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munications. In today's complex multinational environment, no one can possibly know all the answers, and the wise professional makes regular use of all research facilities and data banks available to him.

The last and most elusive resource of the professional is the utilization of his time. In all international engagements, the firm constantly strives to balance and blend the time and experience of its professionals to provide adequately for planning, performing, and controlling the professional procedures and administration. The cohesiveness of an international organization is critical to the effective planning and execution of engagements, and our new management organization greatly strengthens our capacity to serve.

What achievements will Touche Ross International be able to point to in the future as a result of this latest reorganization of its structure?

The primary one will be more qualified people in all of our offices. When you have established a requirement, as we have under our Policy Agreement, that admission of a partner in Melbourne, Manchester, Chicago, or Madrid requires the approval of our board of governors, you are telling each young professional that to become a partner he must have an exposure and an outlook that stretches beyond his national boundary. The result will be a new generation of partners who will think of themselves as part of Touche Ross International, not just of the Canadian firm, the Lebanese firm, or the United States firm. They will seek opportunities to move from one operating entity to another, and the multinational character of our practice will take on a new dimension.

Through the exercise of strong, central leadership, we will be able to focus our resources where they are needed. This means that throughout Touche Ross International, we will be able to grow faster and provide superior service. Each of the operating entities will have the full support of TRI in the development of its territory, and together, we will match our development with the development of multinational business. The steps we are taking now to build an effective professional capacity in Kuwait and Abu Dhabi in the Middle East are an example of the potential for the reallocation of resources to meet our changing international environment. I am very excited about the potential for a truly multinational public accounting firm that can turn both the growth of international trade and a preference for nationalism to its advantage.

EEC–THE CHALLENGE FROM EUROPE

By WILLIAM R. S. RITCHIE,
Chairman, Board of Governors, TRI

When Britain, Ireland, and Denmark joined last year, the European Economic Community—the Common Market—became the most populous market in the developed world. Serving more than 250 million consumers, it is today a bigger market than either the United States or the Soviet Union, and is the world's largest overseas trader.

If the Common Market's size and purchasing power establish it as an economic giant, however, its full potential will not be reached until the nine member states move closer to industrial and financial integration.

Population and overseas trade, in other words, are not everything. Europe, long fragmented into warring nations, has a good distance to go before it can match the United States in output per head, in standard of living, and in sophistication of business methods. The per capita income of Americans is around $5,000 a year, for example; of Europeans, $2,500—half as much. In terms of primary energy, another measure of economic strength, the United States uses around 10 tons of coal equivalent a year per head; the EEC only 2 tons—one-fifth as much.

At present, therefore, this still fragile union hardly qualifies for the role of political super-power in which some of its more hot-headed enthusiasts seem to have cast it. Indeed, a measure of modesty is fitting here, for it is only a generation since the countries of western Europe all but destroyed themselves as free people living in reasonably affluent societies.

Anarchy and collapse were prevented in the post-war years by a generous and forward-looking America. The Marshall Plan envisaged the European countries drawing up their own program for revival and then acting in unity. The program should, in General Marshall's own words, be "agreed to by a number, if not all, European nations."

So began the move to western European unity. Belgium, Luxemburg, and the Netherlands formed the first economic union, as the Benelux nations. Together with France, West Germany, and Italy, they set up a common market in coal, steel, iron ore, and scrap in 1952. In 1958, they merged their separate national markets into one trading

area and one agricultural and industrial system. In 1973 they were joined by Britain, Ireland, and Denmark.

All nine members have pledged themselves to achieve political, economic, and monetary union, with a common currency and common foreign policies. The target date for this full union is 1980, but in light of current financial and political developments, this seems to be too optimistic. What matters now for Europe is the direction in which she moves, rather than the speed at which she is moving.

