Some Lines for the Practical Organisation of European Markets

by

G. U. PAPI

1. *Difficulties in the way of the economic integration of Europe.*

Several difficulties stand in the way of the economic integration of Europe:

(a) The *first* is the well-known *reluctance* of the Governments to renounce sovereignty rights.

(b) A *second* arises from the fact that Great Britain hesitates to insert herself as an integral part of Europe, fearing that this might endanger her imperial interests. At the same time she shows little wish to see an integrated Europe formed without her participation. We might say, paraphrasing the Latin poet: *nec mecum, nec sine me.*

(c) A *third* difficulty is offered by the fact that economies of the European countries are *not* complementary. This is however only a seeming difficulty. When studies were made for the economic union between France and Italy it was seen that union would be advantageous between countries which in some respects are competitors in the economic field. When production costs do not differ widely from one country to the other, the specialization of business in the branches to which each is best suited as a result of such a union may occur without causing any great loss to either country.

(d) A *fourth* difficulty is met with in the scanty awareness of the aims that European economic integration should pursue. A European Union could certainly not solve the problem of imports; *i.e.* of the purchases each European country must make to secure necessary supplies of raw materials and foods. It might indeed encourage a more *efficient utilisation* of opportunities of production, reduce the volume of imports and lower production costs, thus facilitating European exports to other continents. But Europe would always have to rely on sure, even if only partial, sources of supply from other Continents and on foreign outlets for her production.

Thus the European is part of the World problem. And economic integration of European countries can only be viewed as a means for facilitating the solution of the world problem of enlarging production and intensifying trade. In might be a happy start in the right direction.

(e) A *fifth* difficulty is found in the complex economic structures of the several countries. The integration of countries with highly diversified economies — at once agricultural, commercial and industrial — is difficult. The initiative taken by the 13 countries that formed the nucleus of the United States of America cannot therefore be rightly pointed to as a precedent. Those were scantily populated territories, producers of raw materials most of which were consumed on the spot, and not liable to be displaced by goods produced in other parts of the Economic Union that was being formed. Nor can one quote the case of the German States which, towards the middle of the XIXth century, united in the *Zollverein* which developed later on as a political unit: the German Empire. Unification did not meet with energetic opposition, because it did not entail deep structural changes. At most, it endangered the chances for future autonomous development of the individual States by assuring expansion of the Union in the political field. The present situation of the European countries is a quite different one.

(f) A *sixth* and last difficulty consists in the fact that as from 1930 the process of the *diversification* and *disintegration* of international economy has replaced that of internationalisation and unification of the policies followed by each country. National policies have emphasised their differences, and this is due to ever more frequent government intervention in matters of monetary, social, financial and economic policies, to meet special conditions and problems, whose importance cannot be ignored.

2. *Presumable losses arising from European economic integration.*

The possibility of the following losses arises:

(1) the *relinquishment* of some branches of production which could no longer survive in an enlarged economic space;

(2) the *limitation of other activities* which might be found in excess or economically inexpedient in a wider market;

(3) more or less large-scale shifts of workers from one area to another, with the changed opportunities for employment;

(4) the *inactivity* of capital invested either in productions that would have to be relinquished or reduced; or in the many forms of equipment (dwellings, shops, means of communication, public utilities) in localities which would be deserted, or whose previous prospects of development would be reduced;

(5) greater *need of capital*: (a) to set up *new plants*; (b) to *enlarge* existing ones in those places that have shown themselves to be favourable; (c) to carry out public works and services made necessary by the growth of economic activity and population in the localities that would benefit by the larger integrated space;

(6) *reduction*, even if only temporary, of total production, due to shifts and uncertainties lasting over a considerable length of time;

(7) possible *unemployment*. And here the need is seen that, if serious and persistent unemployment should arise in some of the participating countries as the result of integration measures, the governments should arrange plans in advance to face such a danger without delay.

The Governments should also take special care to *coordinate* their respective financial, economic, social, railway rate, and investment policies, so as to bring them gradually into keeping with the needs of economic integration.

