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The Political Economy of European Integration: From Euro-Sclerosis to Euro-Corporatism

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1. The Road to the White Paper and the Single Act

In the early 1980s, the dominant pre-occupation of European policy circles was with "Euro-sclerosis" largely identified with national rigidities in the workings of national labor markets. The rise of average unemployment in Europe to two-digit levels was attributed to limited labor market flexibility, to real-wage rigidities and to an unfriendly business environment due to tensions in business-labor relations. The EC Commission's call for a "cooperative strategy for more employment" placed almost exclusive emphasis on real wage moderation, on greater adaptability of labour markets and on the strengthenning of competitive forces (EC, Annual Economic Report (ECAR), 1986, p. 36).

The pursuit of appropriate adjustment policies was perceived to be the "responsibility of national and regional authorities" (ECAR, 1986, p. 34) that were also responsible for "pruning the public sector deficits that were threatening the consolidation of the convergence towards monetary stability" (Ibid, p. 30).

This view, that became entrenched during the first half of the 1980s, had important implications for the conduct of policy. Expansionary demand policy was presumed to be ineffective since any potential expansion of labour demand would be thwarted by offsetting increases in nominal wages. Only supply side measures that would ensure greater flexibility in the functioning of labour markets could have positive output or employment effects. Macro-economic policy inactivism was

thus justified on economic grounds: so long as labor markets in Europe were characterized by real wage ridigity, there was no room for either unilateral or coordinated expansion.

This view was endorsed till 1985-1986 by all relevant Community institutions, despite growing evidence that at least the economic foundations of the argument were becoming increasingly weaker. By the mid 1980's, real unit labour costs had declined considerably in all major European countries. A number of studies (Bruno, 1985; Sachs 1986) showed convincingly that the "classical thesis" was becoming less relevant than it was thought to be the case, and that Europe had in fact suffered in the 1980's from a substantial Keynesian output gap (Gordon, 1987).

It was not however economics that caused a major shift in policy priorities. The "Euro-sclerosis" thesis brought about a political impasse at the European level: the burden of adjustment had to be borne entirely by domestic industrial capital and labor with national governments playing the role of overseers of the adjustment process. This strategy maximised friction at the national level, especially in the context of a low growth environment that had detrimental effects both for labor and for industry. By 1986, the index of European industrial output stood at 105, as against 115 for the United States and 121 for Japan (1980 = 100) (European Economy, 1988, p. 25).

As can be seen in Table 1, domestic demand grew much slower in Europe over the period 1973-1985 than it did in its

other main trading partners especially in the more technologically advanced sectors. Between 1979 and 1985, the proportion of industry accounted for by sectors in which world demand was growing faster, increased by 3% a year in the Community, compared with 3,7% in the United States and 17,1% in Japan (Ibid, 1988, p. 25). In electrical and electronic goods, in chemical and pharmaceutical products, in transport equipment or industrial and agricultural machinery, domestic demand grew less rapidly than in the other countries while European firms lost market shares in third markets (Ibid, 1988, p. 29).

National governments thus had to meet a series of conflicting demands by domestic actors as domestic labor and industrial capital favored a more expansionary policy stance that would promote export and investment growth, while monetary authorities continued to support restrictive policies in an effort to curtail the capital outflow towards the United States and defend the internal and external value of the currency.

As the conduct of policy became more "politicized" internally, domestic monetary authorities chose to lose some of their independence and accept the leadership of the Bundesbank rather than face the erosion of their political autonomy by national governments or by other domestic actors (Katseli, 1989a). The creation of an enlarged European currency area with greater controls over reserves has been interpreted as a move by Central Banks to enhance their relative power not only vis-a-vis private financial capital that had already gone international by the mid 1970s, but more importantly vis-a-vis

domestic governments labor and industry (Katseli, 1989a, p. 33).

