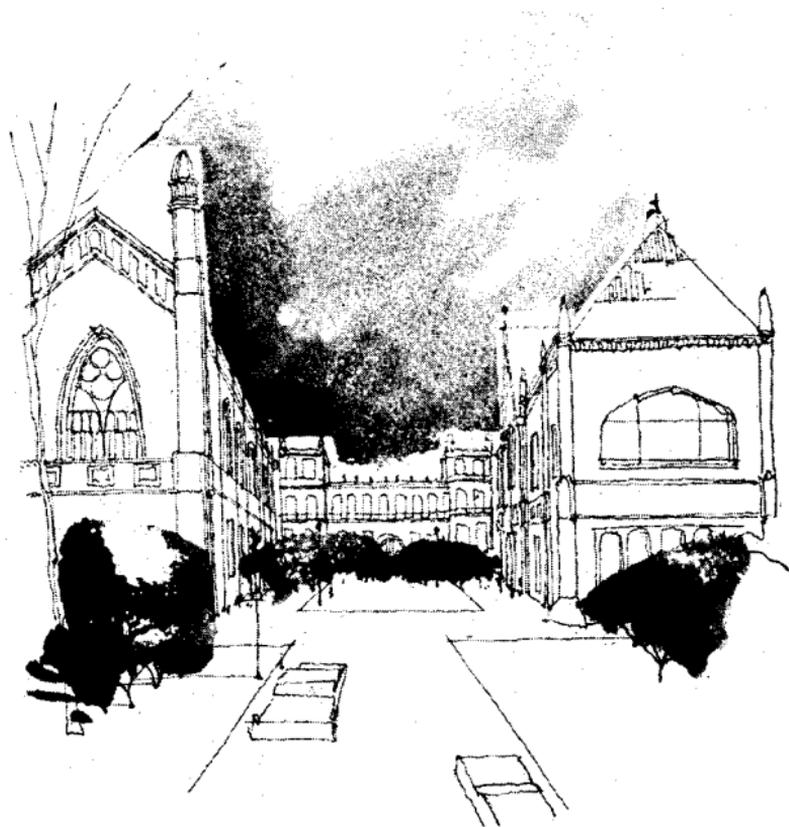


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# The Two Faces of the Common Market

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The views reported herein were expressed by Mr. Shenfield at a luncheon meeting in Chicago of the Executive Program Club and the Graduate School of Business on April 25, 1963.

He was introduced at the meeting by George J. Stigler, Charles R. Walgreen Distinguished Service Professor of American Institutions at the School, in these terms:

*"The most meager recital of Mr. Shenfield's accomplishments makes most of us sound unemployed."*

*And, indeed, those accomplishments are impressive. Mr. Shenfield has held his present position since 1955. For ten years before that he was in active practice at the English Bar. Earlier he had been assistant editor of the London & Cambridge Economic Service and lecturer in economics at the University of Birmingham, England.*

*In 1949-50 he was economic adviser to the Government of Trinidad, and since then he has been chairman of a number of commissions of inquiry into the economic problems of the British Caribbean. From 1956 to 1960 he was chairman of the Management Committee of the Imperial College of Tropical Agriculture. He is currently a consultant to a number of producers' marketing boards in the Windward Islands.*

*In 1956 he was counsel for British industry in hearings before the New Zealand Tariff Board. In 1961-62 he was chairman of a commission of inquiry into the problems of the cotton industry of Uganda.*

*Mr. Shenfield is the author of numerous publications of the Federation of British Industries (e.g., Taxation in Western Europe, Nationalization, Restrictive Practices in the European Economic Community) and of articles in law and economics and of reports on colonial economic problems.*

# The Two Faces of the Common Market

By any measure, the European Common Market is one of the most momentous developments of our time. But its purposes and devices are not uniform in character or free from inner conflicts and contradictions. From almost every angle it presents two faces; but the faces change from angle to angle, so that in the final analysis the Common Market has many faces and many contrasts.

The Common Market is at once both retrograde and progressive; both inward-looking and outward-looking; both a menacing threat to the unity of Europe and its most encouraging hope. It contains the seeds both of a **scowling** new European nationalism and of a smiling new Western internationalism.

The Common Market has so much in it that is uplifting and encouraging that its darker aspects have been given relatively little attention, at least until the slamming of the door in Britain's face forcibly drew the world's attention to them. This has especially been the case in the United States, where the Common Market appeared to show that Europe, whose disastrous divisions had twice shattered the world, had at last learned the meaning of "E Pluribus Unum" and had thus begun to follow in the footsteps of her most successful daughter, now the stay and sheet-anchor of the Western world.

