
Manuscript 1121

Europe 1992 and the American Economy: A Project to Strengthen International Economics at Ohio Wesleyan University

Norman J. Gharrity

Alice E. Simon

Uwe J. Woltemade

Europe 1992 and the American Economy:
A Project to Strengthen International Economics at
Ohio Wesleyan University

Norman J. Gharrity, Alice E. Simon, Uwe J. Woltemade

Ohio Wesleyan University

The Economics Department of Ohio Wesleyan is an interdisciplinary one with four majors and a staff with three distinct backgrounds. The majors are Economics, Accounting, Economics with a Management Concentration, and International Business. While most of the staff are Ph.D. economists, two are CPAs and one is an MBA with a JD. In addition, faculty in several other departments--Politics and Government, Sociology, History, and Philosophy--contribute to the latter two majors.

In 1985, the Economics Department initiated a Center for Economics and Business to enhance the teaching, learning, research and community service of Ohio Wesleyan, particularly in the majors mentioned above. Its two major foci to date have been ethics and international education. This project is a major effort to increase the international dimension of education at Ohio Wesleyan.

Since the fall of 1989, a group of ten faculty have been learning about the European Community, particularly its recent single market initiative, and its impact on the U.S. economy. The importance of the topic is obvious. This group of countries, taken together, is of an economic size comparable to the United States. The European Community is our major trading partner and the flows in both directions of private direct investment have been increasing rapidly. The study of this topic involve both macroeconomics and microeconomics, both business strategy and accounting practices, both cultural differences and political comparisons. In other words, there are topics of interest to academics in a wide variety of disciplines.

The plan of the project had five parts: First, for a two year period speakers were brought to campus to address faculty and students on various aspects of Europe 1992. These speakers came from government, business, academia and international organizations. This included a professional-in-residence each year.

Second, two senior seminars for students were taught the second year. Each seminar was supervised by one faculty member, with other faculty in the Europe 1992 Study Group giving seminars. Also, visitors to campus addressed the students.

Third, each faculty member pursued an individual research project. These projects were designed to enhance the international dimension of the courses taught by each faculty member. In addition, some of the projects allowed faculty to take existing research in a new direction, or to open a new area for research.

Fourth, a faculty seminar was held each summer; an opportunity for participants to report on their research efforts, exchange ideas and discuss the implications of their work for the curriculum of the department in the future. This was stimulating, given the fact that the disciplines of Economics, Management, Accounting, Politics and Government, Sociology, History and Philosophy were all represented.

Fifth, a faculty study trip to Europe climaxed the program. This group of faculty from Ohio Wesleyan made a well organized trip to London, Brussels, Bonn, Cologne, Dusseldorf, Essen and Berlin where over forty officials from business, labor, national governments, research institutes, and the European Community itself addressed the group in a format that allowed discussion. It was an exciting climax to a very fruitful endeavor.

At the present time, the overall project is winding down. The study trip was completed in early summer, 1991. Individual faculty are now integrating the findings from these sessions abroad with the earlier work done on campus to complete their individual research projects. The final faculty workshop has yet to take place. Fittingly enough, all parts of the effort will be completed in early 1992. A selective summary of the content of this project is presented below.

Speakers and Visiting Professionals

One of the key constituent parts of our "Europe 1992 and the American Economy" project was a series of lectures, seminars, and class visits by off-campus scholars, business persons, and government officials. We took care not only to invite Americans, but to have Europeans on campus as well. Most of these visitors were brought under the auspices of our grant from the Cleveland Foundation with matching funds from Ohio Wesleyan.

In the early stage of our project, in late 1988 and early 1989, we sought to gain a better historical perspective on international trade relations and gain access to resources and contacts for our individual and group projects. We invited the eminent economist Charles Kindleberger, Professor Emeritus of MIT, whose main expertise lies in the area of economic history with an emphasis on international trade theory. Professor Leon Hurwitz from the European Community Studies Association provided us with contacts in this country and Europe. An American professor teaching at INSEAD in France, Professor Landis Gabel, spoke on "Europe 1992 and the Implications for the U.S.," a title congruent with the title of our project. Later we had two German visitors on campus who provided European perspectives. Because our group was interdisciplinary and because we wanted to widen our interests beyond business and economics, we invited Professor Helga Haftendorn, a political scientist from the Free University of Berlin, and Dr. Jens Reich, formerly of the East German Academy of Sciences and the East German Parliament. Haftendorn, while also addressing transatlantic and European economic issues, spoke chiefly on security matters. Reich focussed on German unification and the future agenda for the EC in Eastern Europe.

