world agricultural markets in 1974-75.

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9. I would also stress that, apart from the above-mentioned difficulties in quantifying this relationship, I take the view that the expansion of existing and the introduction of new policies as the need arises would be gravely hampered if the notion of "juste retour" were to become the accepted way for Member States to judge them.
Calculations based on "juste retour" have even less meaning when it is taken into account that on the one hand certain budgetary expenditure results from Community obligations taken over following the accession of certain Member States and in the context of the Communities general commercial relations with third countries; and that on the other hand certain expenditure connected with Community policies has not so far been included in the Community budget, but is financed on national budget on different keys (e.g. EDF, food aid in cereals).

10. The amounts entered in the budget do not in themselves reflect the real economic costs and advantages of a country's membership of the Community. If at the same time it is realized that the introduction of common policies has not always had a positive impact on the structurally weakest areas of the Community, it will be better understood why the budget should not be judged in the light of the position of each Member State, but rather in terms of its effectiveness in ensuring that common policies are implemented to the benefit of the Community as a whole.

11. You should be aware that the problem of economic convergence is only indirectly linked to budgetary problems. However, in the absence of other large Community mechanisms, we have to recognize that the budget and the European Monetary System are the only instruments available for tackling the problem of convergence in a practical and constructive manner.

12. Ignoring for a moment the role played by the budget, it should be clearly understood at the outset that the primary objective of the economic mechanisms of the EMS (the purpose of the monetary mechanisms is to regulate exchange rates between the various currencies) is to establish appropriate machinery for redistributing the benefits deriving from the creation of the European monetary stability zone.

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The problem of 'convergence' is linked to these economic mechanisms of the EMS and, if it is to be properly understood, there must be a critical examination of :

- the total resources required by the Community to ensure that it is able to finance all the common policies,
- the specific nature and function of the instrument for controlling the redistributive effects, which can only be the budget.

13. A study of total available resources carried out by all the experts who have addressed themselves to the problem apparently shows that a budget capable of meeting requirements would account for 2% to 2.5% of GDP in the medium term and 5% to 7% of GDP in the long term (1).

But the creation of such a large budget is not only technically difficult (finding the means of raising the revenue), but also poses an institutional problem - the role to be played by the institutions in transferring decision-making powers from the Member States to the Community. It should therefore be recognized at the outset that the problem is a political problem. It cannot be resolved on the basis of models that take no account of political reality; for the debate on convergence would then become distorted and might well produce results that hindered rather than helped the movement towards integration. Debates, for instance, on the upper limits on Member States' payments and on the maximum assistance that a particular Member State may receive from the EEC that are based on the principle of 'juste retour' stand in complete antithesis to the principle of convergence.

14. Limiting the debate to the budget would also have the effect of lessening the impetus that the observance of a few common rules for controlling the main macro-economic parameters such as investment, price levels, employment, etc., could give to a genuine policy of 'convergence'. The successful operation of the EMS does not depend solely on the transfer of revenues. The Community budget accounts for approximately 2% of all public expenditure by the Member States. Until ways and means are found of increasing the Community budget's endowment, it would be wrong to

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(1) MacDougall report, published by the Commission in April 1977 (Report on the role of public finance in European integration)

underestimate the effectiveness of the joint machinery for tackling the problem of curbing inflation and public expenditure in the Member States.

Failure to take account of this important fact, in the present context, would risk triggering political action of scant credibility - and quite ineffective into the bargain.

15. It is fashionable to think that the way to tackle the budget problem is to increase structural expenditure in order to strengthen the redistributive effect. So it is necessary here to clear up a misunderstanding, which is that an increase of a few hundred million EUA is all that is needed to give this kind of aid the effectiveness it currently lacks.

16. It has been calculated that, at 1975 prices, the Regional Development Fund (ERDF) would have to have five times its current endowment in order to make even a minimal impact on employment (1). Unless a way is found of going beyond the present upper limit on own resources, we may be faced with the unthinkable prospect, not of a freeze, but of an actual reduction in agricultural expenditure.

Such a reduction is unacceptable in the Community of the Nine and will be even more so in the Community of the Twelve because :

(a) While the percentage substitution in respect of public expenditure is very low in the case of the structural funds, the reverse is true of agricultural expenditure, where the substitution figure for national public expenditure is about 33% and can rise to as much as 90% in the case of market expenditure;

(b) the economically less-favoured regions (the peripheral regions) are broadly of two types :

- industrial areas in decline (typical of the United Kingdom), in which economic recovery depends on the restructuring of production and on the creation of alternative sources of employment. Here, non-agricultural policies of redistribution are essential and take priority;

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- the regions such as the Italian Mezzogiorno and the French Midi which have perhaps never developed their full industrial potential and in which agriculture continues to be crucial to employment and income formation. Regions such as these, in which farming is the major industry, account for a very substantial part of the present Community; with the enlargement of the EEC to include Greece, Spain and Portugal, not only will there be an increase in the total area in which agriculture is preponderant, but it will also be found that there are regions totally untouched by industrialization (south-east Spain, Portugal, the inner regions of Greece).

17. Viewing the Community budget as a means of promoting a policy of convergence and of regulating its implementation - the manner in which the common agricultural policy currently operates cannot, nevertheless, in any objective sense justify the thesis that it helps to rectify regional imbalances, since it makes for an ever greater accumulation of wealth in the most highly developed areas at the expense of the least prosperous - as much, moreover, through structural policy as through market policy.

The theory - which, though popular, has not yet been translated into practical terms - that expenditure should be subjected to purely financial controls is unrealistic because it only takes account of immediate pressures to hold down expenditure and neglects the fundamental objectives. Hence the difficulty and, indeed, the impossibility of obtaining a majority in Parliament in favour of agricultural policy measures that are truly consistent with the real economic situation in the Community and that take account of the principles of supply and demand.

II. Analysis of Expenditure and Receipts of the Community Budget

18. In the light of the above considerations let us analyse, by Member State, the main features of expenditure and receipts in respect of the Community budget based on tables which will be found at Annex I. These tables record both actual budgetary receipts for the years 1976-78, and forecast receipts and expenditure for 1979 and 1980.

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It should be borne in mind that:

(a) The projections for 1979 and 1980 are based on an analysis of significant categories of expenditure in each Member State for the years 1976-78 particularly with the aim of eliminating any anomalies. Nonetheless the resulting expenditure figures in Member States should be regarded essentially as orders of magnitude rather than precise budgetary estimates.

(b) The forecasting of figures for each Member State in the way which has been attempted presents particular difficulties.

The tables presented in Annex I:

(a) comprise figures representing estimated percentage shares of expenditure in Member States and estaimated actual expenditure for 1979 and 1980 (Tables 1-4).

(b) show the development of customs duties and agricultural levies from 1976 to 1980, and estimates for VAT payments for 1978-80. They also show the percentage shares of each Member State and the relationship between those shares and their shares of Community GNP (Tables 7-9). Table 10 shows for 1976-80 the shares and forecast shares of each Member State in financing the budget as a whole compared with its share in Community gross national product.

19. It should be noted that the report does not include calculations in respect of the budget of the ECSC due to the fact that a different method of financing this budget is used.

III. Analysis of Expenditure

20. The Commission has grouped the different types of expenditure from the Community budget into six main categories. The resulting forecast expenditure by Member State is presented in the annexes in terms of both percentages and in absolute amounts. The following concerns the main separate categories of expenditure within the Community budget.

(i) FEOGA Guarantee Section

This section represents by far the biggest category of expenditure within the Community budget, amounting for 1979 and 1980 to some 70% of the total. This is due to the relatively low degree of development of other policies. The Common Agricultural Policy is a highly developed policy based on Community solidarity and it has taken over virtually all the financial consequences of the regulatization of agricultural markets. The geographical distribution of its expenditure therefore determines to an important extent the

Whereas some 25% of the expenditure takes place in Germany, 20% in France and 16-17% in Italy, in 1980 only about 8% will take place in the United Kingdom(1). However these figures need to be judged essentially in the light of the considerations advanced in paragraph 8. The relatively low level of expenditure in the United Kingdom reflects the share of United Kingdom agricultural production in the Community (some 10-11% of those products subject to a system of common prices under the CAP), and is also influenced by the generally deficit nature of the United Kingdom market and, until recently, high negative MCA's, both of which limit intervention expenditure. It should be noted that in conformity with the Council Regulation governing the operation of the financial mechanism, negative MCA's paid in the exporting country have been treated as if they had been spent in the importing country. (However, tables on pages 14-15 show the different results which are produced depending on how the MCA's are attributed). But over the past few months the importance of MCA's in trade between the United Kingdom and the rest of the Community has been considerably reduced due to devaluations of the green pound and to a strengthening of sterling. So long as the current situation is maintained (United Kingdom MCA's of under 3.5%) then the attribution of MCA's will be of little practical significance.

(ii) Structural Funds

This category of expenditure represents some 12% of the budget and covers the social fund, the FEOGA guidance section, the regional development fund, and the 200 MEUA interest rebates allotted for Italy and Ireland over five years within the EMS. In general the distribution of expenditure from these funds corresponds to the relative needs in respect of the policies concerned as between the Member States of the Community. Thus Italy is by far the biggest recipient from these funds taken as a whole (32-33%) followed by the United Kingdom (21%). Moreover Ireland, which represents only some 0.6% of Community GDP, receives some 10% of this expenditure on structures. Expenditure in all other Member States is less than their share of Community GDP, amounting to less than half in the case of Germany and the Netherlands.

iii) Other Intervention Payments

These have been growing fast in recent years but still represent only some 2% of total expenditure, covering research, energy and industry. Moreover their economic significance for individual Member States is more difficult to

(1) The expenditure figures in Tables 1-4 are based on the budget of 1979 and the preliminary draft budget for 1980. These figures will be updated as necessary through the normal budgetary procedures. One effect of the updating which should be noted in the present context is the further diminution of United Kingdom MCA's.

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evaluate. For example, the results of research benefit the Community as a whole and not just the Member State in which the expenditure takes place. Some 27% of this expenditure is forecast to be made in Italy and some 12-13% in the United Kingdom, although this proportion will increase over the next few years principally as a result of a build up of expenditure on the JET.

