EUROPEAN COMMON MARKET STAGE-ONE INTERNAL TRADE AND FACTOR LIBERALIZATION

A Thesis

Presented to

the Faculty of the Department of Economics

University of Houston

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

---

by

Chris W. King

May, 1969

501275

ACKNOWLEDGMENTS

The Writer wishes to express his gratitude to Dr. Joel Sailors for his patient and constructive advice in writing this thesis. My wife, Janet, also deserves much credit for typing and proofreading of the manuscript.

EUROPEAN COMMON MARKET STAGE-ONE INTERNAL

TRADE AND FACTOR LIB. .IZATION

An Abstract of

A Thesis

Presented to

the Faculty of the Department of Economics

University of Houston

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

---

by

Chris W. King

May , 1969

ABSTRACT

Establishment of the Common Market is being carried out in three stages of four years each. Stage one is the period of common market trade liberalization extending from January 1, 1958, to December 31, 1961. Stage one was the most critical of the three scheduled periods for if attempts at integration had been unsuccessful in the first years, the whole program would have been dropped. This study should prove useful in that it will provide, within limits, a theoretical and historical analysis of Common Market integration and the major steps taken in stage one to obtain the stated objectives of trade liberalization. It will investigate the major areas of economic relevancy, causes and effects, and the particular problems and their solutions during this period.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

The European Common Market, established in 1958, is the most vital segment of the evolving Western European integration which has been going on since the end of World War II. The survival and growth of Western Europe and the Free World will be tied to a considerable degree to the success or failure of Common Market internal and external liberalization efforts. The objectives and actions of the Common Market are therefore of significant importance to the international economy of today.

Establishment of the Common Market is being carried out in three stages of four years each. Stage one is the period of common market trade liberalization extending from January 1, 1958, to December 31, 1961. Stage one was the most critical of the three scheduled periods for if attempts at integration had been unsuccessful in the first years, the whole program would have been dropped. This study should prove useful in that it will provide, within limits, a theoretical and historical analysis of Common Market integration and the major steps taken in stage one to obtain the stated objectives of trade liberalization. This study will also investigate the major areas of economic relevancy, causes and effects, and the particular problems and their solutions during this period.

Purpose of the Study

The first purpose of this study is to investigate and evaluate within the framework of customs union theory the environment of stage-one trade liberalization by the Common Market countries. Second, the study will analyze the major steps taken by the member countries in obtaining their objectives of trade liberalization in light of both their economic consequences and integration theory.

Delimitations

Because of the diversity and complexity involved in discussions of economic integration, certain delimitations are necessary in order to confine this study to reasonable bounds. They are as follows:

1. Only intra-state trade liberalization will be dealt with. The study will not deal with external trade liberalization in any way except where a combined action is pertinent to a segment of internal liberalization.

2. The study in dealing with Common Market internal liberalization will deal with three general areas of liberalization found in the Treaty of Rome. They are internal trade liberalization (Articles 12-17), the elimination of

quantitative restrictions (Articles 30-36), and the free movement of labor and capital (Articles 48-51 and 67-73). The economic theory relevant to these areas will be discussed.

3. No attempt will be made to pass judgment on each of the many specific actions taken by the member countries; however, major problem areas and aggregate results will be investigated.

4. This study is not intended to be a purely theoretical work, nor is it intended to be simply an historical review. The diversity of customs union theory necessitates limiting theoretical discussions to a general presentation. Therefore, rather than developing in detail the theory employed, the theoretical framework will be briefly outlined and references will be made to its source and development.

5. Liberalization in the agricultural sector of the Common Market will not be considered for two reasons. First, an entirely different theoretical setting would be needed. Second, the competitive structure and practical implications of Western European agriculture are very different from those of the industrial sector.

Method of Procedure

This study will be divided into two parts. In

Chapter Two, the commodity aspects of Common Market trade liberalization will be discussed in the light of integration theory. These aspects are trade creation and trade diversion, size of the union, economic distance and propinquity, complementarity and competitiveness, and the level of pre-union trade barriers. The third chapter will deal with the theoretical and empirical aspects of labor and capital movements within the Common Market. In both of these chapters each aspect will first be discussed theoretically and then empirically. Chapter Four will summarize the findings and present the conclusions of the study.

Definitions and Terminology

A brief discussion of terminology and definitions will be helpful at this point in the study. Unless otherwise stated, the definitions and terminology in the body of the paper will conform definitionally to those contained herein.

Stage one is the period of Common Market trade liberalization extending from January 1, 1958 to December 31, 1961. This is the first of three four-year periods defined in the treaty establishing the Market.[1]

A customs union or tariff union is generally

---

[1]John P. Young, The International Economy (New York: The Ronald Press Co., 1963), p. 643.

defined as an agreement between two or more political jurisdictions to abolish customs duties and other trade restrictions among themselves, and to adapt a common policy regarding trade with jurisdictions outside the union.[2] Although the Common Market has been said to be more than a customs union because it has set about to align policies other than those concerning internal and external trade, in this text the term "customs union" will be used to refer to the Common Market.

The terms "integration" and "liberalization" will be used interchangeably to indicate the processes of forming a customs union. Integration theory is therefore used to mean the theory of processes of formation.

All other theoretical terminology contained herein will be explained, where it is deemed necessary, in the body of the text itself.

Related Research and Literature

There has been considerable writing in the area of international trade theory dealing with customs unions and trade liberalization. There has been a great deal published on the practical aspects of the Common Market, its formation, and its inner workings. One book is

---

[2] H. S. Sloan and A. J. Zurcher, A Dictionary of Economics (New York: Barnes and Noble, Inc., 1957, p. 84.

sufficiently important to be mentioned. This is The Theory of Integration by Bela Balassa of Yale University.[3] In this book Dr. Balassa discusses current integration theory and its application to present-day integration projects, including those in Western Europe and Latin America. The author is indebted to Dr. Balassa as much of his material is incorporated in this study.

The Background of Common Market Integration

World War I left Western Europe in an economically depressed situation with much of its wealth and leadership destroyed. The attempts to improve these conditions through bilateral trade agreements and self-sufficiency policies were unsuccessful for everyone concerned. It has been said that during the 1930's Europe fought with tariffs and during the 1940's with guns. Solutions based on force and arms were even less successful, and Europe emerged from World War II broken and impoverished.

The Marshall Plan was "outside" help for the rebuilding of Europe. Although appreciated, it was painful for the proud European peoples. The Brussels Treaty in 1948 marked the begining of a Europen self-help program. As a result of the Brussels Treaty, the Organization for

---

[3] Homewood, Illinois: Richard D. Irwin, Inc., 1961.

European Economic Cooperation (commonly known as OEEC) was formed and began its efforts toward coordinating Western European recovery. In the same year Belgium, Luxembourg, and the Netherlands formed the Benelux Customs Union and, while these countries were relatively small geographically, they constituted a major area of world trade. This customs union was one of the first major steps toward a united Europe.

One of the major causes of European economic disintegration had been the antagonism that existed between France and Germany. The French declaration of May 9, 1950, which led to the formation of the European Coal and Steel Community, manifested for the first time the willingness of government to overcome old antagonisms and to adopt in their stead a program of European integration.[4] This French declaration was the result of the devoted and foresighted work of Frenchman Robert Schuman, who asked the European countries for "peace (through) creative measures of the same magnitude as the dangers that threaten the Western World."[5]

The European Coal and Steel Commonity, formed in

---

[4]Louis Lister, Europe's Coal and Steel Community (New York: Twentieth Century Fund, 1960), pp. 3-19.

[5]Ibid., p. 3&4.

1952, represented a partial integration of the economics of France, Belgium, Luxembourg, Germany, Italy, and the Netherlands. The benefits of this partial integration were beyond the expectations of its instigators, and in 1955 a meeting was called in Messina by Benelux to pursue the establishment of a United Europe by developing common institutions, by the progressive fusion of national economics, by creating a common market, and by the progressive harmonization of social policies. At the Venice Conference of May 29 and 30, 1956, the report outlining the general principles of a European Common Market was adopted. The Common Market Treaty was signed on March 25, 1957, in Rome and ratified by the six member nations in late 1957. The Treaty became effective on January 1, 1958, and the first trade concessions were made effective on January 1, 1959.

The Common Market goes beyond the realm of a customs union without going all the way to a total economic union. It is more than a customs union in that, as stated in Article 2 of the Treaty of Rome, the members are also to align their economic policies with a view to promoting economic growth and stability and strengthening relations among members. It is an important part of the underlying philosophy of the European Economic Community that a mere customs union would not be workable by itself and that further measures for unification are required.[6]

The Treaty of Rome

The treaty which created the European Common Market outlined broad objectives which go beyond the major purpose of eliminating trade restrictions between the six countries. In addition to the elimination of tariffs, the main objectives are the abolition of quotas on the movement of goods between the countries; removal of the restrictions on the movement of capital and labor across national boundaries; the establishment of a Social Fund to assist the family of any worker whose well-being might be injured by the increased commercial competition which the treaty encourages; and, finally, the establishment of Investment Funds for placing constructive capital in underdeveloped regions of the Market countries and overseas territories.[7]

This study, in dealing with internal liberalization, will be concerned with but three of these areas. These three areas are the elimination of tariffs, the abolition

---

[6]Emile Benoit, Europe at Sixes and Sevens (New York: Columbia University Press, 1961), p. 4.

[7]For a complete manuscript of the Treaty of Rome, see The Common Market Reporter (Chicago: Commerce Clearing House, Inc., 1962).

of quotas, and the free movement of labor and capital.

The elimination of internal customs duties is dealt with in Articles 12-17 of the Treaty of Rome. Article 12 prohibits the establishment of new import or export duties by the member countries. Article 13 outlines the abolition of existing duties between the states. Article 14 sets forth the timing of reductions. During the first stage the over-all tariff rate is to be lowered by 30 per cent. All duties must be lowered by a minimum of 20 per cent. Duties on which the rate would still exceed 30 per cent munt be lowered by 30 per cent. Last, an attempt to reduce all tariffs by 25 per cent is to be made. Articles 15, 16 and 17 are concerned, with accelerated reduction, export duties, and fiscal duties, respectively.

The elimination of quantitative restrictions is outlined in Articles 30-36. Article 31 prohibits any new quantitative restrictions from being established between the member states. Article 33 establishes global quotas in place of bilateral quotas existing at the time of the treaty. This means that any bilateral quota agreement made between members before the treaty must now be open to all members. This article also states that aggregate global quotas between the members are to be increased yearly by not less than 20 per cent in their total value as compared with the preceding year. Article 34 prohibits quantitative restriction on exports between the members. Article 35 outlines a method to accelerate the removal of quota restrictions between members when the general economic conditions warrent such acceleration. Article 36 gives exceptions from prohibitions of Articles 30-34.

Articles 48-51 cover the free movement of workers. The text is in considerable detail to cover all of the areas of labor movement. After declaring the right of freedom of movement in Article 48, the ensuing articles and sub-sections lay down the provisions and regulations for ensuring and promoting this right.

Articles 67-73 set forth in detail the provisions and regulations governing the movement of capital within the Market. According to the Treaty there are four categories of capital; direct investment, real property investment, private funds, and securities dealings.[8]

---

[8]"Treaty of Rome", The Common Market Reporter, op. cit., First Directive for the Implementation of Treaty, Article 67, Articles 1 and 2.

CHAPTER II

COMMODITY MOVEMENTS

As stated in the introductory chapter, this discussion of Common Market integration has two principal aspects: commodity aspects and factor aspects. There are numerous approaches that one can take when investigating the commodity aspects. The end results and assessment, however, should be considered in terms of world welfare. It would be impractical to consider only the internal gain or loss from liberalization, just as it would be impractical to consider only external gains and losses. The net effect on the world economy must be measured because internal gains may be more that offset by external losses and *vice versa*. External factors are therefore considered in this discussion. The above explanation of why external factor considerations are brought into the initial portion of the study is necessary since it has been pointed out that the study, except as noted, will deal exclusively with internal liberalization.[1]

In this chapter, five aspects of commodity

---

[1] *Vide ante*, p. 2.

movements will be discussed. They are trade creation and trade diversion, size of the union, economic distance and propinquity, complementarity and competitiveness, and level of pre-union trade barriers. First, the theoretical analysis will be presented. Immediately following will be the empirical analysis of Common Market stage-one liberalization relevant to the theory.

Trade Creation and Trade Diversion

Jacob Viner in 1950 published a significant work on international trade theory in which he investigated the impact of integration on trade and distinguished between what he called "trade creation" and "trade diversion".[2] Trade creation represents a shift from higher to lower cost sources of supply, and trade diversion involves a shift from lower to higher cost producers. It will be shown that both trade creation and trade diversion may result from integration or liberalization.

Under a system of free trade, assuming pure competition and constant cost, prices of individual commodities, will vary only by the transportation cost involved. If we further assume zero transportation cost, the world market price of any commodity will be equal to

---

[2]Jacob Viner, The Customs Union Issue (New York: Carnegie Endowment for International Peace, 1950), pp. 41-55.

the cost of production in the lowest-cost country. Therefore, in a world, without tariffs a country will import those products which cannot be made at the world market price. Under a system of tariffs, production of some goods will shift from low cost foreign producers to higher cost domestic producers, and consumer demand will shift from foreign to domestic goods. However, it also follows that countries whose production cost are higher than the sum of the tariff and the world market price will import the commodity in question from the lowest-cost source.

Within a customs union, the removal of tariffs can have a trade creating effect by allowing one member to utilize a cheaper source of supply within the union. Trade diversion occurs when one member of the union shifts its purchases from an external source to another member with higher cost, but pays less for the goods which are duty free than it would have to pay for the externally produced goods plus the common import duty. This of course results in moving from a lower to a higher cost source of supply. To help clarify the difference between trade creation and trade diversion several possible cases can be distinguished. Assume France and Italy form a customs union excluding Germany. To illustrate each case more clearly mathematical examples are also given.

Case I. Prior to the formation of the customs union both France and Italy produced the commodity in question. France is the lowest-cost producer. Italy had been producing the commodity under tariff protection. After the formation of the union the inefficient producer, Italy, will cease to produce the commodity and its entire demand would be satisfied by France. This is the same consequence that would follow if tariffs against all countries were abrogated and universal free trade existed. (Trade Creation).[3]

Mathematical Example:

Suppose that before the formation of the union Italy had a 100 per cent ad valorem duty on imports of coal from all countries. Assume also that the cost of producing a ton of coal is $100 in Germany, $50 in France, and $75 in Italy. Therefore before the union the price of coal in Italy, including the import duty, will be:

German Coal: $100 plus 100% import duty = $200

French Coal: $ 50 plus 100% import duty = $100

Italian Coal: $ 75 (Free of Duty)

Consequently, before the union Italy will produce it's own coal under tariff protection.

---

[3]Bela Balassa, The Theory of Economic Integration (Homewood, Illinois: Richard D. Irwin Inc., 1961), pp. 25&26.

On the other hand after the union is formed the price of coal in Italy, including the import duty will be:

German Coal: $100 plus 100% duty = $200

French Coal: $ 50 (After the union French coal is duty free.)

Italian Coal: $ 75 (Free of Duty)

Now Italy will cease to produce coal and import it from the more efficient producer France.

Case II. Prior to the formation of the customs union Italy imported the commodity in question from Germany, the lowest cost producer. France produced the commodity under protection. Removal of the tariffs between France and Italy shifted Italy's demand from Germany, the lowest cost producer, to France, the less-efficient producer. This situation is less efficient than the existing situation before the formation of the customs union, therefore becoming trade diversion. (Trade Diversion)[4]

Mathematical Example:

Suppose that before the formation of the union Italy had a 100 per cent ad valorem duty on imports of coal from all countries. Assume also that the cost of producing a ton of coal is $50 in Germany, $75 in France, and $125 in Italy. Therefore, before the union the price

---

[4]*Ibid.*, p. 26.

of coal in Italy, including the import duty, will be:

German Coal: $ 50 plus 100% duty = $100

French Coal: $ 75 plus 100% duty = $150

Italian Coal: $125 (Free of Duty)

Consequently, before the union Italy will purchase German coal for it is the lowest in price as well as in cost.

