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Europe without Borders

AS LITTLE as five years ago, Europe, its economies stagnating in what numerous observers diagnosed as a serious case of Eurosclerosis, was mired in pessimism. Today, that same Europe is euphoric, if also occasionally anxious, over the prospect of eliminating its internal borders, at least for commercial purposes, by the end of 1992.

In no small measure this dramatic turnabout is the personal achievement of Jacques Delors, President of the European Commission since January 1985. He and his fellow commissioners, especially Lord Cockfield, put forward a program of action that has captured the imagination of Europeans and reinvigorated Europe's economy. Their proposal, outlined in a White Paper, "Completing the Internal Market," published in July 1985, fell on receptive ground, since Europeans were ready for new initiatives. The White Paper called for the completion of the internal market—for goods, services, capital, and labor—by the end of 1992. To this end, it suggested the need to adopt more than 300 "directives," which carry the force of law within the European Community, a number that has since been reduced through consolidation to 279.

These proposed directives, which intrude boldly into the midst of governance of economic affairs, cover a wide area: border controls; technical standards, testing, and certifications; professional qualifications; international trade in services such as trucking, aviation, data processing, banking, insurance, and other financial services; government procurement; company law; indirect tax harmonization; and capital market liberalization. More than 70 cover transborder shipment of plant and animal materials, about 30 concern financial services.

It would have been practically impossible to act on these directives as the Community was proceeding at the time: piecemeal, with unanimity required on any issue that any of the 10 member countries (since augmented to 12 with the accession in 1986 of Portugal and Spain) wanted to designate a key issue. So the 1985 program was put forward as a package, not to be selected à la carte, presumably to facilitate compromise across issue areas. And the members passed an amendment to the Rome Treaty, the Single European Act, adopted in July 1987, that removed the requirement for unanimity in the decisionmaking Council and replaced it with a qualified majority requirement for approval of most new directives, such that it would take three (two large and one small) or four (one large and three small) countries to block directives proposed by the Commission, the executive arm of the European Community.[1] That change committed all member countries to the 1992 program and altered substantially the bargaining environment by preventing single countries from holding up the Community for special privileges or compensation.

Americans, slow to take interest in the program for a Europe without borders, did not give it serious attention until late 1988. When queried by Europeans about this lack of curiosity, I suggested only half facetiously that Americans thought Europe had already achieved an economic union back in 1968, when internal tariffs and quantitative restrictions were eliminated. Only those involved in European trade realized how far Europe was from an economic union, as exemplified by the states of the United States. Despite the absence of internal tariffs, commercial traffic in Europe still must endure an average 80-minute delay at European borders, while it takes only 1 second for a truck to roll from Massachusetts to Connecticut. Applying substantially different national excise and value added tax rates requires border tax adjustments. Many technical and most health and safety standards are applied at the national level. Non-European automobiles or textiles cannot be sold freely from one member country to another. Even the so-called Common Agricultural Policy is anything but "common." When agricultural products cross European national borders, exchange rate changes that have taken place since prices for those products were last set require "monetary compensatory adjustments," which, bizarrely, sometimes differ from commodity to commodity, making a total nonsense out of any claim to a common market in agricultural products. Government procurement also remains highly parochial, despite commitments made

1. Certain issues still require unanimity, most notably taxation, border controls for law enforcement, working conditions, and environmental protection.

both within the Community and more widely under the government procurement code of the Tokyo Round multilateral trade negotiations concluded in 1979, with only an estimated 2 percent of government procurement being imported from other members of the Community.[2]

The Economics of 1992

The Community has sponsored much research on the consequences of a Europe without borders, including a major study, by Michael Emerson and his colleagues, of the expected economic effects on the Community.[3] Emerson's group estimated the welfare impact as the summation of various partial equilibrium effects, with a resultant estimated improvement in European welfare of 4.3 percent to 6.4 percent of GDP, depending on the exact assumptions. Then they estimated the expected change in Community GDP, using macroeconomic models to generate dynamic responses to specified changes in costs and prices resulting from the removal of remaining border restrictions. The result was an estimated increase of 4.5 percent after six years, on the assumptions of unchanged fiscal policy with constant interest rates and exchange rates. The increased GDP arises from increased real consumption made possible by a decline in consumer prices, and by an improved trade balance brought about by improved international competitiveness.

The two sets of estimates differ conceptually, even though the initiating changes are the same. The elimination of border officials and the reduction in inefficient back-haul trucking both represent welfare gains, for instance, because of the resources thus saved; but they lower GDP (other things being equal) because of the resulting decline in employment.

