The Common Market: Prices, Competition and "Harmonisation"

The Common Market, by abolishing barriers to international competition and by facilitating the free movement of products and factors of production, will undoubtedly have a profound influence on the mechanism of price determination in the Member States. This influence will be partly the result of automatic adjustments, and partly also of action by Member States, and by the new common institutions. This article is concerned with the powers vested in the common institutions.

Under the terms of the Treaty, there are considerable powers of intervention — some very precise and others much less so — in the field of prices. Moreover, a great number of decisions taken in other fields will have repercussions on the general price level as well as on the prices of specific commodities.

The provisions of the Treaty in this area have not been inspired by a homogeneous body of doctrine, but are the products of a very mixed set of motives. They consist for the most part of ad hoc rules, introduced with the object of overcoming certain difficulties which can at present be foreseen. For the rest there is a background of two somewhat contradictory economic philosophies.

On the one hand, one finds an expression of faith, at least in the international sphere, in market forces and the mechanism of free competition. This faith is, however, tempered by a realisation of the fact that *national* powers of intervention in price determination might make it difficult for market forces to work freely at the international level. One school of thought is, in any case, relying on the more liberal provisions of the Treaty to put a brake on national measures of direct control and regulation.

But there is also, on the other hand, some fear that adjustments of prices, costs of production factors and profit margins among the participating countries might involve serious disturb-

ances, with some countries or industries suffering losses. A demand thus arises for the " harmonisation " of these elements; it is conceived of as a compulsory process and will necessarily result in some form of international or supranational " dirigisme ".

These attitudes are deeply divergent, although the lines separating the supporters of one side or the other are somewhat fluid, both as between the countries involved and as between groups of special interests. The business of the European Economic Community will itself be the product of these differences — differences which the Treaty reflects but does not resolve.

Duties and Powers of the Community in the Field of Prices and Markets

A glance through the Treaty of Rome soon reveals a wide range of questions which presuppose a deep knowledge of problems of prices and markets, and on which the Community will be called upon to make decisions or form judgments. The following examples are drawn from various articles in the Treaty:

Article 20 refers to a long list (list G) of products whose common tariff remains to be negotiated between the Member countries. If agreement is not reached before the end of the first stage the Council must resolve matters, by a unanimous decision up to the end of the second stage, and by a qualified majority vote thereafter.

Article 25, paras. 1 and 2: depending on the case, either the Council or the Commission, may, under certain conditions, authorise imports from third countries, free of duty or on a reduced tariff, of products in lists B, C, D and E.

Article 25, para. 3: " In respect of the products listed in Annex II to this Treaty (agricultural products), the Commission may authorise any Member State to suspend, in whole or in part, the collection of the duties applicable or may grant to such Member State tariff quotas at a reduced rate of duty or duty free, *provided that no serious disturbance in the market of the products concerned may result therefrom* " (1).

(1) Author's italics in this and subsequent articles.

Article 29: " In carrying out the tasks entrusted to it under this Section (see art. 25 above), the Commission shall be guided by:

. . . . .

(b) the development of *competitive conditions* within the Community...

(c) the Community's requirements of supply in raw materials and semi-finished goods, while at the same time taking care not to distort *competitive conditions between Member States with regard to finished goods* ";

Article 39, para. 1: " The common agricultural policy shall have as its objectives:

. . . . .

(c) to stabilise markets;

. . . . .

(e) to ensure *reasonable prices in supplies to consumers* ".

Article 40, para. 3: " *A common (agricultural) price policy*, if any, shall be based on common criteria and on uniform methods of calculation ".

Article 44: this article deals with the determination of *minimum import prices for agricultural products* which Member countries may establish, as a temporary measure, to replace quotas and customs duties.

Para. 3: " Upon the entry into force of this Treaty, the Council, acting on a proposal of the Commission, shall determine objective criteria for the establishment of minimum price systems and for the fixing of such prices.

The criteria shall, in particular, take account of average national costs of production in the Member State applying the minimum price... ".

Article 45: covers long-term contracts for agricultural products. Para. 2: " With regard to prices, such agreements or contracts shall enable producers to dispose of the agreed quantities at prices progressively approximating to those paid to national producers in the home market of the purchasing country ".

Article 46: If, in a Member state, a product is the object of a national marketing scheme which affects its competitive position abroad, other Member States shall apply countervailing charges on

entry. The Commission shall *fix the amount of these charges*, to the extent necessary to reestablish the balance.

