I have thus reached the end of my sketchy survey of the interplay between politics and economics in the development of, and the debate on, European monetary integration. I do not feel that I should attempt to draw conclusions. Except perhaps one, I am skeptical about the fruitfulness of an explicitly interdisciplinary approach. But I am fully convinced that political factors and implications are too often neglected in the economic analysis of some phenomena — just as economic constraints and implications are too often neglected by political scientists and historians. The latter would be advised to monitor closely the current debate on European integration, as an interesting example of a mixture between economic, political, and ideological arguments. As for economists, it is their task to uncover the relevant relationships between variables by means of rigorous models. But their analysis will be all the more useful if they recognize that the quest for "the primitive object" is doomed to failure when the political feedbacks on economic regimes are strong: in such cases there is no economic model good for all seasons and each season will require its appropriate model.

Roma

LUIGI SPAVEN'TA

The Economic Dimensions of the New European Balances

1. At the roots of Europe

For the past forty-five years European boundaries and balances had always been an unquestioned and unquestionable reality. None of the conflicts that took place in Africa, Asia and Latin America during the past decades have occurred in Europe, where the West and the East lived in a separate and autonomous manner under the intimidation of a dramatically potential threat which, however, has never taken the form of a change in the boundaries so rigidly set by the major powers.

As a consequence of this, there were two centers of balance in Europe: one on this side of the Elba River and one on the other side, with the Berlin wall underscoring the desire to keep the two worlds separate.

When we shift our focus from political to economic issues, the analogies and symmetries between East and West disappear and we move into the realm of competition and diversity between the systems.

However, great indeed have been the changes within Europe. When Germany was born, it was in a very weak position but had great potential. When the Common Market began to acquire a certain degree of stability around 1960 we had three countries with a similar degree of strength (Great Britain, France and Germany), one evidently backward country (Italy), and other smaller countries.

Today we have a European structure with Germany in a position of preeminence followed by France, Great Britain, and Italy on practically the same footing.

Focusing our attention on the construction of a new Europe, it
must be observed that for two decades the creation of the Common
Market succeeded in strengthening the national economic structure of
the individual countries.

2. From national policies to the formation of the European oli-
gopoly

Throughout a long phase lasting until the beginning of the
1980s, the opening of the European markets made major develop-
ments possible, and yet all the economies were governed with the
focus concentrated on what was happening within the countries
themselves. This was the period of the 'national champions' when
each government's economic policy sought to merge everything that
could be grouped together in national terms.

This is what happened in the automobile industry, chemical
products, metal processing, and the food industry.

During this first generation of the new Europe not a single new
European multinational enterprise was set up. It may seem contra-
dictory, but being strong in one's own country was the most logical
strategy for being strong when the single market became a reality.
The large European multinationals like Unilever, Philips, Royal
Dutch-Shell, Nestlé and Siemens were the offspring of the period
between the two wars or even earlier.

The first generation of European unity provided us with only
one new and large European multinational company: Agfa-Gevaert.
All the other cases of major mergers or alliances, for example, the
unions between Firelli and Dunlop, or Fiat and Citroen, fell short of
success.

These endeavours failed not because of mistakes but because of
the long-standing practice of relations between companies and their
respective national governments, and the permanent reluctance to
derel to any kind of supranational industrial policy.

In the 1980s, however, the wave of globalization of the economy
brought a new element to the scene: the sudden growth of intra-
European mergers and major new protagonists of continental stature.

The season of the large national enterprises seems to be nearing
its end. Almost every industry has already been consolidated inside
the major West European countries. Those industries which were not
involved in the concentration process of the sixties have been part of
the consolidations of the last decade.

Few countries (Italy foremost among them) have taken no action
in the sixties or in the eighties toward the creation of national
champions and as a consequence their industries are now unable to
face changes both in the competition and in responding to the needs
of the single European market.

Because of these changes internal growth is no longer sufficient
(the 1960s national champions are not assured a primary role in the
new European oligopoly). Therefore what has begun is a frantic wave
of mergers which has led the European economy to a higher degree of
concentration.

3. Mergers and consolidations in the 1980s

The consolidation process begun in Europe at the beginning of
the eighties was very much like the one which had laid the
groundwork for the unification of the American economy at the
beginning of this century.

