

Competitive Pressures in an Enlarged EEC¹⁾

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It is a great honour to me as a Continental economist to have been invited to this conference; and it is a pleasure for me to talk about a subject which has some significance to the economies and the economists of Britain and Europe—or of Europe on both sides of the Channel.

By competitive pressures I mean the pressures of market forces which arise from changes in competitive conditions. The topic of my talk furthermore suggests that I should like to concentrate on those changes in competitive conditions which are likely to arise in the European Common Market, primarily as a result of Britain's entry.

Let me start by enumerating—in terms of questions and working hypotheses—those changes in competitive conditions which I may deal with under this heading:

First: It is likely that the enlargement of the the EEC and the harmonization of monetary and fiscal policies in Europe will have an impact on economic fluctuations. Will the trade cycle be damped or are we going to have longer and more pronounced upswings with less intense competition followed by periods of pronounced recession and more severe competition? How will these phases coincide with the process of integration?

Second: When in the process of integration tariffs are being reduced on both sides will there be a period of more intense

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competition between Continental and British firms. Will this process of increased competition stimulate or retard overall economic growth? How will it affect various branches of industry and trade?

Third: The formation of the Common Market so far has changed the relative competitiveness of various regions. How will British entry affect the location of industry and the inter-regional distribution of production and income?

Fourth: The commercial policy of an enlarged Common Market has a stronger impact on the rest of the world economy and hence a greater responsibility *vis-à-vis* the developing countries. What will be the pressure of competition from outside that we shall have to accept more readily under this responsibility?

The answers to these questions are bound to be speculative. However, I shall try to utilize some of the experience of the past including some research that has been done in the Kiel Institute of World Economics and elsewhere. Moreover, we must recognize that whenever Britain effectively joins the Common Market it will of course not be during a period of structural equilibrium when the pressure of competition in all sectors and branches of industry is equal. On the contrary. Our economies are in a process of structural change and we have, apart from growth industries and fast growing regions, quite a few problem areas and some industries that are lagging behind or even show signs of absolute decline in one sense or another.

The first question about the swings in competition that we have to expect when overall demand fluctuates in relation to aggregate supply or productive capacity may perhaps be answered by making use of two observations.

(1) The trade cycle in the U.K., measured in terms of industrial production and its fluctuation around the trend, seems to have been strongly influenced by the cycle in North America on the one hand and the cycle in West Germany, Holland, and Austria on the other hand. This dependence is partly due to the fact that each of the two groups of countries absorbs about 2.5 per cent of British GNP. The other part of the explanation is that the British government's "stop and go" policy was balance of payments determined. When foreign

demand was rising the brakes on internal demand were loosened and vice versa.

(2) Although the German trade cycle was strongly influenced by the North American cycle, there tends to develop since the middle of the sixties a European trade cycle that is more independent of North America. After the recession which originated in Germany in 1966/67 we observed a synchronized upswing in the Common Market, an upswing which in West Germany was longer and stronger than any upswing which the economy had experienced before.

Conclusion: When Britain joins the EEC she will become more strongly dependent of the Continental business cycle. On the other hand, the business cycle in the integrated Common Market will be less dependent of the North American cycle, particularly once the European monetary union is established. Moreover, I am inclined to believe that the widening of the area, in which the European business cycle can develop independently, will make for longer phases and larger amplitudes, at least in a transitional period. This conclusion rests on two conditions:

First: An enlarged community, which is less influenced by the American business cycle, has more autonomy in matters of monetary and fiscal policy. This gives a chance for more effective countercyclical action.

However, this chance is closely connected with the risk that countercyclical action, which comes too late, may intensify rather than dampen economic fluctuations.

Second: The risk is likely to be greater than the chance during a transitional period, a period in which market integration will have already succeeded in synchronizing the economic fluctuations while the institutional integration of policy will still be far behind. The consequence is that countercyclical action, if it is to be coordinated, will have a longer decision lag. This risk will be the greater the more the national governments and central banks try to control international money and capital movements which would put them under a strong pressure to act in common with regard to interest rate policy.

