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## Where is the EC Drifting?

by Hans Möller, Munich\*

**The squabbles in the European Community have made the headlines in the last few months. Wide-spread is the impression that the EC is laboriously threading its way from compromise to compromise without evolving proper longer-lasting solutions for its problems. The Community is adrift. Where will the drift take it? Prof. Möller advances a medium-term projection. Prof. Hrbek follows it up with a presentation of this thesis that to view the EC as an artefact drifting erratically without purpose, direction or orientation gives a wrong picture of the Community.**

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The wording of the question "Where is the EC drifting?" already contains an important pronouncement about its future. The EC is at present "drifting" whereas its creation 25 years ago was the outcome of statesmanlike decisions and for a long time afterwards the EC pursued an active policy as well as it was the principal object of manifold political initiatives by the governments in the member countries. This train of change and the trends of development likely to ensue from it are to be followed up in a medium-term scientific forecast (for about a score of years). The short-term ups and downs on the other hand, the oscillations around the future development trend of the EC, which have shown up clearly in recent months and will certainly recur again and again in the future, will be left entirely out of consideration. Institutions (such as the EC) as distinct from macro-economic quanta (like the national product, etc.), are not usually made the object of scientific forecasts; that and how they can be

treated in this way cannot be discussed here in greater detail nor is it possible to explain systematically the various conditions implied in the following forecast.

In any predictions about the EC's future it is useful to start from what the EC was originally intended to be or to become and what it was in actual fact for a while (for example in the 'seventies). We need not concern ourselves with the contentious nature of these questions but may recall that many observers – rightly or wrongly – already regarded the EC as a federal state *in nascendi* or as a quasi-federal state structure, or at least thought that it was bound to move in this direction. Today it may be safely predicted that such a development will not take place – at least not in the next score of years.

There is a large body of evidence at quite different levels against such a development: for instance the historical experience of the origin and disintegration of states and the findings of political science in regard to the essential needs of a "viable" state (as indicated by the terms "loyalty" and "legitimacy" for example); and also the fact that in many areas of international cooperation (EC, Nato, IEA, etc.) there are no signs of a movement towards congruence of the integration areas and thus no signs of the origination of a state territory as would be needed for a federal state to come into being.

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\* The article reflects the personal view of the author (who occupies the chair of economic science and heads the Seminar for International Economic Relations at Munich University). The article is however based on the findings of a research project which he directed jointly with Hans von der Groeben on "Possibilities and Limitations of a European Union"; cf. especially Vol. 1: H. v. d. Groeben, R. Hrbek, H. Schneider, H. Möller: "Die Europäische Union als Prozeß" (The European Union as a Process), Baden-Baden 1980; Vol. 5: H. Möller, W. Cézanne: "Die Europäische Union als Währungsunion?" (The European Union as a Monetary Union?), Baden-Baden 1979, and Vol. 6: H. Priebe et al: "Die agrarwirtschaftliche Integration Europas" (The Agro-economic Integration of Europe), Baden-Baden 1980.

Why the EC did not embark on the road towards a federal state which had been left open in the EC treaties – and perhaps even foretokened or at any rate not ruled out – or why else it later departed from it is a question which has not yet been sufficiently elucidated by scientific research and will probably always remain contested. Which was the major factor: did – during the second half of the sixties – the intrinsic difficulties of farther-reaching economic integration through measures by the states prompt the member countries to *divert* the further integration onto the political field, or did overriding political considerations push economic integration in keeping with the EC treaties into the background?

### **EPC as a Second Pillar**

Certain it is that the EC knowingly departed from the road towards a federal state (if and insofar as it had ever been on this road) by its first enlargement at the beginning of the seventies at the latest. A triad of objectives – completion, intensification and enlargement of the EC – was proffered at that time for the initiation of a new phase of the policy of enlargement, but this magic formula could not really be taken seriously because the obstacles impeding the implementation of a monetary and economic union were already clearly discernible. How were the EC activities to be intensified in spite of the accession of new member states?

