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ECONOMIC CONTRADICTIONS IN THE PROCESS OF WESTERN EUROPEAN INTEGRATION

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The process of the economic integration of the six countries of Western Europe is probably one of the most outstanding events of the post-war era. Aside from all the political implications of this process, the economic aspect is of the utmost importance to the students of economics. International literaure concerning this economic aspect exists in abundance. The process of Western European integration is particularly interesting as an isolated phenomenon which started on a specific day and attempts to continue to previously determined goals. The international treaty signed March, 1957, in Rome set up a permanent Economic Community composed of France, West Germany, Italy, Holland, Belgium, and Luxembourg. We shall consider the influence of some of the institutions created by this treaty particularly dealing with the integration of the agricultural economies of the member countries; we shall not dwell on their creation or structure since these aspects do not specifically concern the present analysis.

The whole process of Western European integration is due to the introduction of specific institutions and regulations. Perhaps this confirms the arguments of the advocates of the institutional approach to the study of economic phenomena.[1] In general, we agree with the assumption that the establishment of the Common Market promoted and will continue to promote the economic growth of the member states. This generalization, to our knowledge, is contested by some isolated voices.[2]

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[1] **Arkansas Gazette.** January 13, 1963. The economic editor of the **Arkansas Gazette**, Mr. Leland Duvall, put it this way: "Right now, for example, the part of American exports of farm products that goes to Western Europe does not depend on the willingness of farmers to produce or sell, or on their efficiency. The determining factor will be the decisions reached in the European Economic Community. Only the government of the United States can deal with the problems associated with the Common Market area—which means that politics is at least as important as production in this case."

[2] Alexander Lamfalussy, "Europe Progress Due to Common Market," **Lloyds Bank Review**, London (October, 1961). Lamfalussy argues that "there seem to be no obvious figures which would point out a causal relationship between the establishment of the Common Market and the rapid growth of its members. It seems, in fact, quite possible to argue the other way round and to suggest that it is the 'inherently' high rate of growth of Continental Europe which made it possible to set up the Common Market, not vice versa." We think this most pronounced opinion should be taken **cum grano salis** as it can be considered a voice in the bitter discussion between Great Britain and Common Market.

These voices hold that there is no casual relationship between the establishment of the Common Market and the subsequent rapid growth of the economies of the member countries. But it will be difficult to deny that Western European Economic Community, in the years following their organization of nations, achieved great advances in Gross National Product and in industrial production areas greater than those gained by the United States or the United Kingdom.[3]

The brilliant economic recovery of the Western European Economic Community should not hide to attentive observers two major inherent economic contradictions. These contradictions can hamper Western European development and can make Western European economy in the long future more vulnerable because subjected to internal inflationary pressure and accentuated dependence of external markets. What are these contradictions and what concrete consequences can they bring to bear on European economy?

First, there is an essential discrepancy between the liberal industrial and financial policies of the Common Market and the regulatory character of the agricultural policy.[4] The so-

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[3]Data based on OECD statistics and the U. S. Survey of Current Business, September, 1961, as compiled by the European Community Information Service. "A New World Power," Brussels, Luxembourg: September, 1962. In the four years since the Common Market came into force, from January 1958 to December 1961, the Community Gross National Product rose by 21.5% against 11.6% in Great Britain and 10% in the United States. Industrial production in the Community during the four-year plan rose by approximately 29% compared with 13% in Britain and just over 18% in the United States.

[4]By liberal industrial policy we mean gradual release of industry, trade, and finances from many regulations, with particular emphasis on the necessity of the healthy competition in internal and external markets. The first Community's Anti Trust Law came into force on February 21, 1961. (European Bulletin Number 53.)

The most important element of this "liberal" approach to industry is tariff cuts in internal trade, the impact of which is so profound on the economy of the member countries. This impact is very well sketched by the **Wall Street Journal's** correspondent in France.

"Finally, by helping to form the Common Market just before General de Gaulle took office, France subjected its industry to stiff competition from goods coming in from other European nations under tariff cuts the EEC brought about. An EEC study claims such competition since 1958 has forced French factories to slash the price of a typical refrigerator from $160 to $100; a transistor radio from $50 to $20; a set of kitchen kettles from $25 to $14. (**The Wall Street Journal.** February 1, 1963.)