It is interesting to look at the composition of the projected welfare gains shown in the upper panel of table 1. A gain of 2.2 percent is attributed to the removal of border impediments per se, including the direct effects that removal would have on production. Most of this gain arises from elimination of existing national differences in product standards, differences that raise costs as well as causing border delays.

2. Emerson (1988, p. 48).
3. Emerson (1988). For a more popular treatment of the subject see Cecchini (1988).

Table 1. Economic Gains from Completing the Internal Market
Percent of Community GDP, except as noted

Item	*Effect*
Welfare gain: partial equilibrium analysis	
Removing barriers	2.2
Economies of scale from restructuring	2.0
Competition effects	1.6
Total	5.8
Macroeconomic gains[a]	
Increase in GDP (percent)	4.5
Decline in consumer prices (percent)	6.1
Increase in employment (millions)	1.8
Reduction in public sector deficit	2.2
Improvement in current account	1.0

Source: Emerson (1988, tables 10.1.1, 10.2.2).
a. After six years.

The remaining welfare gains arise from indirect, or market integration, effects, which in turn consist of greater economies of scale, especially significant in government procurement products, such as telecommunications and transportation equipment, and reduction in monopoly profits and "X-inefficiencies" because of greater competition throughout the community, especially in financial services.

These microeconomic effects will result in some layoffs. But they will also lower prices, thus stimulating both consumption and net exports. Tracing the net consequences of those changes over six years (using the Interlink and Hermes multinational macroeconomic models) reveals a 6.1 percent drop in prices, a 4.5 percent rise in GDP, a reduction in budget deficits of 2.2 percent of GDP, and a net increase in employment of 1.8 million people (lower panel of table 1). GDP could be further increased if this more benign macroeconomic environment were used for an appropriate combination of fiscal and monetary stimulation, given the relatively high levels of unemployment that persist in the Community.

It sounds almost too good to be true. Significant improvements are recorded under all the major objectives of macroeconomic policy. And, indeed, the estimates, especially those of gains due to potential economies of scale, have been criticized as being exaggerated.[4] But even if gains in scale economies are assumed to be zero, surely an error in the

4. See Davis (1989).

opposite direction, the effects on European economic well-being remain consequential on the Emerson estimate.

It is noteworthy, although Emerson does not note it, that these techniques of analysis could be applied as well to the entire OECD, or to the world as a whole. They would no doubt show even greater proportionate gains, since world trade is burdened not only by border controls, differences in national standards, and parochial government procurement, but also by tariffs and quantitative restrictions that do not generally obtain within the Community.

The Basic Approach to Market Opening

The original approach of the Commission in building a common market during the 1960s was to "harmonize" the various national regulations and rates of trade-relevant taxation, that is, to set Community-wide standards, regulations, and rates of taxation. The 1985 White Paper abandoned this approach in favor of "mutual recognition," whereby an entity that qualifies to do business in any of the member states can do business in all of them. This principle would apply, for instance, to financial institutions, architectural firms, physicians, and dentists.[5] Similarly, a product that can be sold in one member nation can be sold in all. The principle of mutual recognition, which drew in considerable measure on experience in the United States and other federal countries, might in some cases be qualified by imposing minimum standards for the Community as a whole, for example, on environmental or safety regulations.

Instead of harmonizing fully the rates of trade-related taxes, the Commission proposed a common two-rate value added tax (VAT) system, with tax rates on necessities ranging from 4 percent to 9 percent and rates on other goods and services ranging from 14 percent to 20 percent, with each member able to choose its preferred rate within each range. Taxation, however, remains one of the most difficult problems for achieving the 1992 goals. Britain and others have expressed serious reservations about the Commission's proposal (in Britain's case mainly

5. Special qualifications might have to be satisfied by lawyers and accountants, because of continuing differences in legal systems and accounting standards.

because of strongly held views that food should not be taxed at all), and taxation is one of those few areas that still requires unanimous consent. More recently, the Commission has suggested that members might agree on *minimum* indirect tax rates for various categories of goods and services, with members free to set higher rates if they wish and if they are willing to accept the consequences in terms of diversion of purchases to lower-tax jurisdictions.

An analogous issue has arisen for withholding taxes on interest and dividend earnings. The elimination of capital controls throughout the Community will enable individuals to evade taxes by holding their savings in other member countries.[6] The Commission proposed a uniform withholding tax of 15 percent, but in early 1989 Britain and Luxembourg expressed strong reservations about any withholding at source, thus sending the Commission back to the drawing board. In view of the opposition, Germany, which in 1989 had introduced a withholding tax on interest and experienced a strong outflow of savings, mainly to German banks operating out of Luxembourg, announced that it would rescind its withholding tax.