(iv) Reimbursements

Three categories of reimbursement representing some 5% of budgetary expenditure can be calculated precisely in respect of Member States. These are the automatic reimbursement of 10% of customs duties and agricultural levies to cover the cost of collection; the repayment to the United Kingdom of its contribution to the interest rebate scheme within the EMS; and the financial mechanism. (The Financial Mechanism will not now come into play in respect of 1979, although it will operate for the first time in 1981 in respect of 1980)[(1)]. The share of Italy in these reimbursements is relatively small (11-12%) whereas it is substantially and rapidly increasing for the United Kingdom (1979: 27%, 1980: 34%).

(v) Administrative Expenses

Despite the difficulty of satisfactorily attributing these expenses to individual Member States, the Commission has nonetheless attributed some 90% of them representing some 6% of total budgetary expenditure.

(vi) Expenditure in respect of third countries

This currently represents some 5-7% of the budget and covers essentially co-operation expenditure in respect of developing countries including food aid (without restitution). This expenditure has not however been

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(1) Following the agreement reached on 30 May by the Council, the rules governing the Financial Mechanism Regulation will be changed accordingly. It is foreseen that it will give 467 MUCE for the U.K.

divided between Member States since the principal beneficiaries are outside the Community. For example food aid, whose market value is recorded as having been spent in the Member State which furnished the product, gives no more advantage to the country concerned than a commercial export of the same product. As regards investment projects the indirect economic benefit which Member States receive would be extremely difficult to quantify.

General Considerations

21. The above présentation of expenditure from the Community budget should be seen in the light of the following comments:

(a) Delays in payments.

As regards those parts of the budget divided between commitments and payments credits, a significant gap between the use by Member States of commitments credits as opposed to those for payments is quite normal. The former represent a coverage of part of the total cost of operations which are finalised over several years, while the latter reflect the actual expenditure taking place year by year. However the gap between commitment and payment does vary between Member States. This is due to two principal reasons.

Firstly, the social and structural situation is not identical in each Member State and national policies often vary greatly. This means that certain Community instruments respond in differing degree to the true needs of each Member State and that the capacity of Member States to take up the available payments credits varies accordingly. Secondly, the institutional and administrative arrangements in some Member States can also be a factor of delay.

These factors lead for example to greater delays in the take up payments credits on the part of Italy (although this is less the case in respect of the regional fund) than on that of the United Kingdom, where the situation appears to be normal. There are also certain delays in the case of France. However given the relatively small proportion of the Community budget which is represented by the structural funds, delays in respect

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of the use of payments credits do not significantly affect the position of the Member States concerned as regards the overall application of the Community budget.

(b) Development of Commitments.

At the same time it is important in considering the levels of payments to take into account the volume of commitements which have been made or are forecast in respect of the structural funds (Tables 5 and 6). The figures make clear that the volume of commitments is considerably greater in absolute figures than the volume of payments and that the commitments are developing considerably from one year to the next. This is the result of significant increases in these credits in recent budgets.

The percentage figures also show that these funds benefit essentially those Member States within the Community which have the lowest gross national product per head. Nearly 70% of this expenditure is forecast to go to Ireland, Italy and the United Kingdom in 1979 and 1980.

22. The expenditure figures demonstrate that the division of expenditure among Member States is relatively stable as regards the majority of them. The changes from 1979 to 1980 do not exceed 10% and are therefore relatively minor. The only exception is the United Kingdom whose relative share of expenditure falls from 13.5% to 10.3%, i.e. a reduction of 25%. This change is due largely to the reduction of monetary compensatory amounts referred to in paragraph 12(1).

Community Loans

23. Full account also needs to be taken of the element represented by loans and their contribution to economic development within Member States as well as to the Community's financial operations. A table (Table 11) gives the volume of loans from Community sources to Member States for 1976-78. Loans are clearly not in the same category as transfers

from the Community budget. But given the constantly increasing loan activities of the Community and the EIB it seems likely that despite the charges incurred through them, loans will produce a growing flow of capital to the countries which benefit from them especially Italy and the UK.

The balance of payments benefits and their contribution to economic development are also significant if difficult to quantify.

IV. Analysis of Budgetary Receipts and the Nature of Own Resources

24. The Council Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Community's own resources provided that the Communities shall be allocated resources of their own in order to ensure that their budget is in balance. The own resources were to consist of customs duties and agricultural levies, supplemented by financial contributions which were to be replaced by payments based on VAT. Thus the customs duties and agricultural levies constitute resources which belong to the Community as a result of its basic characteristic as an integrated commercial area; and while the different national administrations are for reasons of administrative convenience asked to collect the resources, they cannot be said to belong in any sense to any particular Member State. The same Decision of 1970 placed limits on the variation which could take place from one year to the other in the relative shares of all Member States in financing the budget up to the end of 1977. Articles 130-132 of the Act of Accession also put limitations on the amount to be paid by Denmark, Ireland and the United Kingdom until 1979. In fact therefore it is not until 1980 that the Community's own resources will be paid in full by each Member State without modification.

25. Because the Community is a customs union and has a common agricultural policy, some duties and levies are collected at the periphery on goods which are finally consumed in another Member State. Where this happens the customs duties and agricultural levies collected by the Member States at the place of import overstate its real contribution to the Community budget, and the contribution of the Member State which consumes the goods is understated. For example a significant proportion of goods imported into Germany from outside the Community and consumed in Germany have the relevant customs duties and agricultural levies collected at Rotterdam or Antwerp. The burden of the duties falls on Germany but the transfer to the Community is shown as having been made by the Netherlands or Belgium. On the

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other hand the United Kingdom imports directly from third countries and also consumes the great majority of its imports; therefore the customs duties and agricultural levies which it transfers to the Community represent a reasonably accurate measure of trade movements which actually take place between the United Kingdom and third countries.

26. In view of the significant increase which has taken place in industrial and agricultural trade among the six original members of the Community since its creation it is worth examining whether a similar evolution can be identified in the case of the new Member States and with a consequent effect on contributions to the budget in levies and customs duties. The share of external trade of Ireland and Denmark which is directed to the Community has regularly increased and is around the level (or above in the case of Ireland) of the Community average. As regards the United Kingdom, imports from the EEC as a percentage of the United Kingdom's total imports have risen from around 34% in 1972 to 35% in 1976, and to 43% in the first three quarters of 1978. This has not however led to a consequent decline in for example the proportion of Community customs duties originating in the United Kingdom over recent years. These duties, which are substantially more important than agricultural levies as an own resource have in fact shown a steady increase since 1976. The high proportionate level of these duties has been due to the United Kingdom's rate of imports in proportion to her GNP and to her continuing volume of imports from third countries. However with progress in Community integration, a growing part of the external trade of the United Kingdom will take place with its Community partners and the result should be a relative reduction in the United Kingdom's share of financing the budget.

27. Although customs duties and agricultural levies belong automatically to the Community and there are uncertainties about their financial impact on the Member States, they have been attributed throughout this paper to the Member State in which they were collected. This is in conformity with the Decision of 1978 which provided that they should be considered as contributions by the Member States in the application of the "relative share" method of financing the Community budget which ended on 31 December 1977. Moreover the Community's financial mechanism provides that they should be included in the assessment of whether or not a Member State is bearing a disproportionate burden in the financing of the budget.

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28. In 1979 six Member States have replaced the financial contributions related to their share of Community GNP which are made in order to balance the budget by payments related to the application of a Community rate (not to exceed 1%) to a uniform VAT basis of assessment. It is expected that in 1980 all Member States will be paying to the Community on the basis of customs duties, agricultural levies and VAT.

29. The financial consequences of VAT payments are clearer than those of the levies and the duties. VAT is a tax on consumption within each Member State and the transfers to the Community are therefore a more accurate measure of the financial consequences for each Member State of this method of financing the Community budget than are customs duties and levies. But the VAT contribution does not necessarily reflect a Member State's ability to pay. This is because the share of value added (i.e. the VAT tax base) in the GNP of a Member State is influenced by the level of investment and the balance of trade, because investment and exports are not included in the tax base although imports are included. Member States with at any given time a low investment rate and/or a balance of trade deficit have a high VAT tax base in relation to their GNP shares and vice versa.

Evolution of Receipts from Member States

30. The share of each Member State in the financing of the Community budget for the years 1976 to 1980, by comparison with its GNP share, is shown in Table 10. It will be seen that the shares have changed considerably over the years because of the phasing out of the limitations in the method of financing up to the end of 1977, and of the application of Article 131 of the Treaty of Accession in 1978 and 1979[1]. Only the shares for 1980 are free of restraints and

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[1] Under this Article the United Kingdom and Ireland received payments, outside the budget and financed by the other Member States, of 451 MEUA and 18 MEUA respectively for 1978. The payments for 1979 are expected to be about 410 MEUA and 3 MEUA respectively.

can be taken as a guide for the future. However, in order to present comparable figures for more than one year table 10A has been constructed which shows what the shares would have been from 1978 to 1980 if Article 131 had not been applied and if all Member States had been contributing to the budget on the basis of VAT.

This table could be expected to show the effects on shares of Member States of increases in the size of the budget. As the budget increases the proportion financed by VAT increases, because additional expenditure is financed solely by VAT. If customs duties and agricultural levies remained relatively constant, and if exchange rates were stable, one could therefore expect that the overall shares of Member States (Belgium/Luxembourg, Italy, Netherlands, United Kingdom) whose VAT is less than their customs duties/agricultural levies share would decrease, that the overall shares of Member States in the reverse position (France) would increase, and that those whose customs duties/agricultural levies share is broadly equal to their VAT share (Denmark, Germany and Ireland) would remain in the same position.

31. Table 10A confirms this expectation, after allowing for currency movements, except in the case of the United Kingdom whose share is not forecast to fall as could have been expected. This is because the United Kingdom is the only Member State whose share of customs duties and agricultural levies has risen steadily between 1976 and 1980; this has more than offset the benefit which could otherwise have been expected from a lower VAT share.