3. *Advantages arising from economic integration.*

Two leading groups of advantages for the countries as a whole can be stated: (a) those of a *more easily accessible* market, at first due to the disappearance of quotas and later on, of customs tariffs; (b) the benefits of the *rationalisation* of production.

The first of these advantages would be secured by a wider and more accessible market for products obtainable in even larger quantities at lower costs and at gradually falling prices, if competition among producers continues active not only in each country, but in the integrated area. This — as stated — would enable consumption to increase throughout the unified territory: that is to say, it would either satisfy the greater size of each need, or a greater number of needs. Consequently, the standard of living of the inhabitants of the integrated countries would rise. This result — in certain countries — of lower production costs for larger outlets of easier access, clearly outlines the productive activities to which each country may prevalently devote itself. In other words, it indicates what are the products of each country that are typically *complementary* to those of the country towards which they flow. This amounts to saying that they will be the products that it would be difficult for the importing country *to reproduce*, and in the case of the country of origin they will be the products it is most profitable *to export*. The number of these products and the degree of trade activity between the countries will determine the degree of *complementarity* of the economies of the countries desirous of completing their respective development.

The *second group* of advantages — those obtained by the rationalisation of production — depends on the possibility of securing, within the new territory, a shift of the factors of production, so as to assure more economically expedient arrangements: *i.e.* arrangements allowing of lower costs. Rationalisation affects *competing* productive activities, *i.e.* those competing one with the other to place a given product on the market of each country, or on the integrated market.

This competition ranges from the *effort* — that the entrepreneur of each country makes to lower his own production costs and beat his competitors — to the *understandings* — undoubtedly more convenient — that he can reach with other entrepreneurs, so as not to continue producing different types, at different cost levels, when it would be possible to reduce the types to one, or a few, obtained at lower costs, in localities that lend themselves to more favourable arrangements of the factors of production available on the integrated territory; and specialising production not only as regards *quality*, but also as regards *time*, as happens for certain products such, for instance, as fresh fruits and vegetables. Thanks to such *specialisation*, products that were originally competitive become, at least partially, complementary.

The reference to the *losses* and *advantages* arising from European economic integration is made — let us repeat it — for the integrated area as a whole. To judge better of the balance between losses and gains, we may add that the interests that might be sacrificed by economic integration would be found in *competing* forms of production; but this loss could be offset by the advantages accruing from *understandings* for improving the arrangements of productive factors. The sacrifice of some undertakings, the loss of some investments would be temporary evils; whereas the advantages obtained by the gradual attainment of the object integration has in view — larger and readier markets, less costly production — would be enduring.

4. *Gradual advance towards economic integration.*

There are *two* ways by which to seek European economic integration. One would be to have recourse to *simple* and *drastic* political measures which would decide on integration, leaving the individual countries to adjust their economies to the new situation as best they may. The other calls for the careful study: (a) of the existing situation in each country; (b) of the probable changes brought about by liberalization and integration measures; (c) of specific agreements and devices for repairing losses and facing harmful emergencies.

By following the second way, political action is not excluded: on the contrary such action would be taken with full knowledge of all the consequences it entails. It would therefore seem preferable to the first way, as it would avoid acting without due preparation; even if, by following the second method to its final conclusions in a given branch, it would lead inevitably to the integration of the whole economic activity of the countries prepared to follow it.

5. *Two working hypotheses.*

We may take as a base *two* working hypotheses: (a) that, in order to secure the complete economic integration of Europe, a beginning be made by repealing quota restrictions: the so-called « liberalization » of the trade of the several countries; (b) that, while gradually eliminating quota restrictions, customs duties should remain at present levels, or with the possibility of raising them within certain limits — for instance by not more than 10-15% — so as to act as a *mechanism* for equilibrating the differences in the production costs of the several countries, including in costs also the differences arising from taxation, social insurance, and the cost of surplus labour.