On the other hand, after the union is formed the price of coal in Italy, including the import duty, will be:

German Coal: $ 50 plus 100% duty = $100

French Coal: $ 75 (After the union French coal is free of duty)

Italian Coal: $125 (Free of Duty)[5]

Now Italy's demand will shift from Germany, the lowest cost producer to France, the less-efficient producer. This situation is less efficient than the situation prior to the formation of the customs union and can therefore be considered trade diversion.[6]

Case III. Prior to the formation of the customs union both France and Italy produced the commodity in question under protection. However Germany who is excluded from the customs union is the lowest cost producer. Formation

---

[5]J. E. Meade, Theory of Customs Unions (Amersterdam: North Holland Publishing Co., 1955), pp. 29-31.

[6]Jacob Viner, op. cit., pp. 41-55.

of the customs union can still create trade (assuming the cost of the commodity is not the same in the participating countries) once the tariff levels are dropped between France and Italy. However, the new position will be subordinate to universal free trade, for under free trade neither Italy nor France would produce the commodity, but both would import it from Germany, (Trade Creation-but inferior to universal free trade).[7]

Mathematical Example:

Assume the same conditions as in Case II, except assume Italy now has a 200 per cent ad valorem duty.

Price of Coal in Italy before the union:

German Coal: $ 50 plus 200% duty = $150

French Coal: $ 75 plus 200% duty = $225

Italian Coal: $125 (Duty Free)

Consequently before the union Italy will produce its own coal for it is the lowest price.

Price of coal in Italy after the union:

German Coal: $ 50 plus 200% duty = $150

French Coal: $ 75 (After the union French coal is duty free)

Italian Coal: $125 (Duty Free)[8]

---

[7]Bela Balassa, op. cit., p. 25.

[8]J. E. Meade, op. cit., pp. 32&33.

Now Italy will import the lower cost and lower price French coal. New trade has been created and it will represent an economic and efficient expansion of the lower cost French coal. This is inferior to universal free trade position, but it is a step in the right direction.

The only difference in trade diversion in case II and trade creation in case III is that the ad valorem duty in Italy is higher in case III. This illustrates a generalization about formation of customs unions made by Professor Meade:[9] namely, "that the formation of a customs union is more likely to raise than to lower economic welfare, the higher are the initial duties on each others products which the partner countries remove."

Thus, trade creation represents a movement toward the universal free trade position, while trade diversion represents a movement in the opposite direction. The net benefit of integration must therefore be calculated in terms of the surplus of trade creation over trade diversion.[10] It cannot be calculated on mere volume alone. It must be figured on the basis of the unit cost of each good times the volume envolved. For example, suppose as in case II,[11]

---

[9] Ibid., pp. 32&33.

[10] Jacob Viner op. cit., pp. 44&45.

[11] Vide Ante., p. 16.

trade has been diverted from low cost Germany to higher cost France, but as a result of the union France now imports wool from Italy. Assume $80,000 worth of coal has been diverted and only $25,000 worth of new trade in wool created. At first glance one would assume trade diversion outweighs trade creation. However, if cost are considered a different answer can be obtained. As in Case II, French coal is 25 per cent higher than German cost. Now however, suppose that in wool production French cost were 100 per cent above Italian cost. Trade diversion would have caused a loss of (25 per cent of 80,000) $20,000, but the newly created trade has caused a savings of (100 per cent of 25,000) $25,000. It can be seen there is a net saving in cost even though the value of the newly created trade was much less than the value of the trade which was diverted.[12] If increasing cost prevail, gains would be less and losses greater than they would be if cost were constant. If decreasing cost prevail, the opposite would be true.

The shifting of purchases from one producer to another results in production effects due to the cost

---

[12] J. E. Meade, *op. cit.*, pp. 34-36.

factors involved.[13] Production effects will occur as purchases are shifted from lower to higher or from higher to lower cost sources. This is where alleged economies of scale can be taken in account. Trade creation results in positive production effects and trade diversion in negative production effects.[14] Closely allied with positive and negative production effects are the positive and negative consumption effects of liberalization resulting from the substitution of goods from partner countries for those previously obtained from domestic or foreign producers.[15] For example, production effects tend to be favorable if increased purchases of a given commodity from a member country take place at the expense of domestic rather than foreign sources of supply. Likewise, positive consumption effects are likely to predominate if consumers substitute the commodities of partner countries for domestic goods rather than for foreign products. Positive consumption effects are created when discrimination has been abolished between domestic goods and the commodities

---

[13]Production effects are defined as changes in production due to cost and price changes resulting from integration.

[14]Bela Balassa, op. cit., p. 27.

[15]Consumption effects are defined as changes in consumption due to cost and price changes resulting from integration.

of partner countries, for it constitutes an improvement in consumer standard of living. On the other hand negative consumption effects are produced when discrimination is created between the commodities of partner countries and the products of foreign countries on the domestic market.[16]

Production and consumption effects will lead to terms-of-trade effects with a subsequent redistribution of real income among both participating and non-participating countries. The terms of trade for a country are based upon its reciprocal demand for foreign goods.[17] The level of foreign tariffs can be affected in some degree through tariff-bargaining and the larger the bargaining unit the more effective its bargaining can be. This conslusion can be derived from Professor Viner's proposition; namely, "The greater the economic area of the tariff unit, <u>ceteris paribus</u>, the greater is likely to be the elasticity of its "reciprocal demand" for outside products and the less is likely to be the elasticity of the "reciprocal demand" of the outside world for its products, and consequently the greater the possibility in terms of trade through

---

[16]Bela Balassa, <u>op</u>. <u>cit</u>., pp. 58&59.

[17]Reciprocal demand is in this sense, defined as the demand for import goods as represented by export goods.

unilateral manipulation of its tariff."[18] Accordingly, the trade-diverting effects of a customs union will, <u>ceteris</u> <u>paribus</u>, result in an improvement in terms-of-trade. This is, of course, for the union taken as a whole.

Another way of considering terms-of-trade is through the ratio of export to import prices. This method is very useful for export and import price indices are readily available. For example, trade diversion has an immediate effect on the terms-of-trade by increasing export prices and reducing import prices for the union. As a result of these primary price changes and the suceeding increases and decreases in the volume of exports and imports the union's balance of payments will experience a surplus, except in a rare case where integration would reduce the unions exports so much more than it reduced its imports that the surplus due to the advantageous developments of the terms-of-trade was nulified. Also to be considered as a determinant of the terms-of-trade is any exchange rate adjustment that might be made by a given country to equaliberate the balance of payments with the other member countries. This will largely depend on the height of pre-union tariffs in the individual

---

[18] Jacob Viner, <u>op</u>. <u>cit</u>., p. 55.

countries. For example, the currency of a member country with high initial duties may depreciate, since the member countries will be free to invade upon its markets. On the other hand, if the absolute increase in value of exports would exceed that of imports for each participating country the exchange rates of the countries participating in the union would probably appreciate in order to equiliberate their balance of payments.[19] Actually, it is difficult to determine whether an improvement in terms-of-trade is beneficial or not, for in the long run a considerable rise in export prices over import prices may lead to an unfavorable balance of trade.

The last factor to be considered in this segment of integration theory is the administration economies which may present themselves in the process of integration. All tariff-levying governments face a large cost in administering the customs machinery. The complexity of regulations and delays arising out of the administration are in some cases an even greater hinderence to trade than the tariff rates themselves. If a customs union completely removed the tariff wall between its members it would not only remove the duties themselves but it would constitute a reduction of administrative expense to the governments

---

[19]Bela Balassa, op. cit., pp. 62-65.

of the member countries, since the frontiers between them would no longer have to be watched for customs purposes.[20] On the other hand, the formation of a customs union will create an additional burden of negotiation, coordination of codes, mutual supervision and tax problems that will act in an opposite direction.[21]

In summation, all of these four factors---production effects, consumption effects, terms-of-trade effects, and administrative economies---will show up as both determinants and consequences of the actual supply and demand relationship resulting in the prices of the goods traded.

Using the concepts of production and consumption effects as related to trade creation and trade diversion, one must be careful not to consider the effects of a tariff reduction without considering the new trade position country by country. The relative gain or loss of each country will vary according to its position prior to establishment of the union. For example, when an importing country with a tariff of 20 per cent joins a customs union, an exporter within the union thereafter faces no tariff barrier. Even if the importing country reduces its duties according to common external tariff regulations,

---

[20]Bela Balassa, op. cit., pp. 65-57.

[21]Jacob Viner, op. cit., pp. 58-65.

the internal exporter still enjoys an advantage to the degree of the common external tariff. The above theoretical analysis will now be applied to Common Market stage-one liberalization and to steel in particular.

Europe's Coal and Steel Community (ECSC) established a new tariff in February 1958 that reduced over-all tariff rates on steel for Italy, Germany and France by more than 50 per cent.[22] Italy a high cost producer, is more susceptible to import competition from external countries. Other producers within the union now enjoy a more favorable position as suppliers to Italy. France is considered to be a low cost producer and has a low tariff wall around its steel market. The German steel market is divided into two primary parts, north and south. The southern portion of Germany is rather inaccessible to foreign producers because of its location and therefore draws its supply largely from the Sarr, Lorraine, Luxembourg, and the Ruhr. Therefore, location rather than tariff is the main obstacle to imports by southern Germany from producers outside of the union. The northern portion of Germany usually imports only in periods of peak demands and then it has proven to be

---

[22]Louis Lister, Europe's Coal and Steel Community (New York: Twentieth Century Fund, 1960), p. 344, Table 55.

only small amounts.[23] It would appear from this point of view that only producers within the union can benefit from the liberalization.

Tariffs on some specialty steels were high before the begining of trade liberalization, and with subsequent lowering of tariffs trade creation and positive production effects were quite evident as buyers found cheaper sources of supply within the union.

Concerning the Benelux countries, Belguim and Luxembourg import only very small quantities of steel and most of this comes from France and Germany. The Netherlands' steel market is far more significant. Its imports account for more than one-third of the steel imported by the Common Market countries from both internal and external sources. The Netherlands is a net importer of steel regardless of the general level of business activity. The United States and the United Kingdom furnished close to 20 per cent of the steel imported by Holland in the early 1950's.[24]

In the mid-Fifties duties were raised on steel by two points around Benelux.[25] This had little consequence

---

[23] *Ibid.*, pp. 344-346.

[24] *Ibid.*, p. 346.

[25] *Ibid.*, p. 346.

for Belgium and Luxembourg as small importers, but for the Netherlands it proved to be a different matter. The position of external suppliers to Holland was worsened by this advance in duties, while the rest of the member countries were enjoying a near duty-free market. The result was that the United States and the United Kingdom lost ground in this market. Due to the liberalization Holland proceeded to purchase increasing amounts of its steel from France, Germany, and Belgium-Luxembour. It is debatable whether the higher tariffs were more or less protective for Benelux.[26] Also the tariffs may or may not have been uneconomic, for the prices of internally produced steel are not any higher than the prices of steel exported from the United States and Great Britain. To find the exact answer to these questions one would have to make a complete and thorough study of the entire cost structure of the internal and external industries. It is known that labor is more efficiently utilized in the American steel industry, but this one fact is far from the whole answer. It cannot be found that any trade diversion occurred in this important area of the community. It has been shown that trade

---

[26] _Ibid._, p. 346.

creation has resulted and therefore will certainly outweigh the sum of any isolated instances of diversion in this segment of the economy. This, then shows a net benefit from the liberalization, or that positive production effects outweighed negative production effects.

Concerning terms-of-trade within the Common Market, the best approximations of causes and effects are only approximations because of the innumerable determinants involved. However, one general statement can be made in the light of the framework previously established. This is that reciprocal demand or terms-of-trade, the demand for import goods as represented by export goods, has improved during stage one of the liberalization. The terms-of-trade index for the Common Market from 1957-1961, calculated by dividing the unit value index of exports by the unit value index of imports, shows an increase of nearly ten percentage points.[27] The index rose from 95 to 104 using 1958 as a base period. The following table shows changes in the terms-of-trade for the individual member countries for 1957 and 1961.

The deterioration in the terms-of-trade for Belgium-Luxembourg can be explained by the fact that, even

---

[27] United Nations Monthly Bulletin of Statistics (New York: United Nations Statistical Office, January, 1963), pp. x-xi. (Hereafter referred to as UNMBS.)

TABLE 1

TERMS-OF-TRADE INDEX CHANGES FOR COMMON MARKET COUNTRIES: 1957-1961, BASE YEAR, 1958*

COUNTRY	1957 INDEX	1961 INDEX	CHANGE
Belgium-Luxembourg	100	97	-3
France	96	103	7
Germany (Western)	92	106	15
Italy	92	103	12
Netherlands	98	101	3

*UNITED NATIONS MONTHLY BULLETIN OF STATISTICS January, 1963, pp. 88-100

though the price index of imports fell during the four years, the index of exports fell even more. The reason for the decrease in the export price index was that the price of Belgium's principal export, coal, fell considerably due to reorganization and price control in the industry.[28] France, which experienced inflationary pressure during the first stage, would have had a greater increase in terms-of-trade but for the fact that she revalued the franc in 1958.[29]

[28] J. E. Meade, H. H. Liesner, and S. J. Wells, Case Studies in European Economic Union (London; Oxford University Press, 1962), pp. 288-309.

[29] John P. Young, The International Economy (New York: The Ronald Press Co., 1963), p. 771&772.

This bettered her position as an exporter but, of course, lessened the improvement in terms-of-trade. The spectacular improvement in West Germany's terms-of-trade index is due almost completely to the fact that, while the price index for exported goods was remaining at a near constant level, the index for imported goods fell by some 13 per cent during the first stage. The same situation was true for Italy. The Netherlands realized only a slight improvement as import and export price indices remained nearly constant.

The terms-of-trade index for the member countries during stage one would seem to indicate that trade diversion was in excess of trade creation because export prices rose more than did import prices. This indication is false, however, for the majority of the price increases can be explained by the internal pressures and increasing costs resulting from rapid industrial expansion during the period. The balance of trade for the Market as a whole during these four years was not jeopardized; in fact, it showed considerable improvement.

Administrative economies occur in the processes of integration primarily through consolidating the various governmental administrative bodies of each country into one central administrative facility. There can also be negative administrative economies involved with trade liberalization. These stem from the financial cost of negotiating and supervising a common policy. During stage one of the Common Market liberalization it is most probable that increased administrative costs have exceeded administrative savings. This is because of the heavy initial cost involved and the maintenance of many national administrative units during the first stage. The latter will be done away with in time, resulting in much greater savings, while the "set-up" cost of the administrative facility will be spread over the years to come. In the long run administrative economies certainly should be positive and substantial, but the first stage has not shown any real improvement due to its brevity.

Size of the Union

When first investigating the existing theoretical writings on the effects of the size of a union it appears as though there is some divergence of opinion as to the benefits to be gained from enlarging the union area. The main propenents of positive benefits are J. E. Meade, Jacob Viner, and Jan Tinbergen, while G. A. Duncan, R. G. Hawtrey, and William Ropke have argued opposite results. The differences of opinion, however, are of form rather than kind. Those proposing positive benefits from the extension of the union size are assuming no change in policies followed by the countries. The negative benefit position stems from the assumption oriented in their policies.[30]

Viner and Meade believe that, *ceteris paribus*, a larger economic area increases the potential range for the internal division of labor.[31] Meade uses a very good common sense argument; namely, "In the limiting case, a union between all the countries of the world could not lead to any import or export trade diversion."[32] Tinbergen uses a mathematical model involving countries of equal size that produce one commodity each; he concludes that, other things remaining equal, the extension of economic area leads to increased world welfare.[33]

Accepting this view, that an enlargement of the union increases potential benefits for the world as a whole, the question is how the size of the area can be measured. For example, one might use population or geographical size to measure the economic benefits. A larger population would give a greater possibility for

---

[30] Bela Balassa, *op. cit.*, p. 35.

[31] *Ibid*, p. 35.

[32] J. E. Meade, *op. cit.*, p. 109.

