Chapter 2
Policies of the EEC

The European Community is not only a major trading bloc with a high level of internal trade, and therefore a high degree of economic interdependence between member countries, but also an important focus of economic policy-making and, through its Budget and Common Agricultural Policy, a major agent of foreign exchange transfers between member countries.

The first two sections of this chapter concentrate on the definition and measurement of EEC transfers. These are so important in determining the balance of advantage between member countries, and are achieved by devices which are so extraordinary and so widely misunderstood, that they may be of interest even to non-European readers. The last part of the chapter discusses wider implications of EEC transfers and of commercial and fiscal policies in the EEC. For Europeans an understanding of the transfer mechanism itself, which has never been fully explained or quantified before, is an essential preliminary.

Concepts

Public discussion within Europe of the economic effects of EEC membership is still in profound — indeed lamentable — confusion at the elementary level of accounting concepts and logical analysis. There are, for instance, some who believe that, to the extent that monetary compensatory amounts (MCAs) are deducted from the cost of food imported into Britain, the UK is being 'subsidised' by the rest of the Community; there are others who maintain the exact opposite — that since these food imports are coming into Britain at prices which, even after deduction of MCAs, exceed what the exporting country could otherwise have obtained, then on the contrary it is the rest of the Community which is being subsidised by Britain.

In December 1978 the Danish embassy published a short paper which severely criticised at this elementary level some calculations made by the British government. 'In the British calculations', according to this paper, 'monetary compensatory payments are entered erroneously (sic) as allowances to exporting country producers instead of allowances to importing country consumers'. References to MCAs which are consistent with the Danish interpretation by Dr Richard Mayne (Head of the UK office of the Commission) and Lord Bessborough (a member of the Budgets Committee of the European Parliament for the past six years) have recently been published in the *Guardian* (13 and 15 February 1979).

Under these circumstances there is no alternative but to begin by deploying a logical framework within which the discussion can proceed without vulgar misunderstanding.

Consider first the *direct financial effects* of the Community Budget and CAP. We define these direct effects as the total cash which a country pays or receives across the exchanges, given each country's present economic structure, including the volume of its production, consumption and exports. Specifically, these financial flows do not provide an evaluation of the effect on each country of being (or not being) a member.

These sums of money are in principle quite easy to calculate. They fall into two categories. First there are the net cash payments (i.e. contributions less receipts) to the Community Budget, 70% of which is used to subsidise agriculture in member countries. *In addition,* there are the costs incurred by countries which import food from the rest of the Community at prices higher than they would otherwise have to pay, and benefits received by countries which export food to the rest of the Community at prices higher than they could obtain on world markets.

We shall call the first category of transfer 'net *budget* receipts or payments', the second 'net *trade* receipts or payments' and the total 'net *cash* receipts or payments'.

Although net cash receipts or payments so defined are benefits or costs to countries as a whole, they will in practice be made in part directly by or to the government (i.e. in effect the general taxpayer) and in part by or to consumers and farmers, if they pay or receive prices different from what they otherwise would have been.

It is important to emphasise the distinction between the cost of benefit to a whole country and the distribution of costs or benefits within it. Occasionally commentators have drawn attention to the additional cost to the UK's budget if Britain reverted to a system of deficiency payments, as though such a cost were comparable with the UK's contribution to the Community Budget. But the former cost would *not* be a charge on the UK as a whole. It would merely represent a change in the internal distribution of income, shifting the cost of supporting farm incomes from food consumers to taxpayers: food prices would be lower but general taxation higher. For inter-country

comparisons it is obviously the cost or benefit *to the country as a whole* which is most relevant; the internal distribution of income is an entirely different question, though important in its own right.