Article 80 (transport): "The application imposed by a Member State, in respect of transport effected within the Community, of rates and conditions involving any element of support or protection in the interest of one or more particular enterprises or industries shall be prohibited... ".

Article 85 (rules of competition): "The following shall be deemed to be incompatible with the Common Market and shall hereby be prohibited: any agreements between enterprises, any decisions by associations of enterprises and any concerted practices... which have as their object or result the prevention, restriction or distortion of competition within the Common Market... ".

Article 91. Prohibition of dumping and protective measures which may be taken by the Commission.

Article 92, para. 1: "... any aid, granted by a Member State or granted by means of State resources, in any manner whatsoever, which distorts or threatens to *distort competition* by favouring certain enterprises or certain productions shall, to the extent to which it adversely affects trade between Member States, be deemed to be incompatible with the Common Market".

Article 101: "Where the Commission finds that a disparity existing between the legislative or administrative provisions of the Member States distorts the conditions of competition in the Common Market and thereby causes a state of affairs which must be eliminated, it shall enter into consultation with the interested Member States".

Article 107: "1. Each Member State shall treat its policy with regard to exchange rates as a matter of common interest.

"2. If a Member State alters its exchange rate in a manner which is incompatible with the objectives laid down in Article 104 and which *seriously distorts the conditions of competition*, the Commission may... ".

Article 118: "... it shall be the aim of the Commission to promote close collaboration between Member States in the social field, particularly in matters relating to:

— employment,

— labour legislation and working conditions...

— the law as to trade unions, and collective bargaining between employers and workers".

Article 119: "Each Member State shall in the course of the first stage ensure and subsequently maintain the application of the principle of equal remuneration for equal work as between men and women workers".

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It is very obvious that both the obligations assumed by Member countries and the powers vested in the joint institutions go much further than those which apply in existing European organisations, such as the O.E.E.C. and even the E.C.S.C. (which has, nevertheless, real power to intervene in price questions). While avoiding a close juridical analysis of the Treaty, it is possible to set out the various areas in which there are widely differing degrees of competence:

— in the direct determination of prices and the criteria to which certain prices have to conform (minimum agricultural prices — eventually the common policy in respect of agricultural prices);

— in the determination of customs duties, taxes and other cost elements which may directly affect certain prices (Article 20, Article 46, etc.);

— in the power to permit measures to be taken which may have a direct influence on prices in certain sectors (duty free import quotas according to the provisions of Article 25, subsidies for particular products etc.);

— in ensuring that certain common principles are observed when public and private decisions on prices are taken. This is typified by the prohibition of measures or practices which "distort competition", for example, the prohibition of subsidies in the form of reduced transport tariffs (Article 80), the permission to suspend customs duties (Article 25), the prohibition of restrictive business agreements (Article 85), of export subsidies and production subsidies (Article 92), the determination of legislative and similar "disparities" (Article 101) and provisions to avoid harmful devaluations (Article 107);

— finally, the duties and powers of control in the field of " distortions " and the equalization of legislative arrangements which might affect prices, wages and costs.

From the economic point of view (as well as the statistical one) it is clear that the use of the majority of these powers can have a considerable effect on the level of prices, and consequently on incomes and activity, in a number of individual sectors. But these interventions will be justified on each occasion by ad hoc reasoning; they will not necessarily result in a co-ordinated set of measures really amounting to a price policy developed through the actions of the Community.

On the other hand, certain powers could involve effects of a general nature on the overall level of costs and prices in one or a number of countries. In this category we may include the powers under Article 101 on " distortions " caused by legislative and administrative provisions, those under Article 178 on the improvement of social conditions, and those on agricultural policy. These " general " powers are, of course, defined much more vaguely than the others. Sometimes they go no further than a general statement of the intentions of Member countries (e.g. on the question of social improvement); their results will therefore depend on the extent to which the Economic Commission and the Council will wish, and feel themselves empowered, to take action.

We shall consider in the following sections the conditions in which these special and general powers may be exercised.