But the internal tariff cuts involve mostly industrial goods. "The EEC treaty came into force on January 1, 1958. Today tariffs between the member states have been reduced by 40% for industrial products, 35% for non-liberalized agricultural products, and 30% for the liberalized agricultural products." (United Europe, Challenge and Opportunity. Walter Hallstein. Harvard University Press (1962). Chapter II: "The Economies of European Integration." p. 48.

called Mansholt Plan covers European agriculture of the member countries with protective shields. This Plan has involved the Common Market in tariff disputes with outside nations already; but what is more important is the future effect of this Plan on European industrial development. This regulation of agriculture must result, if not in higher agricultural prices, anyway in the stabilization of the existing prices which are far above the international level. Higher agricultural prices must, of necessity, result in higher industrial prices and create inflationary pressure which is already evident.[5]

Sico Mansholt, a former Socialist Minister of Agriculture of the Netherlands, now Vice Chairman of the EEC executive body and head of the agricultural section, is the strong man behind the scene in the field of the agricultural policy of the EEC. The proposals embracing the whole series of measures concerning the integration of European agriculture got their name from him and are called, simply, "The Mansholt Plan."

The Mansholt Plan rigidly controls agricultural production and marketing. This rigidity was criticized when the Plan was presented in November, 1959; this rigidity was again pointed out by many speakers of the European Assembly of the EEC during the spring session of 1960. The Plan involves the fixing of prices for major agricultural products; the creation of an agricultural financial fund to finance the shaping of agriculture to fit the goals of the Plan; the creation of several specialized marketing bureaus to supervise the marketing of products such as wheat, grain, sugar, milk, etc. Should agricultural production exceed consumption, the Plan offers means for reducing production.

When the Plan was presented to the European Assembly, one of the members of the Assembly said, "This is more than a 'Malthusian' concept of policy; it is a 'Mansholtian' one."

The Plan has had one prime advantage from the very beginning. It is the only formulated and articulated Plan for the

[5]The Wall Street Journal in the dispatch of its Paris correspondent who is writing on March 15, 1963: "It is never the less equally true that France does have an inflation problem—and it grows more serious. At the moment, France's competitive position within the Common Market does not appear endangered. According to recent studies, labor costs in France are currently rising more slowly than those in Germany, and only slightly more than those in Italy and the Benelux countries. But the present trend cannot be allowed to persist indefinitely without risk."

It means that the inflationary pressure is evident in the economies of all the member countries.

organization and integration of agriculture within the Europe of Six.[6]

From the very beginning of the endeavors to create a European Economic Community, it has been obvious that to leave agriculture out of the process of economic integration would be economically and politically impossible in view of the great importance of the farming groups in each individual country as well as in the Community as a whole.[7]

After many discussions concerning the modalities and application of the Mansholt Plan, The Council of Ministers of the Community—during the morning of January 14, 1962—reached an agreement on the first measures of common agricultural policy. The official publication of the EEC commented in the following way on the agreement to agricultural integration and its application. "Effective July 30, (1962) national controls on import quotas, minimum price regulations, and tariffs on grains, eggs, poultry, and pork were replaced by Community controls. Import levies are now applied by the Common Market to those products in both internal and external trade.

"The levies, designed to prevent domestic producers from being undersold, bring prices of imported produce into line with the prices ruling in the particular national market. In order to

[6]In the past there were in Europe many proposals and plans for the European integration of agriculture. In 1950, during the negotiations of the treaty establishing a European Coal and Steel Community, there were endeavors to create the so-called Green Pool. Little came of it. Anyhow, there isn't trace of any challenging program to "Mansholt Plan" on the lines of American suggestions of the Conference for Economic Development "Toward a Realistic Farm Program." (Published in December, 1957, in New York.)

[7]According to the Common Market Treaty of 1957, trade on agricultural products was supposed to be subject to the same reductions on duties and quotas as apply to industrial goods. But the farmers in each member country of the Community formed a well organized political power. They were interested primarily in the defense of their immediate interests. Each member country had its own system of protecting the farmers and improving their lot by artificial means. For these reasons, the agricultural problems in the Common Market have simply been ignored till spring, 1960. The protective barriers were maintained despite Rome Treaty provisions—at first tacitly.