If, as was the original intention of the Treaty of Rome, there were a uniform price for food throughout the Community, the total net cash receipt or payment of each member country could easily be obtained, simply by adding its net budget payment to its net trade payment, the latter calculated by multiplying the (net) quantity of food it imports from other members by the difference between the Community price and a 'world' price. It cannot be overemphasised that both components of cost – the budget cost and the trade cost – must be included in such a calculation. For there might be two countries identical in every respect, except that all the food exports of one country went to importers outside the Community and all the food exports of the other went to other member countries. Under CAP rules both countries would receive identical prices for their exports and would benefit equally from membership of the Community, yet the first would receive all its benefit from trade in food in the form of a cash restitution from the Community Budget, whereas the second would get the whole benefit from the high prices paid by importing member countries and nothing at all from the Budget. This point must always be borne in mind when considering league tables which only show the net budgetary contribution of member countries, since it would be conceivable that a country minimised its apparent net benefit or apparent net loss by concentrating its agricultural trade with other member countries rather than with the rest of the world.

The original intention of uniform food prices throughout the Community was abandoned because of major changes in the exchange rates of the currencies of EEC members, which have taken place through the last ten years or so and which have greatly exceeded the differences in their inflation rates. These exchange rate changes have been governed by factors – notably performance in world markets for manufactured products and the conduct of monetary and fiscal policy – which have little to do with trade in agriculture. Had agricultural trade continued to take place at common prices calculated at actual exchange rates, the farmers in the member countries which have been most successful in world markets – particularly Germany – would have suffered a disastrous fall in their incomes; consumers in the relatively unsuccessful manufacturing countries would have had to face extremely sharp increases in food prices, and their farmers would have made extremely large profits. It was principally for these reasons that when exchange rate parities flew apart, the so-called 'green currency' system was invented. In form this system introduces a new *numéraire* in terms of which agricultural prices are denominated. But the simple way to think of it is as a device whereby the agricultural prices in individual countries are partly or wholly insulated from the process of exchange rate adjustment; in other words, internal prices do not necessarily change at all when currencies are adjusted. In consequence prices differ from country to country when measured at actual exchange rates and when trade takes place this

difference has to be made up by a cash levy or subsidy. If Germany exports butter to be sold in the UK at a price in sterling which is only 60% of the price received by the German farmer (and paid by the German consumer), the difference is made up by a 'monetary compensatory amount' (MCA) paid out of the Community Budget.

The introduction of different price levels maintained by MCAs makes no difference at all to our definitions of costs and benefits, although it alters their amounts. A country's 'net cash receipts' are still made up from its net receipts from the Community Budget (which now include MCAs) and its net trade receipts, which arise because of the difference between the Community price level established in that country and the 'world' price which would otherwise have been received for its food exports or paid for its food imports.

We may here dispose of the absurd contention referred to earlier, that MCAs received by exporting countries out of the Community Budget should be considered as offsets to the net contributions to the Budget by importing countries such as the UK.

Before 1976 the arrangements were such that an importing country with food prices below par paid a higher price to the exporting country (as though its green currency was at par with its spot currency) and then received an MCA in the form of a cash payment. In 1976 a change in arrangements was made so that MCAs were paid to the exporting country, which now sold food to the importing country at its lower prices. But this change made in itself no real difference to either country. The net budget receipts of the importing country were reduced, but the price at which it imported food went down correspondingly, so that its net trade receipts went up by an equal amount. The change in arrangements had, *mutatis mutandis,* an exactly equal zero net effect on the exporting country. To count MCAs paid to the exporter as a budgetary benefit received by the importer and simultaneously to count the reduction in the import price actually paid as a trade benefit is quite simply double-counting.

The correct procedure for measuring net costs and benefits is to measure the sum of net budgetary payments or receipts as they actually occur, and net trade payments or receipts calculated at the prices at which trade actually takes place.