Between 1982 and 1988 firms in the EEC became involved in an
impressive and ever-increasing number of company acquisition and
merger operations. In particular over the last three years, these
operations have increased by 110% over the preceding three-year
period.

Furthermore, the process seems to be increasing in intensity and
now involves all the most important areas of industry and services. In
industries such as mechanical manufacturing, food processing, and
chemicals, and even in banking and insurance, the common strategy
target is now the creation of companies of continental stature able to
be competitive on the international market.

The most successful mergers are between companies whose
operations are in the same area (horizontal mergers) and which,
through international growth, are preparing for a front-line role in
European competition.
The Economic Dimensions of the New European Balances

Table 1

ACQUISITION IN THE EEC IN 1988
(Millions of pounds)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Number</th>
<th>Value</th>
<th>Average value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>39</td>
<td>166.3</td>
<td>8.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>12</td>
<td>260.5</td>
<td>21.7</td>
</tr>
<tr>
<td>France</td>
<td>90</td>
<td>2079.3</td>
<td>23.1</td>
</tr>
<tr>
<td>Germany</td>
<td>49</td>
<td>1987.5</td>
<td>40.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>24</td>
<td>379.3</td>
<td>18.1</td>
</tr>
<tr>
<td>Italy</td>
<td>35</td>
<td>2237.1</td>
<td>66.8</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2</td>
<td>6.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>46</td>
<td>1322.4</td>
<td>33.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>1</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Spain</td>
<td>29</td>
<td>1555.3</td>
<td>46.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1724</td>
<td>35378.8</td>
<td>20.5</td>
</tr>
<tr>
<td>Total</td>
<td>2028</td>
<td>48474</td>
<td>23.9</td>
</tr>
</tbody>
</table>

Source: Acquisition Monthly.

Abandoning national focus has produced unexpected results. In the more mature European industries the 'supernational' dimension is turning into a frame of mind that presupposes something more important than the single European market, and that is the development of a world-wide strategy for research, development, production and finance.

After a period of Euro-sclerosis it seems that people are now awake and on the move. However, the next few years will determine whether 1992 will be an opportunity to compete on equal terms with new protagonists (especially from Asia) or if Europe will use this opportunity to erect a barrier around itself just like the one raised around the bountiful yet fragile agricultural system.

From this viewpoint the European governments do not seem to be able to make up their minds; the authorities in Brussels appear to be equally uncertain. On the one hand the latter are pushing European companies toward a world-wide vision of competition, and on the other hand they are creating artificial barriers as protection against the superior competitiveness of Japan and other Asian countries.1

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1 As a direct effect of this apprehension Japan has increased investments enormously within the EEC over the past few years. At the moment these investments are distributed among the countries in a totally disproportionate manner, from a maximum in the United Kingdom to a practically marginal amount in Italy, Greece and Portugal.

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Table 2

EXPORT AS PERCENTAGE OF GROSS DOMESTIC PRODUCT (1950-1988)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>8.5</td>
<td>10.0</td>
<td>13.5</td>
<td>18.3</td>
<td>17.9</td>
</tr>
<tr>
<td>Germany</td>
<td>15.3</td>
<td>15.8</td>
<td>18.1</td>
<td>23.7</td>
<td>26.7</td>
</tr>
<tr>
<td>Italy</td>
<td>8.2</td>
<td>10.2</td>
<td>14.4</td>
<td>18.7</td>
<td>19.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15.9</td>
<td>13.8</td>
<td>15.0</td>
<td>20.6</td>
<td>18.1</td>
</tr>
<tr>
<td>USA</td>
<td>4.5</td>
<td>4.1</td>
<td>4.1</td>
<td>8.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Japan</td>
<td>9.6</td>
<td>8.1</td>
<td>9.5</td>
<td>12.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>8.6</td>
<td>8.7</td>
<td>10.4</td>
<td>15.6</td>
<td>13.9</td>
</tr>
</tbody>
</table>

Source: OECD.

We realize that a competition as dynamic and violent as that coming from Asia could cause dramatic problems. Yet our own experience should teach us that a higher degree of interdependence between economic systems, evident in the increasing importance of foreign trade in GNP (Table 2), has proven to be the only way in Europe and in Asia (not in Latin America) to maintain constant rates of growth for an unprecedented lapse of time.