The approach of mutual recognition will, over time, diminish regulation in most member countries. Footloose firms will gravitate to the countries of least onerous regulation (and taxation) and will operate throughout the Community from those locations. Countries eager to attract economic activity, or to avoid losing it, will ease their regulations, just as the various states of the United States did during 1880–1930, as the U.S. market became increasingly national, not least because of the steady reduction in transportation costs.

This development will be welcomed by some, deplored by others. The pressure of mobile firms and capital will reopen many issues of regulation that were settled years ago at the national level. While there is widespread agreement that regulation in Europe had gone too far by the early 1980s, and therefore that some deregulation was desirable, the extent of deregulation will be highly controversial. Margaret Thatcher's Britain professes a desire for the Community to go very far, but the French tradition leans toward more rather than less regulation. German officials will be caught between their liberal ideology and their frequently

6. The obvious solution is for income tax authorities to harmonize their reporting requirements and exchange information.

highly restrictive practices. There will be considerable debate at the European level over the proper role of government, especially focused on the adoption of minimum standards for the Community.

Impact on Outside Countries: Concerns about "Fortress Europe"

Many outsiders, especially Americans and Japanese, worry that the evolution of policy in Europe will restrict trade, leading to a "fortress Europe."[7] How might outsiders be made worse off? Removing the remaining trade barriers within the Community will of course lead to some trade diversion, as German goods, for example, become on average 2 percent cheaper in France while U.S. or Japanese goods still must surmount the delays and other costs of entering the market from outside. Some French buyers are likely to switch from outside suppliers to German suppliers. But that possibility worries outsiders much less than the possibility of new barriers being erected where none now exists. This could come about in several ways.

First, as Europeans adjust the national quotas they now maintain on non-European goods, they may increase overall restrictiveness. Britain, France, Italy, and Spain all restrict the importation of Japanese automobiles, while Germany, the Netherlands, and others do not. Brussels says these national quotas must go. One way to do that is to establish an overall Community quota for Japanese autos. That would effectively remove an open market where free entry now exists. (The injury could be compounded in this case by adopting content requirements that lead to Japanese models made in the United States being defined as "Japanese.") Recently, pronouncements from Brussels suggest that any such restriction must be strictly temporary, if it is to exist at all.

Analogous problems exist for a number of products, especially textiles. One that especially concerns Americans is TV broadcasting. The EC Commission has put forward a draft directive, approved by the European Parliament, requiring that the majority of all broadcast programming be European in origin. This directive, which mainly affects

7. This expression seems to have originated with then–Vice President Willi de Clerq, who was denying what Europe will become.

TV films as far as international trade is concerned, raises at least three issues. First, it speaks of "European" programming, not merely EC in origin. Thus it seems to discriminate in favor of Swedish or Yugoslav or even Russian programs relative to American or Japanese or Brazilian programs, a violation of the nondiscriminatory provisions of GATT insofar as films are considered merchandise trade. Second, it could curtail sales of U.S. (and other non-European) programs to member countries that now permit levels of foreign programming enough higher than 51 percent to compensate for those (for example, Britain, Italy, France, and Spain) that are well below 51 percent. That is a factual question. Conceivably the new directive is actually liberalizing for non-European films, insofar as the average for Europe is now held to well below 51 percent in practice. But of course even if the directive were liberalizing in its effect, foreign film producers would prefer no restriction: U.S. producers earn about $1.8 billion a year in sale or lease of films, TV, and home video to the EC, although only TV broadcasting would be directly affected by the directive.

Third, the directive is ostensibly motivated by a desire to preserve and encourage European "culture." But what exactly is that? Why does it include Russian but exclude American or Brazilian products? Moreover, U.S. studios make many films within Europe, and European studios film outside of Europe. European studios make "westerns" and other films with non-European themes. Why should these be unrestricted but American-made westerns be restricted? Filmmaking, like many other forms of economic activity, has become so internationalized in practice that a restriction in favor of European programming seems motivated less by cultural considerations than by a desire to protect ailing European studios from foreign competition.The "cultural" motivation seems only a cloak designed to achieve wider appeal.