For the present, the Community is a customs union, with the immediate goal of a free flow of capital, goods, and labor between members. It has in principle, and to varying degrees in practice, a common policy on energy, farm price supports, subsidies for relatively under-developed or industrially obsolete areas, steel output and pricing, measures to check inflation, social policy, and so on.

The Community also has special trading arrangements with so-called "Associates," mostly non-member European countries such as Sweden and Switzerland and former colonial areas overseas. These arrangements have created a duty-free area for industrial goods of well over 300 million persons. They offer, for example, tariff advantages for agricultural products—for North African fruit, say, in competition with North American fruit. Such tariff advantages are only marginal issues with other nations, however. A much more serious obstacle for would-be exporters to Europe is the virtual self-sufficiency of the Community in food production.

Naturally, as in all human affairs, Common Market idealism is laced with a strong dose of realistic horse-trading between members. When inflation, or a realignment of currencies, starts to affect the income of the farmer or the expenditure of the factory worker, each separate government seeks to redress the balance in the interest of its own nationals. The same horse-trading occurs when the members discuss how to distribute central funds for regional development. It is rather easy to do this, since power rests with a Council of Ministers on which each nation is represented. A European Parliament, whose members are chosen from the national parliaments, is still in a rudimentary state, although there is a growing call for direct elections that would be a considerable step on the way to a federal assembly for a United States of Europe.

The Promise of Growth

Despite the strong sense of national interest behind the facade of unity, the EEC has largely fulfilled the initial economic hopes of its founders. In their first dozen years together, trade between the Six increased by over 600 percent. Their trade with the outside world rose by over 200 percent, whereas that of Britain, then still a non-member, rose by only about 130 percent. Their national income rose by around five percent a year, compared with around three percent in Britain. Although other factors are obviously involved, the general opinion is that union has given the Six a decisive economic and psychological boost; and this belief was behind the campaign to take Britain herself into Europe.

It has become apparent, though, that sustained European growth is being hampered because the structure of European industry lags behind the opportunities now open to it. There is a US-size market, but it is served by firms, based in individual states, which lack the size and know-how of the typical American corporation.

US business has not been slow to see the point, and in fact has moved in to provide the kind of productivity which Europeans seem unable or unwilling to create for themselves. United States assets in the present nine members have risen from around $3.5 billion in the year before the EEC was born to between $20 billion and $30 billion now. It has indeed been argued that American business has done much better in the Common Market than has European business, and some of the more sensitive European patriots tend to lose sleep over what they ruefully call the American challenge to Europe.

What Europe needs, of course, is truly multinational industrial units large enough to profit from the economies of selling in an international market. At present, for example, her leading automobile producer, Volkswagen, has sales of around $5 billion a year, only about one-sixth of General Motors.

The obstacles are formidable, both in theory and practice. Europe needs mergers across frontiers to ensure economic growth and political unity, but the EEC is based on a philosophy of leaving as much initiative as possible to market forces. In addition, the Treaty of Rome insists that no mergers shall be allowed which threaten to reduce competition significantly.

This contradiction between efficiency and freedom of consumer choice is not unique to Europe; but in many countries the relevant criteria are fairly clear and can be brought into effect with reasonable speed. In Britain and West Germany, for example, a decision on an internal merger takes on average about four months; and in both countries a body of 'case law' has been established which allows firms to judge accurately in advance which merger schemes are worth initiating.

The European Commission, on the other hand, is more

geared to the letter, as distinct from the spirit, of a still tentative system of law; and decisions take on average from three to four years. One would hope that British membership in the EEC might help to speed up the process of substituting a practical for a legalistic approach to merger problems. Even when reasonable guidelines are laid down, however, and the administrative machine is streamlined to carry them into effect, much will remain to be done towards harmonising laws, business procedures, and professional practices among the nine individual nations.

Accountancy, for example, varies enormously from one country to another. In some countries, the profession is much more advanced than in others, and the procedures vary from country to country according to the business climate, its sources of finance, and the local system of taxation. In my own country, the overriding criterion in the production of financial statements is that the statement should give a "true and fair view" of the affairs of the concern being reported upon. In some other countries the emphasis is different.