But the protests came from the exporters of farm products from Sicily and Holland. Under the pressure exercised by the Dutch government in the spring of 1960, the Rome Treaty provisions concerning the tariffs cut for agricultural goods in internal trade were put in operation and the decision was reached to start to work out the plan for the common agricultural policy, the so-called Mansholt Plan.

provide a measure of Community preference, they are lower in the case of intra-Community trade than for external trade."[8]

We know already the reaction of "outsiders." United States Secretary of Agriculture, Orville L. Freeman, at the ministerial meeting of the Agricultural Committee of the Organization for Economic Cooperation and Development (OECD) in Paris on November 19, 1962, pointed out that the Community's policy would profoundly affect the world agricultural situation. He urged the Community to apply a liberal trade policy in the field of agriculture.

The Mansholt Plan for setting up the whole system of protection is much less flexible than the American pattern of protective measures which can be revised at any time by Congress. The Mansholt Plan is an essential part of the over-all international set-up and will be far more difficult to modify.

This Plan is more a political than an economic solution for European Agriculture. The problems facing agricultural production are similar in Europe to the problems facing the American farmers—but not identical.

"The farm problem has its roots in the small-scale nature of the farm firm, the technological revolution since 1920, the relatively high birth-rate of farm people, and the declining relative demand for farm products. Political measures to solve the problem have only aggravated it, since they have disrupted the normal interaction of economic forces and have dislocated resources. The farm problem is an economic problem; it calls for an economic not a political solution." (**Principles of Economics.** Chapter 22, "The Farm Problem," by Professors O. W. Cooley, E. E. Heimbach, and S. E. Warren.)

European agriculture is similar to American in the small-scale type of farms, but the second problem is quite different from the U.S.A. situation. The technological advances in Europe are not so pronounced—the prices are very high.

The third problem for both complexes, the high rate of birth in the countryside could be even beneficial for European economy, if properly handled.

As it was recently observed, it is not only the introduction of modern machinery into agricultural production which is detrimental to the small type farms in the U.S.A. but also the marketing of agricultural products.[9]

[8]Bulletin for the European Community. Number 56, (September, 1962), Washington, D. C.

[9]"Processors need large supplies of raw products, therefore they may tend to favor the large producer. The same can be said for the fresh market. Large chains need large quantities of uniform products; therefore they tend to buy from larger producers." Quoted from "Technological Advances Change Farm Marketing" by Ovid A. Martin of the Associated Press. **Arkansas Democrat.** January 27, 1963.

The Mansholt Plan does not even pretend to solve the essential problems: the distribution of land and the discrepancy between world and European agricultural prices. As an example, let us consider the problem of the price of wheat. Speaking at the Wesleyan University on December 6, 1962, Professor Walter Hallstein, Common Market Commission President, declared: "What already exists is the framework, the instrument for applying the policy, in other words, we have decided that there will be a target price and intervention price for grain, that there will be levies between the member states and at the external frontier, that there will be certain financial measures. The decision as to what is to be made of those instruments will come the moment we decide on the common grain price—that is, the price which is to obtain for the whole Community and toward which the still widely national prices must move." (**United Europe. Challenge and Opportunity.**) The first decision on this price was to be determined by the Community's Council of Ministers by April 1, 1963.

In January of this year, the world price for wheat was \$64.40 a ton. In France, it was about \$98.00 a ton; in West Germany, almost double the world price at \$126.00 a ton. When the transition period for the establishment of the unified agricultural market for Western Europe ends in 1970, a uniform price for wheat will be set up for all the six countries of the European Community. Probably this price will be set at the level between the French and German prices as these two countries are the most important members of the Community.

With respect to wheat, Common Market countries face this problem: where to peg the Common Market price.

France now has a price support level of about \$2.30 a bushel (as against the \$1.82 price support in the U.S.A.); West Germany supports wheat at \$3.15 a bushel. The expectation is that President de Gaulle will push for the higher West German price support to make France "Europe's Granary." (**The Christian Science Monitor**: Farm Export and EEC. March 25, 1963.)

This example of wheat is indicative for other agricultural products. When, on July 30, 1962, the member countries submitted themselves to common farm tariffs, this resulted, for the most part, in increased European tariffs on wheat, feed grain, poultry, some pork products, wine, fruits, and vegetables.

American press and opinion reacted particularly to the increase of import levies on poultry, one of the very important items in American agricultural export to Western Europe.