Measurement of EEC transfers

(a)   Net budget payments and receipts
It is very unfortunate that at the time of writing the Commission has not seen fit to publish estimates of net Budget receipts or payments for each member country for 1978, still less for 1979. We have had perforce to rely on estimates prepared by the Economic Policy Committtee of the EEC and submitted confidentially to the Council on 15 November 1978. They are shown in the first column of Table 2.1. The main trouble with these estimates from our point of view is that they do not show what is expected to happen in 1979, but what would have happened in 1977 if transitional arrangements for the UK and other new members had already come to an

Table 2.1   Community Budget receipts and payments

(estimated 1978, £ million)

	Net receipts from Budget	Gross contributions to Budget	Implied gross receipts from Budget
UK	−806	1473	667
Germany	−570	2423	1853
Italy	−114	963	849
Belgium-Luxembourg	+312	600	912
Ireland	+254	70	324
Holland	+190	860	1050
Denmark	+329	250	579
France	+114	1507	1621

end.* One interpretation of the figures, therefore, is that they are rough estimates of what the position will be in 1980 when the transitional period will have ended; they are probably not too bad a representation of the actual position in 1979, which is, after all, the last year of transition. Indeed we can be *confident* that they accurately represent the British position in 1979, because the estimate of UK net contributions tallies closely with that published by the UK Government in January 1979 in the White Paper on Public Expenditure (Cmnd 7439). Only the Commission is in a position to provide accurate information and until it does so we must make do with what we have.

Our confidence that the figures give broadly the right impression is increased by setting net payments derived from the Council document against gross contributions to the Budget in 1978 from the official journal of the EEC of 6 June 1978 and deriving, by difference, a rough estimate of gross receipts. The pattern of implied receipts is plausible, since there is a general expectation that receipts will be related to the size of the agricultural industry in each country.

The tortuous criticism of the above figures by the head of the UK office of the Commission in his letter to the *Guardian* of 13 February 1979 is to be deplored, since the correct figures must be known to the Commission and it is a matter of urgent and legitimate public interest that they should be known to everyone else as well.

(b)   Net trade receipts and payments
Trade in agricultural products between EEC countries and the rest of the world is already recorded at actual world prices. Benefits in the form of export subsidies or costs in the form of import levies (which are part of the system for maintaining CAP prices above world prices) are all fully measured in the net budget payments or receipts of each member. Thus net trade payments or receipts in our terminology arise not on trade between EEC countries and the rest of the world, but only on exports of CAP products from one EEC country to another, a trade which takes

*A copy of this document, ref.CORR/11/579/79-En (FINAL), was sent to this Department at the beginning of February 1979. Since this chapter was drafted it has been reported (*Financial Times*, 20 February) that the German budget payment has been reduced in 1978. But in the absence of information about the German net trade payment it is impossible to draw conclusions from this.

place at prices determined by the EEC.

To calculate net trade receipts and payments on this internal trade, some estimate of 'world' prices is required as a standard of comparison. It would surely be wrong to suppose that exporters could on average obtain much better than world disposal prices if they had to sell in world markets instead of to another Community member. But it would also be wrong to suppose that large importers could obtain adequate supplies reliably at prices as low as world disposal prices; for example, in the absence of its membership of the EEC the UK would certainly have continued some kind of long-run undertaking to purchase dairy products from New Zealand and sugar from ACP countries at prices well in excess of present world disposal prices.

Table 2.2 shows estimates of prices, measured in sterling, at which each member country is now importing the main CAP products from other members. A figure is only entered in this table where the country is a net importer of the commodity in question — hence the complete absence of France, which is a net exporter of all the products. The import prices shown differ from one another simply because of divergences of each country's 'green' currency rate from actual exchange rates.

The estimates of CAP import prices are derived from so-called 'threshold prices' (used to calculate levies on imports from outside the EEC) rather than the somewhat lower 'intervention prices' at which produce is brought into stock in the Community. The actual prices at which trade takes place are certainly on average higher than intervention prices, but may be lower than threshold prices. To this extent our estimates of net trade receipts or payments on the commodities shown may be on the high side. On the other hand, estimation problems have forced us to omit pigmeat and some minor commodities from the calculation; to this extent our estimates of overall net trade receipts or payments are on the low side.