The recall of external institutional commitments derived from the workings of the European Monetary System (EMS) and the implied acceptance of the Bundesbank's leadership position in that arrangement, enabled monetary authorities to prolong the continuation of domestic monetary discipline and the maintenance of slightly overvalued currencies and to decrease the governments' incentives to create inflationary surprises (Giavazzi and Pagano, 1986). In other words, in choosing to be followers on an international scale, monetary authorities were able to lower the political capital required domestically to lobby for and maintain an anti-expansionary policy stance.

As it was argued elsewhere (Katseli, 1989a), wage earners, unions and industrial business interests were apt to be losers from the Europeanization of the financial and monetary policy game. Not only did the functioning of the EMS raise significantly the costs of domestic lobbying for a more expansionary policy stance, but the complexity of the issues involved made it difficult for national unions to organise effectively on a European scale. Furthermore, the structural asymmetries across the European countries made the formation of cross-country alliances by labor or other groups even more difficult to attain.

In the absence of any effective domestic opposition, the creation of a supra-national system of decision-making that over-represented the interests of financial capital and

monetary authorities, institutionalized a deflationary bias in the conduct of policy and influenced the choice of specific policy instruments for economic adjustment in a way consistent with this group's preferences over targets and instruments (Katseli, 1989a, p. 37). Thus deflation in Europe took mainly the form of fiscal expenditure contraction, the relaxation of incomes policies and the pursuit of supply-side measures to enhance "labour market flexibility".

The gradual shift of power over decision-making from national governments to a supra-national "monetary club" intensified the institutional inertia at the Community level. Two options were open for European Community institutions, most notably the EC Commission: to attempt to create a consensus view by reconciling opposing interests at the national and European levels or to promote the policy directions endorsed by the "monetary" club under the leadership of the Bundesbank. The strong dose of conservativism coming out of Brussels in the first half of the 1980s and the outlook and guidelines provided by EC documents provide evidence that the second strategy was in fact adopted with limited success.

From anecdotal evidence[1] it is in fact known that by 1985, business leaders bypassed national governments and addressed themselves to the Commission in an effort to push for alternative solutions. Confronted with steadily declining market shares in third markets (Table 2), with increased import penetration especially in the strong demand sectors and with

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1. Interviews with EC officials.

worsening prospects, as European currencies started to appreciate relative to the dollar (Figure 1), the large European industrialists sought a negotiated European solution to declining sales and profits. The creation of an internal market by the end of 1992 provided the institutional outlet to those demands. The prospects of an integrated market not only improved the medium-term outlook for European industry but at the same time provided a new sense of direction for the European institutions and bureaucracy.

In his tour of capitals in 1985 Jacques Delors presented governments with a limited menu from which to choose: support the creation of an internal market, strengthen the process of monetary integration or proceed with a new defence agreement. Given the political resentment with the second option that had been followed throughout the early 1980s, and the difficulties with the third, the internal market initiative was accepted. A year later this approval was translated into a series of decisions that involved four broad categories of public policy: (1) the removal of important non-tariff barriers to trade for goods and services including national standards and regulations, government procurement policies, administrative barriers, frontier delays and costs, differences in VAT, regulations of freight transport, restrictions in national capital markets, legal impediments etc., (2) the removal of barriers to capital and labor movements and the liberalization of services especially banking and insurance, (3) the strengthening of European institutions especially the European

Council and the Commission vis-a-vis national governments and (4) the convergence of economic and financial policies that would further the prospects for a monetary union. These decisions were soon incorporated into the White Paper and the Single European Act of 1986.

With these decisions the nature of the policy game within Europe has shifted both across issues and across players. The emphasis on the creation of the internal market which downplays the two issues of macro-policy coordination and national labor-maket adjustment and flexibility that were given highest priority in the early 1980's, reflects the rising preoccupation with the promotion of a Strategic Trade Policy (STRAP) at the European level, that is, the promotion of trade policies aimed at securing a European comparative advantage in oligopolistic industries (Krugman, 1987, p. 121). This is to be achieved through the promotion of selective European industrial sectors that are characterized by strong demand growth, by a high R & D component, and by increasing returns to scale in production and/or distribution.