During the recent negotiations between Great Britain and Common Market, the British press pointed out that unrestricted, unconditional, and immediate acceptance by Great Britain of the Mansholt Plan will—by 1970—add more than 30 per cent to the market price of wheat and flour in Great Britain.[10]

The Mansholt Plan must logically lead in the long run to a general increase in food prices and produce a like effect on industrial prices. We can compare the effect of the Mansholt Plan to the effect of the Corn Laws in England in the 1820's and 30's. This stabilization of agricultural prices on higher levels will not help to resolve the basic structural deficiency of European agriculture which grows out of the distribution of the land. The highly remunerative prices will only stabilize the **status quo** and put the small submarginal holdings just on the margin of cultivation.[11]

The strongest negative impact of the Mansholt Plan, we think, will be felt on the market for industrial manpower: existing policy in the field of agriculture is presently depriving European industry of badly needed labor. The problem of constantly available labor reserve for industry is of primary importance for economic development. This was particularly obvious in the German economic miracle which was brought about by the sudden influx of almost eight million people from East Germany, Poland, and Czechoslovakia. This influx provided West German industry with an available labor force without which the German "Wirschaftswunder" could not have been so spectacular.

The Mansholt Plan for Western European agriculture, through stabilizing agricultural prices on a level far above the world price level and making the small farm the going concern through price protection—when it is no longer an economically going concern, will not only make the cost of living high but also will influence adversely the normal process of the influx of the rural population into growing industry thus hampering the economic development. The European press for some time has attracted the attention of the public to the prob-

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10"British Agriculture to Face Shake-up under Trade Plan." A.P. dispatch from London. **Arkansas Democrat.** January 6, 1963.

11The distribution of land in Europe is characterized by small holdings due to shortage of land. In acres, the surface area at the disposition of the farmer is as follows: Germany, 8; Belgium, 12.5; France, 16.7; Italy, 8.1; Luxembourg, 10; Holland, 10.5. (Quoted from **L'Agriculture** et le Marche Commun par Francois Henri de Virieu Le Monde Diplomatique. Paris, November, 1959.)

In the U.S.A., about 22 million people or 12 per cent of the entire population live from agriculture. They till about 5 million farms embracing more than one billion acres of land. It means that the average surface is 50 acres per farmer; but through purchases and renting many farmers have been steadily increasing the size of their farms. Thus, the average size of the American farm is now 233 acres. (**Principles of Economics**; "The Farm Problem.")

lem of the labor shortage. The data presented by the official publication of the EEC, Bulletin for Europe, Number 57, October and November of 1962, are most significant. [12]

The high prices on agricultural goods together with the labor shortages should inevitably create permanent inflationary pressure, the phenomenon which is already worrying the men responsible for the European economy. "United States tourists have noticed this and wondered whether it is only the outsider who is being charged more. But any tourist who takes the time to stroll through side streets off the tourist route, or to visit small towns where sightseers seldom go, finds that the natives too, are getting a dose of inflation, which invariably affects the ability to compete on the export-import trade. Some of this has not yet shown up on statistics, but firsthand observation has uncovered startling increases that will figure in government reports by mid 1963." [13]

Now we shall consider the problem of private expenditure. In November, 1962, EEC released the report of the Special Committee of Economic Experts involving the economic forecast for the future. The report presents growth estimates of the major components of the economies of the six countries and of the Community as a whole projected over the decade 1960-1970. According to these estimates, the gross product of the Community will increase by 53-59 per cent from 1960 to 1970; in dollars that increase is from $189 billion to $277

[12]"Germany. Although the working population increased by 2.4 per cent during 1961, demand for labor rose even faster; and record of 600,000 vacancies were registered. It was estimated that Germany would need an additional force of 171,000 workers during 1962 if the anticipated rise in industrial production was to be achieved.

"Netherlands. Labor reserves are almost exhausted. Some improvement is expected to show this fall, and the employment of women workers—so far the lowest in the Community—is expected to increase.

"Luxembourg. The proportion of foreign workers employed in Luxembourg, which now accounts for nearly a third of the total labor force, increased by only one per cent in 1961.