32. All the tables in this paper have been constructed for the years 1976 to 1978 on the basis of converting payments to the budget, in national money, into European Units of Account at the average exchange rates for the years in question. For 1979 the rates used are those of 1 February 1978 (used for the 1979 budget) and for 1980 they are those of 1 February 1979 (used for the 1980 budget).

33. It is important to note that the figures for 1979 and 1980 will be different if there are significant changes in the relative values of national money. For example, the rise in the value of the pound sterling increases the share of the United Kingdom in financing the budget but increases also its share in Community GNP. Over a period of years these increases will be broadly self-compensating

and will not significantly affect the gap between GNP share and budget share. But in 1979 (and to some extent in 1980) the increase in budget share will be less than the increase in GNP share and the gap will become narrower. This is because of the method of paying the VAT element which is fixed in EUA in the year in question and corrected in national money in the following year. Table 10B shows, as an illustration, the effect on the forecast shares if the average exchange rates for August 1979 were to be the average rates for the whole year.

V. Balance of Budgetary Receipts and Expenditure

34. The tables below summarize percentage budgetary receipts as shown in Table 10 and expenditure in Member States in respect of categories I-V for the years 1979 and 1980. As regards 1979 the receipts take account of extra-budgetary payments under Article 131. It should be noted that the net balances which have been caluclated are forecasts based on a method which means that they cannot be compared with figures which the Commission has earlier produced for previous years on the basis of actual monetary transfers. The tables should therefore be seen as showing a trend for 1979-80, rather than as indicating absolute balances.

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Table : Total appropriations for payments, and financing by each Member State in 1979

Sector	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	Total
	1	2	3	4	5	6	7	8	9	10	11	12
A. As a percentage												
1. Expenditure broken down into Categories I-V (1)												
(a) (2)	9,3	4,2	21,8	17,5	3,6	17,9	2,0	10,2	13,5	100		
(b) (3)	9,5	6,0	22,8	19,3	5,2	15,18	2,1	11,3	8,0	100		
2. Financing, including Article 131 (see Table 10)	6,68	2,51	30,63	20,00	0,75	12,11	0,14	9,60	17,58	100		
3. Balance (1)-(2)												
(a)	+ 2,6	+1,7	-8,8	-2,5	+2,8	+5,8	+1,9	+0,6	-4,1	0		
(b)	+ 2,8	+3,5	-7,8	-0,7	+4,4	+3,7	+2,0	+1,7	-9,6	0		
B. In m EUA												
1. Expenditure broken down into Categories I-V												
(a)	1.209	551	2.837	2.235	463	2.333	269	1.323	1.764	13.034		
(b)	1.239	782	2.974	2.517	676	2.060	269	1.480	1.037	13.034		
2. Financing, including Article 131	871	327	3.992	2.607	98	1.579	18	1.251	2.291	13.034		
3. Balance (1)-(2)												
(a)	+338	+224	-1155	-322	+365	+754	+251	+72	-527	0		
(b)	+362	+455	-1018	- 90	+578	+481	+251	+229	-1254	0		
C. Not included in calculations												
Chiefly expenditure not broken down (4) (Category VI)											683	
D. Grand total (for reference)												13.717

(1) I - EAGGF Guarantee Section; II - Improvement of agricultural structures; III - Other intervention appropriations, broken down; IV - Refunds; V - Operating expenditure, part broken down.

(2) Expenditure under the EAGGF Guarantee Section - part of monetary compensatory amounts (MCAs) but not pursuant to Article 2a of Regulation 974/71.

(3) Taking into account Article 2a of Regulation 974/71 whereby exporting Member States pay certain MCAs granted by the UK or Italy on their imports. Estimate based on the following assumptions:
- trade in agricultural products between the UK and Italy, and therefore the proportion of trade involving intra-MCAs, will be negligible;
- in 1979 and 1980 the proportion of UK and Italian intra-MCAs going to the various exporting countries will be the same as in 1978.

(4) Expenditure not broken down (Category VI) and a very small proportion of operating expenditure.

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Table : Total appropriations for payments, and financing by each Member State in 1980

Sector	B	DK	D	F	IRL	I	L	NL	UK	Sub-total	Other	Total
	1	2	3	4	5	6	7	8	9	10	11	12
A. As a percentage												
1. Expenditure broken down into Categories I-V (1)												
(a) (2)	9,6	4,3	22,8	19,2	3,8	17,3	2,0	10,7	10,3	100		
(b) (3)	9,7	4,9	23,2	19,9	4,3	16,3	2,1	11,1	8,5	100		
2. Financing, including Article 131 (see Table 10)	6,07	2,42	30,12	19,99	0,90	11,52	0,13	8,36	20,49	100		
3. Balance (1)-(2)												
(a)	+3,5	+1,9	-7,3	-0,8	+2,9	+5,8	+1,9	+2,3	-10,2	0		
(b)	+3,6	+2,5	-6,9	-0,1	+3,4	+4,8	+2,0	+2,7	-12,0	0		
B. In m EUA												
1. Expenditure broken down into Categories I-V												
(a)	1.460	651	3.471	2.917	573	2.621	312	1.629	1.561	15.195		
(b)	1.472	738	3.530	3.018	650	2.484	312	1.692	1.299	15.195		
2. Financing, including Article 131	922	368	4.578	3.037	137	1.750	20	1.270	3.113	15.195		
3. Balance (1)-(												
(a)	+538	+283	-1107	-120	+436	+871	+292	+359	-1552	0		
(b)	+550	+370	-1048	- 19	+513	+734	+292	+422	-1814	0		
C. Not included in calculations												
Chiefly expenditure not broken down (4) (Category VI)											1.118	
D. Grand total (for reference)												16.313

(1) I - EAGGF Guarantee Section; II - Improvement of agricultural structures; III - Other intervention appropriations, broken down; IV - Refunds; V - Operating expenditure, part broken down.

(2) Expenditure under the EAGGF Guarantee Section - part of monetary compensatory amounts (MCAs) but not pursuant to Article 2a of Regulation 974/71.

(3) Taking into account Article 2a of Regulation 974/71 whereby exporting Member States pay certain MCAs granted by the UK or Italy on their imports. Estimate based on the following assumptions:
- trade in agricultural products between the UK and Italy, and therefore the proportion of trade involving intra-MCAs, will be negligible;
- in 1979 and 1980 the proportion of UK and Italian intra-MCAs going to the various exporting countries will be the same as in 1978.

(4) Expenditure not broken down (Category VI) and a very small proportion of operating expenditure.

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VI. The Economic, Financial and Social Aspects of Member States' Participation in the Community

35. The progressive creation of the Common Market has had very beneficial effects on each of its constituent economies. In the six original Member States it has assisted a general improvement in the standard of living; steady growth, resulting at least in part from the development of intra- Community trade (from 5% of Community GDP in 1958 to about 12% in 1978); greater specialisation through a better distribution of productive resources; and economies of scale which have led to great increases in productivity and a wider choice for consumers. Moreover the existence of the Common Market has brought about a fundamental change in the way of life of those Member States whose activities were in 1958 still largely devoted to agriculture.

36. The accession to the Community of Denmark, Ireland and the United Kingdom coincided with the crisis of 1973. It is therefore difficult to draw clear lessons from the ensuing brief and troubled period. It is however certain that those three Member States broadly benefited from their membership of the Common Market.

37. . The Community has thus been largely responsible for the exceptional economic advance which the countries of Europe have seen. But dispite this progress regional problems continue to exist. Greater efforts including financial solidarity, will be necessary to bring about further progress in this domain. Such efforts would be to the benefit of the entire Community.

38. Action has been taken over many years at the national level with the aim of correcting regional imbalances. Moreover a Community regional policy has been initiated and is being progressively developed. In addition to the regional development fund there are other budgetary and financial instruments, such as the operations of the ECSC and the EIB, which are designed to tackle the problems of underdeveloped or declining regions. However despite a rapid growth in recent years the Community's own funds such as the regional and social funds, and the FEOGA Guidance Section still have financial resources which are too limited

39. The introduction of Community policies may not always have a beneficial impact on the structurally weaker parts of the Community. The need to take into account the regional consequences of the application of Community policies was emphasised as recently as the beginning of 1979, in a Resolution of the Council of 6 February[(1)] in which the Council noted the intention of the Commission to take more systematic account of regional implications, and in particular the consequences for employment in the initiation and in the conduct of policies. The Council further expressed its intention to take account itself of these implications when it took decisions in respect of Community policies.

40. The need to pay greater attention to the regional consequences of certain Community policies was emphasised by certain Member States during the discussions on convergence which preceded the meeting of the European Council at Strasbourg. Reference was also made to the effects of the common agricultural policy, and to the Community's budgetary policy.

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(1) [illegible]

41. Despite the importance of agricultural expenditure as shown by the earlier analysis it must be emphasised that the benefits and costs resulting from the operation of the market mechanisms of the agricultural policy cannot be measured simply by a budgetary assessment of the distribution of expenditure from the Guarantee Section. The distribution of this expenditure between Member States is determined by a complex series of factors. These include the size of the agricultural production and the degree of self-sufficiency of different Member States; the pattern of trade within the Community; the location from which agricultural exports to third countries take place; and different types of production in different Member States as well as their market organisations. The incidence of budgetary expenditure is therefore no valuable indicator of the economic consequences of the policy. It should also be borne in mind that the Common Agricultural Policy has different economic and employment effects within Member States of the Community depending on differences in structures and the volume of production, and the rate of consumption.

42. As regards common policies in respect of agricultural structures the responsibility is shared with Member States. These policies take account of the particular nature of agricultural activity and increasingly of the particular needs and characteristics in the agricultural domain of particular regions. The Community has recently taken a series of decisions on structural measures which will particularly help the Mediterranean regions. It is intended that a total of about 200 MEUA per year of additional resources should be committed from the guidance section of the FEOGA over the next five years in respect of these regions. Thus whereas from 1973-77 about 15% of the FEOGA guidance section was devoted to the poorest regions of the Mezzogiorno, western Ireland and southern France, in 1979-82 these regions should account for about 42% of the guidance section.

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At the same time it should be borne in mind that expenditure from the guidance section on structures represents only some 5% of the expenditure from the guarantee section. Moreover the results of these structural measures can be seen only in the medium and long term. Their effectiveness is closely linked with the degree of growth in the regions concerned which, assisted by other Community policies such as social and regional policies, can create new employment.