To put it briefly, Europe is getting more autonomy but during a transitional period of learning it is likely to be an autonomy

to make mistakes, notably the mistake of doing right things at the wrong time, namely too late.

This leads me to my second question, i.e. the intensity of competition during the period of four or five years in which there will be a process of mutual tariff reduction between Britain and the present EEC. If everything goes well this period is to start next April, and I think this may be just the time when a new upswing in economic activity has gained ground on the Continent. If the upswing lasts as long as the upswing which started in 1967—namely 3 years—it will cover four-fifths of the transitional period which ends in July 1977. This will facilitate the adjustment process and it will make it possible to reduce tariffs more quickly. On the other hand, longer decision lags in countercyclical policy and competitive pressures towards increased investment are likely to contribute to a lengthening of the next upswing as a result of Britain's entry. The period of transition might, therefore, fully coincide with the next cyclical upswing and boom. During this period competition among British and continental firms may be keen—due to the tariff reductions—but not very severe thanks to the boom that is to be expected.

The new competition during the period of tariff reduction is most likely to have a positive effect on economic growth, i.e. the growth of potential output, if it does, as I believe, coincide with an expansion of aggregate demand during a cyclical upswing. Moves towards integration are perhaps more beneficial to growth than is the final state of integration itself. At some point of time during the transition period the effect of temporarily increased competition vanishes and gives way to a movement of cartelization and concentration across the frontiers. It is true that mergers, specialization agreements and rationalization cartels again promise short-run jumps in productivity, but they are likely to have the lasting disadvantage that they weaken the strength of competition and its favourable effect on economic growth later on. Therefore, I consider—contrary to widespread beliefs—that the “dynamics of British entry” are not a long-term affair but a matter of essentially not more than five to seven years.

That international mergers would be encouraged as a result of Britain's entry is also the view of the deputy president of

the Confederation of British Industries, as I read in the *Financial Times*. My inference from past experience is thus confirmed by judgement probably based on direct information. And he also gave a quite specific answer to my second question. "British gross domestic product should grow by an additional one per cent as a result of entry with vehicles, chemicals and the advanced technology industries growing 7 per cent to 10 per cent faster at the end of this decade inside the EEC than they would do outside." (*Financial Times*, 9 February 1972.)

As I do not know the underlying assumptions and calculations I can neither dispute nor confirm this prediction. Let me only note that the products mentioned differ somewhat from the results of a study published in the *Board of Trade Journal* two years earlier, where good prospects were announced for such important products as china and earthenware, footwear, clothing, hosiery, knitwear, computers, machine tools, textile machinery, printing equipment, food processing equipment, construction machinery, goods handling equipment, bottling and packaging equipment, automated office equipment, scientific instruments, toys and sports equipment. Vehicles and chemicals are not in this list, but as a consumer and as a cosmopolitan economist I hope that the British car industry and the British chemical industry will be among those who feel encouraged by the challenge of keener competition in an enlarged Common Market. Both industries can take advantage of the fact that the competitive position of the German chemical industry and car industry has relatively much deteriorated as a result of the recent currency realignment and that these industries may face some difficulties in bringing about compensatory productivity increases. Apart from this I should think that business economists in Britain should not rely too much on information about past performance if they want to discover which lines of production could profitably be expanded in Britain in view of her entry into the Common Market. It seems to me much better to do market research and to watch the performance and the investment behaviour of the competitors on the Continent. Similarly, if I were asked by Continental producers whether they should withdraw from certain lines of production in anticipation of Britain's superiority, my answer would be decidedly in the negative: face the challenge and let

competition decide who is to gain ground at the expense of the others, and by competition I mean, of course, not only price competition but also product innovation and quality improvement. The market will thus find out by trial and error and by the mutual challenge of active competition, who is going to make better products less expensive and who is to attract the engineers who can develop and design products that are better and/or less expensive. The outcome of this game is unpredictable, and it must remain so if we all want to have the benefit of faster growth in the process of integration.