The first EC enlargement marked the entry into a new path of foreign-political cooperation which has been pursued since with evident success. The European Political Cooperation (EPC) began in the seventies, even before Great Britain, Denmark and Ireland had become full members of the EC. It has developed into a second pillar of the present EC system, beside the Common Market. This shift of the centre of gravity into a more political sphere led almost automatically to a second round of accessions when the political conditions in Greece, Portugal and Spain made this possible, which complemented the first – only just completed and by no means yet fully consummated – EC enlargement. In the sphere of the Common Market in the narrower sense the outward-oriented activities of the EC were also steadily gaining weight and momentum, for instance in the general area of external economic relations and more especially vis-à-vis the developing countries as was evidenced by the association agreements with more than 50 ACP states.

The Common Market, the original basis of the EC as laid down in the treaties of Rome, has in comparison

receded into the background. It is now only one of two pillars on which the present EC system rests. And the influence of national interests in the Common Market has been preserved and even in part grown stronger.

### **Interests of the Individual States**

The Customs Union as the hard core of the EC has become a practical reality but it has not grown into a firmly established trade bloc. It did not do so, on the one hand, because the external tariffs have been largely dismantled (e. g. between the industrialized countries in the framework of GATT) or entirely removed (in trade with the EFTA countries which have remained outside the EC) and, on the other hand, because in the economic relations with the socialist and with the developing countries it is not the import duties but other instruments of foreign trade policy (such as quotas, etc.) which are paramount and their deployment depends largely on the interests of individual states. This is shown in particular by the EC import regulations for critical products (like textiles, steel) which still deserve to be described as “protectionistic”.

It is thus seen that in regard to the trade policy the EC has not taken the place of the individual states as had been expected by some circles originally but the individual states and the EC have come to work together and side by side in a way which seems to offer advantages to all concerned and has so far also fitted in with the foreign-political cooperation. The prognosis is that this state of affairs will continue and there is no reason to expect a swing towards a common trade policy primarily sustained by community organs.

### **Diminishing Incremental Benefits**

The EC is however much more than a mere customs union, as is correctly reflected by the Common Market label; the provisions in the EC treaties for free movement of production factors and many regulations (about grants, taxes, constraints on private competition, etc.) turn it into a system of untrammelled competition. It is surprising how widely these additions and supplementary provisions have been applied in practice. The consequent increase of the degree of economic integration in the Common Market has given a lift to the *trend level* of the economic growth in the member states. This effect is however undoubtedly subject to the law of diminishing returns: any further increases in the degree of integration are more difficult to calculate and yield smaller benefits. Whether increasing integration will raise the growth rates to any appreciable extent and thus be capable of bringing

about a directional change of the growth trend in an upward direction over the long term is questionable. All this leads to the conclusion that the margin for a further increase of allocation efficiency by continuing extension of the Common Market is probably relatively small.

One of the main reasons for the lessening interest in the Common Market in the narrower sense is the fact that distribution wishes of the population have everywhere come to the fore in the past two decades of years. They take many different forms and are "naturally" – in the given political ambience – addressed to the individual state governments which usually meet wishes of this kind by taking appropriate measures. This makes a uniform policy at the EC level more difficult.

### The Role of the EMS

All this can be seen clearly in the monetary sphere for which the EC treaties made hardly any provisions because the Bretton Woods system was at that time still regarded as sacrosanct. When the leading economies in the sixties embarked on a policy of global management which led to the erosion and eventually the collapse of the world-wide fixed-rate system, the EC states shared in this policy, and the responsibility for it, while at the same time trying to preserve a fixed-rate system inside the EC and even to consolidate it by a monetary and economic union. An attempt of this kind is bound to fail as long as the established nationally-oriented principles and modalities of global management are being adhered to.

The joint floating of European currencies – the so-called snake – and the European Monetary System (EMS) which has grown from it since 1979 are no real fixed-rate system because the central rates are, in principle, variable. The hope – or, depending on the observer's point of view, fear – that the EMS may develop into a monetary union seems unwarranted, if for no other reason, because the EC is not moving towards federalization; for under the present rules of monetary policy it is almost impossible to envisage a monetary union without a quasi-federal state organization.

If however appropriate changes in the system of global economic management were made in the EC states – and this would be feasible only as a protracted process – the EMS could gradually evolve as a fixed-rate system (with ever lessening needs for central-rate changes). Above all, in this event the EMS could prove itself a useful instrument for coordinating

the exchange rate policies of the EC states vis-à-vis the major world currencies including in particular the US dollar. Developments of this kind cannot be ruled out but one should beware of excessive hopes in this direction. It is even more doubtful whether the EMS will help to buttress the EC system as such. Great Britain is still standing apart, and other EC countries may leave the EMS at times, while non-EC states with autonomous exchange-rate policies may attach themselves to the EMS.