"France. General labor shortages persist in the north, the northeast, and the Paris region. The total French working population continues to increase, mainly as the result of immigration. In 1962 almost 79,000 workers were added to the labor force from this source compared with 49,000 in 1960 Of the immigrants, nearly 24,000 came from Italy and over 39,000 from Spain. A further easing of the labor market in France can be expected from the influx of Algerian refugees and reductions in military manpower. On the other hand, reductions in the working week are now likely.

"Belgium. Despite slowing of economic expansion in 1961, unfilled vacancies rose by 60 percent.

"Italy. A surplus of labor still exists, although the remarkable strides which the economy has made in recent years have steadily reduced unemployment."

[13]**Nation's Business**. March, 1963. p. 44.

billion. The Commission expects that personal expenditures will increase by 61-67 per cent as compared with 53-59 per cent for Gross National Product; this means a possible increase from $110 billion to $188 billion. (Bulletin from the Community. Number 59.) According to this expectation, the private expenditure will rise faster than the rise of the GNP but certainly does **not** indicate that the pattern of European consumption will change radically. Not at all! We must take into consideration that European private expenditure after the Second World War started from a very low level and is far behind the consumption in the United States of America. Particularly is this true in the field of nondurable consumer goods. Some data [14] on 1956 European and American private expenditures for consumer goods will permit enlightening comparison.[15] The consumption of such items as meat, eggs, butter, milk, steel, and energy per capita is much lower in EEC than in the U.S.A. Just to say that in West Germany consumption of meat is 41.6 klg. per capita—in the U.S.A., 82.6 klg.; we say with a great deal of adequacy that American consumption of the above mentioned items (meat, eggs, butter, milk, steel, energy) is double the European.

The anticipated increase in personal expenditure of 61-67 per cent between 1960 and 70 will not greatly vary the pattern of European consumption because this rise must be directly related to the predicted increase in European population. This population increase is expected to reach 8 per cent or 168 to 175 million. We can assume that the average propensity to consume in the EEC Community will be relatively stable.

The consumption of the EEC countries is—and will be—handicapped by the very high prices which the consumer in the Common Market must pay for the food. Just to show this more clearly, let us say it in this way: to pay for 1 klg. of beef sirloin, the American worker must spend 68 minutes of work; French, 317; Belgian, 256; German, 137; and Italian, 353. To buy one klg. of flour, the American worker must

[14]EECC statistique de base, produits alimentaire moyenne 1953-56, acier et energie 1956. Economie et Politique. Special Issue.

[15]Consumption per capita in klg.

	Meat	Eggs	Butter	Milk	Steel	Energy
Germany	41.6	9.7	5.7	128	417	3,600
France	74.6	11.0	5.6	88.6	276	2,860
Italy	19.4	7.4	1.2	52.3	120	1,120
Belgium Luxembourg	49.3	13.9	9.4	91.6	296	4,340
Netherlands	37.5	7.6	2.6	199.9	237	2,450
EEC	45.4	9.5	4.3	97.4	276	2,680
USA	82.6	21.8	3.2	158	600	8,580

spend 6 minutes; Belgian, 38; French, 33; German, 19; and Italian, 34. A similar gap exists in the case of milk, eggs, and fruits.[16]

What we must conclude is that the European plan of agricultural integration will result in the petrification of highly artificial level of agricultural prices which in the long run must influence industrial prices.[17] The Mansholt Plan will deprive industry of the necessary influx of man power from the rural areas. This dislocation of resources due to the excessive protection will stabilize European propensity to consume. Particularly since European consumption is dictated by customs, a powerful stimulus is needed in the drastic lowering of food prices. The reportages on the spectacular rise in European personal expenditures are misleading. For the most part, these reportages are based on mistaken external signs. The so-called Americanization of European consumption involves the acceptance of modern American procedure but not prices.

Because of the limitation of the internal market the European industry will traditionally look for the foreign markets for their industrial products. The accumulated surplusses will be invested abroad following the traditional pattern of the European economic expansion in 19th century and in the beginning of the 20th century.

[16]International Labor Office, United Nations: **The Economic Almanac** 1962.

[17]The Common Market, taken all round, provides 87 per cent of its agricultural requirements. With the exception of coarse grain, citrous fruits, fats (except butter) and oils, the Common Market area is self-supporting or more. Quoted from Common Market Commission's proposals for a common agricultural policy presented to the Economic and Social Committee of the EEC on November 7, 1959.