Let me now turn to the third question which refers to inter-regional competition in the EEC and the effects which British entry may have in this respect. Being in Cambridge where Professor Meade lives, I remember a seminar in the winter of 1948/49 and a paper read by a young German economist which was subsequently published in a British professional journal).¹ There the following theorem was advanced under the title "Economic Union between Nations and the Location of Industries":

First: Integration will favour the locations in the centre of the community, notably the locations close to those borders which will lose their economic significance.

Second: Integration will put at a disadvantage those regions and locations which lie at the periphery of the community.

Let us first see how these predictions were born out in the Common Market of the Six.

(1) A typical region which had suffered from the existence of nation states in Europe and which should have benefited greatly from integration is the Saar Region. As a matter of fact the Saar has gained considerable ground but only in recent years and only after the infrastructure was greatly improved owing to financial assistance from Bonn. The Lorraine on the other side of the border was obviously less capable of attracting manufacturing industry, and what is true of the Lorraine and of the Saar holds true on the upper Rhine for the Alsace and Baden with numerous people from the Alsace working in firms located in Baden. From this I should draw the conclusion that no region will be able to utilize fully the advantages

¹ H. Giorach, "Economic Union Between Nations and the Location of Industries", *The Review of Economic Studies*, 1949/50.

created by the Common Market unless it has an initial advantage in infrastructure or unless it tries to improve its infrastructure more quickly than do its competitive neighbouring regions. Of course, it is not only competition in infrastructure that matters; another point, to which I shall have to come back again later, is the attractiveness of the labour market in terms of efficiency, wages and good labour-management relations. But it is competition that matters, and it is a kind of oligopolistic competition where one competitor gains relatively much at the expense of one or two or three others, if and when he has a better start and if and when he does better for some period of time. In interpreting interregional competition I am not too far from Nicholas Kaldor whom I may quote with the following sentence: "Owing to the existence of economies of scale both comparative success and comparative failure tend to have self-reinforcing effects. Industrial areas tend to become more competitive when their growth is itself a reflection of the faster rate of growth production made possible by the gain in competitiveness." So far Kaldor. Let me correct the picture only by stressing once more: if and when a region falls back in competitiveness it should and it could anticipate the self-reinforcing effects, e.g. by making early efforts to improve the infrastructure and to prevent wages from rising too fast. A disadvantage in competition which is accompanied by self-reinforcing effects can be compensated, but it requires, of course, efforts which are proportionate to the disadvantage plus the self-reinforcing effects. All this means simply that interregional competition is—like oligopolistic competition—very keen, and a region has to move ahead if it does not want to fall back, at least temporarily.

(2) A second observation which fits the 1949 prediction can be taken from a 1969 study by the Agricultural Economics Research Institute in Oxford.¹ C. Clark and associates calculated economic potentials by taking regional incomes and costs of distance between all regions in order to measure each region's attraction for manufacturing industry.² Separate centres of

¹ Clark, C., Wilson, F., and Bradley, J., "Industrial Location and Economic Potential in Western Europe", *Regional Studies*, Vol. 3, pp. 197-212.

² *Ibid.*, p. 198 *et seq.*

high potential were found before the Customs Union. But in the process of integration a single centre was formed comprising regions in the Rhine valley of West Germany, south-east Netherlands and eastern Belgium. . . .¹ An analysis of employment indicated that the greatest growth had occurred in regions where the potential had risen most (Belgium and the Netherlands) following the treaty of Rome.²

(3) Quite in accordance with these earlier findings the Institute of World Economics at Kiel discovered in an international cross-section analysis that West Germany has attained a degree of industrialization which is much higher than one would expect from other determinants of industrialization such as income per head, and size of population. A large part of the explanation, I suppose, lies in the locational advantages which West Germany had and could more fully exploit in connection with the Common Market. How did this happen? An important point, in my view, is that shortages of skilled and unskilled labour for industry would have severely limited industrial growth at the end of the 1950s and the beginning of the 1960s, when supply of skilled labour from East Germany was drying up, had West Germany not had access to the Common labour market of the Community and the labour markets of Spain and south-eastern Europe. Germany attracted this labour:

- because her industry got easier access for its products in EEC partner countries, and
- because economic growth in Germany remained an export-led growth as it had been in the 1950s.