[33] Jan Tinbergen, "Customs Union: Influence of Their Size on Their Effect." *Selected Papers* (Amsterdam: North Holland Pub. Co., 1959), pp. 152-164.

division of labor. Also, a larger geographical area provides a larger area for development. These notions are false as one can readily see, for using population as the measurement of economic success China or India would have a more advanced economy that the United States.[34] Using geographical measurements the Anartic would be more advanced than Great Britain. This does not mean that size-population or geographical-has no effect on some aspects of economic growth, it only means that size-population or geographical-in and of itself is not the dominant factor.

The wealth of a nation or region consist of three components: land, labor and capital. Land consist of natural wealth such as land for agricultural purposes, minerals, natural means of communication, geographic position and climate. Labor comes from the population of a country. It is well known that populations show large differences in quantity as well as quality. Differences in abilities must be taken into account. Capital goods consist of goods partly produced by human labor which are used for further production or consumption: building roads, harbours, machinery, raw material stocks,

---

[34] Simon Kuznets, Economic Growth (Chicago, Illinois: The Free Press, 1959), pp. 5-20, & 89-100.

and stocks of consumer goods.

Taking the above into account, a more appropriate measurement for the size of the market would be the volume of production as first proposed by Allyn Young.[35] The size of a market is determined and defined by the volume of production. The three components: land, labor, and capital are taken into account in the volume of production. Accordingly, the size of the market would be measured by its gross national product.

Using national production as an indicator of economic progress, the contention that the Common Market has benefited from integration appears to be quite strong during the first stage of liberalization. The European Common Market's gross national product increased by 21 per cent during the first stage.[36]

A negative aspect of expansion of economic area is that of increased transportation cost (to be discussed later in this chapter)-The greater the distance involved the less beneficial will be an extension of size.

As pointed out earlier, the terms-of-trade are

---

[35] Allyn Young, "Increasing Returns and Economic Progress", Economic Journal (December, 1928), p. 533.

[36] "Europe Today-July 1962", Common Market Reporter (Chicago: Commerce Clearing House, 1962), Article 9003.13. Also See: The First Stage of the Common Market (Brussels: European Economic Community Commission, 1962), Appendix 3.

determined by the reciprocal demand of a country's exports. In this sense the greater the size of the union the greater its elasticity of reciprocal demand can be and the smaller will be the elasticity of reciprocal demand of the third countries.

A valid and useful generalization can be made concerning the reciprocal demand for the union and its member countries. Increased economic size plus increases in output efficiency have resulted in a more favorable or elastic reciprocal demand for most of the member countries. The increased eocnomic size has strengthened the Common Market's position in free world trade. The Common Market by the end of stage one accounted for 23 per cent of total world trade compared to less than 15 per cent at the begining of its operations in 1958.[37] The consolidation of this major source of output and world trade has undoubtedly accounted for much of its rise in position. The Common Market, for comparative purposes, had a larger share of world trade than did North America by the end of the first stage.[38]

---

[37] UNMBS, *op. cit.*, Special Table A (February, 1959), pp. ii-iv, and Special Table A (February, 1962), pp. ii-iv.

[38] The North American share of the world trade was estimated at 21 per cent at the end of 1961. *Vide ibid.*

A third consideration is important in this discussion of size of the union. This is the relative benefit to small and to large nations within the union. The integration of two smaller economies will result in greater opportunities for efficient reallocation of productive factors than will integration of two larger economies.[39] We could therefore expect, ceteris paribus, the smaller countries of a union to benefit more than the larger ones.

Concerning the relative benefits to small and to large countries within the union, it appears as if the smaller countries of Benelux would benefit to a greater degree than would the larger members because there are more areas of possible benefit to a smaller country. Integration benefits during stage one were close to equal for all countries. This can be explained, for the most part, by the fact that the larger countries of France, Italy and West Germany had greater possible gains to be achieved from integration because the countries of Benelux had already profited from the earlier formation of the Benelux Customs Union.[40] The Benelux union, therefore,

---

[39] Bela Balassa, op. cit., pp. 38-39.

[40] The Benelux Customs Union came into operation in January of 1948. Belgium and Luxembourg have had essentially full economic union since 1923. John P. Young, op. cit., pp. 651&652.

can be interpreted as one economic unit of considerable size associated in the Common Market with three other economic units of comparable size in Western Europe. Equal benefits can also be explained by the fact that France and Italy had higher tariff walls.[41]

Economic Distance and Propinquity

International trade theory has mostly assumed the nonexistence of spatial dimensions. In other words, locational problems have been neglected in the analyses of trade theory. It has been shown, however, that both geographic and economic distances do play an important role in determining the benefits of integration. Eliminating tariffs will, of course, lead to a more efficient allocation of productive resources among members of a union, but it is quite conceivable that these gains could be greatly reduced or even eliminated if sufficient economic distances were involved.[42]

It is necessary to distinguish between geographic and economic distance in many cases because of the discriminatory nature of rates and regulation among different countries. By this it is meant that the cost

---

[41]Bela Balassa, op. cit., pp. 39-44.

[42]Ibid., pp. 57-60

of shipping 300 miles can conceivably be greater than the cost of shipping 500 miles, due to discrimination. The most desirable situation would therefore be one where considerable propinquity existed and there was no discrimination as to rates or regulations. Economic costs would then become directly proportional to geographic distance, assuming that a common method of transportaion existed.

Applying this notion to the member countries of the Common Market, it appears that considerable increase in efficiency in the area of economic distance can be achieved. With the exception of Italy, which at present is hampered by physical rather than national boundaries, the Common Market is in a position to achieve near maximum reduction in economic distance. Italy is qualifiedly mentioned, but considerable action has been taken toward increasing its transportation outlets to the north.[43] There are other countries in Western Europe, not members of the Market, which would fit easily into this maximum efficiency setting, such as Sweden and Norway.

The stated objectives of the Common Market

---

[43]During stage one work was completed on major tunnels for road traffic from Italy into Northern Europe. Sergio Barzanti, The Underdeveloped Areas Within The Common Market (Princeton: Princeton University Press, 1965), pp. 234-246.

countries in the Treaty of Rome clearly point to their desire to establish and maintain a transportation system that will be free of unnecessary rate and regulation differentials. Article 74 explicitly states that members shall pursue the objectives within the framework of a common transport policy.[44] The Treaty provisions cover railroad, highway, and inland waterway transportation, but special attempts are also being made by the Council under its power of policy coordination to enact common rules and regulations for seaway and air transportation. During stage one, the necessary administrative machinery was set up to administer the programs of transport coordination. The elimination of rate and regulation discrimination in most areas had been accomplished during the first four years.[45] The transportation systems of the member countries are in considerable part publicly owned and operated, which has facilitated the ready adoption of common policies.

The possibility of protectionism and discrimination within the Union is dealt with most forcefully in the

---

[44] "Treaty of Rome", Common Market Reporter (Chicago: Commerce Clearing House, Inc., 1962), Article 74.

[45] H. K. Junckerstorff, International Manual on the European Economic Community (St. Louis: St. Louis University Press, 1963), pp. 161-207.

Treaty of Rome. In virtually every area where discriminatory protectionism could take place, the Treaty explicitly lays down rules and guides for the abolition of this type of detrimental activity. An excellent example which shows, to a great extent, the foresight of the members in drawing up the Treaty, is in the area of transportation where considerable discrimination is possible in interstate transport rates and regulations. First of all the Treaty calls for adoption of a common transport policy for trade both to and through member states. The imposition by a member state of charges and conditions involving any element of support or protection in the interest of one or more particular commercial undertakings or industries is expressly prohibited.[46] The elimination of discrimination in transportation has, in the first stage, already resulted in substantial savings for many shippers in the Market, especially in the area of inter-country river transportation. A Dutch shipper happily commented in 1960 that already his freight charges on coke, scrap iron, and steel from the Ruhr were down 10 to 20 per cent.[47]

---

[46] "The Treaty of Rome", The Common Market Reporter op. cit., Article 80 (Special protection prohibited).

[47] Richard J. Mayne, The Community of Europe (New York: Norton Co., 1963), p. 163.

There are many factors associated with propinquity. The most important of these are taste, preferences, and cultural links. There is the possibility that a group of countries could integrate economically and have such differing taste and preferences that much of the potential benefit from integration would be negated. For example, the people of one country might totally dislike the automobile styling of another. This would affect their demand for and consumption of that product; and it could thereby result in less efficient allocation of production.

The second area of cultural links is mostly a sociological one, but it can have considerable impact on the actions and attitudes of the different peoples involved. The best example of cultural and social disparity is seen in the Franco-German relations which created so much animosity between the peoples of both countries.[48]

There have been some differences in taste and preferences between the residents of Northern and Southern Europe. At the same time there have been considerable similarities. In the industries that would be most affected by dissimilarities, such as the automobile industry, the concept of European styling has

---

[48]Bela Balasse, op. cit., p. 40.

prevailed over the separate designs of each country. This has been the case, however, without destroying the distinctive features of individual producers. Other industries, such as clothing, are able easily to adapt production to the specific tastes and preferences of foreign consumers with little additional expense. Discriminatory action by any member country which might influence prospective buyers of foreign goods is prohibited in the Treaty. Articles 95-102 cover the Common Market objectives of uniformity of marking, patents, and trademarks.[49]

The member countries are tied in many respects through history and culture. There are also many cultural dissimilarities. It was for reasons of negative association that Robert Shuman's plan was considered by many to be absolutely unworkable when he first proposed it in 1950.[50]

The amelioration of relations between France and Germany in the 1950's astounded the world. This agreement was undoubtedly one of the more significant occurrences in the history of Western Europe. The achievement of

---

[49] "Treaty of Rome", Common Market Reporter, op. cit., Articles 95-102.

[50] W. O. Henderson, The Genesis of The Common Market (Chicago: Quadrangle Books, 1962), pp. 139-157.

cultural fusion is important to the success of the Common Market objectives, and the realization of this fact has prompted the leaders of these countries to establish the European Schools, whose primary purpose is to foster understanding by and for the residents of the various countries. The four schools, located in Luxembourg, Italy, and Belgium, provide an education in the contemporary European tradition. Emphasis is placed on increasing the students' knowledge of their fellow citizens in the Community. Education, especially in the sense, will more than pay for itself in the long run in developing a prosperous and unified Europe.[51]

Complementarity and Competitiveness

The concepts of complementarity and competitiveness should be defined before attempting a discussion of them. The most understandable and applicable definition of these terms would be as follows: competitiveness denotes a large degree of overlapping in the range of commodities produced, and complementarity denotes substantial differences in the scope of production.[52] An example of competitiveness would be two economies each producing

---

[51] "Europe Today-July, 1962", Common Market Reporter, op. cit., Article 9064.

[52] Bela Balassa, op. cit., p. 32.

the same goods--say, steel, glass, rubber products, and automobiles. Each country would be competing in each of these industries with the other country. An example of complementarity between these same two countries would be one of the two producing steel and glass, and the other producing rubber products and automobiles. In this case each economy would literally complement the other.

Prior to Jacob Viner's discussion of complementarity and competitiveness in The Customs Union Issue, the general concenses of opinion among theorist was that the greater the degree of complementarity the greater were the possible benefits to be gained from the formation of a customs union.[53] Viner, however, argued that the opposite would be a more logical assumption. In other words, he contended that the greater benefits would come from the integration of competitive economics. The prior generally accepted opinion was arrived at mostly through evaluating complementarity and competitiveness through the concept of utility for goods exchanged. For example, assume country A produced cotton cloth, B produced cotton cloth, and country C produced raw cotton. A union between countries A & C would certainly produce a gain in utility, whereas, a union

---

[53] Jacob Viner, op. cit., p. 51.

between countries A & B would not produce such a gain in utility.[54] On the otherhand, if more countries and more products are added to this example it can be seen that trade between complementary economies can be trade-diverting. Assume country A is best fitted to produce cotton cloth, but could also produce woolen cloth; country B is best fitted to produce woolen cloth, but could also produce cotton cloth; country C is best fitted to produce raw cotton, but could also produce raw wool; and country D is best fitted to produce raw wool, but could also produce raw cotton. Now, consider a union between the rival economies A and B. A's inefficient production of woolen cloth is likely to be undercut by B's efficient industry, and B's inefficient production of cotton cloth is likely to be undercut by A's efficient production. The same type of shift in efficient resources would take place if C and D formed a customs union. This development would represent a shift of resources into a more efficient and economic pattern of production and would therefore likely to be trade-creating. On the other hand, consider a customs union between A and C. Before the union A will have imported raw cotton from C and raw wool from D; but

---

[54] F. V. Meyer, "Complementarity and the Lowering of Tariffs", American Economic Review, June, 1956, pp. 323-327.

now that imports from C would be untaxed it is possible she may import both raw cotton and raw wool from C and neither from D. Vis-a-vis, before the union C will have imported cotton cloth from A and woolen cloth from B; but now that imports from A are duty free she is likely to import both cotton cloth and woolen cloth from A and neither from B. This type of shift would represent an uneconomic diversion of output from low cost producer to higher cost producer and would therefore be trade-diversion. The customs union between the complementary economies (A and C) has been trade-diverting while that between the rival economies (A and B) has been trade-creating.[55]

Competiveness, the overlapping in the range of goods produced, will be a positive or beneficial factor in the integration of two or more economies. Whereas, with substantial differences in the scope of production, two complementary economies have little chance for increasing efficiency through integration and the reallocation of production and resources, the opposite will be true for competitive economies. In fact, the greater the degree of competitiveness the greater will be the chances for gain from liberalization. In speaking

---

[55] J. E. Meade, "The Removal of Trade Barriers: The Regional Versus the Universal Approach", Economia, May, 1951, p. 189&190.

of greater degrees of competitiveness it should be understood that disparities in cost are relevant. It is a simple fact that, the greater the difference in cost between producing in one country and in another, the greater can be the gains from integration. But both countries must be producing prior to the establishment of the union. Within limits, the greater the difference in cost for producing a given good, the greater will be the tendency for tariffs of a protective or prohibitive nature to be higher.[56] In this sense the height of a tariff could be used, ceteris paribus to determine relative efficiency of domestic producers in comparison with external producers--that is, if the tariff is protective in nature.

The factor of dependency is also relevant when discussing complementarity and competitiveness. Two or more economies that are complementary, especially with raw materials and goods of necessity, will be in a very real sense dependent upon each other as far as their trade is concerned. It is true that the integration of these economies will eliminate the dependence of one political jurisdiction upon another, but the economic

---

[56] F. V. Meyer, op. cit., pp. 326-333.

gain due to complementarity or dependence will be nil.[57] The factor of dependency when approached from the stand point of competitiveness is less significant when one considers the results of customs union formation. When competitive economies are integrated, the resulting elimination of any trade barriers and the ensuing reallocation of resources and production to more efficient areas will result in a greater dependency of the member states upon one another. This can be said to be a secondary consequence of integration which would make the associated economies more complementary in nature. As greater specialization and division of labor occur, the economies become dependent upon one another for an increasing variety and number of goods and services. It is therefore the author's contention that complementarity, as defined above, should appear as the result of rather than the cause for a customs union being formed.[58]

The Common Market itself represents an excellent area for applying and analyzing the concepts of complementarity and competitiveness. The Common Market is generally known to be more competitive than complementary.

---

[57]Ibid,, p. 329&330.

[58]This contention, it is felt by the author, is neglected in existing theoretical writings and represents an addition to the body of integration theory.

Competitiveness is especially prevalant in manufactured products, while the agricultural economies of these countries are more complementary.[59] This is the primary reason that integration of the agricultural economies results in a set of problems vastly different from those of industrial integration.

The statement above concerning complementarity appearing as the result of rather than the cause for formation of a customs union can, it is believed, be supported statistically by using the Common Market as an example. If it can be shown that the internal trade of the Common Market countries has increased relative to domestic and external trade, it can be concluded that, according to the definitional assumptions employed, the economies are becoming more dependent upon one another and therefore more complementary.

During stage one of the Common Market liberalization from January 1, 1958, to December 31, 1961, intracommunity trade increased by more than 51 per cent. Intra-state trade in 1957, immediately preceding the formation of the union, was 7,880 millions of United States dollars.[60] This indicator of internal trade is

---

[59] Bela Balassa, op. cit., pp. 33&34.

