THE EUROPEAN ECONOMY IN THE 1990s

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To the International Conference on Europe 1992
The Georgia Institute of Technology
October 17, 1990

Good morning! It is a pleasure and an honor to open this conference on Europe 1992 and its implications for growing U.S. companies. I think that the changes in store for the European economy in the decade ahead hold unique opportunities for U.S. small- to medium-sized firms. In order to capitalize on developments in the European Community (EC), though, you will need to work in relatively unfamiliar surroundings. This gathering is designed to describe the evolving European market and acquaint you with the particulars of doing business there. To set the context for the full agenda of topics ahead, I will begin with a brief outlook for the European economy in the 1990s. Then I will give you an overview of some of the issues involved in European economic integration.

Economic Outlook for Europe

Let me start with my outlook for Western Europe, where I look for growth at a 3 to 4 percent rate on average during the coming decade. I have three reasons for this positive view: first, the cost savings in production that will result from structural changes in the EC market and that will eventually be passed on to consumers; second, the rapid globalization of markets that should boost European growth along with that of other market participants; and, third, export and investment opportunities in the formerly communist nations of Eastern Europe and the Soviet Union.

The first source of European expansion I would like to discuss is the lowering of remaining restrictions on the movement of goods and services within the European Community after 1992. Direct savings will occur from the elimination of existing barriers to the free movement of goods, services, labor, and capital among the 12 EC countries. In 1986, an influential European study estimated that were these protectionist measures removed total EC output could be increased by as much as 6 1/2 percent of its combined gross domestic product each year. The elimination of such restrictions should also foster more competition across and within borders, spurring more efficient production. Moreover, we will likely see more merger and acquisition activity in numerous industries, suggesting new economies of scope and scale for European firms.

The progress Europeans are making toward economic integration is one part of a larger movement that promises to further economic growth in Europe and around the world. That is the strong trend toward the melding of all individual markets into a unified global market for goods and services. Numerous countries that had earlier limited their international commerce--like the formerly communist nations of Europe--now seek to enhance their trading relationships. Nor should we underestimate the importance of changes taking place in Latin America. In contrast to the military-backed dictators of the recent past, the region's national leaders are now mostly elected. Moreover, they are pressing forward with sweeping economic reforms. In terms of the expanding global market, these efforts of our neighbors to the south are at least as significant as the better publicized collapse of communism in Eastern Europe.

The addition of Latin America, Eastern Europe, and, some day, China and other developing countries to the international economy implies a growing pool of end users for the goods and services of producers in all countries willing to compete in the global market. This broadening base of worldwide consumption should provide new impetus to the economies of all market participants.

The pace of expansion in individual countries is likely to vary, however, depending where they stand along the spectrum of development. Growth in some developing economies could be quite brisk as they rebuild infrastructure that has suffered from years of neglect and as they develop consumer industries to satisfy pent-up demand. I have already indicated my expectation for strong European growth, and Pacific Rim nations like Japan, Taiwan, and Korea might perform even somewhat better than Europe. In the United States, I think we will experience more moderate growth on average than in the past. This is because a degree of saturation seems to have taken hold here. As the demand for first-time purchases of homes and automobiles ebbs among the "baby boom" generation in this country, for example, the U.S. housing and auto industries have already felt the effects of the kind of satiation to which I refer.

Finally, certain EC countries--Germany in particular--could show higher rates of growth resulting from their investments in Eastern Europe and the Soviet Union. However, the Eastern European countries' contributions to the growth of the West European economy are likely to be uneven at best. For one thing, the formerly communist nations have yet to resolve how they will make their currencies convertible and evolve functioning markets for financial capital, labor, and consumer and capital goods. In addition, their future business leaders have much to learn about doing business in a capitalistic manner. Hopefully, joint ventures with established industries from outside can speed up the learning process. As the process of making these kinds of structural and conceptual changes proceeds over the next several years, though, economic disruptions are likely to flare up and fray the patience of people who have already suffered a good deal of privation. Foreign investors, too, may experience setbacks. Thus, the road will be a difficult one. Nonetheless, I am quite hopeful that as the decade wears on, we will see real improvements in many of the economies of Eastern Europe. An economic renaissance there would surely be a boon to the economies that are able to meet potential East European demand.

To sum up the outlook for Western Europe, I expect to see relatively rapid growth propelled by the lowering of barriers between EC countries, the expansion of the global market, and investment opportunities in Eastern Europe and the Soviet Union.

The Lowering of Trade Barriers in Europe

Having noted that I view the lowering of trade barriers as a major source of growth in post-1992 Europe, let me elaborate on this point, which is very much at the heart of Europe's economic restructuring. The 1957 Treaty of Rome set the European Community on the course toward the achievement of a single European market. As a result of that agreement, most tariffs and quotas on goods and services had already been removed by the 1960s. However, in place of these overt forms of protectionism a broad variety of non-tariff barriers arose as loopholes to protect powerful industries in individual countries. These new barriers include differences in product standards across countries, local content and domestic origin rules, and controls and taxes imposed at national borders. State subsidies are another such impediment to free trade, as are government procurement programs.

Amendments to the Treaty of Rome adopted in 1985 deal with these non-tariff barriers through the principle of "mutual recognition." Under this principle, each nation must freely admit products meeting the legal standards of other member states even if its own standards differ by 1992. In addition, by the end of 1992, all border check posts will be removed, and many technical standards will be harmonized or eliminated. These steps will finally create a unified market encompassing a population roughly one-third larger than the United States with a gross national product approximately equal to ours.

Such a development could benefit U.S. producers along with European companies. The large European market should be more compatible with the kind of retailing to which we are accustomed here. Our industries are geared toward large manufacturing runs that supply products to nationwide retail outlets and distributors with numerous local accounts. It seems likely that post-1992 Europe will tend toward a similar market structure, and this shift should prove advantageous to U.S. producers.

However, many details remain to be worked out before full global integration can be achieved. One of these is a final decision on how the exports of non-EC countries will be treated. Moreover, there is still substantial disagreement among EC members regarding the possibility of a monetary union to standardize member nations' currency. Resolution of this issue is not essential for achieving the liberalized trading environment we anticipate in 1992. Indeed, it might be accomplished more easily a bit later, as a logical consequence of free trade in Europe. However, the sharp rhetoric we have heard certain European officials use in reference to the monetary question recently shows that there are still areas of disagreement.

Other frictions may emerge in member countries like Spain, Portugal, and Greece, whose economies are not as highly developed as those of Germany and France. These countries may not participate as fully in the short-term gains of an economically integrated Europe. Over time they may also feel some antagonism toward efforts of their stronger partners to develop Eastern Europe. On balance, though, I feel that there is already considerable momentum favoring resolution of these and other details involved in forging a unified European economy.

Conclusion

In conclusion, I look for a relatively strong performance from the European economy in the 1990s. One of the primary reasons for this outlook is the European Community's market unification that will take place in 1992. Another is the continuing expansion of the worldwide market for goods and services in which a unified Europe should play a major role. Your presence here suggests that growing U.S. companies are willing to make a commitment to understanding and adapting to the demands of doing business in this new world economic order. I encourage you to continue seeking ways to seize the initiative in Europe and in other parts of the emerging global market.