The product study as developed in our research work is subdivided into three parts:

(1) description of the special physical and technical characteristics of the product in question, its production conditions and problems involved and its present and potential fields of application;

(2) analysis of the supply situation:
production volumes, domestic processing or domestic consumption, resp., supply to be expected, and the factors influencing exports of the producing country itself;

(3) investigation into the demand situation:
markets (international and in particular the export market aimed at),
imported volumes, channels of distribution, intended use in the importing country, competitive situation (home production, imports from other countries, substitution),
import regulations and other stipulations influencing consumption of a certain product.

The investigation, as indicated above, of production conditions and its bottlenecks and obstacles, on the one side, and of the situation on the sales market and the existing chances and risks, on the other, enables the exporting country to find out what difficulties will have to be overcome and what chances for success there are likely to exist. The product study approach is particularly practicable for the promotion of products neglected so far, for avoiding set-backs in endeavouring to launch completely new products, and for the control of the chances to increase the present main exports or of the reasons for decreasing sales observed.

Important Prerequisites

Export diversification, as might have become apparent from what has been said so far, is not quite as easy as the many suggestions for diversification of exports the developing countries should follow. Export diversification is not simply a matter of "well, now let's diversify". It takes some prerequisites and some efforts.

First, there must be certain basic assets to start from, there must be somewhat more than a mere desert of nothing: be it natural resources, skilled labour, fertile soil, strange and unknown fruits and what more. Secondly, there must be someone to do the diversification job or at the least give some hints. And there should be somebody to work out the product studies mentioned before. All this might be done by some special kind of Export Promotion Organisation. Not in the form of the traditional Export Offices or Export Bureaus.

The task of an Export Promotion Organisation like that would have to be:

(1) elaboration of product studies as described before,

(2) the initiation, through divulgation of the results of such studies, of endeavours for diversification,

(3) the establishment of contacts between producers or exporters in the developing country and import firms, marketing organisations and the like, in industrial states.

This method of proceeding offers the advantage that the full knowledge gained in the elaboration of the product studies is utilized, that the efforts of the individual firm can be directed towards the way of success, that risks may be avoided, and that existing contacts can be used. Because as to contacts in industrial countries, it is just as decisive to know the adequate channels of distribution as to offer an interesting product, interesting from the point of view of competitive prices and quality.

*Economic Aspects of the Current EEC Crisis**

By Dr. Erhard Kantzenbach, Hamburg

I

At the beginning of 1966 the European Economic Community finds itself in the throes of one of the worst crises since its foundation. On the one hand, the Community has developed as scheduled and with success during its first two stages and is now about to enter the third transitional stage. By the terms of the Rome Treaty, this latter stage is intended to lead to an extension of supranational powers and hence to a further strengthening of the Community.

On the other hand, basic political conflicts between the governments of member states have reached a point where the further scheduled development, if not the very existence, of the European Community is in question.

☐ In 1964 already the present French Government made repeated objections to any strengthening of the supranational institutions within the Community.

☐ On 1st July, 1965, differences of opinion on the same question regarding the financing of arrangements for the Common Market in agricultural products led to a meeting of the Council of Ministers being broken off. Meetings of this Community agency have since been boycotted by its French members.

☐ On 9th September, 1965, the French President, in front of the Press, was outspoken in rejecting any form of supranational organisation for the European Communities, emphasising this rejection with an open threat to sabotage the Treaty.

Like all basic problems of European integration, the current EEC crisis can be understood only by considering its p o l i t i c a l implications. For, in the first place the European Economic Community is a

* A slightly revised version of a public introductory lecture held on 3. 12. 65 before the University of Hamburg's Faculty of Economics and Social Science.

means towards, and part and parcel of, the overall Continental European policy of unification, which has been born since the Second World War. The Schuman Plan was part of that policy which then by the establishment of the European Coal and Steel Community (ECSC) was aiming mainly at the joint control of armaments by member states. The Pleven Plan for the foundation of a European Defence Community was also part of this, although it came to nothing, and also the Euratom Community, founded concurrently with EEC.