[60] UNMBS, op. cit., March, 1963, p. xvi.

sufficient for this purpose, since only the money value of trade need be considered. The statistics used to determine the relation of internal trade to total economic activity are the national income figures for the countries involved. For the like period in stage one, the increase in national income in dollars for these countries ranged from 9 per cent in Luxembourg to 32 per cent in Western Germany. The average increase in national income for the six countries was 22.1 per cent for the period.[61] A comparison of these statistics tells us that, while economic activity as measured by national income in stage one increased by something better than 22 per cent, the amount of trade among the member countries increased by more than 51 per cent. In other words, the increase in internal economic activity among countries was nearly two and one half times the increase in total economic activity. This in itself, represents sufficient evidence that the member countries are becoming more dependent upon one another and therefore more complementary.

An excellent illustration of the increased

---

[61]This percentage was calculated by taking the simple mean of the percentage increases. Besides those mentioned, the following percentages were used for the rest of the Common Market countries: France, 14%; Italy, 27%; The Netherlands, 23%; Belgium 14%. UNMBS, op. cit., February, 1963, pp. 154&155.

dependency and complementarity can also be seen in the reorganization of the coal mining industry in the Community during stage one. When the European Coal and Steel Community was formed in 1950, it was realized that major problems would be confronted in the area of uneconomic production and reallocation. Belgium was a major producer of coal for Western Europe, but a vast majority of its mines had relatively high costs. This put Belgium coal in a noncompetitive position in the customs union. The crisis reached a peak at the beginning of Common Market operations. In late 1957, Belgium had nearly 7 million tons of stockpiled coal, or almost three times its annual production.[62] The solution to this problem can be seen in Table 2.

While total production in stage one remained nearly constant, Belgium production fell by some 630 thousand tons or approximately 25 per cent. The result was, along with an increase in efficiency due to the shutting down of many inefficient mines in Belgium, an increase in the complementarity of the economies. Greater dependence upon the more efficient German mines resulted. This dependence was the result of increased

---

[62] J. E. Meade, H. H. Liesher, and S. J. Wells, *op. cit.*, pp. 288-309.

TABLE 2

COAL PRODUCTION IN 1000's OF TONS FOR SELECTED COMMON MARKET COUNTRIES, 1957-1961*

	BELGIUM	FRANCE	WEST GERMANY	TOTAL
1957	2,424	4,733	11,199	18,356
1958	2,255	4,810	11,128	18,193
1959	1,896	4,801	10,533	17,230
1960	1,872	4,663	11,934	18,391
1961	1,794	4,363	11,968	18,125

*United Nations Monthly Bulletin of Statistics. February, 1963, pp. 24&25.

competition from integration and the specific reallocation measures taken by the countries involved.

Another example of increased complementarity resulting from the formation of the Common Market is the appliance industry, especially refrigeration appliances. Italian refrigeration manufacturers have, during the first stage, shown that they were more efficient producers than others in the Community.[63] The transition to near total reliance upon the Italian manufacturers was so complete that other member countries found it necessary to control

[63]"Italy's Booming North" Time, January 12, 1962, pp. 72-79. Also See: "Kitchen War" European Community Bulletin, April, 1968, p. 20.

the rate of change in order to hold at a reasonable level the pace of reorganization in their domestic industries. However, it appears that in time the member countries will be almost totally dependent upon Italy for refrigerators--another example of complementarity as the result of integration.

Level of Pre-Union Trade Barriers

An important consideration in a discussion of the effects of integration is that of height of tariffs prior to the establishment of a union. According to Balassa the height of tariffs affects the economic desirability of a union in three principal ways. The production effects will be more beneficial (1) the higher the average level of initial tariffs on trade between the participating countries; (2) the lower the tariff level of the union against nonmember countries; (3) the lower the tariff levels maintained by nonmember countries.[64] On point number three there is some controversy over whether the beneficial effects will be greater with higher or lower tariffs in third countries. Those who argue that higher tariffs will yield greater beneficial effects base their statements on the belief that, high tariffs existing,

---

[64]Bela Balassa, op. cit., p. 44.

there would be little trade diversion from the formation of the union because there was little trade to begin with.[65] Balassa, who argues in favor of lower tariffs yeidling greater benefits, bases his beliefs on the theories of J. E. Meade,[66] who proposed that, with lower tariffs outside the union, the amount of trade diverted would be less in-as-much as internal and external tariff structures are similar.

A basic problem in measuring the height of tariffs is what method to use in computing the average level of tariffs in the pre-union countries. The method of computation used will be determined by the type of analysis or average which is desired. It is necessary to distinguish between prohibitive and protective tariffs in selecting a weighted or an unweighted average. A weighted average is computed by multiplying the tariff rate times its incidence of use for each commodity and then taking an average of all the mathematical products. An unweighted average is nothing more than the simple arithmetic mean of all duties.

The height of tariffs for a given country should be computed to show the true effectiveness of the trade

---

[65] _Ibid._, pp. 44&45.

[66] J. E. Meade, _op. cit._, p. 109.

barrier. For this reason the unweighted average is a method of conputation far superior to the weighted average. Assuming that the average tariff level were to be measured for effectiveness by using weighted averages, vast distortions would occur in the average for every truly effective tariff. By this it is meant that whenever a tariff would act as an agent of prohibition it would be given a weight of zero in computing the average; and thus the weighted average would indicate a tariff level far less restrictive than it actually was. An unweighted average will not contain such distortions and will therefore be a truer indication of height or effectiveness.[67] It will also be true that an average tariff level for one country which is higher than that of another country will not necessarily be more protective. It is conceivable that a very low average tariff level for a given country could totally prohibit any imports if cost structures in the two competing economies are very similar. On the other hand, a much higher average tariff level in another country might be only mildly protective against imports from foreign producers. It must also be pointed out that specific protection can be had under a low average tariff when specific highly protective or prohibitive tariffs are imposed on certain goods. This would point to the

[67]Bela Balassa, op. cit., pp. 45&46.

need for analyzing the effectiveness of a tariff level on an industry-by-industry or product-by-product basis.[68]

Stage-one liberalization in the Common Market provides many areas for the application of the theory relevant to the level of pre-union trade barriers and their subsequent liberalization. The following is an empirical analysis of the theory discussed in the previous paragraph.

The unweighted *ad valorem* average tariff levels for each of the Common Market countries prior to establishment of the union were as follows: France, 18.1 per cent; Italy, 17.3 per cent; Germany, 15.5 per cent; Benelux, 9.5 per cent. In contrast to these unweighted averages the weighted averages emphasize the distortion caused by weighting. The weighted averages for the same countries, same goods, were as follows: France, 5.1 per cent; Italy, 7.1 per cent; Germany, 5.6 per cent; Netherlands, 5.5 per cent; Belgium-Luxembourg, 4.3 per cent.[69] Using the weighted average to determine the level of tariffs for these countries, a strikingly different set of conclusions is reached with respect to

---

[68] *Ibid.*, pp. 46&47.

[69] *Ibid.*, p. 46. (For both weighted and unweighted averages.)

which country has the highest level of tariffs. From the weighted averages it would appear that Italy had a higher tariff wall than France. The opposite is true. This is due to the fact that France's high tariffs on some goods are nearly prohibitive, and this gives them a near zero weight in the weighted average. The higher tariffs result in lower quantities of imports and, thus, the lower weighted average. The restrictive effect of the tariff level in each country can therefore be measured by the difference between the weighted and the unweighted average tariff levels. The difference is greatest for France. This difference proves in itself the prohibitive nature of certain French tariffs.

Of interest at this point will be the relative number of items subject to import duties of varying amounts prior to establishment of the union. Table 3 shows the percentage of import items subject to ad valorem duties of 0-10, 10-15, and over 15 per cent in each of the economic areas of the Common Market. The relationship between this frequency data and the weighted and unweighted averages above is interesting. The similarity between the two for France and Italy is immediately apparent. For France the highest weighted average and largest difference between weighted and unweighted averages

TABLE 3

PERCENTAGE OF ITEMS SUBJECT TO *AD VALOREM* DUTIES OF 0-10, 10-15, AND OVER 15%*

	Benelux	France	Italy	West Germany
0-10%	59	23.8	16.2	79.5
10-15%	18	14.9	19.9	18.6
Over 15%	23	61.3	63.9	1.9

*H. Th. Vreede, *A Profile of the European Market* (Amsterdam: De Twentshe Bank, 1958), p. 83.

correspond to 76.2 per cent of the tariff rates being 10 per cent and over. For Italy with its high average tariff the same is true: 83.8 per cent of its tariffs are 10 per cent or more. The weighted average for Italy shows, however, that even with a higher weighted average the smaller difference between weighted and unweighted averages will result in a greater proportion of tariffs in the less protective 10-15 per cent range. This is what causes the difference between the tariff levels of France and Italy. West Germany with only 20.5 per cent of tariffs above 10 per cent still had maintained a rather formidable tariff barrier compared to the Netherlands or even Italy. This supports the conclusion that the average tariff is not necessarily a true indication of restrictiveness.

In addition to the protective or prohibitory production effects of a tariff, it is also necessary to consider the consumption effects of tariff levels. Tariffs create differences in price ratios of trade commodities. Therefore, the removal of tariffs will improve the efficiency of exchange by bringing there ratios closer together. A tariff will, of course, reduce the consumption of the commodity and increase production of the good domestically. But this is a one-sided effect which has negative effects at least equal to its positive benefits. The establishment of a tariff will increase domestic production of the good; but the tariff will also cause consumption and therefore satisfaction to fall, in addition to reducing the degree of utilization of the productive factors in the more efficient country.[70]

The formation of a customs union with the ensuing elimination of trade barriers will result in what can be called a two-way benefit for the parties involved. Not only does the tariff reduction promote production and exchange efficiency, but it also leads to increased consumption and satisfaction from a given income. In fact, it is possible for greater benefits to be derived even without any increase in productive effeciency as long as

---

[70]Bela Balassa, op. cit., pp. 57-61.

exchange efficiency and consumption patterns improve; and these improvements will necessarily occur. Consumption effects from the formation of a union will depend upon the rate of duties applied. The higher the pre-union tariff the greater will be the distortion of the consumption pattern, therefore, the higher the pre-union level of tariffs, the greater will be the increase in trade from forming a customs union and the larger will be the gain in consumer satisfaction per unit of trade. In a similar manner the maintenance of high tariffs on the products of nonmember countries can result in negative consumption effects which would stem from trade diversion.

Most representative of the successful pattern of trade liberalization for the Common Market in stage one is the automobile industry. The average vehicle tariff, computed on an unweighted *ad valorem* basis for Benelux, France, Italy, and Germany in 1957 was just under 30 per cent.[71] For Benelux the tariff was designed more for the production of revenue than for protective purposes. In France, Germany, and Italy the tariffs on automobiles were definitely set up with protection and even prohibition as a goal. All three countries,

---

[71] Benelux 24, France 30, Italy 40, West Germany 21; H. Th. Vreede, *op. cit.*, p. 83.

being major European automobile producers, felt it necessary and profitable to restrict imports. In August of 1957, just prior to the establishment of the Common Market, Germany cut its tariffs on automobiles from all sources by 25 per cent; but the earlier figure was used here in determining the average tariff level.[72]

The initial plans for internal tariff reductions in the Common Market were as follows: on January 1, 1959, a reduction of 10 per cent in the over-all tariff level was to take place. This initial reduction was to be followed by two more mutual 10 per cent reductions in each of the next two years of the first stage. No country was permitted to lower any specific tariff by less than 20 per cent; and each member was to make every effort to reduce all tariffs by a minimum of 25 per cent. In addition, during the first stage, any tariff which would be more than 30 per cent after reduction was required to be lowered by 30 per cent during the four years.[73] This last requirement was especially applicable to the Italian pre-union automobile tariff of 40 per cent.

Although it was pointed out by those within the

---

[72] Ibid., p. 83.

[73] "Treaty of Rome", Common Market Reporter, op. cit., Articles 12-17.

Common Market that a reduction of 10 per cent on even a sizable tariff such as the 30 per cent French automobile tariff would result in a lowering of only three percentage points, the impact of the reduction on this major industry remained to be seen. The French and Italian auto industries were especially fearful of increased competition. And so it was with considerable hesitancy that the countries embarked upon the first reduction of tariffs in 1959. Theoretically they knew that there was far more to gain than to lose in the long run, but practically they had doubts about the severity of adjustments and competitive changes in the short run. From the tariff levels of the base date, January 1, 1957, the first 10 per cent reductions were made in January of 1959. Some members, Italy and France, extended their cuts in whole or in part to all other members of the Organization for European Economic Cooperation and GATT.[74] Adjustments for realigning the common external tariff (CXT) were not to begin until January 1, 1961.[75] The second cut of 10 per cent was made

---

[74]Bulletin from the European Community, (Washington, DC.: Community Information Service, 1960), p. 11. Also: Special note should be made of the boldness and courage with which France embarked upon tariff reductions, remembering that France was the most highly protected pre-union economy.

[75]"Treaty of Rome", Common Market Reporter, op. cit., Article 23.

on July 1, 1960. As a result of negotiations on May 10 and 11 of 1960 by the Council of Ministers of the European Economic Community, a third 10 per cent made on January 1, 1961, put the Common Market a full year ahead of schedule on tariff reductions. The third scheduled cut was a reduction of 10 per cent on December 31, 1961, effective January 1, 1962. This resulted in an over-all reduction of 40 per cent instead of the originally planned 30 per cent reduction.[76] Besides the over-all uniform reductions, in April of 1961, France made an additional 10 per cent cut in the tariff on autos. This was in accordance with a planned over-all reduction by France of from 5 to 10 per cent on all products.[77] Speaking with figures then, the supposedly modest cuts in tariffs for the member countries were not so modest after all. West Germany had reduced its tariff on vehicle imports from 21 per cent to 12.6 per cent, Benelux from 24 per cent to 14.4 per cent, France from 30 per cent to 16 per cent, and Italy from 40 per cent to 24 per cent. Nearly half the protection enjoyed by these countries was eliminated in only three years.

---

[76] The First Stage of the Common Market, op. cit., p. 17.

[77] Reductions of 5% were made on most agricultural commodities and 10% on industrial products. Ibid., p. 17.

It is difficult to make any exact appraisal of the impact this substantial reduction in tariffs had on the three auto-producing economies. Some very worthwhile observations based on the information that is available can be made, however. As noted earlier, there was considerable apprehension about the effects of tariff adjustments on the automobile industry. It was found, however, that the increased competition and output resulting from the over-all internal liberalization more than made up for any negative aspects of the integration movement. Each country found that its markets were expanding at more than a rapid enough rate to offset any losses in domestic sales to imports.

Table 4 shows the increase in exports of vehicles by each of the three major producing countries during stage one. From Table 4 it can be seen that the three countries expanded vehicle exports on an average of 300 per cent during the first stage. This was not at the expense of domestic production or sales. In the same period of time production was up by 100 per cent in Italy, 85 per cent in West Germany, and over 50 per cent in France.[78] These increases are not all due to the liberalization of tariffs on vehicles alone, but it can

[78] UNMBS, op. cit., April, 1963, p. 62.

TABLE 4

EXPORT OF PASSENGER ROAD VEHICLES AND THEIR PARTS TO COMMON MARKET MEMBERS, 1957-1961 IN MILLIONS OF U.S. DOLLARS*

	FRANCE	WEST GERMANY	ITALY
1957	39	110	37
1958	52	120	60
1959	110	130	83
1960	140	180	89
1961	140	250	110

*United Nations Monthly Bulletin of Statistics, April, 1963, p. xxii.

be said that they are the result of the total integration effort. The efficiency of exchange and ultimate consumer satisfaction improved to the degree that everyone benefited. Of course, some, such as Germany with its Volkswagen, benefited more than others, but there were no sustained losses due to liberalization. It was as a consequence of greatly increased benefits that the program of tariff elimination was stepped up. It was found that the process of change and adjustment was not going to be as painful as previously expected. This was true in nearly every industrial sector of the Market.[79] All reductions during stage one were linear, meaning that the requirement of a minimum cut of 25 per cent in the basic duty on all products had been more than fulfilled.[80]

Having established the fact that the higher the level of pre-union tariffs, the greater will be the prospective benefits from integration, it can be argued that those products areas most highly protected by tariffs are the areas which represent the greatest possibility of gain from liberalization. This can be demonstrated as follows. The six product categories shown in Table 5 represent some of the most highly protected industries in the pre-union Common Market countries.[81] They also represent six areas where considerable gains were realized during stage one of the liberalization. For example, the clothing, paper products, and porcelain industries in the countries were protected to the degree that maximum efficiency in production and resource allocation was

---

[79]The majority of severe cases were connected with agricultural products, which are not included in this study for reasons previously mentioned.