43. As regards income within the agricultural sector, the agriculture policy has had positive effects. Nonetheless disparities of income within the agricultural sector remain considerable. These are in part due to disparities between receipts from different types of production and differences in structure. At present three-quarters of the farm holdings within the Community represent only a quarter of Community agricultural production. On the other hand, the Mediterranean regions of the Community have levels of income well below those in other parts of the Community and while they cover only some 17% of agricultural land they support some 30% of those in the Community employed in agriculture. The system of price support has not in itself reduced these disparities but first steps have already been taken in the shape of structural measures.

44. The economic and financial effects of operations of the budget within individual Member States of the Community need to be assessed with great prudence. Figures relating to the geographical distribution of budgetary operations, both in respect of receipts and of payments, can produce a distorted picture of economic realities.

It should be borne in mind that while the Community budget comprises in itself a considerable volume of financial resources, it constitutes only a small proportion of the gross product of the Community. This proportion represents 0.8% in 1979 whereas public expenditures approach 50% of the national product of Member States. It would however be wrong to conclude that the financial operations of the Community have no significant impact on Member States. For example, as regards Ireland, net budgetary transfers represented some 3.5% of GNP in 1978. The impact is thus particularly noteworthy for certain of the smaller economies and indeed for all Member States in certain sectors of intervention.

ANNEX I

Table 1: Breakdown of expenditure by Member State in 1979 – Total appropriations for payments – in %

SECTOR	B	DK	D	F	IRL	I	L	NL	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	6,5	5,6	27	23	3,5	16	0,25	13	5,2	100	-	100
2. MCAs												
3. Total (1) + (2)	6,0	5,1	24,6	19,6	3,0	17,2	0,23	12,2	12,3	100	-	100
II. Improvement of structures												
1. Social Fund	3	3	15	16	8	25	-	3	25	100	-	100
2. EAGGF Guidance (including Chapter 86)	1,7	4,0	27,2	20,1	6,3	17,1	0,3	3,9	19,4	100		100
3. ERDF	1,4	1,2	6,0	16,9	7,0	36,9	0,09	1,6	27,0	100	-	100
4. EMS Interest rate subsidies					33,3	66,7				100		100
5. Total (1) to (4)	1,8	2,4	14,3	16,0	10,4	31,5	0,1	2,4	21,1	100		100
III. Other intervention credits broken down												
1. Research and investment	13,6	1,3	21,6	10,5	0,4	31,5	0,2	9,9	11,0	100	-	100
2. Energy	1,1	0,9	23,7	33,8	1,7	9,3	-	10,3	19,2	100	-	100
3. Industry	8	0,2	18	23	0,3	27,5	-	11	12	100	-	100
4. Total (1) to (3)	11,6	1,5	21,8	14,8	0,7	27,3	0,2	9,8	12,7	100		100
IV. Reimbursements	6	2	28	13	0,9	12	0,05	11	27	100		100
V. Administration – part broken down	64,2	0,1	1,7	0,9	0,4	1,0	30,3	0,6	0,4	99,6	0,4	100
VI. Not broken down											100	100
VII. GRAND TOTAL	6,8	4,0	20,6	15,7	3,4	17,0	2,0	9,6	12,9	95,0	5,0	100

Table 2: Breakdown of expenditure by Member State in 1980 - Total appropriations for payments - in %

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	6,6	5,5	27,4	23,0	3,5	15,5	0,25	12,8	5,5	100	-	100
2. MCAs												
3. Total (1) + (2)	6,5	5,3	26,3	21,7	3,4	16,1	0,24	12,9	7,6	100	-	100
II. Improvement of structures												
1. Social Fund	3	3	15	18	8	25	-	3	25	100	-	100
2. EAGGF Guidance (including Chapter 86)	2,2	2,3	20,0	22,3	7,2	27,1	0,3	3,5	15,1	100	-	100
3. ERDF	1,4	1,2	6,0	16,9	7,0	36,9	0,09	1,6	27,0	100	-	100
4. EMS interest rate subsidies					33,3	66,7				100	-	100
5. Total (1) to (4)	1,9	1,9	11,6	16,4	10,5	34,5	0,1	2,2	20,7	100	-	100
III. Other intervention credits broken down												
1. Research and investment	13,9	1,4	21,1	10,5	0,5	32,7	0,3	9,8	9,8	100	-	100
2. Energy	1,1	0,9	23,7	33,8	1,7	9,3	-	10,3	19,2	100	-	100
3. Industry	8	0,2	18	23	0,3	27,5	-	11	12	100	-	100
4. Total (1) to (3)	10,6	1,1	21,5	16,8	0,9	26,8	0,2	9,9	12,2	100	-	100
IV. Reimbursements	7	2	23	12,5	0,8	11	0,05	9,5	34 (1)	100	-	100
V. Administration - part broken down	63,9	0,1	1,7	1,0	0,4	1,0	30,3	0,6	0,5	99,5	0,5	100
VI. Not broken down											100	100
VII. GRAND TOTAL	6,9	4,0	21,3	17,9	3,5	16,1	1,9	10,0	9,6	93,2	6,8	100

(1) These percentages are based on the preliminary draft budget for 1980. The reimbursement percentage for the United Kingdom should allow for a reduction of 68 m EUA since it is now clear that the Financial Mechanism will not operate in 1980 in respect of 1979.

Table 3: Breakdown of expenditure by Member State in 1979 - Total appropriations for payments - in m EUA

SECTOR	B	DK	D	F	IRL	I	L	NL	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	570	491	2.365	2.018	307	1.404	22	1.140	456	8.773	-	8.773
2. MCAs	+ 5	-	- 28	- 139	- 26	+ 244	-	+ 30	+ 723	809	-	809
3. Total (1) + (2)	575	491	2.337	1.879	281	1.648	22	1.170	1.179	9.582		9.582
II. Improvement of structures												
1. Social Fund	16	16	79	85	42	132	-	16	132	528	-	528
2. EAGGF Guidance (including Chapter 86)	7,2	17,0	117,5	86,7	27,2	73,5	1,3	56,9	63,7	431	-	431
3. ERDF	6,7	5,8	38,6	81,4	35,8	170,0	0,44	7,9	130,6	483	-	483
4. EMS interest rate subsidies					66,7	133,3				200	-	200
5. Total (1) to (4)	30	39	235	263	170	517	1,8	80	346	1.642	-	1.642
III. Other intervention credits broken down												
1. Research and investment	30	3	46,5	23	1	65	0,5	21	24	217	-	217
2. Energy	0,5	0,5	12	16	1	5	-	5	10	50	-	50
3. Industry	0,3	0	0,7	0,9	0	1,1	-	0,5	0,5	4	-	4
4. Total (1) to (3)	31	3,5	59	40	2	74	0,5	26,5	34,5	271		271
IV. Reimbursements	56	16,9	192	96	6,5	66	0,4	82	202	737		737
V. Administration - part broken down	517	1	14	7	3	8	244	5	3	802	4	806
VI. Not broken down											679	679
VII. GRAND TOTAL	1.209	551	2.837	2.285	463	2.333	269	1.323	1.764	13.034	683	13.717

Table 6: Breakdown of expenditure by Member State in 1980 - Total appropriations for payments - in m EUA

SECTOR	B	DK	D	F	IRL	I	L	NL	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	717	597	2.975	2.495	380	1.683	27	1.390	597	10.861	-	10.861
2. MCAs	+ 12	-	- 16	- 47	-	+ 131	-	+ 68	+ 260	403	-	403
3. Total (1) + (2)	729	597	2.959	2.448	380	1.814	27	1.458	857	11.269	-	11.269
II. Improvement of structures												
1. Social Fund	16,5	16,5	82,5	99	44	137,5	-	16,5	137,5	550	-	550
2. EAGGF Guidance (including Chapter 86)	7,5	8,1	69,7	77,5	25,0	94,2	1,2	12,1	52,7	348	-	348
3. ERDF	8,3	7,2	48	101	42	221	0,5	9,5	162	600	-	600
4. EMS interest rate subsidies					66,7	133,3				200		200
5. Total (1) to (4)	32	32	200	278	178	586	1,7	38	352	1.698		1.698
III. Other intervention credits broken down												
1. Research and investment	43	4	65	32	1,5	100	1	30	30	307	-	307
2. Energy	1	1	24	34	2	9,5	-	10,5	20	102	-	102
3. Industry	3,5	0,1	7,7	9,9	0,1	11,8	-	6,7	5,2	43	-	43
4. Total (1) to (3)	48	5	97	76	4	121	1	45	55	452		452
IV. Reimbursements	58	16	199	106	7	90,5	0,4	82	292 (1)	851		851
V. Administration - part broken down	593	1	16	9	4	9	282	6	5	925	5	930
VI. Not broken down											1.113	1.113
VII. GRAND TOTAL	1.460	651	3.471	2.917	573	2.621	312	1.629	1.561	15.195	1.118	16.313

(1) These figures are based on the preliminary draft budget for 1980. In respect of the reimbursement figure for the United Kingdom, 63 m EUA should be subtracted since it is now clear that the Financial Mechanism will not operate in 1980 in respect of 1979.