It should be stated here that we were able to have some of our visitors on campus for several days or even a week. The longer visits were far superior to a lecture-and-leave format as it allowed faculty and students to set up appointments with the guests to discuss individual interests and research projects.

In the second half of our project period, we concentrated on specific areas of group interest and began to prepare for our meetings and conferences in Europe this past May. For example, we chose two particular industries, pharmaceuticals and automobiles, and studied the impact of a single European internal market on them. Officers of major companies operating internationally in these industries came to campus to help us prepare for our visit. We also had considerable interest in transatlantic trade disputes and, during our May trip to Europe, held a relevant seminar at the RWI institute of economic research in Essen and Brussels. To prepare for those meetings with Europeans we invited the Director for International Trade, U.S. Treasury, who spoke to us on "Europe 1992 and U.S. Trade Policy."

The above are only some of the many highlights of the speaker and visiting professionals series. These speakers not only enriched our faculty project but their various presentations added much to project-related seminars for students.

Individual Research Projects and Course Development

In general, the various research interests of the group members focused primarily around the courses that they teach. A brief description of these interests is given below by discipline.

Economics: Within the History of Economic Thought course, the evolution of economic theory from mercantilism to the modern day is studied. In the past, this course had a rather weak international trade theory component. Through the Europe 1992 project, the instructor was able to strengthen that aspect, including much of the rich debate on protectionism versus free trade, and concluding with some notes on the European single market initiative and its external ramifications.

The expansion of the EC has meant the inclusion, in addition to Italy, of Greece, Spain, and Portugal. These additions provide fertile materials for courses in Economic Development and Regional/Urban Economics. In our case, a faculty member has studied the impact of European integration on the Mezzogiorno (southern Italy) and on Andalusia in Spain. In addition, the Ruhr area, an old steel and coal region in prosperous Germany that has modernized successfully, will be studied.

The International Economics course has always discussed issues related to international trade, international factor flows and the activities of businesses operating internationally. The course will now examine in more depth regional economic integration; particularly the development of a unified market and European monetary integration using the EC as the case study.

An expanded section on Business in the European Community has also been added to the Senior Seminar for International Business majors. More current cases of U.S. business operations in Europe as well as European business operations in the U.S. will be added.

At the micro level, of particular interest is the impact that the European community will have on the labor movement. In both the Labor Economics course and a related Senior Seminar on labor issues, a discussion of the impact that increased competition and/or standardization will have on wages, costs of production, apprenticeship training, and labor mobility will be addressed. The impact labor policies will have on each country's income distribution will be discussed in the course on Public Finance.

Another micro issue, consumer demand, is also being studied. A Senior Seminar on Consumer Behavior as well as an expanded international component of the Principles of Economics course will address issues related to homogeneous products, standardization of production, and consumer sovereignty. Issues will include the emergence of "Euro-brands", economies of scale, and cultural diversity.

Economics with a Management Concentration: Courses in management within the Economics Department that will benefit from this faculty development project will include Marketing Management, Financial Management, Entrepreneurship, and a Senior Seminar on Strategic Planning. Within these courses, more emphasis will be given to the globalization of business, restructuring of both American and European firms, long term growth strategies and marketing activities. A new area of interest will be on "business incubators" and how both the public and private sectors can combine their efforts to promote new business ventures at the local and national level. A comparison of such efforts across the EC as compared to the United States will be discussed.

Accounting: International taxation issues and currency valuation will be a new foci of interest for the accounting courses. Specifically, the impact of the intra-continental tax structures and how they either enhance or hinder the conduct of business across the EC and between the EC and the US will be studied. In the Managerial Accounting and Cost Accounting courses, within the section on project decision making and budgeting, the concept of evaluating foreign manufacturing as a cost saving mechanism and deciding which foreign affiliated entities should or should not be counted will be included. Further, in the Advanced Accounting course, topics can now include parent/foreign subsidiary relations and intra-company dealings, currency translation gains and losses as presented in financial statements, consolidations of foreign subsidiaries, purchases and sales of foreign currencies, heading, segment reporting, synergy and valuation for mergers and acquisitions.