So far, this policy of unification has found its greatest support in the European Economic Community, which aims at a complete fusion of the participant economies. The preamble to the Treaty of Rome states that the Community is being founded "... with the object of creating a basis for ever closer relations between European nations".

It was obvious that, sooner or later, the European Economic Community would run into a serious crisis, when the government of one of the most important members fell back upon a nationalistic policy. For the "political philosophy" implicit in the Treaty structure is intended precisely to overcome such nationalisms. Since both sides are clearly concerned with ultimate political aims and criteria of orientation, it is improbable that there is any likelihood of permanently overcoming such divergencies of opinion.

However, the European Communities would never have displayed such unexpected vitality and dynamism if—besides their general political aims—they had not largely accorded with the economic interests of members. The political desire for unity in Europe by itself would certainly not have been strong enough to impel the development of such complex international organisations in the face of all opposition. The European Economic Community must, therefore, be seen also as part of a second historical development, namely the reorganisation of the world economy after the Great Depression and the Second World War. In contrast to the former, this second process derives its momentum less from political than from economic factors.

The initial approaches to the reorganisation of the world economy were evolved in the last years of the War and the immediate post-war years, on the initiative of the Americans. The International Monetary Conference at Breton Woods and the World Trade Conference at Havana were aimed at comprehensive solutions on a world wide basis. The institutions born of these — the International Monetary Fund and GATT—were, however, only partially able to fulfil original expectations. Based on this experience, later approaches were held down to ever narrower regional solutions.

A second stage was created by attempts—tied up with the Marshall Plan and the economic reconstruction of Europe—to achieve, at least in this part of the world, closer economic integration. In this sphere it was logical to begin with a regional approach for Europe, for only in Europe do national frontiers cut across a centre of world trade; for this reason the fall in standards of living due to autarkic policies were particularly severe here. However, economic considerations were not sufficiently pressing in all European countries to relegate traditional political ties into the background. After some initial success by the Organisation for European Economic Co-operation (OEEC) and the unsuccessful attempt to create a "large" Free Trade Area, the "little European" EEC is evolving increasingly into a motor of integration policy.

The common object of all these approaches to economic integration is the raising of economic standards. Due to expansion in world trade and the international division of labour, efforts are being made to effect an overall increase in labour productivity, this being the basis for a better standard of living. Art. 2. of the EEC Treaty reads: "It shall be the aim of the Community ... to promote a harmonious development of economic activities within the Community, a continuous and balanced economic expansion, an accelerated raising of the standard of living ..." These aims are taken as the basis for the following comments.

The European Economic Community is thus at the cross-roads of two historical developments—one political and one concerned with world economy. EEC gains its special position among international organisations from this twin function; its current crisis is due to exclusively political causes. This crisis broke out at a time when serious conflicts of economic interests between the member states had just been patched up in a series of "Marathon sessions". There is, therefore, no point in seeking economic causes for this crisis. Rather, the economic aspects are limited to the economic consequences of the political conflicts. These consequences will be examined below.

II

Considered historically, the present world-wide economic integration policy is really an attempt at re-integration. Before the First World War, and, to a limited extent, until the early 'twenties, integration of world trade had already reached an advanced stage. Its break-up was mainly due to policies of economic autonomy increasingly developed in all industrial countries after the World Depression.

Predöhl has repeatedly referred to the different characteristics of the integration processes before and after the world depression.[1] During the nineteenth century, it was sufficient to avoid the cruder forms of state restrictions on trade for close commercial ties to result. Free trade and gold automatism led to an extensive international division of labour and common business cycles. From the point of view of practical economies, the cyclical fluctuations of prices and nominal incomes led only to moderate growth-disturbances. Remaining protective tariffs merely served to modify certain effects of this world economic reaction mechanism, without basically interfering with its functioning.

Within the present world economy, however, certain important conditions for such a purely functional integration are lacking.