[80]<u>The First Stage of the Common Market</u>, <u>op</u>. <u>cit</u>., p. 17.

[81]The zero tariff on salt in Italy is because of the Italian state monoply which totally restricted any imports. Ibid., p. 23.

TABLE 5

PRE-UNION AD VALOREM TARIFFS FOR SELECTED PRODUCTS IN COMMON MARKET COUNTRIES*

PRODUCT	BENELUX	FRANCE	ITALY	WEST GERMANY
Clothing	24%	23%	28%	24%
Insulated wire	12	22	27	10
Paper bags, cardboard boxes, etc.	20	24	30	23
Penicillin	12	15	35	21
Porcelain	24	25	36	20
Salt	11	30	0	18

*Market Europe, (New York: Morgan Guaranty Trust Company of New York, 1961), pp. 66&67.

unattainable. The 40 per cent reduction in these tariffs during stage one allowed production to relocate according to efficiency rather than protection. This result was almost certain to occur. The clothing industries began a reorganization in order to specialize in the most advantageous product lines; this resulted in increased savings to the consumer over and above those that resulted from lower import duties. In each of the countries more products became available and at lower prices. Contrary to beliefs held prior to formation of the union, the majority of industries found that they were able to specialize in certain products or processes. The paper industry, for example, has specialized to a considerable degree. Both import and export trade showed increases for all member countries during stage one.[82]

Although positive consumption and production effects can be attained through integration, it is also possible that negative production and comsumption effects can result from discrimination by the customs union members against products from third countries. This is the main argument for liberalizing external tariffs at the same time that internal trade is being liberalized; this is to eliminate the possibility of negative effects reducing the benefit from positive effects.[83] The interdependence of points two and three is easily seen. Reciprocity plays a heavy role in the establishment of tariff levels. The level of tariffs and tariff reductions by any country are tied in great part to the actions taken by others. Although pre-union tariff levels are being considered at this point, the practice of reciprocity in trade agreements or disagreements has much to do with the nature and the magnitude of pre-union tariffs.

---

[82] Europe Today - July, 1962, Common Market Reporter, op. cit., Article 9004.13.

[83] Jacob Viner, op. cit., p. 51.

The tariff level of the Common Market during the first year of stage one was the same for every country since no cuts had been made internally. It would almost seem as though the Council of Ministers of the EEC had been brushing up on the theory of integration in the fall of 1958. A meeting was called in Brussels on December 3 of that year, and from this meeting came the announcement by the Council that, in addition to the required internal reductions to be made on January 1, 1959, according to treaty provisions, the countries of the Common Market would also extend this 10 per cent reduction to all other OEEC members, to all other members of GATT, and to those nonmembers of GATT who benefited from the most-favored-nation clause. The reduction was not extended to ECSC (European Coal and Steel Community) products and was to apply only to tariffs which were above the level of the future common external tariff. The action was taken on a unilateral basis, although it was indicated that reciprocal gestures would be appreciated.[84] This action on the part of the member countries was in perfect accord with the theoretical conclusions established earlier in this section. The countries realized that it was to their

---

[84] Bulletin from the European Community, (Washington D.C.: Information Service, December, 1958), p. 1.

advantage to do everything possible to liberalize trade on an external, as well as an internal, basis.

The Tariff preference enjoyed by the Common Market members has been said to be considerable in comparison to nonmember countries. This preference is not, however, as great as might be assumed from a passing glance at the figures. The reasons for this, some of which have been mentioned briefly in the preceding paragraphs, are as follows. The initial cut in tariffs on January 1, 1959, on industrial goods was extended to all members of OEEC and GATT, although no tariff was reduced below the level of the CXT. The second tariff cut was extended by the Benelux countries to nonmember countries for products on which the duty was higher than the common external tariff (CXT). The Federal Republic of Germany had made a tariff cut in August of 1957 for all members of GATT so that their second cut had no effect on the level of duty for most industrial products. In April of 1961, France cut tariffs by an additional 5 to 10 per cent for all products and countries, although the levels could not go below the common external tariff (CXT).[85] From these four reasons it is evident that the

---

[85] The First Stage of the Common Market, op. cit., p. 17.

Common Market countries are not attempting to isolate themselves economically, and that they have realized the advantage of reducing external tariff barriers at the same time they are liberalizing internal trade: this in order to maximize the total benefits to be gained from integration.

Also to be considered in any discussion of pre-union trade barriers is the matter of quantitative restrictions and their use as barriers to the free movement of goods. A quantitative restriction differs from a tariff in that it restricts the amount of a good that can be imported. A tariff sets no limit on quantity but takes each good by unit. Quotas can be either bilateral or global. A bilateral quota is one which sets the maximum amount of a good to be imported from a certain country in a given period of time. A global quota is set up in the same manner except that the amount or quota applies to all countries on a competitive basis.

The unique factor associated with removal of quantitative restrictions is that this form of trade liberalization can only result in positive production effects. This is true because, if quotas had been effective, their removal will increase internal trade without causing any reduction in trade with third countries.

In the area of quanitative barriers, the Treaty provides for gradual reduction in quota restriction. The rapid growth of the Community has, however, permitted the members to liberalize quanitative restrictions at a much faster rate than was originally planned and expected. The Treaty of Rome set January 1, 1959, as the beginning date for initial liberalization of quota restrictions.[86] According to the Treaty, on this date member countries were to "globalize" all existing import quotas so that the total quotas would be applicable to each of the other five Common Market members.

An example will help to explain this "globalization". Assume that Belgium had, before the union, a quota of 2,000 shirts from France and 3,000 shirts from Italy. When these quotas were globalized, the individual quotas were added together, thus making a 5,000-shirt quota. This 5,000-unit quota would then apply to all of the member countries meaning that, for example, all countries of the union could then sell any number of shirts each per year in Belgium until the 5,000-unit quota is filled. The quotas for the member countries were also increased by 20 per cent and, as applied to the example

---

[86] "Treaty of Rome", Common Market Reporter, op. cit., Articles 30-33.

above, all countries would be permitted to sell any number of shirts per year in Belgium until 6,000 units had been sold.

If any member country had a nil or negligible quota on the import of a specific commodity on January 1, 1959, this quota had to be enlarged vis-a-vis all other members to at least 3 per cent of the domestic production. On January 1, 1960, nil and negligible quotas were to be raised to 4 per cent of national production, and on January 1, 1961, to 5 per cent.[87]

There was some leeway allowed in the enlargement of quotas for member countries. Although the over-all globalization of quotas was to have been enlarged by 20 per cent, a minimum of 10 per cent was set for each commodity. This allowed quotas on some commodities particularly sensitive to competition to be enlarged at a slower rate than some others, but still the over-all percentage increase had to be 20 per cent. Member states were also allowed to resort to quotas in order to soften the effects of duty alignment in certain instances. It was realized, however, that these quota arrangements involved the risk of failure to establish a complete customs union by allowing quotas on nonmember imports to

---

[87] Ibid., Articles 30-33.

vary from member to member and therefore should be allowed only on a temporary basis to make it possible for a member country to adjust and prepare for the subsequent freeing of trade.

Quotas are necessarily a far less flexible way of restricting and controlling imports than are tariffs. For this reason, it was felt that the initial changes in quotas would have far more repercussions than the relatively insignificant 10 per cent cut in tariffs. But, once again, it was found that the liberalization of quotas did so much to enhance trade and competition that, once started, quota enlargement proceeded at an even faster pace than did tariff reductions. The Treaty called for an initial enlargement of global quotas by 20 per cent. Thereafter the quotas were to have been increased by equal amounts at dates approximately a year apart and spread over the three stages of liberalization. So much was gained by the initial enlargements, however, that by the end of the first stages, December 31, 1961, all intrastate quotas had been totally eliminated.[88] This action represents probably the most significant single piece of liberalization in stage one.

---

[88] Europe Today - July, 1962, The Common Market Reporter, op. cit., Article 9003.10.

The area of nil and negligible quotas also presented problems to the member states and especially to the highly protected French economy. Of special interest again is the state-operated French auto industry.[89] Prior to establishment of the union the quota of auto imports to France stood at less than 1 per cent of national production. Therefore, besides lowering duties in January of 1959, France was also obligated to triple the quantity of imports allowed. The industry took this in stride and, during the next three years of stage one, increased quotas two more times. For the entire Common Market nil and negligible quotas were increased, on an average, to nearly 10 per cent of national production for each country and will be totally eliminated far ahead of the original schedule.[90]

The situation of nonmember quotas presented, as mentioned before, special problems to the community seeking a complete customs union. It was therefore decided by the member countries that special concessions, where absolutely necessary, would be made by adapting customs

---

[89]Approximately 80 per cent of French auto output is centered in the government owned and operated Renault works. Economic Survey of France, (Paris, France: OEEC, February, 1960), p. 18.

[90]The First Stage of the Common Market, op. cit., p. 22.

duties to the economic situation in the member states. Whenever requests were made in accordance with the provisions of Article 25 (1 and 2), decisions and proposals were based upon the fact that quotas were not allowed to exceed the limits beyond which the transfer of activities to the detriment of other member states was to be feared. Out of 159 requests for preferential treatment, a number of which were later withdrawn, 78 were granted.[91] A particularly important problem was raised by requests for quotas on tropical woods. These quotas, granted provisionally to all member states except France, were severely criticized by the African states, who were interested in establishing a preferential market. The problem was resolved in two ways. A Council decision suspended until stage two the duties of the CXT on one important variety of tropical wood (obeche) and the member states concerned gave up the quotas granted by the Commission for 1961. An exception was made for Italy because it was recognized that a renunciation of quotas would force her to apply a duty of 4.3 per cent on imports of tropical woods from nonmember countries (other than obeche) while her partners would levy a duty of only 1.5 per cent on these same imports. The commission granted

[91] *Ibid.*, p. 19.

Italy a tariff quota as a duty of 1.5 per cent for the last quarter of 1961 for tropical woods in the rough, (other than obeche).[92]

State monopolies in either production or distribution of a given product can also be regarded as barriers to trade liberalization. Through legal means, a country with monopoly control can totally restrict the production and/or sale of a good. Liberalization, with accompanying free trade and competition, should deal effectively with the state monopoly. Article 37 of the Treaty sets forth the provisions which prescribe the progressive liberalization of the state monopolies which exist in the Federal Republic of Germany, in France, and in Italy.[93] None exist in the Benelux countries.

The primary state monopolies in Italy, France and West Germany control the production and sale of tobacco, salt, quinine, and cigarette paper. Italy has more state monopolies than any other member country. The state monopolies in these countries have been forcefully dealt with in stage one and amounted in certain cases in Italy to an abolition of the monopoly. Most progress was

---

[92] Ibid., p. 20.

[93] "Treaty of Rome", Common Market Reporter, op. cit., Article 37.

made during stage one toward the elimination of tobacco monopolies in all three countries. Italy has authorized imports of tobacco from the five other members, but these countries must take all risks involved in marketing the product. France has agreed to specific purchases from Benelux and West Germany. In return the Federal Republic has agreed to accept imports in limited quantity from France and Italy. The duties on tobacco at the end of stage one, although still in the 25 per cent range in all countries, had been reduced by considerably more than the 40 per cent reductions on most industrial goods.[94]

In concluding this section on the level of pre-union trade barriers, it should be emphasized that there has been considerable compatibility between this area of integration theory and the historical operation of stage one of the Common Market. The first stage is a contemporary demonstration of the validity and applicability of this theoretical analysis.

---

[94] _The First Stage of the Common Market_, _op. cit._, p. 23.

CHAPTER III

FACTOR MOVEMENTS, LABOR AND CAPITAL

In this chapter the theory of labor mobility will be discussed first with the empirical analysis immediately following. The same will be true for the discussion of capital mobility. There is some overlapping in the initial paragraphs since the discussion is in terms of productive factors which include both labor and capital. A special section in this chapter is devoted to an analysis of Italian and West German labor problems during stage one.

Of special importance to any attempted integration project is the movement or mobility of the factors of production. Prior to the establishment of the European Economic Community the countries of Western Europe had devoted their integration efforts almost entirely to liberalizing commercial transactions. In the Treaty of 1948 establishing the Organization for European Economic Cooperation the need for free movement of the factors of production was recognized. Shortly thereafter the member countries agreed, on a limited basis, to begin removing restrictions on the international movement of factors. The member countries made no significant progress along these lines, however, and the restrictive spirit remained widespread.[1]

Historically speaking, the classical international trade theorists assumed that the factors of production were internationally immobile. This assumption is subject to criticism on the grounds that "international" is a vague term and has little application in many instances of factor mobility.[2] The best example of interregional mobility is the United States when considered as a common market. Free movement of goods among the states is accompanied by equal freedom of factor movement. It is difficult to make a distinction between interregional and international movements, and it is especially difficult in the case of a customs union. An integrated union is supposedly one economic unit and therefore, at least economically speaking, has no international boundries. Yet in the geographic and political sense, boundaries still exist. In a customs union it would be best to speak of interregional movements, but for now it must be assumed that there is still a difference between the two terms.

---

[1] OEEC Report for 1950 (Paris, France: Organization for European Economic Cooperation, 1950), p. 213.

[2] Bela Balassa, Theory of Economic Integration (Homewood, Ill.: Richard D. Irwin, 1961), pp. 80-83.

The most controversial aspect of factor movements in integration theory is the question of whether or not commodity trade will reduce the disparities of factor prices in the countries involved.[3] Eli Heckscher and Bentil Ohlin first developed theoretical cases and models to investigate probable outcomes of liberalization on factor prices.[4] Assuming identical production functions and factors, differences in the quantity of factors available in individual countries are the principal reasons for trade. For example, if one of two countries is labor intensive, and the other is land intensive, the first country will export to the second goods requiring large amounts of labor in their production, and the second will export to the first goods requiring large amounts of land. If both countries had equal amounts of factors of production, trade would be of no benefit to either. A difference in the relative scarcity of the factors of production between one country and another is thus a necessary condition for a difference in comparative costs

---

[3] *Ibid.*, p. 80.

[4] Eli Heckscher, "The Effect of Foreign Trade on the Distribution of Income", *Readings in the Theory of International Trade*, ed. H. S. Ellis and L. A. Metzler (Philadelphia: Blakiston Co., 1949), pp. 272-300. Bentil Ohlin, *Interregional and International Trade* (Cambridge, Mass.: Harvard University Press, 1933).

and consequently for international trade.[5]

Of course it is to be realized that relative scarcity will affect the relative price of factors in each of the countries. The difference in comparative costs between import and export goods means a difference in the relative amounts of factors used in the production of the commodities. It can be seen that trade between two countries will offset some of the disadvantages to each of not having an abundance, or equal amounts, of all factors of production. Foreign trade will at the same time create both an increase in the scarcity of factors used for exports and decrease in the scarcity of factors used for imports

It has been shown that trade will offset factor disadvantages, but it has not been shown (and here is the controversy) that trade will offset or equalize the prices of the factors of production in the two countries. Heckscher offers and example in his work to prove that the equalization of factor prices will result from trade.[6] It is as follows: assume equal conditions of production (identical production functions) in each of two countries. Each difference in the relative price of the factors of

---

[5]Heckscher, op. cit., pp. 277&278.

[6]Ibid., pp. 285ff.

production due to relative scarcity will make it possible and profitable to obtain through trade any commodity which requires relatively more of a relatively scarce factor of production for another commodity in which a relatevely more abundant factor is predominant. Trade can expand until the relative scarcity of the factors among the countries has been equalized or, in other words, until differences in comparative costs have been eliminated.

