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The European car industry and the drive to the single market, 1970–2003

Jan Andera, *Driving under the influence: strategic trade policy and market integration in the European car industry*, Lund studies in economic history 42, Stockholm: Almquist & Wiksell International, 2007. xiv + 329 pp. (Sammanfattning på svenska, utan titel.)

Since 1992, the European Commission has published surveys of car prices across the European Union. This was done in response to widespread consumer complaints of the difference in car prices across the Single Market, which was supposed to eliminate non-tariff barriers to trade in manufactured products across the entire European Union beginning in 1992. Surveys of car prices was the only instrument available then to the Commission, as the auto industry was allowed to maintain a Community-wide quota on the import of foreign (especially Japanese) vehicles for a period of 10 years. When the quota ended in 1999, the Commission found that price dispersion had achieved low and stable levels that remain to the present. Even so, the standard Peugeot sedan remains over 30 percent more expensive in France than in Finland at the end of 2006.

In his thesis, Jan Andera asks when did the dispersion of car prices diminish across Europe, by how much, and in what sectors of the industry. Given the variety of industrial policies pursued within the main producing nation-states, especially after the oil shocks of the 1970s, what effect did the various policies have on integration of the European auto industry, both before and after the Single Market initiative? To answer these questions, he has pushed the Commission's price surveys (which tabulate over 1,800 prices within the EU-27 across 85 separate vehicles classified into 7 categories) back to 1970. Using published price lists for the five major auto-producing countries – France, Germany, Italy, the Netherlands, and the United Kingdom – Andera has collected 5,780 price observations on similar models for the period 1970 to 2003. Analyzing his data, he finds that price dispersion has been a permanent feature of the European car market over this period. Nevertheless, it has increased during periods when protective policies were in effect, especially before the Single Market initiative of 1985. Price dispersion has also decreased gradually when these policies have eased, whether from national initiatives (the UK case) or from pressure by the European Commission (the French, German, and Italian cases after 1992).

To place these quantitative results in a policy-oriented context, Andera provides the reader with an overview of the academic theory of the strategic trade policy as it has evolved in response to the initiatives of the various European member states. Chapter 2, "Strategic Trade Policy in Developed Countries", gives

a sophisticated analysis of how strategic trade policies – whether initiated in response to the demands of politically effective interest groups or to social concerns about the distribution of income within the society – end up restricting foreign trade. The empirical question remains, of course, to what extent do the trade restrictions achieve the intended goals, whether for the relevant interest groups or the overall distribution of income. Chapter 3, "The European Motor Vehicle Industry", then reviews the history of the European auto industry in stages from postwar recovery through the oil shocks of the 1970s, and then in reluctant response to the Single Market initiative. Special attention is paid to the performance of major car producers within each period, as their concerns drove national policies at each stage.

Chapter 4, "Strategic Trade Policy at the National Level", presents a series of case studies of industrial activism by various national governments, mainly in response to the general shock of the 1970s and mainly characterized by elaborate protective schemes to maintain the viability of existing "national champions". These proved to be very expensive drains on the national budgets and ultimately ineffective. A counterfactual exercise to determine how allowing an early exit of less efficient firms would have allowed consolidation of production among the most efficient firms highlights the futility and expense of the national policies that existed up to 1992. Chapter 5, "Strategic Trade Policy at the Community Level", argues that the Commission retained the initiative on trade policies throughout, while changing radically its orientation. From promoting the "national champions" policies of the member states by formalizing the selective and exclusive distribution system in the 1960s, the Commission negotiated voluntary export restraints with the Japanese auto producers in the 1970s, and finally moved, with the approval of the member states, to eliminate direct state aid to the industry by the late 1980s. In the process, while the role of the member states diminished, the influence of the European auto producers on the Commission increased. Currently, the Commission relies on the cooperation of the various European auto firms to develop harmonization of technical standards.

Chapter 6, "International Price Dispersion", presents the author's data set of 5,780 prices of various car models across five countries for the period 1970–2003 from various angles. First, the price differences among identical car models in Germany, France, Italy, and the United Kingdom relative to the prices in the Netherlands (always the lowest price country) did respond as expected to the national and Community policies described in the preceding chapters. These show that the long-term effect of the quantitative restrictions imposed mainly at the national and then at the Community level after 1992 translated into a 5–7 percent rise in price levels. Short-term effects were usually much more pronounced, however. "For example, the net effect of the 'Gentleman's Agreement' between the UK and Japan in 1975 was an increase of the relative British price level

of between 16 and 35 percent." (p. 298). Andera finds, however, that the short-term effects were short-lived by international comparison, which leads him to conclude that despite the extensive protection and market segmentation that has characterized the European car industry throughout its history, prices have tended to converge fairly rapidly toward a constrained version of the Law of One Price. The high speed of convergence suggests to him "that the European car market has been less fragmented than expected" (p. 299).

Figure 6.1 (p. 271) shows the evolution of the coefficients of variation of the car prices within the five producing countries for the period 1970–2003. A technical difficulty for interpreting his results, which confounds as well other similar efforts by previous investigators, is how to separate out the effects of exchange rate fluctuations on the price dispersions. To what extent did car manufacturers in the various European countries "pass through" the exchange rate fluctuations to their customers or absorb them internally by hedging on the foreign exchange markets? Andera acknowledges that his results and his conclusions would be altered with different assumptions about the extent of pass-through than the zero rate he uses.

Chapter 7 concludes that strategic trade policy when enacted in the real world by the various European governments did not work out in any relevant respect for the case of the European auto industry. As autos are the single most important industry in terms of total value added and employment for each of the countries in his study, this finding should give current policy makers in Europe some pause before they apply strategic trade initiatives in other sectors. Meanwhile, price dispersion continues at its new, lower level within Europe, with later entrants to the European Union consistently showing the lowest prices. The residual effects of the "selective and exclusive distribution" system for European auto manufacturers, however, appear to limit further market integration.

*Larry Neal**

* Faculty opponent