Special Powers of Intervention

These powers, as has been seen, go much further than those of any existing international institution; but they are of the same character as those which each European government already makes use of at home. Each government, for example, determines customs duties with regard to the interests of industry and consumers, grants or refuses subsidies, fixes prices and exercises some control over industrial agreements which may " distort competition ", etc. The change now involved is that action in these fields — and consequently the preliminary assessment of evidence — will be internationalised; this means that there will be a greater clash of opposing interests, but that a more balanced approach will be needed than in the case

of action by a single country. All this considerably complicates the statistical problems — and even more the problems of economic analysis and policy — compared with what is involved in consideration of a single country. Such an obvious conclusion can be highlighted by specific examples.

Let us take, for example, the establishment of a minimum import price for apples in Belgium — that is to say, a price below which the Belgian importer is not permitted to buy abroad. We have already had some experience of this kind of system in Europe (2). Certain countries determine *unilaterally* their minimum import prices for fruit and vegetables; there are also agreements between Germany and Italy, and between Germany and the Netherlands of this type. But multilateral negotiation between importing and exporting countries is quite another matter from a discussion between a Minister of Agriculture and producers in a particular country.

What should the procedure be in the example — hypothetical but based on actual cases — which we have given? The experts would get together. They would establish that there were a good half dozen varieties of apples on sale in Belgium, each coming onto the market at a different date. The prices of these different varieties would be examined and suitably weighted; but it would also be necessary to know what was the actual day-to-day price of each variety in order to establish whether or not it reached the minimum price. Agreement would have to be reached on the grading and the packing of the different varieties. It would, further, be seen that prices were not necessarily the same at Brussels, Antwerp and Liège; typical markets would have to be selected and the average price weighted according to the sales on these markets. When the agreement of the Belgians (who would try to fix the minimum price as high as possible) and of the Italians, French and Dutch (who would like to fix it as low as possible) had been obtained, it would only remain to provide for a check on prices actually paid and to ensure that the importer did not give a hidden rebate to the foreign exporter. The principle is straightforward enough, but the practical application is not.

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(2) See " Agricultural Policies in Europe and North America ", First Report of the Ministerial Committee on Food and Agriculture of the O.E.E.C., May 1956, and, more especially, " Report on Agricultural Prices and Income Policies " of the same Committee, published in July 1957.

It is easy to imagine — since the criterion is so imprecise — the complexity of the discussions which will develop when the European Commission has to decide whether a given measure " distorts competition " in another country's market. For producers, everything which makes for greater competition tends to be regarded as " unfair ", and for consumers the reverse is true. At a national level this kind of debate is decided more often on the basis of political intuition than of a serious economic investigation. The degree of competition inherent in the structure of industry cannot be assessed without knowing the production costs of the enterprises concerned, including those manufacturing products which may be possible substitutes. But it is well known that information of this kind is scarce, seldom available on a comparative basis, and even more rarely published. The only certain thing is that producers wishing to ask a favour or having to justify their policies must expect to be subjected to altogether tougher scrutiny by their foreign competitors and foreign governments than by their own national authorities. Experience will show how far the European institutions will, in fact, be concerned to make scientific analyses of the forces which determine market conditions and prices.

General Powers of Intervention

The objectives and the operation of the general powers of intervention in the field of prices, already referred to, are even less clearly defined. The relevant provisions of the Treaty are probably incomprehensible to anybody not familiar with the history of the negotiations, and more especially with the way in which this whole question has been looked at in France. A detailed explanation may be useful for foreign readers.

We are not only concerned with knowing what sort of effect the European Economic Community will have on inflation and price movements in Europe. Articles 103 and 104 state that the current economic policy of each Member country is a matter of common interest and that each will take care " to maintain a high level of employment and price stability ". But this is nothing new, and in this essential area the common institutions have only powers of persuasion.

We may say, simplifying a little, that it is also a question of seeing if the Treaty gives a mandate to the common institutions

to attempt systematically to bring into a closer relationship the prices, costs of production factors and of intermediate goods, etc. among the various Member countries. A large part of the French public thinks that it does, and is convinced that the Treaty cannot work if this process of approximation does not take place. In point of fact, the dangers of present and potential " price disparities ", and the possible ways of eliminating these disparities, have played a very important part in France in the discussions on the Common Market by various economic groups and in Parliament — and consequently by the governments and negotiators concerned with the Treaty. To see this clearly, it is enough to study the booklets published by various professional and political bodies, as well as the Parliamentary debates of the 16th-23rd January 1957, and the 3rd-5th July 1957 ratification debate. Among the many speakers who took part in these debates there were few who did not declare that " harmonisation " was necessary in one form or another (3). The argument implicit in this attitude can be set out as follows:

a) French prices are higher than those of other countries of the Community;

b) the " causes " of this price disparity are social charges, the higher level of wages, taxes and the system of credit, etc.;

c) thus, in order that competition within the Common Market may be placed on a fair basis, these " causes " of price disparities must each be eliminated. So far as possible, this elimination should be carried out before the coming into operation of the Common Market.