To clarify the preceding argument Heckscher gives an example similar to the following:[7] assume the relative prices of the factors of production land (l), labor (w), and capital (c) for both countries before trade are as follows: in country No. 1, l = c = w = 1 monetary unit; in country No. 2, l = 3c = 4w = 3 monetary units. Assume further that for two commodities, meat and machinery, the amount of factor inputs required for production in each country is l + c + w and l + 3c + 4w, respectively. Country No. 1 will therefore produce meat, since it requires relatively less of capital and labor. Country No. 2 will produce machinery for similar reasons. As country No. 1 reduces output of machinery and substitutes meat, the relative scarcity of capital and labor declines in that country. In country No. 2 the

---

[7]*Ibid.*, pp. 286&287.

increased production of machinery increases the scarcity of land. As a result, relative factor prices derived from relative scarcity will change to: in country No. 1, 1 = 1.5c = 2w = 1 monetary unit: in country No. 2, 1 = 2c = 3w = 3 monetary units. This process of increased specialization and trade would continue until equalization of factor prices (relative scarcity) is complete.

This example is subject to certain limitations due primarily to transportation costs and to other trade barriers. It is generally concluded that trade will reduce differences in factor prices within a customs union provided that the countries involved have no great differences in their production functions. This analysis is static and, of course, such changes as productivity rates and tastes and preferences may reverse the equalization process.[8]

Also to be considered is the welfare aspect of factor price equalization. If, for example, the supply of a factor were elastic the country in which the lower price existed prior to equalization could very well find itself in the same welfare position after equalization. This case would be especially applicable to labor as a factor of production. If the supply were elastic there

---

[8]Bela Balassa, op. cit., p. 83.

would be a greater than proportional percentage response in labor offered to a given percentage change in wages.[9]

It is this author's conclusion that, although theoretically sound, the analysis presented by Ohlin and Heckscher and later expanded by Paul A. Samuelson is not for several reasons, fully applicable to the real world.[10] First, it is improbable that the countries, as assumed in the foregoing analysis, will have identical production functions and quality of factors. Second, if specialization occurs and one of the countries ceases to produce the commodity in question, the equalization of factor prices and scarcities will not result. Transportation costs are always involved in the shipment of goods between countries; this will prevent any equalization process from reaching a point of complete equality of returns. Finally, changes in productivity and the elastic supply would prevent full equalization of factor prices.

Since it is reasonable to assume that trade will not and cannot eliminate all of the differences in relative factor scarcities and prices, it is just as

---

[9]This concept is based upon the Malthusian proposition of subsistence wage levels and their maintenance. Ibid., p. 88.

[10]Paul A. Samuelson, "International Trade and the Equalization of Factor Prices", The Economic Journal, June, 1948, pp. 163ff.

reasonable to assume that some movement of the factors of production will be necessary and beneficial to any total integration effort. The United States can again be used as an example. Trade has not offset the differences in factor prices which exist among various parts of the country.

It should be pointed out that since commodity trade can be looked at as resulting from disproportionate shares of the factors of production between countries the movement of these factors internationally will tend to reduce trade, other things being equal. Factor migration will reduce quantitative differences in factor endowments and therefore will reduce the differences in costs which are trade-creating.[11]

Of the factors of production, land is, of course, totally immobile; labor is also likely to be considerably immobile for reasons to be discussed below; capital and entrepreneurial factors should be the most mobile. There are many barriers to the mobility of productive factors, but only the four most important need to be mentioned.

(1) Of primary importance are the risk and uncertainty in the international markets for factors.

---

[11]Bela Balassa, op. cit., pp. 83-86.

The problem of joining the factor of production available in one country with the job to be done in another country is significant. Waste and inefficiency result from inadequate information, which also causes misinformed movements. Risk and uncertainty play an important role in determining factor movements and can represent considerable barriers to migration.[12] It is interesting to note the difference between labor mobility and capital mobility caused by a difference in the risk and uncertainty in international labor and capital markets. Workers hesitate to leave home because of the risk and uncertainty in adapting to new and different conditions abroad. Capital, on the other hand, is most willing to work in a foreign country, but the elements of risk and uncertainty leave doubts as to whether the capital will be free to return home when wanted.

(2) Legal restrictions are also of utmost importance. If all other considerations are favorable for the migration of a factor and the law prohibits the movement it can go nowhere. Most legal restrictions on the movement of productive factors are in the form of quantitative restrictions such as immigration quotas and

---

[12] Ibid., p. 85.

prohibition of capital movements. These, as well as exchange controls, vary the true economic costs of factor movements and alter the rewards to be gained from migration.

(3) Differing rates or forms of taxation and income redistribution can halt the movement of factors or encourage uneconomic movements. Contrary to some opinion, social charges alone will not affect the movement of factors.[13] Capital movements respond to total costs per unit of output and not to social charges. It is wages plus social costs that will cause capital to move just as for labor it is wages plus social benefits. The conclusion from this would therefore seem to be that it is unnecessary for a customs union to align its social policies and charges because such an alignment would do nothing toward increasing the efficiency of factor allocation.

Income redistributional measures can affect factor movements, however. They can induce capital movements to countries with lower taxes and result in an increase in the net return on capital. Labor migration can also be encouraged through greater redistribution measures in one country than in another. But still it is total cost and benefits that affect movements rather than the rate of tax itself. It is possible for a country to

---

[13] Ibid., p. 223.

tax the movement of a factor such as capital. By doing this, the costs of mobility would be increased and the efficiency of allocation reduced. In this case the rate of tax would directly affect the movement of the factor.

(4) Psychological barriers to movement, especially to labor, will result from differences in culture, language, and religion.[14] To labor, these are probably the greatest barriers to overcome.

The problem is not, however, simply a case of removing barriers to factor migration because arguments in favor of restricted movement can be given. In the case of considerable disparities in the form and magnitude of taxation and income redistribution in two countries, it is conceivable that a strong incentive for uneconomic movement may exist. It could therefore be advantageous to restrict the movement, for example, to an area of workers simply looking for increased social benefits. For example, without restrictions the movement of labor and capital would proceed from "poor" to "rich" regions. This might cause an absolute deterioration of living standards in the depressed area, and the per capita burden of taxation would increase. Uneconomic Factor movements can also result from differences in wage policies,

---

[14]*Ibid.*, pp. 87-91.

government-financed social benefits, and monetary and fiscal policies. For example, income redistributional measures might cause capital to move to countries with a less equalitarian tax structure, whereas, labor might move in the opposite direction.[15] In this case the need is apparent to restrict these movements and, most importantly, to coordinate the fiscal and monetary policies of the customs union members.

Common Market Labor Movement During Stage One

The Organization for European Economic Cooperation issued the following statment in 1950:

> A reasonably free flow of labour between nations is a desirable accompaniment of the free flow of goods and services in a multilateral trading system. The freeing of intra-European trade, which is one of the principal tasks of the organization, should therefore be accompanied by greater and freer movement of labour between participating countries. At the same time, in countries in which there is a surplus of manpower, the problem of adjustment to measures for the freeing of trade may be a particularly serious one.[16]

The drafters of the Common Market Treaty visualized a boundary-free community in which workers as well as travelers would be free to cross national frontiers without restriction. Such unrestricted

---

[15]Bela Balassa, *op. cit.*, pp. 85&86.

[16]*OEEC Report for 1950*, *op. cit.*, p. 214.

movement, it was felt, would promote "the harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between the member states."[17] Articles 48 and 49 provide that the free movement of labor shall be secured within the Community by not later than the end of the twelve-year transition period. The "free movement" involves abolition of all discrimination based on nationality regarding employment, wages, and working conditions. In Article 49, the means of providing free movement of workers is stated. The end is to be accomplished through directives or regulations issued by the Council of Ministers setting up the measures to provide for the liberalization in progressive stages. Close collaboration between national authorities and the abolition of administrative procedures, regulations, and restrictions impeding the movement of labor are required. Appropriate machinery for matching offers and requests for employment is also to be set up.[18]

During the first year of stage one the necessary

---

[17]"Treaty of Rome" The Common Market Reporter (Chicago: Commerce Clearing House Inc., 1962), Article 2.

[18]*Ibid.*, Articles 48&49.

committees and offices were established to study the problems of labor movement and make recommendations for action. On August 16, 1961, the Council of the European Economic Community, on the recommendation of its Commission and after consulting the Economic and Social Committee and the European Parliamentary Assembly, issued its regulation number 15 setting forth the first measures to affect the free movement of workers within the Community. The measures became effective on September 1, 1961, and will remain in effect until subsequent measures are taken. The regulation concerns (a) the admission and employment of migrant workers and their families, (b) machinery to assist in bringing persons offering and persons seeking employment together, and (c) the administrative machinery responsible for insuring collaboration between member states.[19] The most significant sections of this regulation are as follows: Article 1 permits any national of a member state to hold gainful employment in any other member state if no worker is available in the regular employment market of the other member state. A limit of three weeks is set for finding a worker in the domestic labor market. Article 6 provides for extension of work

---

[19]A complete copy of regulation No. 15 is contained in the Common Market Reporter (Chicago: Commerce Clearing House Inc., 1962), pp. 1016-1033.

permits for nationals of other member countries and specifies the right to pursue, after three years, any position for which a worker is qualified. Article 8 provides for equal treatment of foreign workers, especially in regard to wages and dismissal. Articles 15-28 provide for the establishment of a European Coordination Bureau to match job offers and workers available.

It is unfortunate that it took nearly all of stage one for the countries to decide upon and issue the first regulation for the freeing of labor movements within the Community. The lengthy wait was, however, offset to a considerable degree by the force and magnitude of the initial actions. Also, where most needed and before the first regulation was issued, individual countries with a critical labor shortage or surplus took action on their own to alleviate the situation.

Just prior to the establishment of the Common Market, Italy and Belgium experienced labor surpluses, while France and the Netherlands faced shortages in certain areas. Germany was in a reasonably balanced position. Percentage unemployment figures can be used to illustrate this point. For the three years prior to establishment of the union, average unemployment for the countries was as follows: Belgium-Luxembourg, 7.0 per cent; Italy, 9.6 per cent; Germany, 4.1 per cent; France, 3.2 per cent; and the Netherlands, 1.2 per cent.[20] During the years of stage one the situation changed considerably. Comparative figures for 1961 were: Belgium-Luxembourg, 5.9 per cent; Italy, 3.4 per cent; Germany, 0.8 per cent; France, 3.5 per cent; and the Netherlands, 0.9 per cent.[21] Some striking changes are immediately apparent. Unemployment in Italy fell from 9.6 per cent to 3.4 per cent--almost 65 per cent. In Germany unemployment fell by more than 80 per cent to 0.8 per cent. These figures indicate a considerable change in labor market conditions in these countries.

Table 6 gives the index of employment in the member countries from 1957-1961. There is a close relationship between the level of employment and unemployment in all of the countries. During stage one, employment rose significantly in Italy, the Netherlands and West Germany while remaining almost constant in Belgium, Luxembourg, and France.

---

[20] Percentages from registered unemployed in the countries for 1955, 1956, and 1957. Source: United Nations Monthly Bulletin of Statistics, August, 1959, p. 18.

[21] UNMBS, April, 1963, pp. 12&13.

TABLE 6

INDEX OF EMPLOYMENT IN MANUFACTURING FOR
COMMON MARKET COUNTRIES 1957-1961
BASE YEAR - 1953*

	BELGIUM-LUXEMBOURG	FRANCE	ITALY	NETHERLANDS	WEST GERMANY
1957	108	107	121	112	128
1958	104	105	124	110	130
1959	102	104	130	112	131
1960	105	106	136	116	138
1961	109	107	145	119	143

*OECD General Statistics, March, 1963, p. 36.

Concerning the Heckscher-Ohlin and other theories pertaining to the effect of liberalization upon factor prices, as discussed previously, there is little evidence in the Common Market during stage one indicating factor price equalization for labor. The increase in real wages in manufacturing during stage one ranged from approximately 9 per cent in Belgium-Luxembourg to 24 per cent in West Germany.[22] Due to the rapid expansion of trade the relative scarcities of labor plus worker demands for wage

[22]Other increases were: Italy, 20%; Netherlands, 14%; and France, 18%. Source: UNMBS, April, 1963, p. 116.

increases due to increased productivity were so great that little if any equalization occurred. Real wages in Italy were considerably lower than in any other country at the begining of stage one. Percentage increases in real wages during this period show that, with the exception of Belgium-Luxembourg and--to a lesser degree--the Netherlands, no significant wage equalization occurred. In fact, the gap even widened in the case of Italy and West Germany.

It will be best to discuss the labor situation and movements on a country-by-country basis for stage one of the liberalization. On the whole, there was no tension in the labor market of Belgium-Luxembourg during stage one. The most acute labor problems came in the coal mining industry, where employment fell steadily during the first stage. The Belgium government with the help of Community agencies began a limited retaining program for displaced miners in 1959. The maintenance of unemployment benefits for these workers acted to discourage their migration to jobs in other member countries. During stage one, some 12,500 workers migrated from Belgium to Germany and approximately the same number migrated to France.[23]

---

[23]See Table 7, p. 98.

TABLE 7

IMMIGRATION AND EMIGRATION FOR GERMANY FROM AND TO MEMBER COUNTRIES 1957-1961*

	1957	1958	1959	1960	1961**
IMMIGRATION					
Belgium	2,616	2,779	2,884	4,283	5,500
France	11,164	11,578	12,780	14,296	16,000
Italy	22,912	30,564	50,688	145,255	175,000
Luxembourg	1,856	1,711	1,594	1,510	1,500
Netherlands	5,580	9,223	9,437	14,342	12,000
EMIGRATION					
Belgium	2,051	2,171	2,239	2,182	2,200
France	7,884	8,323	8,140	8,883	8,500
Italy	12,874	17,918	28,998	59,230	70,000
Luxembourg	1,767	1,614	1,502	1,226	1,300
Netherlands	4,333	5,082	6,306	7,690	7,000

*General Statistics Annuals of the Federal Republic of Germany 1958-1962.

**Unofficial estimate.

The labor situation in West Germany during stage one was most critical. In September of 1960, there were more than 520,000 job vacancies in the country.[24] The situation was made worse by a gradual shortening of the work week during the four years and especially by a halt in the flow of workers from East Germany in 1961. This source had been providing about 150,000 skilled workers per year.[25] Table 7, showing immigration and emigration for Germany during stage one, explains a major portion of labor movements in the Community for the period. Several trends can be seen in the data given. First, total movements both to and from West Germany increased from 1957 to 1961. The primary source of movement was to and from Italy and France. The case of Italy will be discussed in a later section. The figures for France show that, while immigration has increased considerably, emigration has remained about the same or at least has not kept pace with immigration. The reason for this is that the restrictions on length of residence permitted in a foreign country were liberalizaed during stage one. This has been a primary area for liberalization by all

---

[24] Economic Survey of West Germany (Paris, France: OEEC, November, 1960), p. 10.

[25] Ibid.

of the member countries. The net inflow of foreign labor to West Germany averaged just over 20,000 per year from 1955 to 1959. In 1960 the net inflow was 111,000 and in 1961 it was 195,000.[26]

The relationship between the gradual reduction in unemployment benefits for displaced Belgian coal miners and the increase in immigration to West Germany is also significant and tends to bear out the previous statement that high unemployment benefits discourage labor migration.

Although manufacturing employment did not rise in France during stage one, there were significant movements of foreign labor to other sectors of the economy, mainly to agriculture and to the extractive industries. In 1959, 44,000 net foreign workers entered France; in 1960, 50,000; and in 1961, 86,000.[27] The vast majority of these workers were from Italy, and their emigration to France during stage one averaged 62, 634 per year.[28]

Italy will be discussed separately at a later point, but some general information can be given here.

---

[26]Economic Survey of West Germany (Paris, France: OEEC , January, 1963), p. 12.

[27]Economic Survey of France (Paris, France: OEEC, July, 1962, p. 11.

[28]Europa Yearbook, Vol. I, Part II (London: Europa Publications, 1963), p. 678.