Drawing up agreed accounting standards will inevitably be a slow and painful process.

The Impact of Oil Prices

The slow but convincing trend towards closer unity in Europe has received a major check—from the sudden escalation of oil prices and the immense burden this places on the foreign currency reserves of member states.

Since the war, Europe has been running down her indigenous coal industry and relying for the greater part of her energy needs on imports of oil, mainly from the Middle East. By 1980, the EEC countries plan to import 700 million tons of oil a year, in contrast to 12 or so million produced at home. With this development, with the United States one of the world's largest oil producers herself becoming a net importer of oil, and with Japan's "economic miracle" being almost wholly built on imported oil, the major oil producers last year realized they were in a permanent seller's market. Accordingly they stepped up their prices three-fold in a few months.

In the EEC, only West Germany and perhaps Belgium can hope to take the strain of higher energy costs on their balance of payments. Italy has already been driven to impose general import controls in defiance of basic EEC policies—and without consultation—thus showing how fragile European unity still is when it appears to stand in the way of basic national interests.

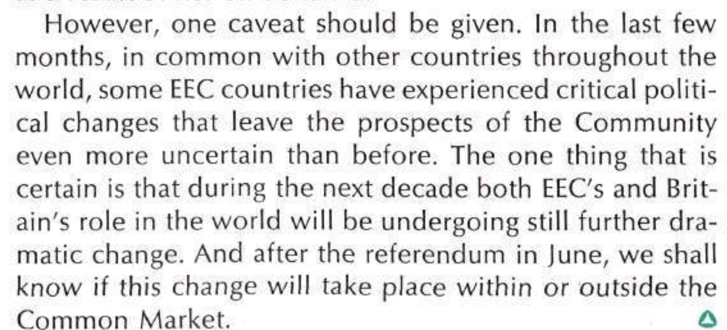
Behind this immediate threat to political integration and economic growth in Europe lies the yet unsolved problem of how to recycle the vast surpluses flowing into the oil producers' exchequers, preventing them from swamping the world's monetary system and wrecking its complex trading relationships. In this, Europe's interests are basically at one with those of the United States.

From Britain's point of view, however, there is light on the horizon. First, she will occupy a position of special responsibility, through the residual role of sterling as a reserve currency and the financial expertise of the City of London.

Second, there is one new factor which will have a dramatic effect on her economic future. By 1980 Britain, alone among Community members, will have become one of the world's major oil producers. Present estimates suggest an output of up to 140 million tons a year—slightly higher per capita than the current output of the United States. Britain is indeed the only substantial industrial unit in the world, including the United States and the Soviet bloc, which can expect to be self-supporting in energy supplies ten years from now.

The consequences for Britain's economic performance could be enormous. She will be spared a bill of upwards of $4 billion a year for energy imports, and should collect as much or more in taxation from oil companies operating in the North Sea. She will have an assured crisis-free source of reasonably low-cost energy on her own doorstep, thus improving her comparative industrial production costs. Even before oil begins to flow in decisive quantities, towards the end of the 1970's, she will be able to use her oil reserves as collateral for any international loans she needs to raise in order to bridge current balance of payments deficits.

So there is an element of irony in the way the British Treasury is calling for a reduced contribution to the European Community budget on the ground of Britain's recent modest economic performance, while the Community's experts are forecasting for Britain an early balance of payments surplus and a significant growth in national income as a result of her oil bonanza.



However, one caveat should be given. In the last few months, in common with other countries throughout the world, some EEC countries have experienced critical political changes that leave the prospects of the Community even more uncertain than before. The one thing that is certain is that during the next decade both EEC's and Britain's role in the world will be undergoing still further dramatic change. And after the referendum in June, we shall know if this change will take place within or outside the Common Market.