It is important to note in this context that the D-Mark was undervalued for most of the time or—in other words—that in Germany wages moved ahead of productivity less than in other countries. This is tantamount to saying that the Trade Unions in West Germany did not fully exploit their wage-raising potential. They thus permitted the country to remain attractive for foreign and domestic capital and for industrial jobs. Without this indirect and unintentional growth policy of the Trade Unions the opportunities offered by the Common Market might not have induced such a far reaching process of industrialization and such a rapid rise in real wages.

¹ *Ibid.*, p. 202 *et seq.*

² *Ibid.*, pp. 207–8.

In this process West Germany has become the country with the highest per capita income in Europe with the exception of Sweden and the possible exception of Switzerland.¹ The agglomeration along the Rhine from Düsseldorf to Frankfurt is—together with the City States of Hamburg and Bremen and the Paris Region—the area with the highest per capita income in Europe. This is contrary to predictions made in 1949 and 1958 which implied that the top of the Western European income cone would be formed by the estuary of the Rhine and the estuary of the Thames. However, both in 1949 and 1958 I believed that Britain would—or would be allowed to—join the Common Market right from the start or at a very early stage. The prediction was based on a Thünen-Lösch-type model for the location of economic activity, on the above-mentioned theorem that the removal of tariffs would be advantageous to the central regions and that there was a correlation between the concentration of economic activity and the level of real income per capita. The same arguments now lead to the prediction that Britain's entry is likely to shift the centre of gravitation from the Düsseldorf-Cologne-Frankfurt area to the north and that London and south-east England can hope for an accelerated increase in economic activity and a correspondingly faster increase in per capita income, however at the expense of the northern regions. There are, of course, counter-arguments implying that it may be too late for southern England to catch up with developments on the Continent because of self-reinforcing effects, but these self-reinforcing effects work both ways and should help Britain to take advantage of her accession to the Common Market, provided—and I repeat this again and again—that these advantages are not spoiled by premature wage increases.

The question, however, remains whether a relative gain of southern England is worth while, if it is largely at the expense of other British regions like Wales, Scotland and Northern Ireland. What lessons can be learned in this respect from the experiences of the Common Market? Before I looked at the figures and some

¹ This comparison is based on the exchange rates prevailing after the Smithsonian realignment of December 1971. It rests on the assumption that these rates reflect purchasing power parities better than those before the currency crisis.

rough calculations of my collaborators I was convinced that interregional income differentials within the individual member countries would have increased, because integration and integration induced growth was supposed to favour the rich regions at the expense of the have-nots. In fact, however, we found that interregional income differentials within EEC countries had declined, largely as a result of developments in West Germany and Italy. For Germany the coefficient of variation, which measures the divergence of regional income levels from the national average, had declined in the period 1951 to 1958 from 33 per cent to 28 per cent and went down until 1968 by another two percentage points to 26 per cent. A similar observation can be made with regard to Italy, where between 1958 and 1966 the coefficient of variation declined from 36 per cent to 31 per cent, compared with a smaller decline from 40 per cent to 36 per cent during the period 1951 to 1958. What is the explanation?