The last two columns of Table 2.2 show an estimated disposal price, taken to be the best which an exporting country could reasonably hope to obtain if it could not export at CAP prices to another member country, and estimates of supply prices which might have to be paid by importing countries. There is no reason to suppose that importers could not obtain adequate supplies at present open market prices for beef and for grains, in which there is a substantial volume of

25

Table 2.2   Price assumptions for calculation of net trade receipts

(£ per tonne)

	CAP import prices as at January 1979							Disposal price	Supply price
	Germany	Italy	Holland	Belgium-Luxembourg	Denmark	Ireland	UK		
Barley	135	105	125	125		120		50	50
Wheat	155	120	145	145		135	105	85	85
Maize	135	105			120	120	95	60	60
Sugar		245	300	300			220	100	200
Butter		1775		2170			1620	460	950
Cheese	2000	1530		1865			1390	400	800
Beef		1660					1510	1000	1000

world trade. For sugar, butter and cheese, however, we assume that importers would have to pay far in excess of present world disposal prices.

The next stage is to estimate the net benefit to each exporting member, and the net cost to each importing member, which arises because intra-EEC trade takes place at CAP prices, which are in all cases higher than world disposal or supply prices. Table 2.3 shows benefits and costs calculated on net trade (the balance of exports and imports of each product) between each pair of member countries, summed over products. The table is not symmetrical, because of our assumption that the supply price which a net importer would otherwise have to pay is in some cases higher than the disposal price which a net exporter

would otherwise receive. The cost of internal trade to importing members is therefore often less than the benefit to exporting members. By implication the EEC as a whole achieves a substantial direct benefit at the expense of the rest of the world through its protection of internal agricultural trade.

(c)   Net cash receipts and payments
As emphasised earlier, neither net budget contributions nor net trade receipts and payments under the CAP are very meaningful when considered independently. Only when the two are added together do meaningful estimates of EEC transfers between member countries emerge. Table 2.4 shows the sum of estimates from Tables 2.1 and 2.3.

Table 2.3   Net receipts and payments on intra-EEC trade in CAP products

Trade with:	UK	Germany	Italy	Belgium-Luxembourg	Ireland	Holland	Denmark	France	Total
Net receipt (+) or payment (−) of:									
UK	—	− 20	+ 9	+ 4	−127	− 77	−73	− 33	−317
Germany	+ 42	—	+243	+ 77	− 22	−198	−76	−167	−101
Italy	− 9	−182	—	− 7	+ 1	− 38	−61	−236	−532
Belgium-Luxembourg	− 4	− 52	+ 11	—	+ 1	− 12	—	−100	−156
Ireland	+162	+ 23	− 1	− 1	—	+ 11	—	+ 27	+221
Holland	+118	+256	+ 45	+ 39	− 11	—	—	− 6	+441
Denmark	+120	+101	+ 65	—	—	—	—	+ 3	+289
France	+ 53	+188	+278	+116	− 27	+ 14	− 2	—	+620
Implied net gain to EEC as a whole									+465

Table 2.4   Net cash receipts and payments between EEC members

(£ million)

	Net budget receipt	Net trade receipt	Total net cash receipt
UK	−806	−317	−1123
Germany	−570	−101	− 671
Italy	−114	−532	− 646
Belgium-Luxembourg	+312	−156	+ 156
Ireland	+254	+221	+ 475
Holland	+190	+441	+ 631
Denmark	+329	+289	+ 618
France	+114	+620	+ 734

Table 2.5 Per capita net receipts compared with per capita income

	Net receipts per capita (£ per year)	National income per capita (% of unweighted mean)
UK	− 20	69
Germany	− 11	130
Italy	− 12	55
France	+ 14	113
Belgium-Luxembourg	+ 16	129
Holland	+ 45	120
Denmark	+124	136
Ireland	+158	48