Within this large picture of general development and the specific progress of our century, there have nonetheless been changes in the interrelationship of economic forces on which we should be focusing more deeply.

4. Germany's role

If in Europe there is one element guiding this parabola of change, it is Germany's constant economic growth.

We referred earlier to the similarity in size of the German, French, and British economies at the outset of the 1960s. At the end of the eighties the situation is completely different. Nowadays Germany's GDP is in fact well ahead those of other European countries both in absolute and in relative terms.

When we analyse the International role of an economy we must evaluate the trade balance, which the capacity to act and to exercise economic influence abroad clearly determines.
As far as trade balance is concerned, West Germany has both a position and characteristics completely different from those of other European countries. For decades it has gradually been accumulating a surplus which has allowed and continues to allow for a policy of financial expansion and company acquisition in the other European countries as well as in the United States and in the rest of the world.

It is a rather striking feature that while all observers (especially Americans) are devoting their concerns in an alarming way to the Japanese trade surplus (mostly because it is concentrated on the United States), in 1989 the German trade surplus has surpassed the Japanese both because the latter has been reducing during the last months and because of the increase in the German export.2

What is also of particular interest is the geographical breakdown of the German trade balance. As Table 3 clearly shows, from 1985 German trade surplus has been increasing particularly in the EEC (in 1983 44% of the surplus was generated in the EEC, while in 1988 the same percentage was 62.5%), whereas it has been decreasing in the USA.

<table>
<thead>
<tr>
<th>Table 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>GERMAN TRADE BALANCE, GEOGRAPHICAL BREAKDOWN (1983-1988)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>14.7</td>
<td>13.2</td>
<td>16.1</td>
<td>18.2</td>
</tr>
<tr>
<td>Italy</td>
<td>4.6</td>
<td>4.8</td>
<td>6.9</td>
<td>11.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.8</td>
<td>4.8</td>
<td>17.2</td>
<td>22.4</td>
</tr>
<tr>
<td>EEC</td>
<td>31.6</td>
<td>31.4</td>
<td>62.3</td>
<td>86.8</td>
</tr>
<tr>
<td>USA</td>
<td>23.2</td>
<td>28.3</td>
<td>24.5</td>
<td>16.6</td>
</tr>
<tr>
<td>Japan</td>
<td>-12.8</td>
<td>-13.3</td>
<td>-14.7</td>
<td>-15.3</td>
</tr>
<tr>
<td>OPEC</td>
<td>-1.9</td>
<td>4.7</td>
<td>5.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Others</td>
<td>35.3</td>
<td>43.9</td>
<td>42.6</td>
<td>41.1</td>
</tr>
<tr>
<td>Trade surplus</td>
<td>73.6</td>
<td>112.6</td>
<td>117.1</td>
<td>128.0</td>
</tr>
</tbody>
</table>

Source: Deutsche Bundesbank.

2 This comparative analysis appears more extraordinary when we consider the market population difference between Japan and Germany: Japan has 125 million inhabitants whereas West Germany has 62 million. In 1988 there was approximately an $80 surplus in the trade balance for each German citizen, compared with approximately a $60 for each Japanese citizen.

All of this is taking place under the thrust of an industrial organization and a technology which move at a very swift pace of investment and innovation. In addition, German industry is based on a labour force with a level of formal education among the highest in the world especially in the applied technologies that alternate (according to a tradition with roots in the distant past) periods of classroom learning with on-the-job training in a way that is meticulous, technically valid, and very promising for the career development of youth, thereby representing a valid alternative to university studies.

Therefore, productivity is based on the enhancement of all the human resources and on research and development expenditures, among the highest in the world (Table 4), while the average number of hours worked weekly has decreased to a level now below the average of other European countries.

<table>
<thead>
<tr>
<th>Table 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESEARCH AND DEVELOPMENT EXPENDITURE 1980-1988 (% of GDP)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries</th>
<th>1980</th>
<th>1985</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>2.0</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Germany</td>
<td>2.4</td>
<td>2.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Italy</td>
<td>1.1</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Japan</td>
<td>2.3</td>
<td>2.8</td>
<td>2.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.4</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>USA</td>
<td>2.4</td>
<td>2.4</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: OECD.