Ethics/Philosophy: In conjunction with the Philosophy Department, the Economics Department developed a Business Ethics course over a decade ago. Since that time, and under the auspices of the Center for Economics and Business in the mid-eighties, we have had significant disciplinary (economics) and interdisciplinary study projects on ethics and the curriculum. This

ultimately resulted in a National Colloquium at Ohio Wesleyan on "Ethics, Citizenship and Public Policy" in the fall of 1990. For three years we have also taught an interdisciplinary honors seminar on ethics and public policy where such issues as international competitiveness, product safety, pesticide exports, racism, and nuclear energy have been dealt with. Related to Europe 1992, our key interests have been to learn the Europeans' view of corporate social responsibility and their view of the interaction between the business firms and the government. While much has been happening in the business ethics arena in this country for well over a decade, we know relatively little about what people in other nations have to say or have written in this area. We at Ohio Wesleyan are also working closely with the Council for Ethics in Economics in Columbus, an organization that is holding a major conference on international business ethics in March of 1992.

Politics and Government: Of particular interest in this area is the relationship between the economic construction of the internal market and the development of the effectiveness of European Political Cooperation (EPC). First, the history of the EPC as a component of the European Community was studied. Then a comparison of substantive EPC foreign policy stances with United States stances on the same issues was made. Relationships between the stances were explored. Then the various assessments that are being set forth on the implications for the future of the EPC achieving a more united economic market by January, 1993 were addressed. Lectures on this topic will be incorporated into a course on International Organizations which studies the United Nations and the European Community.

History: The historian of the group is interested in exploring ways in which free-trade or laissez-faire liberals in 19th century Britain perceived their classical economic principles as having applications beyond the realm of trade policy. Free Traders developed a unique strain of political Radicalism in the 19th century which proved to be of enormous importance for a broad range of reform activities. In the course of developing arguments against protectionism they not only drew on classical economic theory, they developed an ideology of free trade with implications for foreign policy, colonial policy, land reform, financial reform, monetary systems, defense strategies, relief of economic distress and governmental reforms along democratic lines of broad political participation. Courses that would benefit directly from such study include a seminar on North Atlantic Relations, with special attention to the evolution of free trade and protectionist obstacles and ideologies and an expanded lecture series in the course Western Civilization and Modern British History. In addition, a special course entitled Topics in British History will include the topic of Free-Trade Liberalism.

Faculty Study Trip

During the Europe 1992 Faculty Study Trip to Europe, a wide variety of high level officials from industry, labor, government, academic research institutes and the European Commission were engaged in discussions of the European Community single market initiative and its impact on European Community member countries, on the U.S. economy and on other parts of the world. Some of the discussions also focused on European monetary union and

the U.S.-European Community negotiations at GATT. In addition, some meetings covered the dramatic events in Germany and Eastern Europe and their implications for European Community.

In London the primary focus of the meetings was on the attitude of British government industry and labor toward the latest major steps to integrate the economies of the European Community countries and to hear from corporate leaders concerning their overall business strategy in the European Community single market. The British have most often questioned major integrative steps. The British government has tended to hesitate to give up its veto power on major issues in a large economic entity dominated by Germany. In our meetings, we were updated on these views. We found, for example, that British business continues to be pro-European Community and that British firms, as those in the U.S., attempt to anticipate future European Community policies and pursue strategies to place themselves well in each major market. However, they also point out the inhibiting local (national) rules that will remain after the internal market is achieved.

We found labor in Britain to be much more sophisticated in their view of the European Community than it was twenty years ago. Labor is concerned about regional differences in the European Community, recognizing that the lower productivity in the United Kingdom, given narrowing dispersion of earnings within European Community countries, leads to increasing problems in competition for jobs. They have a strong interest in the Social Policy of the EC and are attempting to lobby in Brussels as much as at Whitehall.