☐ On the one hand, the economies' capacity for internal adjustment has decreased considerably within

[1] Andreas Predöhl, Außenwirtschaft, Göttingen 1949, idem, Das Ende der Wirtschaftskrise, Hamburg 1962.

the last fifty years. The expansion of production units and the tighter organisation of interest groups have resulted in a hardening of wage and price structures. If the current industrial economy were exposed to the influence of world economy, with no state intervention, economic and social frictions would be incomparably greater than they were fifty years ago.

☐ On the other hand, the willingness to accept such manifestations of friction has become considerably less. Vast sectors of the population now demand full employment, stable prices and increasing real incomes. A democratic government cannot be deaf to such demands.

The first main problem of current integration policy stems from these changes in the state of technical production and sociological conditions. Since —on the one hand—it is not possible to avoid far-reaching economic intervention and—on the other—an autonomous economic policy cannot be reconciled with world-wide economic integration—the necessity arises for an international co-ordination of economic policy. Loss of sovereignty—a natural result of such co-ordination between independent states—has shown itself to be one of the greatest obstacles to the re-integration of world trade.

Attempts made by the Americans at the Havana Conference to re-introduce a liberalisation of world trade failed—not least—due to this problem. Besides the general liberalisation of world trade, the Havana Charter passed by the Conference provided for broad commitment on the part of the signatories in the fields of economic policy, competition, development aid and agreements on commodities. But although these far-reaching aims were not balanced by any corresponding organisational ties amongst the states, most Parliaments were not prepared to ratify the Charter. The Conference finally led to the formation of GATT, which avoids this problem, limiting itself to a stage-by-stage liberalisation of trade. Concerning all other economic problems the member states remain fully autonomous.

This problem was also of great importance in regional attempts at re-integration inside Europe. After the European Economic Council (OEEC) had extensively abolished quantitative restrictions upon trade, differences of opinion arose among the member states about the integration policy to be followed thereafter. On one side was Britain, which, at that time—because of its Commonwealth connections—did not want to adopt either a common external tariff or a supranational economic policy. On the other side the French régime of that time was particularly insistent upon the creation of a customs and economic union. This government believed that only a supranational organisation would be in a position to guarantee continuity of the Community when there was a divergence of individual interests. It is well-known that such differences have led to the creation of two economic "blocs" in Europe in which the contrasting concepts of economic union and of a free trade area were put into practice.

It must be stated therefore that the Treaty of Rome was the first to offer a basic formula for the solution of the central problem. Because of the simultaneous co-ordination of trade policy between the free trade partners, the antinomy between free trade and active trade policy was resolved.

Under the political conditions obtaining at that time, however, this problem could only be solved by the aggrevation of a second central problem of integration policy: this was the problem of commercial "discrimination against third countries" which stems from any integration policy involving territorial restrictions. According to modern theories of foreign trade, however, discrimination tends to lead to a considerable lowering of standards, particularly where the frontiers of an integrated "bloc" run right across a world economic centre of gravitation, thus distorting close trade relations. This is precisely what happens when Britain is separated from Continental Europe—whilst Britain is the partial centre of another "bloc".

III

It has not been possible hitherto within the European Economic Community—even with its small number of member states—to achieve a satisfactory co-ordination of economic policy.

According to Art. 2 of the Treaty of Rome, the object of the Community is to promote integration "by establishing a common market and by a progressive 'rapprochement' of the economic policies pursued by member states". Thus both series of measures—the establishment of the Common Market and the integration of economic policies—are of equal importance, according to the principles of the Treaty. Despite this, the development of these measures thus far has, in actuality, not been accorded equal importance.

Even from the formulation of the provisions of the Treaty, it is apparent that considerable differences of opinion arose between the parties on questions of economic co-ordination—which, by their nature, required national sovereignty to be waived to a maximum extent. This is the only explanation why the relevant provisions of the Treaty are by no means as detailed and precise as those relating to the establishment of the Common Market. The Treaty devotes seven entire articles to the question of internal and external stability—an important one for an economic union—the same number as for the right of people to settle in the country of their choice.