In a world where everyone lauds the post-industrial society and the service sector, the German and the Japanese examples demonstrate how the most extraordinary performance levels are attained by countries that have maintained a strong manufacturing tradition which enables them to absorb the modern technological and organizational innovations through a structure of industrial relations with well-proven features of collaboration.

Therefore, we should not be surprised if over the last ten years the pace maintained by German companies in the acquisition of foreign firms has reached unprecedented dimensions.

These acquisitions have covered the entire range of production sectors and have swept from the European Common Market to the United States and other countries.
Firmly backed by their own liquidity position and by high profit levels, German companies seem to focus their acquisition strategy abroad on getting an increased share of the market and not so much on short- or medium-term returns on acquisition investments.

This, too, is a lesson worthy of consideration, especially when the entire Western countries (Germany and Japan being the only exceptions) seems increasingly influenced by the companies' short-term performance. As a matter of fact, a company's quarterly balance sheet has become quite literally an obsession that conditions all forms of company behaviour.  

On the one hand the external growth of German firms is simply the way in which competition today takes places; on the other hand, however (and this is where the asymmetries come in), it is the result of the diversity in the ownership and institutional structures which enable the German industrial system to remain relatively closed to foreign investors (Table 5).

In fact, the ownership structure of the large German companies depends to a very marginal extent upon movements on the financial markets. Its essential point of reference lies in a delicate balance between foundations, institutions linked to company employees, and public agencies, all of which are coordinated by the all-powerful and ubiquitous presence of the large banks (first and foremost, the Deutsche Bank – Table 6).

In other words, while almost all of the large British companies and the majority of those in France and Italy are the easy prey of foreign investors, the ownership structure of German industry makes it practically impossible for foreign investors to launch hostile takeovers of large German firms.

This lopsidedness is most certainly not due to differences in legislation (as is the case in Switzerland or Sweden, where there are legal limits and constraints on the purchase of stocks and shares by foreigners) and even less to an expression of an anti-Europe attitude on the part of Germany.
5. The asymmetries of systems

Germany does have deeply rooted open-market traditions and highly regards European institutions. The real crux of the matter is a profound difference in ownership structures inherited from the past. The industrialization in Germany, contrary to what happened in Great Britain, was characterized by the development of industries in which the start-up capital requirement was very high; so high, in fact, that without turning to the banking system, nobody could have borne the cost of going into business.

It was precisely the close interrelationship between the banking sector and industry which allowed the early accumulation of resources that now acts as the main obstacle to capital inflow in Germany in the form of take-overs.4

This institutional diversity is so deeply grounded that, by way of a somewhat alarming paradox, if someone wanted to launch a hostile take-over bid against a large German company, that potential raider would have to buy the entire country, due to the existing relations between shareholders: the large banks, the big companies and the major foundations.

As a consequence of this anomaly in the ownership structures the number of German acquisitions of foreign companies4 (with hostile take-overs as well), cannot be matched by the number of foreign acquisitions of German companies. Most of them occur when there is a general consensus, in other words when there is an explicit design of industrial policy.

Now that the process of the recomposition of European companies and the formation of the continental oligopoly are forcing ahead rapidly, this asymmetry can only lead to more problems and increasingly harsh reactions.

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4 This model has been imitated especially in the Japanese economy to which it was transmitted at the end of the last century.

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6. Reflections on recent events

Recent events impel us to reconsider a problem which in the past has been the domain of scholars: the issue of economic relations between East and West Germany.

On the one hand, there are numerous exceptions to the EEC rules concerning trade between the two Germanies, especially where a western outlet is provided for eastern products. On the other hand, a close-knit network of economic relations and technological exchanges has been maintained between the two countries. Therefore, in terms of the degree of knowledge between the two systems, there is no comparison with respect to the other eastern or western countries. This special door has also opened the way to an indirect flow of goods toward all the EEC markets, and this flow makes East Germany a unique case in this sense as well.

In no way are the actual figures comparable to those of the intra-Community market, and yet they are of such a degree as to prepare the way for a process of economic integration fostered by the same language, common educational traditions, and cultural affinity. By way of example, over the past few months and even during the days of maximum influx, refugees from the East found easy possibilities of employment, most of the time within a few hours, in the hundreds of companies and in all the regions of West Germany.
Certainly, whenever the isolation of the market has played a determinant role (as in the case of the automobile industry), the difference in the degree of productivity and organizational models between the companies in the two countries is striking to say the least. However, in certain cases (e.g. the comparison between Zeiss of Jena and Zeiss located in West Germany), potential synergies may be exploited in a short period of time.

