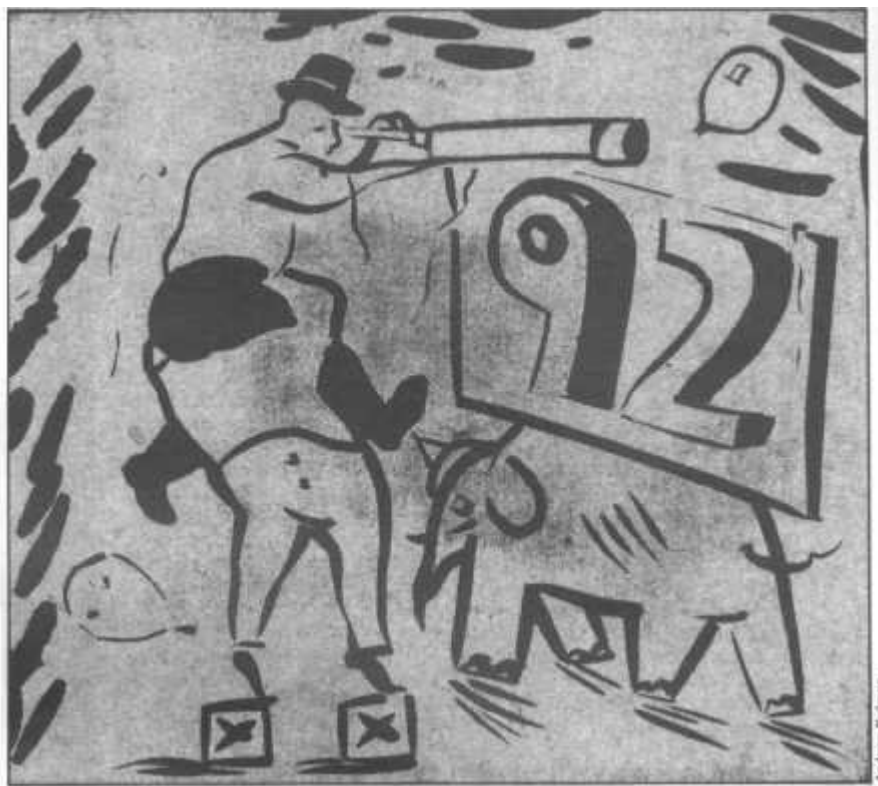


1992

1992 And All That

1992 will happen. It won't mean that on January 1, 1993 the world will look much different, but in the longer run it certainly will. **John Grahl** dissects the meaning of 1992



Media success brings certain problems — the European Community has so successfully sold its 1992 programme that it will be hard to meet consumer expectations. When Europeans wake up on January 1, 1993 and ask themselves what has really changed, the results could resemble the more traditional after-effects often experienced on that day of the year. 1992 is not as important as the publicity suggests. But it is important, not so much for what it will do by 1992, as for the way it will influence longer-term developments.

Although tariffs and quota restrictions on internal trade were abolished in the EC 20 years ago, it is obvious that full economic integration is far from being achieved. One reason is that there are many other obstacles to the free movement of goods, services and resources between member countries — the 'non-tariff barriers'. The 1992 programme is a group of some 300 measures aimed at removing these non-tariff barriers by the end of 1992. The European Council (prime ministers and heads of state) agreed the programme in principle in 1985, and it was written into the Single European Act (SEA) which was adopted by all national parliaments in the Community during 1986. The Single Act strengthens the Treaty of Rome which set up the Community, so that carrying out the programme is a legal obligation on all member countries.

Each item in the programme has to be worked out in detail, and then agreed by the Council of Ministers, which is the EC's essential decision-making body. Agreement is made a lot easier because decisions are by majority vote rather than unanimity. In spite of initial scepti-

cism, a large number of the items have been agreed, and it is now clear that most of the programme will go through, more or less on schedule.

The programme is not a model of logical coherence — the EC white paper of 1985 which laid it out was a result of brilliant improvisation rather than long-term strategy. Some of the items included had obviously been mouldering in Brussels filing cabinets for ages, before being thrown into the programme. For example, there are a very large number of detailed agricultural measures, to facilitate movements of livestock and so on. And there are very far-reaching proposals, which the white paper sketches in a few lines.