For a citizen of Britain to draw attention to these darker aspects will not, it is to be hoped, be construed as a case of sour grapes or an expression of resentment at Britain's probably temporary exclusion. In fact, in her postwar

relations with Europe, Britain has herself presented a forbidding as well as a smiling face.

She refused leadership to Europe when she could have given it and when it would have been received with acclaim; she underestimated the capacity and determination of the Six to follow their plans through; and she failed to present a reasonable alternative to the Common Market, free from some of its defects, until it was too late.

In addition, when she did decide to join, she found herself powerless to avoid the acceptance of most of the Common Market's objectionable features. When the negotiations came to an end, Britain rightly protested that her hands were clean, that she had promised to accept the Treaty of Rome under which the Common Market was set up and would do so, and that the adjustments which she proposed were within the provisions of the Treaty. But this meant that she accepted much that in her heart she knew was bad and that she could rely only on the possibility of changes within the Community to make the good decisively outweigh the bad.

The Common Market was conceived both as a political and as an economic union; and its contrasting faces display themselves both in its political and its economic aspects. Let us consider the political aspect first, for, though its political aims are at present more nebulous than its economic aims, they are likely in the end to be the more fundamental.

### *Political Aspect*

The political unification of western Europe is a splendid aim of statesmanship. The Common Market is without doubt unifying for the Six, but it is divisive, as it stands, for western Europe as a whole. The Treaty of Rome envisages the accession of other European countries, but its application has made accession difficult.

Now it is true that the Six are not respon-

sible for Swiss and Swedish neutrality and could not be expected to hold up their plans until Switzerland and Sweden could be weaned away from neutrality. But, if they had really wanted western European political union, they would have applied economic measures calculated to facilitate the weaning. Their ring-fence tariff would have been planned to fall to a low level, approaching free trade, and tendencies to the centralization of economic power would have been avoided.

To be strong and cohesive, a political federation does not need the centralization of economic power. The growth of federal economic power in the United States in the last thirty years has not necessarily been justified even in the circumstances of the United States. In the circumstances of Europe the prospect of strong federal economic power is in any case uninviting to the smaller countries and repellent to those with traditions of neutrality.

But the die has not yet been cast, and it is still possible for the Six to pursue methods of political unification which will be attractive to the rest of western Europe.

Britain's special extra-European relationships are more important than Swiss or Swedish neutrality. In the end, she accepted the prospect of European political union even at the possible cost of a weakening of her extra-European relationships. But when negotiations start again, as they surely will sooner or later, it is doubtful whether Britain will, or should, stomach political union unless it is clear that the new Europe will be firmly committed to the most cordial co-operation possible with the United States, the British Commonwealth, and the rest of the free world.

Political unity conceived in rivalry with the United States, not to mention hostility, would be a repugnant prospect for Britain and a dangerous prospect for the world.

### ***Economic Aspect***

Let us now turn to the economic aspect. The two faces of the Common Market display themselves in four principal features of the Treaty of Rome and its application by the Commission in Brussels.

First, there is the customs union itself, with the removal of obstacles to inter-member trade and the establishment of a common ring-fence tariff against non-members. Second, there is the drive toward harmonization of taxation and of labor legislation, and possibly also toward the centralization of economic initiative. Third, there is the grant of special preferential status to the dependent, or recently dependent, territories of the Members. Fourth, there is the scheme for a managed agriculture.

### ***Two Faces of Trade***

The removal of obstacles to intermember trade is per se clearly an immense stride toward freedom of trade and hence the creation of trade. The creation of trade means the creation of wealth or the reduction of poverty. The Six deserve congratulation on their resolution in achieving this great change at an accelerated rate.

But, in combination with the ring-fence tariff, freedom of intermember trade is a system of discrimination; and too little attention has been given to this aspect of it. The higher the common external tariff, the greater will be the discrimination, and the worse will it be for non-members.

The Common Market has paid little respect to the principle of Article 24 of the General Agreement on Tariffs and Trade (GATT) to which most countries of the free world are signatories. The article, which lays down the conditions under which customs unions are permissible, ought to be an essential part of the code of behavior of the countries of the free world. Unfortunately, though

the spirit of Article 24 is clear—namely, that customs unions should be so fashioned as to minimize the harm to non-members of the discrimination against them—its wording is supremely vague.

Hence it has been possible for the Common Market to obtain the right to impose severe discrimination if it wishes, without breaking the letter of the article and without attracting the censure of the other contracting parties.

In this respect the Free Trade Area, proposed by Britain, though discriminatory, would have been better, for its discrimination would have been less. The maintenance of the individual tariffs would almost certainly have done less harm than their averaging on the Common Market lines. On the other hand, it must be admitted that the Free Trade Area would probably have had less inherent durability than the Common Market.