Even without considering these potential developments, often difficult to evaluate, the summing up of the economies of the two Germanies in the next future equals the sum of the economies of France and Great Britain, or France and Italy.

In fact, the two economies are complementary; capital and technology abound in the West, while there is a surplus of specialized and low-cost manpower in the East. Nor should we forget that 17 million new consumers can give life to a new period of rapid economic development, very similar to what happened during the westward wave of emigration after the Second World War.\(^4\)

The long-term advantages for both countries are so evident that they could be used as clear examples in first-year economics textbook. However, the obstacles along the path of full integration between the two countries are very great, especially if we consider the need to dismantle the ever-present bureaucratic structure now controlling every move to restructure the economy in the German Democratic Republic.

\(^4\) There are already forms of collaboration between companies in West Germany and East Germany. In the East, Volkswagen makes engines, ARK produces locomotives, and Schlumberger manufactures shoes, while numerous other ventures are about to begin and involve Thysen, Mercedes and all the most important West German companies.

For a few weeks we had the impression that the German unification could provide the opportunity to enter into the German market. There are now more doubts that East Germany could be used as the "back door" for this purpose. In fact (as is from many points of view quite understandable) the decisive degree of preference for cooperation is mostly given to German companies.

7. Possible scenarios

The most probable scenario involves a substantial and increasing flow of investments into East Germany with the employment of specialized manpower whose salaries are well below western levels.

German companies are already decentralizing sometimes the total and sometimes a part of lower value-added production activities either in the lower labour cost EEC countries or in countries outside the EEC like Turkey and Egypt.

There is no doubt that this flow of investments will be detoured towards East Germany, thereby creating problems not only for the outlying economies of the EEC and Turkey, but also for Poland and Hungary which, after the recent economic reforms, thought they would be receiving an increased flow of investments from West Germany.

Nonetheless, these changes should not cause a higher rate of unemployment in the weaker EEC countries since it is likely that a sort of spillover effect can occur. In fact the unified German economy will generate a higher growth rate in all the countries, at least offsetting the effect of the increase in the supply of labour brought about by East Germany.

Quite naturally, it is more difficult to forecast the consequences of a possible generalized liberation of manpower inflow from all the East European countries, but some hypotheses could be drawn.

However, the present uncertain nature of the situation compels us to be very cautious. We cannot say if and in which cases the East European workers could replace Third World manpower now flowing into the Common Market countries or if they will compete with the potential supply of manpower produced by citizens of the EEC countries themselves.
Not can we refrain from focusing attention on the most serious risk facing Europe as a result of the dramatic economic and political situation on the African shore of the Mediterranean. There is a very real risk that these new events will distract our attention from those tragic situations. Such an error would have enormous negative effects, especially for the European countries bordering on the Mediterranean.

While such events in the West and East generate within us new hopes for peace and renewed prospects for development, they obviously give rise to anxiety and apprehension.

8. The parallel anxieties

Just as we have seen the flourishing of parallel hopes, in the same way we can say that there is an evident sudden surfacing of two parallel anxieties, one from Eastern Europe and the other one from Western Europe.

In the Soviet Union the problem of economic restructuring and the link with western economies has taken on dramatic proportions over the recent past.

What has begun is a desperate race against time in the awareness that if a valid response to the western challenge is not forthcoming in the near future, it will be impossible to avoid the disintegration of the empire due to the existence of centrifugal elements within the Soviet Union as well as between the other Eastern countries.

In brief, 'prestroika' cannot resist the combined attack of the wave of nationalism in various republics and the persistent lack of consumer goods in stores.

This anxiety calls for an active assistance on the part of the Western countries since it is impossible for us to proceed towards a unified Europe when half of those who live on the premises are in a state of despair.

Recognition of this anxiety has brought about a change in attitude towards the new Soviet policy, first of all in the European governments and finally in the United States of America.