The white paper identified three types of 'barrier' to the free movement of products and resources: physical barriers — controls and formalities at the frontiers between EC countries; technical barriers — difficulties caused by the various technical standards and regulation systems of the different countries; fiscal barriers — obstacles to free trade and resource mobility caused by incompatible national tax systems. But not all the aspects of officialdom mentioned in the white paper really do block economic relations, nor would removing them all 'complete' market integration or produce a 'single market' because it is not only functions of government such as taxation or regulation which obstruct economic interaction between countries. There are also barriers within the private sector and in society at large. France and West Germany have different economies, not just because they have different tax systems and legal systems, but because they are different societies — with different languages, different traditions,

different ways of doing things. Even if their tax and regulatory systems were completely harmonised, France would not automatically become a 'home market' for West German companies.

Thus 1992 is not a comprehensive programme for full economic integration, as some of the publicity suggests. But it does push integration forward with four major sets of reforms.

The first and most far-reaching set of measures concerns *financial liberalisation*. Complete freedom to move money in and out of the country already exists in Britain and some other member states. Free capital movements will become EC-wide in 1990 (with temporary exceptions for the very poorest countries), allowing any EC resident to operate a bank account in any country.

Freedom of movement for banks and other credit institutions is also well-advanced: if they are established in one EC country they will be able to operate in any other, without having to satisfy a second set of regulations. Together these measures will make money and credit systems in the Community completely interdependent, although a fully-unified financial system will not be possible while there are still different currencies. The possibilities for national control over interest rates and credit conditions will be substantially reduced.

The second set of reforms tries to open up *public procurement* to Community-wide competition. In each member country the government buys huge quantities of goods and services from private companies — almost 10% of income is generated by selling to government in this way. Traditionally these valuable orders are channelled to domestic suppliers. This is the reason that there are so many companies in Western Europe which produce locomotives, for example. The programme tries to stop this disguised protection of home markets by rules to compel competitive tendering throughout the Community. Telecommunications equipment is one of the key sectors which will be affected. Telephone networks are a public service in most EC countries and, up to now, their purchasing has favoured national suppliers. It should be noted, however, that military procurement (government purchases of weapons and war material) is not subject to the programme.

The third aspect of the programme concerns technical norms, quality and safety standards, and other kinds of *regulation*, including the qualifications which are legally required for some professions like medicine. The programme contains measures to harmonise these standards in many cases, but it also tries to short-cut the complicated process of agreeing EC standards by instead introducing mutual recognition of existing national standards. This may seem a sensible way of promoting international exchange without bureaucracy but it has caused concern as a

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kind of hidden deregulation. Safety or quality standards for a product or a service in one country could be undermined if imports are allowed from another country with a less exacting system of control. This deregulatory side of the programme certainly recommends it to enthusiasts of the free market. But it is not yet clear whether it will have big effects in practice. In the long run, however, the programme will tend to force close collaboration between member governments when they change standards and technical specifications or alternatively to transfer competence in this area to the EC.

Finally the programme includes measures for *tax harmonisation*, in particular an effort to reduce the present disparities in the rates of VAT which different countries impose on consumer products. Agreement has not yet been reached on this question and its logic seems very tangled. In fact, the existing VAT differences don't affect trade at all because exports are always zero-rated, while imports are treated like home goods. French exports to Britain, for example, are exempt from French VAT but attract the same rate of British VAT as the home products they compete with. The problem, from the EC Commission's point of view, is that the existing procedures require a documentation system for exports — so that they can be zero-rated — and these formalities are reckoned to be a 'physical barrier'. But if the formalities are just abolished, the different rates of VAT will *become* a problem, because exports will then pay VAT according to their origin, not their destination.

To avoid distorting competition, therefore, the Commission wants to level out rates of VAT. The danger here is that southern European governments, highly dependent on VAT receipts, will cut VAT to stay competitive, depriving their public sectors of resources.

The main significance of this reform is to put tax harmonisation back on the EC agenda, after a long period of stagnation. A key issue will be the model tax-system towards which member states start to converge. Until recently one could assume that harmonisation would aim to replicate in other countries the kind of system that exists in Denmark or Germany: high rates of tax, low levels of evasion, higher tax rates for the rich. Now that view of progress is in doubt.

just listing the contents of the 1992 programme shows that we are not talking about the elimination of national economies or the emergence of a fully-integrated West European economy. Political debate has focused on two questions: will the programme tend to expand or contract employment? And will it work towards an opening or closing of the EC economies to the rest of the world?

