

Some Aspects of the Franco-Italian Customs Union in regard to the Gradual Manner of its Achievement

by

UMBERTO GRAZZI

1. - It is generally admitted that a Customs Union cannot be numbered among the forms of inter-State economic collaboration which achieve an immediate and total effect, but that is not to say that the benefits of the union will only show themselves in the very distant future.

It is certainly true that the preparatory studies and the decision to achieve the Franco-Italian Customs Union were undertaken rapidly, considering the complexity of the material to be handled and the importance of the step taken. If we wish to produce concrete results in the near future, to enliven and encourage whole economic sectors in both countries, it is essential that the practical realisation of the plan—even though it must necessarily be by stages—should not be excessively delayed.

In the general interest, the period of transition—which is always a period of crisis—should be reduced to a minimum, and the benefits resulting from the reorganisation of the two markets should be secured as soon as possible. In addition, it is necessary to prevent the urgent demands of economic reconstruction—not incorporated in a single co-ordinated plan—from crystallising the new economic structures of France and Italy in divergent forms. These problems engaged the attention of those who were charged with the work of preparing the economic union between France and Italy and were considered at some length in the final report of the Mixed Commission. The solution of these problems clashed with, and to some extent found its mitigation in, another fundamental need: to prevent the two complex economies, which have reached their present definite shape through a long process of growth,

from suffering a sudden upheaval which might cause serious injury to important economic interests, perhaps with disastrous results during a lengthy period of adaptation and amalgamation.

The attempt to harmonise these opposing factors, and the necessity in individual cases of taking into account the dominating interests of both economies, clearly resulted in a large number of compromises in the report of the Mixed Commission. These have been criticised, interpreted in various ways, and on some occasions have led to deductions of a general and wide-ranging nature which must be discussed.

2. - It is obvious that some ideals cannot fit in wholly with the existing economic interests and that a complete respect of the latter is impossible, not only because of the inevitable practical results, but above all because of economic reasons of a collective character. Nor must we forget the exceptional and acute sensitiveness of the two populations.

A well-known French economist, who has been giving lectures in Italy with the aim of fostering the ideal of European Union, has recently emphasised that the Franco-Italian Mixed Commission was concerned too much with the defence of economic interests which were either directly competitive, or at least non-complementary, between the two countries. In many cases agreements between the opposing interests were contemplated; these might turn into veritable trusts, and the final result might be a rise instead of a fall in prices and a complete reversal of the principle of the international division of labour, causing a definite in-

crease in the cost of living. It was also stated that the Joint Report of the Commission contemplated excessive limitations on the movement of persons, while the movement of capital would only be permitted when absolute equality had been reached in the level of rates of interest in both countries.

These criticisms deserve to be seriously discussed. Without going into great detail, we may point out that these observations—which are very useful to the authorities in the two countries who have such arduous labours to complete—did not contain any concrete, practical proposals, which would certainly have been of the utmost value and would have justified the critical tone. In fact, the counter-proposals made to the solutions suggested by the Mixed Commission were not carefully thought out to fit the economic interests and the existing facts, which, whether we are optimists or pessimists, revolutionaries or conservatives, remain inalterable in their hard necessity. It was merely stated that it would have been possible and right to eliminate any transitional phase, any gradual process of attainment, simply by announcing and immediately putting into effect the basic laws of the international division of labour, leaving full freedom of movement for commodities, capital and people, while at the same time completely preventing all forms of agreement between producers, these being regarded as harmful. In other words, today, when national economies are controlled, wholly or partly, by Governments, as the basis of their social plans, when customs unions involve difficult technical, economic and political adjustments and considerable concessions by the Governments themselves—in such conditions (according to our critic) the simplest practical solution would consist in allowing men and economic laws to operate in complete freedom.

But this would be to overlook the most serious obstacle of a general nature—the organic dissimilarity and incompatibility of the existing economic systems and economic practices in the two countries concerned, and in all the remaining countries of the world, in relation to the objective to be pursued: the economic union.

An economic union, which is a fusion of two national areas into one common factor of

economic activity, is also a decisive act of economic equalization; it implies the progressive weakening and final disappearance of the general obstacle mentioned above and the necessity of economic recovery in each country, or at least of a more uniform and unifying economic policy as a basis for super-national recovery.

We must recognise that this general obstacle is also dependent on economic conditions resulting from the pressure of internal economic and political groups, which are scarcely aware of the general interests involved. Having admitted this, we must hope that, thanks to the general clarification of ideas now taking place between the two countries, it may be possible rapidly to lessen the restrictions and restore economic freedom, thus contributing in a definite way to the process of unification.

3. - The foregoing considerations allow a more thorough examination of the problems which have raised such serious criticisms and objections. It is true that in many competitive, parallel or non-complementary situations the Mixed Commission suggested the use of direct agreements between producers. But it was immediately made clear that while these agreements might be efficacious in co-ordinating and strengthening parallel economic sectors, formerly foreign and competitive and now fused in the new unified economy, they must never create groups to the detriment of third parties or of the participating countries by increasing rather than levelling prices within the Union.