Unfortunately, it seems unlikely that quota restrictions will be repealed all at once. We need only consider the dense thicket of existing measures which range from the organisation of the home market of each country to the regulation of foreign trade. It would therefore seem reasonable to foresee here also *gradual measures*, which would mitigate the losses and allow of the development of the advantages to which reference has been made.

It would seem necessary to study a « transition mechanism » from the present intricate high protection system towards the aim of a common market on which goods, services and capital could freely move. The *immediate* object of a process of organisation of European markets — even if those for agricultural products be more especially considered — should be to devise a transitory mechanism which could be adjusted to meet special situations and special products.

6. *The aims of the organisation of agricultural markets.*

As a means for educating public opinion in the several countries, it may be helpful to try to identify the purposes of the organisation and unification of European markets.

The chief aim would be to raise the standard of living of the European peoples. This aim is linked up with the following: (a) the fuller use of available factors of production; (b) the improvement of the conditions of production; (c) the increase of its volume and improvement of its quality, wherever *economically* expedient; (d) make Europe to some extent independent of the dollar area; (e) gradually intensify trade between the member countries, so that each may be able to benefit by the growing output of the others; (f) offer each country the possibility of modifying, in the course of time, its production policies with a view to attaining, in conformity with the aims above stated and with its own environmental conditions, a greater degree of specialisation, lower production costs, and larger consumption.

7. *Undertakings to give priority to purchases from the member countries.*

Each member country would undertake to give priority to purchases of a certain quota of the exportable surpluses of the other members. The quota for each country would be fixed jointly by the importing and exporting countries, represented by a specially appointed central Organ. The quota would be subject to upward revision each year, or other agreed unit of time, taking into account, on the one hand, the trend of production in the exporting countries, on the other, the increase of population and any increase in purchasing power and in consumption in the importing countries.

The purchase undertaking would be a binding obligation in those cases in which the Government itself handles the trade in a given product. When the trade is in private hands, the undertaking would bind the importing country to allow the entry of a fixed quota of the product and the exporting country to make available the amount foreseen in the quota.

The price at which the importing country would withdraw the quota it has agreed to take, would be fixed by multilateral negotiations between all the member countries, both importing and exporting. It would have to be such as to assure to each efficient producer a reasonable rate of remuneration, and would be revised each year or other suitable unit of time.

8. *Where are we going?*

When proposing the organisation of a European market we must clearly understand where we wish to go: whether the aim is to secure an improvement in the living standards of the people, more and better production, larger trade exchanges, a prudent specialisation, an improvement in consumption that will assure the gradual attainment of an expanding economy, in order to satisfy adequately the needs of a growing population; or whether, instead, the aim is the protection of certain producers, even if at high costs, without affording a means of encouraging the increase of output.

Should this second aim be discarded, the system of fixing purchase quotas, *i.e.* taking « a pledge to purchase gradually increasing quantities on a priority basis » would seem to be that best suited for assuring an active and lasting organisation of the European markets — more especially of the agricultural ones — covering all those products for which the member countries have not yet accepted the principle of trade liberalization: *i.e.*, to use the OECE terminology, the principle of the abolition of quotas, bonuses, subsidies and of protective expedients other than customs duties.

The quota system namely, the enlargement of the quotas now in force, proves valuable: (a) for the *exporting* country which is thus enabled to place under the purchase agreements, signed by other countries, a minimum of its exportable surplus, either annually or on the basis of other units of time; (b) for the *importing* country which is thus assured the supply of certain products at prearranged quantities and prices, without harmful consequences for home production and markets; (c) for the integrated area which is in a position to *carry out* plans for increasing production in keeping with the purpose of raising the living standards of the inhabitants.

9. *In other words, to avoid crystalising existing situations, assurances must be given to the exporting country, as well as to the consumers and producers of the importing country.*

A system other than that of the quota — instead of starting competition — would be likely to « crystalise » the existing situation. If a single « European price » were fixed for the purchase made by an importing country from three exporting countries — A, B and C — that price could never be lower than that which covers production costs of country A, where conditions would be less economically favourable. By fixing prices thus, one would tend to « freeze » existing conditions of production without giving incentives to improve them.