TABLE 5: Total appropriations for commitments out of the aggregate for "Structural improvements" by Member State for 1979

SECTOR	B	DK	D	F	IRL	I	L	NL	UK	Sub-total	Other	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. In m EUA												
1. Social Fund	15	15	77	123	61,5	269	-	15,5	192	768	-	768
2. EAGGF-Guidance Section (incl. Chapter 86)	15,5	16,4	121,2	123,7	29,6	179,3	0,8	21,7	58,8	569	-	569
3. ERDF	12,5	10,8	54,0	151,7	53,1	354,5	0,81	14,2	243,3	900	-	900
4. EMS interest subsidies					66,7	133,3				200		200
5. Total	43,0	44,2	252,2	398,4	215,9	936,1	1,6	51,4	494,1	2.437		2.437
II. £												
1. Social Fund	2	2	10	16	8	35	-	2	25	100	-	100
2. EAGGF-Guidance Section (incl. Chapter 86)	2,7	3,2	21,3	21,7	5,2	31,5	0,2	3,8	10,4	100	-	100
3. ERDF	1,4	1,2	6,0	16,86	6,46	39,39	0,09	1,58	27,03	100	-	100
4. EMS interest subsidies					33,3	66,7				100		100
5. Total	1,8	1,8	10,3	16,3	8,9	38,4	0,1	2,1	20,3	100	-	100

TABLE 6: Total appropriations for commitments out of the aggregate for "Structural improvements" by Member State for 1980

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. In m EUA												
1. Social Fund	20	20	100	160	80	350	-	20	250	1.000	-	1.000
2. EAGGF-Guidance Section (incl. Chapter 86)	10	11	89	120	39	149	1,5	15,5	72	507	-	507
3. ERDF	15,9	13,7	68,4	192,2	73,6	449,1	1,0	18,0	308,1	1.140	-	1.140
4. EMS interest subsidies					66,7	133,3				200		200
5. Total	46	45	256	472	259	1.081	2,5	53,5	630	2.847	-	2.847
II. %												
1. Social Fund	2	2	10	16	8	35	-	2	25	100	-	100
2. EAGGF-Guidance Section (incl. Chapter 86)	2,1	2,3	17,6	23,6	7,6	29,3	0,3	3,1	14,1	100	-	100
3. ERDF	1,39	1,20	6,00	16,86	6,46	39,39	0,09	1,58	27,03	100	-	100
4. EMS interest subsidies					33,3	66,7				100		100
5. Total	1,6	1,6	9,0	16,6	9,1	38,0	0,09	1,9	22,1	100	-	100

TABLE 7: TRENDS IN CUSTOMS DUTIES

	BLEU	DK	D	F	IRL	I	NL	UK	Total
1976									
m EUA	284,2	140,5	1288,1	654,8	40,6	407,5	395,6	980,2	4191,5
%	6,8	3,4	30,7	15,6	1,0	9,7	9,4	23,4	100,0
% GNP	4,98	2,88	31,49	24,77	0,58	13,26	6,37	15,67	100,0
1977									
m EUA	307,5	134,0	1378,8	669,6	42,4	426,1	441,5	1059,0	4458,9
%	6,9	3,0	30,9	15,0	1,0	9,6	9,9	23,7	100,0
% GNP	5,11	2,84	32,14	23,88	0,59	13,43	6,68	15,33	100,0
1978									
m EUA	299,2	107,9	1376,0	649,5	46,7	400,8	444,3	1066,5	4390,9
%	6,8	2,5	31,3	14,8	1,1	9,1	10,1	24,3	100,0
% GNP	5,10	2,82	32,22	23,88	0,62	13,16	6,62	15,58	100,0
1979									
m EUA	322,6	118,9	1445,8	718,1	50,0	451,3	448,7	1190,1	4745,5
%	6,8	2,5	30,5	15,1	1,0	9,5	9,5	25,1	100,0
% GNP	4,87	2,81	30,70	23,69	0,67	14,25	6,31	16,70	100,0
1980									
m EUA	341,5	125,0	1535,0	775,0	60,0	450,0	477,0	1370,0	5133,5
%	6,7	2,4	29,9	15,1	1,1	8,8	9,3	26,7	100,0
% GNP	4,87	2,84	30,92	24,36	0,67	13,94	6,36	16,04	100,00

TABLE 8: TRENDS IN AGRICULTURAL LEVIES
(including sugar levies)

	BLEU	DK	D	F	IRL	I	NL	UK	Total
1976									
m EUA	149,8	18,2	254,8	116,7	8,2	220,3	322,5	82,8	1.173,3
%	12,8	1,6	21,7	9,9	0,7	18,8	27,5	7,0	100,0
% GNP	4,98	2,88	31,49	24,77	0,58	13,26	6,37	15,67	100,0
1977									
m EUA	265,3	31,9	447,7	178,8	16,3	480,7	449,8	267,2	2.137,7
%	12,4	1,5	20,9	8,4	0,8	22,5	21,0	12,5	100,0
% GNP	5,11	2,84	32,14	23,88	0,59	13,43	6,68	15,33	100,0
1978									
m EUA	204,4	29,1	434,0	259,7	8,7	553,8	428,5	361,0	2.279,2
%	9,0	1,3	19,0	11,4	0,4	24,3	18,8	15,8	100,0
% GNP	5,10	2,82	32,22	23,88	0,62	13,16	6,62	15,58	100,0
1979									
m EUA	239,0	46,5	468,3	239,1	14,7	409,9	371,3	377,0	2.165,8
%	11,0	2,2	21,6	11,1	0,7	18,9	17,1	17,4	100,0
% GNP	4,87	2,81	30,70	23,69	0,67	14,25	6,31	16,70	100,0
1980									
m EUA	242,4	35,3	453,1	288,6	9,9	454,8	341,1	416,9	2.242,1
%	10,8	1,6	20,2	12,9	0,4	20,3	15,2	18,6	100,0
% GNP	4,87	2,84	30,92	24,36	0,67	13,94	6,36	16,04	100,0

Table 9: V A T Estimates

		B	DK	D	F	IR	I	L	N	UK	TOTAL
1978	Payment (MEUA)	275,6	147,6	1.735,9	1.330,8	40,5	566,0	11,7	340,6	881,0	5.329,7
	%	5,17	2,77	32,57	24,97	0,76	10,62	0,22	6,39	16,53	100,00
	% GNP	4,86	2,82	32,22	23,88	0,62	13,16	0,24	6,62	15,58	100,00
1979	Payment (MEUA)	306,9	172,5	2.165,9	1.600,6	51,4	697,5	14,0	422,2	1.211,4	6.642,4
	%	4,62	2,60	32,61	24,10	0,77	10,50	0,21	6,35	18,24	100,00
	% GNP	4,64	2,81	30,70	23,69	0,67	14,25	0,23	6,31	16,70	100,00
1980	Payment (MEUA)	398,1	230,1	2.875,4	2.163,2	75,2	955,5	17,7	530,9	1.521,8	8.767,9
	%	4,54	2,62	32,80	24,67	0,86	10,90	0,20	6,05	17,36	100,00
	% GNP	4,64	2,84	30,92	24,36	0,67	13,94	0,23	6,36	16,04	100,00

Note : These are all macro-economic estimates modified by information obtained from the individual Member States. The rates of exchange used are those of the Budget for the year in question i.e. 1978 Budget 1.2.77 : 1979 Budget 1.2.78. 1980 Budget 1.2.79

Table 10

Share of the Member States in financing the Budget and in the Community's GNP

	B	DK	D	F	IRL	I	L	NL	UK	Total
1976										
% of the Budget	7,40	2,26	35,13	22,01	0,34	11,34	0,18	10.60	10,74	100,00
% of GNP	4,77	2,88	31,49	24,77	0,58	13,26	0,21	6,37	15,67	100,00
1977										
% of the Budget	7,69	2,57	35,60	20,01	0,39	10,33	0,18	11,02	12,22	100,00
% of GNP	4,90	2,84	32,14	23,88	0,59	13,43	0,21	6,68	15,33	100,00
1978 (2)										
% of the Budget	6,46	2,29	31,14	19,29	0,58	14,45	0,12	10,31	15,36	100,00
% of GNP	4,86	2,82	32,22	23,88	0,62	13,16	0,24	6,62	15,58	100,00
1979 (1)(2)										
% of the Budget	6,68	2,51	30,63	20,00	0,75	12,11	0,14	9,60	17,58	100,00
% of GNP	4,64	2,81	30,70	23,69	0,67	14,25	0,23	6,31	16,70	100,00
1980 (1)										
% of the Budget	6,07	2,42	30,12	19,99	0,90	11,52	0,13	8,36	20,49	100,00
% of GNP	4,64	2,84	30,92	24,36	0,67	13,94	0,23	6,36	16,04	100,00

(1) The rates of exchange used are those of the budgetary estimates in the previous year, i.e. 1979 Budget 1.2.1978; 1980 Budget 1.2.1979.

(2) With Article 131.

TABLE 10A

Shares of the Member States in the financing of the Budget and in the Community's GNP

Assuming that Article 131 did not apply and that all Member States paid VAT.

	1978		1979 (1)		1980 (1)	
	% of the Budget	% of the GNP	% of the Budget	% of the GNP	% of the Budget	% of the GNP
Belgium	6,48	4,86	6,40	4,64	6,07	4,64
Denmark	2,37	2,82	2,49	2,81	2,42	2,84
Germany	29,55	32,22	30,10	30,70	30,12	30,92
France	18,66	23,88	18,87	23,69	19,99	24,36
Ireland	0,80	0,62	0,86	0,67	0,90	0,67
Italy	12,67	13,16	11,50	14,25	11,52	13,94
Luxembourg	0,13	0,24	0,13	0,23	0,13	0,23
Netherlands	10,11	6,62	9,16	6,31	8,36	6,36
United Kingdom	19,23	15,58	20,49	16,70	20,49	16,04
	100,00	100,00	100,00	100,00	100,00	100,00

(1) Rate used for budget estimating, i.e. that of 1 February 1978 for 1979 and that of 1 February 1979 for 1980.

TABLE 10 B

Shares of Member States in financing the Budget and in Community GNP

For 1979 assuming that the average exchange rates for August 1979 will be equal to the average rates for the whole year.

	1979		
	% of the present Budget	% of the Budget No Art. 131; all MS paying VAT	% GNP
BELGIUM	6,74	6,47	4,76
DENMARK	2,39	2,37	2,56
GERMANY	31,40	30,87	32,77
FRANCE	19,51	18,38	22,39
IRELAND	0,73	0,84	0,66
ITALY	11,20	10,59	12,36
LUXEMBOURG	0,14	0,13	0,24
NETHERLANDS	9,64	9,20	6,41
UNITED-KINGDOM	18,25	21,15	17,85
	100,00	100,00	100,00

Note In this table the first and third columns should be compared with the 1979 columns in Table 10. The second and third columns should be compared with the 1979 columns in Table 10 A.

