6 Nation–State and European Integration: Structural Problems in the Process of Economic Integration within the European Community

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Excerpt pages 144-149

POSSIBILITIES AND LIMITS OF OVERCOMING THE NATION-STATE

The description of the economic process of integration of the EC can be summarised as follows: (1) in the field of the EMU/EMS projects: a supranationalisation of economic policy initiatives, that is, creation of a European central bank, transfer of the fiscal policy to the Community, and so on, could not be realised; (2) in the field of trade policy: existing supranational initiatives of the EC were undermined by renationalisation tendencies; (3) in the field of industrial policy: the supranational initiatives of the EC Commission embodied in the European Coal and Steel Community Treaty were only exercised with a simultaneous maintenance of the interests of the nation-states.

This description raises the question of how the continuance of the nation-state interest can be explained. What type of rationality is possibly hidden behind these efforts to maintain nation-state structures within a process of integration? Most of the economic scientific experts consider it irrational that the nation-states maintain economic policy initiatives. They appeal to the nation-states to have the courage to give up this kind of give-and-take policy and to accelerate the process of integration by a supranationalisation of economic policy.[20] The growing interdependence of the national economies of the member states would lead to a decreased efficiency of the national instruments of regulation. The EMS system with fixed exchange rates would undermine national monetary policy and without a supranational monetary and fiscal policy European economic development could not be harmonised. Thus, the EMS could not work and the whole domestic market project would be threatened.

To my mind, this economic analysis neglects the necessity of nation-state structures for the maintenance of the international competitiveness of single EC member states' economies. It ignores the limits of such an economic process of integration due to the unequal conditions of capital accumulation among the member states.

Unequal capital accumulation and the crisis of integration

The unequal economic development within the EC, and the unequal development of productivity and inflation among the member states which are both responsible for the failure of the EMU project and which led to distortions of the competitive positions of single national economies under the EMS, cannot be removed by a supranationalisation of the EC economic policy because this development is primarily based on structural differences in the conditions of accumulation of the national capitals. Above all, four factors influence the unequal development of capital accumulation within the EC which cannot be eliminated by harmonising and supranationalising the EC economic policy.[21]

Unequal structures of capital

If unequally developed nations are facing each other, as in the EC, then the weaker developed nations normally can raise more quickly their productivity by higher growth rates of accumulation, because the organic composition of capital (the ratio of constant to variable capital) has a lower level and thus the average profit rate is higher. This unequal development cannot be avoided by supranationalising economic policy as economic policy cannot eliminate differentials in the organic composition of capital.[22] These unequal capital structures, which were already a problem for the Group of Six, have been made more problematic by Greece, Portugal and Spain entering the European Community.

Unequal wage struggles

Among the EC member countries the political and economic consciousness of the workers and the structures of the trade unions vary greatly. These differences have a great influence on the result of wage struggles and, therefore, on the relations of profits to national incomes, that is, the shares of profits. Next to the organic composition of capital, the share of profits is the second variable of the rate of profit, likewise a variable, which cannot be influenced by the economic policy of the state. An incomes policy at Community level wouldn't harmonise the different amounts of industrial strife (for example in Italy and Germany) and would not be able, therefore, to avoid unequal wage ratios among the member countries (see Table 6.1). Even with supranational initiatives in economic policy, there would be a great divergence in the willingness of trade unions or the working classes of the EC members to accept wage-control measures. The wage struggle, the struggle between workers and capital in its most direct form, is not susceptible to government action, especially not within the European Community, which knows such great national differences in the tradition of workers' movements.

Unequal rates of inflation[23]

Without regard to the monetary policy of the central banks, the divergence in inflation rates among nations is a result of structural differences among the single economies. The phenomenon that the less developed sectors of the economy, such as agriculture or services, register an above-average rate of inflation and that in less developed industrialised countries the rate of inflation of these sectors is much higher than those in more developed countries, should be explained as follows:

Firstly, the growth rate of productivity of the modern sector is higher than that of the traditional sector of the economy, owing to the different degree of international competition. Secondly, the nominal increases of wages in the economy as a whole are oriented to the wage policy of the modern sector. Because of its lower increase of productivity, the traditional sector does, therefore, bear a greater pressure of production costs, which entails higher rates of inflation. Thirdly, the differences of productivity between the modern and the traditional sector of the economy is accentuated in less highly developed countries. For this reason in less developed industrialised countries the aggregate rate of inflation has a higher level than in more developed countries, a phenomenon that is to be observed not only within the EC, but world-wide.