The link between STRAP and the creation of the internal market is analysed in section 2 of the paper. Concurrently, as is shown in section 3, the Single Act has strengthened the role of the Commission as a regulatory agency and has given greater decision-making powers within the Council to government authorities in the more industrialised countries (W.Germany, United Kingdom, France, Italy) that have vested interests in the promotion of STRAP. Hence, what is now emerging at the

European level is the creation of an institutional apparatus that aims at the "voluntary cooperative regulation of conflicts over economic and political issues" achieved through "highly structured and interpenetrated set of political relationships" between the Commission, the leading business interests, and government authorities of the more industrialized countries. To paraphase Katzenstein's definition of neo-corporatism at the national level (Katzenstein, 1983), this type of regulatory arrangement at the European level can be identified with Euro-corporatism.

The emergence of Euro-corporatism as the dominant economic and political arrangement in the 1990's will have important implications not only for the direction of future policy choices but also for the strategic options open for labor and the smaller member-states in their quest for a more equitable representation of their interests. These issues are discussed in section 4 of the paper.

2. European Strategic Trade Policy and the Internal Market

According to a recent study produced by the Directorate-General for Economic and Financial Affairs of the European Commission (EC, European Economy, 1988) the creation of the internal market is supposed to lead to four principal types of effect:

i) a significant reduction in costs due to a better exploitation of several kinds of economies of scale associated with the size of production units and

enterprise;

ii) an emproved efficiency in enterprises, a rationalization of industrial structures and a setting of prices closer to costs of production, all resulting from more competitive markets;

iii) adjustments between industries on the basis of a fuller play of comparative advantages in an integrated market;

iv) a flow of innovations, new processes and new products, stimulated by the dynamics of the internal market.

The thrust of the internal-market exercise as described in the study is the regaining of world competitiveness and market shares especially in the more advanced branches of industry that are associated with strong demand growth and are characterized by increasing returns to scale in production. As can be seen in Table 2, the loss in market shares of European based firms was more pronounced in electrical goods, in motor vehicles, in rubber and plastic products, in machinery, transport equipment and office and data-processing machines, precision and optimal instruments.

Alternatively, the European firms gained market shares in the more traditional sectors including leather and footwear, furniture, textiles and clothing, non-metallic minerals and mineral products, food, beverages and tobacco etc. It is precisely in the sectors where Community-based firms lost market shares that increasing returns to scale are substantial. Table 3 ranks manufacturing industries by economies of scale based on a calculation of the extra unit costs that arise from

a reduction by 50% of the minimum efficient size (METS). It can be seen that important cost reductions can be achieved by the expansion of production size especially in means of transport, in chemicals, in machinery and instrument manufacture[2] and finally in paper and printing.

These sectors account for about 55% of industrial production in the Community of Twelve and about 65% of industrial employment in the Community of Ten (EC, European Economy, p. 108). Production and employment however are heavily concentrated, with the more industrialized countries having the lion's share. In office machines, data-processing and telecommunications equipment and basic chemicals "profitability is linked clearly to market share and large firms predominate" (EC, European Economy, 1988, p. 135). Firms with more than 500 employees account for more than 80% of total turnover of the industry and this is particularly the case in Germany, France, Italy and the United Kingdom (Table 4). It is precisely the presence of large firms in these more technologically advanced, rapidly growing sectors and their relative importance in total production, employment and exports in the national economies of the four more advanced countries of the Community, that enabled the corresponding business interests to exercise effective pressure towards the creation of the internal market.

The presence of increasing returns in these industries imply that the expansion of production lowers significantly

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2. Office machines, agricultural and industrial machinery, electrical and electronic equipment.

average costs and hence increases competitiveness. The reduction of trade barriers and the creation of a larger, unified internal market makes expansion both feasible and profitable. Integration thus produces "strategic gains over and above the usual benefits by giving firms a better base for oligopolistic competition (Krugman, 1987, p. 122). At the same time, it leads to internal or external restructuring of production. The first refers to selective concentration into particular product lines and withdrawal from others. The latter refers to mergers and acquisitions aimed at "better exploitation of returns to scale, wider geographical diversification and greater international division of labour within the European market" (EC, European Economy, p. 135).