If interregional competition in the Common Market has reduced rather than aggravated the interregional income differentials it can be the result of market forces or of regional policy. Market forces have worked largely through migration. In Italy the movement of people to the north has presumably alleviated the pressure of overpopulation in the south. In West Germany a refugee population which was originally concentrated in the agricultural regions, that offered food and shelter, redistributed itself in the process of industrialization in the 1950s. Nearly two million people moved out of Schleswig-Holstein, Lower Saxony and Bavaria to find jobs in the more industrialized regions of North-Rhine Westfalia, Hesse and Württemberg. This has certainly contributed to raising the standard of living in the emigrant as well as in the immigrant regions. However, when at the end of the 1950s and the beginning of the 1960s the mobile refugee population had been absorbed by industry, there was a tendency for industry to establish subsidiary plants in the agricultural areas, thus making use of immobile labour no longer required by agriculture. This process of decentralization of industries would probably have made more progress, had there not been the inflow of foreign workers who were again mobile and prepared to live in the highly industrialized areas, although under substandard conditions.

In the agglomeration areas the share of foreign workers is 9 per cent as compared to 3 per cent in structurally weak regions. It is true that the rate of growth of GNP, as we measure it, would have been lower without the supply of foreign workers, but there would certainly have been a more satisfactory location of industries and a faster narrowing of interregional differences in per capita income.

Regional policy played an important role in all countries, openly and in various disguises, in the form of infrastructure investments, tax rebates and open subsidies, often with positive effects and sometimes counterproductive. It will have to be coordinated on the basis of clear-cut principles, and it will have to be extended and centralized if and when the Community of the Six is being enlarged and further progress is made towards full integration. Those who are in favour of European economic and political integration, and I count myself as one of them, have to realize that a community is viable only to the extent that interregional differences in per capita income and economic opportunities can be kept small. Large differences in the standard of living and employment opportunities create serious political problems at the periphery. I am quite confident that intelligent people and politicians on the Continent are prepared to learn that Britain's entry into the Common Market means that sooner or later the problems of Northern Ireland and Scotland will be just as much European problems as those of southern Italy.

The need for a common regional policy will become evident as soon as governments are trying to take major steps towards monetary integration. Once the exchange rates are irrevocably fixed among member countries old balance of payment problems will show up in the form of new regional problems. When under present conditions a country loses its competitiveness because of inflationary cost and wage increases it can depreciate its currency, as Britain has done, although it has not done it early and often enough to prevent losses in productivity growth and hence in real income—about 10 per cent of present real income according to Kaldor's estimates.¹ With irrevocably

¹ N. Kaldor, "The Dynamic Effects of the Common Market", in Evans, B., (ed.) *Destiny or Delusion, Britain and the Common Market*, London 1971, pp. 66-7.

fixed exchange rates a new situation arises. The Trade Unions must be aware that whenever they demand wage increases of more than 3 to 4 per cent—if this is the overall rate of productivity growth—plus the common rate of inflation they will endanger jobs and will force workers into unemployment or migration. On the other hand the community should pay wage subsidies if and when in a peripheral region unemployment or emigration persisted in spite of an increase in real wages of less than 3 or 4 per cent per annum. By wage subsidies I do not necessarily mean payments to workers, although it would be an advantage if workers who stayed in the region could expect to earn real wage increases equivalent to the overall rate of productivity growth. What matters is that the subsidy is proportionate to the wage bill and thus to the number of jobs created rather than to the capital sum invested. Unless we are prepared to adopt a scheme for coping in this or a similar way with cost pressures from the side of wages we should not renounce the possibility of correcting distortions in the international cost structure by making the proper changes in the exchange rate system. If irrevocably fixed exchange rates transform balance of payment problems into regional problems we should not take this step toward monetary integration without adopting some sort of regionally oriented incomes policy.

The decisive question is, of course, the raising of funds for the purpose of regional policy. I have two possible answers. One solution would be a common tax on increases in the value of land. Land prices in the agglomeration centres should not be prevented from going up; on the contrary. The more they increase, the less competitive will be the central regions *vis-à-vis* the periphery and the more will the tendencies towards agglomeration be checked. But let us tax away part of the wind-fall gains of landowners in central areas and let us use the funds partly to improve the transport network and the infrastructure in favour of less industrialized regions and partly to create jobs where there are regional pockets of unemployment.