A second source of new barriers is rules for selling services. Here the Commission aroused concern in the U.S. financial community with its first-draft banking directive, which permitted entry of outside banks only on the basis of "reciprocal" treatment, a term that was not defined. But several European countries allow both unlimited branch banking and universal banking (whereby banks can underwrite securities, sell insurance, and provide the whole range of financial services). U.S. banks are restricted in their activities by the Banking Act of 1933, better known as Glass-Steagall, as well as by state boundaries and state regulations and a host of other limitations. Banks in other countries are also restricted.

While the regulatory environment is changing rapidly in the United States (and in Japan), few Americans are willing to go as far as universal banking, with the implication that, on this definition of reciprocity, U.S. banks would not be allowed to do business in a unified Community (with those banks already established in Europe possibly subject to a grandfather provision that would permit them to stay).

The ruckus created over this issue led the Commission to redefine its position, making clear it did not mean "mirror-image" reciprocity, and indeed dropping the term reciprocity in favor of the equally ambiguous term "comparable market access." In side comments it was made clear that this qualification was aimed at Japan rather than the United States; but the U.S. financial community correctly took no comfort from such oral assurances, which will have been forgotten by 1995. More recently, Community spokesmen have made clear that genuine national treatment—that is, treating European banks in the same way as domestic banks—will meet the requirement.

It should be acknowledged, however, that just while Europe is eliminating its internal barriers it is also involved in a major multilateral trade negotiation, the Uruguay Round, with the United States, Japan, and dozens of other countries. The Europeans quite understandably want to preserve their bargaining position in those negotiations, which are due to conclude in 1990. The Uruguay Round, in fact, can provide a useful forum in which outside countries can make known, and negotiate, their concerns, especially in the various services.

A third source of new barriers is the setting of Community-wide technical, health, safety, and environmental standards. The Emerson study identifies divergent national standards as the most important cost of present arrangements. If borders are to be eliminated for purposes of trade, standards must be effectively harmonized, a process that will often improve trade opportunities for outsiders as well as for Europeans, since a much larger market will be available at common minimum standards. But the standard-setting process could, either by coincidence or by design, work to the disadvantage of outsiders. For instance, a noise limit of 90 decibels has been established, effective in mid-1991, for power lawn mowers. The United States exports to Europe mainly the larger, riding mowers, whose noise typically exceeds this level.[8] The effect will be to reduce U.S. sales of lawn mowers to Europe, or else to

8. U.S. International Trade Commission (1989, pp. 6–24).

force increased costs on U.S. producers for noise reduction (which in this instance would benefit U.S. consumers as well).

A somewhat analogous situation exists with government procurement. As already noted, only an estimated 2 percent of European government procurement is directly imported. The Commission's proposal to put procurement on a Community-wide basis has been agreed to in principle, with some qualifications. While there may be cases in which Community-wide procurement will damage outside exporters who now supply European governments, those purchases are at present so small that they are likely to be counterbalanced by the greater openness in procurement procedures and practices, even under the existing 1979 Government Procurement Code, especially if it is extended in the Uruguay Round. Here the central question is the extent to which government procurement will be formally extended to outside countries as well as members, and that is a matter for negotiation.

Those who have looked closely at the prospects for American business as a result of further integration of European markets find on balance that the results are likely to be beneficial, and that the potentially damaging consequences can be reduced through alert comment on standards or regulations before they get adopted, and in some cases through subsequent negotiation.[9]

Prospects for Success

Will the Community achieve its aim of completing the internal market by the end of 1992? By June 1989 the Commission had put forward proposals under 229 of the 279 headings that make up the total plan. Of these, 121 had been formally adopted, of which over two-thirds concerned plant and animal hygiene, border administration, and technical standards. The most dramatic single directive was perhaps that abolishing controls over capital movements, which commits France and Italy to do so by mid-1990 and the four remaining countries with capital controls, Ireland, Spain, Greece, and Portugal, by later dates.

Since many of the directives, while formally carrying the force of Community law, will nonetheless require national implementing legis-

9. U.S. International Trade Commission (1989); U.S. Council for International Business (1989).

lation, the directives must largely be adopted by the end of 1990 if border controls are to be totally removed by 1993. Many of the directives are essential for this outcome, but some (for example, those on European company law), while an integral part of the program, are not essential for removal of border controls.

Two essential areas remain exceedingly difficult and will probably not be resolved by 1992. The first concerns trade-related, or indirect, tax rates (VAT and excises), and the second concerns the Common Agricultural Policy (CAP).