The gains from intra-industry specialization derived from the exploitation of economies of scale are not necessarily divided equally across countries. It is by now a well-known theoretical proposition that "a country that succeeds in getting a disproportionate share of high-return industries as a result of trade can gain at other countries' expense, while a country that ends up with small high-return sectors can conceivably be worse off with trade than without" (Krugman, 1987, p. 121). Who is to gain and who is to lose by the creation of the internal market thus depends on the nature of restructuring that will take place and on the geographical dispersion of new production activities. This will be determined inter-alia by the pursuit of deliberate strategies that governments could pursue to protect existing activities,

to further investment in productivity, people and R & D etc.

To prevent the development of this type of friction among governments that participate in the STRAP game, Community institutions and most notably the Commission has to assume a powerful role as a regulatory agency. Thus the pursuit of STRAP through the creation of an internal market also requires a shift of power from national institutions to European institutions for the supervision and regulation of industrial and trade policies. Given the nature and characteristics of production activities that are affected by the integration process, this implies that trade and or industrial policy encompasses a vast range of policy domains that were traditionally considered to be under national control, e.g. standards or technical regulations, indirect taxation and subsidisation schemes, government procurement policies, selective credit policies etc.

National standards and regulations are in fact quoted as the most important barrier to trade by the following branches of industry: chemicals, mechanical and electrical engineering, motor vehicles and other transport equipment. (EC, Research on the Cost of Non-Europe, Vol. 3, 1988, p. 11). Public purchases rank high in office and data equipment, electrical and precision engineering and transport equipment (Ibid, p. 11).

The new regulatory responsibilities of the Commission thus extend to important new areas of fiscal policy and national practices that were not perceived to be an integral part of trade policy.

The nature of the STRAP game and the fear of direct or indirect government intervention to "safeguard a policy of national champions" (EC, European Economy, 1988, p. 138) also gives the Commission sufficient leverage to act as negotiator between governments in order to find politically acceptable solutions to the distribution of gains from the process of integration. Thus, it is highly likely that there already exists an informally negotiated agreement as to the likely national distribution of gains from the creation of the internal market and the pattern of national specialization across those industrial sectors that exhibit increasing returns-to-scale properties. According to EC estimates, the reduction in the cost of final goods of all kinds due to the restructuring of production units and the exploitation of returns to scale is estimated to be around 60 billion ECU. The gains from competition effects on X-inefficiency and monopoly rents are estimated to be around 46 billion ECU. (Ibid, 1988, p. 157). The expected geographical distribution of gains however is nowhere presented as it depends to a large extent on the outcome of negotiations across industrial branches and countries. Interestingly enough, in a recent survey of industry regarding the perceived opportunities and risks associated with the completion of the internal market for the individual company and for the country as a whole, whereas the responses from German, Italian or U.K. firms are uniformly positive, those of French firms are lukewarm vis-a-vis the expected national outlook (Ibid, p. 134). This could be partially

explained by the relatively smaller French share of certain modern industrial branches in total industrial production but more likely by the fear of intra-community competition both in the home and foreign markets. (Ibid, p. 132).

Even though the geographical distribution of gains from integration will be asymmetric requiring extensive negotiations both among countries that participate in STRAP and between industrialized and less industrialized countries within the Community to accomodate claims for structural compensation, the costs of adjustment are substantially more symmetric across factors of production.