The other possibility of raising funds for a regional policy at the community level would arise in connection with monetary integration. If at some time in the future a new European currency were created to drive out the national currencies a seigniorage could be gained and used for purposes of regional policy.

Before coming to my fourth question I should like to say a few sentences about how further economic growth is likely to influence the structure of industries in countries like West Germany and Britain. I shall confine myself to Germany, but I hope that the indications I can give—on the basis of calculations made at the Kiel Institute of World Economics—will have some relevance for Britain, a country that resembles West Germany in its industrial structure perhaps much more than any other country in the world economy.

Let us leave out agriculture which has been shrinking in both countries and which is contributing only 3.1 per cent to GNP in the UK and 3.6 per cent in the Federal Republic. Moreover, it is France rather than our two countries that claims to have advantages in providing the EEC's food supply.

Let me also disregard coal mining which is an example for a line of production in Germany that shows decreasing output and increasing productivity under the pressure of shrinking demand and that is being subsidized in Germany as well as in France, Belgium, and Holland.¹

What matters in our time is (still) manufacturing. This sector has been producing rather constantly about 42 per cent of GNP in Britain all the time since 1950, while in West Germany it has grown in importance from 44 per cent of GNP in 1950 to more than 50 per cent in 1969, almost exactly as much as agriculture has declined. In Germany it was manufacturing that gained what agriculture lost, whereas in Britain it was the tertiary sector that filled the gap created by the relative shrinkage of agriculture.

Within manufacturing we find a very similar structure of industries in Britain and Germany. It is more significant for future growth and competition to note the following differences:

¹ The German coal mining industry has been facing a crisis since 1958. Between 1960 and 1971 employment was reduced from 307,000 miners to 133,000, i.e. by 55 per cent. During the same period output went down from 142 to 110 million tons, i.e. by 23 per cent. This indicates a remarkable increase in productivity under the pressure of shrinking demand. Apart from import restrictions and from taxes on competing sources of energy, coal is being subsidized by DM 2.45 per ton. This DM 2.45 is too much, but only a seventh or a ninth of the subsidies paid to the French, Belgian and Dutch mines. (Cf. A. Duren, *Kieler Vorträge*, Heft 72, pp. 10-13).

The food industry seems to fare better in Germany than it does in Britain; in Germany it has a larger share (in manufacturing), a much higher productivity and only half as large a share of wages in value added. The opposite holds true for beverages. Here it is Britain where the production is relatively larger, more productive and less wage-intensive than in Germany. Having heard Mr. Kingshott of Whitbread yesterday morning I believe that the explanation must be beer rather than whisky.

Almost the same as for food and beverages can be said with regard to the manufacturing of wood and furniture. In Germany it is the furniture industry that is much more important, relatively more productive and much less wage-intensive than in Britain, as compared to wood manufacturing which in Britain has a larger share and a higher relative productivity than in Germany.

Among the industries that are relatively more important in Britain than in Germany and at the same time occupy a higher rank in relative productivity in Britain than in Germany are—apart from wood manufacturing—
the manufacturing of tobacco,
the paper industry,
printing,
rubber manufacturing, and
non-electric machinery.

In each of these cases (and also in the manufacturing of wood and of beverages, where Britain has even more clearly good competitive chances *vis-à-vis* Germany) one interesting fact should be noted:

In these industries in Britain the share of wages in value added is either below the average (for manufacturing in Britain as a whole: 71 per cent in 1964 to 1966) or it exceeds the average less than does the share of wages in the corresponding German industries (average of manufacturing in Germany 51 per cent).