It can be seen that the need of satisfying simultaneously three kinds of assurance is fundamental for the organisation of European agricultural markets.

(A) The *exporting* country must be assured the possibility of marketing its exportable surpluses. The system of quotas, at a price that repays the production costs of the exporting country, places that country at once on a competitive footing with the other exporting countries; it encourages it to *improve* its production, to lower costs, and, by promoting its own interests, to serve those of all the consumers of the product exported. On the other hand, the system of the *single* price for all the exporting countries — which would necessarily have to repay the production costs also of the country producing under less advantageous conditions — would do away with all incentive to increase production and lower costs. Nor can we consider for one moment machinery such as that accepted in the Schuman Plan, for reasons already stated in the article published in 1952.

(B) In the second place, the consumers of the *importing* country must be assured that they will obtain the supplies they need at suitable prices. This assurance would be given by the quota system at prices agreed on with the several exporting countries. Even in the early stage of the organisation of the agricultural markets, these prices would never deviate from costs for, on the one hand, the exporter would already be assured of a market for his product and would not have to seek a further profit by obtaining a price higher than that justified by costs; on the other hand because he would find himself at once competing with other exporters, and it would not be to his interest to raise his price or to maintain a high level of costs.

(C) In the third place the *producers* of the same product in the *importing* country would have an assurance that the customs protection they now enjoy would allow of fixing a minimum price, below which the said product could never enter the country.

If the purpose is to assure an expanding European economy, it is obvious that these *three* assurances would have to be given effect simultaneously, so as never to favour one of the parties concerned at the expense of the others.

10. *In what respect the undertakings to purchase a given quota of a product would be an improvement over bilateralism.*

It may be objected that the system of undertakings to purchase given quotas of certain products would only be a prolongation of the system of bilateral agreements between importers and exporters. But this objection is not well-founded. On the one hand, all

plurilateral treaties always consist, implicitly or explicitly, in a series of bilateral agreements. On the other hand, the real advantage that is expected from the system of quota pledges is that the negotiations between importers and exporters to fix the quotas as well as the prices would take place *simultaneously*. This would be the constructive contribution the system would make to European trade organisation.

Moreover, the system of quota pledges has also the advantage of *not* interfering with the policies of countries which are in the habit, for instance, of buying a given product — sometimes even at very high prices — on markets outside the integrated areas, so as to facilitate the sale on those markets of other products of theirs, or maybe to unblock credits they hold there. It has the advantage of not disturbing the policies of countries which may be in the habit of selling — sometimes even at lower prices — on markets outside the integrated area, so as to acquire hard currencies. The system of quotas to be taken on a priority basis does not interfere with such policies, because, when the quota obligation has been fulfilled, each country still has the possibility of importing the product in question from any country it may wish; and it is free to export the said product to any country outside the circle of the member countries. Therefore there would seem to be no need of establishing a real « preferential area » protected against the rest of the world by customs barriers. The only need would be that of giving definite undertakings for the purchase of fixed quotas.

11. *Customs duties levied to equilibrate conditions will remain, and minimum prices may be fixed.*

Reference has already been made twice to the fact that existing protective customs duties would, as a transitory measure, continue to serve as a mechanism for offsetting market disparities between the member countries; and, in exceptional cases, the *importing country* might even fix a *minimum price* below which the product under consideration could never be introduced on to the home market.

The use of the minimum price however would have to be made very cautiously, as otherwise, instead of reducing protectionism, one might be introducing it in even more rigid forms.

It is difficult to conceive of a minimum price fixed *unilaterally* by the importer. Even when fixed on the basis of a formula agreed on in advance, the minimum price cannot but take into account the interests of the marginal producer, thus running counter to the purposes which the organisation of agricultural markets has in view. It will aim at securing a very high level. It will not allow an exporter to enquire into the real cost of marginal productions.