The presence of intra-industry as opposed to inter-industry specialization and trade lessens the need for extensive factor reallocation. All factors of production (capital, unskilled or skilled labor etc.) can benefit from the expansion of production in the affected industries, contrary to what is the case in the promotion of traditional Heckscher-Ohlin or inter-industry trade, where the abundant factor of production is more likely to benefit from trade expansion. Thus, in so far as the STRAP initiative enhances intra-industry specialisation and trade, there are no adverse internal distribution consequences in the large industrial countries that could bring about political opposition to the internal market exercise. As it was noted earlier, for the large countries, any potential conflict arising out of location choices will have to be resolved at the negotiating table between governments and the Commission. This is not likely to

be the case in the less-industrialised European countries whose pattern of trade with their European and world-trade partners is more traditional.

In the case of these countries, which happen to coincide with the periphery countries of the Community (Greece, Portugal, Ireland, Denmark etc.), the conflicts that will arise out of further liberalization of goods and services, will be internal as some factors will benefit at the expense of others (Katseli, 1989). Compensation arrangements such as the use of structural funds will have to be designed, managed and implemented either by national governments or directly by the Commission. If the latter strategy is chosen as it appears to be the be case in the relevant Council regulations (No. 2052/88 of June 24, 1988 and No. 4253/88 of December 19, 1988), the Commission will eventually adopt significant "planning" and "development" functions that have so far been relegated to national governments.

In conclusion, the creation of the internal market which was a prerequisite for the STRAP initiative, has expanded the role of Community institutions, most notably the Commission, in three distinct directions: (a) as an overall regulatory agency, (b) as a mediator across the governments of large industrial countries and (c) as a development agency for the backward regions of the community some of which form national entities. In the Single Act and subsequent Council regulations these functions have started to be institutionalised with important implications for political developments at the European level.

3. The Single Act and Eurocorporatism

The STRAP orientation of the internal market experiment is evident in Article 24 of the Single European Act which states that the goal of the Communities is to strengthen the scientific and technological foundations of European industry and to facilitate the promotion of international competitiveness. For this reason "the Communities will support R & D initiatives as well as those efforts by industries that attempt to exploit fully the advantages of the internal market especially through the opening of public procurement policies, the determination of common standards and regulations and the effacing of legal or tax obstacles to further cooperation".

The regulatory capabilities of the Commission are described in Article 18 in conjunction with Article 10. The Commission, in cooperation with the European Parliament and after consultations with the Economic and Social Policy Committe, "submits proposals to the European Council for the adoption of legal, regulatory or administrative measures that aim at the establishment and the smooth functioning of the internal market".

The Council can now decide on almost all matters by a special majority vote. Only tax harmonisation measures and legislation concerning the functioning of labor markets require a unanimous vote.

Given that the total number of weighted votes in the Council sums up to 76 (Germany, France, Italy and the UK possess 10 votes each, Spain 8, Netherlands, Belgium, Greece

and Portugal 5, Denmark and Ireland 3 and Luxembourg 2) and the minimum votes required for any decision are 54, this implies that any decision can be blocked by a coalition of three large countries or by two large countries in cooperation with any of the smaller ones excluding Luxembourg. Given these voting requirements, it has become impossible for all the smaller countries to obtain majority even if they gain the support of one of the large countries (Roukounas, 1989, p. 20). This estabishes a close and powerful link between the Commission and the large Council Members that can dictate policy choices on all member states.

According to Article 10, the Commission supervises the execution of almost all Council rulings that concern the internal market. Thus the Commission assumes important executive functions. At the same time it can develop a "social dialogue" among social partners at the European level, that can end up, if they so wish, to special agreements (Article 22). Finally, the Commission can act as a development agency by coordinating national programs related to research and technological development, by formulating a medium-term plan for all its activities and by creating joint ventures or the necessary infrastructure for the satisfactory implementation of Community R & D programmes (Article 24).

In subsequent Council regulations (No. 4253/88) the Commission has become vested with even greater powers "to ensure coordination of the activities of the different funds as between themselves and with the operations of the European

Investment Bank and the other existing financial instruments", to develop community support frameworks, to extend assistance and to monitor its implementation. It is important to note in Community legislative decisions that assistance through the structural funds, the EIB and other financial instruments is aimed at promoting the development and structural adjustment of "regions" whose development is lagging behind, as opposed to the economic and social convergence of living standards across nation-states. Thus, not only has decision-making power shifted in favor of the Commission and the large industrial countries participating in the Council, but smaller nation-states can now been bypassed in the formulation and execution of national development plans.