It is difficult to over-estimate the impact of this series of propositions on all French economic circles — principally on employers' organisations, but, to some extent also, on trade unionists. The Press has been full of it, with only an odd note of dissent from time to time. This argument is, indeed, the core of the " harmonisation " thesis. The French negotiators, acting under pressure,

(3) The following is a typical statement from M. Robert Pesquet (J.O. of 5th July 1957, p. 3244) " French industry will only have an opportunity in the Common Market if its charges can be equalised with those of its partners. If its costs are, as a result of the legal provisions and the general organisation in France, higher than those of other countries of the Community, the position of French industry will be jeopardized to the advantage of its competitors in the Common Market ".

have done their utmost to incorporate this thesis as far as possible into the Treaty of Rome, generally against the strong opposition of their partners. The compromise finally arrived at is principally incorporated in Article 119, in Section II of the protocol concerning France, in Articles 117 and 118 and in Chapter III on the approximation of legislative provisions (Articles 100, 101 and 102).

Articles 119 requires the equalisation of wages for men and women, at the present time effective only in France.

The protocol mentioned above contains an undertaking in principle on the part of other Member countries to adopt the same standards for the payment of overtime as were in operation in France in 1956. If this undertaking is not carried out, France may take safeguarding measures in industrial sectors affected by the inequalities in methods of overtime payment.

The other sections are of a more general character, but are, again, very vague.

Article 100 provides that the Council, *on a unanimous vote*, " shall issue directives for the approximation of such legislative and administrative provisions of the Member States as have a direct incidence on the establishment or functioning of the Common Market ". In principle, this provision might lead to the unification not only of certain taxes but even of working conditions, the granting of bank credits and so on. But the rule of unanimity ensures that this " approximation " will only be carried into effect in appropriate cases.

Article 101 defines " distortion " as the result of a " disparity existing between the legislative or administrative provisions of the Member States which distorts the conditions of competition in the Common Market ", and provides that these " distortions " — which may be the result of present laws or of future changes in these laws — may be eliminated in accordance with directives of the Council.

This is one of the most obscurely drafted articles in the Treaty, and it seems to me to be impossible to apply. The conditions under which any business firm operates (in other words, the conditions of competition) are influenced by the whole body of legislation which directly or indirectly covers the demand for its products, its selling prices, its production costs, its profits gross or net of tax, its rate of re-equipment and its degree of access to bank credit and to the capital market, etc. One should not attempt to isolate the

possible effect of one of these factors without taking into account others which may work in an opposite direction; it is the resultant of these various conditions which is important, if this can be determined. To attempt to isolate causes and effects in this field, with the object of changing laws in such a way that they will not " distort competition " — instead of reaching judgments on these laws by considering all their various aspects — seems altogether impractical and without purpose. It may thus be doubted if this article will, in fact, be used as a tool for systematically unifying prices, wages and legislative provisions, etc.

In the preparatory work for the Treaty of Rome a useful distinction was made between " general distortions " and " specific distorsions ", and the Spaak Report sheds light on the main obscurities in which these questions had been wrapped (4). By a " general distorsion " was understood an intervention by a government which might cause the *overall price level* of a country to vary significantly compared with those of other countries, and which consequently might quickly lead to an important disequilibrium in the balance of payments. The only interventions which might, in practice, lead to this kind of distorsion were a decision to raise the general level of wages, or a substantial increase in indirect taxes (in the opposite direction, it could be argued that a country which took administrative steps to stop wages rising, to block price increases and to grant subsidies, while neighbouring countries were experiencing price inflation, was producing an overall downward distortion). In most cases, however, these " general distorsions " are merely the result of different rates of inflation in different countries, and it is of no interest whatsoever to enquire whether or not the " causes " of this inflation are to be found in legislative provisions.

The important point in the Spaak Report was the explicit recognition that " general distortions ", defined in this way, amount in fact to a problem of exchange rate adjustment — the only practical method of correcting disequilibria in balances of payments which arise from general and permanent price disparities. The corollary of this approach is that a " general distortion " cannot exist when a country's rate of exchange is at its appropriate level.