But, apart from these drawbacks, the minimum price fixed *unilaterally* by the importer, does not afford adequate assurance either to the exporter, or to the importing country itself. It does not afford assurance to the *exporting* country, because the importer may always *discriminate*, to the injury of the member countries, when he fixes the minimum price at a level higher than the price that can be met with on the markets of the member countries. By such means the importer provides himself with the justification for obtaining his supplies on markets outside the agreement, unless the « principle of priority » comes into play. The minimum price does not offer a guarantee to the *importing* country, which is always subject to the risk that private operators may come to an agreement with the exporter, who has at his disposal a large supply of the product and is inclined to sell it at a low price. The operators can import at real prices inferior to the minimum, sell on the home market at those lower prices and, in spite of the minimum price, cause much trouble to the local producer. To avoid this, the importing market will be forced either to regulate the home market — binding it not to sell at prices lower than the minimum fixed for sales abroad: and this encourages the spread of « planning » — or to undertake to import certain fixed quantities, giving priority to purchases on the markets of member countries. In such cases the minimum price does not work alone; and the real guarantee — the real « assurance » — of the importer is found in the quantity enjoying priority which is to be imported.

A minimum price fixed on a *multilateral* basis agreed on jointly by importers and exporters of the several countries would seem preferable.

But even a minimum price thus established would not by itself work either in favour of the importer or of the exporter. It would always have to be accompanied by priority imports agreed on between the countries participating in the agreement. Moreover there would always be the drawback that, even when the importing country enforces a *single* minimum price for a given product, the exporter would be up against *as many* minimum prices as there are importing countries.

12. *The possibility of importing in common.*

The member countries might also reserve the right to examine periodically the advisability of uniting for the purpose of importing — on more favourable conditions — the products they wish to purchase, either in addition to the quota to be taken by the area as a whole, or because the product can be found in adequate quantities only on the markets of non-member countries. Should an agreement not be reached among *all* the member countries, there would always be the possibility that some of them only would unite to import from other markets. Therefore each year, half year, or other period agreed on, the member countries might examine the possibility of purchasing *in common* on other markets given quantities of the product in which they are interested.

13. *Advantages of the transition system.*

In this way each country participating in the organisation of the European markets would find in it:

(a) advantages for *marketing* its own exportable surpluses;

(b) advantages arising from active competition between the exporting countries for the *consumers* of many of the goods imported;

(c) advantages in the case of *imports* from areas outside the organisation on more favourable conditions;

(d) advantages, in the course of time, arising from a gradual revision and *rationalisation of production policies*, with a view to adjusting production to more economically advantageous environmental conditions, which would favour the improvement of consumption goods and eliminate, as has been said, marginal production.

14. *A Central Organ for encouraging contacts between the several countries and for coordinating their economic policies.*

A *permanent* Council of the Ministers of Agriculture might set up a Central Committee of representatives of the countries participating in the organisation of European markets, with a Secretariat at the head of several sub-committees. This Central Committee would discharge the functions arising from the selection of the aims and the use of the methods mentioned.

In their main lines the functions might be stated as follows:

(a) arrange meetings between countries importing and exporting a given product, so that they may come to a multilateral agreement on import quotas and prices for the exportable surpluses and revise quotas upwards from time to time;

(b) see that the agreements entered into by the countries are respected;

(c) should a country default on its engagements, propose to the financing organ to refuse or suspend capital for investments and the grant of credits to that country;

(d) watch to see that the exports are made without recourse to «dumping», double prices, subsidies and other expedients that affect the equality of the starting positions, and address «binding» recommendations to countries guilty of such practices to eliminate them;

(e) study any other forms of disguised protection introduced for considerations foreign to the purpose of the organisation of agricultural markets, and recommend their elimination within a given time limit;

(f) on the strength of the experience acquired, study modifications of production and consumption policies and promote investments and grants of credit, more especially to countries producing at high cost levels and where those costs could be lowered by the adoption of improved methods.

15. *Improvements in productive and processing activities: coordination of the various legislations on production, processing, trade and consumption.*

All member countries should undertake to encourage and assist by all means technological progress, the improvement of production and organisation, the equalisation as far as possible of the conditions under which production takes place. They should also promote the coordination of their respective legislations relating to the processing of products, international trade, home consumption. Availing themselves of the «transitional system», they should encourage the growth of trade on the home market and between the markets of the several countries and the movement of agricultural labour within each country and between the member countries.