Euro-corporatism is thus evolving in the latter past of the 1980s as a dominant institutional arrangement between the Commission, the leading European business interests and the government authorities of the more industrialized countries through their representation in the Council. Labor interests are not explicitly represented in that arrangement even though the presence of intra-industry trade among large geographically-diversified industrial units promotes, at least partially, the convergence of private sector labor interests with those of industrial capital at least in the more industrialized countries. Smaller state governments are viewed as regional governments whose task is to monitor the implementation of Community programmes and Community assistance. This process provides further evidence in favour of

a "European-politics paradigm that transcends an exclusive state-centric view of international relations" (Keohane and Nye, 1971).

As with the creation of the EMS at the end of the 70's, the institutional arrangements that have preceded the creation of the internal market have created a de facto new institutional reality at the international level that has important ramifications for the conduct of domestic national policy and for international relations.

As with the EMS and the development of a "supra-national monetary club" a few years earlier (Katseli, 1989) the development of Eurocorporatism strengthens the trend towards the evolution of a strictly hierarchical and oligopolistic European and international system of decision-making, in contrast to the more democratic and participatory arrangements reflected in the traditional system of U.N. institutions. The over-representation of selective interests and the consistent under-representation of others in such institutional arrangements will in our view provide a major source of friction in the 1990s.

4. Potential Frictions in the 1990s

In his report to the European Commission, Padoa-Schioppa notes that "the complete opening of the market in the enlarged Community will have distributive effects that are likely to be stronger and more disruptive than those experienced in the sixties when trade integration proceeded among less

heterogeneous countries and in a context of faster economic growth" (Padoa-Schioppa, 1987, p. x). He cautions that in the absence of a consistent strategy addressing "the three policy functions concerning market integration, stabilization of the economy and the equitable distribution of gains", the completion of the internal market could be jeopardized. One can argue that the institutional arrangements that have evolved in the 1980s, do in fact make more difficult the satisfaction of the two prerequisities for success that Padoa-Schioppa mentions, namely a more equitable distribution of gains across nation-states and across social partners and the promotion of growth and development in Europe.

As it was shown in Katseli (1989), the creation of a "supra-national monetary club" in the early 1980's has institutionalised a deflationary bias in macroeconomy policy through the over-representation of financial capital and Central-Bank interests in the institutional arrangements created and hence in decision-making. Similarly the strong Eurocorporatist structures that have come about as a by-product of the STRAP initiative tend to overepresent the interests of large business interests and governments of large industrial countries. In this case however, there is a strong preference towards a more expansionary policy stance. Thus, it is not clear how compatible the interests of these two blocks will be over the conduct of macro-policy or whether we will in fact see, at the European level, a re-run of the earlier national policy conflicts between financial and industrial capital

interests.

The Europeanization of the financial policy game by the first group of agents was followed by the Europeanization of the industrial policy game by the latter group of agents. In both cases, the national institutions that identify with, regulate and monitor their corresponding activities, most notably Central Banks and Finance Ministries or Government Authorities, followed suit, at the cost of relegating some of their regulatory powers to the new international institutional arrangements. As macro-policy priorities, especially regarding the conduct of monetary and exchange rate policy, are different for financial and industrial capital concerns, there is likely to be increased friction as to macro-policy direction and coordination. The debate over the creation of a European Central Bank can in fact be interpreted in that light as an effort by the Euro-corporatist interests to reduce the power of the Bundesbank and of the monetary club in the formulation of monetary policy. The conflicts are likely to be more intense if the dollar depreciates further and European price competitiveness in third markets is more seriously affected.