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(4) *Cf.* " Report of the Heads of Delegations to the Ministers of Foreign Affairs ", Chapter 2, pp. 60-63 (Brussels, 21st April, 1956).

" Specific distortions " arise when a government intervenes in such a way as to change the costs and prices of a particular industry compared with other industries in the same country. These interventions obviously involve some change, at the same time, in the international competitive position. The difficulty is to discover and to measure such distortions. As an example, the inequality of pay for men and women may be cited. A country which decides, in line with the Geneva Convention, to bring the level of wages for women up to those of men obviously puts at a disadvantage those industries which rely mainly on female labour. Again, let us suppose that a country decides to impose a substantial tax on electricity consumption. This will have a general effect on production costs, but such an effect will be widely spread and rather weak. On the other hand, its effect will be considerable in the case of industries such as electro-chemicals, aluminium, and others which are large consumers of electricity — thus giving rise to a " specific distorsion ". The solution, if any is needed, should obviously be designed to cover the particular case — for example, an increase in customs duty, an export subsidy or the repeal in part or in whole of the measure, etc. Since the Treaty of Rome makes it impossible to take, or even to retain, most of the usual protective measures, other ways must be found — subject to international control — of removing the harmful aspects of the more important specific distortions.

Where *new* measures are being considered, research of this kind into the relations of cause and effect may be justifiable; but it is hardly relevant for existing measures, to which the economy has had time to adapt itself.

These distinctions between general and specific distortions do not appear in the Rome Treaty, which apparently contains no safeguard against abuses of the principle of " harmonisation ". But, in fact, the danger of excessive quibbling over price disparities is not perhaps too serious, since a country which feels that its interests have been damaged is not empowered to take unilateral protective measures. It can only wait for the decision of the Council, unanimous during the first stage and by a qualified majority thereafter. These provisions in the procedure are hardly likely to encourage frivolous complaints about distortions.

The argument about price disparities is largely the product of circumstances peculiar to the French economy — in particular,

to the overvaluation of the franc since 1952. It is beyond reasonable doubt that most French prices have, roughly since that date, been distinctly higher than those of competitor countries. But Governments and public opinion in France had taken as an axiom that devaluation of the franc was not an acceptable remedy for this situation. A different explanation had to be found; it was even felt that the solution lay in raising prices in the other countries. Industrialists are readily persuaded — in France as in other countries — that they pay excessive taxes, that wages are too high and that social security contributions are heavier than abroad; they have thus adopted wholeheartedly the explanation that price disparities arise from " excessive charges ".

International Price Comparisons

This is the appropriate point at which to look at the statistical evidence relating to price comparisons in Europe, and, indeed, to examine the concept of " price disparities ".

Data for making international price comparisons have been provided by the work both of the O.E.E.C. and the E.C.S.C.

O.E.E.C. published in 1954 " An International Comparison of National Products and the Purchasing Power of Currencies; a Study of the United States, United Kingdom, France, Germany and Italy " produced under the direction of Messrs. Gilbert and Kravis. A new edition of this work, covering in addition Denmark, Norway, the Netherlands and Belgium should appear towards the end of 1957. It will contain comparisons of real national products and purchasing power of currencies for 1950 and 1955. These two editions are largely based on sample enquiries conducted in the various countries, covering prices of products and services representative of various categories of national expenditure (personal consumption, public expenditure, investment, etc.). This information enables direct comparisons to be made of outputs in the different countries, without making use of exchange rates, as well as enabling the internal purchasing powers of the various currencies to be measured. Thus, in 1950, the U.S. dollar could purchase in Italy the equivalent of $1.89 in the U.S., if the comparison covers a grouping of commodities conforming to the composition of the Italian gross national product. Another way of expressing

the same thing is to say that Italian "prices" were lower than U.S. prices by $\frac{0.89}{1.89} = 46$ per cent, or that American prices were 89 per cent higher than Italian prices, the index in each case being weighted according to the Italian national product. If we weight according to the American national product, Italian prices were only 8 per cent lower than American prices. The O.E.E.C. study enables us to make binary comparisons between each European country and the U.S. The corresponding comparisons for each pair of European countries were not calculated, so that it is not possible to make precise comparisons of prices as between these countries. Nevertheless, it is possible to have an indication of the order of magnitude of the main differences. It may be stated that, in 1955, French prices were the highest, and Italian and Dutch prices the lowest, in the European group. Belgium was one of the countries with higher prices and the Netherlands one of those with lower prices, motwithstanding the fact that the two countries are neighbours and are linked by a customs union. It is equally remarkable that, weighting with American quantities, American prices were higher than those of any European country, with the exception of France.