The major comment to be made on the pattern of receipts and payments shown in this table is that the transfers are very predominantly related to the size of agriculture in each country relative to its own consumption of food. The picture is, in its essence, one in which the agricultural industries of major producers are not only being protected *vis-à-vis* world markets, but are being supported on a scale which is excessive, by the criterion that stock-piling, dumping or destruction of produce are occurring, and the cost of all this is spread through the Community according to no equitable principles. The arbitrary nature of the way EEC transfers are distributed may be demonstrated by expressing the total net cash receipt or payment of each member country on a per capita basis and setting the result alongside figures indicating relative levels of national income per head.

Table 2.5 shows that the UK makes much the highest per capita net contribution, while Ireland and Denmark are by a very long way the largest per capita beneficiaries. Britain and Italy, among the three losers from EEC transfers, are among the bottom three member countries with regard to national income per head. A notably anomalous gainer is Denmark, which receives over £120 a year per head (equal to about 2.8% of its GNP), although Denmark's income per head is the highest in Europe − just over double that of the UK. The one good aspect of the system is that Ireland, still by far the poorest country in the EEC, also receives the largest per capita benefit; Ireland has been gaining rapidly in prosperity, both absolutely and relative to other member countries.

Assuming that the EEC's common market in industrial products and its various other aspects are mutually advantageous to all members, it is nevertheless reasonable to seek an equitable pattern of cash transfers within the Community. Why should some poorer countries have to pay heavily for sharing in a mutually advantageous scheme, while other richer countries pay less or receive cash subsidies?

For those who do not believe that the competition and industrial trade rules of the EEC are mutually advantageous, the scale and ranking of the direct costs and benefits of transfers seem particularly arbitrary. If free industrial trade is damaging to relatively weak countries, it seems perverse in the extreme that Britain, which has been suffering a loss of real income because of the deterioration in its manufactured trading position, is also paying a heavy net cash transfer to other EEC members.

Future policies in the EEC

One critical issue for EEC members in the next few years is clearly whether and how the pattern of transfers may be changed. A second matter of great importance to members and non-members alike is the extent to which member governments, particularly those of countries with strong currencies, seek higher GNP growth rates through fiscal and monetary reflation.

The present argument between member governments mainly centres on CAP prices. There is pressure to secure realignment to a uniform food price level, particularly from France, which has made progress in this direction a condition of proceeding with the European Monetary System (since this is designed to peg exchange rates of member countries, it removes the original justification for 'green' currencies and differing food price levels). In addition, most member governments want higher CAP prices, which the UK and Italy resist very strongly.

Changes of these kinds would have major effects on cash transfers between member countries which have not been properly admitted into discussion. We show here estimates of what EEC transfers would be under three possible assumptions: *(a)* that all green currency rates are altered to correspond with actual exchange rates, with no change in CAP prices denominated in European Agricultural Units of Account; *(b)* that CAP prices in force in every member country are raised to the present German level; and *(c)* that they are raised to the German level in all countries except the UK and Italy, which are allowed to maintain prices at the present levels in those countries. The estimates shown in Table 2.6 are of cash receipts and payments assuming unchanged volumes of production, consumption and trade.

All of these assumptions imply that, with only minor exceptions, the cost to 'losers' and the benefit to 'gainers' would be increased compared with the present position. It should be noted that the realignment of green currencies under *(a)*, even with no

27

Table 2.6 Total net cash receipts/payments and the change in average CAP prices on three policy assumptions