27.7.79

Table 11

LOANS GRANTED BY THE COMMUNITY'S FINANCIAL INSTRUMENTS

Breakdown by country, 1976-78 (gross sums in million EUA)

		TOTAL	D	F	I	NL	B	L	UK	DK	IRL
EIB	1976	1 086,6	110,8	60,1	382,6	30,4	17,9		417,6	9,1	57,4
	1977	1 352,5	28,4	296,5	425,7	-,-	-,-	-,-	489,5	32,7	79,7
	1978	1 966,6	45,5	359,3	845,1	-,-	62,2		430,7	106,3	117,5
ECSC	1976	1 063,8	186,9	133,2	147,7	38,6	37,4		519,3	-,-	0,7
	1977	741,5	115,5	174,5	173,6	0,5	15,8	0,6	260,3	0,5	0,2
	1978	798,-	140,-	127,-	127,-	43,-	75,-		273,-	13,-	-,-
EURATOM	1976	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-
	1977	96,1	74,9	21,2	-,-	-,-	-,-	-,-	-,-	-,-	-,-
	1978	70,3	34,4	-,-	35,9	-,-	-,-	-,-	-,-	-,-	-,-
Community loans	1976	1 152,-	-,-	-,-	886,-	-,-	-,-	-,-	-,-	-,-	266,-
	1977	442,-	-,-	-,-	442,-	-,-	-,-	-,-	-,-	-,-	-,-
	1978	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-
Total	1976	3 301,8	297,7	193,3	1 416,3	69,-	55,3		936,9	9,1	324,1
	1977	2 632,1	218,8	492,2	1 041,3	0,5	15,8	0,6	749,8	33,2	79,9
	1978	2 834,9	219,9	486,3	1 008,-	43,-	137,2		703,7	119,3	117,5

(11)

The Community of Twelve in an Uncertain World

William Wallace

'All the great problems facing a united Europe today - whether we think of monetary stability, energy supplies or the new international division of labour - are world problems, which frequently require negotiations and agreements at world level or with particular economic units outside the Community: the US, Japan, Eastern Asia, the oil producers and the non-oil-producing developing countries. It is desirable that the Community and the Nine should, in these various relationships, act as a united body.'

Report on European Institutions (the 'Three Wise Men') 1979, p.106.

In the 1960s much discussion of the development of European integration assumed, in effect, that the Community was impervious to the influences of the international environment. Even as the worsening of the American deficit and the deepening American involvement in Vietnam increased the instability of an already turbulent international economy, the Europeans reaffirmed their faith in Europe as an island of stability, and launched the Werner Plan. Looking back, we can agree that 'the extremely favourable conditions for the creation of the customs union in the 1960s created an erroneous impression about the role of unconstrained choice of objectives and of political will exercised in pursuit of them by the Community'.(1) The American suspension of dollar convertibility in August 1971 shook this optimistic faith; the oil crisis of 1973-4, and its effects on the international monetary system and on commodity markets and prices, destroyed it altogether. The international environment, it is now clear, is a central factor in the Community's internal development. External policy must, therefore, be among the Community's central concerns.

In 1980 we find ourselves in an international situation more difficult and more threatening than 1973-4. Many of the problems of the 1973-4 crisis have recurred. Oil prices have again been raised sharply. The strains on the existing monetary system have thus been increased, as funds flow to the oil-exporting countries and as the indebtedness of the oil-importing less-developed countries worsens. Increased energy costs in their turn reinforce inflationary pressures within the industrialised countries, leading to governmental restriction in domestic demand, so lowering economic growth; all of which has more severe political and economic consequences now than six years ago because it comes on top of an already established international recession, and on top of the strains of adjusting to rapid changes in industrial production and in the international division of labour. We may therefore anticipate further increases in unemployment throughout Western Europe and the industrialised world, unsettling domestic politics and strengthening pressures for competitive subsidies and for tariff protection.

As in 1973-4, the political and economic aspects of the crisis have divided the industrialised countries, above all the United States and the European Community. Many of the themes raised on both sides of the Atlantic during the last six months are direct echoes of the arguments of six years ago : European acceptance of American leadership, the tension between global security (variously defined) and European security, burden-sharing both in the military and in the economic field, and priorities in relations with the Middle Eastern states. There is however one crucial new element : the apparent shift in the global balance of power, symbolised by the invasion of Afghanistan and by European and American reactions to that invasion. Almost as worrying for Western Europe has been the confused nature of the American response, which (it will be argued below) reflects longer-term trends in American society, and deeper sources of domestic unease, than can be attributed simply to a particular Administration and Congress.

The Community's capacity to manage this series of international difficulties - with implications not only for Atlantic and East-West relations, but also for relations with the Third World, demanding a response which is partly economic, partly political, and partly military - is limited. Europe, to use François Duchêne's classic phrase, is a 'civilian power'. But even at that, it is a civilian power with a very limited range of instruments at its disposal, which operates through parallel mechanisms which are imperfectly co-ordinated both internally and with each other. The Community has achieved a common commercial policy - a highly effective instrument within its limited sphere - a common policy on aid and development, and a network of economic and association agreements, which give it a degree of influence over the majority of states in the international system. But its authority does not extend to agreements on economic and technical co-operation, to controls on the transfer of technology or of sensitive industrial plant (such as nuclear power plant or petrochemical complexes), or to the co-ordination of export finance and credits. Nor has it yet developed the internal policies - an industrial adjustment, for example - needed to back up its external economic diplomacy. Indeed, there are many major obstacles to the formulation of such internal policies, some ideological, some reflecting the real differences between the interests and needs of the member states. As the Maldague Report argues, there isn't a common European problem of industrial development and adjustment round which to build common internal and external policies. The strength and dynamism of the German economy create interests which appear qualitatively different to those which the British and Italian governments are condemned to pursue.(2)

Political Co-operation, alongside the Community's machinery for external relations and formally separate from it, has operated remarkably well in the first half of 1980, given the determination of the member governments to concert their diplomacy over Afghanistan, over relations with the Soviet Union and the United States, and over the faltering peace process for the Arab-Israeli conflict. But initial reactions to the invasion of Afghanistan, it should be remembered, were diverse and confused; it took the Nine several weeks to restore a common position. Furthermore, the record of member governments in following through decisions agreed has so far been mixed, and the pursuit of independent policies alongside Political Co-operation has added to the impression of incoherence. A larger problem is that neither the European Community nor the Nine are formally empowered to deal with issues of defence and security, though a co-ordinated policy towards both the United States and the Soviet Union must evidently include this dimension.

Nevertheless, in spite of these difficulties, the Nine have become a significant factor in the international economy and in international diplomacy. In 1978 the European Community was responsible for 38.5% of world exports, and 37.5% of world imports; a Community of Twelve would have accounted for 41% and 39%. The influence of the Community in the Multilateral Trade Negotiations was very considerable. It has played a central role in successive Multi-Fibre Arrangements, and in negotiating international schemes for such 'crisis sectors' as steel and shipbuilding. The Nine played a decisive part in the Conference on Security and Co-operation in Europe (CSCE) at Helsinki and Geneva, and will do so again at the review conference in Madrid. Their influence and standing are recognised in the United Nations and in other international organisations - perhaps recognised more clearly, indeed, by third countries than by the Europeans themselves. The coincidence of economic recession, energy shortage, monetary instability, American uncertainty, and Russian aggressiveness places very heavy demands on the frail machinery of European diplomacy; but it also serves to concentrate the minds of member governments on the need for co-operation. 'Une certaine hostilité extérieure peut d'ailleurs être le meilleur allié dans la définition de nouvelles politiques communes.' (3)

In what follows, I will first review the problems posed by the Community's relations with other major powers and groups; then consider what difference enlargement from nine to twelve may make to the severity (or the resolution) of these problems; and finally suggest some issues for discussion about the future development of the Community's external policies. I will not attempt to remain within the limits set by the proposed title of this paper, of 'Europe's relations with the leading economic powers', because it is central to my argument that international economic relations have become increasingly political, and increasingly intertwined with political and security relations. Even Japan, the international system's other example of a civilian power, its relations with Western Europe until recently almost exclusively economic, now wants a political relationship with Western Europe; the appearance of the Japanese Foreign Minister at a recent ministerial meeting of the Nine received little notice in the European press, but was seen as a significant new development in Tokyo. In an uncertain world of recession and inflation, of deteriorating relations between the superpowers and continuing instability in the developing world, Europe's relations with the major powers and groupings must be seen in the round - not limited by the artificial boundaries which the uneven development of European co-operation has created.

Whatever happened to the Atlantic Community?

The relationship with the United States has been the most important factor in the Community's external relations ever since the Coal and Steel Community was established, with American support and encouragement. Transatlantic relations have never been easy. There have been recurrent crises, threats of 'agonising reappraisal', demands for definition and redefinition of the Atlantic relationship and of the European identity with it, European complaints at American dominance and American complaints at European reluctance to share the burdens of power. Until the mid-1960s, these tensions were contained by the general acceptance, on both sides of the Atlantic, of the unavoidable reality of American predominance and American leadership - both in containing the Soviet threat and in managing the international economy. They were further limited by the existence of an underlying commitment, on both sides of the Atlantic, to the preservation and strengthening of the political, economic and personal links between the United States and Europe which had been forged during and after the Second World War. The American commitment to Atlantic co-operation, as the first priority of its foreign policy, under its own benevolent leadership, was reasserted by the Kennedy Administration in the 'Atlantic Partnership' proposals of 1962.

Looking back at the Kennedy proposals almost twenty years later, one can see how far the context for those proposals has altered. The economic and political balance between the United States and its West European partners has continued to tip towards Europe. The primacy of Europe in American foreign policy has progressively declined. The United States itself has changed, as a result not simply of short-term political accidents but rather of a number of long-term social and economic trends. The emotional underpinnings of the Atlantic relationship have therefore weakened considerably.

It is hardly necessary to rehearse here the comparative decline of the American position in the European and the international economy, and the strengthening of the European - and above all of the German - position. Its most visible consequences are in the reduced purchasing power of the dollar, and the reversal of investment flows. The Europeans worried in the 1960s about 'the American challenge' and the march of the American multinationals; European investment in the United States has in turn become an issue in some sectors of the American economy. It is more important to note the consequences, in a rising sense of American grievance at what they see as the Europeans (and the Japanese) waxing rich under their protection, without being prepared to raise their contribution to international security and the maintenance of an open and economically liberal economic order - either in terms of political leadership, or of economic assistance, or of military expenditure.