A different but related source of problem will be over the distribution of the STRAP gains and the under-representation of specific labor or national interests in the Euro-corporatist structure. From the previous analysis it follows that the pursuit of STRAP and the process of integration will strengthen the development of "internal" financial, capital or labor markets in relation to the expansion and restructuring of the

technologically advanced industrial activities. Enhanced capital mobility is not likely to bring about large net capital resource transfers across countries but rather increased efficiency advantages from closed integrated markets for financial services. Similarly, the large firms could create internal labour markets from which to hire in preference to hiring from geographically localized external markets (Krugman, 1987, p. 130). The simultaneous functioning of "internal" and "external" markets, or of "insiders" and "outsiders" relative to the STRAP initiative, will aggravate the dual nature of economic activity and might adversely affect the prospects for economic and social cohesion. Those countries that cannot effectively participate in STRAP might have to face rising unemployment as they are exposed to competition even in traditional activities and possess fewer degrees of freedom and policy instruments to conduct national development policies (Katseli, 1989b).

Even in advanced countries, the inability of labor interests to organise independently and effectively at the European level, implies that important decisions over working conditions, including pay, employment prospects, insurance benefits etc. will be decided upon in the "internal labor" market of large firms and will be presented as Community policy by the relevant institutions. Thus the 1990s will present a serious challenge to labor interests to internationalize their policy game and increase their bargaining power vis-a-vis the other social partners.

Finally, the decisions to vest Community institutions, most notably the Commission, with important regulatory, coordination and development functions and with the right to intervene in the process of national-policy making in order to monitor the implementation of the internal market program, will most likely give rise to confrontrations between the Commission and selected government authorities. These will worsen if the STRAP initiative meets serious opposition by the United States or Japan in a way that challenges existing bilateral economic and political relations between either of these countries and individual European governments, or if conflicts arise as to the conduct of national and European macro-economic policy.

The effective management of these conflicts requires both leadership and coordination at the European level. It also requires new participatory mechanisms to promote adequate representation and facilitate conflict resolutions as well as the provision of more flexible policy instruments and compensation schemes to strengthen economic and social cohesion.

In that light, the 1992 experiment is an important first step towards political union. Unless issues of democratic participation, social control and equitable distribution are seriously addressed, the conflicts over economic and political outcomes will be such that the programme itself will lose political support and eventually fail. This will present a major challenge for European relations in the 1990s.

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Table 1

Evolution of volume of domestic demand by industrial branch in the EC, the United States and Japan (1973-85, average annual rate of growth)

%

	EUR	USA	Japan
Strong demand sectors	*5.0*	*5.2*	*14.3*
Office and data-processing machines	9.0	6.5	7.2
Electrical and electronic goods	3.5	7.2	20.7
Chemical and pharmaceutical products	5.3	2.3	9.9
Moderate demand sectors	*1.2*	*2.8*	*3.1*
Rubber and plastic products	2.8	5.4	2.0
Transport equipment	1.7	2.7	5.2
Food, beverages, tobacco	1.2	0.4	0.0
Paper and printing products	1.6	2.9	2.7
Industrial and agricultural machinery	−0.1	5.6	5.6
Weak demand sectors	*−0.3*	*0.5*	*2.4*
Metal products	−0.5	−0.4	3.4
Miscellaneous manufactured products	−0.6	2.1	1.9
Ferrous and non-ferrous ores and metals	0.6	−1.8	2.0
Textiles, leather, clothing	−0.2	2.0	2.2
Non-metallic minerals (construction materials)	0.1	1.7	1.1

N.B. The sectors are divided into those in which demand in OECD countries between 1979 and 1985 increased by more than 5% (strong demand), by around 3% (moderate demand) and by less than 2% (weak demand).

Source: Volumes, Commission services.

Source: EC, European Economy, 1988.