	(a) All move their green currency to par		(b) All move their green currency to par at the German price level		(c) Exporters move to par at German price level, importers stay put	
	Net cash payment	% change in price of levy products	Net cash payment'	% change in price of levy products	Net cash payment	% change in price of levy products
UK	−1330	+29	−1535	+45	−1291	n.c.
Germany	− 655	−11	− 809	n.c.	− 967	n.c.
Italy	− 680	+19	− 857	+33	− 756	n.c.
Belgium-Luxembourg	+ 155	− 3	+ 83	+ 8	+ 43	+ 8
Ireland	+ 500	+ 4	+ 651	+17	+ 646	+17
Holland	+ 555	− 3	+ 626	+ 8	+ 565	+ 8
Denmark	+ 550	n.c.	+ 647	+12	+ 631	+12
France	+ 965	+ 8	+1202	+21	+1101	+21

change in CAP prices denominated in units of account, nevertheless implies an overall average increase in prices in actual currencies. But it would still impose large price reductions on German farmers, as well as large price increases on UK consumers. Assumption *(b)* implies a large average increase in price, with totally unacceptable implications for UK and Italian consumers. Assumption *(c)* brings substantial benefits to France and Ireland (both their farmers and the countries as a whole) with no change in UK or Italian consumer prices. But it implies a significant additional budgetary cost to the UK, Germany and Italy.

We cannot make reliable estimates of the consequences of the changes in agricultural production, consumption and trade which would occur in response to such changes in prices. It is clear that in the case of assumption *(c)*, which in our view is the only one of those shown in Table 2.6 which has any real chance of being adopted, volume changes would increase the gains to gainers and (therefore) the losses to losers. The overall pattern of EEC transfers would be even more perverse than at present.

Future discussion of EEC transfers will not easily be confined to arguments over CAP prices. The wider issue of whether the Community Budget can assist equalisation of income and resource use within the EEC was studied in detail in the McDougall Report, published two years ago (Report of the study group on the role of public finance in European integration, Commission of the European Communities, Economic and Financial Series, April 1977).

To illustrate the potential significance of fundamental changes in the EEC transfer system, we have used our model of the UK economy to calculate the overall macro-economic effects on the UK of two alternatives: *(a)* that the UK's present net cash payment is exactly extinguished by a compensatory net annual transfer from the Community Budget to the UK government of around £1100 million; and *(b)* that this annual transfer is increased to £1800 million, so as to provide Britain with an overall net cash receipt of £700 million a year, a sum equal to that now received by France. A net receipt of this amount would not seem inequitable, given that the UK is now the third poorest member of the Community. The simplest policy assumption is that the new transfer is used by the UK government to cut taxes, leaving the *ex post* UK balance of payments unchanged.

Table 2.7 Effects on the UK economy of major changes in EEC transfers

	(comparisons with effects of the existing system)			
	(a) Transfers to neutralise the UK's net cash payment		(b) Transfers to give the UK a net cash receipt equal to that now received by France	
	(£1979 billion)	(%)	(£1979 billion)	(%)
National income	+3.8	+2.1	+6.3	+3.5
Output	+2.2	+1.4	+3.6	+2.3
Consumption	+3.5	+3.3	+5.8	+5.5
Unemployment rate		−0.5		−0.8
Consumer price inflation		−2.0		−3.3

The result of the calculation, shown in Table 2.7, is that UK production could be increased by 1-2%, unemployment could be reduced by 100-200,000, the level of real consumption could be 3½-5½% higher and the level of national income 2-3½% higher than under present arrangements. These direct and indirect effects of a large change in EEC transfers are 'static', in the sense that they involve once-and-for-all permanent changes in levels. Not all the effects would be of this kind. On the hypothesis that inflation has a high degree of inertia, there would be a change in the rate of inflation with cumulating effects on the price level. On our postulates, the tax cut made possible by changes in EEC transfers would reduce the growth of consumer prices and money earnings and would permit slower depreciation of the sterling exchange rate, giving the UK a rate of price inflation permanently 2-3% lower than would otherwise have been the case. Other and more fundamental dynamic benefits are conceivable. If EEC rules allowed the UK government to use receipts from the Community Budget, in part at least, to aid poorer parts of Britain selectively and to foster industrial reconstruction, the consequence might well be an improvement not only in the level of national income but also in its rate of growth.