Two very informative discussions were held with high officials in two major corporations, a U.S. automobile firm with a strong presence in Europe and a major British pharmaceutical firm with a big market-share in the U.S., as well as throughout Europe. The automobile industry is an interesting and important industry to study. The Western European market is approximately as large as the U.S. Two of the largest six firms in the EC market are American. Member states of the EC vary tremendously in the openness of their auto market. A single internal market for automobiles would significantly increase competition, particularly in countries like France and Italy. The American and the European firms both face the increased competition from Japan. The Japanese market share in the EC currently is well below that in the U.S. As they penetrate the European market, the EC faces major decisions, such as whether a Nissan plant in the United Kingdom is considered to be a European firm (as a Ford or GM plant is).

The pharmaceutical industry is also a useful industry to study. For prescription pharmaceuticals, each firm now lobbies at the EC throughout all steps of its legislative process, as well as their own government, to influence legislation that will significantly affect their sales and profits. For example, as in the U.S. with Medicare and Medicaid, governments reimburse firms for drugs supplied to some people. There is a temporary directive in process at the EC with regard to pricing. Also being considered by the EC Commission are patent term restrictions, limitations on advertising and creating the equivalent of an EC Federal Drug Administration.

In Brussels, the primary objective was to hear from members of the European Commission. A total of seven Division or Unit Heads addressed the group. This included the Head of Division for Multilateral Commercial Policies and the Head of Division for Structural Employment Policy and Labor Market. We heard in depth the European Commission position on issues crucial to the United States economy such as the GATT negotiations, the external aspects of the single market program, competition policy within the EC, European monetary union, the Social Charter and the EC view of U.S. government policies (state and local as well as national). Some interesting and useful insights on the tougher issues in dispute between the U.S. and the EC at GATT were discussed. These included agriculture, public procurement, intellectual property and allowable subsidization.

Focusing on the single market program, it is clear that national interests will slow progress toward free trade in goods and services. From the U.S. perspective it is easy to point out obvious areas, as quotas on foreign auto sales in some EC countries, but it is educational to hear EC representatives point out similar restrictions in the U.S. A widely publicized example is the U.S. restrictions on interstate banking. A study of the single market initiative of the EC, with its simultaneous move toward monetary union, and the resulting pressures for harmonization of certain policies (fiscal, taxes like the VAT) and for enhanced regional or structural adjustment policies is an excellent way to take a critical new look at the openness of the U.S. economy.

When we focused on the European Monetary System we heard the EC view on problems of fixed exchange rates among countries with different inflation, real output and labor productivity growth rates. A critical period exists now for two major reasons. On the one hand, can the weaker members continue their convergence of inflation rates toward the low German rate, without excessive unemployment and other social problems and, on the other, can Germany remain the low inflation anchor for the EC given the very high costs of its unification with what was East Germany? Some within the EC consider the system at risk and the announced timetable for monetary union unlikely.

The discussion of the social policies of the EC led to some very interesting comparisons. During the 1980s the U.S. created 12 million jobs and had a falling unemployment rate, while the EC had no net job creation and a rise in unemployment rates to relatively high levels. At the same time EC labor productivity and wage rate growth was substantially faster than in the U.S. As real growth slows in the EC, concern about unemployment is increasing. An increase in both cyclical and structural unemployment leads to a climate that is not conducive to harmonizing upward health and safety standards and to achieving progress for women in the labor force. Further, efforts to achieve a Social Charter that is meaningful becomes more problematic.

Our concluding session at the EC Commission focused on US-EC relations in a more general, political way. After reviewing the basic facts of the high degree of economic interaction between the two economic giants and recent macroeconomic trends, we heard an EC view of the key problem areas to counter the widely-held view in the U.S. that the EC will become a "Fortress Europe".

It was argued that the EC commits itself and its member nations to policies while the U.S., as a federation, commits only the Federal government and not state and local governments. They see the need for Congress to override states who, for example, do 80% of public procurement.

In Germany, the primary objective was to learn the German view of the EC, its single market program, its monetary union goal, and its lesser efforts to develop a Social Charter. This was an important part of our study, because of Germany's dominant role within the EC in trade and foreign investment, because its currency is the anchor of the fixed exchange rate system and because much of the Social Charter proposals at the EC are patterned on German policies. An effort was made to hear from representatives of business, labor and academia to supplement the government view. A second objective, related to the first, was to discuss the economic and social impact of German unification. This was a very exciting time to hear from Germans, since their priority and those of the German government, have inevitability shifted.