The point I want to make in this connection becomes most visible, when we look at the oil industry. It belongs to those branches of manufacturing which play a somewhat larger role in Germany. In accordance with this we find that its place on the productivity scale is higher in Germany than in

Britain. Moreover, and this is most striking, we find that the share of wages in value added is less than half of the average in Germany (23 per cent as compared to 51 per cent), whereas in Britain it is quite close to the average (61 per cent as compared to 71 per cent). This indicates that the British oil industry is either overstaffed or has to pay very high wages and salaries.¹

The conclusion to be drawn is clear: if you find that you are at a comparative disadvantage you have unexploited opportunities for lowering the share of wages through mechanization and labour-saving organization. If it is merely Trade Union pressure you may place some hope in the harmonization of wage pressure and Trade Union policy which the Common Market will bring about, whether we like it or not.

My last question referred to competition from developing countries and the attitude we should adopt in this respect under the increased responsibility of the enlarged Common Market. This brings me to an industry that lost ground relative to other branches of manufacturing both in the U.K. and in Germany: the textile industry. In the U.K. it declined even absolutely between 1953 and 1959 in terms of value added at constant prices but it showed, of course, an expansion in terms of current prices in Britain as well as in Germany. (Curiously enough this expansion in nominal terms was faster in the U.K. than in Germany.) Contrary to the development in Britain, labour productivity in German textiles increased quite fast, faster than in the average of manufacturing. What does this mean? It means that the German textile industry responded to the pressures of competition by making heavy investments to raise productivity while its British counterpart responded more by slowing down and cutting production. Thus the share of wages in value added in German textiles is now much lower than in the British textile industry: the difference is greater than for manufacturing in the average.

¹ This may partly be due to the fact that the labour intensive headquarters of the most important Western European oil companies are established in Britain, whereas the capital intensive production centres are located in Germany as well as in Britain. (Footnote inserted afterwards as a result of private discussions.)

For my collaborators at Kiel and for myself it is a matter of great concern that the German textile industry responded to the pressures of competition in exactly the same way as most of the other industries, i.e. by making heavy investments to raise the capital intensity of production. We should have preferred the alternative response of cutting production, and perhaps of shifting larger parts of the production process to countries with lower wages. This may sound contrary to what I said before when I suggested that firms, during the phase of increased competition following Britain's entry, should respond to the challenge in any suitable way. But here we are in a different context, in the realm of competition with less developed countries, where we know at least what outcome of competition would be desirable. While I do not see much sense in any kind of relocation of industries between Britain and Continental Europe, I strongly believe that the LDCs should have a fair chance of getting a larger share in the world supply of products which they can and do produce with less capital and much labour. The German textile industry, instead of retreating from traditional markets in favour of textile production in the LDCs, has chosen the strategy of defensive investment, i.e. of investment to defend its traditional location. Some firms, of course, have shifted production to low wage countries, but this has been done at too small a scale. I have an argument over this with representatives of the German textile association which has deliberately propagated the defensive strategy of capital intensification, and this with considerable success. My position can be summarized in two points which highlight my personal view in matters of competition.

First: If we believe that heavy capital investment is the right response, as representatives of the German textile industry do believe, we should not be any more afraid of competition from low wage countries; the EEC could and should then be able to tear down its tariff and non-tariff barriers *vis-à-vis* all less developed countries unilaterally and in a fairly short period of—say—five to ten years.

Second: Should the textile industry and similar industries not be able to defend their traditional locations against competition from low wage countries within this period of five to ten years we should not be unhappy. A case for protection would

only exist if we expected a technological revolution in textile production later on. Such a revolution is quite possible indeed, but it will mean that the textile industry becomes a stepchild of electronics and the chemical industry. Then it is to stay with us forever; but I should deplore it. The reason is that any defensive capital intensification, if it takes place in response to competition from developing countries, raises the level of capital intensity and the degree of labour-saving in the world as a whole. It creates unemployment which we have to call technological unemployment. But this unemployment does not show up in the developed countries which exert a brain drain and a muscle drain anyhow. It rather takes place in the Third World, where 250 million people are already unemployed. If we need a technological revolution for the defence of industrial locations in our highly industrialized countries, the Third World may respond with revolutions of their own. But this would be a kind of competition which will probably not raise but destroy the world of peaceful competition that has brought us a high standard of living and might be worth conserving.