At present, indirect taxes are levied on the destination principle, which means that taxes of the exporting country are rebated at the border and taxes of the importing country are imposed at the border. If borders are to be eliminated, these border tax adjustments must be eliminated. The "obvious" way to do this is to harmonize tax rates, at least to within a tolerable range, as the Commission has proposed, so that a given product pays roughly the same tax no matter where it is sold in the Community.

The problem is that national tax rates vary greatly, ranging from zero (on food and children's clothing) in Britain to a 25 percent basic rate in Ireland. The national dependence on indirect taxes as a source of revenue varies too, from 19 percent in Belgium to 35 percent in Denmark (see table 2). Harmonizing tax rates would create windfall revenues for countries such as Spain and Germany, which could respond by reducing income taxes, but it would create significant losses of revenue for countries such as Ireland and Denmark, where it would be much more difficult to restore revenues by raising income tax rates, either because they are already very high or because they are about as high as is enforceable.

An alternative approach would be to shift indirect taxes, at least as far as intra-Community trade is concerned, to an origin basis under which product taxes would be paid in the country of origin. This approach would result in business pressure to reduce tax rates in the high-tax countries, because such taxes put their products at a competitive disadvantage elsewhere in the Community. But as far as the Community is concerned, it would eliminate the need for border tax adjustments on intra-Community trade. Of course, imports from third countries, to which indirect taxes would still apply, would be directed to ports of entry in members with low indirect tax rates, putting further pressure on the high tax rate countries to reduce their rates.

Table 2. Indirect Taxes in the European Community, 1987
Percent

Country	*Principal tax rates*	*Indirect taxes as a share of total revenue*	*Indirect taxes as a share of GDP*
Belgium[a]	19	19	8
Denmark	22	35	15
France	19	25[b]	10[b]
West Germany	14	21	9
Greece[c]	18	33	12
Ireland[a]	25	29	12
Italy	18	20	7
Luxembourg[c]	12	20	8
Netherlands	20	21	11
Portugal	16	28	12
Spain[a]	12	23	7
United Kingdom[a]	15	28	11

Sources: Principal tax rates from Lee and Smith (1988, p. 33). Indirect taxes as a share of total revenue and GDP from International Monetary Fund (1988a and 1988b).
a. 1986.
b. Excludes local government.
c. 1985.

An analogous problem exists with agricultural trade. Under the Common Agricultural Policy, minimum price support levels are set annually, usually in April, in ECU, the European currency unit. But European national currency values fluctuate relative to the ECU. For currencies in the exchange rate arrangements of the European Monetary System these fluctuations are limited, but on occasions, eleven in all between the inception of the EMS in 1979 and early 1987, central rates have been changed. These exchange rate movements imply that minimum farm prices when measured in national currency also should move. But the tolerance of the farmers and their political supporters for reductions in farm prices is distinctly limited. Therefore local currency prices frequently have not been adjusted in response to changes in exchange rates. This result has been accomplished by establishing a set of separate exchange rates, so-called green rates, for agricultural products. To avoid the arbitrage possibilities that would otherwise occur, this system of dual exchange rates requires "monetary compensation adjustments" (MCAs) at internal borders on intra-Community agricultural trade.

With completion of the internal market, the entire system of green rates and MCAs must be dismantled, which can be done only by moving to fixed exchange rates within the Community, with its implications for monetary policy—an important topic not taken up here—or else by persuading farmers to accept a decline in local currency support prices whenever the local currency appreciates against the ECU. The first course represents a significant political as well as technical challenge; the second represents a formidable and possibly insurmountable political challenge. Even if this problem can be solved, the issue of eliminating the current MCAs must be faced. Very likely that will be accomplished by raising agricultural support prices throughout the Community to the highest level, which is where, at market exchange rates, agricultural prices are the highest. Thus European agriculture, already heavily protected, will probably receive a further increase in protection as a result of completing the internal market, with negative effects on agricultural suppliers elsewhere in the world. The Community may hope to finesse the problem of agricultural trade by setting agricultural prices hereafter in German marks rather than in ECU. On the assumption that no other member currency will appreciate against the mark, this approach will assure that local currency support prices will not decline as a result of changes in exchange rates. But that would be a gamble on future exchange rates.

These are the two most formidable obstacles to eliminating Europe's commercial borders (leaving aside Prime Minister Thatcher's insistence that some border controls must be preserved for reasons of public safety). A few other problems have received little attention. First, for purposes of trade West Germany treats East Germany as part of Germany, admitting its goods free of duty. Such goods must now pay duty when they are transshipped to other members of the Community. This practice must cease in a Europe without borders; either East Germany becomes a de facto member of the Community as far as its exports are concerned, or some administrative means must be found to limit transshipment. (It is taken for granted and accepted throughout Europe that West Germany's practice cannot be changed, for political reasons.)

