

PART II: GENERAL OVERVIEW

4. CONSEQUENCES OF EUROPE 1992 IN THE EC

4.1 Macroeconomic Effects

Studies conducted by the Commission of the EC, known as "The Costs of Non-Europe" or the "Cecchini Report," predict four principal types of effects from the creation of a truly integrated internal European market:

- (i) a significant reduction in costs due to a better exploitation of several kinds of economies of scale associated with the size of production units and enterprises;
- (ii) an improved efficiency in enterprises, a rationalization of industrial structures and a setting of prices closer to costs of production, all resulting from more competitive markets;
- (iii) adjustments between industries on the basis of a fuller play of comparative advantages in an integrated market;
- (iv) a flow of innovations, new processes and new products, stimulated by the dynamics of the internal market.⁷

According to these studies, Europe 1992 should result in a medium-term cumulative reduction of consumption prices of about 6 per cent and in additional GDP growth of 4.5 per cent.⁸ Moreover, all other factors remaining constant, intra-Community trade should be stimulated at the expense of extra-Community trade.⁹ In addition, if the process is accompanied by coordinated macroeconomic policies by the various Member States, then additional GDP growth could be in the order of 7 per cent while the reduction of relative prices would be no more than 4.5 per cent.

It is impossible to compare these estimates to reality because the process is still in progress, and because it is methodologically impossible to determine which elements of the current macroeconomic evolution would be due to Europe 1992 and which would be due to other factors such as the improvement of the international economic environment or the results of structural programs by European countries since the early 1980s. However, it can be observed that, since 1986, the EC has generally experienced a revival. These trends will probably continue for the next two to three years, despite the net slowdown of the North American economy. The anticipations of directors of companies are generally positive.¹⁰

It would be quite misleading to attribute the end of "Euro-pessimism" solely to Europe 1992. The fact remains, however, that Europe 1992 has definitely been a significant impetus, especially with regard to investment. Moreover, Europe 1992 can explain in part why European prospects remain favourable while the North American economic environment is deteriorating. According to several analysts, the Cecchini Report may have been too conservative, underestimating the positive effects of Europe 1992.

In view of these studies and current observations, three macroeconomic observations can be made:

Greater Growth

Stimulated by Europe 1992, the EC is experiencing and will continue to experience for the next five years relatively sustained growth superior to that of the North American economy. Thus, the Community will be a more appealing market than it has been since the early 1980s.