The establishment of a customs union has progressed considerably in the past few years on the basis of the detailed provisions of the Treaty. Furthermore, favourable economic developments have made it possible to keep to a speeded-up timetable which provides for an earlier termination (i.e. 1st Jan. 1967) of the transitional period for the customs union and the common market in agricultural products. At the beginning of that year, internal tariffs will be lowered to 20 % of their original level and 2/3rds of external tariffs adjusted to the common tariff. These measures have led to a sudden increase of internal trade within the Community. From 1958 to 1964 internal trade increased by 168 %, compared with an increase in world trade of 49 %. The high real economic growth of member states over the same period derives not least from this development: at 39 %, it was far above that of the United States and Britain.

Co-ordination of economic policy within the Community dragged far behind the development of the Common Market. Even 4 years ago—at the beginning of the Second Stage—the EEC Commission, in a memorandum, pointed out this discrepancy.[2] However, it has only been possible to carry out some of the measures proposed at that time. In essence, these were limited to the setting up of further advisory committees for business cycle policy, budgetary policy and medium-term economic policy (in the line of the Currency Committee required by the terms of the Treaty) and a committee of Governors of Central Banks.

The Community has made very uneven progress thus far in the development of the Common Market and the co-ordination of economic policies. Such an imbalance raises serious problems for the functioning of the system because, on the one hand, due to the progressive abolition of trade restrictions, trade-distorting side-effects (due to economic policies pursued by individual states) are becoming more marked; and on the other hand, the economic policies of individual states have progressively less freedom of action and internal effectiveness, due to the abolition of trade restrictions.

Both these factors dictate that the co-ordination of economic policies should be put into effect simultaneously with the Common Market. Since in various groups economic devices are of particular importance, it is advisable to examine these separately:

- Trade-distorting side-effects in the Common Market stem, in the main, from those one-sided measures taken by member states that the theory of economic policy attributes to qualitative policy. For example, differential tax systems or legislation on competition create discriminatory conditions for competitors of different nationalities. This distorts the structure of trade and production within the Common Market. Actually, of course, distortions of the flows of foreign trade have always existed; these were concealed only by the more serious distortions which arose because of direct state restrictions on trade. If such restrictions on trade are abolished without a simultaneous harmonization of qualitative policies, only a partial success would be achieved. The desired optimum production and trade structure would not automatically result, but rather a structure distorted by falsifications of the competitive position. Subsequent elimination of such discrimination would mean a further adjustment of the economic structure with consequent handicaps.

- The second effect—i.e. the restriction of economic autonomy achieved through the Common Market is—on the other hand—mainly noticeable in measures of quantitative policy. The first sectors to be affected by this are the introduction and effectiveness of credit and fiscal devices based upon official business cycle and growth policies. The establishment of the Common Market entails that member states refrain from economic manipulation of foreign trade trends. With stable equivalences of exchange, any effects upon prices and incomes in one country will have an uninhibited effect upon trade and payments trends. Balance of payments figures will be affected and expansive or contractive tendencies will be sparked off in member states.

This mutual dependency on business cycles restricts the actions of member states in relation to an autonomous business cycle policy. Any isolated action immediately affects the balance of payments position of the country in question. External reactions will mean that the expected internal effects will be largely cancelled.

In the theory of external trade, this has been called the "external magic triangle". In a free trade system there is a basic contradiction between the economic objects of full employment and price stability, the adjustment of the balance of payments and steady equivalences of exchange. Each country has to decide to which two of these objects it will give priority over the third. In order to achieve "a situation similar to that of the domestic market"—as EEC is endeavouring to do—none of these three objects can be ignored. The only way out for the member states is to waive their autonomous rights and overcome this contradiction by co-ordinating their and growth policies by means of a complementary regional policy.

IV

The point of departure for our reflections is the question of the economic consequences, were EEC to abandon its supranational form of organisation. At the moment, the fundamental demand of the French government is mainly directed at the role which the EEC Commission—as supranational motor—is playing in the further development of the Community. However, we have grounds for assuming that the same demand would be directed against any form of supranational powers.