Second, among current members of the Community, Ireland is not a member of the Coordinating Committee for Multilateral Export Controls (COCOM), the officially nonexistent agency that lays down rules limiting sales of militarily significant products and technology to the Soviet Union and its allies. Despite its neutral status, Ireland would have to become a de facto member of COCOM, and enforce its rules, in a Europe without borders unless its members are willing to abandon strategic export controls altogether, which is unlikely.

Third, elimination of borders will eliminate the current sources of statistics on intra-Community trade. A totally new system for estimating trade flows will have to be devised, or else countries will have to learn to live without national trade statistics, just as states within the United States do. Some observers would even see this loss as a positive contribution of the program.

Private Sector Response

Whether or not European authorities meet their ambitious objective, the prospect of a big reduction in impediments to intra-European trade in goods and especially services is being taken seriously by the private sector, including state-owned enterprises. Both European and non-European firms have addressed the possible changes, and have positioned themselves to take advantage of new opportunities and to fend off stronger competition that, as the Emerson estimates suggest, may have a potent effect on European business in the future. As table 3 shows, mergers and acquisitions within Europe, already rising before the White Paper of 1985, have continued to increase. American direct investment in the Community, which stagnated in the early 1980s, has proceeded strongly since 1985. Japanese direct investment in Europe has also grown sharply, although perhaps not specifically as a result of Europe 1992, since Japanese investment has grown rapidly in the United States as well.

Business managers are not obliged to sort out their motivations for particular actions, as analysts would like, so we do not know to what extent this foreign investment is defensive in nature, designed to gain entrance to the Community before new, stiffer rules on entry are promulgated, and to what extent the investment is motivated by new opportunities foreseen for market development within Europe, including a liberalization of government procurement. But in either case the business community is taking seriously the further integration of the European market, both in its own actions and in its support for the Commission's efforts.

Table 3. Private Market Activity in the European Community, 1983–88[a]
Billions of dollars except as noted

Year	*Number of mergers and acquisitions*	*U.S. direct investment*	*Japanese direct investment*
1983	117	−0.7	0.9
1984	155	0.0	1.7
1985	208	11.8	1.9
1986	226	12.8	3.3
1987	303	18.9	6.3
1988	383	4.4	8.3

Sources: U.S. and Japanese direct investment from U.S. Department of Commerce, *Survey of Current Business* (June 1989 and earlier issues), table 10, and MITI news releases, respectively. Mergers and acquisitions from Commission of the European Communities (1989b).
a. Figures for 1983–85 refer to the Community before the entry of Spain and Portugal. Figures for 1986 and later include Spain and Portugal.

Conclusions

The European program for 1992 is best thought of as a process, with the 1992 deadline being used as a forcing device, a frequent practice in Community affairs. A best guess is that Europe will not be without internal borders in early 1993, mainly because of the intransigence of the tax problem, but that intra-European trade will be substantially freer, and intra-European competition a lot keener, than it is now, especially in the field of financial services. The evolution toward a Europe without borders will open up many issues that were previously settled, and the process of so doing creates uncertainty where heretofore the ground rules, however disagreeable, were understood. The uncertainty is over whether firms will lose or improve their position.

For outsiders, the process on balance is likely to be liberalizing, except in the field of agriculture, for the simple reason that building a "fortress" is not in Europe's interest. It has a great stake in a liberal trading world, has profited greatly from it, and is likely to contribute further to it.

There are certainly strong protectionist pressures within Europe, partly ideological and traditional, as in France, Italy, and Spain, and partly simply self-interested, as can be found in firms, industries, and labor unions everywhere. Pressures will be strong to confine the benefits to European firms, and even to European-owned European firms. The pressures will be especially strong with respect to government procurement, where they can be avoided only by opening procurement to all, promulgating clear guidelines for tenders, and being willing to punish officials who violate the procedure—something that is difficult to imagine several European governments doing.

Important Brussels officials, however, seem to have a genuine commitment to enhanced competition. The problem for outsiders does not lie so much in the general thrust of Community policy as in the thousands of technical decisions that will have to be made to implement the policy. Interested parties will have to be vigilant and to express concerns early about decisions that either by design or by coincidence will put outsiders at a disadvantage. That has been happening, as several extensive reports by American trade associations testify. In that respect expressions of concern about "fortress Europe" are simply part of the process.