16. *A Credit Corporation.*

The Central Committee could submit projects, carefully drafted from the technical and financial points of view, to the Organisation for Credits and Investments calling their attention to the advisability of making loans to Governments, or to undertakings enjoying government guarantees. Such loans should be made: (a) to spread improved methods of production in countries where costs are highest; (b) to allow of land transformation works to assure the better use of the factors of production, more especially of the labour forces available in the area covered by the agreement; (c) to promote production and consumption policies more in keeping with the aims of the Organisation of European agricultural markets.

An initiative taken by the International Bank for Reconstruction and Development might do much to solve the problem of investments.

17. *An organism for payments.*

As long as the inconvertibility of the various currencies into dollars continues, along with the many obstacles placed in the way of trade, the European Payments Union, with *adequate* reserves in hard currencies and gold, offers the only means for assuring a regime of multilateral payments, which will allow trade between the organised markets to be carried on and intensified without suffering interruptions.

Even if the conditions needed for the convertibility of certain currencies into dollars should be secured, there would still be European currencies that could not become convertible for a length of time. They can be readily interexchangeable, through an organisation such as that of the EPU, but not yet convertible into dollars. An organ for assuring regional payments will therefore be needed in addition to the World Organ whose duty it would be to assure the maintenance of dollar convertibility for some European currencies.

Two kinds of reserves are needed for this purpose. Those required for keeping on foot the machinery such as the EPU, for effecting multilateral payments, that assure the continuity and development of trade between countries with currencies the purchasing power of which has not yet been stabilised and which are therefore still not convertible into dollars, but for which ready transferability is desired; and those needed for providing stabilization credits, which would allow currencies, that have a fairly stable purchasing power, to continue to be convertible into dolars.

It would not seem unreasonable to believe that the respective size of both these reserves could be kept within reasonable limits. If, on the one hand, the member countries, while gradually integrating their several economies, could undertake to accept *gradually increasing* quotas of the exportable surpluses of other countries, we should avoid both the rush of all countries to export on the markets of the others and the more or less drastic import cuts made by some countries. If, on the other hand, the dollar convertibility of currencies of stable purchasing power were *limited* to some transactions only, at least in the early stages of the new monetary conditions, the size of the *global* reserves could be kept within reasonable limits.

This is not, however, the main point at issue. It is not the size of the reserves that causes anxiety, for it is not their size that can safeguard the convertibility of a soft currency with a hard one and assure a certain degree of transferability as between currencies that are not yet convertible into dollars.

The EPU, or some other similar organ will be necessary, until all the conditions needed for assuring the dollar convertibility of the currencies of *all* the participating countries can be assured. And such an organ could easily perform the task of facilitating the payments called for by the growing volume of trade. But an essential requisite for the maintenance or convertibility, when once attained, and for assuring a large degree of transferibility of inconvertible currencies, is the *progressive lowering* of trade barriers, and first of all, of the quantitative, qualitative and administrative restrictions, whether direct or indirect, in conformity with the transitional mechanism above outlined, which would lead to the lowering of customs duties when possible.

The lines of action so far mentioned are merely indicative of a *transitory* system, leading towards a wider market offered by the integrated economies of several countries freed from trade barriers. These lines of action are suggested by a careful study of the present situation. They can be added to the notions set forth in a previous article published in this Review. It would seem superfluous to go here into details about the implied consequences arising from the adoption of a system based on the undertaking to purchase agreed quotas, to grant purchase priorities, and to use, in specific cases, the minimum price.

The system proposed may strike the reader as that of the egg of Columbus. It is indeed simple. In practice, the organisation the several countries would have to set up will show if this study — undertaken more than two years ago, when the first attempts toward integration were made in Holland and France — be found of real expediency in facilitating the achievement of an enterprise whose aims are not only political but highly humanitarian.