The acceptance of a mutual reduction in military spending, the attenuation of numerous earlier conflicts, the proliferation of dialogue at all levels, and the intensification of economic and financial relations indicate the extent to which the United States of America (after the European governments) has understood the need of a positive response to this anxiety.

We still do not know what forms this answer will take (even though we know that it will have to be different for the Soviet Union and for the other East European countries), but we are firmly convinced that its extent and direction will condition our future peace and well-being.

Equally acute, however, is the anxiety of the Western world.

Here the dominating factor is haste; a different yet just as decisive haste. In effect, we are afraid that the speed of the described events may undermine collaboration and solidarity which have been the foundation for forty years of peace and economic development.

Therefore, Europe must bolster its own economic and political institutions before the aforementioned changes and forthcoming economic unification of Germany make its policy once again autonomous with respect to other European countries, thereby reawakening old fears and old phantoms.

The 'German issue', just like all apprehensive phenomena, is a complex blend of rational and irrational elements. Even if the irrational aspects are set aside (e.g. neither Bismarck nor Hitler are at the door), what seems to have surfaced recently among German political leaders and entrepreneurs is an awareness of Germany's new strength. In some cases (e.g. in military policy and in the establishment of a central European bank), this acquire the nature of a weakening of earlier forms of pro-European solidarity and the emergence of more autonomous and independent positions.

This is the reason why it is necessary to construct Europe in haste. However, it is difficult to find a response to this need in Europe when France seems to be the only country able to react promptly and positively to changing circumstances. In fact, Great Britain is not yet ready to absorb the supranational innovations of Europe, and Italy is paralysed by the permanent crisis of its decision-making structures.

It is now a common view in the EEC that the real elaboration of a policy by Italy is an objective both rare and difficult to achieve, and that the recomposition of decision-making power within our political system is so far away in the future that no one can really count on Italy to come up with a rapid and effective response to the economic and political changes of the recent past.
In this context of tumultuous events no one is prepared any longer to deal with the hesitancy of anyone who is unable to keep up with history. Therefore, Western Europe's anxiety is destined to grow as we approach the main choices relative to strengthening the European institutions and to a common attitude towards the East European countries. These choices have to be made before West German hesitation undergoes a transformation from the present slight defect of parallel vision to pathological cross-sightedness with one eye looking westward and the other one staring eastward at new developments.

If Europe is unable to face these new problems as a unit, then this anxiety will increase to the point of causing general paralysis. Both in the East and in the West, therefore, we have great and positive events that we have awaited for decades but for which we were completely unprepared (since everything happened so quickly).

A positive reaction to these events seems not only opportune but, in the long term, absolutely necessary.

The creation of a market of 700 million people from the Atlantic to the Urals and of close to 1 billion people if we include the United States (our integration with America is deep and definitive) is the condition for accepting the challenge coming from Asia with some degree of success.

This unity cannot be created in a Europe with eleven different currencies, with divergent institutions, and with social rules differing from one country to another. Only the arduous yet stimulating acceptance of this type of challenge will be able to bring Europe, a rich and happy continent, another generation of development like the one our fathers guaranteed us with the creation of the European Economic Community.

_Bologna_  
Romano Prodi

The Mezzogiorno* and the Single European Market: Complementary or Conflicting Aims?**

1. Introduction

The 'eighties will be remembered as the time when Italy became definitely aware of its due role in the gathering of nations and of the responsibilities flowing from that role, as is borne out by Italy's admission to the Finance Ministers Group of the most highly industrialized countries and the marked increase in its aid to developing countries, which has risen to 4,400 billion lire a year. Despite the notable successes achieved, especially by Italian firms, the economy continues to be plagued by serious problems. In addition to that of public finance, in which large deficits have generated a public debt which is now close to the level of the GDP, the old disequilibrium is still with us — the backwardness of the Mezzogiorno, an area of Italy with over 35% of the total population. Although there have been ups and downs, the gravity of the situation remains unchanged (Giannola 1987; Table 1).

Geographical disequilibria and their characteristics in Italy are deeply rooted in history. However, given forty years of extraordinary intervention to aid the South, it is in some ways surprising that the structural dualism of the Italian economy has remained broadly similar to that of the Community as a whole. The regional development gap is usually measured by the ratio of per capita income in

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* In the English version, "Mezzogiorno" and "the South" refer to the South of Italy.
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