For the first twenty years after the Second World War, American foreign policy continued to be dominated by the North-Eastern elite of 'Europe-firsters', who had themselves shared the trauma of European war and the struggles of postwar reconstruction. In New York and Washington there are still many of like mind, who feel an instinctive attachment to the link with Europe and who maintain an extensive network of transatlantic contacts; but their influence over American foreign policy has progressively declined. This is not simply because the trauma of Vietnam blotted out recollections of the Atlantic connection, nor because generations have moved on. The population - and industrial base - of the United States has been shifting steadily south and west for many years, to a point where California has replaced New York as the largest state and where the 'sunshine states', from South Carolina through Texas to southern California, represent the most dynamic elements in the American economy. America's trans-Pacific trade exceeded its trans-Atlantic trade for the first time in 1968 : the importance, and the visibility, of Japan, Korea, Taiwan, and potentially China as America's economic partners and competitors has grown rapidly since then. This reorientation towards the Pacific is to some extent counter-balanced by an increasing preoccupation with America's southern neighbours, as sources of instability, of immigrants, and of resources. In several American states, and many American cities, the Hispanic vote is now an important factor, and Spanish the established second language - which in no sense links the United States more closely to the Iberian peninsula, but ties American politics into developments in Central America and the Caribbean. In parallel with this, European studies (and studies of the northern European languages) have precipitately declined in American schools and universities. The flood of academic dissertations on European-Atlantic relations and on the European Community which marked the 1950s and early 1960s had, for example, declined by 1978-9 into a trickle of one completed study on each throughout the United States.

Other developments have also reduced the importance of the European relationship in American eyes. The cumulative shift from the United States' post-war position as an oil exporter to become one of the world's largest importers has created new interests and vulnerabilities. The United States imported 21% of its oil consumption in 1970, and 42% in 1978; current industry estimates suggest that, as domestic production continues to decline, its imports will reach 60% of consumption by 1990. This is not just a matter of increasing dependence on the Arab oil producers; last year the bilateral US deficit with Nigeria was almost as large as its deficit with Japan, due entirely to the surge in oil deliveries. American insistence that they are defending Europe's resource lifelines in the Gulf must therefore be qualified; they are defending America's lifelines as well.

The asymmetry of détente - which is a further dimension of the unavoidable geographical and political asymmetries of the Atlantic security relationship - has also pulled European and American perspectives apart. The achievements of the détente process have been predominantly European : the stabilisation of Berlin and of the frontiers of central Europe, improved trade and human contacts, the re-creation of the sense of a European society wider than Western Europe. As long as one accepts the classic assumptions of the Cold War of the 1950s, that the control of Europe is the central issue in the global power balance and that Berlin, Germany and its immediate neighbours are thus the keys to world security, then détente has been a worthwhile and rewarding process. But - with considerable justification - the United States no longer sees the world like this. For its leaders, the Straits of Hormuz are now at least as strategic as the autobahn to Berlin, the Japanese-Soviet border as sensitive as the Norwegian-Soviet. Soviet use of Cuban forces in the Third World is a matter of concern to Europeans, but a matter of profound concern to the United States - with the prospect that Soviet 'opportunism' might in time spread through the Caribbean and Central America, as well as through Africa and the Middle East. Dr Kissinger's comment in his 'Atlantic Charter' speech of April 1973, that Europe was a 'regional' power and the United States a 'global' power, summed up this difference of perspective - though he omitted to admit that the United States also has specific regional interests, now markedly different from those of its European allies.

It is hardly surprising, therefore, that the choice of president this November will be between a Southerner and a Californian, neither of them renowned for their understanding of the Atlantic relationship - nor that the only clearly 'Atlanticist' candidate among this year's contenders, Senator Kennedy, should have failed to strike a chord with his interpretation of foreign policy priorities. But it is not only the shift in population and economic orientation and in foreign policy perspectives which now distracts America from maintaining its relations with Europe; it is also that the United States is distracted from foreign policy as such by the need to adjust simultaneously to the loss of global predominance and the arrival of energy shortage, to recession, unemployment, inflation, and - as those who travel abroad are acutely aware - a shrunken dollar. The strains which these adjustments exert on American politics and society are compounded by the crisis of the United States' political institutions, which in turn they make more difficult for any administration to resolve. The sense of grievance in the United States over the failings of the European allies, the sense of heightened insecurity over the perceived decline in American strength vis-à-vis the USSR, are of course to an extent justified and rational; but their depth and occasional virulence reflect in addition domestic uncertainties.

Yet the relationship with the United States is still of fundamental importance to Western Europe : an absolute priority in maintaining European security, a basic necessity in maintaining the equilibrium of an increasingly shaky international economy. The argument here is not that we can or should disengage Western Europe from the United States; it is rather that we must recognise that the management of this relationship has become a great deal more difficult, that interests and attitudes have become more difficult to reconcile, that unavoidable differences will therefore threaten more often to escalate into political disputes.

How important is Japan?

The relationship between Japan and Western Europe reflects not only their limited direct impact on each other, but also their shared dependence on the United States and their shared concern for American co-operation, understanding and protection. To an increasing extent it must also reflect their shared vulnerability to Soviet power, and their involvement in the nexus of political and economic relations which revolves around the Sino-Soviet dispute - not only because of the inherent sensitivity of these issues, but also because American insistence on the inherent linkage between 'the three strategic zones' and on the global nature of burden-sharing among their allies requires both Japan and the West Europeans to respond to the shift in American power towards the Middle East.

The Community and its member governments have been slow to recognise the broader significance of their relations with Japan. While American policy-makers were talking about the 'pentagonal structure' of world power, and American elites discussing the nature of the trilateral relationship among the Western 'centres of power', all but a very small minority of European policy-makers still saw their relations with Japan in terms of a limited range of economic threats and grievances. Those threats and grievances remain - complemented, indeed, by perceived grievances on the Japanese side. The gap between Japanese perceptions of the international economic system and European remains wide, exacerbated by the 'structural gap' in Japan-EEC trade and the steady growth during the 1970s of Japan's trade surplus with the EEC.(4) Concern within European governments (and within the Commission) about Europe's ability to compete in the new technologies and in the development of electronics with Japan and the United States - the latter with its gigantic home market and public support, the former with its determined exporting drive - further sharpens the relationship. French officials accuse Britain of acting as 'the Trojan horse of Europe' in co-operating with Japanese firms, while British officials struggle to negotiate 'voluntary' limits on Japanese imports, and Italians call for direct protection.

Alongside this, however, has grown up a mutual awareness of the importance of co-operation in maintaining and managing the international economic system, and - more slowly - an appreciation of the wider political dimensions of the relationship. Japanese and European activities in the international economy directly affect each other, given the weight of their economies in international trade and finance : competing for oil or for raw materials, influencing the international exchange markets, bidding against each other in the American market or in third countries. The Japanese are still in some ways the odd men out in 'Atlantic' summitry, separated from the European and American participants not only by distance but more importantly by culture. The links between Japan and Europe still run as often through the American connection as direct. Yet they have clearly become accepted and essential participants in the management of civilian power, one of the European Community's most important (and often most difficult) partners within the OECD, the IMF, the Multilateral Trade Negotiations, and the Atlantic Summits themselves.

Japan's growing sense of insecurity over the American relationship, heightened by the deterioration of détente, the build-up of Soviet conventional and nuclear forces in the Far East, and the succession of events in Iran and Afghanistan, has emphasised for them the importance of closer political ties with Western Europe. As in 1973-4, the Nine find themselves embarrassed by the demands of their partners to be granted entry to the consultations of Political Co-operation; but whereas six years ago the request came only from the Americans, this time the Japanese are also anxious to establish closer political links. The importance for them of an intensification of direct political consultations with Europe complements the American insistence that the Nine must widen their definition of their international political responsibilities. For Japan the relationship with Europe is the weakest link in a triangle; and on that triangle, with America as its third point, rests (in their perspective) not only the stability of the international economy but also the security of the 'West'.

State Traders and Socialists

The European Community has devoted considerable time and energy to attempts to define a satisfactory relationship with the member states of Comecon. East-West economic co-operation is included within the framework of the Helsinki Final Act of the CSCE, and will thus be reviewed this autumn in Madrid. Here politics and security considerations have never been entirely absent - either in the NATO framework of COCOM restrictions on strategic goods, or in the political motivations for trade and financial exchanges evident on both sides of the European divide. The Soviet Union has done its best in its economic relations with the West to be seen to be rewarding the moderate with increased trade, and punishing the hawkish; though such political motivations have been complemented by a determination to drive the most advantageous bargain possible, and the ability of a highly-centralised economy to play competing European companies off against one another.

The deterioration of détente has given a sharper edge to the political dimension of East-West trade. Such issues as relations between the European Community and Comecon, export credit, and the sale of advanced technology have unavoidably become caught up with Western and Eastern manoeuvres over the separability or inseparability of European détente and global politics, over attempts to divide the Atlantic alliance or to differentiate between the Soviet Union and the East European countries - and caught up, too, in the mistrustful pattern of European-American relations. But it is important to recognise that the economic issues in themselves raise difficult problems for Western Europe, which can only be made more difficult by the incorporation of the three Mediterranean applicants in the Community.

In a recession, in which manufacturers of heavy plant - conventional and nuclear power equipment, chemical plant, machine tools and presses - are among the first to suffer from a decline in business confidence, orders from the state-trading countries for complete factories and power stations are very welcome; and arrangements to meet the cost from future production are more acceptable than laying off men. But when the production from those factories begins to flow into a Community still, several years later, suffering from unemployment and slow growth, to threaten the jobs of workers in other factories, the economic costs and benefits begin to look rather different. It is not only manufactured exports, priced according to decisions made by central planners rather than market competition, which thus represent an actual and potential difficulty for Western Europe. The imbalances which result from the ability of the state-trading countries to compete within the Community under rules which do not apply in Eastern Europe affect also such sectors as shipping, where the continuing expansion of the Russian, Polish and East German fleets poses problems for Community members.