The E.C.S.C. study was concerned solely with consumer prices for the families of coal miners and iron and steel workers in Member countries of the Coal and Steel Community for the years 1953, 1954 and 1955 — the last part being published in 1956 (5). It is thus more limited than that of the O.E.E.C.; against this, it takes into account the different consumption habits in each country, thus enabling a calculation to be made for each pair of countries of two purchasing power equivalents (or two indices of relative prices), depending on whether coefficients of one or the other country are used.

The following table, derived from the E.C.S.C. study, sets out comparisons in the cost of living (excluding rent) in the steel centres of the countries in question in 1954.

This table should be read in the following way. In the column headed "Italy", at the line for "Germany", it may be

(5) *Statistical Bulletins* of the High Authority, third year, No. 4 (Supplement No. 1), July-August 1956.

seen that German prices exceed Italian prices by 7.3 per cent (index 107.3) if one adopts in Germany consumption habits of the Italian type (line I). But German prices are no higher than 89.5 per cent of Italian prices if one keeps to German consumption habits (line G).

In the line for "Italy" of the column headed "Germany", the same price relationships may be found, but reversed. Line G indicates that Italian prices exceed German prices by 11.7 per cent, with the German weighting. Line I indicates that Italian prices reached 93.2 per cent of German prices, with the Italian weighting.

CONSUMPTION PRICE INDICES IN IRON AND STEEL CENTRES IN 1954 (*)

	Germany	Belgium	France	Italy	Netherlands
Germany		B 102.3 G 94.4	F 97.5 G 84.2	I 107.3 G 89.5	N 126.8 G 116.4
Belgium	G 105.9 B 97.8		F 95.7 B 87.5	I 108.3 B 88.0	N 127.5 B 122.0
France	G 118.8 F 102.6	B 114.3 F 104.5		I 109.5 F 97.8	N 145.6 F 119.3
Italy	G 111.7 I 93.2	B 113.7 I 92.3	F 102.2 I 91.3		N 138.6 I 108.9
Netherlands . . .	G 85.9 N 78.9	B 82.0 N 78.4	F 83.8 N 68.9	I 91.8 N 72.2	

(*) The letters G, B, F, I and N indicate respectively that the weighting used is that for Germany, Belgium, France, Italy and the Netherlands.

This comparative example for Italy and Germany demonstrates the importance of the differences in weighting used in these calculations, arising from the differences in consumption habits between one country and another. In the above table, of the ten pairs of countries, there are four where the price relationship changes its sign according to whether one uses weights based on consumption habits in one or the other country. We could just as well, therefore, state that Italian prices are higher than German prices as the contrary.

It may, nevertheless, be concluded from the table that consumer prices were generally lower in the Netherlands than elsewhere, since in all binary comparisons foreign prices exceed Dutch prices

by between 8 and 45 per cent whatever weighting is used (Netherlands column). There is a very marked gap between Belgian and Dutch prices — Belgian prices being higher by between 22 and 27 per cent, depending on the weighting used — despite the customs union between the two countries.

It is equally clear that French prices were higher than those of any other country (with the exception of Italy, using French weighting).

The O.E.E.C. enquiry, like the E.C.S.C. enquiry, thus confirms that French prices were generally higher than those of other European countries in 1954 and 1955, although it is not statistically possible to give a single measure of this disparity (6). The methodology of these international price comparisons, thanks to the studies mentioned above, is now better understood, and there is a sufficient array of information available to enable most of the necessary general price indices and relative purchasing powers to be calculated.