The interdependence of EEC members in trade and balance of payments terms makes the internal industrial market and the demand expansion policies of member governments at least as important for all members as agricultural prices and transfers through the Community Budget. The rules of industrial competition within the EEC are a Community matter, but demand management is the prerogative of national governments. However, the fiscal and monetary policies of each member forcibly interact de facto, and will do so all the more strongly if exchange rates are linked under the European Monetary System.

It was argued in Chapter 1 that the choice of demand management policies open to governments differs fundamentally between countries with weak and strong balance of payments positions. A major cause of inequality of trading positions between EEC member countries is differences in their manufacturing performance. Table 2.8 gives data which indicate that these differences are just as pronounced in internal EEC trade as in trade with the rest of the world, and that, although there was some convergence between the original members between 1958 and 1970, there has been no general convergence of either original or new members since 1970.

At present there is no indication that EEC policies on internal and external manufactured trade may be altered so as to assist convergence of the industrial performance of different members. The governments of weaker members can do little other than resist the full application of EEC rules where these work to their disadvantage.

In these circumstances, expansion of demand rests with governments of member countries whose trading positions, balance of payments and foreign exchange reserves are strong enough to allow them to increase their imports without precipitating rapid depreciation of their exchange rates. Reflation of demand by these governments could significantly accelerate growth throughout the Community, as well as stimulating world trade as a whole. Table 2.9 gives an illustration, derived from our model of world trade, of the effects on a weak member country such as the UK and on the rest of the world of a 1% addition to GNP growth in other EEC countries, achieved by fiscal and monetary expansion on the part of their governments. The linkage for the UK is strong; its exports of manufactures would grow nearly 1% a year faster and, for an unchanged balance of payments, its GNP growth could be increased by over ½% a year. The largest external beneficiaries would be OPEC and other

Table 2.8 Relative performance of EEC member countries in manufactured exports

(Value of exports per capita relative to the EEC average, EEC 9 = 100)

	Trade between the present member countries			Trade with the rest of the world		
	1958	1970	1977	1958	1970	1977
Original members						
Germany	139	133	134	124	148	158
Belgium-Luxembourg	414	418	378	170	140	134
Holland	228	208	206	92	90	98
France	60	77	78	78	71	82
Italy	30	58	57	32	58	60
New members						
Denmark	87	66	71	77	133	121
UK	78	49	52	154	112	90
Ireland	45	54	94	4	15	29

Source: Eurostat Monthly External Trade Bulletin, Special Number 1958-77, June 1978.

European countries, but all trading countries would gain significantly. The cost, which the stronger EEC members could certainly afford for several years to come, would be a cumulating reduction of about $1½ billion a year (at present price levels) in their current balance of payments surplus.

Improved economic performance in the EEC requires change in three main directions: major alterations to the system of transfers, reflation of demand by strong member governments, and ultimately, policies to aid convergence of industrial performance between member countries. At present, while argument is concentrated on increases in CAP prices and on closer linking of exchange rates, both of which will tend to worsen the imbalance between member countries, the prospect for beneficial policy changes seems remote.

Table 2.9 Effects of a 1% addition to GNP growth in EEC countries excluding the UK

(% per year)

	Effects on growth of:	
	Manufactured exports	GNP
EEC excluding UK	+0.9	+1.0
UK	+0.9	+0.6
USA	+0.7	+0.4
Japan	+0.7	0 [a]
Other developed market economies	+0.8	+0.6
OPEC	—	+1.1
Other developing market economies	+0.6	+0.4
Centrally planned economies	+1.0	—
World total	+0.8	+0.6[b]

[a] Japan is assumed to achieve its target GNP growth regardless of the growth of its manufactured exports (see chapter 1).
[b] World total excluding centrally planned economies.