The birth rate and population growth rate have fallen considerably in the past ten years. No accurate current statistics are available for Italian immigration and emigration, but the best estimates show net emigration in 1958 to be 75,000; 1959, 96,000; 1960, 140,000; and 1961, 163,000.[29] Although Italy has been constantly faced with a surplus of manpower, by the end of stage one areas of full employment were emerging in nothern parts of the country and internal migration from the southern provinces was accelerated, even though there was difficulty in finding workers with the special skills needed for industrial expansion.[30]

The Netherlands throughout stage one suffered a serious shortage of labor and was unable, either through population increase or immigration, to obtain enough workers. Allowing for frictional unemployment of 0.5 per cent, unemployment in 1959 stood at 1.8 per cent, in 1960 at 0.9 per cent, and in 1961 was almost nonexistent.[31] Holland has suffered consistent labor losses from emigration in excess of immigration. Young workers have

---

[29] Economic Survey of Italy (Paris, France: OEEC, February, 1963), p. 15.

[30] Ibid., p. 11.

[31] Economic Survey of the Netherlands (Paris, France: CEEC, July 1961), p. 51.

become dissatisfied with the social structure in Holland and have left the country in increasing numbers in recent years.[32] Emigration averaged in excess of 15,000 per year during stage one.[33]

Italy--A Study of Worker Mobility and Immobility

As stated earlier, the major labor movements during stage one took place between Germany and Italy. In the paragraphs to follow, an attempt will be made to analyze this most important of labor changes in stage one of the Common Market integration.

The history of Italian labor movement is a most complex case of rigid restrictions placed on workers and their movements. M. Gardner Clark wrote in 1954:

> No other nation is making a more determined effort to facilitate the emigration of its surplus population. But at the same time this country limits internal migration and mobility of its labor force through laws and administrative devices which are by far the most restrictive in the world.[34]

The devices instituted by Mussolini in the 1930's were of an extremely restictive nature, and provided that:

---

[32] Ibid. Also see Table 7, p. 98.

[33] Europa Yearbook, op. cit., p. 737.

[34] M. Gardner Clark, "Governmental Restrictions to Labor Mobility in Italy," Industrial and Labor Relations Review, VIII, No. 1 Act. 1954, pp. 3-18.

"No person can move from his home town unless he can prove he has a steady job elsewhere"; and that; "It is illegal for an individual to seek employment on his own."[35] The results of such laws as these are plain to see. If a worker became unemployed he simply remained so. The practice of total control over the job placement and circumstances of employment presented an insurmountable barrier to worker mobility and retraining. The result was a wall of immobility built with social, educational, legal, cultural, and economic barriers to the free movement of labor.

It is surprising that unemployment was actually as low as it was on the eve of the Common Market. During the five years immediately following World War II unemployment had been unusally high, even for Italy. The early 1950's marked an increase in population in Italy and the beginings of liberalization. The stress placed upon emigration was of little consequence to the Italian worker, however, because of the barriers to mobility and equal work status in other European states. There is little question that the rigid controls operated in such a way as to hold the uses of foreign labor below the number that could have been absorbed in the European

---

[35] Ibid., p. 3.

Community.[36] The majority of emigrants from Italy to other European states were only on a temporary permit while working in other states. Thus as soon as business activity slackened, the Italians were the first to become unemployed. By sending them home the result was to concentrate unemployment in the area least able to bear the burden. With only temporary permits the foreign workers made little if any attempt to integrate themselves into their new surroundings. Many times the workers, on a temporary permit basis, were not the type who would be chosen or would choose to remain on a permanent basis.

The systems of restrictions, quotas, and barriers continued in the member countries until, during the first stage, the shortage of labor in France and especially in West Germany became so critical that the members were forced for their own benefit to do something about the situation. Prior to the issuance of Regulation number 15 in 1961 and the establishment of the European Coordination Bureau any progress toward liberalizaing labor movements was on a bilateral basis. These bilateral agreements could still be fused into the Common Market cooperative effort at a later date. Germany, facing critical labor shortages beginning in 1958 and aware of the unified plans

---

[36]*Ibid.*, p. 4.

for the Market as a whole, set up machinery on its own to facilitate the movement of foreign workers to areas of need in the economy.

Between 1941 and 1958, of the annual increases in West German employment, only about 1 per cent was accounted for by new workers from abroad, and only 0.5 per cent of the labor force were foreigners.[37] The year 1959 marked the beginning of rapid change in this situation. In 1959 nearly 5 per cent of the increase in national employment were foreigners; in 1960, over 30 per cent. By 1960 there were some 350,000 foreign workers in West Germany--twice as many as the previous year.[38]

The German Federal Placement and Unemployment Insurance Institute was the body set up to recruit needed foreign workers. It was set up along lines very similar to the European Coordination Bureau described above. Forecasts were made as to needed workers, information concerning conditions of life and work were published, and offices were maintained in foreign countries to recruit workers. In 1959 the German office placed 25,004 Italian

---

[37]Heinrich M. Dreyer, "Immigration of Foreign Workers into the Federal Republic of Germany," International Labor Review (July, 1961), pp. 1-25.

[38]*Ibid.*

workers; in 1960 the figure jumped to 92,284.[39]

The implications of this labor movement are significant. Employment during stage one, 1957-1961, went up 24 per cent in Italy and 15 per cent in West Germany. Unemployment for the same period fell by 6.2 per cent to 3.4 per cent in Italy and 3.3 per cent to 0.8 per cent in Germany. In number, unemployment fell by roughly 900,000 in Italy during stage one, and by 500,000 in Germany for the same period of time.[40] It is evident that migration of Italian workers to other member countries did not hurt the Italian economy at all but in fact aided it considerably. All workers going to other member countries were employed, and this employment definitely benefited these nations. The gain from migration was therefore double. It must be remembered that the gains from trade which offset relative scarcities of labor are obtained in the long run. It can be seen that the German economy, applying this theory, was in no position to wait for relative scarcities to be offset in the long run. It was more than a relative scarcity which faced Germany; she simply had no more domestic labor available.

There was no time to wait for factor equalizations.

---

[39] Ibid., p. 11.

[40] UNMBS, April, 1963, p. 12.

Germany needed labor, so she went out and got it. Of course, the costs for recruiting foreign labor were higher than the costs for recruiting domestic workers, but again the need was inescapable. The question can be raised of whether it wouldn't have been less costly to move German plants (Capital) to Italy than to recruit workers from abroad. A definite answer to this question is impossible; it may have been that greater risks and uncertainties were involved in the possible capital movements. For this reason the need for freeing all productive factors again presents itself. In order to maximize the benefits from integration, freedom of enterprise and movement must be allowed so that productive factors may seek their best interests without restriction.

Another benefit from the freeing of factor movements (in this case labor) can be seen in our Italian-German example. The workers who go to Germany will, if and when they return to their home country, be better trained than they were before leaving. This will result in an increase in the level of economic "know-how" for Italy and possibly an answer to the problem of depressed conditions in the southern part of the nation.

From the standpoint of economic welfare, Italy has improved the position of labor through the liberalization of trade and migration. There is no doubt that the combination of these two is responsible for increased welfare. Although Italy was faced with acute population pressure in the early 1950's the pressure subsided as the birth rate fell some 25 per cent between 1947 and 1958.[41] This could indicate a negatively elastic supply of labor with regard to the increased level of living, but no definite relationship can be established. A lower birth rate coupled with net population losses estimated at 150,000 per year due to emigration does account for much of the increased welfare enjoyed by Italy during the first stage.[42]

Elimination of the Barriers to Mobility

Of the barriers to mobility mentioned above, significant relationships can be established between these barriers and the Common Market objectives and actions in the liberalization of labor movements. The problems of imperfect information have been forcefully dealt with through the establishment of the European Coordination Bureau. It is now possible for many job offerings in the

---

[41] Twentieth Century Fund, Europe's Needs and Resources (New York: Twentieth Century Fund, 1961), p. 40.

[42] Ibid., p. 48.

Community to be known by and available to prospective workers through its services. The elimination of imperfect information to any degree will certainly increase the efficiency of resource allocation in the Common Market countries.

In the light of the previous discussion of differing forms and rates of taxation as they affect factor movements, the following can be said of the Common Market objectives and actions. The countries are not attempting to completely unify forms and rates of taxation. The entire liberalization program is working, however, to eliminate social measures that would be harmful to the effecient allocation of labor in the Market. Steps are being taken to eliminate great disparities in labor costs and benefits that could cause misallocation of this resource. For example, it was realized that France, Germany, and Belgium, with per capita social security expenditures of $136, $132, and $148, respectively, could conceivably draw, in an uneconomic way, labor seeking benefits from other member countries.[43] Therefore the necessary steps have been taken to eliminate this problem at this time by making sure that those who move have jobs.

---

[43]_Ibid._, p. 400. Per capita expenditures in Italy and the Netherlands were $54 and $56, respectively, in 1958.

In time the social security structures of the member countries will have to be unified to allow the totally free movement without diseconomies, but as stated earlier this does not imply that all systems will have to be the same. The member countries have also vowed to unify their economic policies, fiscal as well as monetary, to the extent necessary to promote an integrated program of objectives and actions. A panel of economic experts is attached to the Commission to assist with this coordination. To insure the coordination of policies, two consultative bodies were established during the first stage; the Monetary Committee and the Economic Policy Committee. These committees, with representation from each member country, make studies of and recommendations for policy action. In the area of labor the committees have worked toward insuring a better use of manpower within the Community. As soon as severe labor shortages appeared in certain member countries, a working party was set up to study the lack of balance in labor markets and to make recommendations for remedies.[44] One result has been the establishment of the training program for Italian workers discussed below.

---

[44] The First Stage of the Common Market (Brussels: European Economic Community Commission, 1962), pp. 44&45.

Possibly of greatest importance is the work being done to reduce cultural, educational, and psychological barriers. The importance of liberalization in these areas lies in the fact that people must understand one another and themselves; and they must get along together before they are able to work and produce together for the benefit of each. Before World War I people moved and worked freely within the Western European countries.[45] It was not until the 1920's and the imposition by the United States of quota restrictions on immigration, that the workers in these countries became immobilized. The years of nationalistic antagonism in Western Europe left a mark upon these people. The goals of integration will not be successfully reached until this mixing process creates Europeans rather than Italians, Germans, or Frenchmen.

The early stages of unification found instances of Welsh coal miners refusing to work in the same pits with Italians, and the refusal of Flemish-speaking natives of Belgium to seek or accept employment in the largely Catholic French-speaking section of the same country, even if it meant prolonged unemployment. Education will do much to overcome these obstacles and to train needed workers for present and future generations. An example

---

[45] G. M. Clark, _op. cit._, p. 10.

of the need for education and retraining of workers is found in the disparity between supply and demand for various positions in the German-Italian recruitment program. There are far more applicants than openings for the occupations of tailor and shoemaker, while serious shortages in the numbers of applicants in all phases of construction work exist.[46] Education and retraining in the changing ways of economic as well as social and cultural environment will do much to lessen this type of barrier to successful integration.

In an attempt to remedy by practical measures the disequilibrium which existed in the labor markets of the member countries, the Commission and the policy committees worked out a program for rapid vocational training of Italian workers who are to take jobs in Germany and the Netherlands. The program, covering 10,000 workers at the end of stage one, is being financed with the help of the governments of the countries involved.[47]

The European Social Fund should also be mentioned as an important instrument for the promotion of employment facilities and mobility of labor between areas and trades within the Common Market. The Fund, established in 1960,

---

[46] Dreyer, op. cit., p. 12.

[47] The First Stage of the Common Market, op. cit., p. 25.

is authorized to reimburse one-half the amounts spent by governments or other public authorities on re-employment and resettlement of labor. It provides financial aid for resettling unemployed workers and for making up the level of wages of workers who are temporarily affected by industrial reorganization during the period when they are waiting to be fully employed again. This is a unified action by the member countries, and it was responsible for some twenty-seven million dollars allocated to the budget of the Fund during the last two years of stage one.[48] It should be emphasized that resettlement expenditures will tend to promote migration and more efficient allocation of labor resources, whereas unemployment expenditures will tend to discourage movement.

Stage One Capital Movements in the Common Market

Before discussing Common Market capital movements during stage one, it will be best to explain exactly what will be discussed and to give a few specific instances of the application of the theory of capital movements to customs union integration. It must, first of all, be remembered that capital is being considered in this study as a factor of production. Therefore it is long-term

---

[48] *Ibid.*, p. 73.

capital movements that will be under consideration. Short-term capital movements and balance of payments problems as such will be of no importance to the study.

Three basic types of long-term capital movements should be considered. First, there are long-term financial investments. The purchase or sale of shares or bonds of foreign firms or governments for other than speculative pruposes would be an example of this type. A second type of long-term transactions would be such direct investment as a firm setting up productive facilities abroad. A last form would be long-term government transactions. An example of this type might be foreign expenditures for reconstruction or for the development of underdeveloped regions.

Probably the most crucial of factors affecting the international flow of capital is the estimated degree of risk and uncertainty involved. This degree is affected by such factors as imposition of exchange controls, political and economic instability, and changes in taxation and governmental control over wages and prices. The formation of a common market will greatly reduce the elements of uncertainty among participants. The formation of a customs union will result in closer economic and even political associations which tend to reduce the degree of risk and uncertainty involved in capital movements.[49] Capital is devoid of most of the personal factors which control the movement of labor. Capital is more sensitive to differences in yields and policies.

Private capital movements came to almost a standstill during the breakdown of the 1930's. The beginning of the first stage of Common Market integration found many of the old and established restrictions to the mobility of capital in effect. Article 67 of the Treaty calls for elimination of discrimination and restrictions against the movement of capital "insofar as may be necessary to insure the proper functioning of the Common Market."[50] Liberalization measures under the Treaty affecting the movement of pensions, goods and services, and the right of establishment cannot yield the desired results "unless the capital that is available can be transferred and invested without let or hindrance and unless the factors of production can all be brought to bear with maximum effectiveness."[51] The Treaty requires that current payments connected with the movement of

---

[49]Bela Balassa, op. cit., pp. 93-95.

[50]"Treaty of Rome", Common Market Reporter, op. cit., Article 67, Paragraph 1.

[51]The First Stage of the Common Market, op. cit., p. 42.

capital among member states must be free of all restrictions by no later than the end of the first stage. The specific requirements as to type and method of liberalization for capital movements are to be carried out through directives from the Commission.

The first directive to Article 67, prepared by the Commission in cooperation with the Monetary Committee, was adopted on May 11, 1960.[52] It provided for the unconditional freeing of a considerable range of capital movements and the conditional liberalization of others, and it indicated a third category of capital movements in connection with which member countries had given no sign that they would soon be liberalized.

The first category comprises the most important of capital movements. These are direct investment, capital movements of a personal nature, credits for commercial operations, and dealings in securities quoted on stock exchanges. Securities dealings will not necessarily result in the investment of capital as a productive factor. It was felt, however, that the securities markets should be liberalized in order to promote general inter-country

---

[52]For a complete text of the Directive plus a complete listing of the capital transactions in each of the categories see Common Market Reporter (Commerce Clearing House), op. cit., pp. 1401-1501.

investment and participation in industry.

The second category of capital movements which are to be liberalized subject to certain conditions consists mainly of loans raised by corporations on the capital market (medium and long-term), loans and credits of a purely financial character, and dealings in securities not quoted on stock exchanges. The condition of liberalization in this category is that these movements are not to be liberalized if they conflict with policy objectives of a member state.

The third category of capital movements that is not to be liberalized immediately is mainly those short-term capital movements which are not in the nature of productive factors. This directive means that during stage one of the liberalization the majority of capital movements in the form of productive factors have been unconditionally freed.