The sectors of trade which the state-trading countries hope most to expand in dealing with the Community are predominantly those in which the Mediterranean applicants will hope to find their best comparative advantage as Community members : basic manufactures, textiles, semi-manufactures, where the technology is widely known. Yet the economic interests of the Community's less advanced members in containing East European competition will be countered by the political interests of its more prosperous members - above all, of Federal Germany - in maintaining close links with Poland, the German Democratic Republic, Hungary and the other East European states, and the willingness of the German Government to accept a degree of economic sacrifice in order to support their economies and increase their autonomy from the Soviet Union. The Community has not so far been very adept at balancing wider political considerations against the pressures of its various economic lobbies - witness the difficulties since 1974 over the association agreement with Yugoslavia. Heightened awareness within an enlarged Community, with a worsening superpower relationship and continuing economic difficulties, of the importance of the political and economic factors at stake, must push us in the direction of a more coherent policy.

How many Third Worlds?

The Community's pattern of external relations, as it developed during the 1960s, distinguished in its treatment of Third World countries according to a range of geographical, historical and political criteria. The former African territories of France and Belgium were admitted to association through the Yaoundé Convention. Greece and Turkey negotiated association agreements which (partly in order to get round the provisions of GATT) allowed for full membership of the common market as an eventual goal. An untidy network of bilateral agreements with other countries around the Mediterranean (which, for political reasons, was defined as including Jordan), was dignified in 1972 by the concept of a 'global' Mediterranean approach. Responses to developing countries outside this framework have been cooler, with economic co-operation agreements and small disbursements of development assistance. With the first enlargement, Britain's former territories were incorporated within the pre-existing pattern, with the major (and understandable) exception of the Indian sub-continent.

The Community's classification of the Third World thus cut across many of the groupings which have come to appear central to North-South relations during the 1970s. Roughly half of the members of the 'Group of 77' are signatories to the Lomé Convention. Less than half of the members of the Organisation of Arab Petroleum Exporting Countries (OAPEC) and of the Arab League - the Maghreb and Mashraq countries - are Mediterranean associates. The Latin American countries, and the Asian developing states, were excluded : thus, incidentally, conveniently excluding all of the 'fast developers', or 'newly industrialising countries' (NICs), from a privileged relationship with the European Community. Since the 1973-4 crisis, various other groupings and 'dialogues' have therefore been developed - or proposed - to focus European relations with the developing world : the Euro-Arab Dialogue (1974), the agreement (ostensibly economic, but with evident political undertones) between the Community and Asean (1979), the Gulf Dialogue (proposed in 1979), and the 'Trialogue' which is President Giscard d'Estaing's latest proposal, intended to bring together the complementary interests of the African states in OAPEC development aid with those of the Community countries in maintaining and expanding their exports both to the Middle East and Africa, offering the Arab countries economic concessions and technical assistance in a concerted effort.

The problem for the Community in organising its relations with developing countries is that on global issues of North-South relations its interests overlap with and complement those of North America and Japan, while its regional pattern of external association fits only inadequately the spread of specific issues. Just before the Shah's overthrow the Iranian Government was pressing the Community to offer it association on terms as favourable as the Mediterranean countries - a not entirely unreasonable demand from the Iranian perspective. The Gulf states in their turn, as they respond to the Community's efforts at dialogue, may well wish to ask for specific commercial concessions, adding them to the list of the Community's privileged partners. In effect, the Community's external relations are based upon an assumption of regional priorities, amended by resource dependencies and political imperatives. The question is how far this pattern is any longer appropriate - and how far the further expansion of the Community may render it less appropriate.

Our current preoccupations in considering North-South relations include : above all, the problem of the NICs, and the threat which they are seen to pose to the Community's weaker economies; the problems of security, supply and cost of raw materials, above all of oil, but also including a range of scarce metals and minerals; a concern for the development of the 'least-developed' countries, almost all of which are former territories of European states, and all of which have been hit severely and repeatedly by the rising cost of imported oil; anxieties over indebtedness, over the involvement of European private banks and public institutions in extended loans, and consequent threats to the stability of the international banking system; and worries over political instability and external exploitation of instability.

None of these are exclusively European preoccupations. All are shared by the United States, most by Japan. None can be managed by the Nine on their own - or by the Twelve - without co-operation and consultation with the other advanced industrialised countries. Differences of interest and of tactics among the advanced industrialised countries, however, provide yet another source of strain in European-Atlantic relations, with American suspicion of European 'regionalism' complemented by European uncertainty over the continuity and coherence of American policy.

Two particular aspects of Europe's North-South relations are particularly relevant in the context of the second round of enlargement : the problem of the NICs, and the implications of Spanish and Portuguese entry for relations with Latin America. (Some in this conference may wish to add a third : the implications of Portuguese entry for European relations with Angola and Mozambique, which are left aside here because they fit far more easily into the existing pattern, once political difficulties are resolved.) The 'fast developers' offer a complex - and often exaggerated - challenge to the European Community. The Asian fast-developers, Korea, Hong Kong, Taiwan, Singapore, are in differing degrees linked in their development with the dynamism of the Japanese economy. Their exports compete in specific sectors with the most efficient companies in the Community, and the vigour of their expansion threatens to extinguish entire national industries. Brazil, Mexico, India (which has a substantial industrial sector, competitive in a number of export areas, alongside the mass of its rural population) and others are less frighteningly 'super-competitive', but nevertheless offer growing competition to the Community from positions of unilateral advantage which in differing degrees include low wages, control of trade union activity, high protective tariffs and lower social and environmental overheads. The structure of their exports is directly competitive with that of 'Europe's NICs', Spain, Portugal, Greece, Yugoslavia and Turkey - the majority of which are now in the process of joining the Community.

It is difficult to see how a Community which is already suffering the strains of economic divergence and industrial adjustment can accommodate the needs (and the increased exports) of three new members without deliberate trade diversion, without increasing the degree of tariff protection or imposing stricter quotas over the competing exports of third countries. The disadvantages of these are likely to fall disproportionately on the NICs, since the political cross-currents which affect restrictions on trade with Eastern Europe hold the Community back from treating the Poles as strictly as the Brazilians, and since the sensitivity of relations among the advanced industrial countries make it hardest of all to impose wide restrictions on transatlantic trade.

This point directly relates to the question of how the Iberian Peninsula's adhesion to the Community will affect Latin America. Cultural and linguistic associations have led some, in the applicant countries and in the Nine, to suggest that the second enlargement will achieve what a succession of British, French, German and Community initiatives have largely failed so far to achieve : a closer and more intense political and economic relationship between Europe and Latin America. There have, certainly, been some promising developments in recent years, notably in German economic ties with Brazil; but by and large this remains the continent on which European diplomacy is least active, and European trade least dynamic. It seems to me that the adverse economic effect of the internal adjustments which will follow enlargement to Twelve, and the consequent tightening of restrictions on trade, are most likely to inhibit closer relations with Brazil, Mexico, Argentina and others : an inhibition strengthened by the Community's explicit commitments to democratic government and civil rights, as well as by the lack of any European security interest in Latin America.

How different is Twelve from Nine?

The argument of this paper is that the Community's external relations have become progressively more difficult and more complex throughout the 1970s, for a combination of political, security and economic reasons. Mediterranean enlargement can only increase the degree of complication. This is not to say that Mediterranean enlargement introduces any new problems : rather, it exacerbates existing problems with which the Community has struggled for some years.

We have already touched on the problem of industrial adjustment, and the likely consequences of enlargement for external industrial trade policy. On agriculture, we need only to recall the bitter disputes of the late 1960s over orange juice, turkey and chickens between the Community and the USA (during which Ralf Dahrendorf, then Commissioner for External Trade, remarked that the California and Arizona Citrus Growers' Association sometimes seemed to be directing the whole thrust of American trade policy), to recollect that the external backwash of internal compromises will most probably provoke protests from Washington. It is hard to see how they will also avoid damaging the interests of the Community's North African associates - all members of the Arab League, with Algeria as an OPEC and OAPEC member and with a leading role in the Group of 77 of some broader political and economic significance. On security policy and Western Europe's contribution to the Western Alliance, it is difficult to be precise until the relationship of Spain to NATO (and, to a lesser extent, of Greece) becomes clearer. On alliance burden-sharing, one may anticipate that increased demands from within the Community for the transfer of resources to assist economic development will divert resources which might otherwise have gone to third countries : to Turkey, for example, to Egypt or Pakistan, all countries to which Federal Germany has contributed substantial sums in the past year or more which might in future be pre-empted by the new Community members.

This is a deliberately pessimistic conclusion. It is better to start by looking at the problems we face, and then attempt to resolve them, than to pretend that we will somehow manage to avoid them. If we are to avoid them, then we should reflect on the restrained recommendations of the 'Three Wise Men' that 'the Community and the Nine should, in these various relationships, act as a united body'. The Community currently has a limited range of powers and instruments in external relations, managed by a flimsy structure in every field except commercial policy. Its conceptual framework for handling external relations has adapted only slowly; the consensus among its member governments about external policy is still weak. Is it realistic to expect that the Community can make progress in this area at the same time that it adjusts to all the other implications of Mediterranean enlargement?

Notes

1. Andrew Shonfield, 'The Aims of the Community in the 1970s', in Report of the Study Group 'Economic and Monetary Union 1980' (Rapport Marjolin) Vol. 2.

2. Report of the Group of Experts on Sectoral Analyses (Rapport Maldague), European Economy, Commission of the European Communities, November 1979, pp. 79-81.

3. L'Europe, les Vingt Prochaines Années (Rapport Pelletier), Documentation Française, Paris, 1980, p. 159.

4. Masamichi Hanabusa, Trade Problems between Japan and Western Europe, Saxon House, Farnborough, for Royal Institute of International Affairs, 1979, pp. 51-2.

5. I am here drawing extensively on Living with the Newly Industrialising Countries, by Louis Turner and others (Chatham House Papers no. 7), Royal Institute of International Affairs, London, 1980.