One of the possible applications of the doctrine of " harmonisation " (in the way in which it is often understood by industry) is the old purchasing power parity theory in its crudest form. If " prices " are higher in country A than in countries B, C or D, the currency of country A is overvalued in the same proportion. But if " prices " are lower in country X than in countries Y, Z, W, country X ipso facto " distorts competition ", and the others must take steps to protect themselves. This is not the place to set out the reasons why it is incorrect to jump from these particular premises to these particular conclusions. But it is always surprising to find how readily public opinion continues to accept these oversimplified theories of international trade. They are as strongly held today as in the time of Cassel. It cannot be disputed, of course, that there are partial connections of cause and effect between price levels and international equilibria. But the inadequacy of explanations based on total causality is borne out by the fact that in 1950 and 1955, according to the Gilbert-Kravis study, American

(6) The difficulty of doing so arises principally from the problems of national weighting already mentioned; it is permissible — depending on the objective — to use a number of different collections of products and services in order to construct a " general " price index number.

" prices " were higher than those of Europe, and Dutch prices were the lowest in Europe; yet there is still a world dollar problem, and the Netherlands has been experiencing external payments difficulties.

It seems, in any case, unnecessary, in order to make the Common Market work, to undertake numerous comparative statistical enquiries on prices — or to extend them, for example, to prices measured in factor costs, to production prices etc. — with the object of explaining states of equilibrium or disequilibrium in the balances of payments of Member countries of the Community. A simple alternative has to be considered; either country A has no external payments problem and no action is required, or it has one and action must be taken to deal with it. But *overall* comparative price statistics can hardly provide useful information on the nature of international disequilibria, and even less on the type of remedies appropriate to each case.

The logic of the propositions on harmonisation would, if pushed to its ultimate conclusion, lead to the virtual suspension of international trade. It implies that the normal competitive process must be based entirely on competition between businesses in which all elements in costs of production are identical (expressed at official rates of exchange) and in which the levels of productivity are the same. Any business or industrial sector in one of the Member countries will always be able to find a competitor in another country who pays less for manpower, raw materials, or factory space, arguing that these differences constitute an obstacle to healthy competition. And experience shows that it is necessary to produce lengthy arguments to demonstrate that crude differences in the costs of various factors and elements of production are only significant if they are expressed in terms of unit costs — in other words, taking into account productivity differences.

A statistician would point out that there have been few comparisons made in Europe of cost and productivity differences between enterprises in a single country, and even fewer of differences between one country and another. The available data are, in any case, not sufficiently comparable to enable generalisations to be made at present. The European Productivity Agency, a branch of O.E.E.C., has been busy for some years collating publised information on comparisons made in Europe and the U.S. and it encourages efforts, which are being made mostly through private

initiative, to develop this information (7). National productivity centres are also working on the same problem.

We may therefore conclude that, in strictly limited situations, carefully designed studies might succeed in explaining the reasons for the principal differences in unit production costs between similar enterprises. It would certainly be useful to undertake as many of these studies as possible in order to improve the still very elementary knowledge which we possess on the industrial structure of different countries. But it is quite certain that we cannot in this way reach useful generalisations on the " competitive ability " of national economies or even on industrial sectors. This type of research is still in the field of fundamental economic science; its data and its results are too vague for operational use in the development of the policies of the individual countries and of the Common Market.

I have, no doubt, discussed at too great a length the relationships between general price levels and the peculiar theories which have been advanced of the need for harmonisation of those levels — at a greater length, in any case, than would be justified by the powers of the European Community in this field and the use which it will probably make of them.

The noisy arguments which have arisen as a result of the overvaluation of the franc will probably disappear when the overvaluation itself disappears. But we cannot be sure of this. Who can say that a similar situation arising in the future, in France or elsewhere, will not reopen these discussions?

The approximation of prices, wages and competitive conditions between the countries of the Common Market is not in itself a desirable objective — leaving aside other considerations like absolute price movements and their relationships to world prices. The example of Benelux shows that a customs union can function in spite of considerable price and wage differences, and without giving rise to a rapid approximation of these differences. In short, general " harmonisation " is to a large extent a non-existent problem.

(7) The reader interested in this may consult various numbers of the *Productivity Measurement Review* published by the E.P.A.-O.E.E.C., Paris, 1955-57. Information may also be obtained from the " Comitato Nazionale per la Produttività ", Viale Regina Margherita 83 D, Rome.

The control of inflationary and deflationary movements in the Community is, on the contrary, an important question, but its operation will still depend for a long time to come on the sovereign activities of each national authority.

There remain the specific powers of intervention of the Community on price questions. I think that it is in the case of agriculture that they will have the greatest significance. The use which is made of these powers will largely decide whether or not the Common Market will develop into a protectionist area based on high prices.

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