In the area of economic uncertainty, this directive also represents a big step forward because the future is far more certain. Measures taken to liberalize the movement of capital can no longer be revoked unilaterally but can only be revoked after the Community procedure has been strictly observed.[53] A most important

---

[53] The First Stage of the Common Market, op. cit., p. 43.

facet of the elimination of uncertainty is the coordination of fiscal and monetary policies by the member countries. The Monetary Committee and the Economic Policy Committee have worked with this specific objective in mind. The currency revaluations by France in December of 1958, and by West Germany and the Netherlands in March of 1961 were closely evaluated by the Committees in order to forecast the effects of these changes on capital movements. At each meeting of the Committees members report on the most recent financial trends in their respective countries and the measures introduced and planned by the authorities involved. In this way member countries are regularly kept in contact with the policies and situations affecting all. There were no instances during the first stage of capital liberalization being unable to proceed because of conflicting policies of the different countries.[54]

In the Common Market intra-country differences in income and productivity are often more pronounced than inter-country differences. It has therefore been of importance during stage one to foster capital movements to underdeveloped areas of the market. The distinction should be made at this point between the capital aid to underdeveloped regions, which can be most beneficial, and

---

[54] *Ibid.*, p. 42.

the capital aid to depressed regions, which most often is an uneconomic movement. The member countries have not wasted capital in unproductive or depressed areas, but they have actively engaged in the development of potentially productive areas within the Community. The European investment Bank was created in 1958 by the member countries to aid in this development. With a capital of one billion dollars, the investment of which was not limited to heavy or basic industries, the Bank made loans in stage one of approximately 150 million dollars.[55] These loans covered an average of 15 per cent of the total costs of projects undertaken. This meant that during stage one some one billion dollars in capital was invested in potentially productive underdeveloped areas within the Community. Of this amount 684 million went to Italian, 263 million to French, 33 million to Luxembourg, and 20 million to West German projects. The funds invested did not simply return to the countries from which they came. France and Germany had supplied approximately 75 per cent of the original capital. The rest was divided among Belgium, Italy, the Netherlands, and Luxembourg (which contributed only two million dollars). The Bank has

---

[55]EEC Commission, Fifth General Report (Brussels, Belgium: European Economic Community Commission, 1962), p. 169.

succeeded in keeping capital from being directed largely toward already developed regions; more than 90 per cent of its loans went to underdeveloped areas.[56] In some regions of France and Italy the development programs have been disappointing in that the rates of economic growth in these regions have barely kept up with those of the more highly developed ones. The discovery during stage one of natural gas near Naples and in Southwestern France has, however, given a boost to the development of these two regions. As a whole it can be said that the European Investment Bank has been a success; even though absolute differences between developed and underdeveloped regions have become greater the gap is widening at a much slower rate. Many potential sources of output are now kinetic.

Although specific statistics are unavailable for all the movements of capital among the member states during stage one, some significant relationships can be established between productivity indices and the general movements of capital to the countries from all other countries. Productivity increases in member countries during stage one were as follows: Belgium-Luxembourg, 15 per cent; France, 7 per cent; Italy, 25 per cent;

---

[56]_Ibid._, p. 170.

Netherlands, 17 per cent; West Germany, 15 per cent.[57]

For Italy, with an increase in productivity of 25 per cent in four years, the importance of capital inflows becomes immediately apparent. Total direct investment plus net other long-term private capital inflows to Italy increased from 106.4 million dollars in 1957 to 611.8 million dollars in 1961.[58] Member country capital movements to Italy, which were negligible in 1957, amounted to 38.5 million dollars in 1961.[59] All other member countries except the Netherlands realized a net flow of direct investment and other long-term private capital funds during stage one; the Netherlands, whose net outflow was several hundred million dollars during stage one, financed a greater part of the capital expansion in other member countries. The reason for this outflow appears to stem from the social unrest in the Netherlands, mentioned earlier. Both capital and labor, for various social reasons, have been flowing from the country during these four years, and there is little indication that the outflow is subsiding.

---

[57] UNMBS, February, 1963, pp. 9 and 16-23.

[58] International Monetary Fund, Balance of Payments Yearbook, XIV (Washington, D.C.: International Monetary Fund, May, 1963), p. 1-Italy.

[59] Ibid., p. 3-Italy.

Each of the member states has found it possible and profitable to liberalize capital movements according to the treaty regulations and issued directives. In the case of Italy, problems were expected in the area of liberalized capital movements, but none of any consequence occured. Italian liberalization proceeded simultaneously with liberalization in the rest of the member countries. There were no Italian capital outflows of any consequence until 1958. In the four years from 1958-1961, direct investments abroad by Italy were 17.2, 53.3, 151.0, and 100.3 million dollars, respectively; and of the 1961 amount, 21.4 million went to other member countries.[60] Italy has not reached the point where it is faced with a net outflow of capital, and this is where the real problems begin. It remains to be seen what consequences or actions will appear, if and when this happens.

Liberalization of Entrepreneurial Movements

The free movement of workers covered by Articles 48 and 51 does not cover the free movement of all persons. Great importance is attached to the freedom of self-employed persons to establish themselves and to supply services throughout the whole Community. During the first

---

[60] *Ibid.*

stage of Common Market integration no steps were taken to liberalize the rights of establishment. On December 18, 1961, the countries adopted a general program drawn up by the Commission specifying the order of priority for eliminating restrictions on freedom of establishment and supply of services for individuals and corporations. Beginning on January 1, 1962, liberalization began with priority accorded to those activities in which the freedom of establishment constituted an especially valuable contribution to the development of production and trade.[61]

---

[61] The First Stage of the Common Market, op. cit., p. 40.

CHAPTER IV

SUMMARY AND CONCLUSIONS

Conclusions

In concluding this study, two findings should be emphasized. First, it can be stated that in all areas emphasized the Treaty of Rome and the recommended procedures were economically sound. Second, the Common Market has more than achieved the goals of stage one liberalization set forth in the Treaty.

Of major significance in this study has been the relationship of integration theory to the actual operations of the Market. Some aspects of Common Market liberalization were found to be more compatible with existing theory and others appeared to be less compatible with integration theory. It was shown that trade creation did occur, but no instances of trade diversion were found. The economic area of the Market was beneficially increased and resulted in more efficient production and distribution. Ecomomic distances were considerably lessened by the adoption of unified transport rates and regulations, and resulted in savings to shippers. Social and cultural propinquity were also increased by the establishment of the European Schools and their emphasis on European understanding. Although there were instances where citizens of different countries found it difficult or even impossible to get along together, the brief period of stage one did find relations among countries improved to a considerable degree. Improved realtions among the member nations is evident in their willingness to cooperate and coordinate objectives and policies.

It is difficult to determine just how much benefit was gained from the reduction in trade barriers among the member countries. It can, however, be safely concluded that the level of pre-union trade barriers was sizable enough that their partial elimination during the four years of stage one did little if any harm to trade and welfare for those involved. In the Common Market, Gross National Product in terms of volume increased by 21 per cent from 1957 to 1961 and consumption per capita increased by slightly more than 15 per cent.[1] These increases were more than twice the world average. It also appears that most nonmember countries did not suffer any less from the internal liberalization; Common Market trade with these countries increased at a rapid rate

---

[1] The First Stage of the Common Market (Brussels: European Economic Community Commission, 1962), Annexes No. 1 and No. 3.

during the period. Both exports to and imports from nonmember countries increased by slightly over 35 per cent during the first stage.[2] It can be concluded that world welfare did not suffer in the aggregate from the integration efforts of the Common Market countries.

Changes in the terms-of-trade during stage one do not seem to be fully compatible with integration theory, but, as explained, so many variables are involved that to make a definite conclusion is impossible. The terms-of-trade index for the Common Market improved during stage one, but this improvement cannot be attributed to an excess of trade creation over trade diversion in any positive way.

The stage one movement of the factors of production leaves the most doubts as to the compatibility of theory and fact in Common Market integration. Although integration theory asserts that capital is likely to be more mobile than labor, the study indicates that the opposite may well have been true for Common Market integration. It can be concluded that, during the first stage of liberalization, labor was at least as mobile as capital, if not more mobile than capital. There was also no evidence that any factor price equalization occurred during the

---

[2] *Ibid.*, Annex No. 4.

brief span of this period. The benefits of freeing the movement of the factors of production were most clearly demonstrated.

The author feels that he has made some contribution, however small, in the analysis of complementarity and competitiveness. The study has shown that complementarity should be considered as a result of rather than a cause for economic integration.

A major consideration of this study has been the question of the achievement of the goals and objectives of the Common Market during stage one of its operations. It can be concluded without qualification that the stage one goals and objectives of trade and factor liberalization were more than fulfilled. Tariff cuts were 10 per cent below the expected level at the end of the first stage and had been made on a wider range of products than anticipated. In addition, France made a unilateral reduction of 10 per cent on industrial goods, which left her internal tariffs at 50 per cent of the pre-union level. Nil and negligible import quotas were expanded on a global basis to an average level of 10 per cent; this was twice the stage one level called for in the Treaty.[3] All other quotas were completely eliminated:

[3] Ibid., pp. 17-23.

this represents probably the most significant single piece of liberalization during the four years.

The liberalization of factor movements proceeded as scheduled during stage one. Although the first directives and regulations were not issued until 1960, the members, where it was deemed necessary, proceeded on their own to liberalize factor movements with the idea of fusing their actions into the Market plan when initiated. The mobility of labor, especially between Italy and West Germany, was far in excess of the expectations of the countries. Long-run capital by the end of the first stage was free of the majority of risks and uncertainties that hampered its movement prior to the formation of the Union.

The broad objectives of unified or coordinated economic policy were achieved with a remarkable degree of smoothness and facility. This fact is certainly responsible for a great portion of the success in obtaining other goals and objectives of libereralization. The liberalization of factor movements could not have been so successfully achieved if it had not been for the success in obtaining policy objectives.

The Future of Common Market Integration

According to the Treaty of Rome, at the end of the first stage the member countries were to review the progress made to date and decide whether or not to carry on the program of liberalization. At the December meeting in 1961, it was unanimously decided that the first stage had been successfully negotiated and that the integration effort should proceed. Stage one was the most critical of the three scheduled periods for, if attempts at integration had been unsuccessful in the first years, the whole program would have been dropped.

Of major consequence to the future of the Common Market integration will be the association of other Western European countries with the Market. In Athens on July 7, 1961, the member countries and Greece signed an agreement associating that country with the Community. The Greek economy has twenty-two years in which to adapt itself; after that period of time it will be in full customs union with the Common Market.[4] In August, 1961, the United Kingdom applied for membership in the Common Market, however, negotiations with the European Economic Community encountered difficulties due to British obligations to the Commonwealth and the European Free Trade Association countries and especially French opposition resulting in the denial of the application

---

[4]Ibid., p. 98&99.

which was publically announced in January, 1963. Applications for full membership have also been made by Denmark, Norway, and Ireland.[5] It is most proable that during the years to come an increasing number of countries will seek and obtain membership in the Community. In time, there may well be the result that some founders of the Common Market visualized, a United States of Europe.

---

[5] John P. Young, The International Economy, (New York: The Ronald Press Co., 1963), pp. 649&650.

BIBLIOGRAPHY

Books

Anderson, Samuel W. Recent Developments in the ECM. Washington: Porter International Co., 1959.

Balassa, Bela. Theory of Economic Integration. Homewood, Ill.: Richard D. Irwin, 1961.

Balance of Payments Yearbook. Washington, D.C.: International Monetary Fund, 1963.

Barzanti, Sergio. The Underdeveloped Areas Within the Common Market. Princeton: Princeton University Press, 1965.

Cabot, Thomas Dudley. Common Market; Economic Foundation for a U.S. of Europe. New York: Committee for Economic Development, 1959.

Common Market Reporter. Chicago: Commerce Clearing House Inc., 1962.

Demographic Trends in Western Europe 1951-1971. Paris, France: Organization for European Economic Cooperation, 1956.

Economic Survey of France. Paris, France: Organization of European Economic Cooperation, 1958-1961.

Economic Survey of Italy. Paris, France: Organization of European Economic Cooperation, 1958-1961.

Economic Survey of the Netherlands. Paris, France: Organization of European Economic Cooperation, 1958-1961.

Economic Survey of West Germany. Paris, France: Organization Of European Economic Cooperation, 1958-1961.

1963 Europa Yearbook. Vol. 1. London: Europa Publications, 1963.

Europe's Needs and Resources. New York: Twentieth Century Fund, 1961.

Europe Today - July, 1962: Common Market Reporter. Chicago: Commerce Clearing House,

The First Stage of the Common Market. Brussels: European Economic Community-Commission, 1962.

Frank, Isaiah. The European Common Market; An Analysis of Commercial Policy. New York: Praeger, 1961.

General Reports on the Activities of the Community. Brussels: Publications Department of the European Communities, 1958-1962.

General Statistics Annuals of the Federal Republic of Germany. Bonn: West German Statistical Office, 1958-1962.

Heckscher, Eli. The Effect of Foreign Trade on the Distribution of Income: Readings in the Theory of International Trade. Edited by H. S. Ellis and L. A. Metzler. Philadelphia: Blakiston Co., 1949.

Heilbroner, Robert L. Forging a United Europe. New York: Public Affairs Community, 1961.

Henderson, W. O. The Genesis of the Common Market. Chicago: Quadrangle Books, 1962.

Jensen, Finn and Ingo, Walter. The Common Market: Economic Integration in Europe. New York: J. B. Lippincott Co., 1965.

Junckerstorff, H. K. International Manual on the European Economic Community. St. Louis: St. Louis University Press, 1963.

Kuznets, Simon. Economic Growth. Illinois: The Free Press, 1959.

Lister, Louis. Europe's Coal and Steel Community. New York: Twentieth Century Fund, 1960.

Market Europe. New York: Morgan Guaranty Trust Company, 1961.

Mayne, Richard J. The Community of Europe. New York: Norton Co., 1963.

Meade, J. E. Theory of Customs Unions. Amsterdam: North Holland Publishing Co., 1955.

Meade, J. E., Liesner H. H., and Wells, S. J. Case Studies in European Economic Union. London: Oxford University Press, 1962.

OEEC Report for 1950. Paris: Organization of European Economic Cooperation, 1950.

Ohlin, Bertil. Interregional and International Trade. Cambridge, Mass.: Harvard University Press, 1933.

Sannwald, Rolf and Stohler, Jacques. Economic Integration. Princeton: Princeton University Press, 1959.

Scitowsky, Tibor. Economic Theory and Western European Integration. Stanford: Stanford University Press, 1958.

Shanks, Michael and Lambert, John. The Common Market Today-and Tomorrow. New York: Frederick Praeger, 1962.

Sloan, H. S. and Surcher, A. J. A Dictionary of Economics. New York: Barnes and Noble Inc., 1961.

Tinbergen, Jan. Customs Union: Influence of Their Size on Their Effect: Selected Papers. Amsterdam: North Holland Publishing Co., 1959.

Treaty of Rome: The Common Market Reporter. Chicago: Commerce Clearing Inc., 1962.

Viner, Jacob. The Customs Union Issue. New York: Carnegie Endowment for International Peace, 1950.

Vreede, H. Th. A Profile of the European Market. Amsterdam: De Twentshe Bank, 1958.

Young, John Parke. The International Economy. New York: The Ronald Press Co., 1963.

Articles and Periodicals

Bulletin From the European Community. Washington, D.C.: Community Information Service, 1958-1962.

Clark, M. Gardner. "Governmental Restrictions to Labor Mobility in Italy," Industrial and Labor Relations Review, VIII (1954), pp. 3-18.

Dreyer, Heinrich M. "Immigration of Foreign Workers into the Federal Republic of Germany," International Labor Review, July, 1961, pp. 1-25.

"EEC Initiates Free Movement of Labor," Foreign Commerce Weekly, July 21, 1961, p. 12.

"Free Labor and the EEC," Monthly Labor Review, August, 1958, pp. 877-879.

"Free Movement of Workers Within the EEC," International Labor Review, February, 1962, pp. 67-73.

"Italy Liberalizes Capital Movement in EEC," Foreign Commerce Weekly, October 10, 1960, p. 13.

"Italy's Booming North," Time, January 12, 1962.

"Kitchen War," European Community Bulletin, April, 1968, p. 20.

"Manpower in France and Clearance of Manpower in Western European Countries," International Labor Review, February, 1959, pp. 291-315.

Meade, J. E. "The Removal of Trade Barriers: The Regional Versus the Universal Approach," Economia, May, 1951, pp. 189-190.

Meyer, F. V. "Complementarity and the Lowering of Tariffs," American Economic Review, June, 1956, pp. 323-335.

Mundell, R. A. "International Trades and Factor Mobility," American Economic Review, June, 1957, pp. 321-335

Samuelson, Paul A. "International Trade and the Equalization of Factor Prices," The Economic Journal, 1948, pp. 163ff.