Table .2

Gains (+) and losses (−) of market share by the Community in third countries over the period 1979-85[1] (in descending order)

Branch	Loss	Branch	Gain
Electrical goods	−4.39	Leather and footwear	+5.45
Motor vehicles	−4.25	Timber, furniture	+4.86
Rubber and plastic products	−2.53	Textiles and clothing	+3.87
Industrial and agricultural machinery	−2.49	Non-metallic minerals and mineral products	+2.47
Other transport equipment	−2.27	Food, beverages, tobacco	+2.03
Office and data-processing machines, precision and optical instruments	−2.23	Paper and printing products	+1.25
Other manufactured products	−0.84	Ferrous and non-ferrous ores and metals, other than radioactive	+1.23
Metal products, except machinery and transport equipment	−0.65	Chemical products	+0.51

[1] Market share is defined as the exports of the USA, Japan or EUR 10 to the rest of the world compared with exports of OECD countries to the rest of the world.
Source: Volumes, Commission services.

Source: EC, European Economy, 1988.

Table 3

Branches of manufacturing industry ranked by size of economies of scale

NACE Code	Branch	Cost gradient at half METS[1]	Remarks
35	Motor vehicles	6-9%	Very substantial EOS[2] in production and in development costs.
36	Other means of transport	8-20%	Variable EOS: small for cycles and shipbuilding (although economies are possible through series production level), very substantial in aircraft (development costs).
25	Chemical industry	2.5-15%	Substantial EOS in production processes. In some segments of the industry (pharmaceutical products), R&D is an important source of EOS.
26	Man-made fibres	5-10%	Substantial EOS in general.
27	Metals	> 6%	Substantial EOS in general for production processes. Also possible in production and series production.
33	Office machinery	3-6%	Substantial EOS at product level.
32	Mechanical engineering	3-10%	Limited EOS at firm level but substantial production.
34	Electrical engineering	5-15%	Substantial EOS at product level and for development costs.
37	Instrument engineering	5-15%	Substantial EOS at product level, via development costs.
47	Paper, printing and publishing	8-36%	Substantial EOS in paper mills and, in particular, printing (books).
24	Non-metallic mineral products	> 6%	Substantial EOS in cement and flat glass production processes. In other branches, optimum plant size is small compared with the optimum size for the industry.
31	Metal articles	5-10% (castings)	EOS are lower at plant level but possible at production and series production level.
48	Rubber and plastics	3-6%	Moderate EOS in tyre manufacture. Small EOS in factories making rubber and moulded plastic articles but potential for EOS at product and series production level.
41-42	Drink and tobacco	1-6%	Moderate EOS in breweries. Small EOS in cigarette factories. In marketing, EOS are considerable.
41-42	Food	3.5-21%	Principal source of EOS is the individual plant. EOS at marketing and distribution level.
49	Other manufacturing	n.a.	Plant size is small in these branches. Possible EOS from specialization and the length of production runs.
43	Textile industry	10% (carpets)	EOS are more limited than in the other sectors, but possible economies from specialization and the length of production runs.
46	Timber and wood	n.a.	No EOS for plants in these sectors. Possible EOS from specialization and longer production runs.
45	Footwear and clothing	1% (footwear)	Small EOS at plant level but possible EOS from specialization and longer production runs.
44	Leather and leather goods	n.a.	Small EOS.

[1] Minimum efficient technical scale.
[2] Economies of scale.
Source: Pratten (1987).

Source: EC, European Economy, 1988.

Table 4

The importance of larger enterprises in European countries in certain sectors (share of firms employing more than 500 people in total turnover of the industry)

NACE Code	Branches	B	DK	D	F	I	NL	UK
	High-demand, high-technology industries							
33	Office machinery and data-processing machinery	79.2	—	89.4	93.5	92.8	—	74.9
344	Telecommunications equipment	—	50.7	84.3	71.5	79.9	—	72.2
251	Basic chemicals	70.8	—	95.0	81.8	75.7	—	74.2
	Low-demand traditional industries							
43	Textiles	20.9	—	40.2	43.3	24.1	23.1	—
41/42	Food, drink and tobacco	48.2	—	46,7	44.4	—	43,1	—

Source: Eurostat.

Source: EC, European Economy, 1988.

Figure 1.
Exchange Rate Developments.