Official EC assessments of 1992 are of course optimistic about its effects. The claim is made that improvements in

efficiency, due to more thorough-going competition, will add about 4.5% to the Community's output. This figure is higher — by an order of magnitude — than those produced by previous studies of trade liberalisation and competition policy reforms. It is similarly claimed that improved cost-structures and more rapid investment will generate millions of jobs without adding to inflation. These figures are equally suspect.

Critics of the programme argue that, in the present climate of slow growth and uncertainty, more intense competition could destroy jobs by encouraging rationalisation and plant closures in industries affected by the programme, without compensating expansion elsewhere. This in fact seems a bigger danger as far as the programme is concerned than the deregulation which is often talked about but now seems very unlikely in practice. The danger is all the greater because national policies to sustain employment will be constrained by the programme itself — especially financial liberalisation — while the development of EC-wide employment policy has hardly begun.

Nevertheless, neither the optimistic nor the pessimistic scenarios seem plausible, and for the same reason: the integration brought about by the programme will be limited, especially in the short run. There aren't big stocks of cheap products held back by fiscal or regulatory barriers and just waiting to flood into neighbouring countries. The real interaction between institutions, change and the behaviour of economic agents will be slower and more complex. Households, firms and legislators will be induced to think in more European terms, to develop a European dimension to their strategies: planning a career, launching a new product, modifying the tax laws. The main exception will be banking and credit: since financial processes are today extremely rapid it is likely that liberalisation will produce Europe-wide reorganisations in a short period of time.

The second issue, the economic openness of Western Europe, pits the free-marketeers against more protectionist views, particularly favoured in France. French views of the programme often stress that it is about completing Europe's *internal* market and thus giving a big advantage to European producers over their US or Japanese rivals. In this view, the priority is to encourage *internal* trade and investment flows *before* external ones. Doing things the other way round would 'dissolve' the European economy into the world market. What sound like cloudy continental notions of the 'European identity' are often sharp expressions of concern about this key economic issue: will there be an identifiable European economy, or just an open zone for the free play of global economic forces?

For the free-marketeers, this kind of thinking leads to the protectionist

Europe Against The World

The image of a 'Fortress Europe' after 1992 conjures up a continent closed off to the outside world. But for the poorer countries of the world, Europe already limits the most profitable forms of trade open to them. Their real worry is that the rapprochement between states in Europe will present a new challenge: a 'Fortress Europe' not cut off from its surroundings but designed to dominate them instead.

As the single market is put into place, Europe is less dependent on the underdeveloped world than at any time in the last century. Its need for raw commodity imports has reduced as new substitutes for commodities have been developed: 1,000 tonnes of natural vanilla on the world market is now outweighed by 12 times that amount of synthetic vanilla produced in chemical factories in Europe and the USA. At the same time there is a steady world supply of natural commodities, as Third World countries in the grip of the debt crisis have had to promote export of commodities at any cost, in order to gain precious foreign exchange.

The single market is intended to reduce this dependence even further, by internalising trade within the Community and promoting self-reliance within the 12 member states: internal trade is already over half of all EC trade. In contrast, trade between countries in Africa represents only 4% of Africa's trade.

What will the effect of the single market be on poor countries dependent on exporting to Europe? The European Com-

mission claims that 1992 will increase the overall economy of the 12, so that importers will benefit from more buoyant markets: the rising tide should lift all boats. But the most likely change will be an increasing preference for EC goods away from outside imports. This trend has already emerged for products where internal barriers in Europe have already been removed. In textiles, for example, the share of UK imports from the EC has increased by 50% over the last 12 years, while the share from developing countries has declined by 17%, giving the lie to the myth that cheap imports from the Third World are responsible for the decimation of the British textile industry.

The threat of 'Fortress Europe' operates on two levels: of Europe closed to business from poor countries, but also of European domination. However, growing European political and financial co-ordination will make it more difficult for the EC to shirk global issues such as debt, and a stronger Europe could offer Third World countries a more palatable alternative to dependence on the United States and the US dollar.