The monetary policy of the central banks does not possess the possibility of influencing this structural component of inflation, which is based on the sectoral inhomogeneity of the economy. A European central bank would *not* be able to harmonise the rates of inflation within the Community, because it could not neutralise the intra-EC differences in the degree of sectoral inhomogeneity.

UNEQUAL HISTORICAL CONDITIONS

The development of capital accumulation in individual countries is often influenced by special historical factors. In the EC there are two pregnant examples to be mentioned: the North-South problem in Italy and the decline of Great Britain as a World Power. The relative stagnation of the Mezzogiorno in Italy and the deteriorated international competitive position of Great Britain after World War II have diminished the economic development of the respective countries. A regional promotion policy and an export promotion policy may counteract these structural historical components in the development of accumulation to a certain degree, but they could not neutralise them totally. A supranational economic policy of the EC aimed at harmonisation of the economic development of its members would be bound by these historical factors of economic development too.

Since the economic development of the Community must be unequal – because of the above mentioned structural factors of capital accumulation – the member countries cannot renounce the initiative to rectify changes in the international competitiveness of their economies by means of national policy measures. In this context the most important instrument of the nation-states is monetary policy, which allows them to correct a sub-average development of the productivity and/or an above-average development of the rates of inflation through a realignment of currency values. The EC process of economic integration is, therefore, limited by distinct borderlines, which manifested itself several times during the concrete development of integration policy.

.The member countries with a lower development level cannot accept an Economic and Monetary Union characterised by a sole Community currency just because of their necessarily higher rates of inflation in comparison with the more developed members. Even if in the course of economic equalisation the less developed countries realise higher increases of productivity than the more advanced countries, they will be left to their own monetary policy owing to the higher rates of inflation often joined by above-average increases in wage costs, both of which result in a deterioration of their international competitiveness.

The EMU project didn't, therefore, fail because of the narrow-mindedness of the member countries, but because of real economic constraints which prevent a supranationalisation of economic policy initiatives. The EMS cannot, therefore, be completed by the establishment of a European central bank with a sole Community currency, because it will be confronted *permanently* with the necessity of adjusting the exchange rates to the changes in competitiveness within the Community. If the EC will continue the fixed-exchange-rates system, it will have to secure an adjustment policy with sufficient flexibility to avoid artificial distortions of the competitive position of the member countries. Alternatively the EC could introduce a free-exchange-rates system which, by agreements about target zones, would have to avoid an 'overshooting' of the exchange rates. No matter which system it chooses, however, both require the co-operation of the members to guarantee the consistency of the exchange rates with the underlying economic fundamentals. Only by voluntary attempts at supranationalisation might the EC 'free' itself of the dilemma of being dependent on the co-operation of nation-states, the cost of which, of course, would be growing economic disequilibriums within the Community.

These constraints in this way determine the limits of the process of integration in the field of monetary policy. However, their presence does not imply that there are also barriers of integration in the field of trade policy in a like manner; quite the contrary. If the autonomy of the nation-states in the key issues of monetary policy is guaranteed, then individual member countries will save their general competitiveness and the coercion to secure the interests of different economic sectors by protectionist measures will diminish. On the basis of the nation-state structure it is possible to use the advantages of free trade, that is, the growing international division of labour, to raise the macro-economic level of productivity, output and employment. The realisation of the EC customs union in the 1960s and in the 1970s has led to a general intensification of trade among the member countries, the beneficiaries of which were not only those countries with original strong export positions, like the Federal Republic, but especially those countries with originally weak trading positions. Italy and France could thus raise their intra-EC trade shares, namely, in the field of industrial goods.[24]

The objective of the SEA to deepen EC integration by abolishing several national trade barriers will certainly call to arms those economic sectors which now profit by protectionism, but this could nevertheless be realised, because *all* member countries would gain from the intensification of competition and the growing EC division of labour. Unlike the EMU, the domestic market project is not a no-win-situation, because the elimination of trade barriers is to be fulfilled on the basis of the well-balanced mechanisms of the nation-state. While the EMU is leading towards macro-economic disequilibriums among the participating countries, the deepening of the EC domestic market produces adjustment pressure on single economic sectors in each member country, which are, however, more than compensated by the macro-economic advantages. The trade and industrial policy experiences of the EC have demonstrated quite distinctly, that the protectionist pressure resulting from these sectoral disequilibriums will not be underestimated. These difficulties, however, do not imply fundamental barriers to the integration process. By co-operation they may be surmountable.

The contradiction of the EC process of economic integration is that, on the one hand, the structure of nation-states must be preserved to realise the above-mentioned limited possibilities of integration at all, yet the maintenance of nation-states, on the other hand, does contain the danger of destroying the integration process by reactivated protectionism. At the risk of decline the EC must learn to live with this insoluble contradiction.