The alternative: an international or a supranational form of organisation is of importance not only for the further development of the Community; it is equally

[2] Memorandum of the EEC Commission on the Community's Operation Programme for the Second Stage (publication 8067*/2/XI/1962/5. Brussels 1962.

significant for its ability to function from an economic standpoint after the development period has ended. This does not affect the Common Market, whose existence is already secured if each member state honours its undertakings not to impose any restrictions upon trade. It affects only the co-ordination of economic policy between member states, although ineluctably this is tied to the existence of the Common Market.

The question of the organisational form of co-ordination now arises. Is it sufficient for member states to agree internationally upon their economic policies whilst retaining national powers, or must limited economic powers be handed over to a supranational authority?

In my view, the answer to these questions is that EEC requires a supranational body, if it is to function as planned. But I do not think that this body need necessarily wield, in all fields of economic policy, powers requiring co-ordination within the Community.

As grounds for this view, reference must be made to the differentiation between qualitative and quantitative economic policy instruments. This distinction is also very important for questions of organisation and distribution of powers.

Qualitative policy measures should improve the functioning of economic institutions by means of basic qualitative changes. In particular, the structural conditions within which the competitive process automatically evolves are determined by these. By their very nature, these are unique and have long-term, often irrevocable, effects. Their multi-level economic and social effects often mean that a political weighting and subsequent verdict is necessary. In democratic states the powers for a qualitative policy are typically vested in the legislature.

The European Economic Community has no legislature to which this task could naturally be entrusted. For the joint Assembly in Strasbourg—generally known as the "European Parliament"—does not at present have the same powers as a sovereign parliament. Should it one day assume this role it would certainly be the proper body in which to vest qualitative policy powers within the Community. A development of this type towards a European Political Community is, however, not obligatory under the existing Treaty structure and at the moment—for political reasons—it appears impossible that this should be entertained.

The existence of supranational powers would, of course, considerably facilitate and accelerate qualitative policy decisions within the Community, but they are not absolutely vital. Were there basic agreement on political matters, inter-state treaties would suffice to bring existing institutions into line, stage by stage, and to guarantee a uniform development in the future.

However, the problem of quantitative policy methods is very different. In contrast to qualitative policies, the latter are intended to give daily direct guidance to the economic process. Current economic situations are designed to be influenced by short-term measures. In the main, quantitative devices are used, the basic effectiveness of which is sufficiently known both in theory and practice. This means that some quantitative policy methods are ill-suited for long-drawn-out parliamentary discussion. Where such methods do, in fact, have considerable effect, we find that even in democratic states, these are in the hands of the Executive.

The factors which militate against parliamentary discussion also militate against international negotiations—even when such negotiations take place only between the competent national executives. In the long run, agreed cyclical and growth policies within the Community can only be enforced by means of a supranational Executive with corresponding powers. In the Commission the European Economic Community has an Executive which is basically suited to guide cyclical and growth policies within the Community. The Treaty of Rome by itself, however, does not confer such wide powers upon it. In all questions of internal and external stabilisation it demands only relatively loose forms of co-ordination. In Arts. 103 ff., cyclical policies, currency policies and exchange rates are stated to be "a matter of common interest", but basically the relevant powers remain vested in the national authorities. The competent Executives of member states are only invited to co-ordinate their activities with the collaboration of the Council of Ministers and the Commission.

It is doubtful whether these provisions would be sufficient to guarantee policies developing in step with each other. From an economic standpoint it is logical only that, since the beginning of the Second Transitional Stage, the Commission has striven to achieve a step-by-step consolidation of the supranational economic organisation. Its long-term objective—the establishment of a currency union—is also logical only from this point of view. In no case—although this is asserted by some critics—does this presuppose the establishment of a political community. Central banking policy can readily be isolated from other areas of policy and such a state of isolation is consciously being created in many states because of the political independence of the central banks.

Hence theoretical factors favour cyclical and growth policies within the Community being guided by a supranational executive body. Practical experience gained from the development of EEC does not contradict this conclusion.