Poorer countries of the world are aware and wary of the shifts taking place in world markets. Jamaica has argued long and hard within the confines of the international GATT talks that radical free-trade reform of agriculture suits only the biggest exporters the USA, EC, Australia. The 'ACP' grouping of 66 countries in Africa, the Caribbean and Pacific is now demanding that the EC consults them on the way that the single market is established. •

Edward Mayo

heresy of 'fortress Europe'. For them the key objective is not to build an 'internal' market, but to remove all obstacles to market exchange, either internal or external. As far as the 1992 programme is concerned, it is now clear that this free-market interpretation will prevail. Anything that makes it easier to circulate goods or resources among EC countries will also make it easier for big Japanese or US companies to operate in the EC, or to a lesser extent for outside exporters to sell into European markets. An important example is the financial liberalisation, which in fact concedes a long-standing US demand for greater access to the Community for its banks and credit institutions, since US banks will also be able to operate in several countries and move money

easily between them. There have been some French attempts to restrict the benefits of 1992 to insiders, but they have not been supported by many other governments. The theme of the 'European identity' is certainly not dead, but measures to promote *specifically* European interactions will require other programmes and other types of policy. The 1992 programme as such is a free-market programme putting Europeans and outsiders on the same footing.

The recent wave of European merger activity may seem to contradict these judgments, but its actual importance is easy to exaggerate. Adaptation to change is certainly faster in sectors dominated by multinationals, but in many such sectors there already is a high degree of European integration.

Some of the present mergers are likely to be defensive — to avoid more intense competition, particularly for government contracts, big companies are getting together and sharing out markets. Nor is big business going to 'build Europe' — mergers and joint ventures continue between European firms and Japanese or US partners, so that it becomes increasingly difficult to perceive a 'European identity' in enterprises with a global strategy. In the 60s, when West European economies were growing exceptionally fast, multinationals did accelerate European integration by concentrating a lot of their activity in member countries. The general process of internationalisation tended to coincide with European construction. This is unlikely to happen again: other parts of the world will have faster growth than the EC, and this will be reflected in the investment strategies of the big companies.

Since the 1950s, the European economies have been becoming more open both to each other, and to the outside world. The assessment here is that the 1992 programme will reinforce both these trends, but that its full effects will take a long time to develop.

Most of these economic effects lie in the future, but 1992 has already had a big impact on the politics of European integration. After its last major political advance, the entry of Spain and Portugal in 1985, the EC was threatened with stagnation. An ambitious proposal from the European Parliament for a Treaty of Union among member states, which would have moved a long way towards a federal Europe, failed to get off the ground. Right-wing governments in Britain, France and West Germany were resisting further institutional change and refusing to fund new EC spending. The 1992 programme emerged in this climate of free-market conservatism. It promotes integration by purely market methods — relaxing constraints on private business — without involving public spending or new powers for the EC Commission. At the same time other, more interventionist projects were blocked. For example, Commission proposals to introduce some restrictions on employment practices were dropped and the Council of Ministers adopted instead a British-inspired document on labour market 'flexibility'. At this point, 1986 and 1987, the doctrines of the free-market Right were setting the EC agenda.

More recently however, the Commission has used the momentum of 1992 to launch a number of political initiatives which go well beyond market-led integration to develop the supranational institutions of the Community and open up new fields for Community policy. The Single Act itself, a much-diluted version of the Parliament's Treaty of Union proposal, paved the way for some of these changes. The Single Act merely amended the original Treaty of Rome, and in ways which did not much streng-

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then its institutions, but it did make. Community activity legitimate in new fields of policy — not just those involved in 1992 but also on monetary questions, for example. The development of EC monetary powers is now underway again, after a decade of stagnation. The proposals which emerge from the present committee on this subject may well stop short of a fully-fledged European central bank, but they will probably involve a centralised monetary authority with significant powers and are thus likely to put new limits on the exercise of national sovereignty in a key area.

In the wake of 1992, the Community budget has also been reformed and strengthened, unfreezing a number of spending programmes. The EC's 'structural funds', which finance development projects in regions with low incomes or high unemployment, will be doubled up to 1992, so that EC influence on regional policy is moving beyond token level. At the same time the EC has become a major force in technology policy with a more comprehensive and better-funded range of programmes for European collaboration in IT, telecommunications, biotechnology etc.