### The Outlook for the Common Market

The external economic relations and the monetary sphere are not the only areas in which individual states exercise a significant influence on the Common Market. This influence can be felt also in other areas. Taking an overall view, it must be accepted today that the Common Market is no longer moving closer to the postulated aim of untrammelled competition and there are no signs of future tendencies towards this objective. An especially grave factor is the situation in the common agricultural market which was originally rightly thought to be a great success of the EC. In this field the renationalization of monetary policy and the exchange-rate flexibility resulting from it have had the effect of largely eroding the Common Market through the reintroduction of monetary compensatory amounts, and the decision-making mechanisms of the common agricultural policy have so far proved inadequate for a solution of the problem of the costly agricultural surpluses.

Judged by the objectives and prescriptions of the EC treaties, the outlook for the future development of the Common Market can thus not be described as favourable. Nevertheless its outright disintegration need not be expected; it will remain in being, suffering setbacks but also recording partial successes, just as the individual states will endure although in their spheres too the proclaimed objectives and the norms fixed by law will be realized to varying degrees only and never in full.

All this applies only to the Common Market in the narrower sense and not to the EC system as a whole. The latter has – as was emphasized earlier – been given a second important pillar in the form of the EPC. The Community law provides no safeguards for the EPC. It is a vehicle for voluntary coordinated action on the level of the EC states. It will increase in importance because the foreign affairs are becoming increasingly important and at the same time increasingly intricate in the world of today. It is not to be expected that the EC

will in the medium term develop into an organization in which the member states will gradually merge; it is more likely that the EC will play the role of an instrument which the members will use to safeguard and strengthen their individual influence if and when it seems expedient to do so.

It is precisely because the EPC is so loosely organized that the Common Market, founded on Community law, increases its stature and efficiency.

In consequence it is in the own interest of the member states to preserve the Community law and the Common Market and even to extend these in part if it could be done without great difficulties. This does not mean that the Common Market in the sense of a system of untrammelled competition will again become a focal point of the EC but rather that its coordinative activities will assume greater importance also in the economic sphere.

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## EUROPEAN COMMUNITIES

# A False Image of the Community

by Rudolf Hrbek, Tübingen\*

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The question: "Where is the EC drifting?" suggests that the EC is in a severe crisis. To stay with the nautical simile: it is implied that the Community is no longer on course, either because of adverse framework conditions (which would presumably be of a transient nature) or else – and that would be much worse – because the end of the voyage has been lost sight of or is being contested and there is nobody to hold the rudder. Those who take this view usually presuppose that there is no doubt about the aim towards which the Community should develop, the aim of what is called "integration", that the route and method have been clearly marked out, and that responsibility for the execution of the requisite work has been assigned to specific agencies.

Ralf Dahrendorf<sup>1</sup> presented recently an entirely different version of the EC's crisis. He mentions a series of major tasks which could not be successfully accomplished except through European cooperation. He sees in the institutions and procedures which have devolved upon the EC the principal obstacle to initiatives for such European interests, to their purposeful pursuit and to a successful break-through.

And this threatened the Community with (self-) Balkanization.

Both versions of the purported EC crisis give a wrong picture of the Community and the processes operating within it or one that does not cover everything. They leave quite essential elements out of account. For an adequate consideration of the question which has been asked we must therefore first describe and interpret the Community and the processes which are proceeding in it.

The Community's tasks (its functional scope) emerge as a first aspect. The Common Market is always mentioned first; for many it is still the cardinal element of the EC because it stimulates and preserves a wide range of integrative moves. Very few policy areas are in fact – like, for instance, the agricultural policy – the concern of the Community; in regard to the general economic policy the EC is not intended to do more than coordinate national measures. In individual sectors the EC is gradually taking on specific tasks without however replacing the member states as responsible actors; such sectors include development policy (Lomé convention), monetary policy (EMS) and

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<sup>1</sup> Cf. Die Zeit, April 25, 1980.