### *The Test of Beneficence*

In the end the question whether the Common Market as a customs union will be beneficent for the world or not depends, first, on what happens to the level of the common tariff and, second, on whether the existence of the union produces an expansion of the economies of the members.

If the outward-looking influences predominate, the tariff will fall, and the Common Market will be a source of increased wealth and welfare for the world. If the inward-looking influences predominate, the world may suffer more trade destruction than trade creation.

As to the effect of the union as such upon the economies of the members, it is by no means certain that it has as yet been a significant cause of their splendid growth of recent years. But it can be a cause of growth, if the extended market produces economies of scale and if the resources of the members are pro-

pelled into more economic uses by the removal of protection for less economic uses.

In fact, in their generally benevolent attitude to the Six, most non-members are counting on this expansion. For, even if discrimination harms them, the non-members may gain on balance from the trade effects of the growth of the economies of the Six. It is, of course, not any expansion which non-members should have in mind here but only such expansion as arises simply from the existence of the union. This expansion has yet to prove its existence decisively.

### *Harmonization, Centralization*

The tendency to harmonization is in part an aberration. Some harmonization—for example, that of the members' turnover taxes—is undoubtedly desirable. But it is a dangerous error to think that free trade demands a complete harmonization of taxation or more than a minimal harmonization of labor laws, practices, and conditions.

As for the tendency to centralization, the elaboration of a plan for the whole of the Common Market on the lines of the French plan would be a nightmare.

Fortunately, it is likely to be a non-starter. The men who understand how a free economy is co-ordinated without a plan, and better than by a plan, are influential in Europe and perhaps numerous. What is problematical is what may happen if the larger members fall into balance-of-payments difficulties. Then there may be strong tendencies to increase power at the center.

As yet the two faces of the Common Market have only half-developed features here, and it is too early to decide how they will set.

### *Generosity and Discrimination*

The arrangements for those underdeveloped countries which have been given the

status of Associated Overseas Territories are splendidly generous. Their goods will have complete freedom of entry into the Common Market. However, these arrangements are potentially exceedingly damaging to the rest of the underdeveloped world and, hence, to most of the poor people of the world.

By what logic is there to be this damaging discrimination against Brazil, Liberia, Indonesia, Siam, and the rest? Is it that France provides generous aid to her former colonies and holds valuable investments in them? This is not enough. The generosity of French aid deserves praise, and her interests deserve respect: but A.O.T. status is too high a prize to be limited to some countries simply by the accident of their association with members—in most cases, France.

Aid to underdeveloped countries ought to be based on a principle different from this, and in any case it ought to be concerted among the developed countries. The Common Market would gain, not lose, if it were thrown open to the products of the whole underdeveloped world, and even the A.O.T.'s would gain in the not very long run.

The Six did, indeed, agree to the extension of A.O.T. status to most of Britain's tropical colonies and former colonies. It is to be hoped that this bespeaks a larger vision and a bolder spirit than the existing provisions display.

#### *Agricultural Provisions*

The critical test of the Common Market is agriculture. The agricultural provisions are extremely important, but they can be dealt with in a few words. They are bad. They will impoverish Europe and the world. They will retard the economic progress of France and Germany, especially Germany—not accelerate it. They will aggravate the evils which have already been produced by farm supports in Europe and North America.

Overproduction and maladjustment will become even greater and more intractable. The overseas food-producing countries will be propelled further into the morass of un-economic secondary industrialization; and, sooner or later, the Common Market itself, together with Britain and the United States, will be asked to bail the overseas primary producing world out of the troubles into which it will have been locked.

This is what Britain perforce had to accept. It was an expression of her bargaining weakness, not of her moral strength. The face of the Common Market in this aspect is not a handsome one. Yet it is interesting to see that, unless he knew not what he was doing, General de Gaulle cannot have regarded these agricultural provisions as vital when the showdown came on Britain's negotiations for entry. For at the moment when he slammed the door on Britain he offered to open it to Denmark; and this would have reduced the privileges of French farmers in the new, managed Common Market agriculture without giving them the opportunities of the great British market.

The faces of the Common Market are still in the process of taking shape. The mold that they will take depends almost as much upon the United States as upon the Six themselves.

There is good reason to believe that the forces for international co-operation in the Common Market are stronger than those against it. But they need encouragement and leadership from the United States. American timidity, half-measures in trade expansion, and the tying of strings to 'trade liberation may induce the Six to turn inward upon themselves.

The Marshall Plan, which rehabilitated Europe, cost the United States a great deal. Vigorous trade liberation will cost the United States nothing and give her much. But it will require equal vision and it will take even greater understanding.