During the present Spanish presidency of the Council, that is in the first half of this year, there will also be proposals to start building the social 'space' or social dimension of the EC. This is not a design for a European welfare state — which would be impossible because of the huge gap between high-income and low-income countries. Instead, the social space involves a number of other ways to reinforce solidarity in the EC: more redistribution of public money to poorer regions is one aspect; others will be included in a European 'social charter' giving basic employment and welfare rights to everyone in the Community. The charter would cover such things as health and safety, trade union recognition, employee rights to information and consultation, access to national social service and social security systems. A related development is for a European company statute. The basic idea here is to allow companies to register at EC rather than national level, but the new type of registration is also seen as a means of harmonising and influencing company practice — including employment practice — throughout the Community. The electoral victory of the socialists in France last year has given a lot more support to Jacques Delors, president of the EC Commission, in his campaign for the social dimension, and although the British government will try to stop the whole thing, they are isolated on the issue and most unlikely to succeed.

Thus there is a new political dynamic in the Community, deriving a lot of its force from the success of 1992 but moving in a different direction. Integration by market forces is certainly not being challenged as such: but other integration strategies are back on the agenda—

'Democratic control will require elaborate and flexible coalitions and alliances between the political forces of all member countries'



solidaristic social policies, economic interventions, the development of Community institutions. The free-market conservatives no longer control policy-making in the Community, partly because of the change of government in France, and the political troubles of the Right in West Germany, and partly because the intellectual climate is no longer so favourable to free-market strategies. Thus Mrs Thatcher's speech in Bruges last October did not express triumph on 1992 so much as warn against this renewed growth of EC institutions and the encroachment of the EC on national sovereignty.

To sum up, the 1992 programme will accelerate economic integration in Western Europe as well as increasing international economic interdependence in general. Although it will not dissolve national economies into a 'single market' it will significantly narrow the scope for autonomous economic policies at national level. This is particularly true of money and credit policy but also applies to other fields. For example, once VAT rates have been harmonised, it will be impossible in practice for a single country to change its rates; technical norms and regulations will be much more constrained by Community practice; it will be harder to use public orders to private companies as a tool of industrial policy. In general there will be closer links between the national market for each product or service and the corresponding markets in other EC countries, and this will reduce the possibilities of effective control at national level. At the same time a group of political initiatives is strengthening the central institutions of the EC and increasing its scope for action.

Both the internationalisation of our economic life and European political integration are cumulative processes, where each step makes it easier to go on and harder to go back. In practice they are not just irreversible but even unstoppable. If there is to be effective public supervision of the vast private economic forces which operate on an international scale then the EC must become a strong political authority able both to master unruly private interests within Europe and bargain effectively with the US, Japan, and other powerful governments or groupings outside. Democratic control of such an authority will require elaborate and flexible coalitions and alliances.

In the short run it may be necessary and possible to resist certain aspects of the 1992 programme at national level — particularly deregulation or the destruction of jobs by more intense competition — but the only adequate response to strengthen the institutions of the EC and the democratic powers of the European Parliament. At the same time strategies are needed to influence these emerging institutions in specific areas, such as monetary policy and the social charter.

On Your Marks

The largest car market in the world: that's Europe come 1992, with 12.3m cars being bought each year. What will the single market do to the car industry?

The European market is predominantly split between Peugeot, Ford, Renault, Fiat, General Motors, VW and the Japanese companies. As internal trade barriers are removed, intensified competition will drastically squeeze these companies' profit margins and drive the industry down two roads at the same time.

One road leads to greater capital inputs, wider product range and cheaper goods. The other to increased concentration of ownership, relocation of production in the low-wage southern European countries and the transformation of working conditions in existing northern European car plants.

Up to now, the freedom to take advantage of shifting exchange rates, unequal working conditions and divergent wage rates has not been exploited by the nationally-based European companies. Only multinationals like Ford have shifted production from country to country according to local conditions. In the scramble for profits this practice is likely to develop into a process that bids down wages and conditions throughout Europe.

The arrival of Japanese companies in Portugal and Britain has led the European car producers to re-examine their labour relations. Soon, workers throughout the industry will be required to be multi-skilled, non-striking and above all willing to work when the company needs.

That is, unless the trade unions get organised and the EC implements measures to equalise widely-variable working conditions. •

Unlike any of the other international bodies to which Britain belongs, the European Community does not involve specific, limited commitments. Rather it commits Britain to an open-ended process of ever-closer integration among members. This makes membership of the Community a very dynamic factor in our national life, with a structure that changes and develops as the integration process moves from phase to phase. To respond to the process continual adaptation is needed. The labour movement has, in fact, been adapting to European integration, but because the adaptation is slow while the process of integration is fast, the gap between our positions and the reality of Western Europe may be getting wider. It is important to start narrowing that gap.