Not least because of lack of co-ordination connected with the business cycle, governments of member states have repeatedly been forced over the last few years to resort to those devices of external economic policy still open to them during the development period. For example, in the Federal German Republic tariffs levied upon member states have several times been reduced before their scheduled date; by encouraging imports, a brake was placed upon inflated domestic prices. Clearly, this opportunity will not be valid at the end of the transitional period.

For the same reason, the German Mark and the Dutch Guilder were revalued in 1961 in terms of the US Dollar. The French Government has twice been forced to improve its balance of payments situation by devaluing the Franc. According to Art. 107 of the Treaty of Rome, this possibility remains open—formally, at least—even after the end of the transitional period. However, both responsible politicians and most academics agree that changes in exchange rates or even full convertibility cannot be reconciled with the full-scale functioning of the Common Market.

Only four years ago Jürgensen analysed the consequences to the world economy of Britain's entry into the Common Market.[3] This entry would have led to a considerable diminution of the undesirable effects of the Treaty; these are described above as being the second main problem raised by modern policies of integration. Over and above this, Britain's entry would essentially have given fresh stimuli to the liberal, but realistic, reorganisation of the world economy—stimuli which have already made their mark in the original concept of the "Kennedy Round". We know today that the European Economic Community will not, in the near future, be able to assume such a world-wide function. In EEC's first basic crisis—which, like the present one, arose from political causes—it reverted to its purely regional functions. As Jürgensen put it at the time, it remained "a Continental European association for improving the mutual division of labour".

Today EEC faces another basic political crisis. Opinions differ on the question of the infra-structure of the Community—this was described above as the first main problem concerning integration policy. This time, it is not a matter of the external development and policies of the Community, but of its ability to function internally; on this occasion, indeed, its very existence is in question.

3) Harald Jürgensen, Der Beitritt Großbritanniens zur EWG, in Jahrbuch für Sozialwissenschaften, Vol. 13, 1962, p. 239 ff.

Department for Business Trends Research,
The Hamburg Institute for International Economics

World Business Trends

US Economy in Its Sixth Year of Expansion

In the United States the sixth year of an uninterrupted economic expansion is beginning now. The underlying forces of expansion have still increased during the last months and thus economic growth has accelerated again. The strongest incentives are originating from public expenditure and investment activities of enterprises. Also consumer expenditure of private households continues expanding strongly while, the same as before, expenditure for housing does not show any stimulation worth mentioning. Foreign net demand, too, hardly supports the upswing. The growth of inventories, however, should again increase after the excessive stocks of steel have been reduced to a large extent. In the first half of 1966 on the whole an increase of the gross national product even somewhat higher than in the second half of 1965 has to be anticipated.

To avoid a vigorous rise in the Federal expenditure for military purposes should not be possible anylonger as there are hardly any prospects for an early end to the war in Vietnam. Already in the current financial year military expenditure will surpass by $ 4,000 million the originally planned amount of $ 49,000 million. Another increase of expenditure on defence by $ 7,000 million to a total of $ 60,000 million in the new budget covering the period between mid-1966 and mid-1967 is already provided for. Besides also expenditure for the Great-Society-Programme and other civil tasks will rise.

Investment activities of the economy will probably even accelerate during the next months. According to the most recent official survey in the first half of 1966 private enterprise is planning an increase of its investment in plant and equipment almost as high as in the second half of 1965. However, various factors should cause the entrepreneurs even to considerably extend their investment plans, for the majority of industrial enterprises has reached optimum utilisation of capacities. Nevertheless the backlog of unfilled orders has risen continuously. Another incentive to an increasing propensity to invest is originating also from a continuing favourable trend of entrepreneurial profits.

As a consequence of the accelerating growth in "primary demand" incomes of private households will rise even more than before in the near future. The increase of social contributions by approximately $ 2,000 million should therefore hardly slow down the rise in consumer expenditure. Different surveys confirm that private households are prepared to increase above all purchases of durable consumer goods.

Discussion of a possible "inflationary" price development has even been intensified most recently. It was occasioned by the