German business favors the single market initiative and believes that those in the U.S. who fear a "Fortress Europe" toward outsiders are misunderstanding the dominant EC view. In turn they believe that the U.S. government, with its Super 301 legislation, is being protectionist itself. German labor, while generally in favor of the single market initiative and European monetary union, recognizes the major macroeconomic and structural effects that could impact negatively on labor. They have strong views on proper short-term macroeconomic policies and the establishment of minimum standards for various aspects of social life across the EC. They obviously favor codetermination as part of the EC Social Charter and believe that those who discuss codetermination, especially as practiced in Germany, misrepresent the degree of freedom of management. German labor also questions the speed of the German unification process as this has added to economic pressures on Germany (larger budget deficit, more inflation, higher unemployment) that tend to impact heavily on labor.

Also in Germany, the group had a prearranged seminar at the Essen Institute on US-EC Trade Relations after the GATT Round and on the EC 1992 Program. Each side submitted a paper in advance allowing the meeting itself to focus on major areas of interest or disagreement. The German paper stressed that the effect of Europe 1992 policies should be positive on outside countries because of their overall growth effects. The Germans stressed that the EC Commission is less protectionistic than are the individual governments as it recognizes that the protectionist measures limit the aforementioned growth effects. They admit free trade in services will be more difficult to achieve, but point out the two-sided nature of the problem. For example, the U.S. wants access to the EC market in banking, but we have restrictions on interstate banking in the U.S. This leads to an interesting problem. Should the principal of reciprocity or of national treatment be applied? The European view is that the U.S. sometimes wants a reciprocity that is asymmetrical. The Germans agreed that agriculture is an issue that must be faced and that the Common Agricultural Policy (CAP) needs to be reformed. They pointed out reasons why they believe that this reform will take place, including the high cost of CAP. On the other hand, they do not accept all U.S. criticisms of CAP and point to the subsidization of U.S. agriculture.

The study trip culminated in Berlin. There we visited a university and a research institute to discuss the dramatic events in Eastern Europe. We focussed first on German unification and the economic difficulties in absorbing the east into the rest of Germany. Secondly, we discussed the economic problems of the eastern European countries and their future relations with the EC countries. It was an exciting time to do this, after the period of euphoria, before the economic growth gains begin, and during the period of falling output, rising unemployment and great personal economic insecurity. Some of the group plan to continue a study of these countries, including the united Germany, as they set priorities, privatize and attempt to join the Western international trade and financial community.

Conclusion

In conclusion, this entire project with its diverse aspects, has been a significant endeavor to enhance teaching and learning and faculty research at Ohio Wesleyan University. The existing curriculum has been modified as well as enhanced by the addition of special seminars. International education has indeed been significantly strengthened, from altered Principles of Economics courses to upper-level History of Economic Thought and senior seminars.

The project has also been a very successful interdisciplinary endeavor, bringing together faculty from economics, management, accounting, history, political science, sociology, and philosophy. The overall project topic allowed enough breadth for the group; and we encouraged sufficient individual flexibility and wanted people to pursue established research interests rather than artificially "re-direct" them. Members also discovered complementarities with research done by others. Our "togetherness" in a variety of settings-- participation in workshops, teaching of seminars, travelling together, appearance on panels, some joint writing--all these have helped to establish a collegiality that will be fruitful much longer than the official project.

The study trip was invaluable for us. We were able to test our acquired knowledge against the views of our European counterparts. And we learned much anew. Let us cite just a few examples. While we had deliberated on transatlantic trade policy issues before the trip among ourselves and with invited speakers, our discussions in Brussels and our joint seminar at the RWT research institute in Essen opened new perspectives and issues. While we had pursued industry strategy studies on campus, our roundtable discussions with executives from the auto and pharmaceutical industries in London were most beneficial. Hearing the views of British and German business and labor leaders on the EC Social Charter greatly complemented our book learning. The trip also added some significant chapters to our intellectual agenda: for instance, the topic of politicoeconomic unification was, of course, a prominent discussion topic in Germany.

We should mention briefly that we intend to nurture and cultivate a number of relationships with our European contacts. We shall try to bring some to campus in coming years, may do some joint panels with them, and a few of our faculty and students may do research at institutes we have gotten to know.

The project will thus continue beyond its formal termination, as it should. It has and will continue to have a significant impact on our curriculum, the scholarly activities of faculty, and our pleasant and productive interdisciplinary relationships.