It is impossible to conceive of a simple return to the free play of economic laws, and we should be deceiving ourselves if we tried to solve such a difficult situation merely by legislation. Above all, it would be illusory to believe that we could harmonise the opposing interests without the direct help of the parties concerned. Therefore—without attempting to disguise the undoubted difficulties—it was considered useful that while the two Governments should remain the final judges of the merits of any measures to be adopted by joint agreement, the producers concerned should enter into direct contact, with a view to a thorough examination of their problems from all aspects. In the light of the new situation—improved sales possibilities in a wider home-market,

more vigorous and extensive co-operation on foreign markets, greater facilities in securing certain raw materials, semi-finished goods, machinery and equipment, etc.—the producers themselves should study the most useful and economic forms of the division of labour, the adequate compensation for reciprocal concessions, and so on, then definitely proposing possible solutions of these problems for the consideration of the two Governments.

For instance, agreements are now being studied which would involve the import from France of basic raw materials for processing into semi-finished goods in Italy. This would cause a contraction in the corresponding Italian industrial sector, but would develop the processing industry, supplying our industries with finished products and processing materials at lower prices. In this way, many industries could make plans for future complementary development, dividing between themselves speciality production and markets, exchanging patents and techniques.

The agreements among producers should be regarded as an effective form of collaboration between the economic forces and their respective Governments. We may assume that the latter have, from the first moment, promoted an increasing number of meetings between Italian and French producers, even before a definite programme for the projected Customs Union was presented to the respective Parliaments, with the deliberate intention of integrating the conclusions reached by the joint expert Commission—giving a greater or a lesser value to them—in order to have a more complete and realistic picture of the actual possibilities and the appropriate time for proceeding to unify the two economies.

We should therefore not speak of "trusts", but of free collaboration in the effort to meet potential competition, which would show itself clearly as soon as the present quantitative restrictions and exchange controls had been removed—a collaboration which will only be approved by the Governments if it serves the general interest or is useful in solving particular problems, especially those of a social nature.

4. - As regards the human problem, it cannot but be agreeable for us to hear, especially from an eminent French speaker, that this

should have been solved, once for all, by immediately granting complete freedom of movement to all persons living within the boundaries of the Union. We should be delighted if similar words were pronounced by the responsible authorities in France; but we realise the obstacles that such a suggestion would meet, just as we have honestly recognised that—at least in this first stage—certain restrictions for which the French have asked were legitimate and timely. We agree, however, that the right path to follow is that of the maximum freedom of movement and we shall continue to work for this aim, not only in regard to questions of manpower, but also because we are convinced that the sacrifices and concessions, the temporary upheavals inherent in the practical execution of such a vast project, will find adequate compensation in large-scale benefits only if the psychological attitude of the two peoples gradually changes, as they throw overboard many prejudices of the past, give up harmful claims to supremacy, devote themselves,—without preconceptions and with an understanding of the aims to be pursued—to a loyal and fair collaboration, thus showing that they have reached the required maturity and the capacity to estimate correctly the sacrifices and the gains from such a course. They must feel that their action is directed to the common good, that they will gain in freedom that which they lose in so-called independence, that they gain in welfare what they now lose in sterile and harmful rivalry.

5. - Replying now to further criticisms of the work of the Mixed Commission, namely, that the latter had ruled out the possibility of restoring full freedom of movement of capital until a perfect balance between the interest rates in force in the two countries had been reached, we may say that the truth was somewhat different from such statements. In this matter, as on the question of manpower, the Italian authorities have clearly shown that they understand the needs of France; they have recognised the necessity of proceeding with the utmost caution in view of the importance of the problem. Caution, however, did not induce the Commission to maintain the above-mentioned delay in the free movement of capital. The statements contained in the first

part of Chapter VII of the Final Report of the Expert Commission are proof to the contrary.

It is there specifically laid down that "in relation to the conditions in the two capital markets, the shortage of capital is now and always will be more serious in Italy than in France, and the rate of interest is now and always will remain higher in Italy than in France", while in the conclusion of this Report we read that "it is above all in the field of capital and manpower that the complementary nature of the two economies is shown". In view of these statements, it would clearly be absurd to make the free movement of capital dependent on reaching a balance in the cost of money between Italy and France, when this is, in fact, considered as unattainable.

The theory that the general interest grows by a fusion of differing economic situations is true. It is equally true that the result need not necessarily be an adjustment of the more favourable to the less favourable conditions, with a consequent general deterioration. But it is only natural that neither of the "partners" should immediately deprive itself, to the advantage of the other partner, of its privileged position and of the essential factors needed for the reconstruction and reorganisation of its war-damaged economy.

For these reasons, having already pointed out that for many years to come the capital available in the two countries will fall short of their respective needs, the Commission—with a view to protecting the financial market—agreed to delay the proposed free movement

of capital towards Italy until the French capital market had become normal again in relation to its own basic financial needs.

Despite these and other restrictions made necessary by the particular economic situation and the individual requirements of each country, it is satisfactory to note that, only four months after the first agreements were signed, some of the general monetary and financial estimates then made have proved to be excessively cautious and pessimistic. So that we can say that on the rough and difficult path towards the re-establishment of full convertibility between the two currencies and free movement of capital, much progress has already been made, and the results of these first agreements (signed at Turin on March 20th last) give ground for high hopes.

As to the criticism that the two Governments have not shown sufficient eagerness in pushing on with the formation of the full Customs Union, being preoccupied more with the economic than with the political aspects of the problem, one can only register surprise at such a remark. In these matters, political and economic aspects are so completely fused that it is difficult to decide which is the more important and which is based on the other. A decision imposed from above would run the risk of creating an artificial situation, temporary and lifeless. Equally, this might happen if the two Governments do not achieve the happy mean between excessive speed and undue caution.